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Holacracy – the future of organizing? The case of Zappos

Vijay Kumar S. and Subhasree Mukherjee

The increasing representation of Gen Y in the workforce, with its entrepreneurial mindset, warrants new modes of organization to attract and retain employees.

Dualistic traditions of top-down/bottom-up hierarchies are evolving due to new ideas, self-reflexivity, and responses to external pressures. This results in transformation of organizations into newly emergent styles and approaches to organizational design. [Gáspár and Laurén \(2013\)](#) attribute such transformation to openness to experimentation and emerging trends in knowledge and organization.

However, experimentation in isolation is insufficient for holistic change. [Gidley \(2013\)](#) identifies four themes for the future of work:

1. new generation of ideas;
2. new generation of individualism;
3. new generation of organizational structures; and
4. new generation of organizational culture.

Holacracy is one such design “[...] which will be dynamic, volatile, but invariably fruitful.” ([Gidley, 2013](#), p. 29).

Holacracy as a self-managing organization structure

Self-managing organizations assume flat structures which distribute authority and decision-making through self-managing teams. “Holacracy” is one such decentralized management structure developed by Ternary software, headed by Brian Robertson, Exton, Pennsylvania. It consists of teams called “circles” in which individuals have multiple roles, and “lead links” carry leadership functions ([Bernstein et al., 2016](#)). This leaderless structure allows immediacy in time and place and increases responsiveness. Overall, holacracy promotes flexibility and individualization.

However, the extent to which such an approach is acceptable depends on its implementation process and the adaptability of the organization’s members. Holacracy can be effective when these members value autonomy, commitment, risk-taking, and creativity. The coupling of holacracy with such traits in employees can sustain and revive an entrepreneurial culture.

The case of Zappos

Zappos is an online apparel-based firm, founded in 1999 by Nick Swinmurn, which became a subsidiary of Amazon in 2009. Since 2014, the media has focused on Zappos with its

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radical” steps toward implementing holacracy. Although theoretically, the benefits of self-organization are significant, some of its apparent “challenges” brought Zappos to the attention of the media because 18 per cent of its employees chose to leave the company. Tony Hsieh, Zappos’ CEO, offered a generous severance package to these employees who were uncertain about the reliability, adaptability, accountability, and efficiency of the firm’s operations.

With a workforce of 1,500, Zappos is known for its unique company culture which primarily promotes self-management. Even before the implementation of holacracy, its hiring process valued cultural fit as the organization’s core value. Ten core values that drive the culture at Zappos endorse delivery of superior service, embracing and creating change, adaptability and flexibility, learning potential, risk-taking, and highly committed and motivated employees. A close look at these qualities suggests that these are the same traits desirable in a decentralized or holacratic structure.

Has holacracy worked?

Holacracy was not without its sceptics. Since its inception, several organizations such as Medium and the Lausanne Business School implemented holacracy before eventually discontinuing it. The employees who remained with Zappos envisioned the initial years of holacracy implementation as a transitional stage which would lead to learning and innovation.

Zappos employees can customize their careers based on their choices. They earn badges based on the roles and skills they acquire. Remuneration is commensurate with the badges they earn. This provides them with an opportunity to simultaneously explore new functions, pursue their passions, and increase their earnings. Self-management enables heterogeneity in expertise in its demographic of circles. These circles are further divided into sub-circles managed by lead links, with employees freely moving across circles based on their new interests and desire to learn new functions.

Zappos is enhancing a collaborative mindset and making the system more appealing by introducing a coworker reward policy. This enables employees to spread satisfaction by rewarding coworkers for their vital contribution and diligent adherence to cultural values. This is facilitated by a stringent recruitment process which continues to focus on cultural fit. Therefore, employees are motivated to work as mini-entrepreneurs, running their respective circles as mini-enterprises.

What could HR managers learn from Zappos?

[Gidley’s \(2013\)](#) framework which analyzes whether an organization is ahead of its time reveals that Zappos has indeed attempted to implement Gidley’s four principles. First, the CEO realized that current thinking was insufficient to break the mold. Self-management structure in a growing organization was implemented to improve productivity, despite an increase in organization size. Although it was in its prime, Zappos did not shy away from the new generation’s concept of holacracy. Second, new ideas and collective individualism have together enabled Zappos to sustain its position. This was also evident in its focus on symbiotic growth through the coworker rewards systems and its shared-leadership structure. Third, Zappos adopted holacracy as its collaborative organizational structure to foster an understanding of the changing role of self and others in a team. Finally, the synergy between ideas, individuals, and structure was integrated by organizational culture. Zappos has been unique in its ability to holistically operationalize and diffuse culture into the system. This accords with existing research findings that organizational culture is one of the

essential dimensions of a firm as a strategic resource that provides a sustainable competitive advantage (Barney, 1986).

The case of Zappos reveals three lessons for HR managers:

1. Culture which is merely an artifact has no benefit until it is imbibed into an organization's ideas, individuals, and structure.
2. As organizations evolve, culture should drive changes across all organizational domains, including recruitment, operations, and strategy.
3. Core values for growing organizations should not be compromised, as demonstrated by Zappos.

While Gidley's framework shows Zappos to be ahead of its time, its implementation was not without problems. As they followed new generation principles, senior-level employees felt their power ebbing. The design of a transparent incentive structure was also a concern which was reflected in the compensation system. These factors possibly explain why Zappos lost its coveted position in the Fortune 100 list.

The case of Zappos and its journey toward an organization that is ahead of its time has three noteworthy lessons:

1. Conflict between old and new generations is inevitable when implementing new ideas. However, a total focus on the new generation is insufficient. The best of both worlds should be embraced.
2. Do not wait for critical events to force change. Initiate the change process when the firm has enough buffers to absorb the shocks.
3. Companies should also take care of the "too-much-of-good-thing" effect (Pierce and Aguinis, 2013) to reduce chaos and to avoid detrimental effects in the long run.

Conclusion

Structure alone is insufficient for producing desired change. Implementation of a new culture will remain at the heart of the problem. Clear core values, as seen in the case of Zappos, will enable firms (including young entrepreneurial firms) – irrespective of their size – to propel themselves with sustainable growth and retention of valuable workforce. Gidley (2013, p.29) argues that "[...] [the] potential of holarchical structures will be dynamic, perhaps volatile, but invariably fruitful." However, new ideas and ways of organizing are best treated as experiments for an explicit duration and using the resources available, guided by strategic vision and a defined direction.

Keywords:
Organizational culture,
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