9-914-013
REV: JUNE 10, 2016

FRANCESCA GINO
BRADLEY R. STAATS
BRIAN J. HALL
TIFFANY Y. CHANG

# The Morning Star Company: Self-Management at Work

*Self-management brings organizational structure to an enterprise spontaneously.*

— Chris Rufer, president and founder, The Morning Star Company

"How can we solidify a culture of accountability in our enterprise?" The question hovered in Chris Rufer's office as he and Paul Green debated the topic once more. It was another beautiful day in California's Central San Joaquin Valley, the state's agricultural heartland. Morning Star, a collection of affiliated companies, had grown steadily since 1970. The company's main products continued to be tomato-based, including a 40% share in the tomato paste and diced tomato market in 2013. Morning Star's customers—generally large consumer-branded food-service companies and supermarkets—purchased products in bulk containers, mostly 55-gallon drums or 300-gallon bins, and put them in their finished food products (such as pizza sauce, ketchup, soup, and frozen dinners). Morning Star's other businesses included a trucking company, to transport tomatoes, and a harvesting business.

What made Morning Star unique was its approach to self-management, as Rufer explained:

> When you were a kid, you played sports on the weekend, right? You organized the game and got others to cooperate? How'd you do that? You talked. They wanted to play. So there was a common interest, and you had some folks that took initiative, some folks had a ball, another a bat, and you got together. Did a parent manage the whole thing? No! You did it yourself. How did you pick teams? Through spontaneous order. Typically the better players were captains. They rose to the top in this group of kids. It just naturally happened. Now to choose who picks first, you flip a coin. Real hard decisions, right? No, you got on the team and played. That's a natural system among humans. They organize fine without anybody else. They have a common mission, and they have the freedom to operate. And then it happens.

The only person with a title at Morning Star was Chris Rufer, and only because the company was required legally to have a president. Paul Green, who joined Morning Star in 1998, might have had a title such as Chief People Officer elsewhere, since he was responsible for talent strategies and people

HBS Professor Francesca Gino, Professor Bradley R. Staats (University of North Carolina at Chapel Hill), HBS Professor Brian J. Hall, and Research Associate Tiffany Y. Chang prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

development; however, at Morning Star he was known as a *colleague*. Colleagues at Morning Star were responsible for organizing, staffing, and directing their own activities.

Although Rufer and Green believed Morning Star had a viable, strong approach to self-management, they both felt that there was a piece missing from their system: peer accountability. The organization was built on individual freedom, with the expectation that colleagues would take responsibility for holding their peers accountable and address performance failures directly.

"Morning Star is scalable to the degree that we can get individuals to act," Rufer said. "How do you get people to hold others accountable? If someone cares more about being liked than doing the right thing, then it won't work. We have to formally put that obligation on each person's shoulders." But with no appointed managers focused on accountability, there were no systematized incentives to ensure colleagues accepted the "responsibility" side of the equation. Both Rufer and Green felt the solution rested, in part, in the company's compensation system. Their question: What model would fairly compensate colleagues for performance and provide an incentive to hold others accountable, while being consistent with self-management? Alternatively, what other systems might be instituted to help colleagues overcome the social discomfort arising from holding peers accountable?

## Company History

Rufer founded The Morning Star Trucking Company in 1970 when he rented a single truck and trailer and began hauling tomatoes and peaches from farms to processing facilities. In 1982, Rufer and three growers founded Ingomar Packing Company to process tomato paste. Starting at Ingomar, and continuing over the years, Morning Star and its affiliates introduced a number of innovations to the industry. Ingomar was the first company to exclusively produce bulk tomato paste ingredients in California. In addition, the company was the first to market tomato paste in the "300 gallon bag-in-box," which provided bulk purchasing benefits to customers while also delivering the product in aseptically packaged bags. Subsequently, Morning Star developed and patented the 55-gallon Star-pak, a package that provided more flexibility for processing.

In 1990, Rufer founded The Morning Star Packing Company, Los Banos, and in 1995, a facility was opened in Williams, California. By 2013, Los Banos processed approximately 660 tons of tomatoes per hour into 220,000 pounds of tomato paste, and the Williams facility, the largest in California, processed approximately 760 tons of tomatoes per hour for 250,000 pounds of tomato paste.

During construction of the Los Banos facility, Morning Star officially adopted its self-management approach and established the company's colleague principles. Rufer described the motivation for his approach by harkening back to the company's early days as a trucking company:

> Initially, I asked: Why would you have a supervisor? Because they either know more, or they have more communications or organizing capabilities. So, I guess it's obvious that for each truck we should have a truck driver and a supervisor, right? No. If you bought a trucking company with 50 trucks, you would have 50 truck drivers and 50 supervisors. You'd go bankrupt. Why not have the supervisor drive the truck, then? Because the assumption is the supervisors knows it all and the truck driver doesn't. So, you terminate this person and hire the supervisor to drive the trucks. So, that's really how Morning Star evolved: the supervisors driving the trucks.

In 2002, Morning Star purchased and refurbished an existing facility in Santa Nella, California, and launched the Liberty Packing Company, which completed all of Morning Star's diced tomato processing (a business it entered in 1993). Morning Star-affiliated companies were also involved in the tomato supply chain, including greenhouse, transplanting, growing, and harvesting operations.

In 2008, Rufer founded the Self-Management Institute to encourage learning on the topic of self-management. Green reflected on the Institute's founding:

> Morning Star had invested deeply in process research, and pioneered many innovations. However, we hadn't studied our own organization and how Self-Management worked. Self-Management was transferred from colleague to colleague as a form of institutional knowledge; we didn't have a method of conveying our philosophy, describing systems or teaching principles to new colleagues. So our way of doing things was being watered down. The Institute is responsible for implementing our Self-Management systems.

In 2016, Morning Star defined its mission as follows:

> Our Mission is to produce tomato products and services which consistently achieve the quality and service expectations of our customers in a cost-effective, environmentally responsible manner. We will provide bulk-packaged products to food processors and customer-branded, finished products to the food service and retail trade.

Over the years, the company had grown primarily through organic expansion: vertical integration within the tomato-processing supply chain and market-share-driven expansion (e.g., reopening a competitor's shuttered facility). Although existing operations were performing well—Morning Star reported sales of about $700 million in 2012—tomato processing was a slow-growth industry, with almost no domestic growth and little international growth (less than 3% per year). Consequently, the company began to focus on external growth opportunities. Green noted:

> We have opportunities in the tomato-processing industry, as well as in other closely related industries. For example, we believe that our ROA [return on assets] is much higher than others' within our industry. Through acquisition, we could capture some of that difference. Also, there are industries that draw on our key technical competencies, such as industrial manufacturing, agricultural-related food production, and ingredient food manufacturing. These present an intriguing area in which to expand.

## Morning Star's Tomato-Processing Operations

Tomato paste is a commodity, and Morning Star had little pricing leverage. Thus, over the years, the company focused intently on being the industry's cost leader. A blend of technical innovations and economies of scale in its facilities, the largest in the industry, allowed the company to pursue this approach. At its core, tomato processing involved the removal of seeds, peel, and water from the fresh tomato (see **Exhibit 1** for detail on the process). Tomatoes, in raw form, consisted of about 94% water and 6% sugar—the valuable component. By removing the water and excess materials at or near the source, the company maintained freshness and lowered costs, since it didn't ship "waste."

Morning Star's goal was to operate at full capacity for the entire production season—24 hours a day, 7 days a week from July to October. Production scheduling was determined by customer orders and tightly controlled, as different specifications required not only process changes, but also different inputs. The company accommodated sales growth by extending the production season. However, given that tomatoes needed to be processed soon after they were harvested, there were limits to stretching the season.[1] Therefore, when they could no longer simply work for more days, the company expanded its facilities (see **Exhibit 2** for pictures of Morning Star's processing facilities).

Although the schedule was carefully constructed, all the way back to planting, Mother Nature had a way of interfering with the best-laid plans. Every day during the production season, unpredictable factors arose that required adjustments to the production schedule. Thus, a few colleagues at Morning Star were in charge of modifying the schedule based on environmental conditions, contract alterations, and changes to the variety of fruit delivered in any given week.

## Self-Management at Morning Star

Morning Star sought to create a company where employees "will be self-managing professionals, initiating communications and the coordination of their activities with fellow colleagues, customers, suppliers, and fellow industry participants, absent directives from others." The company believed that its approach to self-management yielded meaningful advantages in colleagues' engagement, effort, productivity, and learning. "Self-management is, at a very high level, exactly the way you live when you go home from work," said Green. "We just ask you to keep that hat on when you come to work at Morning Star." He continued, "Our way of doing things is driven by our philosophy: people are productive when they are happy; people are happy when they have control over what they do."

"Leaders get too far removed from the customer," Rufer added. "The ability to sense the environment is then low, as they don't see the interactions. Self-management means leaders have less control, but individuals have freedom to sense and act."

In 2013 Morning Star employed about 400 year-round colleagues and over 2,000 partial-year colleagues. Some worked during the processing season in the factories, trucking, and harvesting operations, while others worked during the farming and transplanting season. As Green noted, Morning Star's approach to self-management was guided by the idea of total responsibility:

> Total responsibility undergirds everything we do. Here is an example. I am a father of three children. My wife and I decided to divide our jobs clearly: she is home, being a mom, and taking care of the house, while I am at work bringing money home for the family. Imagine I got back from a three-day trip and the kids were dirty and told me they had not eaten in three days. Imagine they said my wife spent the time watching TV. What would I do? I would feed them and give them a bath. Now think about a similar situation in an average organization: you come to work and you hear about a problem. In most cases, you would not do anything about it, because it is not your problem. Somebody else in a different, well-defined role created it, so you do not need to fix it.

A longtime employee noted, "People who succeed here have a certain fortitude, a drive. I don't believe everyone can be self-managed. The issue is that many people don't realize this. When you tell someone that he/she can't be a self-starter, it isn't an insult, it is an attribute."

As Morning Star colleagues developed new skills, mastered novel competencies, and gained experience, they could take on more responsibilities. "We believe you should do what you're good at, so we don't try to fit people into a job," said Green. "As a result, our people have broader, more complicated roles than elsewhere." Anyone, independent of experience or expertise, could suggest

[1] There was some flexibility in stretching out the growing season; however, growing later into the year was risky (e.g., weather brought increased risk of crop failure and lower yields) and more expensive (e.g., crop insurance premiums were higher).

improvement ideas in any area. "Since we believe you have a right to get involved anywhere you think your skills can add value," said Green, "people will drive change outside their narrow area. As a result, we have a lot of spontaneous innovation, and ideas for change come from unusual places."

Kim Higgs from Operations described a younger colleague as an example of someone who independently expanded his job and sought the necessary training to contribute additional value:

> Aaron works at Los Banos. He was hired as a seasonal colleague—a college intern working on special projects. That included taking samples and checking solids, looking for spill points, whatever the group needed, then he went back to school. When he graduated, he was offered a job in Quality Assurance with responsibility for monitoring QA functions at our Williams facility. Then in the winter, because things slow down, he decided to learn the pack scheduling process. This requires matching customer requirements and specifications to the operating capacity and process capability of each facility, and then generating a tomato varietal plan and delivery schedule. This process assures we consistently satisfy our customer requirements in a cost effective manner. This also provides a formal backup plan to the colleague currently performing this critical activity.
>
> Then one day Chris [Rufer] pulled Aaron aside and said, 'I am going to make you responsible for the Los Banos plant.' So he is being mentored by the current incumbent, Lou, while still actively engaged in his previous duties. This provides a nice transition in terms of succession planning when Lou decides to go. But here is a case where, no official announcement came out. He just had this conversation and did it.
>
> As Chris says, the more jobs you perform, the more valuable you are to the enterprise. Doing accounting is valuable – but doing accounting and running the evaporator, all else equal, is more valuable. Chris has a knack for seeing people who can add value to the organization and who can advance within the organization in terms of added duties and responsibilities.

Asked about colleagues who did not "self-start," Danielle Behrens, a colleague in Administration, said, "They may be able to get away with it for a year, but you're going to know."

### *Company Principles*

Morning Star used two overarching principles that guide colleagues' actions: (1) refraining from initiating physical force against other people or their property; (2) doing everything they agreed to do. These principles corresponded to the foundations of criminal law and civil law, respectively. The first principle was meant to encompass the perspective that human interaction would be more productive if it was not mandated—by either force or coercion. As Green noted:

> Authority from a chain-of-command in organizations involves the implied use of force. The implication of command authority is that some individuals in organizations have the authority to tell subordinates what to do. Superiors can fire individuals, for example, for insubordination, and they evaluate performance, giving them immense power over an individual's career path and compensation. Self-management takes a different approach. If an individual has an idea that is truly superior for the organization, then the individual should be able to persuade others as to its merits. Your leadership skills are severely tested in a self-managed environment, as you constantly have to answer the question, 'What kind of leader are you when no one has to listen to you?'

This kind of behavior was often difficult for new colleagues to learn. One longtime Morning Star employee noted, "In a traditional organization, it is your job to lose. At Morning Star, you have to earn it. It takes time. You have to evolve your relationships, you have to prove your competency. We had a highly educated colleague, from a very good university, join us and he wanted people to report to him. He couldn't cope with building the relationships that were required and so he left."

The second principle meant that everyone at Morning Star should honor the commitments they make—to other colleagues, external constituents, and themselves. Keeping commitments meant less need for monitoring—something that bosses typically did. In addition, keeping commitments was economically important. For example, customers were willing to pay for certainty in delivery (e.g., as compared to a company that might deliver on time only 90% of the time).

Over time, Morning Star colleagues worked to translate these principles into formal Colleague Principles that governed behavior (see **Exhibit 3**). In 1996, amidst the growth that Morning Star was experiencing, Rufer identified five key aspects to the company's approach to organizing:[2]

1. An organization is but an idea—a concept. People, as individuals, are the ultimate reality and the only operative element.
2. Profitability and growth are the natural outgrowths of excellent execution and innovation, developing insights into market desires and producing goods and services which meet customer desires.
3. People think, innovate, communicate, and execute best when they feel good about themselves. Individuals feel good about themselves when they are in control of their lives—when they have achieved freedom of choice over what is important to them.
4. The principles of self-management and total responsibility, which underlie family and community relationships, are also the most efficient and effective principles for organizing commercial relationships.
5. Competition is to be embraced as a significant source of personal and process improvement.

### *Empowering Employees by Letting Them Identify Their Personal Mission*

All employees wrote a personal mission statement defining how they would contribute to the company's goal of "producing tomato products and services which consistently achieve the quality and service expectations of our customers." Green explained, "An individual who sorted tomatoes on the line would not define her mission as, 'My job is to remove bad tomatoes,' but might say, 'My mission is to ensure that our customers receive pristine tomato products free of foreign material.'" Rufer added, "At Morning Star, you are responsible for the accomplishment of your mission and for acquiring the training, resources, and cooperation that you need to fulfill your mission."

These personal mission statements greatly motivated employees. As Green observed:

> I'm driven by my mission and my commitments, not by a manager. My mission is to maximize the overall efficiency and effectiveness of our enterprise by promoting the adoption and rigorous use of superior principles and systems of organizing people, by developing processes and business strategies which promote accountability and ownership, and by cultivating a culture in which excellence is rewarded. People like to

[2] Statement of General Business Philosophy, Chris Rufer, 1996.

> feel they are part of a bigger activity. Being too rigorous and precise about what role people have in an organization and what they should be doing is not a good idea, and we do not do that at Morning Star. In organizations, managers commonly create roles or jobs because they believe that people like detailed definitions of their jobs. What we believe at Morning Star, instead, is that doing so is demotivating for people. The systems we use at Morning Star allow everyone to perform at a higher level.

Morning Star industrial electrician Bryan Keller agreed:

> I've been in structured and unstructured work cultures, and I enjoy this. I enjoy getting up in the morning and coming to work because I know I can make a difference. I don't have somebody in management telling me what to do. If something goes wrong you make the decision, you get the parts, and you put it in, working with others. You know what the goal of this plant is, and that's to make tomato paste, make it efficiently.

Behrens from Administration felt the same way:

> There are times where I have free time, and I may go ask other colleagues, 'Is there something that I can help you out with?' But I don't go to someone and ask them, 'Okay, what am I going to do today?' I think that's what self-management is: You have to know what your goal is and get it done.

In addition to writing and adhering to their personal mission statements, colleagues also were responsible for obtaining the tools and equipment they needed for their jobs. After identifying a particular need, individual colleagues could issue a purchase order rather than asking for approval from an executive or relying on a purchasing department, as was common in other organizations.

This culture of empowerment and self-management also extended to staffing decisions. Whenever colleagues thought they were overwhelmed and needed help, they were responsible for initiating a hiring process. "I don't want anyone at Morning Star to feel they can't succeed because they don't have the right equipment or capable colleagues," said Rufer.

Many at Morning Star believed that self-management also motivated colleagues to help each other in ways not found in most companies. For example, as tomatoes were unloaded at the processing facilities, the flumes might get plugged with tomatoes. When that happened, colleagues from all areas of the company would help. Jay Latronica, a colleague in Evaporation, described it:

> Even people from the warehouse will stop what they're doing and come because they know it's going to affect them down the line if we don't get the tomatoes in the factory. It's the cruddiest job in the plant - it's nasty, stinky, but everyone does it. It's amazing. There will be 30 people shoveling, getting water all over them. They might be at the start of their shift and they know they'll stink the rest of the shift. But they're helping.

### *Colleague Letter of Understanding*

A key tool at Morning Star was the Colleague Letter of Understanding (CLOU, pronounced "kloo"). Every year, each Morning Star employee created her own CLOU and negotiated it with the colleagues who would be most affected by the proposed work. CLOUs were used to identify each employee's responsibilities, activities, "Steppingstones" (a key performance indicator; see **Exhibit 4** for more detail), time commitment, required resources, and CLOU colleagues. CLOUs served as operating plans that would allow employees to fulfill their mission. Usually, developing a CLOU involved negotiating with 10+ colleagues, each discussion lasting 20-60 minutes. CLOUs commonly changed annually to reflect shifts in individuals' interests or skills. Over time, employees worked on more complex tasks and left more basic assignments to colleagues newer to the company.

Rufer strongly believed that voluntary agreements among independent agents would generate high levels of coordination and productivity:

> The CLOUs create structure. As a colleague, I agree to provide this report to you, or load these containers into a truck, or operate a piece of equipment in a certain fashion. This is spontaneous order, and it gives you more fluidity. Relationships can change form more easily than if we tried to fix them from above.

Originally, CLOUs took the form of an actual letter. As the company grew, the letter became an Excel spreadsheet and then moved to the company's intranet, which allowed colleagues to update it at any time. In 2012, Ron Caoua, Paul Green, and other colleagues from the Self-Management Institute unveiled a Web-based CLOU software (see **Exhibit 5** for a sample CLOU).

### *Gaining Agreement*

Although Morning Star colleagues recognized the innate value of their differences, they also knew that disagreements would arise and that, unless they were handled productively, the potential gains of diversity would be lost. Thus, workers committed to following the five-step "Gaining Agreement" process when they encountered differences with coworkers:

1. *Privately engage your colleague*. The first step was to immediately (or as soon as was practical) approach the colleague with whom there was a conflict and try to reach a mutual agreement. This tactic was designed to prevent differences from festering. If a colleague was not comfortable approaching someone directly, he or she was encouraged to seek out an ombudsperson of his or her choice to speak with confidentially.

2. *Engage a third colleague*. If two individuals could not reach agreement on their own, then they would identify a mutually acceptable third party with whom to discuss the issue. This individual was not an arbitrator, but someone who could help the two original parties discuss the issue and possibly reach a better, unconsidered outcome.

3. *Establish a panel*. If the issue remained unresolved, then the two individuals identified approximately three to ten colleagues to serve on a panel. Rather than serving as a jury, these individuals, who were knowledgeable about the problem, helped the concerned parties reach an acceptable outcome by bringing different perspectives to the table.

4. *Elevate to the president.* When no mutually satisfactory outcome was reached, the people in conflict prepared a document for the president that included a summary of the issue, verification that the Gaining Agreement process was followed, and a list of solutions. Then, the president either decided the issue and provided a written explanation of his decision, called a meeting of the parties and the panel, or designated a person to decide the issue.

5. *Follow the course of action determined*. Colleagues also agreed to follow whatever action they agreed upon. If new information arose, they were empowered to open the issue for further discussion, but were required to stick to the plan in the interim.

When following this process, colleagues were encouraged to pay special attention to: 1) Morning Star's mission and relevant objectives; 2) the facts; and 3) the process used to reach agreement. "Our key principle here is to find the truth," said Green. "This isn't an appellate process; it is an escalation process. We want to make sure that we have the right people in the room to make sure that we make the best possible decision that we can. We want to invest the time and energy upfront to do it right."

Becky Wahlberg from Domestic Sales recounted a time when this escalation process was used to suggest that someone leave their position:

> A group of colleagues thought someone wasn't doing their job. The two colleagues couldn't come to an agreement, so the initiator asked me to be on the panel. I was aware of this person's shortcomings. I mean, very nice person, but this person just had a hard time in that position. Doesn't mean they wouldn't be good elsewhere, but I agreed she was in the wrong position. Both parties have representation there. I gave examples of things that I had encountered with this person that cost the company money. After hearing the arguments, the panel agreed she was in the wrong position and needed to be moved. After the decision, she was here for a while doing other work, but she decided what she was doing wasn't worthy of her – it was too demeaning. So she left.

Although the company didn't track data on how often the process was used, the belief was it was pervasive. Yet most issues were resolved, with only 10-12 going to the president each year.

### *Compensation*

Morning Star recognized that some colleagues had greater competence in certain areas than others and that these differences should be reflected in compensation. So, compensation was designed to reflect the actual value that colleagues delivered for Morning Star. Annually, the company used a version of the Gaining Agreement process to facilitate compensation setting.

Early on, Rufer personally gained agreement with each full-time colleague on compensation. As Morning Star grew, the need for a more scalable process became apparent. In the 2000s, Morning Star experimented to find a compensation process that would leverage peer connections amongst colleagues, allow the organization to scale, and remain true to the principles of self-management.

The first step was the CLOU Colleague Review, which was similar to a 360-degree review. Each employee conducted a review of herself and of all of her CLOU colleagues. The reviews were open—everyone could see what everyone else wrote—and colleagues were encouraged to discuss reviews with one another to provide a chance for reflection.

The second step, the compensation packet, consisted of four components:

- **A compensation letter:** It was expected that compensation should include cost-of-living increases; colleagues were tasked to justify increases beyond this minimum. In their one-page compensation letter, a colleague identified a desired range for compensation, results that supported the request, and key changes to the CLOU that would justify a higher salary.
- **Colleague review summary:** A summary of colleagues' responses to the compensation letter.
- **CLOU:** The prior year's CLOU and the colleague's negotiated CLOU for the following year.
- **Steppingstone results:** A one-page summary of results, including year-over-year trends.

The third step was the Compensation Committee Review. Committees were established at each location to evaluate a colleague's compensation packet and gain agreement with individual colleagues to make a final recommendation for the following year's pay and any current year bonus.

The committee investigated claims in the packet to ensure their veracity. In addition, the committee added information for individuals who might be reticent about "blowing their own horn." The committee could not impose a decision; instead, its goal was to help the parties reach agreement.

In the final step, the president reviewed all compensation decisions. The goal was to eliminate this step and have final decision authority in the compensation committees. However, as of 2013, the compensation committees were reluctant to embrace this responsibility. Moreover, many colleagues were resistant to the idea of salary transparency, a key component to the ability of the compensation committees to make informed decisions when recommending additional compensation. In the spirit of self-management, Morning Star would not force this change onto colleagues, but the process would have to change for Morning Star to continue to grow as Rufer could not set all compensation.

Another challenge came in translating experience into compensation. Green explained:

> One person was at Morning Star for about seven years and moved around in multiple roles. He developed talents in many areas. Finally, he expressed frustration with his pay: He wanted more money, and so he tried to negotiate. But his compensation did not change. He had diverse skills, but his pay was set based on the value he was delivering to the organization then, not the value that he might be able to produce if he used all of those skills together (such as in a traditional management role). He gave up the issue and, after a while, left and took a job with a 40% compensation increase. He did not negotiate then; he just told people he took another job. By not having the compensation strata that other organizations have, where different levels of experience equal different levels of pay, we suffer issues like this one more often than other companies.

### *Capital Budgeting*

Any colleague at Morning Star had the right to acquire the resources needed to complete her work—from hand tools to a new factory. Rufer explained:

> When the company started, I signed each check, since I was the president, and I was where the buck stopped. But it became obvious that it wasn't important where the buck stopped, but where it started. By the time I got a purchase order, we had committed to buy something. We needed to turn things around so the person with knowledge makes the decision. Now we have limits, but they are understood, not written. Think about a marriage. If I want to buy a loaf of bread, I don't ask my wife. However, if I want to buy a house in Hawaii, we discuss it. The same approach applies at Morning Star.

As a result, Morning Star colleagues were expected to spend money wisely, but at their own discretion. Large expenditures were brought to a capital project council, which investigated the request. Then the council and requesting individual would seek to gain agreement. If an individual could not reach agreement with the council, he or she could raise the matter with Rufer.

### *Putting the Model to the Test*

Though many Morning Star employees embraced its self-management model, at times, the system did not work as expected. Green described:

> A colleague working as a mechanic languished in the same role for four years. In his eyes, there were no clear ways to advance. After all, there was not an organizational ladder to climb. So, he left. He wrote a note expressing the fact that he loved his job but

> could not figure out what to do next in his career at Morning Star. The system broke down because the people around him did not help him expand his role. This is essential to our system: Do your colleagues buy into your mission and help you move in a new direction? Our system depends both on your showing initiative and colleagues helping you set a career trajectory and giving you feedback on it. Many people look at their role too narrowly. And, as in this case, we lost an individual we never wanted to lose.

## Looking Ahead

Morning Star had established itself as the dominant player in the tomato-processing industry while maintaining its distinctive approach to management. But the company knew it had to encourage greater accountability among colleagues if it was to improve. One employee noted, "Maybe 10% of folks hold others accountable and will say, 'Here is your mission, are you doing it?' Instead, too often, 'I am going to use the principles' is a threat that someone will start a separation process, not a means to improve the organization."

In response, Green decided to float a radical new proposal for managing compensation in the organization whereby less salary would be guaranteed and the compensation committee's role would expand (see **Exhibit 6**). Yet the question remained whether the proposal was actually implementable and if it would drive accountability behaviors. How could Morning Star ensure that its approach to self-management, which had worked so well when the company was small, continue to scale?

**Exhibit 1** Morning Star Tomato Processing Operations: 11 Steps[3]

Tomatoes went through 11 different steps at Morning Star before they reached their final output stage as tomato paste.

*1. Growing*

The first step in creating tomato-based products was to grow the tomatoes. Morning Star's farming operation actively farmed approximately 8,000 acres of tomatoes, while the vast majority of acreage that would yield tomatoes for Morning Star's facilities was farmed by independent farmers.

Both the type of tomato processed and the processing approach used greatly affected the quality of the tomatoes. Customers might specify a particular type of tomato for their order or, alternatively, a quality attribute. Agricultural science has helped to identify quality attributes in different varieties, as well as which varieties should be planted/harvested where and when. Therefore, most processing tomatoes were planted in a greenhouse to enable appropriate germination; once they sprouted, the tomatoes were transported to the field and transplanted with mechanical transplanting machines.

*2. Harvesting*

Once tomatoes had grown to their full potential, the harvesting operation took place, typically for 100 days between July and October. The original tomato harvester, developed by engineers from the University of California at Davis, required significant labor involvement. By 2013, the tomato harvesters being used barely resembled their ancestors. Modern tomato harvesters are expensive, self-propelled, specialized capital equipment costing $300,000 each. Tomato harvesters are driven over a row of tomatoes. The harvester separates the plant from its roots through the use of a rotating bar or an oscillating clipper. An elevator belt then draws the tomatoes into the harvester, where an agitator made up of interlocking fingers shakes the tomatoes until it is separated from the vines.

Conveyor belts then take the tomatoes past optoelectronic sensors made up of photoemitters and photoreceptors. The photoemitters bounce light off of the tomatoes as they pass by. The photoreceptors receive the returning wavelength and determine the color and therefore ripeness of the tomato. This information is fed to pneumatically actuated paddles that either allow the tomatoes to pass or hit the tomatoes (or clods of dirt) onto the ground. Unacceptable tomatoes knocked to the ground would serve as fertilizer for future crops. Next, tomatoes continue along the conveyor belts for another quality check as workers remove extraneous materials (e.g., vines or dirt clods) and sub-standard tomatoes. Harvesters could have up to four sets of optoelectronic sensors. Although more sensors increase the cost of the harvester, they also reduce manual labor. After this final check, the tomatoes are elevated onto a loading arm that places them on tomato trailers.

In the past, farmers purchased or rented harvesting equipment to run their own harvest. Morning Star founded the California Sun Harvesting Company to allow farmers to outsource the harvesting process.

*3. Trucking*

Morning Star transported all of its own tomatoes from fields to its processing facilities. By law, the maximum allowable weight for a tractor-trailer in California was 80,000 pounds. To maximize the

[3] This section draws on "A Day in the Life of a Morning Star Tomato…," http://morningstarco.com/index.cgi?Page=A%20Day%20In%20The%20Life%20Of%20A%20Morning%20Star%20Tomato.

number of tomatoes carried, Morning Star used the lightest, most fuel-efficient tractors possible. In addition, although the company had previously used general-purpose trailers, over time it customized a special double trailer for hauling tomatoes. Altogether, the tractor-trailer combination allowed Morning Star to transport about 8% more tomatoes per load than a traditional tractor-trailer setup.

Morning Star's transportation department sought to optimize routes to limit their length and frequency. The harvesting company would tell the trucking company how many sets of full trailers were ready to be dispatched from a given field on a given day. Then the trucking company would generate dispatch orders for an individual trucker, who would drive to the field, deposit an empty set of trailers, hook onto the full set of trailers, and deliver the trailers to a processing plant. Farmers would designate pads on their fields where tomato trailers could be deposited, filled, and picked up. The objective was to pick up a full load of tomatoes as soon as they had been harvested to preserve freshness and quality. By 2012, the company transported roughly 150,000 loads of tomatoes from the fields to its factories, carrying over two million tons of raw processing tomatoes over 15 million miles.

*4. Grading*

Each load of tomatoes was graded to ensure that customers received the appropriately specified product. Grading was conducted by specially trained technicians from the Processing Tomato Advisory Board, a state-administered organization. Grading began when a trucker pulled the rig onto a scale to determine the weight of the tomatoes. A technician then used a pneumatically powered probe to take a sample from each of the two sections of the trailer. These samples were tested to identify what percentage of the load had mold, green tomatoes, worms, and material other than tomato. In addition, tomatoes were tested for color and sugar content. Each load had to pass not only California's tests, but also Morning Star's stricter tests. If a load failed to pass grade, then it was returned to a farmer to either sort out the bad tomatoes or use as fertilizer for the next season. If the load passed grade, the trailers were deposited in a holding area.

*5. Unloading*

Shuttle trucks were used to pick up trailers from the holding area and bring them to the unloading station. Because different types and grades of tomatoes were used to make various pastes, the order in which tomatoes were processed could vary. At the unloading station, the doors on the side of the trailers were opened. The tomatoes were washed into flumes and traveled down into the processing facility. Morning Star pioneered this water discharge and gravity flow approach, which preserves tomato quality and reduces energy use.

*6. Sorting*

Tomatoes were again sorted in the processing facility through a combination of optoelectronic sensors and human inspection. This additional sorting process ensured that the final product conformed to expectations. In 2012, 95% of Morning Star tomatoes were processed into paste. The other 5% were processed into diced tomatoes.[4]

[4] Through sorting, both types of tomatoes (those used for paste and those that were diced) followed the same process. After sorting, tomatoes for dicing went through another optoelectronic sort for color. Then tomatoes were peeled and put through a steam bath of lye and heated water. Tomatoes were again sorted manually to remove green or moldy ones before entering the dicer. Diced tomatoes next were put on a shaker table to remove juice and tomato slivers. Following shaking, the diced tomatoes received a calcium bath for firmness and texture before entering the batching kettles to be combined with topping juice. Finally, tomatoes were heated and cooled in a tube-in-tube cooler before being packed.

Throughout Morning Star's factories, the company implemented process control and automation whenever possible. Over the years, the company had developed sophisticated controls based on in-line measurement devices that allowed them to ensure the product met specifications within a narrow quality band. Most of its control processes had been developed in-house and incorporated into complex, advanced software human machine interfaces (HMIs) connected to a wide range of programmable logic controllers (PLCs).

*7. Hot/Cold Break*

The "break" process represented a key part of the conversion of a tomato fruit into paste through heating in a large cooker. There were two options for this process, each of which involved tradeoffs: the *hot break* maintained the viscosity (ability to flow) of the paste at the cost of flavor, and the *cold break* maintained flavor at the cost of viscosity. In the hot break, the tomatoes were heated to 210 degrees Fahrenheit.[5] The viscosity issue was important, as it restricted the percentage of tomato vs. water that could be created in a paste (called the Natural Tomato Soluble Solids, NTSS). Hot break paste could be produced from 21-31%, while cold break paste was produced between 31-37%. Thus, depending on the desired outcome for the paste, typically determined by the customer, a different break process would be used.

*8. Finishers*

Just as the break process used determined the viscosity of the paste, the finisher stage determined the level of particulate in the paste. In the finisher stage, the paste was pushed through increasingly smaller filters. The smaller the filter, the less skin and seed remained in the paste.

*9. Evaporators*

In the evaporator stage, the paste was held in large tanks and heated to remove excess water to yield the desired NTSS. Once paste moved through this stage, it was sterilized with steam injectors that would raise the temperature for a small amount of time to eliminate any harmful microorganisms.

*10. Flash Cooler*

Before the paste could be packed, it needed to be cooled. Morning Star used a specially designed hypobaric process that used low atmospheric pressure to cool the paste to 90 degrees in just seconds.

*11. Fillers*

The final and most manually intensive stage in the process was filling. Paste was packed into either 55-gallon aseptic bag-in-drums (metal or fiber drums), 300-gallon septic bag-in-boxes, or a patented combination of the two known as Star-Pak. Star-Pak consisted of four separate 55-75 gallon bags that were packed within a single bin, thus allowing customers to purchase in bulk but maintain flexibility with smaller packages.

---

[5] This high temperature inactivated polymethylesterase and polygalacturonase enzymes that would break down pectin, a naturally occurring chemical that holds a tomato's cells together, thus maintaining viscosity. However, the high temperature also inactivated the enzyme lipoxygenase, which is vital for flavor. In the cold break process, tomatoes were only heated to 150 degrees Fahrenheit. At this lower temperature, none of the enzymes were inactivated, which meant that flavor was retained, but pectin was broken down, creating viscosity issues.

**Exhibit 2** Morning Star Facilities

**Exhibit 2 (continued)**

Source: Company documents.

**Exhibit 3** Morning Star Colleague Principles

In order to encourage, achieve and maintain an atmosphere of high integrity, trust, competence and harmony among all colleagues, customers and suppliers, each Morning Star Colleague commits to the following:

1. **Mission.** Our Mission is to produce tomato products, which consistently achieve the product and service expectations of our customers in a cost effective, environmentally responsible manner. We will provide bulk-packaged products to food processors and customer-branded, finished products to the food service and retail trade.

2. **Individual Goals and Teamwork.** We hereby agree to commit ourselves to the pursuit of perfection with regard to our integrity, competence and individual responsibility. In recognition of each Colleague's personal goal of achieving happiness, each of us commits to pursue teamwork because Together Everyone Accomplishes More.

3. **Personal Responsibility and Initiative.** We agree to take full responsibility for our actions as well as those of fellow Colleagues and our overall Mission. We are personally responsible for our training, time commitments, performance and participating in and contributing toward achieving the Mission and practicing the Principles. We commit to manage ourselves, to personally take the initiative to coordinate our responsibilities and activities with other Colleagues, to develop opportunities for improvement and for making things happen.

4. **Tolerance.** It is understood that individuals differ in many ways—their values, tastes, moods and methods to achieve goals. It is agreed that these types of differences between individual Colleagues, which do not directly affect our Mission, will be respected and tolerated.

5. **Direct Communication and Gaining Agreement.** Differences between human beings are a natural and necessary aspect of life, especially in the pursuit of excellence. Differences may vary from how to answer the phone, to what type of oil to use in a gearbox, to what equipment to purchase to improve operations, to whether one is following our Principles or advancing our Mission, to how a person combs their hair. To gain agreement and move forward, we agree to utilize the following process:

   - When one Colleague perceives a difference with another, we agree to privately engage with the other Colleague as soon as practical and attempt to resolve any differences to our mutual satisfaction. As a general rule, we will not discuss such matters with other Colleagues. However, if a Colleague feels uneasy directly discussing a matter regarding another Colleague, then they should go to another Colleague to discuss alternatives for solving the issue, keeping in mind that confidence should be maintained with their chosen ombudsman.

   - If either of the Colleagues do not feel the matter has been resolved to their satisfaction, then both of them agree to engage one other Colleague as soon as practical and attempt to resolve any differences to their mutual satisfaction with the help of the third Colleague.

   - If either of the Colleagues still do not feel the matter has been resolved to their satisfaction, then both of them agree to engage with a contingent of approximately three (3) to ten (10) Colleagues appropriate for the particular matter. Appropriate

Colleagues would be those in the affected work environment or those with relevant expertise with the issue at hand.

- If either of the Colleagues still do not feel the matter has been resolved to their satisfaction, then both of them agree to engage with the above-designated Colleagues and the President of Morning Star.
- In attempting to resolve differences, the following shall be given careful consideration: A) our Mission and any specific objective; B) the relevant facts, assumptions and values; and C) the method used to determine the proper direction. Other courses of action, upon mutual agreement among the affected Colleagues are encouraged; however, either party has the option of requiring the above steps to be taken at their request.
- When there is a course of action has been determined for the facility Colleagues, or specific Colleagues, it is incumbent on each Colleague to follow that course of action. If new, material information becomes available which could change the chosen course of action regarding any particular matter, then it should be presented for consideration and a new determination. Until a new course of action is determined, each Colleague agrees to follow the chosen course of action and work energetically toward achieving the Mission in the manner decided.

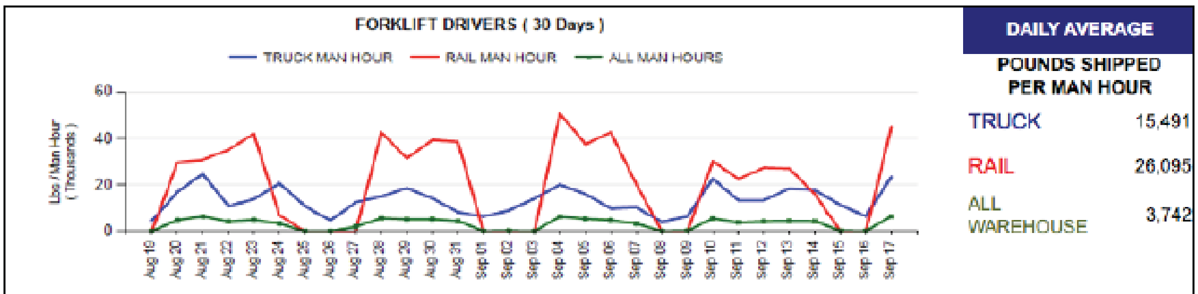
6. **Caring and Sharing.** To the degree Colleagues care about themselves, their friends and relatives, fellow Colleagues, suppliers, customers, the environment, the Mission, Principles and facilities, etc., each of us will come closer to achieving our personal goals. In caring for others, each Colleague commits to (1) share relevant information with others, (2) take initiative to forward information that they believe may be helpful to another's activities, even if it is not asked for, and (3) responding to respectful inquiries made of them by other Colleagues in a respectful and responsive manner.
7. **Doing What is Right.** Live, speak and endeavor to find the truth.

Source: Company documents.

**Exhibit 4** General Guidelines for Steppingstones

- Steppingstones provide context
- Steppingstones don't contain arbitrary goals
- Steppingstones provide feedback in as near to real-time as practically possible
- Steppingstones provide historical feedback
- Steppingstones are pushed to colleagues at the appropriate frequency
- Steppingstones allow comparability to other, similar functions
- Steppingstones are graphical as well as numerical in nature
    - o Many times "average" doesn't tell the whole story
- Steppingstones measure individual process steps, not just high-level performance

**Sample Steppingstones for a Forklift Driver**




| | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TRUCK | 4.5 | 16.9 | 24.8 | 10.8 | 13.8 | 20.7 | 10.9 | 4.7 | 12.5 | 15.0 | 18.6 | 14.2 | 8.3 | 6.5 |
| RAIL | 0.0 | 29.7 | 30.8 | 35.1 | 41.9 | 6.9 | 0.0 | 0.0 | 0.0 | 42.5 | 31.4 | 39.3 | 38.5 | 0.0 |
| WAREHOUSE | 0.2 | 4.8 | 6.4 | 4.2 | 4.9 | 3.3 | 0.1 | 0.1 | 2.0 | 5.6 | 5.1 | 5.2 | 4.4 | 0.2 |
| Load Count | 1 | 52 | 69 | 44 | 51 | 45 | 1 | 1 | 34 | 52 | 54 | 50 | 28 | 2 |
| Truck | 1 | 45 | 58 | 32 | 37 | 42 | 1 | 1 | 34 | 37 | 43 | 35 | 14 | 2 |
| Rail | 0 | 7 | 11 | 12 | 14 | 3 | 0 | 0 | 0 | 15 | 11 | 15 | 14 | 0 |

| | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TRUCK | 9.0 | 14.1 | 20.1 | 18.0 | 9.8 | 10.3 | 4.0 | 6.5 | 22.7 | 13.3 | 13.3 | 18.4 | 17.7 | 11.3 | 6.6 | 23.5 |
| RAIL | 0.0 | 0.0 | 50.6 | 37.5 | 42.6 | 20.1 | 0.0 | 0.0 | 30.2 | 22.5 | 27.4 | 27.0 | 15.9 | 0.0 | 0.0 | 45.0 |
| WAREHOUSE | 0.3 | 0.1 | 6.3 | 5.3 | 4.8 | 3.3 | 0.2 | 0.3 | 5.5 | 3.8 | 4.3 | 4.5 | 4.3 | 0.3 | 0.2 | 6.4 |
| Load Count | 2 | 1 | 62 | 52 | 42 | 41 | 2 | 3 | 63 | 39 | 46 | 52 | 59 | 3 | 2 | 57 |
| Truck | 2 | 1 | 50 | 39 | 27 | 34 | 2 | 3 | 53 | 31 | 37 | 43 | 54 | 3 | 2 | 47 |
| Rail | 0 | 0 | 12 | 13 | 15 | 7 | 0 | 0 | 10 | 8 | 9 | 9 | 5 | 0 | 0 | 10 |

Source: Company documents.

**Exhibit 5** Sample Colleague Letter of Understanding (CLOU)

## Sample CLOU

**COLLEAGUE:** **Joe Smith** **Location: Williams** **CLOU YEAR: 2013**

**BUSINESS UNIT:** **Steam Generation**

**MISSION:** Operate and maintain steam systems, condensate systems, and electrical generation equipment, in order to fulfill the energy needs of our customers throughout the plant.

| RESPONSIBILITIES / ACTIVITIES / IMPROVEMENT STEPPINGSTONES | 2012 | 2013 | Near Term Target | Perfect Results | Target Report Date |
|---|---|---|---|---|---|
| **ADMINISTRATION** | | | | | |
| **Acquire, train and organize additional required colleague operators** | | | | | |
| *Total Number of Qualified Steam Generation Colleagues* | 3 | | 4 | - | Jun-2013 |
| **Purchase boiler chemicals** | | | | | |
| *Days from Invoice Receipt to Payment in Steam Generation Business Unit* | 7 | | 5 | - | Jun-2013 |
| *Boiler Chemical Use Efficiency ( Chemical Cost / Thousand Lbs Steam Generated )* | $ 0.081 | | $ 0.075 | $ - | Nov-2013 |
| **Purchase natural gas** | | | | | |
| *Cost of Boiler Fuel per Therm* | $ 0.6075 | | $ 0.5025 | $ - | Nov-2013 |
| **OPERATIONS** | | | | | |
| **Generate steam for plant operations during processing season** | | | | | |
| *Percentage of Plant Operating Hours Steam Equipment was Available* | 98% | | 99% | 100% | Nov-2013 |
| **Assist colleagues to achieve effective plant operations** | | | | | |
| *Plant Evaporation Efficiency (#Evap/#Steam)* | 1.47 | | 1.72 | Infinite | Nov-2013 |
| *Overall Plant Area Appearance and Cleanliness Rating* | 100% | | 100% | 100% | Dec-2013 |
| **SAFETY** | | | | | |
| **Ensure a safe work environment for self and fellow colleagues** | | | | | |
| *Total Incident Rate (TIR) in Steam Generation Area* | 5.1 | | 3.0 | - | Jun-2013 |
| *Total Workers Compensation Costs Charged to Steam Generation* | $ 40,500 | | $ - | $ - | Jun-2013 |
| **R&M** | | | | | |
| **Develop Steam equipment R&M strategies and policies** | | | | | |
| *Cost to Generate 1,000 Pounds of Usable Steam* | $ 7.350 | | $ 6.250 | $ - | Nov-2013 |
| **Maintain and repair steam generation equipment** | | | | | |
| *R&M expense per year.* | $ 127,957 | | $ 105,000 | | Jun-2013 |
| *R&M expense as a percentage of total Capital Investment.* | $ 1.780 | | $ 1.080 | | Jun-2013 |
| **CAPITAL INVESTMENTS** | | | | | |
| **Research and understand Steam Generation technologies** | | | | | |
| *Report of literature read, seminars and classes attended* | 3 | | 3 | Infinite | Jun-2013 |
| **Develop new technologies for implmentation as capital projects** | | | | | |
| *Boiler Heat Transfer Efficiency (Steam BTU's/N Gas BTU's)* | 76.15% | | 81.25% | 100% | Nov-2013 |
| *Plant Energy Efficiency (# water evap/therm)* | 110 | | 132 | Infinite | Nov-2013 |
| *Plant Energy Efficiency (#Steam/Ton tomatoes)* | 1,031 | | 1,090 | - | Nov-2013 |
| *Cost to generate 1,000 pounds of useable steam* | $ 8.31 | | $ 8.04 | $ - | Nov-2013 |
| **Implement capital improvement projects in Steam Generation area** | | | | | |
| *Total Capital Investment in Steam Generation Systems.* | $ 7,168,636 | | $ 720,100 | $ - | Jun-2013 |
| *Total Capital Investment per pound of steam generation capacity* | $ 10.70 | | $ 10.750 | $ - | Nov-2013 |

**CLOU COLLEAGUES**

| Colleague | Business Unit | Location |
|---|---|---|
| Jay Jones | Steam | Williams |
| Ken Alans | Steam | Williams |
| John Henderson | Steam | Williams |
| Jose Gonzales | Steam | Los Banos |
| Brenda Simmons | Steam | Santa Nella |
| George Gomez | Evaporation | Williams |
| Larry Turner | Tomato Prep | Williams |
| Brian West | Aseptic | Williams |

**Personal Development Goals**

**Short Term Goals**

Increase steam reliability to 100%. Provide reliable and economical steam and electricity for season. Cross training of other colleagues in the boiler area. Prove out effectiveness of off season changes to boiler room and steam system.

**Long Term Goals**

Increase knowledge of all areas of factory. Increased improvement in steam and electrical generation capacity. Increase accuracy of Business Unit recording of data. Complete steam flow transmitter projects and integrate information and data obtained into all Business Unit functions.

Source: Company documents.

**Exhibit 6** Proposal to Address Compensation & Accountability

### Premium Pay

Morning Star colleagues have, historically, earned on average approximately 10-15% more than industry peers. This premium is partially attributable to the fact that we try to hire the "best and the brightest"—those who would be the highest income earners anywhere; let's call this the "Top Performer Premium." A portion of the premium is attributable to the fact that we ask a little more of our colleagues (in terms of individual responsibility); we can call that the "Self-Management Premium." Finally, we have always valued colleagues who demonstrate an improvement orientation—a drive to improve processes, to make things work more efficiently and effectively; let's call that portion of the premium the "Improvement Premium." Let's call these three premium components, together, the "Morning Star Premium."

### Accountability & Current Evaluation Process

In general, a traditional fixed compensation agreement (whether salary or hourly) is an advance agreement for expected value. When a person comes on board at Morning Star, we agree to a salary (or hourly rate) based on the value that we expect that person to generate (within the context of the market).

We tend to assume that all three of the premiums apply to new colleagues, and we tend to incorporate those assumptions into the initial compensation agreement. The problem is that we are not always right, and there are two cultural expectations that make it difficult to get to "right": first, that compensation doesn't go down. Second, that compensation can (usually does?) go up.

We currently have a defined evaluation process which, I believe, is ineffective. First, it has no mechanism for correcting when our initial expectations are too high. Second, to a large degree, the compensation committees have avoided making the tough decisions—in part, perhaps, because we have not provided a formulaic means of making those determinations up to this point. Consequently, compensation has become divorced from actual performance to some significant degree. Rather, a better way of stating this, is that there's all upside potential at Morning Star, but little downside.

### An Alternative Compensation Model

I propose, for our year-round colleagues, a compensation model that has two components that together make up a fixed salary (that is, there is no "variable component" as variable compensation is traditionally defined). Rather, there is a "minimum" fixed component and the "premium" component.

To illustrate the two components, and how I propose they work together, let's use a hypothetical case: a plant mechanic who currently makes $100,000 (including his non-guaranteed, but generally present, bonus). A salary survey tells us that mechanics of this sort, with his level of experience, make between $65,000-90,000, but we have a clear sense that the right "market" number (absent the "Morning Star Premium") is about $85,000. That puts the Morning Star premium value at $15,000.

I would propose, then, that we set this colleague's "Minimum Fixed Compensation" at his market rate ($85,000), and his initial "Premium Fixed Compensation" at the amount of the calculated Morning Star Premium ($15,000), yielding a total guaranteed first-year compensation of $100,000 (no change from his current total compensation). I would then propose that the "Premium Fixed Compensation" is automatically reduced by 20% of the initial Premium amount at the end of each year, such that by year 6, the Premium component is depleted, and total compensation has reached the Minimum Fixed Compensation level.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|
| Minimum Fixed Comp | $85,000.00 | $85,000.00 | $85,000.00 | $85,000.00 | $85,000.00 | $85,000.00 |
| Premium Fixed Comp | $15,000.00 | $12,000.00 | $9,000.00 | $6,000.00 | $3,000.00 | $- |
| Total Guaranteed Comp | $100,000.00 | $97,000.00 | $94,000.00 | $91,000.00 | $88,000.00 | $85,000.00 |
| | | *Yr1-20%* | *Yr1-40%* | *Yr1-60%* | *Yr1-80%* | *Yr1-100%* |

**Compensation Committee**

I would propose that we alter, dramatically, the role of the compensation committee. The committee's role would no longer be to recommend raises or bonuses. Rather, the committee's role would be to review colleagues' proposals for Premium "renewal" and reach agreement with each colleague.

Each colleague will prepare a packet each year in which they outline their performance in support of Premium Compensation renewal. That packet will contain a copy of their 360 summary report, a summary of improvement projects, as well as a Steppingstone summary sheet. This Steppingstone summary sheet will follow a general format (that we will craft for each general area).

**Criteria for Premium Renewal**

A colleague must demonstrate in clear, certain terms that his performance over the year warrants the full premium (which is comprised of the "Top Performer" premium, the "Self-Management" premium, and the "Improvement" premium). Through their 360 report, Steppingstone summary report, and reports of improvement projects, they must demonstrate a compelling case for a renewal of the premium in order to overwrite the automatic reduction.

The compensation committee may additionally elect to increase the premium compensation by up to 20% of the original Premium compensation based on truly exceptional performance in any given year.

Source: Company documents.