WHY MANAGERS MATTER AS APPLIED ORGANIZATION (DESIGN) THEORY

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Abstract: Core organization design issues have emerged in recent popular and influential discussions of managers and organizations, specifically in a genre of writing—the "bossless company narrative"—that declares that the classic managerial hierarchy is dead. In this article, we review our critical discussion of this genre in our book, *Why Managers Still Matter*, arguing that the narrative manifests bad empiricism and half-baked organization theory. However, we also raise the possibility of a charitable reading of the genre: it points to themes in organization design theory that are currently underdeveloped, notably with respect to, for example, the impact of organizational structure and control on employee motivations and the importance of contingencies such as the characteristics of knowledge for organization design.

Keywords: The bossless company, hierarchy, organization design.

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INTRODUCTION: WHY WE WROTE THE BOOK[1]

In 2010, management scholars Royston Greenwood and Danny Miller pointed to a "growing recognition that, over the past several decades, we have neglected a vital challenge that should be a core, perhaps even the core, concern of organizational theory: understanding the management of collective effort through organization design" (Greenwood & Miller, 2010: 78). As the main reason for this neglect, they pointed to the "intimidating complexity of design." Greenwood and Miller were right that organization design theory had been unfashionable in organization theory since at least the 1970s as resource-dependency theory (Pfeffer & Salancik, 1978), population ecology (Hannan & Freeman, 1984), and institutional approaches swept through the organization theory community.[2]

However, organization design issues have been central in popular and influential discussions of managers and organizations. An influential genre of business books, articles, op-eds, and talks on various platforms has not shied away from organization design issues because of their supposed "intimidating complexity." To writers and gurus such as Gary Hamel, Tim Kastelle, Frédéric Laloux, Ori Brafman, and Rod Beckstrom, the key organization design issues confronting modern companies are simple: The classic managerial hierarchy is dead, or at least dying. The argument is not that reform, restructuring, and reimagining are often necessary; it was

[1] We thank the editors for organizing this symposium and inviting us to supply an essay on background, motivation, and context and are especially grateful to the contributors for their thoughtful engagement with the book and its underlying thesis. As the editor's astutely noted when hearing of this project, our book is really an essay on organization design—a topic we think is poorly understood in much of the popular literature on the flattening hierarchy.

[2] Interest in organization design issues perhaps mainly survived (and thrived) in the economics of organization which took off from around the mid-1970s (Alchian & Demsetz, 1972; Marschak & Radner, 1972; Hurwicz, 1972; Arrow, 1974; Williamson, 1975; Jensen & Meckling, 1976).

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far more radical. The title of an article by Hamel, "First, let's fire all the managers" (Hamel, 2011), illustrates the boldness of the genre, even if the title was adopted for dramatic effect.

Over the last decade or so this genre—which we call "the bossless company narrative"—has grown in influence, adherents, and proponents. A good example is Frédéric Laloux's (2014) *Reinventing Organizations: A Guide to Creating Organizations Inspired by the Next Stage in Human Consciousness* which has sold more than 400,000 copies worldwide and may well be the most influential management book of the decade. Gary Hamel and Michele Zanini's (2020) *Humanocracy: Creating Organizations as Amazing as the People Inside Them* tells us in a more radical manner what gurus such as Tom Peters have said for decades, namely that leaner, flatter, and more agile organizations are in, and corporate dinosaurs are out. There are many other contributions to this genre (e.g., Tapscott & Williams, 2008; Brafman & Beckstrom, 2006; Shirky, 2008; Bøtter & Kolind, 2012) and, while the genre appears to have gained much steam over the last decade, its roots are many and deep.

We wrote *Why Managers Matter* to set the record straight: The bossless company narrative mispresents managerial hierarchy, fails to understand its benefits, and neglects the "intimidating complexity of design" in favor of easy solutions with potentially disastrous consequences for companies that follow them. Much of our reasoning is based on organization theory such as contingency/information processing (e.g., Burns & Stalker, 1961; Galbraith, 1974; Mintzberg, 1979), configurational theory (e.g., Meyer, Tsui, & Hinings, 1993), transaction cost economics (Williamson, 1985, 1996), and other contributions from organizational economics such as work on organizational complementarities (Milgrom & Roberts, 1995). We criticize proponents of the bossless company narrative for pushing a one-size-fits-all approach that does not consider the multiple contingencies that influence organizational design.

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To develop our argument, we also trace the historical and cultural origins of the bossless company narrative, compare it to related and partly overlapping ideas on "holacracy" and "agile," and criticize the evidence it adduces in its favor. The claims made on behalf of the new narrative range from heavy-handed extrapolations of real trends based on a few cherry-picked examples to wild speculation. Many of these claims are flat-out wrong. There is little tangible evidence behind them, despite many colorful anecdotes. We are worried that the ideas associated with the new narrative are misleading to journalists and students and potentially harmful to practitioners who may be too eager to jettison their existing management structures in pursuit of the latest fad.

In the second part of the book, we develop the case for hierarchy by portraying hierarchy as a rational response to fundamental problems of cooperation and coordination. We show that hierarchy is not a hindrance to innovation but often its precondition and is innocent of social and cultural ills attributed to the traditional management structure. We also have some fun with the history of hierarchy, both in practice and as developed by the classic writers on organizations such as Chandler, Bernard, Coase, Simon, and Williamson.

While the book is written for an audience of practicing managers, it draws on our own, partly overlapping research. We share an interest in both "Austrian" ideas on entrepreneurship and institutions (e.g., Foss & Klein, 2002, 2012), and the economics of organization (e.g., Foss & Klein, 2014). Our interest in Austrian economics has made us attentive to many of the arguments that are made in the bossless company literature. In fact, an Austrian-style early statement in favor of "bossless organizing" was made by Cowen and Parker (1997). Many of the arguments advanced in favor of bossless organizing may be read as taking Hayek's ideas on how utilizing "dispersed knowledge" requires decentralization to the extreme (Hayek, 1945). Yet, our training and interests in organizational economics also made us see that externalities, interdependencies,

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and the need for coordinated adaptation in the presence of unanticipated change mean that total decentralization within companies is unlikely to be an efficient organization design (Klein, 1996; Foss, 2001; Foss, Foss, & Klein, 2007). Here, we have been influenced by scholars such as Richard Langlois (1991), Harold Demsetz (1991), and Oliver Williamson (1985, 1996).

In short, we think the literature on organization design—not just the mainstream literature (e.g., Galbraith, 1974; Mintzberg, 1979) but also organization design ideas derived from the Austrian, organizational economics, and entrepreneurship literatures—have much to offer practitioners, who are not getting it from the popular works on the flattening hierarchy. This is particularly important as we think that there is accumulating evidence that we are in fact transitioning within a number of industries "mechanistic" to more "adhocratic" organization on a large scale, although the systematic evidence for this (i.e., analysis based on large datasets) has not yet been provided.

In the following we first offer a summary of the critical points we make against the bossless company narrative in the book, adding more references and discussions of organization design theory than we (for reasons of readability) do in the book. We then (surprisingly?) offer a more charitable reading of the narrative. While we think that significant parts of it are misguided, the narrative can also be seen as a well-intentioned effort to rethink and question key organizing principles, raising a number of organization design issues that may not have received sufficient attention such as the relations between such contingencies as employee motivations, the need for decision-making speed, or the characteristics of knowledge on the one hand and organization design on the other.

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THE BOSSLESS COMPANY NARRATIVE

What is the Bossless Company Narrative?[3]

The essence of the bossless company narrative is a broad claim that while managerial authority may once have made sense as a means of allocating resources and making people collaborate, it is now redundant and wasteful. Other mechanisms better solve the twin organizational problems of coordination and cooperation that any system of resource allocation confronts (e.g., Milgrom & Roberts, 1992). The reason is partly because organizations now have access to powerful digital technologies that enable immediate lateral communication and collaboration. Lateral dialogue and agreements (á la Morning Star) facilitate collaboration and allow for faster and better exploitation of local information (as information does not have to be reported up a hierarchy to a superior) (á la Valve). They also provide better work motivation (intrinsic as well as extrinsic) and allow for stronger incentives (as peers may have better insight in a colleague's abilities and efforts). Finally, the new forms that emerge, characterized by flat hierarchies, little overt use of managerial authority, broad job descriptions, and networked digital technologies also cater better to the preferences and aspirations of new generations of employees who value flexibility, involvement, ongoing work-related positive challenges, and the ability to exercise initiative in the workplace.

The new forms are in many ways closer to market organization than to traditional hierarchical forms but, according to the narrative, they are better than markets at harnessing the knowledge sharing and combination that drive innovation. The firm is still needed as a legal fiction that signs contracts, appears in court, and governs the interaction of employees who are essentially equals but firms should as much as possible be organized in a "democratic" manner.

[3] This brief summary is based on the first four chapters in Foss and Klein (2022b), to which readers wanting more detail and references are directed.

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The Historical and Cultural Roots of the Bossless Company Narrative

Ideas about bossless organizing date back to at least the cooperative movement of the nineteenth and early twentieth centuries (especially the part of the movement focused on worker ownership. Surprisingly, the bossless company narrative ignores this movement and the theoretical and empirical analysis of cooperatives. Ideas on worker-owned firms, worker-led management, "industrial democracy," and co-determination not only anticipated many decades ago a number of the key ideas associated with the bossless company narrative, but also spawned a huge literature, both positive and critical (see Lee & Edmondsson, 2017, for a review). As Grant (2008: 476) observed: "From the outset of the industrial revolution, humanists, social reformers, religious leaders and political revolutionaries have sought to design productive organizations where individual liberties, personal fulfilment and caring social relationships can coexist with the demands of technology and productivity. Robert Owen's New Lanark Mills in Scotland and New Harmony in Indiana were early examples."[4]

Organizational design scholars will be familiar with early ideas on flattening hierarchies, delegation, and empowerment such as Burns and Stalker's (1961) notion of the "organic structure" characterized by little formal specialization, lateral communication, and a flat hierarchy and thriving on the power of networks, relationships, and strong personalities—properties that would make such forms more adaptable to environmental shocks and well-suited for firms operating under dynamic, innovative conditions. While this sounds very much like

[4] While Adler (2020) is not an explicit proponent of the bossless company narrative, some of these older ideas are reflected in his work. For example, Adler charges capitalism with causing or exacerbating inequality, financial crises, environmental unsustainability, social disintegration, and political and international conflict, but also what he calls "workplace disempowerment": "[M]anagement is far too important to be left to managers. To overcome the crisis of workplace disempowerment, we need to democratize the management of our enterprises. We need to put these enterprises under the control of boards, representing workers, customers, and the broader community, and to replace to-down autocratic control with all-round participative management."

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accounts of companies like Valve—a poster boy of the bossless company narrative—Burns and Stalker did not present the organic structure as a universally best organizational form and were careful to argue that the main alternative, the "mechanistic" form, may be superior under some conditions.

At about the same time psychologist Douglas MacGregor (1960) developed his distinction between "authoritarian" and "participative" management which seems to have been the original inspiration for another bossless company narrative poster boy, Bill Gore's "lattice structure" as implemented in W.L. Gore and Associates in the late 1960s (perhaps the first attempt to think in a disciplined way about how to make a large industrial company flatter). MacGregor's work grew out of the "human relations school" (which included important early management theorists, such as Mary Parker Follett, Elton Mayo, and Abraham Maslow). Gary Hamel may be seen as a modern representative of this line of thinking[5] which argues that workplace organization needs to start from a fundamentally respectful stance towards employees as human beings who best flourish in self-organizing, collaborative teams.

With respect to the cultural roots, the bossless company narrative is embedded in a fundamentally liberal culture that identifies autonomy, freedom, and personal development as especially important values. It also embraces a familiar trope in the contrast between the bourgeois (petty or not) and his traditions, daily routines, and obligations versus the free, creative spirit of the Romantic. But other more subtle forces have also been at work, preparing the ground for the bossless company narrative. One such force is the decline of early post war enthusiasm for corporate and state planning, notably because of the events of the Vietnam war which saw a military effort backed up by a massive planning and resource allocation effort by military

[5] See in particular Hamel and Zanini (2020).

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bureaucracy frustrated by an enemy that was more agile and adaptive. Deliberate, forward-looking planning and an authoritarian chain of command was being beaten by a looser, self-organizing structure.

Around 1970 a spate of management books appeared with radical implications for management and organization design. Bennis (1968) introduced the notion of the "adhocary," later used, systematized, and made influential by Henry Mintzberg (e.g., 1981). Toffler (1970) famously argued that society (meaning mostly the US) was changing dramatically from an industrial to a "super-industrial" society, which would result in massive information overload and stress everyone out, in particular as they stuck to existing, obviously old-fashioned ways of thinking and organizing. Adhocracies, defined by Bennis, Toffler, and Mintzberg as flexible and informal forms of organization that would allow for adaptive, creative, and flexible integrative behaviors could help the inhabitants of "super-industrial" society cope. These structures also avoid the "Peter Principle," the concept popularized in a 1969 book by Laurence Peter and Raymond Hull that formal hierarchies tend to promote employees beyond the level of their technical competence.

The thinking behind this new genre might have been shaped by the academic backgrounds (Bennis, Mintzberg) or affiliations (Toffler) of these influential writers. The model of the university (already quite idealized) as a loosely organized collective of adaptive and creative knowledge workers is easily generalized as a universal mode of organizing for the future!

The Role of Evidence in the Bossless Company Narrative

The tendency highlight one model of organization as a universal solution is also discernible in the cases used to illustrate the bossless company narrative. A handful of companies makes the rounds: game developer and (now mainly) distributor Valve, Danish hearing aid producer Oticon, California-based tomato-producer Morning Star, Dutch healthcare provider Buurtzorg,

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and Chinese manufacturer Haier. It is true that these firms have experimented with radically flat structures (sometimes giving up as when Oticon dropped its "spaghetti organization" or Zappos ended its experiment with Holacracy). And some of these experiments were highly sophisticated (e.g., Morning Stars' extreme use of internal contracts) and seem to have worked well. It is also the case that the firms that get mentioned in the bossless company narrative are spread across different industries and countries. Such diversity may seem like evidence for the general applicability of the bossless model.

However, on closer inspection it turns out that, in each of these cases, there are special circumstances or "contingencies" that make near-bossless organizing feasible. Valve, for example, relies on heavily modularized software development that can easily be delegated to self-managing teams. Morning Star makes a simple product (basically a commodity), uses simple production processes, and benefits from being in a relatively stable industry. Gore's model features small, cross-functional teams that amostly work in the same plant on projects that are mostly modular and independent. These firms are usually outliers in their industries. Bossless company writers may retort that these cases are not meant to be representative; rather, they are examples to be followed. But, the problem is of course that there may be good reasons why no other companies in the hearings aid industry adoptedle, Oticon's radical "spaghetti organization" or why Valve's bossless organization has not been more widely imitated.

The empirical problems with the bossless company narrative may be illustrated in a different way. Hamel and Zanini (2016) claim 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 GDP." To get this figure, they calculate (from Bureau of Labor Statistics figures) the ratio of managers to employees in the US economy, about 1 to 4.7. They then look at the manager-to-employee ratio of a handful of near-bossless poster companies, including many we discuss in our book such as Morning

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Star, Gore, and Valve, estimating it at 1 to 10. From this, they conclude that more than half the managers in the US are unnecessary! But this neglects the basic message of contingency theory that companies are different and contingencies differ depending on internal and external environments, such that no single organization design works well for every company in every set of circumstances.

There are, however, some aggregate tendencies in company organization that speak to the kind of issues central to the bossless company narrative (although the relevant empirics are not mentioned in the narrative). Thus, there is accumulating evidence that at least major US companies have in fact flattened over the last few decades. Julie Wulf's work is particularly apposite here (Rajan & Wulf, 2006; Wulf, 2012; Guadalupe, Wulf, & Li, 2014). Thus, analyzing data from 300 major US corporations over a 14 year period, Rajan and Wulf (2006) find that the number of direct reports to CEO has strongly increased over time. Also, the number of hierarchical levels between division heads and the CEO has decreased, such that more of these levels report directly to the CEO. They also found that the average size of the top management team had expanded to five to ten members, and that this expansion involved bringing aboard more functional specialists, who are then typically paid better (both salaries and bonuses).

Note that some of these findings could be seen as evidence for tendencies described in the bossless company narrative, notably, delayering and delegation (vice-presidents who move closer to the CEO get more responsibility). However, as Wulf (2012) points out, such a conclusion would be premature. Delayering is not necessarily decentralization or even delegation (as delegating to other top managers may be accompanied by less delegation to lower levels) but more likely the opposite: companies flatten their hierarchies because this gets top managers closer to the real action, makes them better informed (less information is lost as it is passed up the hierarchy), and lets them process information more quickly (as fewer layers are now involved in the information-processing effort). This kind of centralization makes sense when companies

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confront increasingly volatile environment which call for speedy decision-making. Instead of leaving decision authority at lower levels or asking subordinates to communicate through a steep hierarchy, firms are centralizing decision-making at the top of flatter hierarchies. The result is a bit counterintuitive: flat hierarchies may have more selective intervention and even micro-management than steep hierarchies.

The Bossless Company Narrative as Half-baked Organization Theory

The idea that "less hierarchical" does not necessarily mean "less use of centralized authority for allocating resources" should not, of course, surprise the serious student of organization. However, these are often conflated in the bossless company narrative, suggesting that its underlying organization theory is incomplete or half-baked. For additional evidence, note that these writings are usually poor guides to action, particularly in terms of specific organization designs. How should the manager reading a book like *Humanocracy* (Hamel & Zanini, 2020) craft job descriptions? Reward systems? The design of the office layout? Business processes? Should she herself resign her job title and embrace the bossless company model? In fact, what does, "bossless" mean, exactly? Can we have, say, charismatic founders of the "bossless" company who, although they may not intervene in day-to-day operations, still pull the strings by exercising the influence that their founder status and, often, charisma and wisdom bring (like Valve's Gabe Newell)?

Too often, we get no answers. There is almost no explicit engagement in the bossless company literature with the research literature in organization and management theory.[6] Of course, the bossless company literature is mainly a practitioner literature—but so is much of the organization design literature (e.g., Galbraith, 2011; Burton & Obel, 2004). Both the scholarly

[6] Examples of how this could be done include Martela (2019) which shows how "bossless" ideas may be interpreted through the lens of classical organization design theory. We essentially do the same in Foss and Klein (2022), though less explicitly than Martela.

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and practitioner literatures are largely ignored in the bossless company narrative. For example, in *The Future of Management*, Hamel and Bill Breen call for "a top to bottom remodeling of modern management's creaking edifice of principles, processes and practices." That conclusion arrives on page 241—in a 288-page book which is ostensibly about the future of management. A few pages later we are told: "So far, I've resisted the urge to share my own vision of the future of management. Mostly this is out of modesty. The future of management has yet to be invented, and when it arrives, I expect to be surprised." Readers are called upon to invent the future of management from scratch (and surprise Gary Hamel). In the following we discuss some basic insights that the bossless company narrative neglects at its peril.

Neglect of contingency thinking. The obvious problem with this "reinventing management" approach is that it discards much sound thinking about organizations and this, in turn, makes thinking about bossless organizing fuzzy and vague. This leads to claims like strong decentralization and delegation being pushed as the one-size-fits-all solution. Thus, Laloux sees his flat (and humanistic) organization (which he calls "teal") as the model, not for just a few companies in a few industries, but for "every kind of organization." As he explains in a 2018 interview:

> I've heard from a number of manufacturing businesses that have flourished with these new practices. Same thing with a number of retailers. There are tech start-ups. Nonprofits. Hospitals. Schools. Retreat centers. There are truck drivers who self-manage, cleaning companies that adopt these practices. . . . You name it. In the last few months, I've also suddenly heard from a number of municipalities and local government agencies. … What's been most surprising to me is that a handful of CEOs of very large organizations (tens of thousands of employees, multinational or global) are really getting the ideas of the book and are inviting their organizations to move in this direction. That's really hopeful to me! Of

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> course, reinventing such large organizations takes more time, but the first signs are very promising.

The implied notion of a universally best solution flies in the face of basic contingency thinking in organizational design. Contingency theory directs our attention to the fit between tasks, organizational structure, and people and how this fit is influenced by various contingencies (internal and external to the company) such as technology, the intensity of competition, the degree of uncertainty, and resource availability. The neglect of this basic point is our main critique of the bossless company narrative. Because it ignores contingencies, the narrative fails to acknowledge that bosslessness at best works for some companies operating under special conditions. Indeed, the bossless-company narrative seems to presume that contingencies do not matter when it comes to flattening the hierarchy: because all people yearn for freedom, because the world is rapidly changing, and so on, we need to get rid of the managers, or at least most of them—no matter the circumstances.

Neglect of complementarities. One reason there is no universally best solutions is the presence of complementarities, meaning that certain organizational practices work best only in the presence of other practices (see Brynjolfsson & Milgrom, 2013, for an excellent summary). Worker discretion, for example, is complementary to job flexibility, strong performance measurements, and technologies that need frequent adjustments. In the typical sales job, salespeople usually have better information about their territories and clients than the front office, and the most effective sales strategies and techniques often change rapidly with market conditions. It thus makes sense for salespeople to have considerable discretion with respect to how they target their clients. To give them strong incentives, they are typically paid by commission—the more they sell, the more they earn. Their supervisors may not care particularly what strategies the salespeople use, as long as they deliver.

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There are of course other jobs where workers may have little discretion, and hence little ability to perform better—and thus performance-based pay does not make sense. Or, they may have a lot of discretion, but their supervisors have no way to measure performance. Safety inspectors, for example, are usually paid by the hour or by the month, rather than per inspection—for good reasons. Thus, contingencies like geographical distance, technology and security concerns establish basic parameters that determine which complementarities are particularly binding, but these differ depending on which contingencies that are manifest.

Much organization theory (e.g., Thompson, 1967; Williamson, 1985) links the need for managerial authority and hierarchy to the extent of complementarity between activities in organizations. Thus, in early contingency theory (e.g., Thompson, 1967), technologies and discrete activities or tasks shape interdependencies which in turn determine the need for coordinating activities and making people cooperate (Thompson, 1967). That need is met is by the hierarchy, that is, by a division of labor in the exercise of authority. Organizations with many, complex and potentially multilateral complementarities are likely to face non-neglible coordination and cooperation needs that are addressed not only "laterally" (by means of cross-functional work teams, liasion groups, horizontal communication mechanisms, etc.) but also "vertically" (by the exercise of authority). It turns out that most of the "bossless" companies that have become poster companies for the narrative have technologies that give rise to relatively little task or activitiy interdependence, in turn making the need for the exercise of authority comparatively smaller. As noted above, this is the case for Valve which can rely on the modularity inherent in much software development; Oticon, which isolated development projects (and the complementarities inherent in such projects) in dedicated work groups, or Zappos and Morning Star which rely on relatively basic technology that can be routinized and codified and where interdependencies are linear and predictable.

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Comparative governance consequences. In the terminology of Williamson (1985, 1996), organization theory should adopt a fundamentally "comparative institutional" approach. Such an approach involves, first, that comparisons are not made against unrealistic extremes. Williamson's specific target is the practice of comparing real-world institutions against perfect theoretical ideals (e.g., the model of the perfectly competitive economy). But it may also be read as a warning against comparing one's favored alternative against caricatures of real-world alternatives to it. The bossless company narrative often portrays hierarchical organization in unrealistically unfavorable terms (rigid, moribund, unable to adapt, soulless, dehumanizing, etc.). Second, a comparative approach involves systematically comparing real-world alternatives in terms of economizing and the overall performance of the relevant alternative. This requires attention to such issues as how the alternatives compare in terms of the incentives and administrative communication mechanisms they deploy, and how this impacts their adaptation properties in the face of more or less unforeseen events (Williamson, 1996).

We are unaware of any such systematic comparison by writers that promote the bossless company narrative (although research has begun to address this issue; see Martela, 2019, for a step in this direction). This means that it is unclear what exactly is the baseline for bossless company arguments—i.e., what exactly are the alternatives to the bossless model and why and when are these alternatives lacking? Another consequence of the lack of attention to comparative governance is that aggregate consequences of the bossless model are poorly understood. Thus, suppose business begins to engage in widespread experimentation with bossless organizing. As we have argued, bossless models can work, but most likely only for a few businesses. The other side of the coin is that for most companies, experimentation with "bossless organizing" will waste resources. For example, bossless organizing may be less good at architectural innovation, concerted exploitation, and coordinated adaptation (i.e., the main benefits of centralized

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authority). This may have negative consequences in the aggregate, harming economic dynamism and growth.

Hierarchy Vindicated

Consider the fundamental problems of organizing (Puranam et al., 2014), namely deciding on organizational structure and control (Burton & Obel, 2004). This involves defining tasks and allocating them across individuals, teams, departments, and divisions based on interdependency as well as defining and providing rewards, monitoring behaviors, enforcing standards, setting direction, and other ways of addressing the cooperation and coordination needs that emerge from the basic organizational division of labor. In principle, ”bossless,” ”less hierarchical” organizations can do all this (Martela, 2019). But feasibility is not efficiency. For many tasks and underlying technologies bossless organizing is not the most efficient mode; something more hierarchical is. The crux of the matter is that the fundamental problems of organization—the problems of coordinating people and activities and making people cooperate—are not going away; they are fundamental challenges for which all social activities need solutions.

Management is an activity that involves significant multitasking. In his classic treatment, Mintzberg (1975) identified ten managerial functions such as being a spokesperson and figurehead on behalf of the organization, internal and external negotiator, resource allocator, entrepreneur, monitor, and so on. Moreover, he indicated that there may be complementarities between these activities such that doing more of one of them increases the benefits (to the organization) of doing more of another one (and vice versa). In this case, it makes sense to concentrate the management task on one or a few persons rather than delegate management activities across multiple organizational members (as a bossless organization would presumably do). And when there are scale and learning economies in management, as can reasonably be assumed, it also makes sense to make management an activity that is more permanently

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undertaken by a particular person who has comparative advantages in the activity of managing.[7] Groups that economize with the costs of solving their coordination and cooperation problems by choosing leaders or managers may be expected to have an evolutionary advantage relative to groups that don't do this.

The problems of coordination and cooperation so fundamental that our cognitive and motivational apparatus have evolved to help us better cope with them in terms of assuming or recognizing authority and hierarchy, as an accumulating body of evidence suggests. Thus, the ability to not only exercise, but also recognize and respect authority may be evolved traits (Senior, Lee, & Butler, 2012); there is neuro (MRI) evidence that we are "hardwired for hierarchy" (Zink et al., 2008); Experimental evidence that our brains recognize and remember hierarchical social arrangements better and that problem-solving in the presence of task interdependencies benefit from hierarchy (Ronay et al., 2012). A study finds that testosterone levels predict who will become the boss and how well teams cope with interdependent tasks (Pikulina & Tergiman, 2020). Such studies already suggests that authority is a phenomenon that is inherently associated with collaborative group behaviors, and that the advice to make "everyone a boss" (Kastelle, 2010) is fundamentally misguided for fundamental evolutionary reasons.

While management research is predicated on the notion that managers make a difference, it is fair to say that empirically this has been taken for granted rather than shown and that the evidence has been indirect (e.g., various policies initiated by managers have been argued to have effects on performance, such as mergers and acquisitions, HR policies, and so on). However,

[7] Casson (1994) coins the notion of "decisive knowledge": Knowledge is (strongly) decisive when no further knowledge (from others) is required in order to make a rational decision. The more decisive the boss's knowledge is relative to the worker's, the more attractive is the authority relation.

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there is research that deals more directly with the effects of managers. Parts of this has been taken up with how managers matter negatively, such as the vast literature on OB literature on how violation of the psychological contract is not "the exception but the norm" (Robinson & Rousseau, 1994). But there is also research that shows that, for example, a "boss's technical competence is the single strongest predictor of a worker's job satisfaction" (Artz, Goodall, & Oswald, 2017: 419).

Identiifying the causal effect of bosses on organizational performance is hampered by the problem that CEOs are not randomly assigned to firms. A study by Bennedsen, Perez-Gonzalez, and Wolfenson (2007) examined 6,753 deaths of CEOs, immediate family members, and board members in Denmark over the 1992-2003 time period. They found that on average, a CEO death (or the death of a child or spouse—but not a mother-in-law!) makes operating returns on assets decline by almost one percentage point and that the impact is stronger the shorter the tenure of the CEO. In a recent study Giardili, Ramdas, and Williams (2022) use a panel approach to measure variation in productivity due to managerial influence, allowing for heterogeneity in managerial capability. They offer robust evidence that find that a plant manager's identity is predictive of changes in both the mean and variance of production. Such evidence suggests that bosses are likely to make, on average, a significant positive contribution to the organizations they manage.

IMPLICATIONS OF OUR ARGUMENT FOR RESEARCH

In *Why Managers Matter* our key aim is to take issue with the critique of managerial authority and hierarchy in the bossless company narrative and to show that managers and their organizations they manage are better served by traditional thinking on these issues. As the book is intended for an audience of practicing managers, we do not discuss implications for research. Given the way we just summarized the book, it may seem that there are none: traditional

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hierarchy works well, and the bossless company narrative has not succeeded in unveiling any major gaps in the received body of organization design theory. A more charitable interpretation of the bossless company narrative is that it points to some potentially weak spots in the existing body of research on authority and hierarchy. In the following we discuss this in greater detail.

We Need (Much) More Empirical Evidence

While much evidence exists on the emergence and spread of organizational forms, much of this appears in the form of historical evidence, notably the work of Chandler (1962, 1977) and the line of business history research he pioneered. Little large-scale work exists (e.g., Teece, 1980. In particular, we are not aware of any major data sets that allow analysis of the incidence of bossless organizing and their consequences. What gets closest is the work, briefly summarized above, by Julie Wulf and her colleagues, on the flattening of corporate hierarchies.[8] Various studies in more specific contexts speak to consequences of bossless organizing (or at least flatter hierarchies). For example, in a study of start-ups in the game software industry, Lee (2022) finds that while flatter hierarchies can improve ideation, they are also plagued by problems stemming from missing management efforts, such as power struggles among employees or aimless exploration. Hurst, Lee, and Frake (2022) offer experimental evidence that women perceive flatter hierarchies as offering fewer career opportunities and being more difficult to fit into. It is unclear if these results generalize to other industries; the computer game industry, for example, may be more conducive to bossless organizing than other industries because of the nature of the underlying technologies, the widespread use of team organizing, and also because of the personality characteristics of employees.

[8] See also Mendelson and Pillai (1999) on "information age" organizations.

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There is, however, large-scale evidence on some of the potential drivers and correlates of bossless organizing. Thus, routine jobs have fallen as a share of total employment, as revealed by text analysis of 7,8 million job ads over 50 years (Atalay, Sotelo, & Tannenbaum, 2020). Sorting the description of tasks into "routine" and "non-routine" categories and linking the job titles in the ads to the Standard Occupational Classification codes, Atalay et al. found that specialist jobs that rely on judgment and expertise have increased. Such jobs tend to be associated with a higher degree of discretion, necessitating delegation, than more routine jobs (Jensen & Meckling, 1992). Related research job descriptions for executive positions to show how skills requirements are changing (Hansen, Ramdas, Sadun, & Fuller, 2021). Like Atalay et al., Hansen et al. use machine learning to sift through these descriptions and identify salient job aspects. They find a general and increasing relevance of social skills in top managerial occupations. This could be interpreted as a correlate of bossless organizing as flattening of hierarchies and increased delegation make the social skill component of the managerial task portfolio increasingly important. There is also preliminary evidence that flexibility is valued by employees; a study of Uber drivers finds that for the average Uber driver, having flexible work hours create as much value as driving an extra 6.7 hours per week (Chen, Rossi, Chevalier, & Oehlsen, 2019). Quite apart from the issue of whether Uber drivers are (de facto) employees, there are also self-selection issues that challenge generalizability. Still, flexibility as a job property is of course a main aspect of bossless organizing.

More broadly, there is evidence that employee education and skill levels have indeed been rising for decades, and investments in education lead to higher wages (e.g., Autor, 2014). Increasing education levels may also affect job descriptions and how much discretion is left to employees: better educated employees in higher demand have more internal bargaining power and may often know better than bosses what is the right decision to make. Thus, there are a

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number of real reasons why we expect to see more delegation and flexibility. However, this does not logically translate into bossless organizing or even flatter hierarchies. While decision-making making power may be shifting down an existing hierarchy, there is still a hierarchical superior who can check decisions and, if necessary, take back the decision authority delegated to subordinates.

More generally, contingencies highlighted in the classical organization design literature are changing. Thus, technologies such as sophisticated applications of computing like blockchain technologies, greater use of AI and robotics, increased connectivity, etc. may reshape hierarchies and managerial authority. The question is how this will play out. Even if AI develops to the point where it can successfully take over many business processes, managers are still needed for non-algorithmic decision-making in the face of uncertainty. In fact, many digital tools in fact increase the power of top managers and corporate headquarters and may make organizations more, rather than less, centralized (Nell, Foss, Klein & Schmidt, 2021). The argument that environmental uncertainty has increased has become a staple. It is hard to argue with the proposition that the turmoil of recent years has increased uncertainty. In classical organization design theory uncertainty is mostly seen as a contingency that pulls towards more decentralization and delegation (Burns & Stalker, 1961; Galbraith, 1974). However, in the presence of interdependencies, adaptive responses to major, highly uncertain change are likely to require top management decision-making.

Rethinking Authority

While much of the bossless company narrative deals in over-the-top criticism of bureaucratic overreach and meddling managers as well as in click-bait like headings such as, “First, fire all managers” (Hamel, 2011), writers in favor of the narrative seldom comes out in

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favor of entirely flat (i.e., literally bossless) organizations. In a charitable reading, the bossless company narrative suggests that authority does not need to be done away as much as rethought.[9]

Theories of authority in organization theory cluster into two broad streams, depending on their emphasis on instrumentally rational action and value rational action, to use Max Weber's (1947) terminology. The former stream includes work that invests authority with a moral dimension (e.g., Adler & Heckscher, 2018; Barnard, [1938] 1971, while attempts to interpret authority as a form of instrumentally rational action has thrived within economics (Coase, 1937; Simon, 1951; Williamson, 1975). Organization design theory has typically been closer to the second stream than the former. The problem with the second stream is that its conception of authority is unnecessarily narrow, resulting in a sharp distinction between authority and leadership (cf. Bernacchio & Foss, 2022). In the final chapters of our book (Foss & Klein, 2022b), we sketch how an instrumentally rational perspective can be built that also includes leadership.

Type I and Type II Authority. The starting point for much thinking about authority is Simon's (1951) classic discussion. In this conception, the Boss directs a worker to perform a specific task; the worker accepts if the task lies within his "zone of acceptance." Implicitly, the Boss is assumed to have sufficient information to rationally direct the worker; thus, as in most of the economics of organization, she may be taken to know the full action set of the worker. This is

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[9] A charitable reading of the bossless company narrative may also see it as a plea for rethinking delegation in organization design research. Delegation is a classic theme in organization design theory (e.g., Galbraith, 1974; Jensen & Meckling, 1992) and the literature frames some core tradeoffs in determining the efficient level of delegation, such as the benefits from better use of local knowledge and increased motivation traded off against less coordination failures and moral hazard (e.g., Jensen & Meckling, 1992; Aghion & Tirole, 1997; Stea, Foss, & Foss, 2015). However, beyond stylized models relatively little is known about the actual drivers of delegation, what companies delegate, exactly, and how this is done. Clearly, there is considerable variation here, even within the typical bossless companies. For example, in Zappos rights to engage in strategy making are not decentralized, while they partly are in Valve; in Morning Star, monitoring of effort is decentralized to dyads, while in Zappos it is centralized; etc.

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also the notion of authority that informs significant parts of organizational economics (e.g., Coase, 1937; Williamson, 1975, 1985). Such "Type I" authority (Foss & Foss, 2009) in which the boss commands a specific action based on superior knowledge about which action should optimally be taken in response to a contingency is increasingly unrealistic under modern knowledge-based conditions in which workers are very often specialists, and therefore the ones in possession of superior information about which actions should be taken. However, in a much later article Simon (1991) sketched a different conception of what authority entails. Here, the boss decides what decisions should be delegated, how much discretion to give to workers—and steps aside. In other words, she designates a desired outcome, chooses what decision rights to delegate, and sets constraints (Simon, 1991). Such authority does not require the boss to be as well informed as employees about which actions are optimal. The latter may be better informed than the boss. Still, the boss is still needed to provide direction and define delegation and constraints on delegation to take interdependencies (externalities) into account. This is the actual function of bosses, even in most ostensibly bossless companies.

The Distribution of Type I and Type II Authority. Most companies are likely to feature a mix of the two kinds of authority, and it may be more productive discussing what determines the (optimal) mix than discussing authority in terms of more or less. Established organization design theory provides a few pointers with respect to what are relevant contingencies. Thus, task interdependency is a key consideration, and much theory points to the need for coordinated decision-making brought about by authority when actions or activities are interdependent or complementary (Milgrom & Roberts, 1990; Williamson, 1996). Thus, authority may be picked as a low-cost mechanism for picking "good" equilibria in coordination games (Foss, 2001) or as the mechanism that performs "long jumps" in the context of NK models (Levinthal & Warglien, 1999).

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However, the use of authority as a coordination mechanism is partly dependent on characteristics like urgency: if making a "long jump" in the fitness landscape (e.g., implementing a new business model) is not a pressing concern, in principle decisions could be made through participatory decision making and extensive dialogue between all concerned parties in the organization. This would also, ideally (i.e., absent information-revelation issues), make sure that all relevant information is brought to bear on the issues. A final decision that reflected all relevant information could then be made, the boss formally directing unit managers to make the required complementary decisions that would implement the long jump, that is, exercising authority in the Type I Authority mode. However, when urgency is a concern, there may be no time to take all information into consideration, and a relatively ill-informed boss may have to make *some* decision, that is, exercising authority in the Type II Authority mode. (Bolton & Farrell, 1990, show that the exercise of authority adds value in the presence of complementarities if costs of inefficient decisions are less than costs of duplication and delay).

In addition to urgency, knowledge considerations play a role. Thus, knowledge may be dispersed within the organization (Hayek, 1945; Jensen & Meckling, 1992; Grant, 1996), such that employees know relevant things the boss does not know, and it is prohibitively costly to centralize all this dispersed knowledge. Knowledge dispersion pulls in the direction Type II authority and away from Type I authority (as bosses do not have access to all the knowledge of the employees).

There is also an opportunity for additional work on the relationship between bosses and owners. We have elsewhere developed the notion of "ownership competence" as a distinct capability for performing the ownership function, which we define as the exercise of ultimate responsibility for decision-making under uncertainty (Foss et al., 2021). The firm can thus be understood as a "nested hierarchy of judgment" in which decision authority is progressively

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delegated from owners (individually or collectively) to top-level managers and lower-level managers and so on—linking the literature on organizational design to the judgment-based approach to entrepreneurship (Foss & Klein, 2012). What kind of ownership arrangement, and how the authority conveyed by ownership is distributed across the organization, makes sense under different contingencies is fertile ground for further research.

Finally, the managerial hierarchy may have a role to play in the firm's decision to embrace social responsibility, a stakeholder orientation, or "woke" policies and procedures (Foss & Klein, 2022a). While middle management conventionally plays "brokerage" and "bridging" roles between top management and lower-level employees, under some conditions middle managers can drive company policy—for example, by shading information that gets passed up and down the hierarchy and developing specialized expertise in areas (such as DEI) that top management prefers to delegate. We think that the structure and operation of the managerial hierarchy is an underappreciated determinant of current trends toward ESG and stakeholder orientations as well as the drift toward "woke capitalism."

CONCLUSION

Our book, and this article, argue that the myth of the bossless company is … a myth. The bossless company narrative piggybacks on some real trends—which partly explains its appeal—but grossly exagerrates them, cherrypicks evidence, fails to account for organizational alternatives and does not engage in a precise comparative exercise, and misconstrues the nature of managerial authority. In short, it is weak on both theoretical and empirical grounds.

To be fair, our book mostly criticizes the Guru Version of the bossless company narrative. As our book is largely aimed at the same audience targted by the Gurus, this seems appropriate. But we recognize that there are several scholarly research streams which make more careful claims, such as various writings associated with the humanistic management stream, democratic

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workplace organization, and post-bureaucratic organization (as surveyed in Lee and Edmondson, 2017). This stream of research is certainly of potential value in contemplating future trends in organizing.

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