CHAPTER 4*

FREEDOM IS NOT ANARCHY

A liberated company must have a shared vision

I'm gone for eight months… If you feel that it's critical to contact me, that I get involved in your problem, what I want you to do is to lie down. When that feeling goes away, I want you to get up, solve the problem, and then send me an e-mail with the solution.

— BOB DAVIDS [1]

We are in the Bahamas—at least, Bob Davids is.[2] Davids is the owner of Sea Smoke Cellars, a young 350-acre vineyard in the gorgeous Santa Ynez Valley of central California. But he spends eleven months of the year elsewhere, whether that's in Reno, Nevada, Bali, or the Bahamas, fishing. His goal is nothing less than to produce "the best Pinot Noir humanly possible" from his vineyard. He says he scoured the world to find just the right spot for it, and having found it, he stays away from it as much as he can.

His quest to build a world-class winery began in earnest in December 1997, when Davids, founder and CEO of Radica Games—then the world's third most-profitable toy maker—announced to the board he wished to resign so that he could make wine. The reactions were, well, mixed.

The first to react was Robert Townsend, whom Davids had considered a mentor since they first met in 1981 and whom he convinced to join the board after Radica went public in 1994.

"You cannot leave the company. You *are* the company," Townsend told him.

"But your book," Davids retorted, referring to Townsend's best-selling *Up the Organization*, "says that the board's job is to replace the CEO every five years and I had been here seven years already."

"Not if the CEO is doing a good job," Townsend shot back.

"Well, that last part is not in your book," Davids sniffed.

Then, board chairman Jon Bengtson offered his own, Townsend-like, reaction.

"Do you know the best way to make a small fortune?" he asked Davids. Davids shrugged. "Invest a *big* one in a winery," Bengston offered. Davids let that one go. He wasn't getting into the wine business to lose money, however, one of his credos being: "If you have 1% hobby in your business, it becomes 100% hobby."

Despite this lukewarm reaction, Bob Davids, after doing his best to pass the reins at Radica, retired, bought the land, started the winery, and, in 2001, put his first bottles on the market.

Two years later, on this summer day in the Bahamas in 2003, Davids got a call from the winery's general manager, Victor Gallegos.

"I've got to talk to you," Gallegos said. "We're having a problem with the 2003 fruit."

"Okay," Davids replied laconically.

"Well, we've got to do a drop," Victor announced, referring to the technique of prematurely cutting a portion of the grapes from each vine so the remaining fruit, having been endangered by suboptimal weather, is given a better chance to reach full maturity.

"Well, you're the viticulturist, why are you calling *me*?" Davids asked.

"Well, it's a problem," Gallegos answered.

"I'm not a viticulturist. I can't help you," Davids repeated.

"Well, we're going to have to drop a lot of growth," Gallegos warned.

"Okay, what's going on?" Davids demanded.

"Well, we're having all these issues," Gallegos explained. Davids took a seat.

"Well, how much fruit do you have to drop?" Davids asked.

"A lot."

"'A lot' doesn't answer my question," Davids retorted.

"About $1.8 million of retail," Gallegos finally admitted, presenting Davids—as he explained to us later—"with the opportunity to make this decision" for Victor.

But he didn't take it. Instead, Davids said: "I'm going to give you your charge again. Your charge is to grow the very best grapes humanly possible from that site."

"But it's $1.8 million," Gallegos replied, clearly in agony over the magnitude of the decision.

"I'm going to repeat your charge," Davids said. "It's your charge to grow the very best grapes humanly possible from that site. I'm not a viticulturist. I don't know how to do that. Your charge is to grow the very best grapes humanly possible."

"But it's $1.8 million!" Gallegos implored.

"I'm not going to take your monkey. I think this phone call is over."

Victor cut the grapes.

And no, the monkey Davids referred to wasn't some exotic pet or anthropological experiment. Davids believed that Gallegos was trying to take the proverbial monkey off of his back and put it on his own by giving Davids responsibility for the big grape drop. Davids refused to take it.

What did Bob Davids gain in sacrificing his power to "tell" Victor what to do? Could it have been to have worry-free time to enjoy fishing in the Bahamas? No, Davids sacrificed it because it's good business: "If Victor didn't do that, then he didn't complete his charge to grow the very best wine. He couldn't sleep, he was uncomfortable with the $1.8 million decision, but if he never gains experience with such decisions, how is he ever going to make them?" Davids clearly explained his business philosophy and vision to Victor and every other employee he hired right while interviewing them: "I don't have the skill to make wine," he would tell them. "I'm going to give you all the tools and the ability to make the best product humanly possible you could make, . . . all you need so you do not have an excuse to come back to me and say 'I could have done it better if only you had allowed me to [fill in the blank].'"

This story, the reader may think, is about a unique company—a winery—with unique problems. Most existing companies are not like that. It would be easier to agree with this if Davids hadn't also done what he's doing at Sea Smoke at the 8,000-person Radica Games and several other companies he has headed—build a freedom-based environment.

Precisely because Sea Smoke is small and relatively young, this story illustrates the first two key steps to building such an environment. First, telling people how to do their job is fundamental in "how" companies. But a freedom-based business is founded on *not* telling your people what to do—even if they want you to. This has to start at the top—with the owner, Chairman, or CEO.

However, you can't just say, "Do whatever you want," or even, "Do whatever you think is best"—that way lies anarchy. Without appropriate guidance, you'll have everyone doing what *they* believe is best for the company, even if those actions conflict with the company's vision, or with the actions of the people around them. Or, worse than that, people will act in their own self-interest, not the business's.

Freedom in the workplace is neither *hierarchy* nor *anarchy*.

The phrase, "ordered liberty," from political philosophy, comes close to capturing the right way of thinking about it, even though freedom in the workplace is not political freedom. It is a highly disciplined—actually, self-disciplined—form of organization. And its main disciplining element is the company's shared vision of world-class performance—the second key point of building a freedom-based company. What Bob Davids was conveying to his people—from the moment he interviewed them for the job—was that Sea Smoke's vision is to produce world-class Pinot Noir. It is to achieve *that* vision that he has set them free to take the best actions they can.

Did these newly hired people believe that they are really free to take actions they deem the best? We have all heard leaders promise freedom of initiative and autonomy of action, only to be asked to submit for approval the first idea we aired. Based on the "how" companies' experiences this interpretation would be to the point. But Davids was not building a "how" company.

Sea Smoke's chief winemaker, Kris Curran, was dubious at the beginning too: "I chuckled and said 'Yeah Bob, we've heard that a million times before. And then the owner puts $20,000 more into landscaping and doesn't allow me to buy an extra $200 wine hose that I need.'"[3] Even after she accepted the job, Curran remained skeptical until the day Davids asked her to get the project off the ground and told her to start with all the equipment she needed for an absolutely perfect winery. So Curran took him at his word and drew up "a just outrageous list of things." When she was ready, Davids came in and went through the list item by item, discussing "every last clamp, pump and barrel."

It took six hours. But in the end Davids said to her: "OK, so when do you start buying all this stuff?"

Curran, still skeptical, answered: "You're not going to knock anything off?" just to hear Davids repeat his freedom philosophy again.

"No, I believe your arguments that this is going to make better wine, and therefore I'm going to give you everything you need so you do not have an excuse to come back to me and say 'I could have done it better if only you had allowed me to...'" Did *this* convince Curran that Davids's business philosophy and vision for Sea Smoke was not just blowing smoke?

"I was blown away," Curran said, "because I had been in the industry for eight years at the time and I had never seen anybody that I had worked for and anybody that I knew that really stood behind what they said." At that moment, Curran realized that Davids would follow through with what he said in her job interview and that she would be able to take the actions she thought were best for the winery. Davids put this freedom-building block down for her—or so he thought.

In the meantime, Curran accepted her freedom. With that freedom comes the responsibility of not handing off the monkeys on your back to your boss. This acceptance was the direct result of her boss's refusal to "take the monkey" and tell his people "how" to do their jobs. But as much as people bristle at being told how to do their jobs, it can still be hard to jump right in and accept one's own freedom. Victor Gallegos did it in certain situations, but he stumbled when a large sum of money was involved. Curran, on the other hand, didn't shy from being bold with her initial list of equipment for making a world-class wine; as she admits, she was testing Davids, trying to call his bluff by making a list she was sure he would balk at. But whatever psychological obstacles people may face in embracing their own freedom, this is still the easier part—freedom can be scary, but it's nice to have. Getting people to own the company's vision emotionally is harder by far. As a matter of fact, Kris Curran—as free as she was—found herself on the wrong side of the line between anarchy and freedom early on.

Several years into producing Pinot Noir, Davids—who says his main role in the business is brand building—came up with the idea of making a great white Chardonnay on an area of the vineyard's soil that was ill-suited for Pinot Noir. He explained to Curran and her assistant Katie Kennison—today Marketing and Direct Sales Manager—that the plan was to use the Chardonnay to *promote* the Sea Smoke Pinot Noir in the marketplace and the media. In other words, he planned to give the white wine away. He even had a name for the wine—*Gratis*. Curran and Kennison, still getting used to Davids's ways—and perhaps thinking that this small Chardonnay production was marginal to and not a part of the great Pinot Noir vision—didn't argue much, though as winemakers they profoundly disagreed that you should ever give away your wine.

Months passed and on one of his occasional visits, Davids entered the winery and saw Kennison—then assistant winemaker—rolling out a row of used barrels. "Katie, where are those barrels going?" he asked, surprised.

"We're doing the Chardonnay," Kennison answered.

"I thought we were using 100% new barrels," Davids asked.

"No, we're putting it in used ones this year," Kennison explained. Davids asked Curran, the chief winemaker, to step outside.

"Kris, I thought we'd always been using new oak?" he asks.

"No," Curran explained. "I'm not going to use new oak on a giveaway wine. If it was my pocket, I'd even use stainless," Curran replied, referring to a cheaper way of aging wine: stainless steel tanks.

"Did I ever ask you to save me money?" Davids asked.

"No," Curran admitted.

"What barrels will make the best quality Chardonnay? You choose," Davids said.

Curran went back to the cellar and told Kennison: "We're going to use 100% new oak."

This didn't make the assistant winemaker very happy: "Oh, dang it," Kennison said. "I already washed all these barrels."

You may object here that Davids didn't really stop telling Curran how to do her job. He simply chose to tell her indirectly, making his wishes known without giving an order "in so many words," as so many bosses are wont to do. "Do what you like," such a boss might say. "But if I were you, I'd do this . . . ," leaving the listener in little doubt about what was necessary. This brings us again to the issue of freedom and anarchy.

Indeed, freedom begins by not telling people "how" to do their jobs. According to Davids's principles, Curran was free to decide how to make the Chardonnay. At no point did Davids tell her directly or indirectly how to produce it. Nor did he insist on vetting her decisions on it. It is true that his persistent questioning of the decision to use old oak might well have been interpreted, in a traditional company, as a tacit order to change course. But that was not Davids's intention. He freely admits that he doesn't know how to make Sea Smoke's wine—that is why he hires a winemaker. What he did want to ascertain, however, was whether the decision to save on the barrels was being made for the right reasons—for reasons, in other words, consistent with Sea Smoke's vision.

Freedom and trust can't be given out piecemeal. If they are, people will immediately see the strings attached and reject the offer as a sham. But this does not mean that when the owner—or any colleague for that purpose—notes by chance that some action is *not* in the best of the company's vision he has to turn a blind eye. That is the road to anarchy, not to freedom.

In fact, sharing and communicating the company's vision is a key role for a liberating leader and the second building block of freedom. This is especially true when faced with evidence, as Davids was, of a failure to fully understand and own the vision. If the leader doesn't fulfill this role, some people will likely fall back on what *they* believe is best based on their experience—of highly controlled "how" environments. And one experience that we all have is that "saving a buck" is always a good thing, especially in a downturn. There is nothing wrong, of course, with avoiding needless expenses in any company. A liberated company in particular will be attuned to the perils of hidden costs and false economies, instead of fixating on photocopying and travel expenses, as we saw in Chapter 2. And the best action to take should *not* depend on simply particular experiences or current conditions but on one single thing—pursuing the company's vision. Cost-saving actions should definitely be considered best if the company's vision is low-cost market leadership, as it is for Southwest Airlines. But they won't necessarily be so considered at Gore & Associates, whose vision has always been—in good or bad times—market leadership through outstanding products and fair customer relations.

Les Lewis at Gore & Associates was disturbed a few years back when he discovered that on-time delivery performance was slipping.[4] He made some inquiries and learned that some newer people, those with experience at companies with a different vision, had decided that 80% performance was acceptable if getting to 100% would mean going over budget. Lewis did not view on-time delivery as an "economic decision" at Gore. It was one of its core principles and an element of its corporate vision—fairness to the customer. The numbers revealed a vision-sharing problem, which Lewis then set about correcting by reminding the associates in question how fairness fit into Gore's vision: "The success of our enterprise in making money and having fun rests on our ability to invent, sell and service products our customers value." *Always* delivering on time is part of the value that Gore provides to its customers. Lewis, of course, had learned the same lesson himself years earlier when Bill Gore sat him down for his impromptu lecture on the "Formula for Failure"—when all he wanted to do was save a buck.

Freedom inside a company isn't anarchy because it is bounded by what Davids calls his people's "charge," or by Zobrist's "Why" question, which amount to the same thing—the company's strategic vision, which employees' best actions bring to fruition. A liberating leader's first two tasks are to build a corporate environment in which all the people are free to make decisions, while ensuring that they understand, own, and aim towards that vision. This second task—as we saw with the Chardonnay—is a tougher one for the liberating leader. Here are more details on why that is so.

OWNING THE COMPANY'S WORLD-CLASS VISION

Getting people to own a corporate vision emotionally is a long—indeed, never-ending—task for a liberating leader. For reasons we will explain in the next chapter, in freedom-based companies the vision is *always* world-class, which facilitates its acceptance. As Zobrist puts it, people desire and own dreams more easily than mundane goals—no one jumps out of bed enthused by the goal of increasing market share by 2%. The task starts with the first encounter with a new prospective employee.

First, Davids—and other liberating leaders—will make sure that every applicant knows the corporate vision before she is hired. That way, if she doesn't agree with it she can opt out right away. Sometimes, in his zeal to land the job, a person will agree with everything, vision and all, without really thinking it through. Vertex is a Berwyn, Pennsylvania-based 600-strong company whose vision is global market leadership in advanced tax software and related services. To make sure that all his new hires think this vision through, Jeff Westphal, the company's owner and CEO tells them on their first day, "Welcome to Vertex. You are free to leave." And it works.

"One of my most wonderful days at work was saying good-bye to one of our best employees," recounts Westphal.[5] "I gave a speech years ago when we were working on our vision for the first time and there was a woman who had been a long-time employee, a wonderful woman and a fine employee and after we talked about this and she engaged in the vision process, she came to me and said: 'Jeff, I have to go. I want to carve birds, it's my hobby, but that's what I love to do. I like working here, but I love that more and I want to try to make a business out of that.' And I said: 'Kathleen, God bless you.' I gave her a big hug, had a little lunch for her and off she went. Because I knew I was serving her true needs, not our self-interest to trap her here against her will." Cathleen exercised her freedom to leave to pursue her own vision that became more important to her than that of Vertex.

Tony Hsieh, the CEO of Las Vegas-based Zappos.com, takes it even further than Jeff does—he continues to hammer home a similar message even after people start work, or at least (paid) training.[6] Zappos sells shoes online, but is, like USAA, essentially a customer-service business with a big call center, and has been growing fast. Still a young company, its revenue was over $1 billion in 2008, up from zero ten years earlier. And so it hires a lot of people to work in its call centers and distribution hub. Hsieh, the company's founder, guards its vision and internal culture zealously and carefully screens new hires for compatibility with both. But even so, he recognizes, as he says, "Zappos is not for everybody," and some people that the company hires will realize that too as they go through the training. So, after putting them through four weeks of paid training, Hsieh makes them an unusual offer: Quit now, and not only will we not hold it against you, but we'll pay you to leave. Until mid-2008, this quitting bonus was $1,000, but Hsieh doubled it to $2,000 because, he told us, *too few* people were accepting it. He wanted to make sure his employees were there because they shared Zappos's vision, and so he is willing to pay the would-be time-servers to hit the road. Getting people to own the company's vision emotionally can demand not only real effort, but even real money.

But communicating and sharing the company's vision doesn't end on day one or during training—that would be too easy. Most people, especially if they've gotten the macaques' proverbial "cold shower" at previous jobs, have trouble accepting that a vision is more than something to be put on the walls, pasted into the annual report and otherwise forgotten. So getting them to share it and emotionally own it takes time and vision-reinforcing effort. Let's take another look at the Chardonnay.

Curran, the winemaker, agreed with Davids's vision of making a great Pinot Noir—she was even thrilled by it. But until Curran was asked by Davids to draw up the winery equipment list, making great wine remained *Davids's* vision—*not* hers. Davids had set her free to draw up a wish list of equipment to make his strategic vision a reality. And she used all her experience as a winemaker to compile her "outrageous" set of demands. But only when Davids approved her list in full did she begin to believe in his vision and make it her own—at least as far as the Pinot Noir was concerned. But in the case of the free Chardonnay, she didn't connect it to the world-class Pinot Noir vision. Seeing the goal as simply making a great-but-free wine, she made the decision—reasonably, in light of her understanding of the goal—of saving the company money on what was after all a promotional product. Davids stumbled on it by chance. As the vision keeper, he then took the time to explain to Curran that saving money on the Chardonnay would conflict with the vision of Sea Smoke as a maker of world-class wines. But he did so in a manner that still relied on her to draw her own conclusions and make her own decision. Case closed.

Ownership of the company's vision and the freedom to act on one's own initiative to pursue it are not, as they may at first appear, two separate, distinguishable things. Many companies communicate their visions and make people "buy in." But the results are usually disappointing. People only start emotionally owning the company's vision when they are free to make *their own* decisions in pursuing it. Being free to do A or B forces them to think of the criteria for choosing—to ponder the company's vision. In "how" companies, on the other hand, where people are told to do C and then D, there is no need for them to ponder the vision. In fact, pondering it so becomes a big distraction from following orders. But people who are free to act come to know "why" they did A rather than B and this "why" becomes their own. The vision stops being an abstraction for them, something posted on a bulletin board or written in an annual report but forgotten. They start to own it emotionally. That's why, as Davids says, he wants people to shake off the feeling that he can make their decisions. This is not to say that it is easy for people to start using a corporate vision to guide their choices. Groomed in "how" companies, many are prone to interpret "what is best" from their own perspective, based on their particular job, skill, or experience. It falls on the liberating leader to patiently overcome these individual perspectives without telling people how to do their jobs—indeed, as we saw, by *not* telling them.

Instead, the liberating leader continuously provides any information relevant to the strategic vision along with the means necessary to do their jobs. When needed, the leader may check that someone facing a big choice understands the likely consequences of that decision. At first, this checking-up may have to be done often. In that way, liberating leaders verify both that they have provided the necessary information and means to those employees, and that they have used it all in their decision-making. Davids spent those six hours with Curran reviewing her equipment list not because he was looking for ways to cut costs, but to ensure that she had made her choices with the right "why" in mind—"to make the best wine humanly possible."

Once a liberating leader is convinced that her people have all that they need and are making decisions that best fulfill the vision, he leaves them to act on their own. And even when they ask him to tell them "how" to act, he refuses to take their monkeys of their backs.

At other times, leaders run into a questionable decision face-to-face, as Bob Davids did when he—while visiting Sea Smoke's cellar—encountered the used barrels into which Kennison and Curran were getting ready to pour the Chardonnay. Needless to say, people can make questionable decisions that run *contrary* to the company's vision. This is no cause for despair, but it is a signal that a leader has more work to do to make those employees own the vision. But a leader can't *force* people to emotionally own the company's vision, he can only seek to create the conditions—freedom of action—in which they are *convinced* of it themselves. As Zobrist explains, trying to impose the vision leaves a leader in the position of a locomotive engine that has lost his cars because the cars don't feel like going the locomotive's way.

A liberating leader's ongoing role is to communicate relentlessly and "lavishly,"[7] constantly feeding people new information about the corporate vision. That vision, though, is never static; markets, technologies, and the business environment continuously evolve. Companies that don't question and renew their corporate vision are bound to encounter rude shocks—especially during tough times. Even a shift in the corporate vision, however, can't simply be imposed from on high. Here too, people have to have the freedom to question it, and may or may not take ownership of it. Resistance should be met with even more lavish provision of information—*telling* them how to do their jobs *at this stage* is even more destructive than at the outset, because people will feel betrayed by the denial of a freedom that they have by now come to expect and enjoy. That said, if the opposition is strong enough, and resists your best efforts to communicate and explain the change in vision, there may be good reasons for that. If you come to believe that people are right that the change isn't feasible, you need to be prepared to change course, or return to the former one. It is one of the great advantages of a liberated company that it doesn't wait until customers, stakeholders, or a downturn have called a vision into question—by the time that happens, it's usually too late. Free employees are free not only to act, but to question those big strategic turns—and do so while there is still time to change course.

Bob Davids seeks this kind of consultation when he goes out to the vineyard between brand-building and bone-fishing—which, he says, he does simultaneously. "I go out on the Atlantic Ocean and go fishing for days and days and days. And I go out there with my rod in my hand, throw in and just think. What I'm thinking about is, 'What are we doing for long-term brand recognition?' So I'm able to think about things three or four years ahead while Victor is down [at the vineyard] clubbing the daily dragons." Davids then offers his new ideas "from a free thinker who has time to think" to Gallegos and the team. He spends enough time to give them all the information he can on how these ideas comport with his evolving vision for making and selling a world-class Pinot Noir. Sometimes he gets his new ideas across internally right away; sometimes his in-house experts need more time or more information to evaluate his bone-fishing branding brainstorms. Even then, some ideas—such as giving away the entire production of Chardonnay every year—are so contrary to a winemaker's instincts that Curran and Kennison resisted, no matter how clear the rationale was to Davids. This resistance to link it to the company's world-class vision, in turn, precipitated their attempt to save money with the used barrels, which made Davids realize that he hadn't fully explained the thinking behind *Gratis*.

Sacrificing the power to tell people "how" and sharing their world-class vision are not easy to do. But they are also just the beginning—it takes more than that to truly transform and liberate a company, as Davids can attest not just from his time at the small Sea Smoke Cellars, but from his previously life at big companies.

We visited Smoke Sea Cellars in its eighth year and, so far, it has succeeded in cultivating both its freedom culture and fulfilling its world-class wine vision. But then Davids also succeeded in growing his previous start-up, Radica Games, into the third most successful toy company in the U.S., after Mattel and Hasbro.[8] Not only did he continue not to "tell" his Radica employees—all 8,000 of them by the time he handed over the reins—what actions to take during all that growth, even after the company went public. He did it with a work force that lived under an oppressive political autocracy—94% of Radica's employees resided and worked in Mainland China. None of them had ever seen a "not telling" leader before in their lives. We will see later some of the methods Davids used to instill this culture in a company that was growing like mad and whose employees had even less experience of freedom—at work or elsewhere—than most in the West enjoy.

We've seen already that leaders' particular tactics for changing people's habits and assumptions depends on whether employees' resistance or skepticism comes from work experience at other firms, cultural factors or just plain personality. Different types of businesses likewise require different methods. Bill Gore's approach to his engineers was different from Zobrist's with his machinists or Davids's with wine experts. But one thing is always true: This change has to start with the leader himself. It's crucial for a would-be liberator to completely refrain from "telling" because everybody watches to see whether he will "walk the talk," as it were. Indeed, these liberating leaders' "walks" are the core of the environment that brings to changes in ingrained behavior. Liberating leaders must live the values they want to instill in their business. What drove this group of leaders to start doing so is the subject of the next chapter.

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[1] Personal interview, Sept. 24, 2007. Bob Davids credits this approach to Robert Townsend, from whom he borrowed it.

[2] Personal interview, Sept. 24, 2007.

[3] Personal interview, Sept. 24, 2007.

[4] Personal interview, March 1, 2006.

[5] Personal interview, March 3, 2006.

[6] Telephone interview, Aug. 7, 2008.

[7] The preferred term of Max De Pree, who built a freedom-based environment while CEO of the furniture and design company Herman Miller, the maker of, among other things, the iconic Aeron office chair.

[8] In 1999, Bob retired as CEO of Radica to focus exclusively on Sea Smoke Cellars. In 2006, Mattel acquired Radica for about $230 million.