



IT WORKS – I KNOW IT WORKS

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Valve is the prototype knowledge-based company because its organizational design fosters creativity, action, fast learning, and high productivity. I experienced a similar organization about 15 years before Valve, at Oticon, the Danish hearing aid manufacturer which dropped bosses, titles, departments, and most of the bureaucracy and paperwork that slows down work. As in Valve, the value-creation was spectacular: 60% growth in market value each year for a ten-year period.

Valve and Oticon made similar discoveries: Setting employees free and allowing them to choose what they want to do and who they want to work with, comes at a price. Making decisions takes longer because more people are involved and because employees are seeking consensus. Coordination may be less efficient because there may be more teams working on the same issues. But the advantages can be much bigger: Employees are more motivated and dedicated to what they do. There are no excuses for failure, and there are no managers to burden employees with reports and other bureaucracy. Plus, there is no need to budget for management overhead; managers work on projects just like everybody else.

Valve seems to be purpose-driven. The company strives to develop and distribute the best games possible with the ultimate goal of making gamers happy. For me personally, games are not the most important thing in life, but for gamers, they are. Going through the Valve website, I have no doubt that games come first and profit comes second.

Valve actively uses its corporate culture as a recruitment tool. Here is what its website says about people:

We've been boss-free since 1996. Imagine working with super smart, super talented colleagues in a free-wheeling, innovative environment – no bosses, no middle management, no bureaucracy. Just highly motivated peers coming together to make cool stuff. It's amazing what creative people can come up with when there's nobody there telling them what to do.

This philosophy works, at least in my experience. The most talented and enthusiastic people will queue up to work at a company like Valve. They will expect a fair return but not necessarily the maximum return. The fact that employee compensation is tied to peer review assures that compensation will be perceived as fair, and probably will be fair in reality.

With successes in companies such as Oticon, Valve, Semco (Brazil), W.L. Gore and Associates, Alibaba, and Xiaomi, it may seem surprising why not every knowledge-based firm learns from these examples and applies the same management model. I am not surprised, however, for these reasons:

1. Companies such as Valve need leaders who are willing to give way – to step back and serve their organization instead of commanding it. There are very few such leaders available, and those who are of that type seldom get the opportunity to take charge. Boards are afraid to take the risk of betting on them.
2. Companies such as Valve need employees who are willing to engage – not just to be physically present and do what they are told to do. Labor unions do not favor that kind of behavior.
3. Companies such as Valve need leaders who are willing to accept failures as long as employees learn from them. Conventional Western management culture punishes mistakes instead of learning from them.
4. Companies such as Valve need owners who are willing to sacrifice short-term profit for long-term value building. In particular, listed companies are so scared of analysts and shareholders that they take the easy road: Profit now and leave the future to your successor.

My current work is focused on China. Most Chinese CEOs are averse to the management practices of Valve, Oticon, and similar companies, but at the same time they admire Jack Ma at Alibaba and similar management mavericks. What they have not yet understood is that Jack Ma and other successful Chinese managers run their companies in a way that looks more like Valve than conventional Chinese management. The day they learn it, Western companies will have a hard time competing.

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