How Apple works: Inside the world's biggest startup

by Adam Lashinsky @adamlashinsky MAY 9, 2011, 9:00 AM EDT

From Steve Jobs down to the janitor: How America's most successful—and most secretive—big company really operates.

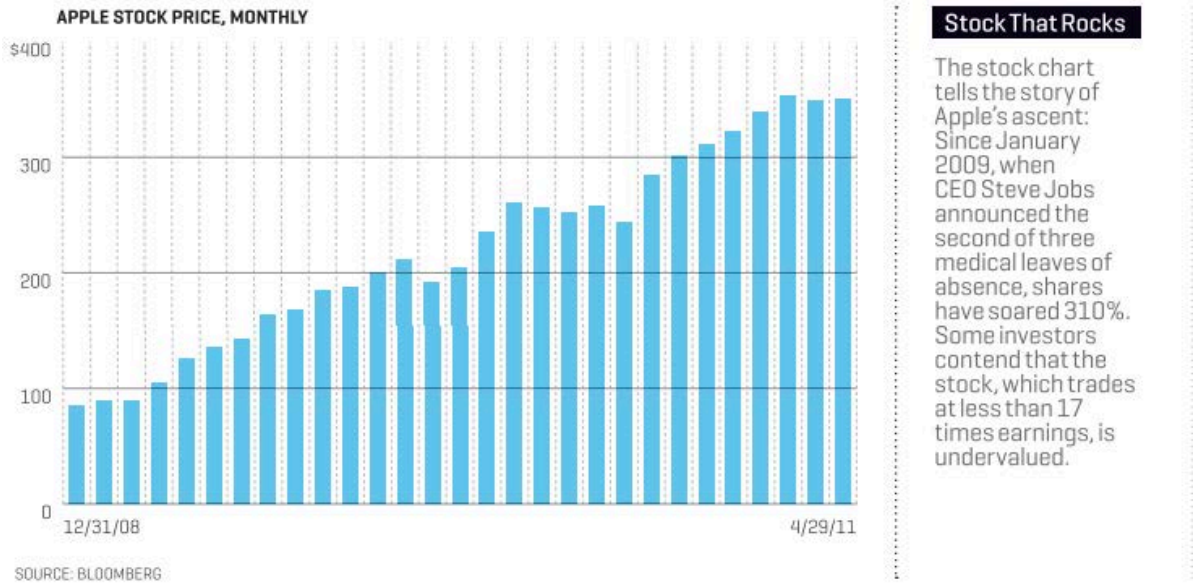
Apple doesn't often fail, and when it does, it isn't a pretty sight at 1 Infinite Loop. In the summer of 2008, when Apple launched the first version of its iPhone that worked on third-generation mobile networks, it also debuted MobileMe, an e-mail system that was supposed to provide the seamless synchronization features that corporate users love about their BlackBerry smartphones. MobileMe was a dud. Users complained about lost e-mails, and syncing was spotty at best. Though reviewers gushed over the new iPhone, they panned the MobileMe service.

Steve Jobs doesn't tolerate duds. Shortly after the launch event, he summoned the MobileMe team, gathering them in the Town Hall auditorium in Building 4 of Apple's campus, the venue the company uses for intimate product unveilings for journalists. According to a participant in the meeting, Jobs walked in, clad in his trademark black mock turtleneck and blue jeans, clasped his hands together, and asked a simple question:

"Can anyone tell me what MobileMe is supposed to do?" Having received a satisfactory answer, he continued, "So why the fuck doesn't it do that?"

For the next half-hour Jobs berated the group. "You've tarnished Apple's reputation," he told them. "You should hate each other for having let each other down." The public humiliation particularly infuriated Jobs. Walt Mossberg, the influential Wall Street Journal gadget columnist, had panned MobileMe. "Mossberg, our friend, is no longer writing good things about us," Jobs said. On the spot, Jobs named a new executive to run the group.

Jobs' handling of the MobileMe debacle offers a rare glimpse of how Apple really operates. To Apple's legion of admirers, the company is like a tech version of Wonka's factory, an enigmatic but enchanted place that produces wonderful items they can't get enough of. That characterization is true, but Apple also is a brutal and unforgiving place, where accountability is strictly enforced, decisions are swift, and communication is articulated clearly from the top. (After Jobs' tirade, much of the MobileMe team disbanded, and those left behind eventually turned MobileMe into the service Jobs demanded.)



Apple's ruthless corporate culture is just one piece of a mystery that virtually every business executive in the world would love to understand: How does Apple do it? How does a company

with more than 50,000 employees and with annual revenue approaching $100 billion grow 60% a year? How does it churn out hit after hit? Those are questions Apple has no desire to answer. This past January, when a Wall Street analyst asked Tim Cook, Apple's low-key chief operating officer, how far out the company conducts long-term planning, Cook replied with an artful brushoff. "Well, that is a part of the magic of Apple," he said. "And I don't want to let anybody know our magic because I don't want anybody copying it."

Just because a magician doesn't want to reveal his tricks doesn't mean it's impossible to figure them out. Fortune conducted dozens of interviews over several months with former Apple employees and others in the Apple orbit to try to explain the phenomenon of life inside Apple. Few agreed to speak on the record; the fear of retribution persists for years. Once they get talking, however, the former Apple-ites paint a picture of a company that time and again thumbs its nose at modern corporate conventions in ways that let it behave more like a cutting-edge startup than the consumer-electronics behemoth it is.

Whether Apple's startup ways are sustainable or the result of the sheer will of Steve Jobs is the great unknown in explaining how Apple works. Every conversation withinsiders about Apple, even if it doesn't start out being about Jobs, eventually comes around to him. The creative process at Apple is one of constantly preparing someone—be it one's boss, one's boss's boss, or oneself—for a presentation to Jobs. He's a corporate dictator who makes every critical decision—and oodles of seemingly noncritical calls too, from the design of the shuttle buses that ferry employees to and from San Francisco to what food will be served in the cafeteria.

But just as Jobs sees everything going on at the company, he's not blind to the fact that things will be radically different without him at the top. Jobs currently is on his third medical leave in seven years—he survived a rare form of pancreatic cancer and later received a liver transplant—and his absence has only fuelled the fascination with him. Jobs is still heavily involved in Apple, of course. He personally took charge of Apple's response to the recent Locationgate, for example, granting interviews to several news outlets to answer accusations that Apple is tracking the whereabouts of iPhone users. On a more strategic level, these days he's especially focused on institutionalizing his ways of doing business. His mission: to turn the traits that people most closely associate with Jobs—the attention to detail, the secrecy, the constant feedback—into processes that can ensure Apple's excellence far into the future.

Apple CEO and co-founder Steve Jobs on March 2, 2012, emerged from a medical leave of absence to introduce the second generation of the iPad.

SO EXALTED IS Steve Jobs that often he is compared, metaphorically at least, to Jesus Christ. (Exhibit A: Alan Deutschman's revealing 11-year-old book, The Second Coming of Steve Jobs.) True to form, the shepherd to his Apple flock often teaches in parables. One such lesson could be called the "Difference Between the Janitor and the Vice President," and it's a sermon Jobs delivers every time an executive reaches the VP level. Jobs imagines his garbage regularly not being emptied in his office, and when he asks the janitor why, he gets an excuse: The locks have been changed, and the janitor doesn't have a key. This is an acceptable excuse coming from someone who empties trash bins for a living. The janitor gets to explain why something went wrong. Senior people do not. "When you're the janitor," Jobs has repeatedly told incoming VPs, "reasons matter." He continues: "Somewhere between the janitor and the CEO, reasons stop mattering." That "Rubicon," he has said, "is crossed when you become a VP." (Apple has about 70 vice presidents out of more than 25,000 non-retail-store employees.)

Jobs indoctrinates a culture of responsibility by hosting a series of weekly meetings that are the metronome that sets the beat for the entire company. On Mondays he meets with his executive management team to discuss results and strategy as well as to review nearly every important project in the company. On Wednesdays he holds a marketing and communications meeting. Simplicity breeds clarity, as Jobs himself explained in a 2008 interview with Fortune. "Every Monday we review the whole business," he said. "We look at every single product under development. I put out an agenda. Eighty percent is the same as it was the last week, and we just walk down it every single week. We don't have a lot of process at Apple, but that's one of the few things we do just to all stay on the same page." It's one thing when the leader describes the process. It's another thing altogether when the troops candidly parrot back the impact it has on them. "From a design perspective, having every junior- level designer getting direct executive-level feedback is killer," says Andrew Borovsky, a former Apple designer who now runs 80/20, a New York design shop. "On a regular basis you either get positive feedback or are told to stop doing stupid shit."

The accountability mindset extends down the ranks. At Apple there is never any confusion as to who is responsible for what. Internal Applespeak even has a name for it, the "DRI," or directly responsible individual. Often the DRI's name will appear on an agenda for a meeting, so everybody knows who is responsible. "Any effective meeting at Apple will have an action list," says a former employee. "Next to each action item will be the DRI." A common phrase heard around Apple when someone is trying to learn the right contact on a project: "Who's the DRI on that?"

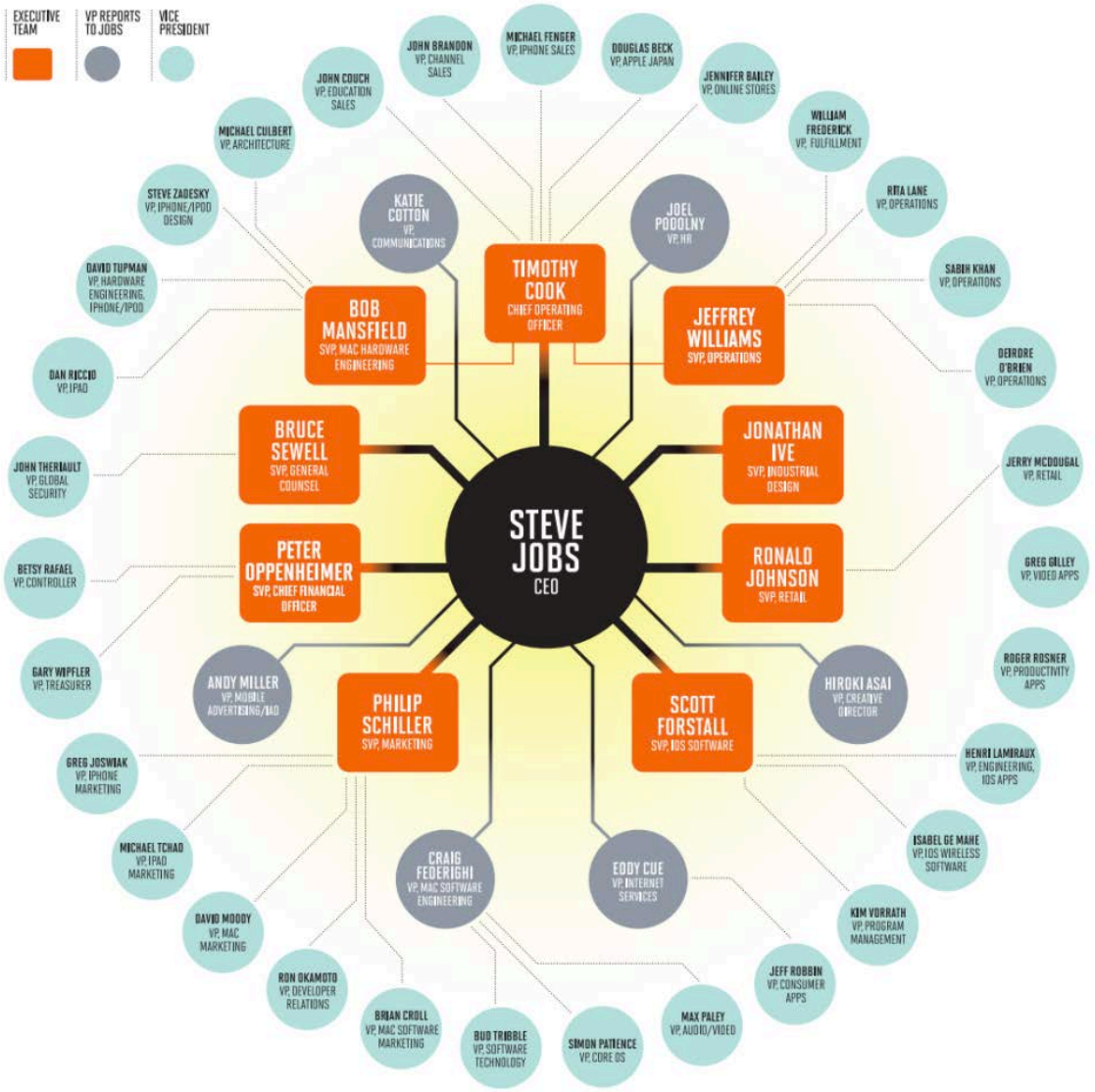
Simplicity also is key to Apple's organizational structure. The org chart (see next page) is deceptively straightforward, with none of the dotted-line or matrixed responsibilities popular elsewhere in the corporate world. There aren't any committees at Apple, the concept of general management is frowned on, and only one person, the chief financial officer, has a "P&L," or responsibility for costs and expenses that lead to profits or losses. It's a radical example of Apple's different course: Most companies view the P&L as the ultimate proof of a manager's accountability; Apple turns that dictum on its head by labelling P&L a distraction only the finance chief needs to consider. The result is a command-and-control structure where ideas are shared at the top—if not below. Jobs often contrasts Apple's approach with its competitors'. Sony, he has said, had too many divisions to create the iPod. Apple instead has functions. "It's not synergy that makes it work" is how one observer paraphrases Jobs' explanation of Apple's approach. "It's that we're a unified team."

Jobs' inner circle includes (from left) Jonathan Ive, Phil Schiller, Eddy Cue, and Scott Forstall.

For Apple the result is an ability to move nimbly, despite its size. "Constant course correction" is how one former executive refers to the approach. "If the executive team decides to change direction, it's instantaneous," this ex-Apple honcho says. "Everybody thinks it's a grand strategy. It's not." As an example, Apple's management has been known to change its pricing 48 hours before a product launch. When it misses a seemingly obvious idea—such as not anticipating the need for an App Store to satisfy the third-party developers who wanted to create programs for the iPhone—it shifts gears quickly to grab the opportunity.

One of Apple's greatest strengths is its ability to focus on just a few things at a time, an entrepreneurial trait difficult to imagine at a corporation with a market value of $320 billion. Saying no at Apple is as important as saying yes. "Over and over Steve talks about the power of picking the things you don't do," says one recently departed executive. Obvious? Perhaps. Yet few companies Apple's size—and very few of any size—are able to focus so well and for so long.

Jobs himself is the glue that holds this unique approach together. Yet his methods have produced an organization that mirrors his thoughts when—and this is important—Jobs isn't specifically involved. Says one former insider: "You can ask anyone in the company what Steve wants and you'll get an answer, even if 90% of them have never met Steve."



No decision-maker at Apple is far removed from Steve Jobs. Through his tight-knit and largely long-serving executive team, Jobs quickly sees everything that goes on at the company. He also routinely reaches outside these inner and outer circles to collaborate on critical projects with key employees. This organization chart, which includes most but not all Apple executive officers, is based on Fortune's reporting, in addition to some limited information Apple releases publicly.

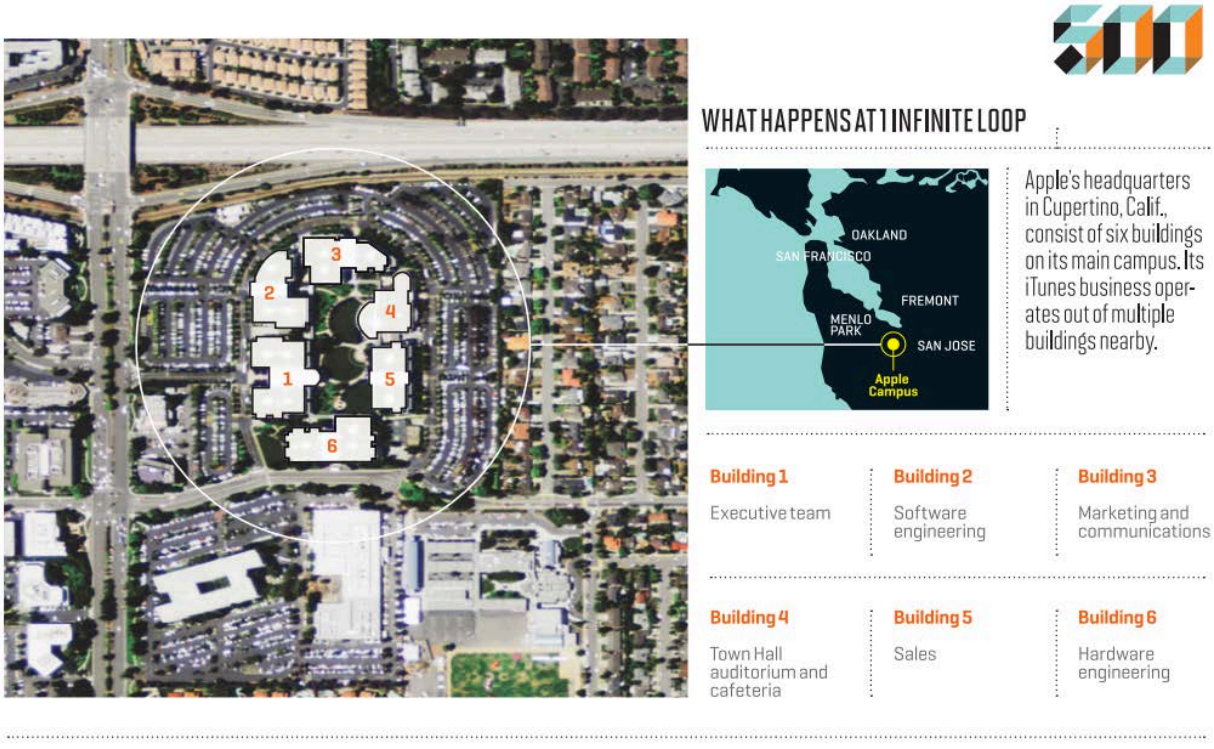
THERE IS A SMALL GROUP at Apple that most certainly has met Steve Jobs. It's called the Top 100, and every year or so Jobs gathers these select few for an intense three-day strategy session at a proverbially secure, undisclosed location. Everything about this Top 100 meeting is shrouded in secrecy, starting with its very existence. Those tapped to attend are encouraged not to put the meeting on their calendars. Discussing their participation is a no-no, even internally. Attendees aren't allowed to drive themselves to the gathering. Instead they ride buses that depart from Apple's Cupertino, Calif., headquarters to places like the sumptuous Chaminade Resort & Spa in Santa Cruz, Calif., which satisfies two Jobs requirements: good food and no golf course. Apple goes so far as to have the meeting rooms swept for electronic bugs to stymie snooping competitors.

The Top 100 meeting is an important managerial tool for Jobs. He and his chief lieutenants use it to inform a supremely influential group about where Apple is headed. The elaborately staged event also gives Jobs an opportunity to share his grand vision with Apple's next generation of leaders. The Top 100 meeting is part strategic offsite, part legacy-building exercise.

Jobs generally kicks things off personally. Each session is as well crafted as the public product debuts for which the CEO is so famous. For presenters the career stakes are high, and the pressure is nerve-racking. “The Top 100 was a horrifying experience for 10 or so people,” recalls one former vice president, who took the stage some years ago. “For the other 90 it’s the best few days of their life.” Jobs sometimes uses the occasion to unveil important initiatives. “I was at a Top 100 when Steve showed us the iPod,” says Mike Janes, who worked at Apple from 1998 to 2003 and remains close to Apple executives. “Apart from a tiny group, no one knew anything about it.”

To be selected for the Top 100 is to be anointed by Jobs, an honor not necessarily based on rank. Jobs referred to the group, but not the conclave, in an interview several years ago with Fortune. “My job is to work with sort of the Top 100 people,” he said. “That doesn’t mean they’re all vice presidents. Some of them are just key individual contributors. So when a good idea comes … part of my job is to move it around [and] … get ideas moving among that group of 100 people.” Privately Jobs has spoken even more strongly about the Top 100’s importance. “If he had to recreate the company, these are the 100 people he’d bring along” is how one former Apple executive describes Jobs’ characterization.

Though its name isn’t to be uttered, the blessed nature of the gathering creates a caste system at Apple. Inclusion is by no means permanent. According to Jobs’ whims, attendees can be bumped from one year to the next, and being kicked out of this exclusive club is humiliating. For those left behind in Cupertino, chattering begins as soon the chosen few have departed. “We’d tongue-and-cheek have a Bottom 100 lunch after we were done preparing the people who’d left,” recalls one nonparticipant. Says another: “We weren’t supposed to know where they were. But we all knew.”



APPLE IS NOW 35 YEARS OLD, an extremely mature company by Silicon Valley standards, and there’s a grownup atmosphere at headquarters: You won’t find a lot of people dressed in board shorts and flip-flops, or zanily decorated cubicles. The vibe is the opposite of the jocularity that Google—with its wear-your-pyjamas-to-work day and all-you-can-eat cafeterias—has fostered. There literally is no free lunch at Apple—though meals are subsidized and generally quite good.

Yet Apple also consciously tries to behave like a startup, most notably by putting small teams on crucial projects. To wit: Just two engineers wrote the code for converting Apple's Safari browser for the iPad, a massive undertaking. In a 2010 interview at a technology conference, Jobs verbalized Apple's do-more-with-less mentality. "Apple is a company that doesn't have the most resources," he said, referring to Apple's response to a technical debate raging at the time. "And the way we've succeeded is by choosing which horses to ride very carefully." On the face of it, the statement is absurd. Times certainly once were tough at Apple, breeding an underdog culture. Today, with $66 billion in the bank, nothing could be further from the truth, yet Apple continues to behave like a scrappy upstart. "We've always fought for resources," says a former executive. "Steve and Tim in general want to be sure you need what you're asking for."

Apple insiders say the notion of scarce resources has less to do with money than it does with finding enough people to perform critical tasks. Once Apple moves, though, it spends whatever it takes. It contracted the London Symphony Orchestra to record trailer soundtracks for its latest iMovie software. Years ago it sent a camera crew to Hawaii to film a wedding for a demo video; then, to get a different take, it staged fake nuptials in a San Francisco church, with Apple employees playing both guests and the betrothed.

Learning to work at Apple takes time. To echo its own famous ad campaign, Apple thinks differently about business. Often as not it simply ignores traditional notions of business opportunities. An executive who has worked at Apple and Microsoft describes the differences this way: "Microsoft tries to find pockets of unrealized revenue and then figures out what to make. Apple is just the opposite: It thinks of great products, then sells them. Prototypes and demos always come before spreadsheets."

Specialization is the norm at Apple, and as a result, Apple employees aren't exposed to functions outside their area of expertise. Jennifer Bailey, the executive who runs Apple's online store, for example, has no authority over the photographs on the site. Photographic images are handled

companywide by Apple's graphic arts department. Apple's powerful retail chief, Ron Johnson, doesn't control the inventory in his stores. Tim Cook, whose background is in supply-chain management, handles inventory across the company. (Johnson has plenty left to do, including site selection, in-store service, and store layout.)

Jobs sees such specialization as a process of having best-in-class employees in every role, and he has no patience for building managers for the sake of managing. "Steve would say the general manager structure is bullshit," says Mike Janes, the former Apple executive. "It creates fiefdoms." Instead, rising stars are invited to attend executive team meetings as guests to expose them to the decision-making process. It is the polar opposite of the General Electric–like notion of creating well-rounded executives.

Such rigidity—coupled with the threat of being called on the carpet by Jobs—would seem to make Apple an impossibly difficult workplace, yet recruiters say turnover at Apple is exceedingly low. "It is a happy place in that it has true believers," says a headhunter who has worked extensively with Apple to hire engineers. "People join and stay because they believe in the mission of the company, even if they aren't personally happy." Many of Apple's rank-and-file technical employees have dreamed of working at Apple since they got their first Macs as children. "At Apple you work on Apple products. If you're a diehard Apple geek, it's magical," says Andrew Borovsky, the former designer. "But it's also a really tough place to work." In short, it is an environment that shuns coddling. "Apple's attitude is, 'You have the privilege of working for the company that's making the fucking coolest products in the world,' " says one former product management executive. " 'Shut up and do your job, and you might get to stay.' "

Apple stores in Beijing (left) and Paris (below) are the purview of retail executive Ron Johnson, but store inventory is controlled by COO Tim Cook.

FOR YEARS STEVE JOBS was uninterested in the human resources department at Apple. Then, three years ago, just before his second medical leave, he hired Joel Podolny, dean of the Yale School of Management, to head something called Apple University. Podolny had been a widely quoted management guru. Yet when he joined Apple, typically, he vanished from sight. No one even seemed to notice when he was named vice president of human resources a couple of years later.

It turns out that Podolny has been busy working on a project that speaks directly to the delicate topic of life at Apple after Jobs. At Jobs' instruction, Podolny hired a team of business professors, including the renowned Harvard veteran and Andy Grove biographer Richard Tedlow. This band of eggheads is writing a series of internal case studies about significant decisions in Apple's recent history. It's exactly the sort of thing the major business schools do,

except Apple's case studies are for an Apple-only audience. Top executives, including Tim Cook and Ron Johnson, teach the cases, which have covered subjects including the decision to consolidate iPhone manufacturing around a single factory in China and the establishment of Apple's stores. The goal is to expose the next layer of management to the executive team's thought process.

All this raises the question of whether Jobs has adequately prepared Apple for the day he isn't around anymore. It's an impossible question to answer. According to one person who knows Jobs, he acknowledges his dictatorial powers but insists he's not the only one who can wield them. "Single-cell organisms aren't interesting," he told this person. "Apple is a complex, multicellular organism."

Those who believe Apple can't survive Jobs' departure—and there are many—would call this wishful thinking. Apple may be a multicellular organism, but its life source is Jobs. For now this is all in the realm of opinion. Jobs himself believes he has set Apple on a course to survive in his absence. He has created a culture that, while not particularly jolly, has internalized his ways. Jobs even is ensuring that his teachings are being collected, curated, and preserved so that future generations of Apple's leaders can consult and interpret them. It's about all a savior could possibly ask for.

Additional reporting: Doris Burke

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