



HBR IdeaCast / Episode 535

The Zappos Holacracy Experiment

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Ethan Bernstein, Harvard Business School professor, and John Bunch, holacracy implementation lead at Zappos, discuss the online retailer’s transition to a flat, self-managed...

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Transcript

CURT NICKISCH: Welcome to the HBR IdeaCast from Harvard Business Review. I’m Curt Nickisch. Admit it, bosses are the best. Even when we don’t enjoy taking orders from someone, there is something so comforting about having a supervisor. There is a safety in knowing there’s somebody whose job it is to go to bat for us, to develop us, to shield us, and when they fall short or when we do in our work, it’s easy to blame them.

Blaming the boss is no longer possible at Zappos. The Las Vegas online shoe and apparel company is undergoing a bold experiment to topple classic organizational hierarchy. Today, on HBR IdeaCast, holacracy. And here to talk about this new form of the self-managed organization is John Bunch, the Holacracy Implementation Lead at Zappos. John, welcome.

JOHN BUNCH: Thanks for having me.

CURT NICKISCH: And sitting next to him is Ethan Bernstein, Assistant Professor of Leadership in Organizational Behavior at Harvard Business School. Ethan, thanks for talking with the HBR IdeaCast.

ETHAN BERNSTEIN: Thanks, Curt. It's great to be here.

CURT NICKISCH: John and Ethan are both co-authors of a new article in the latest edition of Harvard Business Review. The title is "Beyond the Holacracy Hype." So let's dig into the hype. John, let me start with you. What does this look like for an employee? Like what does this actually mean to somebody who shows up on a Monday?

JOHN BUNCH: So what it really looks like is throwing away the traditional org chart that we're all accustomed to where we fit in one place in the organization. And instead, having a way that we can come together to define what work needs to be done, and then allow people the agency to figure out what work it is that they are most connected to. So as an employee of Zappos, you fill multiple roles across the organization. You might be working on multiple different types of work throughout any given day.

CURT NICKISCH: This doesn't sound, maybe right now at least, completely different from showing up to work where I have things that I want to be working on, things that I know I have to do, and also people I can lobby to take on different roles. What's different here?

JOHN BUNCH: I would say that there's a couple of things. One is getting more clear on what that work is. So when we think about traditional organizations, you exist in one place in the org chart, defined by a job description, which you probably don't look at that often. And so we're trying to get better at defining what the work is and getting clear on what that work is. The other thing I would say is that much more so in this type of organization, you have the ability to chart your own course. So to be proactive about saying, I'm interested in doing this work or that work, more so than you do when you fit one specific place in an org chart.

CURT NICKISCH: OK, so how does this work?

JOHN BUNCH: Well, there are different roles that define the work that needs to be done. And we have tools and systems to help people chart their course through that. So we have tools like Role Marketplace which helps show what work is there that we need help on. We have tools for understanding what work should we be prioritizing over what other work. We have tools to help us understand how successful are we being at the work that we are doing.

CURT NICKISCH: OK, I'm still not totally clear. If I show up on a Monday and there's this Role Marketplace, how do I actually do this? Do I just go on my phone or on my computer and say, yes, I want to do this role?

JOHN BUNCH: Yeah, so what you might do is if you were looking for work to do, there's transparency around what work we are doing so you can look on a tool to help see all of the organization's work. What are all of the roles? What people are currently doing— maybe there's somebody you've worked with in the past that you really like to work with and you want to do more work with them —you can see what work they're doing. And you can go and pitch yourself for roles through the Role Marketplace. You can pitch yourself and say, I really have interest in this role that's out there. But really what it looks like on a day-

to-day basis is there's clarity around what roles you have, what those roles are accountable for, what purpose are you trying to achieve with those roles, and then it's really up to you to unpack that work, to get that work done.

CURT NICKISCH: Who decides— I mean, I can pitch myself to a role but who decides if I actually do it?

JOHN BUNCH: Yeah, so in holacracy, there is a role who is leading the efforts of any given team. That role is called the Lead Link role, and one of the things that they're responsible for is finding the best fit for any given role. And so across the organization, there are these Lead Links that are leading efforts. In our old structure we had about 150 managers. And now, with things more distributed and more different, diverse areas of work happening, we have over 350 Lead Links.

CURT NICKISCH: So are there more meetings happening too?

JOHN BUNCH: Meetings happen when they need to happen on whatever cadence makes sense. So some groups meet frequently, some groups meet very infrequently. And so, just like in a traditional organization, meetings happen when they need to.

CURT NICKISCH: OK, what if I don't want to do something?

JOHN BUNCH: Nobody can force you to do anything. You can always—

CURT NICKISCH: In life generally.

JOHN BUNCH: Yeah, in life generally. I guess what we're trying to do is structure our company more like cities are structured. Research shows that every time the size of a city doubles, productivity per resident goes up by 15%. But when companies double in size, actually the exact opposite thing happens,

productivity per employee goes down. And part of the reason why we think that is is that in cities, you are self-organized, you're self-directed. And you have a certain level of freedom and autonomy to do what you think is right.

The same thing is true within our organization. We want to be able to give people the freedom to work on things that they think are really going to help the company forward. And on top of that, we need systems and processes to make sure that every employee is bringing enough value to the organization to keep them employed. And so, while there's not somebody telling you exactly what to do, you need to make sure that you're adding value to the organization.

CURT NICKISCH: Cities can be really chaotic though. And this sounds somewhat, at least for somebody who hasn't been in this situation, this sounds kind of confusing. It sounds like there's a lot of pitching and selecting and trying to decide between what sounds like a lot of different roles. And I just wonder what that's like for somebody? Are they spending a lot of their time just figuring out how to manage this system and to manage the selection of roles without even talking about actually doing those roles?

JOHN BUNCH: There are different types of people within the organization. There are some people who really enjoy being able to flexibly move across different work and try to find new areas. And there are other people that just want something stable, they just want to come in every day and do what they're accustomed to and know what that is. And both types of those people can work in this environment.

There are some groups that are very, very stable. For instance, we have a large group answering customer phone calls, and that's very stable work. We know that there are customer phone calls that are going to be coming in every day, we know how much work we need for that, and so if you're the type that just

wants certainty, you might just stick in that area. But also, there are new and exciting opportunities happening all the time. So I think this can work for both people that want safety and security, and also people who want to be entrepreneurs and try new things.

CURT NICKISCH: How do you advance in this organization? If you want a raise, what do you do?

JOHN BUNCH: So I think when we think about traditional organizations, obviously there's a job ladder. Where you want to go in the organization is usually the position that your boss is in currently. You want to move up. How we reframe that is it's a job jungle gym at Zappos. So you're looking around at where you're at today and what are all the other opportunities that exist. And you get to chart your own course through that jungle gym of work. What we're really trying to do is being very transparent about what does it look like if you move in this direction, or if you move in that direction? What are the impacts on you, your compensation, your progression, depending on the decisions that you make? But ultimately it's up to you to figure out where you want to go.

CURT NICKISCH: I'm thinking about the jungle gym in my schoolyard playground and there were a lot of kids having fun on it. There are also a lot of kids who fell off and bruised their knees and were crying. And it's an interesting image to see people navigating around this organization and moving to different parts. It also sounds a little— can I say Darwinistic?

JOHN BUNCH: Well, part of what we're trying to do is have evolutionary design, emergent design built into our organization so that we can always be adaptable. So in the article we talk a lot about adaptability, and that's definitely one of the goals that we have. Also, by the way, you can fall off a ladder as well.

CURT NICKISCH: Oh true. And people do.

JOHN BUNCH: Yes.

CURT NICKISCH: How do people get paid in this organization? Because there may be nobody else who's doing exactly the job you are in there. I don't know, are there actually dollar figures next to roles?

JOHN BUNCH: Not next to roles. But what we're really trying to do and understand is what skills each and every individual has at the organization and what skills they're using for the work that they're doing. And then figure out what's the right way to compensate that. I will say that it can be more challenging. Because in a traditional company where you're pigeonholed into a single task or a single type of task, it's a little bit easier to figure out that market compensation. And when you're doing various different things, that becomes a more challenging question. But at the end of the day, we think that that's the right thing for our employees and also for the company.

CURT NICKISCH: Ethan Bernstein, I want to ask you now, because at Harvard Business School you study self-management, you study transparency. When you heard about Zappos doing this, were you skeptical?

ETHAN BERNSTEIN: Well, as a professor, I'm skeptical of most things. But that said, this is actually, to me, a logical step in an evolution we've seen over the last 60 or 70 years toward self-management. First in the form of self-managed teams, and now increasingly in the form of self-managing organizations. If you think about what John said earlier in this discussion, Zappos has decided to leave the org chart behind and create a work chart instead. On the view that individuals become more productive because they're more passionate about being able to select the work they want from the work chart, as opposed to selecting a role or a job description from the org chart.

So if a traditional organization is like a pre-fixed restaurant, where you just walk in and get an Italian meal, they're now giving their employees the chance to select all the different roles, the appetizer, the main course, the dessert, on a fairly regular basis on the assumption that that's the sort of individual who will help Zappos succeed in the future. That, I think, has a lot of logical sense, especially in a world that's increasingly in need of adaptability, which we know comes from the front line and from workers being engaged.

CURT NICKISCH: I know some people have called this system the "bossless" office, I'm getting the picture as I hear about this though that it sounds like the workers are taking over the management. Or they're taking over the decisions about how best to apply resources and what they should be doing with their time because they maybe feel like they know it better.

ETHAN BERNSTEIN: One of the key myths we wanted to dispel when we titled this article "Beyond the Holacracy Hype" was the fact that management is not involved in making the system work. You may not take a person and put a job description against them and say this person is a manager. But there is a lot of management going on, in fact, perhaps management is even more important in an organization with a work chart, as opposed to an org chart, because there is more to manage. There are more roles in John's organization today than there were people and job descriptions in the old Zappos, which means, logically, there is more to manage.

CURT NICKISCH: So that said, that management is filtering out through the workforce at an organization, this whole transition still seems like a lot to manage, so to speak. John, how much did this cost? How much time is it taking the company to actually put this in motion?

JOHN BUNCH: Yeah, so there were definitely some hard costs associated with the transition, but also a lot of other costs as well. So the hard costs are we had to have consultants come in and help us with this transition. We've started to build up the apps, the systems to help us run this, all of that cost money. But also, I would argue probably a bigger cost is the amount of time that we've all invested, all of our employees have invested, to learn this system.

Learning this system is not super easy, it takes some time. And additionally, we're investing time in a dip in productivity. As you learn something new, you're always going to go through a dip. We've definitely been going through that dip and that's a time investment, a productivity investment, that we're making in the future of Zappos, the future innovation, the future ability for our organization to thrive.

CURT NICKISCH: When do you think you're going to realize that investment?

JOHN BUNCH: I think it's a long-term play. So this is something we see as keeping our organization healthy long-term. I love the quote from Darwin, "it's not the strongest or the fastest of species that survives, but it's the most adaptable to change." And what we're trying to be is adaptable to change.

CURT NICKISCH: Zappos is a company that's kind of famous for being irreverent, different, a lot of people thought Zappos would lose that culture when it was bought by Amazon. What was it about Zappos that made it the company that's undergoing this experiment at a scale and level of investment that we're talking about here?

JOHN BUNCH: Well, we've always seen our number one focus and commitment as the commitment to our core values. So we have 10 core values that we really live by day in and day out. And as we looked at self-management and as we looked at holacracy, we really saw it as an opportunity to deepen our commitment to our core values. So as an example, one of our core values is to

build open and honest relationships through communication. And this is a framework for us to have more open conversations with one another about what works should we be doing and what are the right decisions in that work.

CURT NICKISCH: Ethan, I want to ask you, it's so interesting to hear about Zappos making a long-term commitment to this, which is too early, it sounds like, John, to really know whether it's paying off. But Ethan, where does Zappos fit in to what's happening in management today? Because a lot of what he's talking about does sound like an institutional commitment to what many of us as workers know out there. We want to be self-actualized, we want more autonomy in what we do, we feel like technology sometimes gives us the tools to work the way we want to or when we want to.

ETHAN BERNSTEIN: It certainly fits with our image of the trend towards the millennial generation. Other organizations may not be there in terms of strategy, but I think the general trend we're seeing in all organizations is in this direction. Not every organization, obviously, is going to take the large step that Zappos has taken, but I do think that if you look over the next 10 or 20 years, most organizations are going to take a small step or several small steps this way. And the real challenge for all of them is going to be able to figure out the answer to your question, what's the return on investment on being able to be more adaptable? Because that's a relatively hard thing to measure.

CURT NICKISCH: John, you're in this day in and day out. Sounds like you're hopeful about what's going to come out of this. But if this fails at Zappos, what will be the chief reason?

JOHN BUNCH: One of our main challenges has really been how difficult of a system it is to pick up. When you think about coming into the workplace, a normal, traditional, hierarchical workplace, nobody needs to tell you the rules of the game. It's just something that's understood in our culture and our work

culture today. But we've invested a lot of time and energy into training and educating everybody on not only how to do the system, but why we're doing it. And so I think that's the big challenge that organizations have when thinking about moving to this.

CURT NICKISCH: What's the biggest misconception about holacracy that you want to take this opportunity to clear up?

JOHN BUNCH: I would say maybe that holacracy is chaotic. There's actually probably more structure in a holacratic company than there is in traditional companies. So the work is very well-defined, what work is going on across the organization is very well-defined, it's transparent. You can look it up anywhere across the company. And so it's actually fairly structured.

CURT NICKISCH: Ethan?

ETHAN BERNSTEIN: So for me, it's the word "bossless." This is a extremely managed system. Just because management is shared doesn't mean it's nonexistent.

CURT NICKISCH: If a company came to you and said, we want to do this or go in this direction, what would you be looking for in those companies? Is there something that organizations that are good candidates for adopting holacracy or parts of it that they have in common?

ETHAN BERNSTEIN: I'd actually go one step further. There's something in common across all the organizations that adopt some form of self-organization. So if I think back to when Gabe Newell, the founder of Valve software, one of the organizations that's not holacratic, but is very well-known for being self organized. When Gabe came to speak with us at Harvard

Business School, he explicitly said to the students, this is not about copying what Valve does, this is about being just as deliberate as we are about thinking about your organizational structure.

And I do think that that's a generalizable lesson for all. That organizations who are increasingly thinking about structure as an advantage and a form of making their employees more productive, will continue to evolve and innovate in this direction. And that's something I think we'll see across all organizations, regardless of whether they are trying to deliver "wow" to customers, or trying to do something very different.

CURT NICKISCH: I want to thank both of you for taking us into this evolution. Ethan Bernstein, Assistant Professor of Leadership in Organizational Behavior at Harvard Business School, thanks for joining us.

ETHAN BERNSTEIN: Thank you, it's great to be here.

CURT NICKISCH: John Bunch is the Holacracy Implementation Lead at Zappos. John, thanks so much for sharing your company's experience with the HBR IdeaCast.


JOHN BUNCH: My pleasure.

CURT NICKISCH: You can find this article, "Beyond the Holacracy Hype" in the July/August 2016 issue of Harvard Business Review and more at HBR.org.

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