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 vigorously debated the topic once more. It was another beautiful day in California’s Central San Joaquin Valley, the state’s fertile agricultural heartland. Morning Star, a collection of affiliated companies, had grown steadily since 1970 when Chris started the business hauling tomatoes to processing plants in a truck. 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 the company’s products in bulk containers, usually 55-gallon drums or 300-gallon bins, and incorporated them into their finished food products (like pizza sauces, ketchup, soups, and frozen dinners). Other Morning Star businesses included a trucking company that transported tomatoes and a harvesting business.

What made Morning Star unique was its approach to self-management. The only person with a title at Morning Star was Chris Rufer, and only because the company was required to have a president for legal purposes. Paul Green, who had joined Morning Star in 1998, might have had a title, such as Chief People Officer, at a traditional organization, since he was responsible for crafting talent strategies and people development, however at Morning Star he was known as a colleague. Colleagues at Morning Star were responsible for planning, organizing, staffing, directing, and controlling their own work activities. Tools and techniques had been developed over time to support these functions.

Although both 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 organizational system: peer accountability. The organization was built on individual freedom, with the expectation that individual 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 individual’s shoulders.” However, with no appointed managers whose job centered on accountability, there were
no real systematized incentives in place to ensure colleagues fully accepted the “responsibility” side of the equation.

Both Rufer and Green felt that the solution rested, at least in part, in the company’s compensation system, which was a work in progress. Their question: What compensation model would fairly compensate colleagues for their performance and provide a broad incentive to hold others accountable, while being consistent with self-management? Alternatively, what other systems might be instituted that would help colleagues overcome the social discomfort that might arise from holding their peers accountable?

Company History

Chris 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. This company continued to be responsible for hauling tomatoes to Morning Star facilities in 2013. In 1982, Rufer and three growers founded Ingomar Packing Company to process tomato paste. Starting at Ingomar, but continuing throughout the years, Morning Star and its affiliates introduced a number of innovations to the industry. For example, 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 package, a package that provided more flexibility for processing.

In 1990, Rufer founded and launched The Morning Star Packing Company, Los Banos. During construction of this facility, Morning Star officially adopted its self-management approach and established the company’s colleague principles. In 2013, the Los Banos facility processed approximately 660 tons of tomatoes (220,000 pounds of tomato paste) per hour. In 1995, a second facility was built and opened: The Morning Star Packing Company, Williams. In 2013, this facility was the largest in California and processed approximately 760 tons of tomatoes (250,000 pounds of tomato paste) per hour.

In 2002, Morning Star purchased an existing facility and launched the Liberty Packing Company, Santa Nella, by completely refurbishing the factory (originally built in 1975). This facility completed all diced product processing for Morning Star (a business that they entered in 1993). In addition to the processing and hauling of tomatoes, Morning Star-affiliated companies also were involved in the tomato supply chain, with steps including greenhouse, transplanting, growing, and harvesting operations. Finally, in 2008, Rufer founded the Self-Management Institute as a means to encourage research and learning on the topic of self-management. Green reflected on the Institute’s founding:

Morning Star had historically invested very heavily in process research, and had pioneered many small and large process innovations that allowed the company to maintain their position of industry leadership. However, although we’d been born as an innovative organization, we hadn’t really studied our own organization and how Self-Management worked. The parts of Self-Management that had proven successful had, to a large degree, been transferred from colleague to colleague as a form of institutional knowledge; we didn’t have a systematic method of conveying our philosophy, describing our systems or teaching our principles to new colleagues. So our way of doing things was being watered down. Over the last few years, we’ve made changes to address this, and the Self-Management Institute has now become the segment of the company that is responsible for implementing our Systems of Self-Management.
In 2013, Morning Star defined its mission as follows:

Our Mission is to produce tomato products that 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.

In the same year, the company also defined the mission of the Self-Management Institute as:

The Self-Management Institute’s mission is to develop superior principles and systems of organizing people and to inculcate those principles and systems in the minds of our client colleagues. Over the years, the company had grown primarily through organic expansion, such that in 2012 Morning Star reported total sales of approximately $700 million. Although the existing operations were performing well, Morning Star’s leaders had begun to focus their attention on external growth opportunities. Tomato processing was a slow growth industry, with almost no domestic growth year-to-year, and only slight international growth (less than 3% per year). Morning Star’s prior growth had been driven by vertical integration within the tomato-processing supply chain and industry prior consolidation (e.g., by opening a new facility when a competitor took an older facility offline). With such opportunities appearing more limited by 2013, the company was forced to consider whether acquisitions might provide another path to growth. As Green noted:

We have acquisition-based growth opportunities both 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. By acquiring other companies, we could capture some of that difference. Alternatively, 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

Given that tomato paste was a commodity, Morning Star found itself with little pricing leverage. As a result, over the years, the company focused intently on being the cost leader in the industry. A combination of technical innovations and economies of scale from its facilities, the largest in the industry, allowed the company to pursue this approach. 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 was 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. Therefore, when the prospective season began to get too long, the company expanded its facilities (see Exhibit 1 for pictures of Morning Star’s processing facilities).

Although the schedule was carefully constructed, all the way back to a planting schedule, Mother Nature had a way of interfering with the best-laid plans. Every day during the production season, unpredictable factors arose that caused small adjustments to the production schedule. Thus, a few

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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

b 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).
colleagues at Morning Star were in charge of modifying and refining the production schedule based on environmental conditions, contract alterations, and unexpected changes to the variety of fruit delivered in any given week.

At its core, tomato processing involved the removal of seeds, peel, and water from the fresh tomato (see Exhibit 2 for detail on the 11-step process). Tomatoes, in raw form, consisted of about 94% water and 6% sugar; the sugar was the valuable component. Therefore, by removing the water and excess materials at or near the source, the company maintained freshness and lowered costs, since it didn’t have to ship the “waste.”

Self-Management at Morning Star

Morning Star’s vision was to create a company in which 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 for the company in terms of its 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 you have less control, but individuals have freedom to sense and act.”

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, some 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 that we do. Let me give you an example of what we mean by that. I am a father of three children. My wife and I decided to divide our jobs very clearly: she is at home, being a mom, and taking care of the house, while I am at work bringing money home to provide for the family. Imagine I got back from a three-day trip and the kids welcomed me at the door telling me they have not eaten in three days and they are all dirty. Imagine they told me that my wife spent the last three days watching re-runs of her favorite show. What would I do? I would probably 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 organizations, you would not do anything about it, because it is not your problem. Somebody else in a different and well defined role created it, so you do not need to fix it.

Describing Morning Star, a longtime employee noted, “People who succeed here have a certain fortitude, a drive. I don’t believe that 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.” However, this view was not held by everyone at Morning Star. Reflecting on this perspective Green responded, “I disagree with the ‘rare person’ perspective. My belief is that the systems we use at Morning Star allow everyone to perform at a higher level.”
Company Principles

Morning Star used two overarching principles to 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, in the case of the former, and civil law, in the case of the latter. 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 coming from a chain-of-command in organizations involves the use or 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 fundamental principle meant that everyone at Morning Star should honor the commitments they made—to other colleagues, external constituents, and themselves. By keeping commitments there was less need for monitoring—something that bosses typically did in other organizations. In addition, keeping up commitments was economically important, as it lowered the cost of doing business. For example, not only were layers of bureaucratic monitoring removed, but customers were also 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 fundamental principles into Colleague Principles that governed behavior (see Exhibit 3). In 1996, amidst the growth that Morning Star was experiencing, Chris Rufer set out to define the company’s approach to organizing, identifying five key aspects:

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 Morning Star employees had to write a personal mission statement outlining how they would individually 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 was responsible for sorting tomatoes on the line would not define his/her mission as, ‘my job is to remove bad tomatoes’, but instead 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 very dear to me. It 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.

He continued:

People like to 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 certainty and detailed definitions of their jobs. What we believe at Morning Star, instead, is that doing so is demotivating for people.

The empowerment of colleagues did not stop with the personal mission statements. Colleagues 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 having to ask for approval from a senior executive or relying on a central 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 the 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.

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 or more colleagues, each discussion lasting about 20-60 minutes. Given their level of detail, 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 new colleagues who had recently joined 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 web. In 2008, a group of colleagues developed a software database that stored each colleague’s CLOU on the company’s intranet, which allowed them 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 differences between one another, they also knew that disagreements would arise and that unless they were handled productively, the potential gains of diversity would be lost. Therefore, upon joining Morning Star, workers committed to following the “Gaining Agreement” process when they encountered differences with coworkers. This process included up to five steps:

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 and created an opportunity to reach a more desirous outcome. If a colleague was not comfortable approaching someone directly, he or she was encouraged to seek out an ombudsperson of their 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. These individuals were knowledgeable about the problem at hand and were not empowered to serve as a jury. Rather, by bringing different perspectives to the table, they could help the concerned parties reach an acceptable outcome.

4. **Elevate to the president.** When no mutually satisfactory outcome could be reached, then the two individuals in conflict prepared a document for the president of Morning Star that included a summary of the issue, verification that the Gaining Agreement process was followed, and a list of possible solutions. The president either then 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, then 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 any relevant objectives; 2) the facts at hand; and 3) the process used to reach agreement. “Our key principle here is to find the truth,” said Paul 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.” Although the company didn’t track data on how often the process was used at the individual level, the belief was that it was pervasive. In addition, only ten to twelve issues made it all the way up to the president each year.

**Compensation**

There were no centrally defined roles at Morning Star. As colleagues developed new skills, mastered novel competencies, and gained more experience, they could choose to 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 and more complicated roles than elsewhere.” Anyone, independent of their level of experience or expertise, could suggest ideas for improvement 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 often drive change outside their narrow area. As a result, we have a lot of spontaneous innovation, and ideas for change come from unusual places.”

The lack of specified roles, titles, and hierarchy meant that colleagues did not have to climb a career ladder within Morning Star. Yet the company recognized that some colleagues had greater competence in certain areas than others and that these differences should be reflected in their compensation. Therefore, compensation was designed to reflect the actual value that colleagues delivered for Morning Star. Annually, the company used a modified version of the Gaining Agreement process to facilitate compensation.

In the company’s early years, Chris Rufer personally gained agreement with every full-time colleague regarding compensation, but as Morning Star grew, the need for a more scalable process became more and more apparent. Beginning in the early 2000’s, Morning Star began to experiment with its compensation process, in search of one that would leverage the strong peer connections between colleagues, allow the organization to scale, and still 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 using Morning Star’s computer system. The reviews were open—that is, everyone could see what everyone else wrote—and colleagues were encouraged to discuss reviews with one another in order to provide an opportunity for reflection.

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

- **A compensation letter:** It was expected that compensation should increase with basic increases in cost of living. Therefore, colleagues were tasked with justifying any increases beyond this minimum. In the one-page compensation letter, a colleague would identify a requested range for compensation, achievements or results that supported the request, and key changes to the CLOU that would justify a greater salary.
• **Colleague review summary report**: A summary of the responses from step 1.

• **CLOU**: Copies of both the prior year’s CLOU as well as their negotiated CLOU for the next 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 the compensation packet and go through an agreement process with individual colleagues to make a final recommendation for both the next year’s pay and any current year bonus. The committee would investigate the claims in the packet to ensure their veracity. In addition, the committee would add information for individuals who might be reticent about “blowing their own horn,” such as recommendations for salary or bonus increases. The committee did not have decision-making authority; instead, its goal was to reach a true agreement.

The transition to the new, more scalable process was not an easy one. At the final step in the process, the President reviewed the compensation decisions. The eventual goal was to eliminate this step and have final decision authority rest with the compensation committees. However, as of 2013, members of the compensation committees were reluctant to fully embrace the responsibility of deliberating on their colleagues’ compensation. 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 could not force this change onto colleagues, but the process had to change for the organization to continue to grow.

**Capital Budgeting**

Any colleague at Morning Star had the right to acquire the resources needed to complete her work—from hand tools for a mechanic to an entire new factory. Chris explained the impetus for Morning Star’s approach to spending:

> When the company first started I would sign all of the checks since I was the president, and I was where the buck stopped. But it became obvious pretty quickly that it wasn’t important where the buck stopped, but where it started. By the time I got a purchase order, we had already made a commitment to buy something. We needed to turn things around to make sure that the person who has the talent 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, then 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. Potential large expenditures were brought to a capital project council, which would provide its own investigative process. Then the council and the individual making the request would seek to gain agreement. The council was not a jury; if an individual could not reach agreement, then they could raise the decision to the level of Chris Rufer.

**Putting the Model to the Test**

Though Morning Star had witnessed many successful cases of employees embracing its self-management model, there were certainly cases where the system did not work as expected. As Green described:
A younger colleague, who was working as a mechanic in our facilities languished in the same role for about 4 years. He could not figure out what to do. His role was not well defined, and it was not clear to him what the right next step in his career would be. 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 here broke down because the people around him did not help him evaluate his role and how to expand it. This is really essential to our system: Do your colleagues buy in to your mission and help you move into a new direction? Our system depends both on your showing initiative, as well as on the commitment of colleagues in helping you figure out a career trajectory, and giving you feedback on that. Many people look at their role too narrowly. And, as in this case, an individual we never wanted to lose, left the company.

At times, help from colleagues did not occur because of the assumption that others, within Morning Star, would take care of giving a certain colleague feedback on her mission, or talk to her about an issue (e.g., a mismatch between what the person did on the job and what was stated in her mission). As Green noted, “I would guess that about 15% of the colleague population has something like this where they do not follow their commitments as stated in their file. In most cases, it is people who engage in other activities they are asked to work on, even if they are not part of their mission.” He added, “Acknowledging that ‘this is on my plate, and it should not be’ does not happen very often. I don’t understand why people don’t bring this up. It is a cultural taboo to put something off your plate at Morning Star.”

Another component of Morning Star’s Self-Management Model that had often been tested was its compensation system. When employees worked at Morning Star for many years, they acquired more experience, but this did not necessarily translate into higher compensation. As Green explained,

One person was at Morning Star for about 7 years and moved around the facilities in multiple roles. He developed talents in many areas. At some point, he expressed frustration with his compensation level: he wanted more money and so he tried to negotiate. But his compensation did not change – he had diverse skills, but his compensation 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, he left and took another job with a 40% increase in compensation. He did not negotiate at that point: he just told people he took another job. By not having a 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.

Looking Ahead

Over the past 40 years, Morning Star managed to establish itself as the dominant player in the tomato-processing industry, and it did so while maintaining the company’s distinctive approach to management. But the company knew that it had to encourage greater accountability among colleagues if it was to improve on its current management system. One Morning Star 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 against someone else, not a means to improve the organization.” In response, Green decided to float a radical new proposal for managing compensation in the organization (see Exhibit 6). In the past, the company had considered making all salaries public, but there was concern that knowledge about the differences in pay could prove problematic. Green’s new plan shifted the discussion to one of percentages, such that it wasn’t necessary to disclose pay to the compensation
committees so they could do their work more effectively. However, the question remained whether or not the proposal was actually implementable. Even if it was, it still wasn’t known if it would be sufficient to drive accountability behaviors. How could Morning Star ensure that its approach to self-management, which had worked so well when the company was small, would continue to scale?
Exhibit 1  Morning Star Facilities
Exhibit 1 (continued)

Source: Company documents.
Exhibit 2  Morning Star Tomato Processing Operations: Eleven Steps

Tomatoes went through eleven different steps before they reached their final output stage.

1. Growing

The first step in creating tomato-based products was to grow the tomatoes. 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. The machines employed for transplantation often were also used for plants other than 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.

2. Harvesting

Once the tomato had grown to its 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 were expensive, self-propelled, specialized capital equipment, costing $300,000 each. Tomato harvesters were driven over a row of tomatoes. The harvester separated the plant from its roots through the use of a rotating bar or an oscillating clipper. An elevator belt then drew the tomatoes into the harvester, where an agitator made up of interlocking fingers shook the tomatoes until it was separated from the vines.

Conveyor belts then took the tomatoes past optoelectronic sensors made up of photoemitters and photoreceptors. The photoemitters bounced light off of the tomatoes as they passed by. The photoreceptors received the returning wavelength and determined the color and therefore the ripeness of the tomato. This information was fed to pneumatically actuated paddles that either allowed the tomatoes to pass or hit the tomatoes (or clods of dirt) onto the ground. Unacceptable tomatoes that had been knocked to the ground would serve as fertilizer for future crops. Next, tomatoes would continue along the conveyor belts for another quality check as workers removed 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 increased the cost of the harvester, it also permitted the use of less manual labor. After this final check, the tomatoes were elevated onto a loading arm that placed 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 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 the routes taken to limit their length and frequency. The harvesting company would inform the trucking company of 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 then deliver the trailers to a processing plant. Farmers would designate pads on their fields, where tomato trailers were 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 tests for acceptability, but also Morning Star’s stricter tests. If a load failed to pass grade, then it was returned to a farmer to either: (1) sort out the bad tomatoes or (2) use a fertilizer for the next season. Assuming 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 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 tomatoes 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 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 (HMI’s) 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. 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 in order 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 in order 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 utilized low atmospheric pressure to cool the paste to 90 degrees in a matter of 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-box, 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.

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*e* 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 lipoxigenase, 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 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.
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
  - 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

![Steppingstones Diagram]

Source: Company documents.
Exhibit 5  Sample Colleague Letter of Understanding (CLOU)

Sample CLOU

<table>
<thead>
<tr>
<th>COLLEAGUE:</th>
<th>Joe Smith</th>
<th>Location: Williams</th>
<th>CLOU YEAR: 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS UNIT:</td>
<td>Steam Generation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MISSION:</td>
<td>Operate and maintain steam systems, condenser systems, and electrical generation equipment, in order to fulfill the energy needs of our customers throughout the plant.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RESPONSIBILITIES</th>
<th>ACTIVITIES / IMPROVEMENT / IMPROVEMENT / IMPROVEMENT</th>
<th>2013</th>
<th>2014</th>
<th>Goal</th>
<th>Perfect Results</th>
<th>Target report Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADMINISTRATION</td>
<td>Acquire, train, and organize additional required colleague operators</td>
<td>3</td>
<td>4</td>
<td>-</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Number of Qualified Steam Generation Colleagues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchase boiler chemicals</td>
<td>7</td>
<td>5</td>
<td>-</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost from Invoice Receipt to Payment in Steam Generation Business Unit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Boiler Chemical Use Efficiency (Chemical Cost / Thousand lbs Steam generated)</td>
<td>$0.081</td>
<td>$0.075</td>
<td>$</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchase natural gas</td>
<td>$0.6075</td>
<td>$0.685</td>
<td>$</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost of Boiler Fuel per Thermo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPERATIONS</td>
<td>Generate steam for plant operations during processing season</td>
<td>96%</td>
<td>95%</td>
<td>100%</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage of Plant Operating Hours Steam Equipment was Available</td>
<td>14.7</td>
<td>17.2</td>
<td>In/Year</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit colleagues to achieve effective plant operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Plant Evaporation Efficiency (Kg/Hr/square meter)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>Dec-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overall Plant Area Availability and Cleanliness Rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAFETY</td>
<td>Ensure a safe work environment for self and fellow colleagues</td>
<td>5.2</td>
<td>3</td>
<td>-</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Incidents Time for Steam Generation Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Work Computation Costs Charged to Steam Generation</td>
<td>$40,503</td>
<td>$</td>
<td>$</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td>R&amp;M</td>
<td>Develop steam equipment &amp; strategies and policies</td>
<td>$7,930</td>
<td>$6,290</td>
<td>$</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost to Generate 1,000 Pounds of In Boiler Steam</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintain and repair steam generation equipment</td>
<td>$127,957</td>
<td>$105,000</td>
<td>$</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>R&amp;M expense per year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>R&amp;M expense as a percentage of total Capital Investment</td>
<td>$3,780</td>
<td>$1,080</td>
<td>$</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td>CAPITAL INVESTMENTS</td>
<td>Research and understand steam generation technologies</td>
<td>3</td>
<td>3</td>
<td>In/Year</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Report of literature read, seminars and classes attended</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop new technologies for implementation as capital projects</td>
<td>76.17%</td>
<td>81.25%</td>
<td>100%</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Boiler Heat Transfer Efficiency (Steam BTU/Was BTU/W)</td>
<td>130</td>
<td>132</td>
<td>In/Year</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Plant Energy Efficiency (% by heat exchangers)</td>
<td>1,031</td>
<td>1,090</td>
<td>-</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost to generate 1,000 pounds of in boiler steam</td>
<td>$8.21</td>
<td>$8.04</td>
<td>$</td>
<td>Nov-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Implement capital improvement projects in Steam Generation area</td>
<td>$7,168,636</td>
<td>$720,100</td>
<td>$</td>
<td>Jun-2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Capital Investment in Steam Generation Systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Capital Investment per pound of steam generation capacity</td>
<td>$10.70</td>
<td>$10.75</td>
<td>$</td>
<td>Nov-2013</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CLOU COLLEAGUES</th>
<th>Colleague</th>
<th>Business Unit</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joe Smith</td>
<td>Jay Jones</td>
<td>Steam</td>
<td>Williams</td>
</tr>
<tr>
<td></td>
<td>Ken Alanu</td>
<td>Steam</td>
<td>Williams</td>
</tr>
<tr>
<td></td>
<td>John Henderson</td>
<td>Steam</td>
<td>Williams</td>
</tr>
<tr>
<td></td>
<td>Jose Gonzalez</td>
<td>Steam</td>
<td>Lee Banix</td>
</tr>
<tr>
<td></td>
<td>Brenda Simms</td>
<td>Steam</td>
<td>Santa Nella</td>
</tr>
<tr>
<td></td>
<td>George Gomez</td>
<td>Steam</td>
<td>Koperstom</td>
</tr>
<tr>
<td></td>
<td>Larry Turner</td>
<td>Tomato Prep</td>
<td>Williams</td>
</tr>
<tr>
<td></td>
<td>Brian West</td>
<td>Raptop</td>
<td>Williams</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PERSONAL DEVELOPMENT GOALS</th>
<th>Short Term Goals</th>
<th>Long Term Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>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.</td>
<td>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.</td>
</tr>
</tbody>
</table>

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.
The Morning Star Company: Self-Management at Work

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Fixed Comp</td>
<td>$85,000.00</td>
<td>$85,000.00</td>
<td>$85,000.00</td>
<td>$85,000.00</td>
<td>$85,000.00</td>
<td>$85,000.00</td>
</tr>
<tr>
<td>Premium Fixed Comp</td>
<td>$15,000.00</td>
<td>$12,000.00</td>
<td>$9,000.00</td>
<td>$6,000.00</td>
<td>$3,000.00</td>
<td>$-</td>
</tr>
<tr>
<td>Total Guaranteed Comp</td>
<td>$100,000.00</td>
<td>$97,000.00</td>
<td>$94,000.00</td>
<td>$91,000.00</td>
<td>$88,000.00</td>
<td>$85,000.00</td>
</tr>
<tr>
<td></td>
<td>Yr1-20%</td>
<td>Yr1-40%</td>
<td>Yr1-60%</td>
<td>Yr1-80%</td>
<td>Yr1-100%</td>
<td></td>
</tr>
</tbody>
</table>

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 colleague’s 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.