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Analysing Premium Cola's Strategy of 'Hacking Business'

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Analysing Premium Cola's Strategy of 'Hacking Business'

Introduction:

Much of the strategic management literature defines strategic success as establishing a competitive advantage. The existence of a competitive advantage however is often considered to be indicated by higher profitability. This is problematic, as it can lead to neglecting other strategic goals that manifest themselves in the long-term and may only be achieved by forgoing current profits. It is therefore worth moving away from a quantitative profit-focused understanding of strategic outcomes towards a more qualitative one. We should remember that Andrews (1971) describes strategy as 'the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define (…) the kind of company (the business) is' as opposed to merely a mean to establish higher profit revenue.

To counteract the biased focus on superior profit as the main desired outcome, this analysis of the soft-drink producer Premium Cola will consider long-term indicators other than profitability as evidence for a competitive advantage. Taking a firm as social entity approach (Jordan and Grant, 2012) the effectiveness of Premium Cola's strategic focus on stakeholder management to achieve a competitive advantage will be investigated. More specifically the external industry environment and the internal capabilities of the firm will be examined to understand on what basis Premium Cola competes. It will be shown, how focussing on stakeholder satisfaction instead of generating profit, results in a sustained competitive differentiation advantage.

It is important to note that the analysis is purely based on publically available resources. It may therefore entail a certain element of interpretation by the author, especially since Premium Cola publicises certain information deliberately, which should therefore be considered part of the strategy.

Premium Cola's business environment:

In the Fortune 1000 list of the profitability of US Industries 2000-2010 the fast moving food consumer products industry ranks in 4th place (Jordan & Grant, 2010). As the soft drink and beer industry falls under this category one can assume it to also be very profitable and attractive. The fact that major players in this industry developed very strong brands hints at the fact that it is shaped by differentiation-based competition. In 2014 Interbrand ranked Coca Cola as the third best brand in the world (after being in first place the previous year), with Pepsi reaching the 24th place and Budweiser the 34th. This importance of brand-differentiation is best illustrated by the ongoing 'Cola Wars' between Pepsi and Coca Cola. (Bhasin, 2013). An analysis of Porters 5 Forces (see Appendix A.) gives further insights about the competitive dynamics of the soft-drink industry.

Refreshing drinks such as cola, lemonade or beer are easy to substitute by other beverages like tea, juices or water. Bargaining power of consumers and distributors (bars and retailers) seems to be high due to the availability of information about quality and pricing and a tendency to bulk order (King, 2013). This would suggest high price sensitivity on the buyer side and fierce cost competition between firms. Instead, most likely due to the dominance of large players such as Coca-Cola and Pepsi (Jordan & Grant, 2012), a price parallelism seems to be present and firms consequently tend to compete on (brand not product) differentiation. The worldwide concentration of rivalry is on a medium level (Concentration ration CR3=40.4% - see Appendix A). Big players such as Coca Cola (25.9%) and Pepsi Co. (11.5%) do have a considerable market share but the majority (59.6%) lies with smaller producers (see Appendix B). This suggests opportunities for smaller producers. Nevertheless, new players may experience difficulty entering the market due to risk-averse retailers blocking access to distribution channels and economies of scale. In this context the importance of product differentiation and brand development is especially apparent.

As Premium Cola is a regional enterprise selling in Germany, Austria and Switzerland it is worth looking at the external business environment in this area. A PEST analysis (Appendix C) draws attention to some important factors that shape the firms environment. The increasing political emphasis on renewable energy and the nuclear power phase-out in 2011 in Germany put more pressure on the economy to reduce Co2 emissions and be energy efficient. Furthermore smaller developments such as the introduction of a road charge for lorries in 2005 affect the transporting costs of products. The soft drink industry, although attractive is not considered a growing one in Germany. King (2013) predicts that as the market enters maturity sales will decline towards 2017. This economic development alongside with growing consumer concerns for healthy and sustainable lifestyles as well as good value for money, calls for considerable innovation. Technological development facilitating information to spread quickly to many people further puts pressure on firms to demonstrate corporate social responsibility (CSR).

Premium Cola's internal resources and capabilities:

An analysis of Premium Cola's internal resources and capabilities reveals an exceptional approach to adapt to these industry pressures. In order to understand this approach it helps to go back to the origin of the firm. Premium Cola was born out of a stakeholder boycott, when initiator Uwe Lübbermann found himself dissatisfied with the taste and caffeine content of his favourite brand of cola, Afri Cola, and grew disappointed that they hadn't asked or informed the consumers about changing the recipe. When Lübbermann sourced the original recipe he started producing his own drink, for him and his friends to consume. This initiative quickly grew and Premium Cola was born in 2001.

From the way the firm came into existence it is understandable that a high priority is placed on stakeholder needs. Freeman (2010) acknowledges that a stakeholder approach to management can help avoid destructive stakeholder actions such as legal suits or consumer boycotts, as do most companies. This is illustrated by the fact that Afri Cola hired a crisis manager to deal with the boycott initiated by Lübbermann. The stakeholder management in Premium Cola however far exceeds these logics of using stakeholder management to avoid value destruction. Instead of seeing stakeholders as a threat on the periphery of the origination's activities, Premium Cola views stakeholders as the essential elements that make up its activities. The resources that contribute to connecting everyone that is involved are therefore critical. The production, bottling, distribution, sales and marketing activities are outsourced to firms that are experts at bottling, transporting and selling the drinks as well as the local Sprecher (see Appendix D). Premium Cola sees itself as the operation system that connects everyone that is involved in the production and consumption of their drinks in one network, the Kollektiv (see Appendix D). This means that from their perspective no stakeholder is external.

Such a set-up requires efficient stable communication processes and well-established values and principles about business-dynamics and entrepreneurship. The latter is derived from the vision and ideals of founder and main-organizer Lübbermann, while the former is achieved through a system of consensus democracy, facilitated by modern communication technology (see Appendix D). Every issue has to be discussed until everyone involved is content with the decision-outcome. In practice this leads to the afore mentioned strategic decisions that differ significantly from those made by industry competitors and even contradict widely held assumptions about economic dynamics.

An analysis based on Porter’s value chain (Appendix D) shows that all primary as well as supporting activities take into consideration the specific needs of stakeholders.

- Consumers are not imposed upon with advertising. Only pull-communication mechanisms are used, in which the consumer can choose to find out more about the firm, but does not have to.
- Distributors are supported through the implementation of an anti-volume discount, creating a financial benefit for small firms, rather than large ones. If distributors are unable to sell Premium-products they can be returned and the expenses are reimbursed.
- Suppliers benefit from flexible verbal agreements and are not constrained by financially binding contracts and deadlines, which creates a network of trust and reliability.
- Finally fixed members of the organization team, benefit from highly flexible working conditions and equal pay. All business activities are organised via the internet and phone, with occasional meetings of the firm.

This analysis reveals that the recurrent theme of Premium Cola’s activity is to prioritize stakeholder needs over revenue generation in all of its activities. Its resulting ability to organize stakeholders in such a way that everyone is satisfied is the single most important capability of Premium Cola and the source of its competitive advantage, as it translates into positive relationships with stakeholders, which then leads to the development of a positive, strong brand.

Premium Cola's competitive advantage:

Hamel (Hamel, 2006) states that the most durable forms of competitive advantage are those that result from innovative management. This statement is confirmed by Premium Cola's 13 yearlong existence. It is however important to remind our-selves that competitive advantage in the context of Premium Cola is not measured based on profitability but on long-term variables that are regarded as more important than revenue generation. Chakravarthy (1986) emphasizes this approach by proposing that one should measure strategic performance in terms of a firm's ability to satisfy all relevant stakeholders rather than just stockholders.

Strategic success can therefore be measured using indicators that show excellent stakeholder management. This includes the absence of law-suits or the existence of long-lasting and productive relationships with stakeholders; both are true for Premium Cola. Stakeholder-related conflicts are expected by and common in many organizations and often associated with financial and emotional cost. It is a common assumption that conflicting interests are part of any organizational interaction and cannot be avoided. While there is some truth in this the conflict can be prevented by encouraging all stakeholders to voice their opinions before a decision is made. That way the conflict can get resolved before harmful consequences of conflicting interests develop. Instead stable and just decisions are made.

Simultaneously all stakeholder share the understanding that they are in a reciprocal relationship to each other in which cooperation and transparency is key. This creates an environment in which everyone's subjective motivation to do the right thing increases and all stakeholders internalize the goal of contributing to a better world.
In this context it is especially interesting to note that the sustainability agenda promotes the involvement of all stakeholder groups in strategic decisions to be able to cope with the challenges of the 21st century such as climate change, what Rittel and Webber (1984) term 'wicked problems'. Premium Cola also considers stakeholders that are further removed from the immediate business activities, including future generations. The firm tends to forego opportunities for expansion and increased revenue to be able to work within its ideal of keeping CO_2 emissions to a minimum, as well as avoid taking on loans or increasing prices to finance the

development. Furthermore Premium Cola takes responsibility for selling alcoholic beverage by donating 10% of the income from each bottle of beer to alcoholism prevention. Such concerns for the wider public good go above and beyond the common CSR efforts and demonstrate the differing motives in Premium Cola compared to other firms.

One can therefore say that Premium Cola competes on a basis of just business practice. Rather than wanting to increase profitability their competitive interest seems to lie with treating their stakeholders better than competitors would, while creating a high quality, sustainable product and generating enough money to compensate the stakeholders involved in the production and sales for their work. There is a certain element of product differentiation (more caffeine, using the most sustainable ingredients and packaging available), but the main differentiation advantage is that consumers can trust that no stakeholder is disadvantaged and decisions are made with an ethical and environmental conscience. This challenges conventional notions of business competition, since Premium Cola, as the publication of their work processes on their website illustrates, would not mind if their competitors would imitate them, as their approach is designed to benefit all stakeholders. In fact, despite renouncing advertising, it is important for Premium Cola to communicate what makes them special to be able to compete with the intense promotional effort of other firms in the industry. So revealing their competitive advantage openly can be seen as a form of promotion, which puts Premium Cola in a drastically different competitive position compared to other firms that either want to hide their competitive advantage or are not even aware of it. This transparency and awareness is also very likely to facilitate future strategic planning.

Strategic recommendations for Premium Cola:

Based on this analysis and clarified understanding of strategic success, Premium Cola should keep doing what it is doing now, while making a continuous effort to find the best ways to communicate with stakeholders. If the communication is efficient, sound strategic decisions will follow and Premium Cola will maintain its competitive advantage. Nevertheless two recommendations can be drawn from this analysis, the first being a word of warning, the second being an encouragement.

1) It is possibly that as the firm grows, communication processes become more complex. Premium Cola has a very prudent attitude to growth, which derives from the lack of profit generating. There is an interest in growing, but also a consciousness about staying within the means of the company and to avoid compromising the needs of any stakeholder when doing so. Nevertheless Premium Cola has to stay aware of what effect the involvement of more stakeholders can have. Oliver (1991) points out that the density of a firm's stakeholder network as well as the firm's centrality have an influence on its level of resistance to stakeholder demands. This dynamic has to be taken into account when structuring the communication of the growing Premium Cola expertise, as maintaining a flat decentralized hierarchy is increasingly difficult, as a group gets larger. The ties within the stakeholder network become looser and decisions may have to be made in an increasingly representative democratic way, which may affect the participation of individual stakeholders on which the business model is built on.

2) Premium Cola's founder Lübbermann advocates his approach to business, which he terms Hacking Business and talks about it in a variety of settings; in lectures at universities or as an advisor to companies. While stakeholder management is increasingly recognized to be essential in strategic performance (Freeman,2010), one of the main criticisms of stakeholder theory is that it does not provide much guidance how an organization can improve its stakeholder relationships. Premium Cola offers some exceptional best practice examples for exactly this. If these best practices can be communicated in a way so they can be applied by other organizations, Premium Cola has the potential to play a significant role in transforming the economic system to be more sustainable and just. Premium Cola plays an especially important role as it shows just how far the assumption of business practices can be challenged and hence improved. When comparing Premium Cola's principles to those of like-minded firms like John Lewis or those of a group promoting the Hacking Business Model (Appendix E), it becomes evident that although they are fairer than conventional business models, they cling to established understandings of ownership and profit that Premium Cola has abandoned.

Concluding comments:

When shifting the desired outcome of strategy from superior profit to stakeholder satisfaction other strategic parameters such as competitive advantage shift also. The industry analysis revealed a need for differentiation with an emphasis on innovation and CSR. Premium Cola achieved this by challenging some basic assumptions about growth, profit and participation in the soft drink industry. Internal capabilities such as a ground-breaking vision of ethical and sustainable economics and effective communication processes within the consensus democracy enabled Premium Cola to develop a competitive advantage. By treating stakeholders well, Premium Cola is an attractive company to anyone involved and develops a positive reputation with the wider public, which despite only relying on pull-communication translates into a strong brand. Through its managerial innovation Premium Cola takes a position in a wider discourse, challenging the assumption of economic actors as self-interested utility maximizers and emphasizing the notion that people assess and reward fairness (e.g. Bosse, 2009). If this approach spreads, it could lead to a reconsideration of successful strategic performance. This could inspire more entrepreneurs to implement businesses that create value for all parties involved, rather than businesses that are based on wealth-maximization for few on the one hand and exploitation of many on the other.

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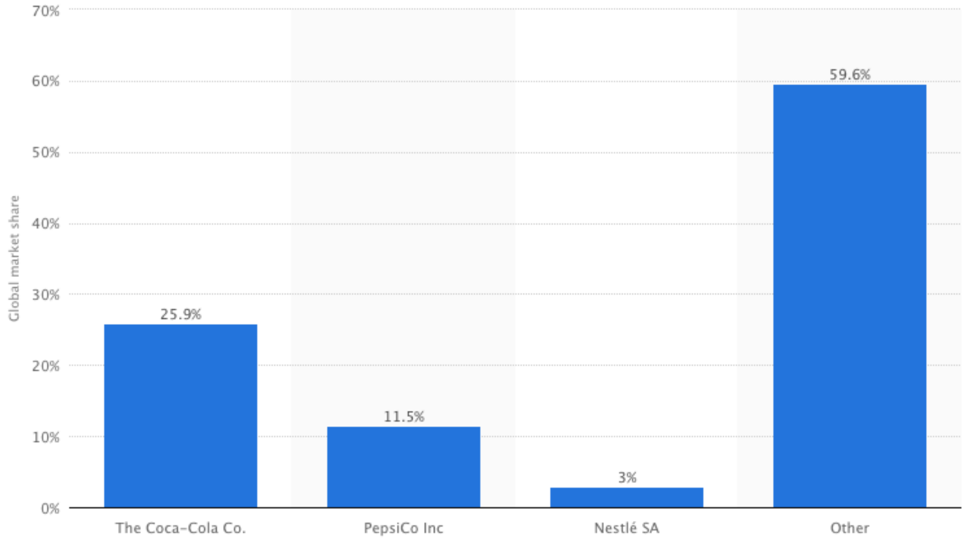
Appendix

A. Porters 5 Forces Analysis

Rivalry between firms	• Concentration → Concentration ratio: combined market share of the leading producers (Appendix B: worldwide: CR3= 40,4%) → Parallelism of pricing, producers focus on advertising, promotion and product development (Jordan & Grant, 2012) • Diversity of competitors → Local producers and private labels of retailers make the competitors more heterogeneous in terms of the working practices and management styles (despite price parallelism) • Product differentiation → Switching cost is not very large, products fairly similar → Price cutting not as common due to price parallelism → High brand identification (Pepsi vs. Cola) • Cost conditions → Low fixed costs, high variable costs → Scale Economy, larger volume is a benefit
Bargaining Power of buyers	Buyers price sensitivity = Medium • Soft drink and beer manufacturers are highly sensitive to the cost of bottles (although by using recyclable glass bottles this dependency can be decreased) • Soft drinks are not that differentiated, buyers (as in consumers) therefore are more likely to be sensitive to price and switch to cheaper brands. • Buyers (as in distributors like retailers and bars) compete between each other. Discount retailers might therefore pressure suppliers of soft drinks for low prices and are highly sensitive to price. Bars and restaurants on the other hand may use the drinks their offer as part of their own branding strategy and therefore are more likely to pick drinks based on their brand image, quality or taste rather than price and are therefore less sensitive to price. Buyers bargaining Power = High • Size and Concentration of buyers relative to producers → Soft drinks are often ordered in bulk (King, 2013), not only from distributors (retailers, bars etc.) but also from consumers. → As it is costly for suppliers to loose buyers that make large purchases bargaining power is high • Buyers information → Soft drinks are visible for anyone to see and the quality of the product can be determined by tasting it just once. → The bargaining power is therefore high • Buyers ability to backward integrate → A soft drink manufacturer can vertically integrate by producing bottles themselves, high bargaining power
Bargaining power of suppliers	Suppliers price sensitivity = Medium • Soft drink and beer manufacturers are highly sensitive to the cost of bottles (although by using recyclable glass bottles this dependency can be decreased) Suppliers bargaining power = Medium • Suppliers of bottles can see what price the soft drink manufacturers sell each bottle for and therefore have some information about the profit margin of the firm (especially if

	they are aware how much the drink itself costs) → Bargaining power
Threat of new entrants	- Very attractive industry. Attracts a lot of new entrants - Capital costs to get started are not that large - Economies of scale: generally soft-drink industry is a very advertising intensive industry and according to Jordan & Grant (2012) therefore requires large-scale operations, new entrants faced with either large scale entrance with cost of underutilized capacity (very wasteful) or small scale and accepting high unit cost (interesting approach taken by Premium as we see later), development costs fairly low for Premium (which is the main source of scale economies) - BUT difficult to gain market share, distribution is competitive (in supermarkets, restaurants and bars), established brands have it easier - Importance of Product differentiation and innovation - Usually in industries where products are differentiated new entrants have to spend heavily on brand development, advertising etc. - Access of channels of distribution: risk-aversion of retailers, fixed costs associated with carrying an additional product → reluctance, internet not really an option for soft-drinks BUT→ Aligning drink's brand identity with distributors identity. In expensive restaurants, need to have a high quality brand, whereas in cheaper restaurants it might not matter as much as long as the price fits. Opportunity for new entrants like Premium (conscious consumerism) - Retaliation on the basis of aggressive price-cutting, increased advertising, sales promotion or litigation may happen in the soft-drink industry, as large producers have the advantage of economies of scale, however Premium does not compete on these factors. Retaliation efforts would therefore not really be an issue, and only bring about costs for the competitors
Threat of substitutes	- High!). Existence of close substitutes There is always the possibility consumers change their preferences and choose a different drink (even if its just water) → Demand is elastic with price - In an increasingly health conscious public consumers may me more likely to pick natural and low sugar drinks (like tea or juice), rather than cola - If you like drinking cola or beer you have the choice between a variety of brands • Premium: Wide product set, so offer all kinds of soft-drinks, protect from switching to another brand (Cola, Frohlunder, Beer, Mate)

B. <u>Coca Cola's global Market share based on Sales Revenue</u>

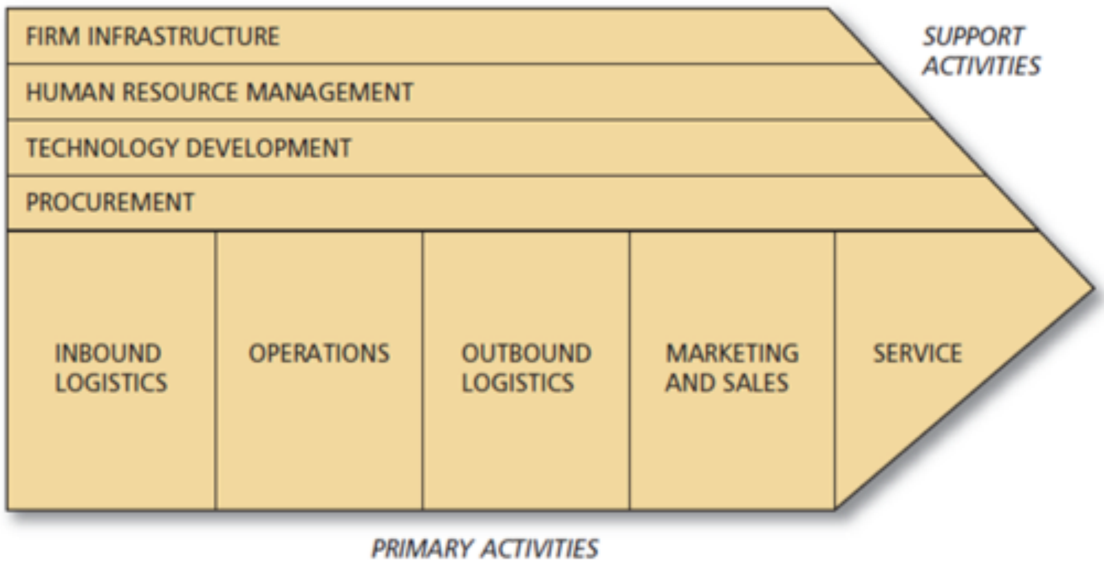


Source: Statista, 2011 (http://www.statista.com/statistics/216888/global-market-share-of-coca-cola-and-other-soft-drink-companies-2010/ - accessed on 5th March 2015)

C. <u>PEST Analysis</u>

Political	Economic
- LKW Maut got introduced in 2005 → distribution cost of logistic partners increased - Energiewende in Germany since 1980s, Atomausstieg 2011 - Co2 Emission reduction target for 2020: 40% reduction , for 2050: 80-95% reduction (compared to 1990 levels) -	- The market enters maturity → Forecasted to struggle → Total volume and value sales even believed to decline towards 2017 (King, 2013)
Social	**Technological**
- Growing concern for more sustainable lifestyles → more health conscious - Through social media advances more consumer participation in supply chain - German consumers are especially value conscious (Coca Cola's brand = 10% volume share, private label drinks= 37% volume share (King, 2013) - Growing concern for health problems such as obesity (King, 2013)	- Communication system of the 21st century enabled → The work processes of Premium Cola (No fixed office, PR mainly on website (rather than posters etc) → More consumer awareness about CSR

D. Porter's Value Chain



D1. Support activities

Firm infrastructure	- All stakeholders are part of the Kollektiv (=collective), the only condition to have access is a face-to-face meeting with a Kollektiv-member - Activities are organized through the internet and via the phone - Virtual firm, there is no office, everyone can work whenever and wherever they like, occasional meetings of the Kollektiv take place in changing locations
Human resource management	- On the basis of the consensus democracy members of the Organization-Team and Kollektiv-members that are neither suppliers, nor distributors (Sprecher = representatives) are all paid equal amounts, unless they have children or special medical needs
Technology development	- Premium constantly strives to find ways to make their bottles more sustainable and reduce waste. → Only one label on the bottle, made from certified paper → Looking into ways to recycle crown caps effectively → Monitoring technical progress to find the most sustainable materials
Procurement	- Premium tries to keep Co2 emissions to a minimum, which in practice means cutting back on transportation → Premium does not export. To expand abroad, a new bottling plant would have to be established locally

D2. Primary activities

	Direct	Indirect	Quality assurance
Inbound logistics	Keeping close links with bottling plants and logistics providers Payment as soon as possible → ‘Sofortzahlung’ All ingredients and materials are sourced in the most sustainable way possible	Lack of contracts (instead: verbal agreements) Lack of fixed deadlines Concern for working conditions in the whole supply chain	A transparent communication system within the Kollektiv Stable decisions due to consensus democracy
Operations	All activities are outsourced to experts (bottling plants, logistics providers, retailers) → This means no one is external → Premium is the operating system that connects everyone involved and organizes the production	The brand Premium brings all stakeholders together and unites them in the production of the drink	Lack of contracts, everything is agreed on verbally → If someone does not behave well, the contract can be terminated immediately
Outbound logistics	Anti-Volume discounts (reversed economies of scale - rather than discounting large amounts, small distributors have to pay less) → ‘Anti-Mengen Rabatt’ Sprecher (=representatives) organize the client-facing relation ship locally and are part of the Kollektiv → Sprecher would get a tip about a bar, shop, restaurant or café who consumers think should sell Premium drinks (or find one themselves) → Go and talk to the potential distributor and persuade them to sell Premium Cola → The distributor then becomes part of the Kollektiv and can place orders	If distributors do not pay for the product within two weeks, Premium does not deliver any following orders until the debt is paid Local connections of Sprecher creates a more personal connection If sprecher do not do their job properly and distributors can’t sell the ordered product because of this. Premium Cola takes back the product.	Any faulty products get announced on the website. If there is no announcement, then the product is of high quality.
Marketing and	Direct	Indirect	Quality assurance

sales	No advertisement →Pull-communication (if consumers are interested, detailed and relevant information is available on the website) Pricing: The price for every bottle gets divided so that the costs of all stakeholders are covered. There is no profit margin. If the operations can be organized cheaper the price will go down Market research: Sprecher come from the consumer community and are part of the Kollektiv. They represent the consumer wants and needs	'Open Franchise' the business principles and processes (so called modules) are described in detail on the website and can therefore be imitated by others → This is not a threat as the whole model is designed to benefit people and is therefore desirable	Sprecher are part of the Kollektiv/ Consensus Democracy
Service	Direct	Indirect	Quality assurance
	All stakeholder's needs are catered for → Consensus democracy: all stakeholders can participate in decisions and have a veto Rather than separating stakeholder management (e.g. by having a customer service or crisis manager), stakeholder concerns are at the heart of the activity	Putting stakeholder satisfaction before generating revenue. Virtual Firm – everyone can chose when and where to work themselves (lowers fixed costs and increases flexibility)	As everyone is part of the decision no one can complain it was a bad decision Transparency within the Kollektiv

E. The Hacking Business Model

- from http://hackinghbusinessmodel.info/

The Hacking Business Model

Purpose, principles and methods

Purpose
- Create a sustainable business model that can be adopted and adapted by others.
- Create a fair and democratic company that is owned by the workers.
- Have long-term, trustworthy and meaningful relationships with our staff and customers.

Principles
- Egalitarian: The belief that all people should be treated equally. This includes equality, non-discrimination and inclusivity.

- Sustainable: We have a long-term view on our business. We watch our profits & spend wisely, we take care of each other, we support the things we depend on.
- Transparent: We communicate in an honest and genuine way. Any information or process that can be made open, will be made open.
- Fun: Create a workplace where people can have fun and want to work.
- Agile: Be flexible, receptive & adaptive, especially when dealing with staff and customers.

Methods

Concrete tools for helping us live according to our principles, including:

- Consensus-based decision making.
- Corporate transparency - any information or process that can be made open, should be made open.
- Licensing that helps benefit our company, our staff, our customers, our partners and society at large.
- Profit-sharing with staff, contributors and worthy causes.
- Don't try to change people. Focus on getting the best from their strengths. Develop ways to work around their weaknesses.
- Prefer to work with people who share our values.
- Work against patents and other legislation that harms individual rights.

Default Employee Rules

Some employee roles may have different requirements — for example, someone working on customer support may need to have regular hours. Of course, any differences need to be noted explicitly in the employee's contract in a section that clearly details any differences from the standard agreement.

- The Employee works in distributed company and may work from anywhere.
- 75 working hours per two weeks. Ideally, employees should work schedules that are kind to them and to others.
- Equal free (vacation) time; Everyone has 35 free days a year + Saturday & Sundays. (This is basicly Finnish 5 week vacation + 10 (avg) weekday holidays). Note that this means that one should use a free day if one wants not work any Monday-Friday even if it's a public holiday in your country! Up to 25 free days will roll over to next year (ie, the vacation part not the public holiday part); If the employee quits or is let go all saved vacation money will be paid out. One earns 25/47 vacation days / week of active work (This is used for the first and last year of employment).
- Vacation money ("Lomalta paluu raha"). When you go on vacation that is more than 3 weeks (or have used more than 3 weeks of your vacation for the year) you get an extra 1/2 month of salary. If you don't keep your vacation the vacation money is payed at the end of the year under 'get a life' bonus plan.
- The employee will get a shared copyright to all code and documentation they produce according to the spirit of the Sun's SCA license agreement.This doesn't include confidential code/documentation or code/documentation that we do for customers that require full ownership to the produced code/documentation.
- 80 / 20 rule; 80% of the time the employee should work on scheduled tasks. 20% of the time they can work on any tasks of their choice, as long as they will generate revenue, make employees more efficient, or enhance company recognition in a 2 year window. The 20% tasks need to be approved to ensure they follow the above guidelines.
- The employee needs to be transparent with everything they are doing. Transparency makes the employee responsible to their peers, and makes them accountable by their own statements. It's also the best vehicle to create trust.
- The employee needs to do a weekly report that includes everything they have done during the week, their plans for the upcoming week, and also any ideas they may have (half-baked or ready-to-use), that they would like to discuss with others. The weekly reports should show clear progress in the employee's major tasks.
- The employee must speak up if the company is doing something they think is harmful for itself, its employees or customers. It's crucial for the success of the company that the employees are 'on board' with the vision of the company. Politics are strictly forbidden!
- 2000 Euro hardware allowance at start of position (for laptop, desktop etc).
- 1000 Euro/year hardware allowance for everyone that requires new hardware to be be able to do their work.
- The equipment bought with the hardware allowances (and any other negotiated equipment) will be transfered to the employee after 5 years.

- The salary should be competitive in the area where the employee is located. The bonus plan is not dependent on where employee is living.
- If an employee has been of significant help in getting / delivering a customer order, they are entitled to a bonus for this work. Everyone involved in a sale will share 5% in the 'price - cost of sales' portion of the sale (in proportion to their involvement) and everyone involved in the delivery will share another 5%. However, any such bonuses will be deducted from their part of the year-end bonus (provided the company was profitable).
- Each employee will be assigned a VIP number of 1-10 (10 being the highest) to describe their importance to the company. This number is used to calculate the end of year bonuses and 'sell-shares'. The VIP number is agreed to when an employee joins the company and will be reviewed yearly by their manager. The employee will get directions on what they can do to increase their importance to the company (and thus their VIP number).
- The employee must be able to communicate fluently in English (at least in written form). If necessary the company will sponsor English classes for employees that want to improve their speaking skills.
- The employee is assumed to be cost efficient. This means they should prefer to use:
  - Cost efficient communication tools like Skype and VoIP.
  - Economy traveling tickets.
  - Medium priced hotels, rental cars, and restaurants.
  - When traveling they should strive to stay over at their fellow employees' places and/or share rooms with their fellow employees. (This item can be overridden with a 'good cause' by their manager)
  - If the employee wants better hotel, food, traveling arrangements, working equipment, etc this can be arranged, but the difference should be reduced from their salary, contract money or bonus.
- When hired, the employee will be considered as 'on-trial' for the first 3 months. After the trial period, the Company and employee will decide if things are working out and either hire the employee or contract him under similar terms as if they were employed full-time.
- People that are not working up to expectations will receive a warning. If the situation is not corrected within one month, they will be moved to 'on-trial' status. After 3 months, the Company and the employee will revisit the employee's performance and will decide whether further employment is in their best interests.
- When an employee is leaving they can buy out any Company equipment bought under the hardware allowance. The price is min(market-price, 'initial-price' * max(5 - years_old,0)/5) (i.e., the price of the equipment is reduced by 1/5 each year).

The Rules of the Company
- The Company is primarily created to generate bonuses for the employees (not to get sold).
- The Company should make it as fun as possible to work for the Company.
- The Company will be a distributed entity and strive to be small and efficient. If growing too big, it will split into separate business units or companies.
- Strive for long relationships with employees and customers. (The Company is a Family)
- The Company needs to respect the individuality of it's employees. If the employee has reasonable 'extra' demands they need to be seriously considered. (For example when it comes to work on weekends, room sharing, not wanting to travel, etc).
- The Company will employ people based on their merits. They will not be discriminated based on their gender, race, religion, location, marital status or whom they have married.
- The Company will not require people to work on weekends. The Company has the right to ask the employee to work on weekends, but the employee has the right to refuse without any consequences.
- The Company will actively encourage its employees to take out their vacation and not save it for later. This is especially important for employees that are "burning out".
- For time-critical, highly-paid, highly-profitable projects that require double working hours, the Company will pay three times the salary and/or offer paid vacation days.
- The Company will, whenever it's possible, largely let the employee choose their own work, instead of being told what to do. By letting the employee set their own goals, they are more likely to meet them. When working on a chosen project the employee needs to work with the team lead, but after the project is done, the employee should decide on what to do next.
- The Company needs to be long term cost efficient in its daily operation. This should be considered when choosing software, phone usage, equipment, etc...

- The Company will not censor employees' opinions or try to hinder employees from expressing them. The Company should provide appropriate forums for the employees to discuss anything work related.
- The Company should budget for at least 3 traveling meetings for every employee to ensure that people can work efficiently and get to know each other. One of the meetings should be an all company meeting.
- The Company will recognize the importance of spouses/family members in a distributed environment and have the following spouse policy:
    - The spouse is encouraged to attend the all company meeting. The Company will pay half of the spouse's ticket and allow the employee to share a hotel room with their spouse (at no extra cost for the employee).
    - The spouse is invited to up to 4 dinners/year (if employees are gathered over dinner).
    - In the above rules another family member can be substituted for the spouse.
- The Company will actively help and sponsor open source projects (see bonus plan).
- The Company will strive for having as much of its plans and information publicly available. All rules of the Company will be made public on its web site.
- The Company will respect the privacy of the employees. It will not read, without explicit permission from either the author or the receivers, any employee emails that are not sent to an email list and it will not read any logs from any private (query) IRC sessions.
- All software produced by the company will be open/free source (with the exception of classified customer projects). At equal profit, the Company will prefer to do open/free software projects.

Bonus

At end of year the profit will be distributed as follows:

- 45% will be saved for expansion
- 5% will be donated to open source projects. The project(s) will be chosen by the employees of the company by voting.
- 5% will be used to support charities. The projects will be chosen by the employees of the company by voting.
- 20% will be used to pay off existing debts.
- 20-45% (depending on debts paid) will be given out (as bonus, dividend or some other form) to employees and investors based on their VIP number and the number of working hours.

The bonus for each employee is calculated as follows:

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employee_profit_hours = employee_working_hours*VIP  bonus= profit/(SUM(all employee_profit_hours))*employee_profit_hours
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An investor which has invested 100,000 Euros is treated as an employee of VIP level 5 that has 37.5 hours a week for 47 weeks. And the investor should expect to get at least 8% as 'bonus' from the bonus pool. If they get less, the missing money will be added to their loan.

At end of year the Company will distribute 100,000 'semi-shares' to its employees and active investors, in proportion to ones 'employee_profit_hour'. This share does not have any other rights than if the company would get sold then the money paid for the company (minus all costs, investments, loans etc) will be distributed among all semi-share holders.

At end of the year the Company should strive to pay off (part of) its investors if it doesn't expect to need the money within a 2-year time frame.

Decision-making processes

(Note that these are only guidelines and may be changed. However the changes MUST follow the spirit of the original guidelines).

The Company is led by a CEO. Their actions are governed by:

- An advisory board that is a team of external chosen experts.
- A governance team, consisting of members from the employees and the advisory board

The purpose of the advisory board is to give good advice to the CEO and the employees of the company.

The purpose of the governance team is to give directives (that must be followed) to the CEO and suggest changes to the rules and decisions processes. The governance team has the right to fire and reinstate people (including the CEO).

The Company will be led in an open and democratic fashion:

- All (not customer classified information) information will be public inside of the company. This includes salaries, bonuses, shares, birthdays, etc...
- Decisions will be done in a democratic fashion and all employees should have a chance to have their say in things that matter to them.

- In cases of disagreement things should be resolved by voting with the 3 vote rule; 'Yes, No and Never'. A decision should normally not be taken if there is a single 'Never' vote. In exceptional 'life and death' cases, after thorough discussions have been had and after all other options are exhausted, a decision can be taken even if there are 'a few' 'Never' votes, if 50% of the company will vote yes to the proposal.
- Company should work according to the motto: "Do good decisions fast but be prepared to quickly change course if there is a way to do it." This implies that the following should hold for 'controversial decisions':
  - If requested, the decision makers need to clearly define the basis for a decision and provide means for proving/disproving that the decision is in the Company's best interests. If a decision is proved wrong, it needs to be reverted and the decision makers need to analyze why it went wrong and take steps to ensure that it won't happen again.
- The Company should learn from its mistakes and its successes. It should strive to repeat its successes and avoid its mistakes in the future.

Difficult decisions / Changing the rules
The rules of the Company can only be changed if at least 75% of the Company employees are not opposed to the changes.
The owners of 51% of the voting shares in the Company (initially only the founders) have the definite power to say 'NO' to any made decision that doesn't have 75% of the employees behind it. They can also propose new decisions that will be be taken if 51% of the employees stand behind it. This rule can only be changed with 85% of the voting shares.

Terms of use / How to use

These rules are not written to be in accord with any given law nor are they supposed to be valid in any given country. The idea is that each employee will get an employment contract that is tweaked according to the laws in their jurisdiction to provide them benefits and responsibilities as close to this document as legally possible.
Other companies using these rules should refer to these as the base rules, and then just have additional rules or small tweaks to these rules. For example, a French company may want to stipulate that the common language in the company should be French, not English.
If your company subscribes to these rules, please add a link to this web page! If your company has some different or additional rules, please keep them on your own page and refer to this page for the default rules.

Credits
Created by Zak Greant and Michael Widenius. It was first published by Zack Greant on his blog. (The link appears to be dead now, leaving it here for posterity.)
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