



# VALVE'S WAY

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**Abstract:** What can we learn from outliers? While statisticians rightly warn us against their non-representativeness, we believe it is also true that thinking carefully about what makes them atypical may improve our understanding of the typical case. This is the premise behind the Organization Zoo series. Valve Corporation (Valve) is an unusual firm. It is a rare example of a firm that appears to operate without any formal hierarchy in its organization. What can we learn about the viability of authority hierarchies from Valve's way of organizing? We wrote a brief account of Valve based on public information sources and asked several renowned organizational experts to comment on this unusual firm. We asked them to write a short commentary on what the Valve example means for organizational theorists and practitioners. Thankfully, they all accepted, and we are excited to present the results of their thinking in this first "exhibit" in the Organization Zoo.

**Keywords:** New forms of organizing, organizational forms, non-hierarchical organizations, self-organizing teams, boss-less organizations

Valve Corporation (Valve) is a global leader in the video game software industry. In many ways, Valve constitutes an unusual or even improbable form of organizing, whose functioning seems to be at odds with much received wisdom on how organizations should work. And yet function it does, and quite well at that.

Valve was founded in 1996 by two ex-Microsoft employees and had grown to about 400 employees in 2014.<sup>1</sup> Valve is behind highly successful video games such as Half-Life and Counter Strike, the world's largest online gaming portal Steam, and the widely used game programming environment, Source, through which it allows users to modify (or "mod") its games. In 2014, Valve was privately held and estimated to be worth upwards of USD 2 billion. Its estimated revenue per employee was higher than that of Google, Amazon, or Microsoft. Valve describes itself as non-hierarchical. As one employee noted in a blog:

*If most of the value is now in the initial creative act, there's little benefit to traditional hierarchical organization that's designed to deliver the same thing over and over, making only incremental changes over time. What matters is being first and bootstrapping your product into a positive feedback spiral with a constant stream of creative innovation. Hierarchical management doesn't help with that, because it bottlenecks innovation through the people at the top of the hierarchy, and there's no reason to expect that those people would be particularly creative about coming up with new products that are dramatically different from existing ones – quite the opposite, in fact. So Valve was designed as a company that would attract the sort of people capable of taking the initial creative step, leave them free to do creative work, and make them want to stay. Consequently, Valve has no formal management or hierarchy at all.<sup>2</sup>*

There are no job titles, no job descriptions, and no employees called "bosses" in Valve. Instead, employees are encouraged to work on "what interests them and what brings value to Valve."

1 This account of Valve is drawn entirely from secondary sources and closely follows that of P. Puranam, "Managing without authority: Notes on the romance and reality of non-hierarchical organizations." Available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2495910](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2495910)

2 <http://blogs.valvesoftware.com/abrash/valve-how-i-got-here-what-its-like-and-what-im-doing-2/>

## SELF-ORGANIZING VIA SELF-SELECTION

At Valve, employees are free to choose how to use their time and talents. Every employee can initiate projects and choose which projects to work on. As a consequence, self-selected teams of individuals form spontaneously around topics of interest. There is no manager or system architect to oversee or control these choices. The official employee handbook is subtitled: "A fearless adventure in knowing what to do when no one's there telling you what to do." In making their decisions on which team to join and how much time to devote to the various competing projects, employees take into account not only their own interest in particular projects and teams but also the decisions of others. Because Valve employees are rewarded for their contributions, there is an incentive to be part of successful projects. Projects perceived as risky may not be able to attract talent and thus may not be adequately staffed. Team size and composition are constantly in flux, reflecting which projects are believed to be "hot."

## INFORMAL LEADERSHIP AND COMMUNICATION

Teams at Valve do not have formally assigned leaders. Projects do have "leads", but they are chosen by informal consensus. Insiders claim there is neither prestige nor money attached to the label. Each project makes its own decisions about testing, check-in rules, how often to meet, and what the goal is and how to get there. Employees are empowered to the extent that they can "ship" their own products (provided two or more other employees agree). There is no separate marketing or quality assurance department in Valve. The company does not have any formal top down or lateral communication channels. It is up to the individual employees to talk to others in the company to find out what is happening. To coordinate with each other, employees simply move their wheeled workstations to be physically proximate to team members.

## DISPUTE RESOLUTION THROUGH CONSENSUS

Dispute resolution at Valve is mostly handled through consensus. An employee stated on a blog:

*We're all human, so teams sometimes argue (and sometimes passionately) about what to do and how to do it, but people are respectful of each other and eventually get to a consensus that works. There are stresses and more rigid processes when products are close to shipping, especially when there are hard deadlines for console certification (although shipping for the PC is much more flexible, thanks to Steam). Sometimes people or teams wander down paths that are clearly not working, and then it's up to their peers to point that out and get them back on track.<sup>3</sup>*

All decision-making is initially attempted within the team, with peers outside the team getting involved if this does not work.

## BONUSES FOR TOP PERFORMERS

Employee performance is assessed by means of a peer-reviewed performance system where peers review others' performance and rank them. Top performers receive generous bonuses and raises. Pay is very high by industry standards.

## FORMAL AUTHORITY AND EMPLOYMENT RELATIONSHIPS

Technically, Valve is not hierarchy-free because the founder-owner, Gabe Newell, has formal authority over his employees. He can fire an employee but an employee cannot fire him. The employee handbook acknowledges this, tongue in cheek, when it defines the founder as follows: "Gabe Newell – Of all the people at this company who aren't your boss, Gabe is the MOST not your boss, if you get what we're saying."

Another domain in which the founder exercises considerable authority is in hiring. After taking extreme care with multiple rounds of interviewing by many employees, as well as

<sup>3</sup> <http://blogs.valvesoftware.com/abrash/valve-how-i-got-here-what-its-like-and-what-im-doing-2/>

performing the usual due diligence that precedes any hire, Valve's founder makes the final decision. However, Valve does have a nearly flat formal authority hierarchy, and Newell also seems to have delegated a lot of his authority to enable employees to make their own decisions on how to organize.

## **SIMILAR SPECIMENS**

There are other examples of non-hierarchical organizations like Valve. Perhaps the oldest is W.L. Gore and Associates, the maker of Gore-Tex fabric. Also, Morning Star makes tomato paste using low-skilled workers. Both firms eschew a formal managerial hierarchy. But it is in the world of software start-ups, inspired as they are by Valve and the open-source ethos, that there appears to be a lot of interest building towards non-hierarchical organizational models. GitHub, which offers a sophisticated system for managing distributed software development, claims its objective is to "maximize happiness" and was valued at \$750 million in its Series A valuation. Menlo Innovations, a software development and consulting business has its developers work in pairs – two to a keyboard – writing code together and switching partners every fortnight or so, and says it is in the "business of joy." Neither has a managerial hierarchy.

## **A CHALLENGE TO HIERARCHY?**

What are we to make of the success of non-hierarchical formal organizations like Valve? Do they offer a new blueprint for organization design that is likely to be more acceptable in an egalitarian Zeitgeist? Is there anything fundamentally new here? Impressive as Valve is, several potential problems perhaps lurk beneath the surface – these are problems beyond those that would arise for any atypical system of organizing, such as the missing ladders of status, opportunity, and mentoring, and associated difficulties of interfacing with a hierarchy-infested labor market. First, there is the problem of possible under- and over-provision of effort (not only within the teams but also at the level of the firm). Since rewards are peer-driven, individuals may want to work on visible rather than truly promising projects. This has an increasing return dynamic that may crowd out truly useful projects. Second, there is a question about scalability. It is worth noting that all start-ups look like self-selected teams but switch to conventional authority hierarchies as they grow. Does that mean there are natural limits on scale for this kind of organization? Could this form of organizing work in a public limited company? In a brownfield context? Third, while leaders in Valve are those who acquire popularity, this may lead to "in-crowd" phenomena and give rise to cliques. Social inertia may lead to team composition and even division of labor being determined by history rather than what is appropriate for the task at hand. Being overruled (or even ostracized) by a community of peers may not necessarily feel better than being overruled by a boss. In fact, does the boss not serve as a symbolic common focal point of dislike that unites the subordinates? Fourth, the speed of decision-making may be slower as consensus takes time and does not guarantee a stopping point for a discussion (unlike vertical escalation, which does).

Perhaps there are other problems at Valve, but the question remains: what are we as organization design theorists to make of Valve's way?

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