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Holacracy in action: Zappos experience replicability

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ABSTRACT

Over the last decades, several studies have investigated the formal to flat structure in terms of standardization, reporting relationships, level of the hierarchy, and the impacts on the organizational performance. From 1960 to 2000, the characteristics of success hierarchy in an organization are a stable environment and levels of transparency and foreseeable future. Nevertheless, in today's world has changed, a new type of organizational structure, Holacracy has been emerged to satisfy the need for flexibility and adapt quickly to the business environment. Hence, Holacracy is designed differently where the employees take over management roles. This study investigated the importance of the new organizational structure (Holacracy) and the elements that would make it adaptive to the rapid change of the business environment. The core of this study was to investigate the American-based online shoe and clothing retailer – Zappos. When the company was continuing to expand, Zappos' CEO Tony Hsieh decided to discard their current flat structure and move to Holacracy. Hence, the fundamental of this dissertation is to find out the practicability of Holacracy and replicability Zappos' experiences throughout the entire development process when they are shifting from a traditional hierarchy to Holacracy. The following chapter is a brief overview of hierarchy and follows by descriptions of different traditional organizational structures. After that, the new form of organization Holacracy is analyzed from how it works and how an organization can move from traditional organizational structures to a holacratic. Next, it is following by the Zappos experiences during the transition into Holacracy, reasons behind the shift, and the advantages they have taken from the adaptation. Then, the following chapter presents the conducted case studies, followed by the analysis from the overall perspectives — finally, the conclusion of the study with the discussion, limitation, and recommendations for future research.

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1.0 INTRODUCTION

1.1 The organizational evolution

In this paper, I would like to start with how organizations evolve, and the actions taken during the evolution. The organizational revolution traced back to the early 1950s after the postwar economic growth led to many companies were developed rapidly. In the 1970s, new threats to divisional autonomy had begun, from the requirements of foreign governments limited entrepreneurs to maintain the integrity of their product worldwide. The new regulations from many government agencies such as the Department of Energy, the Occupational Safety and Health Administration, and the Environmental Protection Agency required a centralized response from the company. During the 1980s, differentiation and diversification strategy was popular among the chemical industry. However, streamlining was seems like a strategy in the early 1990s to eliminate waste and saving costs. Therefore, organizations having restructuring such as automated the manual procedures and combine those similar job functions to make it more productive.

Thereafter 50 years of discovering and trying, the road for the multinational organizations to find an ideal structure for themselves still largely discussable.

> *" The matrix is too slow—we are in a very turbulent market with great potential, and we have far too many low-cost competitors. We need very short communication lines, quick decisions, alertness—we've got to be able to adapt fast."* **-** Barron C. (1978)

The statement was from a Philips product manager, which published in a 1978 Management Today article and was quoted by Peters, T (1979). The speech captured how difficult the challenge the leader of the well-known organization facing. They not only need to have differentiation in the products offering according to different market needs and move fast and agile to be successful.

Clee and McKinsey consultant Wilbur Sachtjen (1965), they pointed out several evolving organizational models for global companies. It begun with the traditional international-division structure centralized the decision-making responsibility in the headquarter. Afterward, the decision-making authority shifted to foreign subsidiaries' specific geographic areas — also, the headquarter delegate the duty to run the foreign

subsidiaries to the local operation manager.

The international division has been substituted by business-based and product-based structures with the functional managers to supervise the divisions globally. As the organization's business grew larger in terms of the product type or locations, matrix structure became popular in the 1970s to find the right balance between activities and authority in large organizations. It had increased the complexity of management.

Organizational change is in demand from the past. Although there are many studies regarding change procedures, difficulties and the criteria impacting the success, the critics regarding change management often lack "construct clarity" (Suddaby, 2010) and undefined construct (Pettigrew, Woodman & Cameron, 2001). The measurement of the success of change is defined by the velocity and achievement of a change process (Pettigrew, Woodman & Cameron, 2001). In the late 1980s, a European study investigated by Pettigrew and Whip (1991) about the procedure of handling operational and strategic change in four different main sectors- investment banking, life insurance, automobiles and book publishing of UK economy.

For change management, to increase the greater success for the change, conscious planning is essential for any change going to implement. In this detailed planning, not only to get the employees who involve in the project to kick the plan start and to alert the internal employees beforehand to have a ready mindset for this challenge. A business process management (BPM) implementation is required to organize a successful organizational change regarding the lean workflow, work relationship redesigns and in a structural process (Davenport & Short, 1990).

Lewin's (1958) influential "unfreezing, moving and refreezing" model is the fundamental framework of change management theory that most can be seen in the last 50 years (Cummings, 1989) in the organizational change literature.

Lewin and his successors argued that their planned model was one of the best approaches to change organizations. A successful change should be pilot in the next three steps. It is including unfreezing the present level, moving to the next level and refreezing the new standard. It explained that the new behaviour only could be adopted if the old practice has been terminated. Next, we are going to discuss the definition of the hierarchy.

1.2 Hierarchy Definition

Globalization is a mechanism that enforces specific ways of organizing social environments in different contexts such as knowledge, technology, and communication of the business world. An increasingly dynamic environment leads to the evolving of the organization structure and has widened the management strategy. The concept of structure hierarchy is the most fundamental pillar in organizational management.

A hierarchy is a system that working in a chain which consists of the roles of superordination and subordinate (Thompson, 1961). A role is a formalized pattern of behaviour that predefined by management according to their anticipation of the position. Part of the superordinate job scope is they are those employees who delegated for higher authority and has a right to veto any projects and given an authorize power over the career growth of his subordinates. In contrast, the subordinate role is characterized by duties. They should obey the task of a superior and varies across the culture. In general, roles classified as learned cultural patterns of actions transferred from time to time. The next person who takes the positions will be influenced by the trends of the surrounding such as their subordinate and superior.

1.3 The Structure of the study

Today's world has changed, a new type of organizational structure, Holacracy has been emerged to satisfy the need for flexibility and adapt quickly to the business environment. Holacracy is a new organizational structure, instead of traditional top-down management, authority is distributed throughout the organization by self-organizing teams at the same time staying aligned with the organization's mission and vision (Robertson, 2015). In other words, Holacracy break down the old structure and regroup people with their capability and skills. Therefore, it can be better utilizing every single potential to the next level also adapt faster into the uncertainty in the business environment.

This study investigated the importance of the new organizational structure (Holacracy) and the elements that would make it adaptive to the rapid change of the business environment. The core of this study was to investigate the American-based online shoe and clothing retailer – Zappos. When the company was continuing to expand, Zappos' CEO Tony Hsieh decided to discard their current flat structure and move to Holacracy.

Hence, the fundamental of this dissertation is to find out the practicability of Holacracy and replicability Zappos' experiences throughout the entire development process when they are shifting from a traditional hierarchy to Holacracy.

This dissertation consists of six chapters and the structure proceeds as follows.

The first chapter provides an overview of the organizational evolution and the definition of the hierarchy. Then, the following chapter discusses the theoretical part of the research, which like a path of understanding the different organizational structures; also including the description and comparison of hierarchical structures and Holacracy. The working mechanism and the core elements of Holacracy also are going to present in this chapter. Next, it is following by the Zappos experiences during the transition into Holacracy, reasons behind the shift, and the advantages they have taken from the adaptation. The following chapter presents the conducted case studies, followed by the analysis from the overall perspectives — finally, the conclusion of the study with the discussion, limitation, and recommendations for future research.

2.0 UNDERSTANDING OF ORGANIZATIONAL STRUCTURES

2.1 Structure follows strategy- Alfred Chandler

From the beginning, the topic of organizational change is a broad topic to discuss. It is interesting to discover first the concept of Chandler, A (1962) – 'Structure follows Strategy' to find out the idea whether the structure should follow the strategy or the other way around. Organizations can choose either one approach according to the individual environment, and business needs to win the market and survive in today's business world.

Alfred Chandler, the historian, proved the 'Structure follows Strategy' in his thesis by investigated the relationship of organizational structure and the growth and development of a pool of the largest businesses in the United States. The companies involved in the research are Du Pont, Standard Oil, Roebuck and Sears.

At first, Chandler expressed this in his thesis (1962:15):

> *"Strategic growth resulted from an awareness of the opportunities and needs - created by changing population, income, and technology to employ existing or expanding resources more profitably. A new strategy required a new or at least refashioned structure if the enlarged enterprise was to be operated efficiently."*

Chandler finalized that organizational structure came along together with the growth strategy of the company. Many companies transform their organizational structures from a single unit structure to a functional structure and after that to a divisional structure or a matrix structure. The owner-oriented company is usually small, family-owned business or within a few shared business partners with one targeted production or service line in a centralized location.

When the company grows more prominent, the complexity of the structure will increase with rising sales, and additional subsidiaries bring new challenges forward. Those multitask departments that personally handle for its purchasing, design, production, administration, and marketing in the beginning then become separate into several units to manage the operation.

2.1.1 What is the right strategic approach for you?

The Challenge of Organizational Change

Whenever two people or a team working together in common objectives, there is undoubtedly shared expectations and questions came out. Those questions mostly related to the hierarchy, such as:

- How is the reporting structure? Who is my boss? How many management levels above my position?

- What is the responsibility of the specific position? What is the standard procedure to follow to do the daily task?

- Who should make which decisions? Approval process? What kind of input needed? What are the restriction and limit?

- Under which level of transparency when answering all the questions coming from the employees? How and when to update information whenever there are a decision or direction changes?

Following the questions above, there is several options exist in a modern corporation.

Before top management decided to change their strategy, it is always analyzing the internal and external industry environments come into the first place. Strengths and weaknesses between itself and the competitors will become visible. Based on the benchmarking analysis data, they tend to come out with the best suit strategy to surpass their competitors. To achieve such beneficial position, a variety of segments of its value chain such as supply chain, manufacturing, engineering, development, human resource and marketing will break into pieces and analysis on their process, prerequisite skills and people in the team. Regarding the basis of these value chain and strategies, the structure of the organization's formalized. After that, the organization able to decides whether they should follow the "structuralist" approach or "reconstructionist" approach according to their conditions and needs.

2.1.2 Structure shapes strategy- "Structuralist" approach

The basic principle is an organization strategy is determined by the environment, which

means structure shapes strategy. This phenomenon is known as a "structuralist" approach reflects the relationship of "cause" from external conditions down to the "effect" in corporate decisions. Mauborgne et al. (2015) suggest that the structuralist approach is the right choice when:

- Structural conditions are attractive, and the organization has the resources and capabilities to acquire a good position in the competition

- Structural conditions are not so appealing, but the organization has the resources and skills to perform better in the competition

- The organization has favouritism towards the current market position and not ready for the new changes into unknown circumstances

The critical element that defines the right strategic approach is the process and the activities in an organization. Therefore, when the company's strategy and process enable them to win a competitive place in the big pond of the attractive market, the structuralist approach is going to generate good results. After having various kind of observation in an administrative system, Chandler found out:

> *"different organizational forms result from different types of growth can be stated more precisely. If the planning and carrying out of such growth considered strategy, and the organization devised to administer these enlarged activities and resources, a structure."* (Chandler, 1962:13)

2.1.3 Structure follows strategy- "Reconstructionist" approach

Blue ocean strategy constructs a framework to help organizations to restructure their industries and turn the structure-strategy sequence for their beneficial purpose. Blue ocean strategy is also known as internal growth (Romer, 1994), which the fundamental model concludes that strategy able to shape structure in the way of action taken and ideas implemented by a human being can bring significant change to the economic and the word trend. This approach is the so-called "reconstructionist". Indeed, the reconstructionist approach is more appropriate for today's business dilemma. Mauborgne et al. (2015) suggest that the reconstructionist approach is the right choice when:

- Structural conditions are attractive, but the people are well-entrenched, and the organization does not have the resources or capabilities to perform better in the competition. Hence, the reconstructionist approach is going to help the organization to create a strategy that allows it to build its new market share.

- Structural conditions are unfavorable, and they are going to work opposed to an organization regardless of its resources and capabilities. A typical example is market surplus, low price competition and tight margins generated. With the reconstructionist approach, it can formulate a strategy that able to help restructure industry boundaries.

- The organization has a strong determination toward new transformation and readiness to strive for new opportunities.

Regarding this approach, choosing the right strategy according to the difficulties it encounters will be the priority. Nevertheless, the essential criteria while selecting the right strategy is to confirm that it aligns with their organization condition to deliver sustainable performance.

2.2 The success of a strategy depends on three propositions

The three strategy propositions align with the operation of an organization from the cost of production, revenue from what it is offering, and the quality of people deliver them. Therefore, a successful strategy needs to align and develop these three propositions to achieve the aim of developing or restructure the relevant industrial environment.

Proposition 1- a value proposition that attracts customers

Strategy → Process/ Activities → Structure

Proposition 2- a profit proposition that enables the company to generate profits

Strategy → Process/ Activities → Skills/ Competencies → Structure

Both value and profit propositions define the core of the strategy from what we should offer to beat down the competition, what is the process or activities need to carry out effectively and efficiently and the skills or competencies required to gain benefits from the deal. Chandler (1962:16) expressed that the application of a new strategy implies

adding new procedures or resources. In correspondent to the changes in the business world, the organization tends to restructure the internal organizational structure to achieve new targeted levels.

Proposition 3- a people proposition that motivates people to implement the strategy

Strategy → Process/ Activities → Skills/ Competencies → People → Structure

The people proposition decides the quality of implementation. An organization must have a full set of propositions to deliver sustainable performance. The typical case of execution failure is when the people proposition was not motivating enough, even though two of them are reliable; still, the organization may come across long term implementation success. In contrast, the case of formulation failure happened in a motivated people proposition together with poor value, or profit proposition still will bring to unsatisfactory performance. The inability to align these three strategy propositions is the fatal cause of the failure of many innovators to sustain their businesses.

Under the structuralist approach, an organization needs to align all these three strategy propositions with the selection of go for either differentiation or low cost to achieve strategic alignment. Conversely, differentiation and low cost need to be pursued in these three strategy propositions under the reconstructionist approach to achieve satisfactory performance. Overall, the top management of an organization needs to make sure that every proposition is well aligned and tend not to focus too much attention on a single proposition. For example, the human resources department may emphasize too much on the people proposition and not mindful of the value and the profits. This condition is not practicing as it is going to impact the development of a properly aligned strategy proposition.

2.3 Achieve flow state to motivate people without burnout

Nowadays, organizations face various challenges due to globalization. Globalization needed more extensive interaction between people, transparency, a more significant opportunity for the entrepreneurs, also massive impact on business complexity.

As we found out, the people's proposition decides the quality of implementation. It is

equally vital for an organization to build a full set of propositions to deliver sustainable performance. Usually, the execution failure occurring when the people proposition not motivating enough. It may due to several factors such as people are overloaded, not driving tasks, or restricted by the limited authority. Hence, this section is going to discuss more in-depth on how to use a flow model to encourage people to help them achieve flow state without burnout. You may be wondering what exactly burnout is. Let's take an example; an employee named Hugo, a marketing manager in the multinational company. From other people's eyesight, Hugo has a successful career, top performer, love his job, always taking full efforts to achieve his best in any project. Recently, Hugo started failed to meet deadlines, late to the meeting, often making sick leaves, feeling tired, much lesser interaction with colleagues at work, and quite often happening mistakes even on some small task.

From Hugo's attitude and symptoms, mostly are the burnout components that WHO mentioned before on May 25, 2019- 1) Feeling exhaustion, 2) Mentally distance, disengagement from their job, or feeling negativism with their job, 3) Decrease professional productiveness. According to WHO, burnout refers:

> *"specifically, to phenomena in the occupational context and should not be applied to describe experiences in other areas of life." "Burnout is a syndrome conceptualized as resulting from chronic workplace stress that has not been successfully managed."*

As a result, burnout is the impact of long-term stress, influence deeply in their emotional and physical activities, and hence causing them to perform as much as their capability at work, which also suffering the employers. Burnout employees tend to take frequent sick leave and quit their job at the end, which significantly increases organizational costs and turnover rates. Also, those burned-out employees not only impacting their own, like those employees who work closely with them might get influence and roll up like a snowball effect if the organization does not realize it.

Across the region, the working culture is a considerable difference in how people work across the region. There are certain countries citizens operate longer than the others in the world. According to the Organization for Economic Cooperation and Development (OECD) Data 2018, Mexican ranked the highest among the 35 members, including the

developed and developing countries, with the average 2148 hours worked per year. It is approximately 41 hours per week. In comparison, Germans work the shortest working hours with 1363 hours per year, equivalent to around 26 hours per week. However, Germany still manages to keep its high efficiency and productivity than other regions. Besides, researchers at the OECD discovered that overtime does not seem a good practice; it is lower than motivation and productivity.
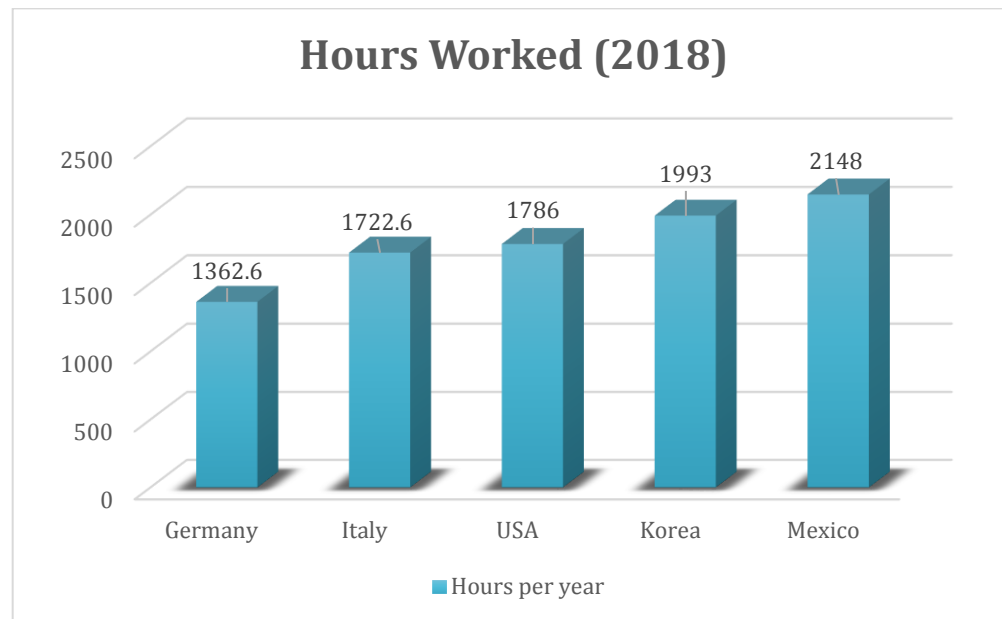
Figure 1: OECD Data 2018 Hours Worked

Source: data.oecd.org

From the data above, there is a global trend people tend to work more than years back. For organizations, this is a pain cost because recognizing their employees in the burnout stage is not straightforward and easy. Still, it is always manageable if you watch out the signals daily.

Therefore, a flow state can be applied to people's proposition to motivate people to implement the strategy and avoid burnout. A flow state in psychology is a positive mental state when a person fully contributed to an activity with the feeling of excitement and energized without burning out.

In 1987, Carli and Csikszentmihalyi announced the eight-channel model of flow model in terms of challenge level and skill level.
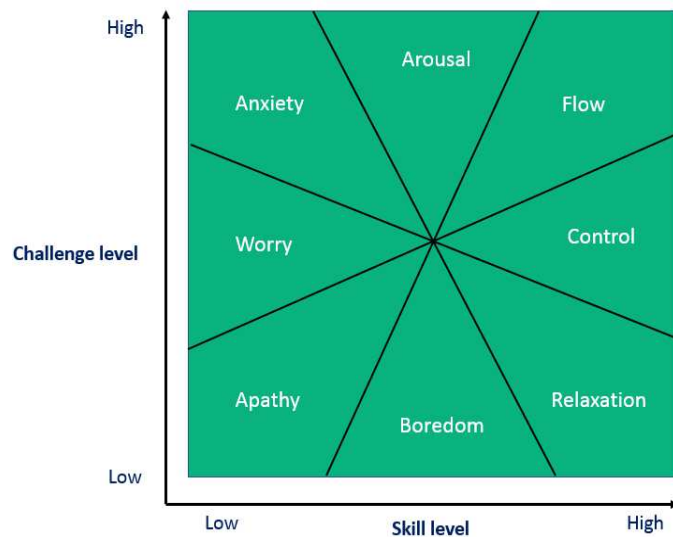
Figure 2: Flow model by Csikszentmihalyi

Source: Massimini, F., Csikszentmihalyi, M., & Carli, M. (1987).

A balance needs to meet to help an employee achieve a flow state. The balance discussed here is between the weights of the task match with the skill of the person. Based on the flow model, a variety of feelings will be experienced from different levels of challenges given and skill set. The model explains a flow is more likely to happen when the above middle level of difficulty is assigned to the person that exceeding the average skill set in the area. The center point of the graph means the average position of the skill level and the challenge of the task. If the skill of the person and challenge level both are low, apathy will happen, somehow if the challenge is too small or too high, flow also cannot be reached otherwise, it matched with the skill level.

Csikszentmihalyi describes the essential elements when a person flow is met when:

> *"challenge-skill balance, merging of action and awareness, clarity of goals, immediate and unambiguous feedback, concentration on the task at hand, the paradox of control, the transformation of time, loss of self-consciousness, and autotelic experience"* (Massimini et al., 1987).

One state that Csikszentmihalyi researched was that of the autotelic personality (Massimini et al., 1987). The autotelic character is one in which a person performs acts because they are intrinsically rewarding, rather than to achieve external goals (Delle Fave et al., 2011). Csikszentmihalyi (2000) describes the autotelic personality as a trait

possessed by people who can learn to appreciate situations that most other people would find tragic. The study also has shown that characteristics associated with the autotelic personality include the spirit of inquiry, persistence, and humility (Moneta, 2012). According to Csikszentmihalyi et al. (2005), three essential elements must be achieved to reach a flow state.

- It should be a right balance between the degree of challenges and a person's skill and capability. The trust from the superior for the subordinate's area of expertise and his/her ability to complete the task is equally important.

- Involvement of the people with clear direction and guidance.

- Timely feedback with real thought will help the person to adjust themselves accordingly to meet the target and hence keep the flow state.

Besides, Csikszentmihalyi surmised that people with autotelic personality which including personality traits of curiosity, strong determination, humble enough, and pursue the task for the internal purpose more likely to meet flow state than others (Snyder, 2007). Being Autotelic means having a self-sufficient activity with the primary objective to experience the process of doing it rather than to expect some benefits in return (Meloncelli, 2016). A couple of empirical studies showed that there is a correlation relation between personal characteristics of keen for personal accomplishment to be encouraged flow state (Engeser et al., 2008; Schüler, 2007; Eisenberger et al., 2005).

However, another study claimed a different perspective on the flow model. Haworth et al., (1995) found that a person with the skill beyond the challenge level results with happiness, relaxation, and delightful.

2.4 Traditional Organizational Types

Traditional organizational structures are those we are familiar with from the straightforward structure that having a few employees report to their owner until the matrix structure with the combination of the functional, geographic, and product-specific group. The typical elements that determine the organizational structure of a company include a span of control, centralization, and formalization. A span of control

refers to the number of employees directly reporting to the next level of manager in the organization chart — either narrow or wide span of control interconnected with the number of management layers and company size. However, more layers of management hierarchy will affect the flow of information, and the employee tends to frame and summarize the information in a positive way before submitting it to the higher level of reporting hierarchy. On the other hand, the flatter hierarchy will enhance faster and efficient flow of information from the top management to the operation line. Centralization refers to the degree of formal decision-making authority is held by the people who are at the top of the organization in the specific group. As organizations continuously grow into the larger size, the organization tends to decentralize authority and power throughout the organization to ensure the business able to run the operation efficiently. Formalization is the degree to which organizations standardize behavior through setting rules, processes, procedures, culture, and training to coordinate work. The larger organization prefers high formalization because the communication and work involve many employees and may increase efficiency and decrease unnecessary procedure defects occur.

Understanding agency problems in headquarters subsidiary relationships

The multinational companies are always facing the difficulty to manage their subsidiaries globally due to several reasons. The multinational organizations refer to medium to large size company actively operate worldwide with the goal of maximize the individual subsidiary's functional performance, which helps to achieve company growth and success. The fundamental block to run agency independently is the authority delegation from the principal, which means the CEO from HQ appointing an Area manager to manage the local business and reporting its activities back to the CEO (Jensen & Meckling, 1976). In such global business environments, the HQ needs to rely on simplified decision making to run the operation. These simplified decision-making processes embody the cognitive limitations of the administrator. As in the today global business world, global companies making their rational decision making is bounded by many restricted circumstances - such as knowledge, information, people, resources, cultural difference or network in the foreign market.

The principal-agent problem is referring to the value creation problem in the relationship between an organization's headquarters (HQs) as principals and its'

subsidiaries in a different location as agents. It is quite often that the principal barely knows how much value exactly is going to generate in the agreement due to the level efforts of the agents placed. Also, assuming these two parties have variance preferences and diverging interests, which might cause opportunistic behaviors in the subsidiaries due to rational self-interest (Jensen & Meckling, 1976). The typical problem occurred on the principal side when the agent has much more information about the local market and but both sides have variance preferences and diverging interests. In most circumstances, bounded rationality may lead to principals' inability to specify objectives clearly and transparently and agents' "limited competence to interpret objectives, judge situations, and take appropriate actions" (Hendry, 2002: 102).

According to different authors, principal-agent theory refers to individual-level self-interest as the primary intention for the action taken and problematic behaviors such as shirking responsibility or cheating (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Rocha & Ghoshal, 2006; Williamson, 1975). Besides, potential information asymmetry may also occur because subsidiaries are local experts who always have better penetration into the local market and not limited to have much more information about potential threats and opportunities than their HQs (Arrow, 1985; Eisenhardt, 1989; Kiser, 1999). Inconsequent, the HQs/ the principal cannot get the full amount of value as they expected from the agreement.

For example, subsidiaries may have difficulty telling the HQ the actual situation of the subsidiaries, which can cause them used to embellish the performance results or taking advantage of a specific corporate code of conduct for the own subsidiary benefits. All these actions are potentially damaging the organization. Other than that, organizational units might prioritize their interests and the interests of the local subsidiaries rather than seeing from the whole organization's perspectives. Previously, it also called "hidden action" refers to the HQs cannot fully observe and engage the activities of the subsidiaries (Arrow, 1985; Holmstrom, 1982). This issue is usually causing by a significant problem in decentralization management and authority in subsidiaries that can lead to performance and sales issues from the HQs.

Moreover, HQs may have restricted information to justify subsidiary scope area and performance. It occurs mainly in the headquarters newly expanded the businesses to the oversea with vast cultural differences, somehow with the limited managing experiences

in the foreign market. Rugman and Verbeke (2003) argued that multinational organizations are not always possible to make the right decisions for their overseas operations due to bounded rationality problems. The bounded rationality problems such as limited context insight about the foreign market where subsidiaries operate and the complexity of the international transaction, causing the HQ has insufficient information processing capabilities.

However, Hendry (2002) disagreed with the point of opportunistic behavior, or subsidiaries' self-interest is not an essential condition to be linked with the principal-agent problem in the organizations. In his standpoint, the incapability of the HQs and the amount of authority delegated to the subsidiaries creates problems. In recent research, it discovered that agency relation is implanting in a social context such as opportunistic behaviour, and the working environment and power distance influence conflict of interest. (Aguilera & Jackson, 2003; Arrow, 1994; Cuevas-Rodriguez, Gomez-Mejia, & Wiseman, 2012; Doney, Cannon & Mullen, 1998; Hoenen & Kostova, 2014; Shapiro, 2005).

Hence, in the next session, we are going to see the different traditional organizational structures from the simple structure, functional structure, worldwide product divisional structure, worldwide area structure, matrix structure and Holacracy - the new management system.

2.4.1 Simple Structure

From the very beginning, many companies start with a simple structure with a few employees and one product line. The simple structure is a typical family-owned business organizational structure. The level of the hierarchy is relatively less and simple — most of the employees reporting directly to the owners. Employees working in the function do not have clean-cut job scope. He/she works broadly and across service to save the cost (i.e., an employee that hired for administration kinds of stuff also does human resources and payroll job). Nevertheless, the simple structure only suitable for small-size companies, thus it can be tough to control when the company grows. The owner who supervises all the departments start to get challenging to command in once and turns things complicated.

2.4.2 Functional structure
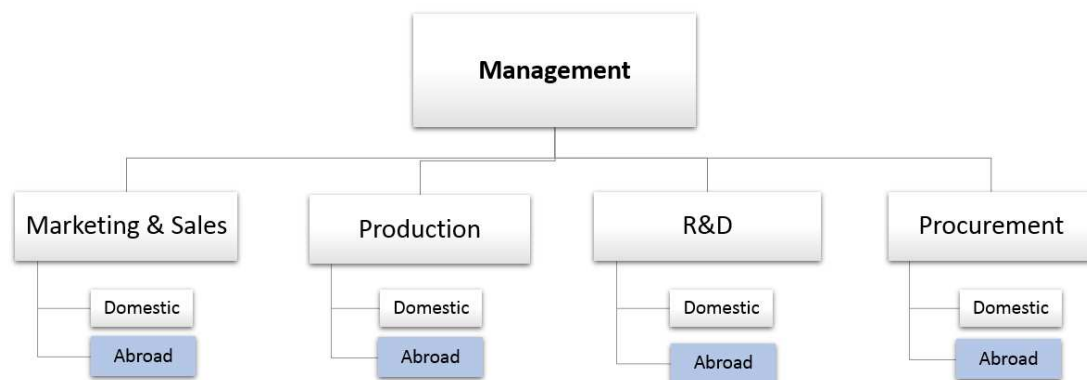
Years later, companies tend to grow. Most of them choose to move from a simple structure to a functional structure to satisfy the operational needs. A functional structure organizes organization in terms of departments and is classify employees according to their skills and knowledge. Highly centralization organizations tend to go with functional departmentalization because the individual department is extraordinarily specialized and able to coordinate efficiently in the main functions worldwide. Direct supervision works well in this structure, like a pool of the same skilled talent is group together, and so the managers can understand their concerns easier. For example, an issue that pops up in the production, employees that are working in the same department speak the same language with a similar background will enable the problem to be solved quickly.

In contrast, grouping employees according to their background and skillset can limit people to develop a broader understanding of the company product and other business functions. Hence, the functional structure also creates a coordination problem for those cross-functional projects whenever involve more than one single department. Furthermore, the conflict level between subunits usually appears as they do not understand the work of other subunits. It caused the need to have a centralized decision making in the management to settle the potential disputes.

2.4.3 Divisional structure

The divisional structure also called as M-form (Multidivisional) structure. Divisional structure organized employees according to product division, geographical area, or clients with a low degree of centralization in the management. When the company

business grows more significant with a product type sold to customers worldwide, then a geographical divisional structure would suit this environmental diversity. Moreover, if a company has diversified product types vary among each other, and these products are sold across the country, plus customer preferences are constant. The product divisional structure would fit the best. Each of the single division is separate and self-sufficient according to their chosen structure either in terms of different product types or geographic regions. According to the research, people that working in a large subunit will reduce the feeling of accountability and lack of interconnectedness with their colleagues. Hence, many companies tend to design a smaller size of the subunit that is not exceeding 150 people in a group.

2.4.3.1 a) Worldwide Product Divisional Structure
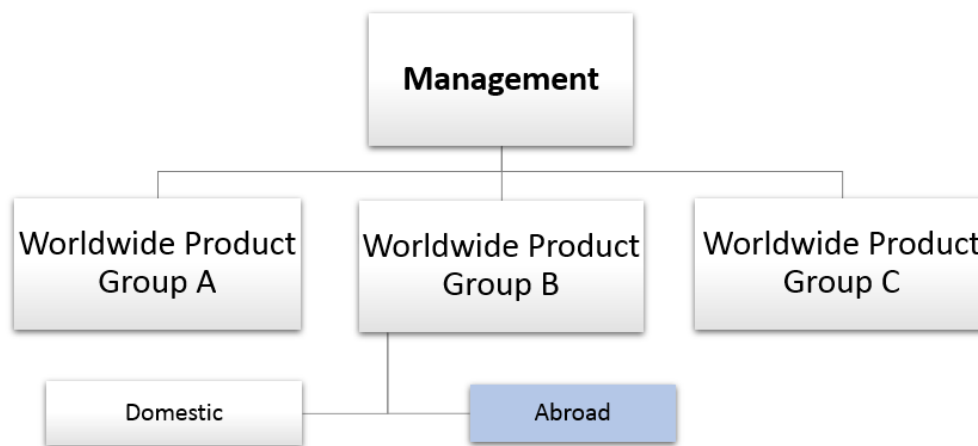
A worldwide product divisional structure is adopted by organizations that initially diversified from the domestic structure, which is based on product group classification. It is also known as a divisional structure organized around different product types with low levels of centralization with the integration of international projects into product divisions. The domestic divisions in this structure, having the full responsibility to run its value creation activities and the top management in the headquarters, oversee the high level of control and strategic management.

Moreover, it has the advantage of efficient worldwide coordination and accumulation of the domestic and foreign market knowledge in the division. The decentralized structure enhances the product group to take responsibility for the performance and transparency, among others. However, this structure brings the disadvantage of a lack of consideration of geographical characteristics. Overall, the worldwide product

divisional structure is fit for companies with diversified products in the domestic and foreign markets.

2.4.3.2 b) Worldwide Area Structure

A worldwide area structure is aiming at those firms with lower levels of diversification, and the local structure is based on functions. Under this structure, the organizational structure is divided into geographic segments as above. Each area is considered self-contained and equips with its value creation activities line such as finance, production, marketing, production, engineering departments. Under this structure, the headquarter delegate the decision making and operations authority to every single area. Besides, headquarter remaining the financial control power over each area and the authority for the whole organizational strategic goals.

This structure stimulates the local responsiveness because the product that launches in a region may have "Not-invented-here-syndrome" because product that has high demand in Asia not equally suitable for consumers in Europe. Hence, throughout the decentralized decision-making responsibilities, each geographical area can freely customize their products, advertising strategies, local limited offering products to satisfy the local market needs. Somehow, R&D in various locations has a disadvantage in facing difficult coordination with a high requirement of product diversification.

Effective marketing is a critical factor to succeed in the market and implement this organization structure successfully. For example, beverage companies are operated mainly with the geographic region because culture, consumer behaviour, and marketing strategy preferences vary mainly from one to another.

2.4.4 Matrix structure
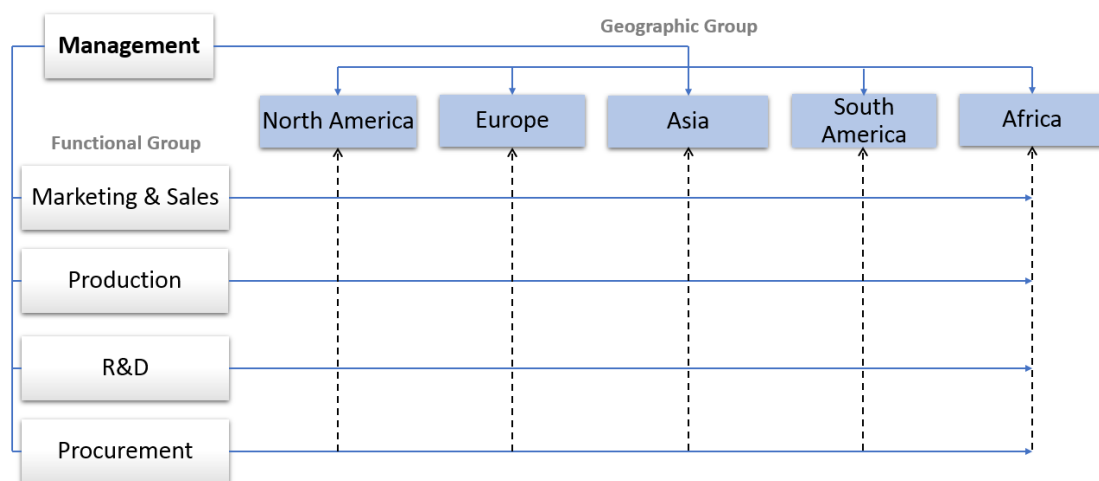
A matrix structure is the universal structure design among global companies with the simultaneous consideration of functional, geographic, and product-specific requirements. It usually is overlays of two structures (equally important of both geographic, functional, or product group) to leverage the benefits. The dotted lines that we can see from the matrix structure as above represent employees who report to two bosses. Typically, the common mistake people perceived about matrix structure is that everyone reports to two bosses. However, the only management level of employees who are working in the organization report to two bosses. For example, the manager oversees the marketing and sales department reports to both the global head of the marketing and sales group and the head of the European region, employees under that country marketing and sales group report only to one manager in the European area. Usually, global organizations design to have a sophisticated type of organizational structure, so it is rare to have a pure matrix that provides equal power to both groups within the organization reinforces the concept of dual responsibility. Hence, some companies design to allocate more authority to one side of the group, and the other group has advisory power, also called a dotted line report.

ABB (Asea Brown Boveri), a global multinational organization, has a matrix structure, and ABB found out the success of a worldwide organizational matrix depends on employee's knowledge and skills. The model does not work well as predicted due to its bureaucratic and complex inflexible structure. The sophisticated reporting hierarchy requires meeting over meeting to get an issue to be solved in return results in high coordination costs among the department and high potential conflicts. The dual-

hierarchy structure complicated approval process can slower decision-making and restricts the organization to act fast to the market conditions. Apart from that, finger-pointing or blaming another can happen when there is a critical case happen and fail to reflect its actual mistake.

Traditional hierarchies are about control and power distribution. In such an environment, everything that is outside of the plan requires to seek approval and permission before proceeding it. Therefore, layers after layers of hierarchy wasted lots of waiting time and slow down the decision-making process, which is not preferred in this digital world today. Consequently, it is vital to get the right balance between the traditional approaches and the agile way to keep pace with the digital corporate culture.

To address the issue of the slower decision-making process in the traditional hierarchy, the structural acceleration of decisions is the possible choice. The expansion of the span of control would allow accelerating the decision-making process because lesser people are going to involve in the approval process and give bigger self-responsibility to the employees as a motivation. Hence, Holacracy that we are going to see in the next is the alternative approach to help the organizations in this digital world.

2.5 Holacracy

2.5.1 What is Holacracy?

Holacracy explores a new way of management system for the organization, which makes sense to be a new practice and leading culture. Although Holacracy is still mostly unexplored and emerging somewhere in the organization, it is always interesting to discover. Nevertheless, Holacracy is not just a theory or model. Holacracy is a beneficial transformative practice like meditation or weightlifting for the organization in terms of how we do things.

Even though Holacracy is a newly launch concept, but some authors said that Holacracy is the consolidation of different models or some sort like an upgraded version of Sociocracy. The term of Sociocracy was from Quakerism because the Quakers are famous for their efficiency and capability to host even with many people gathering. A Quaker, who is a civil engineer, named Kees Boeke, a peace-lover, created a private school later with the concepts of Quakerism (Buck & Villines, 2007). Years later, these

ideas developed in the 1970s by Gerard Endenburg, who was a student from Boeke's school and combine with cybernetic principles to become what we know today as Sociocracy. Since Boeke and Endenburg expressed their concepts with their mother tongue Dutch, the ideas have been documented publicly at the beginning of this century when John Buck put his efforts to learn Dutch with the purpose to research about Sociocracy (Buck & Villines, 2007). Sociocracy was designed to lead companies based on highly structure procedures, principles, and transparency methods, accountability, and involvement to enhance productivity, performance, and satisfaction within the organizations. Edenburg's system became famous when the system began adopted mainly in many local organizations and expanded globally.

The Holacracy system was developed by Brian J. Robertson in 2007- the founder of Ternary Software. The journey started with Brain Robertson quit from his job that doing software development in 2001. From the very beginning, Brian Robertson was feeling fed up with the traditional hierarchy used by companies and decided not to use the conventional organizational design for his new startup software company. Instead, Robertson preferred an organizational structure that enables agility allowing the company to respond more quickly to fast changes in the world and keep up with society's pace. After that, he continued with years of experiment with organizational structure and design. As the organization grows, many problems faced up, such as an issue with processes, structure, and decision making. After years and years of experiment, he finally came out with an organizational structure (Holacracy) to enhance agility internally (Robertson, 2007). This move means dramatic change for all employees because they now have the right to raise their thoughts, take into action, and takes responsibility for the success of their proposal. In 2007, Robertson's partner with Tom Thomison formed their new organization – Holacracy One. Then later, until 2009, the company issued the first Holacracy Constitution, which describes the structure, processes, and the guiding principles of the Holacracy system.

The term Holacracy is originated from holarchy, a word coined by Hungarian-British author in his 1967 book The Ghost in the machine. The name Holacracy refers to the holon represents that a whole is self-reliant but, at the same time, also connected to the more significant part as a larger whole (Koestler, 1967). Holacracy is a new organizational structure, instead of traditional top-down management, authority is

distributed throughout the organization by self-organizing teams at the same time staying aligned with the organization's mission and vision (Robertson, 2015). In other words, Holacracy break down the old structure and regroup people with their capability and skills. Therefore, it can be better utilizing every single potential to the next level also adapt faster into the uncertainty in the business environment. To be precise, Holacracy replaced the traditional hierarchy by different work circles so-called sub circles next to each other and are located off a big company circle known as a super circle. Each circle has its own set of roles and working on function with its autonomy. Each employee can have several roles function parallelly, and if one of the roles has achieved its goal, that role being canceled. Also, traditional managers replaced by lead links. Still, they do not have much power like managers previously and do not hold any authority to direct employees to do something without their concerns.

One of the significant differences between traditional structure can be found in the system of assigning titles throughout the organization - no longer exist in Holacracy. Instead, claims are replaced with roles holding by employees and according to the method, they could dedicate to the task, circle, and organization. Another interesting fact about Holacracy is all those roles do not exist with pre-set rules. The roles and responsibilities are built together when they need to perform the work appearing.
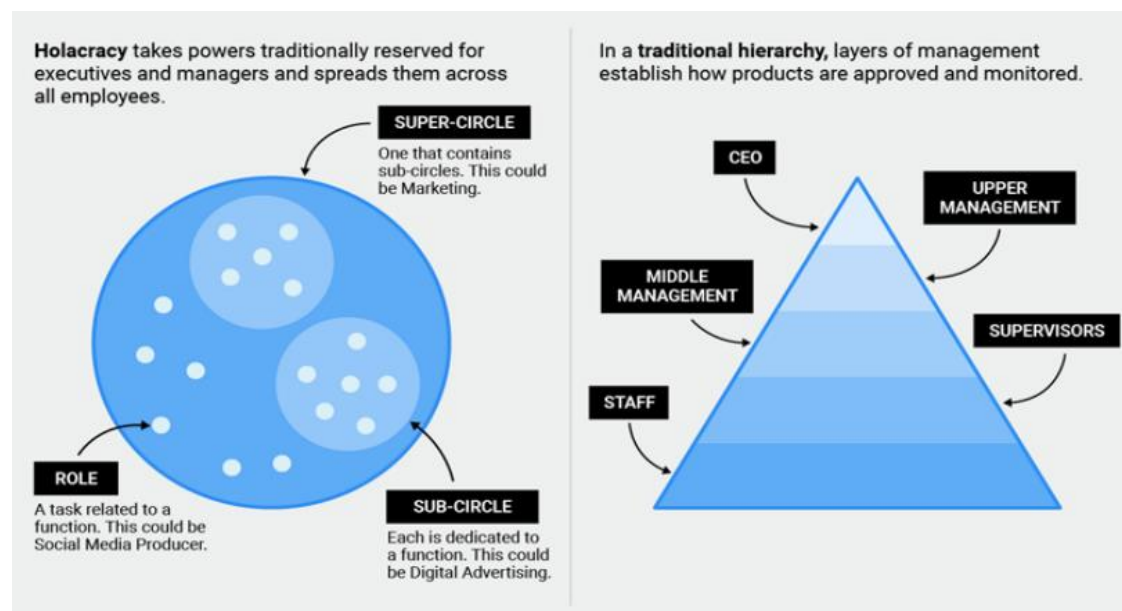
Figure 3: Comparison of Holacracy and hierarchy

Source: Charterhouse SG. (n.d.).

According to Robertson (2015: 17), his metaphor Holacracy designed to function as the principles of a human body, *"each organ within the body be able to fill its role, with minimal (yet important) feedback from other organs."* For a further explanation, he explained the concept:

> *"The stomach might tell the brain that it needs more food, and the brain might tell the stomach that what it's craving isn't very healthy, but for the most part, the stomach does what it's good at digesting food."* - Robertson (2015: 17)

The metaphor refers to the new way of distributing authority, where superiors delegate the decision-making authority to subordinates, and subordinates taking responsibility for their own decisions and further development. Thereby, superiors are representing the "brain" of a body. At the same time, employees are the "stomach," they cooperate in the best area, in which superiors communicate every single goal to the employees transparently, but without direct supervision on the directions, yet employees carry out the actions by themselves with their best capacity.

This process, according to Darwin, is "adaptation to change," corresponding to the economics today also can be defined as "management innovation." Management innovations are reshaping and redesigning companies in a creative, innovative, and efficient way (Foss, 2012).

Usually, people are confused about Holacracy and have a wrong perception of where it situated compares to flat organizations and conventional management. To clarify, Holacracy is not conventional management or a flat organization. Although Holacracy is the model running the organization without a formal hierarchy, it still having a clear formal structure. Holacracy consists of the goals to substitute implicit office politics and power. It is using a collective process to determine roles in the governance meeting and granted the authority for the filled employee to execute the operation. Below is the comparison between how people think between Holacracy, conventional management, and flat organizations.

How people think Holacracy compares
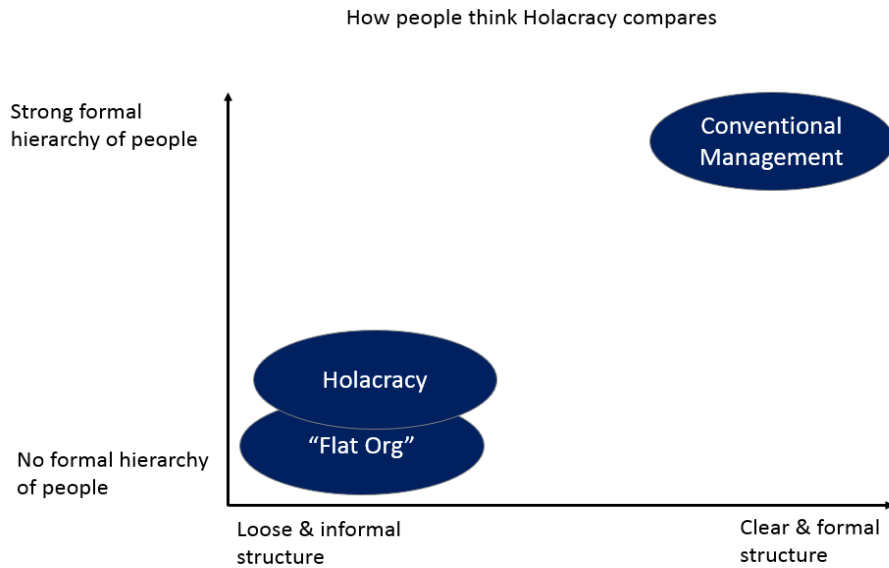
Figure 4: How people think Holacracy compares to Hierarchy and Flat Orgs

Source: Compagne, O. (2014, March 19).

Instead, from the graph below, there is a more accurate view of how Holacracy stands compare to flat organizations and conventional management. The figure shows that Holacracy is different from a flat organizational structure because Holacracy is offering a clear and formal structure even though they do not have a formal hierarchy of people.

How Holacracy really compares
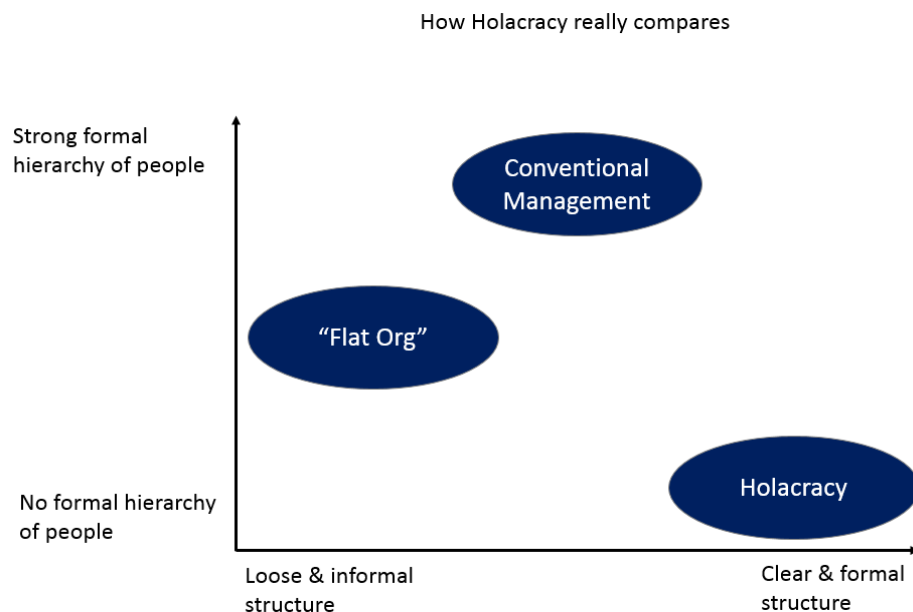
Figure 5: How Holacracy compares to Hierarchy and Flat Orgs

Source: Compagne, O. (2014, March 19).

For those companies who decide to go for Holacracy, the Holacracy constitution is a fundamental part of the shift. It stands like a core rulebook and guides the company into the process of taking into action. To initiate the Holacracy implementation, CEOs of the organization require to sign the last page of the Holacracy constitution to announce that his willingness to transfer his or her power into this rule book (Constitution) and to have distribution management down to everybody in the organization. (Robertson, 2015, p. 22). The purpose of this action is to ensure transparency in the authority delegation and decision-making process. In overall, Holacracy consists of several essential elements as below:

- a constitution - act as a rulebook for the game
- restructuring an organization through roles and circles
- a unique decision-making process in governance to define organizations roles and circles
- a transparent operative meeting process to enhance the efficiency, keeping the team updated and get problems solved (Robertson, 2015)

2.5.2 How Does Holacracy Work?

Holacracy works innovatively with the empowerment of the employees and working in the circles and roles instead of traditional hierarchy. The organizational structure of Holacracy is an organic form. Moving into Holacracy, the traditional departments is going to be substituted by a sort of hierarchy in the way of circles. Circles - the team that gathers together for tasks and people cooperate with their distributed roles. Roles are a component of the traditional hierarchy break down into a task such as in a technology circle. It contains the roles of developer, software engineer, program manager, and project manager. Sub-circle is representing as specific functions of a company, for example, human resources, marketing, and technology, whereas the big circle, including the sub-circle and roles, is called super-circle. In short, Holacracy substituted the tall hierarchy with many different work circles known as sub circles side by side, and these sub circles located inside a big circle like a company known as a super circle. Every circle running its operations independently, and each role has clear goals and agreed-upon accountabilities. However, an employee performs several roles at once and always subject to change. Every single role is defined with a specific aim that brings along with individual responsibility and authority. The role is not the same

as a traditional job title that holds them for age, as soon as the task is completed in a certain period, a new project emerges, then the employee will adapt to the change and get a new role. The member of each circle is nominated to sit on the opposite side to establish faster and two ways of information flow.

Each circle governs itself by uncovering the roles needed to reach the aim of the circle and assigning circle members to fill them. The various sub-circles are connected by the concept of double linking with the roles of Lead Link and Representative Link. The super-circle appoints the lead link. In contrast, the representative link is elected by the roles of its sub-circle. Both links attend operation meetings of both circles and responsible for determining and monitoring the circle's overall purpose and performance (Holacracy Constitution, 2010). According to Robertson (2015), the lead link does not act to directly managing the team and assigning processes; they are representing the circle and provide guiding and communication within the organization. When any employees of the group see there is a gap between the reality and from expectation, a meeting shall be called, and everyone in the team sits together to solve the issue because they are the better persons know the background and operational stuff.

2.5.3 Meetings

Holacracy core practices involve two regular, highly structured meetings to streamline the decision-making process and eliminate low yield yet time-consuming meetings (Robertson, 2015). Governance meetings held monthly with the purpose of outline the structure of the circle to achieve its' aim, such as discovering and assigning mandatory roles amending a circle operating structure whereas the tactical meeting typically held by weekly where the members able to address problems that interrupting progress and ease the day-to-day operations. A new type of meeting has proven beneficial for introverts to raise out their thought during the sessions. Danielle Kelly, a Zapponian holding lead link role, said that the structure of the meetings that was fixed in the Constitution push everyone to take turns to speak at the conference. Now everyone will have their own time to speak out and will not keep it to themselves like before.
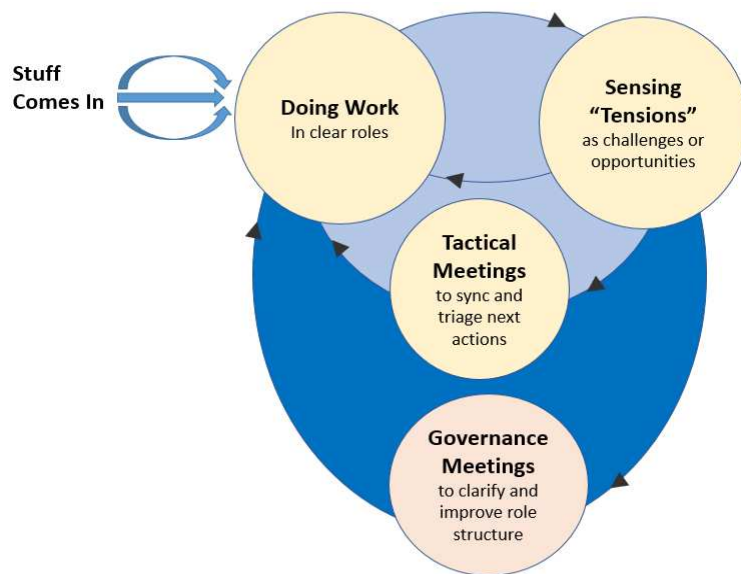
Figure 6: How Holacracy works in processing tensions

Source: Holacracy.org (2019)
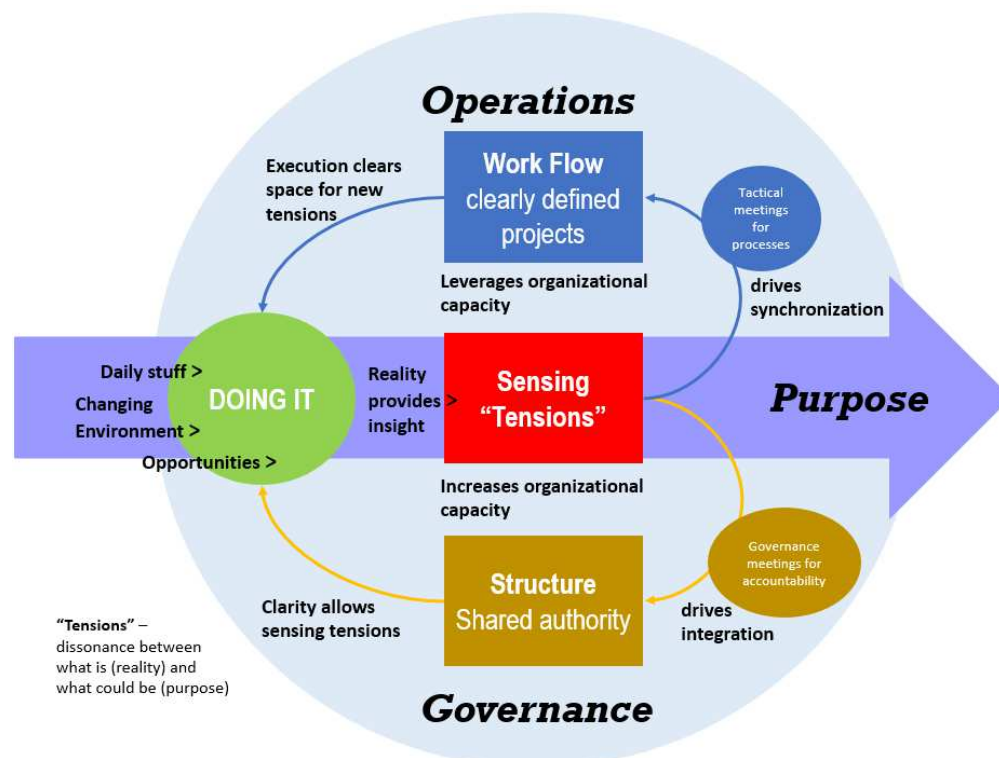
Figure 7: The Holacracy process

Source: Riedy, C. (2019, November 18).

2.5.3.1 The importance of Understanding Governance Meeting

Every circle has its governance meetings that focus on the modification of the structure of the circle. Hence, it is vital learning how the meeting runs and the things that need to be done in each step. The meeting starts with a "check-in" round with everyone. It does not matter regarding the topic, can be about personal feeling, work progress, or personal life sharing. During these seven minutes check-in round, everyone participated in the meeting would connect better and recognize that everyone has their problems and issues other than work, which influence his thinking. During the mandatory check-in process, no discussion should be allowed. Then, the process is following by "admin concerns" to address any logistical concerns. Right after that, the meeting runs into the schedule (also referred to as 'tension'). Tensions are the central components of Holacracy practice. A tension which refers to variance between what is the situation and what it could be with a purpose. According to the Constitution, it defines tensions as:

> *"You are responsible for monitoring how your Role's Purpose and Accountabilities are expressed, and comparing that to your vision of their ideal potential expression, to identify gaps between the current reality and a potential you sense (each gap is a "Tension"). "* - Constitution Section 1.2.1

Everyone could potentially see an opportunity for improvement or treat going to happen in the organization's daily processes, business decisions, and strategy. Holacracy distributed the authority to everybody to speak out the tensions they sense and process locally. Those tensions could be settled by thinking out of the box, changing the methods of how the people work, and practice it.

Governance is essential for organizations - like a roadmap. The team is presenting a proposal meaning that updating the roadmap, and it is open for clarification, discussion, and objection. Therefore, governance is functioning more like a map where the company can go or not go to make the company move quickly. Although you can find many steps to follow, the whole process of governance meeting is built up for Present Proposal and Objection Round. The other actions, such as clarifying questions, reaction round, amend and clarify are just needed to help people understand and explain their thoughts to the proposal earlier and voice out their objection if they find this will harm

the "roadmap" of the company.

The pictures below show the new governance meetings structure is processing:

1 CHECK-IN
One at a time.
No discussion.

2 ADMIN CONCERNS
Address any
logistical concerns.

3 BUILD AGENDA
One or two words
per item.

4 PROCESS AGENDA
Process items one
at a time.

Present Proposal
PROPOSER

Proposer states proposal, and optionally shares the tension. Others can help if proposer asks, but only to craft an initial proposal, not improve it or seek consensus.

Clarifying Questions
ANYONE

Anyone can ask the proposer a question to better understand, but not influence; no reactions or discussion allowed. Proposer can respond "not specified" to any question.

Reaction Round
EVERYONE

Everyone speaks, one at a time, except proposer. No discussion. Reactions are directed to the space, not to individuals.

Amend & Clarify
PROPOSER

Proposer may clarify intent or amend proposal, but has no obligation to do so. No one else may speak, not even to help.

Objection Round
EVERYONE

Facilitator asks each person in turn, **"Do you see any reason why adopting this proposal causes harm; objection or no objection?"** Each objection is stated and tested without discussion. *See back of card for objection testing guidance.*

Integration (if valid objections)   (if no valid objections)

MOSTLY PROPOSER & OBJECTOR

The goal is an amended proposal that would not cause the objection and would still address the proposer's tension.

Accept Proposal

• Integrate one objection at a time.
• Start with objector, but allow contributions from anyone.
• Facilitator asks, **"What can be added or changed to remove that issue?"**
• Don't wait for consensus. Stop and check out each idea:
    • Ask objector: **"Would this resolve your objection?"**
    • Ask proposer: **"Would this still address your tension?"**

After all objections are integrated, repeat objection round.

5 CLOSING ROUND
End the meeting by sharing reflections one at a time. No discussion.

Figure 8: Holacracy Governance Meetings Process

Source: holacracy.org/governance-meetings

TESTING OBJECTIONS

Do you see any reason why adopting this proposal causes harm; objection or no objection? If objection, What is the harm?

The following questions can be asked in any order.

CRITERIA: THE PROPOSAL WOULD HURT THE CIRCLE'S CAPACITY TO EXPRESS ITS PURPOSE OR ACCOUNTABILITIES

Is your objection a reason the proposal causes harm, or . . . .

Is your objection the proposal is unneeded or incomplete?

INVALID ⊗

CRITERIA: THE PROPOSAL WOULD INTRODUCE A NEW TENSION IF ADOPTED

Is the harm created by this proposal, or. . . . .

Is it already a concern, even if the proposal were dropped?

INVALID ⊗

CRITERIA: THE OBJECTION IS EITHER BASED ON PRESENTLY-KNOWN DATA, OR IS NECESSARILY PREDICTIVE BECAUSE WE CAN'T ADAPT LATER

Would the proposal necessarily cause the impact if adopted, or . . .

Are you anticipating this impact will occur?

Could significant harm happen before we can adapt, or . . . .

Is it safe enough to try, knowing we can revisit it anytime?

INVALID ⊗

CRITERIA: THE PROPOSAL WOULD LIMIT YOUR ROLE'S PURPOSE OR ACCOUNTABILITIES

Would the proposal limit one of your roles, or . . . .

Are you trying to help another role or the circle in general?

INVALID ⊗

✓ VALID OBJECTION

AN OBJECTION IS AUTOMATICALLY VALID IF THE PROPOSAL BREAKS THE RULES OF THE HOLACRACY CONSTITUTION

e.g. "Not valid governance output (NVGO);" "Outside the circle's authority."

Figure 9: Holacracy Governance Meetings Process- Testing Objections

Source: holacracy.org/governance-meetings

The Holacracy governance meetings process from the picture above still yet clearly shows how it should carry on in each step to get better outcomes in the meeting. Therefore, Chris Cowan – Partner at HolacracyOne, Certified Holacracy® Master Coach introduced to people the better way to facilitate Holacracy governance meetings. He recorded a short explanation about each step from option 1 (left column), which is an average option to deal with the step and, in comparison, with another better option

to do within the right column. From his thought, the whole meeting is focusing on the Present Proposal and Objection Round. The other step that we can see here is to support these two things.

Table 1: A Better Way to Facilitate Holacracy® Governance Meetings

Option 1	Better Option to do with
Present Proposal ● Tries to get a "good" proposal. ● Hands-off energy- waits for the magic words, e.g. "I propose that…"	● Does not care about quality of proposal if the Proposer says it solves the tension (might even prefer invalid proposals). ● Greases the wheels, eg. "Finish the sentence, "I propose that…" ● "Do you have any idea that would solve your tension?" ● Clarifies discussion is only if you do not have any idea at all.
Clarifying Questions ● Preventing reactions is more important than surfacing information. ● Assumes they should judge whether it is a question or reaction (and that it is either one or the other). ● Protects Proposer by trying to prevent reactions and/or chastising people for reacting. ● Assumes the distinction is clear and people should stick to it.	● Surfacing information is more important than preventing reactions. ● Knows they often cannot know, so educates and redirects. ● Protects Proposer by: 1) repeatedly offering proposer "Not specified"; 2) "Anymore clarifying questions?" ● Still addresses obvious reactions but educates rather than criticizes. ● Assumes the distinction is murky and takes time to learn for oneself.
Reaction Round ● Assumes this is the place to share ideas and have the Proposer consider integrating	● Understands that this space is mostly for others to get things off their chest and/or sense into

them. ● It is a good idea for the Proposer to take notes because they cannot get help in Amend & Clarify.	whether or not they'll have an objection. ● The Proposer should not care about the reaction, because only a potential small upside for big potential downside (eg. you should solve my tension).
Amend & Clarify ● Hands-off energy even when a Proposer seems stuck. ● Personalizes the choice; eg. "Having heard those reactions, do you have any amendments or clarifications?"	● Greases the wheels when a Proposer looks stuck. ● Depersonalizes the choice; "Remember, this is optional. If the proposal still solves your tension, then just leave it and we will move on."
Objection Round: Part 1 - Framing ● Feels anxious and lacks confidence about moving into the Objection phase - just hoping to survive it. ● Assumes a subtle competition -- ● Framing does not emphasize importance of objections. ● Framing makes it seem like there is a high bar for objections (eg. "Objections do not mean you do not like it, objections mean a reason the proposal 'causes harm'.") ● Still holding onto the Proposer Protector energy.	● Feels comfortable handling objections and questions. ● Framing makes it clear objections are valuable. ● Framing lowers the bar for raising objections (eg. "If you do not like it, raise an objection! It may not be valid, but we will figure it out together.") ● Explains objections are simply, "Requests for integration." ● Grounded in the Objector Encourager energy.
Objection Round: Part 2-Testing Objection ● Motivated to protect the proposal (ie. prove/ show the objector fails one of the criteria). ● Repeats "Do you see any reason why this proposal cause harm or	● Truly motivated to collect any valid objections and treats an objector almost like a proposer (eg. first just writes down whatever the objection is).

- moves us backward?" but fails to emphasize the word "any". - Does not want people to object, so likely to unconsciously make it harder (eg. going quickly, not giving time to think). - Relies mechanically on the card and is constantly worried they did something wrong.	- Prompts with "Do you see any reason…" or variation (eg. "Would you like to try an objection?"). - If someone is not sure, tell them to raise it and talk it out. - Has integrated the criteria and can fluidity test objections, and trusts that if they do not know, just chart it and take it to integration.
Integration - Since they rarely get to this step, provides no framing and often unsure of how to facilitate it (and consequently are too loose or too rigid). - Hesitant to help too much, because Facilitator "wants people to come up with their own solutions." - Process feels kind of sloppy because there is not a sense of structure.	- Clearly distinguishes it as a discussion distinct from the rigidity of the other steps (eg. "We are now in Integration, so if anyone has ideas please feel free to contribute, but I will start first with the Objector…"). - Not hesitant to get hand dirty and proactively make solutions when needed. - Selects the appropriate objection to start with, and confidently engages others as appropriate. - Maintains a sense of control by; 1) resolving each charted objection one-at-a-time; and 2) sticking to "Does this remove your objections?" and "Does this still solve your original tension?"

Source: Cowan, C. (2017, October 3).

2.5.4 Advantages and Disadvantages of Holacracy

Holacracy was designed to fulfill companies' needs to sustain highly innovative production and rapid growth. The Holacracy structure has several advantages. Firstly, the Holacracy reduces to conflict level between employees and managers by removing the hierarchical structure (Robertson, 2015). Holacracy contains the characteristics that organic structure has, and employees are not restricted by the traditional hierarchy but

connected with the fast-changing environment.

Besides, Holacracy enhances the motivation of individual employees to take the initiative and commitment of the employee to the assigned tasks and the organization. It reduces the burden on superior to micro supervising the team and bias on the decision. The unique working structure of Holacracy enhances innovative decision making by team member meetings within the circle that stipulates the exchange of information and opinions (Robertson, 2007). According to Cardoso and Ferrer (2013), Holacracy permits organization continuous learning and innovation by distributing balanced tensions throughout the organization without the invisible pressure from the form of direct supervision leadership. Whenever people feel that they are part of the company, then many of them will grow with the company based on the trust and unique corporate culture start from here.

Furthermore, Holacracy enables companies to adapt to the opportunities and threats in the external environment quickly. This advantage can be seen when there is a need to expand or reduce the team according to the project. They can be super flexible and adapt to the needs quickly because the groups or circles can be canceled and restructured whenever they found that the circle does not function as expected. It is a competitive advantage for the companies facing perfect competition and makes changes according to market demand. Besides, a new culture that injected to the organization shape the team behavior, employee's feeling of ownership tends to be higher than before if every individual is equally empowered and lead to higher productivity and performance.

Besides, the flexibility of the role structure provides a chance for employees to work on the task that they are interested in and self-fulfillment. In the moment of the network of each circle grow to stabilize, it is making the organization be master's in environmental influences and functioning on a global basis with the level of humanization of work inside an organization (Cook-Greuter, 2004).

Holacracy has faced several concerns that become challenging to handle. One of the disadvantages of Holacracy is about it requires to describe every task and role in details. Based on the defined requirements, the role will then be assigned to an employee, which involve much bureaucracy and complicated. Each circle was formed with exact

purposes and limit to their tasks, so sometimes it might lose sight of the bigger picture in the detailed planning.

Additionally, Holacracy has a detailed guided process about feedback mechanisms in the Holacracy Constitution. Still, it is vertical within the company, such as employees can give opinions on both sides as such Holacracy places the attention on a governance structure. At the same time, the Zappos startup concept fits better with the lean startup model. The lean startup model focus on operation, which utilizes customer preferences as the core either in product or business development. However, the Constitution has a blind spot in Holacracy on how to approach their customers. Hence, for Zappos, this would contradict with their core value "deliver WOW through service" due to missing of customer focus in the Holacracy Constitution. An organization that has an excellent combination between both the lean startup approach and Holocracy would help the organization to identify which kind of products to offer efficiently and how to organize its operations. Holacracy can seem quite beneficial to those startup companies. It could help them to innovate and react fast to business changes.

Even after years, Robertson introduced his idea of Holacracy, people still reserved to putting it into practice in their companies might be the model is too young, sophisticated, the misconception of no hierarchical in Holacracy. They also claim that it can lead to management confusion. Undeniably, adopting a new system is not easy. Doubtfulness has arisen, especially talking about Holacracy has a different way of functioning and requires a massive amount of pieces of training after training to ensure people able to manage the transformation. Many companies might fail to fully implement Holacracy in their companies because all the new terms such as circle, governance meeting, tactical meeting, and tension sound not feasible if without appropriate training.

Hierarchy still has its advantages when it comes to managing an organization and for internal employees. With hierarchy, it will tell people internally or externally who is in charge of and what to go for in the next. Professor Schweitzer mentioned that hierarchy could consider as motivation for employees to keep going and fight for the company and their career path. Besides, according to a study by Stanford University, this type of hierarchy tells them what needs to be done, how much effort needed to get rewarded, and make them felt secure to work in this formal hierarchy organization. Furthermore, professor Schweitzer at the University of Pennsylvania stated that hierarchy could

deliver a clear message to employees the methods to do well in their job with the standard procedures (Meinert, 2019).

Holacracy supposed to destroy the hierarchy and workplace politics from the traditional structure. But it seems still a long time to fight for it as some former people managers tried to unite their power after transformation. It said by Nox Voortella, a sales planner who joined Zappos in 2014. She told that:

> "In the beginning, I thought [holacracy] was great. Then I saw the old managers around me grow more and more insecure and try to see how they would restructure management. The people who should've stayed and been leaders and could have rallied people left. And the managers that stayed were just the ones who had nothing else to offer." After that, she got frustrated with holacracy and chose to leave Zappos for a company with a traditional structure. - Reingold, J. (2019, June 27).

Some of the researchers found that Holacracy would not be as popular as acceptable, like the other formal organizational structure due to its limitation. After the Holacracy implementation, the model did become a hot topic, however people instead are excited about the model and would like to adapt it to their company, the comments that appeared on the press were "Holacracy is Failing." Baltazar (2016) came across some reasons of why people think that Holacracy does not work. One of the reasons is Holacracy not a step to step guide like a formula to tell the people how to run the company. Instead, Holacracy offers the company the Holacracy Constitution with the rules like guidance to guide them on how to conduct meetings and self-management. Also, the transition, in the beginning, can be severe and challenging because this is an unknown area, and people lack the idea about the concept and how it will be in the future. Therefore, it is understandable why people are feeling anxiety, ambiguity, and uncertainty towards the new structure that without hierarchy structure they used to have.

Besides, Holacracy reduces the control of the management. The people managers are no longer exist in Holacracy, which mean those managers do not have the power to tell people what should be doing, and this old habit must unlearn. Also, I found that Buck and Endenburg (2010) came out with a list of pros and cons of the self-organization as below. The summary below serves as a quick recap of the advantages and disadvantages

of the Holacracy and few additional points, which I think related to the Holacracy.

Table 2: The pros and cons of the self-organization for the company

Advantages	Disadvantages
- Enhances creativity and problem solving - Quick adaptation to change - Able to connect and maximize the work of the employees - Enhance employee's commitment and engagement with company - Improve customer orientation - Decrease the burnout rate - Build self-discipline and cooperation among colleagues	- Requires detailed and careful rolled up planning - Requires investing into training of new concepts - May bring the intensive emotions during implementation (anxiety, ambiguity and skepticism)

Source: John A. Buck & Endenburg, G. (2010)

2.6 Comparison between organizations with traditional hierarchy and Holacracy

To differentiate Holacracy with the existing theories, it is worth to see the different concepts and functionality in both to form an opinion on whether Holacracy can work or not. The comparisons between the organization with traditional hierarchy and Holacracy are summarized as below.

Table 3: Traditional hierarchy vs. Holacracy organization

Traditional Hierarchy Organization	With Holacracy
Job descriptions - Everyone is limited to one specific job. - Normally job descriptions are too general and updated occasionally.	*Roles* - Roles are defined based on work, needs rather than on people. - Roles updated frequently. - People can choose several roles based on their skills and passion.

	Delegated Authority ● Managers hold most of the authority. ● Top management make decisions and execute by others.	Distributed Authority ● Authority is distributed towards the team and roles. ● Decisions are made in the self-managed circle. ● Employees are trusted and empowered.
Hierarchy and Workplace Politics ● Favoritism and nepotism at work ● Not openly sharing relevant information with the purpose to maintain control.	Transparency in Execution ● Clear and transparent rules. ● Top management and operational employees are bound by same set of rules and policies.
Large Scale Restructuring ● Normally massive change once instructed by the top management. ● Employees easily surround by ambiguity due to lack of transparent, timely and deeply communication from the top.	Fast and Flexible to Restructuring ● Easily to add or eliminate self-organized circles. ● Quick adaptability to the internal and external environment.

Source: HolacracyOne.org

Table 4: Functionality Comparison between traditional to Holacratic organizational structure

	Traditional Organizational Structure	Matrix and Flat Organizational Structure	Holacratic Organizational Structure
Level of Hierarchy	High	Medium	Low
Centrality	High	Medium	Low
Adaptability to Change	Low	Medium	High
Project Based Operation	Low	High	High
Level of Complexity	High	Medium	Medium
Level of Self-management	Low	Medium	High
Frequency of Communication Flow	Low	High	High

Source: Werther et al., (2014), p. 38

2.7 Difficulties in restructuring the organization

Recent years, many scholars have studied the harmful effects of organization restructuring on employees, stress level increased, uncertainty about their role change, and hence led to lower down job satisfaction, and willingness to stay with the company (Schweiger & DeNisi, 1991).

Zappos' second core value is about embrace and drives change. The culture is about encouraging people to embrace the change rather than fear change. This message is building the foundation for their people to the state of change readiness mindset. However, some employees still felt that they would not stay for the change.

During the implementation, Zappos CEO Tony Hsieh sent a memo and offered his 1,500 staff a month to decide if they would stay with Zappos undergo Zappos' transition to self-management or to leave Zappos with a severance package. When a month's deadline arrived, 14% of employees - 210 employees decided to take a severance package. However, a group of employees working on the "SuperCloud" project was asking Hsieh to extend the deadline. SuperCloud project is to outsource all of Zappos' digital infrastructure to Amazon's server. 50 SuperCloud employees had made up their minds to leave. Hence the team was asked for an extension of the deadline to avoid the unnecessary interruption of the project. Overall, there are 260 employees, or approximately 18% of Zapponians took the severance package during the Holacracy transition.

Solutions Motivating Change

Nowadays, organizations undertake environmental pressures, including globalization, competitive market, and technology innovation, as well as internal forces such as changing new leaders, operating cost and revenue, and employee turnover. These pressures can be a critical threat to the organization. Therefore, organizational change is always tricky because it involved uncertainty and resistance in changing threaten people to step out of what they know to the unknown. In general, there are two types of theoretical approaches that provide different suggestions for the frequency and depth of restructuring the organization.

A first approach is a consistency approach, also called as revolutionary quantum changes. The need for the organizational structure change follows the strategy inconsistency approach tends to happen in a more extended period. Much later, individual firms across the different industries were found to react responsively to the uncertainty in the dynamic environment. They are characterized as more innovative, differentiated, and decentralized than traditional organizations. Every different type of organization should have followed its way out and resist structural changes until the critical gap between the internal mechanism and external environment existed. Hence, a 'revolutionary' or a quantum change must immediately decide and take into action. The change can be concluded by comparing different revolutionary strategies and their suitability under different circumstances.

The second approach is the contingency approach (permanent change). The contingency approach suggests that management today, the primary task is the leadership of organizational change. It means that structure should always adapt to the situation or strategy rather than adapting to a single revolutionary change in the longer term. However, theory research had been done in the earlier year recommended that frequently changing would not foster the growth of organizations' performance (Rieley and Clarkson, 2001). Luecke (2003) also pointed out routines could be help individuals to improve performance. In contrast, others argued that the ability of the employees to deal with continuous is critical to organizations (Burnes, 2004; Rieley and Clarkson, 2001).
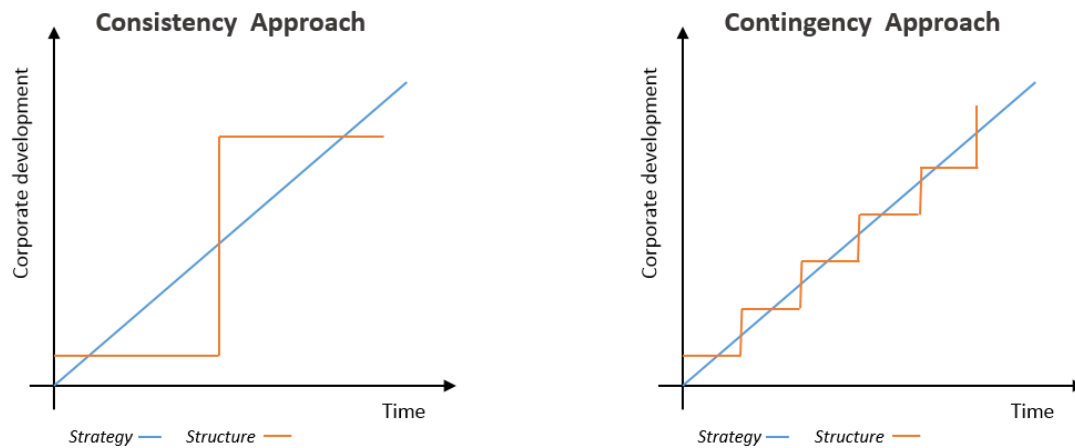
Figure 10: Consistency approach vs Contingency approach

People's readiness for change is vital for organizational change. Usually people are comfortable with the way things work together with the existing processes and structure. In another viewpoint, people may reluctant to change because new learning cycle of adaptation is always not an easy task to deal with. Hence, creating a circumstance for people unsatisfied with the current status and willingness to look for a change can be difficult. Before any of the situation threaten the company, management must actively aware to the changes and react accordingly. In practice, management can deal reluctance to change by showing empathy and support, giving effective communication and involve themselves together with the staffs to undergo changes. In details:

1. Empathy and support. People's concerns usually not been prioritized before and during the shift. The first element to create a successful transition is to study how people are experiencing and dealing with change. This is not limited to differentiate people who are eager or reluctant for change, characteristics of those against change, and possible solutions. However, everything does not come easily. It requires a process of active listening, which puts yourself in someone's shoes. Whenever they feel the caring from the management regarding their perceptions and feelings; more thought from their deeper heart could be openly shared with the management. This action will benefit the relationship to be equal and transparent and helps to reduce barriers for the people to overcome change.

2. Communication. Effective communication can reduce employee's anxiety with change and help them get ready for change. The content of the discussion includes the objective and consequences of the change. However, rumors and gossip are the hardest part to manage when it comes to change. Employees often receive the update not only from the top management or next level manager; they cannot avoid the informal gossip from the internal and impact the effectiveness of the formal communication. The pillar to make the information flow more transparent, the change information can be communicating through a different channel than the usual communicating channel such as meeting. Open and eliminate the layers of communication could help confident people, such as Zappos.

3. Participation and involvement. Involvement of board members during the planning and implementing process, making the whole organizational change project more effective and efficient. Members that have influencing power can comment and decide on valuable modification needed during the process. Additionally, the participation of members from various backgrounds and departments can contribute progressive ideas and solutions to the situation.

2.8 Summary

Based on the literature review as above, I was more capable of mapping out the factors influencing the design of an organizational structure. It will be divided into two main categories, which are internal factors and external market factors. Under the internal factors, it has four essential elements to discuss- business model, corporate strategy, corporate culture, and employees. Moreover, under the external market factors, it consists of two critical factors which are the business environment, and talent market. Besides, under those factors, it is linked to the sub-factors from a different context.

The globalization and economic crisis have forced organizations to think back on their strategies, whether enough to compete in the market. Organizational design is the foundation of an organization which from the framework it shows the assets of the organization's own and controls. According to Bryan, L. L., & Joyce, C. I. (2017), organizational design is difficult, taking a lot of time but its worthy in return such as in risks, earnings and value. Therefore, the essential factors for organizational design consist of activities or business processes that are to be managed internally and ensure

that their cores can stay in line with their business process (Williamson, 1996).

The first internal factors are the business model. The nature of the business process is a sequence of structured activities performs by employees or tools to generate the product aim to offer to their targeted customers. The sequence arrangement may influence the delivery of value from the company to the customers and business partners. The identified sub-factors are like the nature of the company production process, business model, the size of the organization, and the industry. Many organizational theorists missed the business model in corporate design. The business model may not always specifically decide on organizational design. However, the way how an organization design to deliver its value to their customers will be seen in the boundaries of the organization, its structure, and strategies priorities. According to Burns and Stalker (1961), the nature of the company business process is the only critical factor to influence organizational design.

Corporate strategy is consisting of the activities of an organization to achieve its competitive edge. The strategy of the company considers as an important factor in organizational design. If the organization fail to connect the relationship between their strategy and organizational structure will cause many fundamental issues on its business process Gurianova, E., & Mechtcheriakova, S. (2015). Besides, Galbraith (1974) pointed out the role of internal communication, transparency for the people access to information and knowledge that related to the culture are the critical elements of organizational designs.

Studies also found that employee resistance is the factor that influencing the transition whether they are motivated or refuse to change (Bovey & Hede, 2001; Waldersee & Griffiths, 1996). Besides, employee job satisfaction that link to what they can get, feel and develop in their work after the change is impacting the success of the organizational redesign (Oliver, 1990).

Table 5: Internal and external market factors influencing the design of an organizational structure

Internal Factors	Sub-Factors
Business model	Nature of the company business process
	Size of the organization
	Industry
Corporate strategy	Organizational strategy
	Organizational life cycle
	Empowerment of employees
Corporate culture	Core Values
	Communication
	Risk taking or risk adverse
Employees	Motivation or resistance
	Work life integration
	Job satisfaction

External Market Factors	Sub-Factors
Business environment	Economy
	Market competition
Talent market	Trend and behaviour of the future talent

3.0 ZAPPOS EXPERIENCES IN HOLACRACY

3.1 History of Zappos

Zappos is a unique case that this study is going to study based on Holacracy. The research is starting from the background of the Zappos, different views of reviews from various authors, then following by the analysis of the case with the relationship of organizational change.

US retail sales have risen steadily in the past ten years, from only 4% of retail sales were online approaching 9.7% at the end of 2018 (total $513.6 billion). The online business world had seismic change inside out since Zappos entrepreneur Nick Swinmurn latched onto the online shoe business. The most markable evaluation in 2015, when Zappos decided to get rid of the tall hierarchy structure into a new form of self-organization- Holacracy. At least 18% of Zappos employees took a separation package during the transformation. Presently, Zappos has more than 300 circles, which lead by "lead-links." However, the change requires extensive cooperation and efforts to try and forth and moving forward to the most workable paths. The latest goal of Hsieh is to transform every 300 circles into a startup that can operate independently, and transparent in layers and information. The entire system is expected to lead the company to the next level of growth and generate a new peak of revenue.

Zappos has approximately 1,500 employees at its headquarter. Every employee badge comes with ten different colors attached to Zappos "10 Core Values" that selected individually. Zapponians consider their company culture to be the most treasured part.

Zappos.com is an e-commerce retailer selling online shoes and clothing located in Las Vegas, Nevada. Nick Swinmurn established Zappos in 1999. Swinmurn came across the idea when he could not get a pair of brown Airwalks from his local store. Swinmurn approached Alfred Lin and Tony Hsieh with the online shoe business idea. The first impression of Swinmurn's plan was not convincing. Hsieh was doubtful about the concept of consumers would willing to buy a pair of shoes online without fitting them on in the store. He almost deleted Swinmurn voicemail at that moment, but just right before he hit on the delete button, Swimmurn highlighted that footwear in the US is a 40-billion-dollar market. However, only 5% of the amount being sold by paper catalogues. This message fascinated Hsieh, and together with his co-founder of

investment firm Venture Frog Alfred Lin agreed to invest 2 million dollars into the new launching online business "ShoeSite.com." Afterward, Hsieh proposed the new company name Zappos from the idea of the Spanish word Zapatos which also brings the meaning of shoes. However, to avoid mispronunciation, they decided to add another "p." Hence, the company name has been changed to Zappos.com (Hsieh, 2010a; Christoffersen, 2019).

The biggest challenge that Zappos faced, in the beginning, was the process of convincing the brands to work with them was tough, especially Zappos was an innovator in this kind of business model in the footwear industry. The board member of Zappos, Fred Mossler, described the situation:

> *"We talked to eighty different brands over the next four days. Only three agreed to work with us…(1) We were pioneering a new concept of having brands drop ship directly from their inventory to the customer. Talking to the brands was actually educational because they asked legitimate questions like, "How are you going to ship it? Who's your shipping carrier? How do you plan to handle returns?"..(2)"* – Fred Mossler, board member of Zappos (Hsieh, 2010a: 38).

Somehow, there is a turning point when Dr. Martens willing to work with Zappos, and it was a high online demand for Dr. Martens's shoes. Hence, it bought an excellent impression to other brands and agreed to come on the site of Zappos.

Zappos faced a tough period started, lack of funding was a concern and almost led the company to bankruptcy. Although Venture Frog did offer the first financial aid into Zappos, the revenue was too low and insufficient to sustain the cash flow. Hsieh decided to invest more in supporting Zappos to overcome the difficulty. Zappos office had been moved to Venture Frog incubator space and provided Zappos employees for living for free by rent out other properties.

After Hsieh joined Zappos as a full-time member in 2000, he realized that changes are needed in Zappos to resolve the situation of lack of funding. Zappos went through an in-depth analysis of its business model and finalized their short-term and long-term goals to success. In the following months, Hsieh announced the nine months streamlined plan focused on lean operation, reduced budget expenses, a rise of gross profit, reduction of job openings, and the percentage of new and returned customers.

This dramatic change saved the company temporarily because of the decrease of internal employees and employees work overtime for Zappos. However, this plan still yet helped to increase Zappos sales results (Hsieh, 2010a: 51).

In 2001, Hsieh became co-CEO with the founder Swinmurn. However, Hsieh became CEO of Zappos when Swinmurn left the company (Hsieh, 2010a).

> *"I believed with all my heart that Zappos had a great shot at succeeding...(1) So I decided to take off my investor and adviser hat and put on my entrepreneur hat again. I joined Zappos full-time later that year. I decided that Zappos was going to be the universe that I wanted to help envision and build. It would be the universe that I believed in."* – Tony Hsieh (Hsieh, 2010a: 50).

Hence, a physical store was opened, and Zappos rented the warehouse to build the confidence of the Zappos brand in the impression of other footwear brands to help Zappos solving the merchandising issue (Hsieh, 2010a). These actions changed the situation, and Zappos successfully raised gross sales to 8.6 million dollars by addressing the issue of merchandising until the end of 2001. Zappos realized that logistics could head the company to deliver better customer experience by faster and reliable delivery. Hence, Zappos decided to Zappos dealt with the third party and contracted out the company's warehouse operation to eLogistics as they have a better warehouse location. However, things didn't go through as plan after Zappos signed the contract. The eLogistics was incompetent to handle Zappos orders because of understaffed led to could not systematize more than ten thousand Zappos items, orders were in a mess either delayed, lost, or inaccurate. Zappos was undeniable lost heavily in terms of customers, money, and brought the company to another critical financial situation. Even though the warehouse was enough for the company keeps on running for another six months, but Hsieh still decided to sell it (Hsieh, 2010a). Hsieh understood they should never subcontract their core competency. Zappos opened its warehouse instead and hit 32 million dollars of sales volume by the end of 2002 (Hsieh, 2010a: 64).

Zappos' major success in the online retailing business was creating a great customer experience and repeated customers. In the following years of rose in revenue in sales with 70 million dollars, Zappos focused on building its vital competence in services. The unbeatable offers are 365-day return policy, 24/7 mode call center and free shipping

for delivery and return. The call center customer service was considered as the primary building block of Zappos because of Zappos' first core value, "Deliver WOW Through Service." This call center telephone service was the fundamental building block of Zappos because the call consultants are not restricted by the script or time control on every call they received. They had provided four weeks of training before getting into the role to make sure they are qualified to provide excellent customer services. Zappos "WOW" service, also including extra-long working hours for the warehouse, making the company able to have overnight shipping and keeping the level of happiness of its customers (Hsieh, 2010a: 75).

In early 2004, the biggest problem of Zappos was customer service because they received thousands of phone calls and emails every day, where this is an opportunity to build Zappos brand in a company that offering the best customer service. Zappos knew they need to invest in customer service, and in return, it will be their marketing tool as the customers will share the reputation through word of mouth. But they were facing the inability to recruit enough high qualified customer service representatives near San Francisco. The high living cost of San Francisco make people in that area would pursue customer service as their career. During that time, many of the customer service representatives in Zappos were temporary, so it is hard for Zappos to ensure the services provided are always excellent and delivering the "WOW" experience. Zappos realizes if they were aiming to build their brand around with the focus of offering the best customer service, then the whole company should put in their full efforts rather than only in one single department. Even though having the call-center/ Customer Loyalty Team (CLT) of Zappos in San Francisco was costing too much, but Zappos still decided not to outsource their service to the other countries like Philippines or India. Instead of that, Zappos made the decision to move their headquarters to Las Vegas, a place which is 24/7 city where people are used to working at any shift and hour. This advantage will help Zappos to hire someone willing to work for night shift at their call center. The hospitality culture of Las Vegas created the people with customer service mentality. That decision was a win-win strategy because it would possible to make their current employees happy and bring Zappos to the place that helps them to find the right talent to achieve their goal. The unique business model and culture boosted the sales up to $1.14 billion during Zappos's 10th company anniversary (Hsieh, 2010a; 2010b).

The conversation with Amazon began as early as 2005, but during that time, both did not have a clear intention. In 2009, Amazon appeared with a great deal of acquisition to Zappos.

> *"Amazon has always described its goal as being the most customer-centric company in the world, but its approach is more high-tech than ours, with a focus on using web design and functionality to make the shopping experience easy for customers… (1) Ours is more high-touch—we try to make a personal connection."* – Tony Hsieh (2010b).

Overall, Amazon bought all the Zappos outstanding stock deal for the purchase of Zappos valued at $1.2 billion. Besides, Zappos remains the operation in Las Vegas, yet remain no change of the management leadership (Hsieh, 2010a; 2010b).

Figure 11: Timeline of Zappos: Zappos Sales Growth

Source: Hsieh, 2010a; Christoffersen (2019)

In January 2013, a small group of Zapponians went to two days off-site to test out the suitability of Holacracy for Zappos, and the HR department took the lead became a pilot group three months later. In September 2013, Hsieh, the CEO of Zappos, officially announced the plan to adopted Holacracy in the company with the official date of January 2014. Today, Zappos is the largest organization that adopted a Holacracy organizational structure with approximately 1,500 employees. Zappos has around 500 circles until now and frees to add or eliminate.

3.2 Why was Holacracy adopted at Zappos?

In the beginning, Zappos had a flat structure but is still unable to achieve satisfaction in the workplace. Hsieh thought the flat structure does not provide enough freedom for employees, which they were restricted to higher efficiency based on the layers of management. If one segment of the manager has a specific range of spans of control, then layers of managers will have wider spans of control. Hence, reduce of layers may provide friendly nature at the workplace and open up the structure for every employee to interact freely. Moreover, as Zappos was expecting to have continuous growth, he thought that the current organizational structure would not satisfy the needs to meet customer expectations, extraordinary services, and the innovation levels the company needed.

Afterward, Hsieh was attracted by the ability of Holacracy to transform the company towards more flexible and innovative in a disruptive way. A statement in Triumph of the cities wrote by Edward Glaeser regarding organizations are different from the city, when organizations grow more significant, the output produced by an employee in fact decrease. In contrast, when the size of a city becomes double, the output or innovation level per citizen increased by 15%. Hence, Hsieh having this city's concept in his mind and would move Zappos in this direction like a city (Thai, 2017).

The dynamic structure known as Holacracy will enable Hsieh to operate Zappos like a city. Holacracy has a fully open organizational structure where everyone can share their idea to top management openly. At the same time, without the direct prescribed "bosses" in Holacracy promotes the situation of equal treatment for everybody, and they can be a leader and follower. It is an essential element to raise the level of accountability and involvement as an individual having the responsibility to all the employees within the organization. Additionally, Holacracy empowering employees to make their own decisions that needed for daily operations, which foster efficiency because employees working in frontline know the best what is required to make their job well (Thai, 2017).

3.3 Issues in Implementation of Holacracy in Zappos

For the new employees, they might feel uncomfortable with how Holacracy runs the meetings, and the central focus is explicitly on work rather than on the people. Difficulties appeared during adopting Holacracy when the system removes traditional

management layers. There are many risks and challenges face up for the employees, managers, and the company.

Traditional managers who responsible for listening to the opinions from the ground and guiding through the team to implement the change, and employees are accountable for voice out their thoughts for a better future. But now these two roles will be mixing. Hence Holacracy may create conflicts between employees when there is without clear guidance.

Holacracy is a new organizational model that has not been tested before Zappos planned to implement the changes. In comparison, the primary or flat structure has been practiced within various types of organizations and studied by researchers. It is challenging for a large organization like Zappos to restructure the whole system. It is an unforeseen future for existing managers to remove the power of control and to be treated as their junior employees who were formerly their subordinates. Moreover, junior employees may find it difficult to adjust themselves to the situation to treat their former bosses as equal to themselves.

Also, Jordan Sams, who joined Zappos in 2012, started his career in the customer service department. Sams opinions towards the significant organizational changes to Holacracy are:

> *"We over-complicated things in the early stages and have learned from those mistakes and simplified things to make holacracy less of a burden on our employees. If you teach holacracy in a simple way, it really does make employees' lives easier – the problem was we introduced too much in the beginning and too much of the nuances and complications of the holacracy constitution."* - Ward, C. (2017, February 17).

Apart from that, an interview was conducted by Livia Serrini to Christa Foley (Serrini, 2018), a Zapponian who is a Culture adviser and act as Directed of Insights. During the interview, Foley was asked for the primary issue she encountered of the Holacracy adoption. Unsurprisingly, a new meeting structure was the toughest for the employees. The meeting structure is detail yet strict like a "military" from the time consumption in each section, the order of the schedule, and when the participants could speak and when should not. This meeting structure has clashed with Zappos' core culture, which

motivates people to speak out their thoughts whenever they want. Indeed, with Holacracy, it restricted people by its guiding principles - Constitution. Hence, people are required to digest the new process in their way and move along with it.

Now, Zappos' employees have in mind that replacing traditional hierarchy structure will help the company from becoming bureaucratic and bounded by the rules. However, Holacracy is still more towards theory than practice. Hence, some employees prefer the traditional hierarchy to the new system with its' proven results from the past.

3.4 What is the advantages of Holacracy to Zappos?

Although the implementation always not easy, there are still benefits perceived after adopting Holacracy. Due to the delegated authority, authority is shared throughout the organization from the top down to every employee. Hence, every single employee is allowed to make changes to whatever situation if there is a better way to do it. In results, the process enables the staff to become more confident and active to engage and accomplishing a task. Besides, it allows Zapponians to think out of the box and responding to the issues faster, which will enhance customer satisfaction.

Additionally, with the GlassFrog- a web app designed initially been to assist Holacracy. The platform helps people to keep on track the progress of the work, and through the platform, it is clearly stated who is responsible for the roles and tasks. It builds transparency and clear descriptions within the organization highly.

During the interview conducted by Livia Serrini to Christa Foley (Serrini, 2018), a Zapponian who is a Culture adviser and act as Directed of Insights, she was asked for the strength of Holacracy. She mentioned that without bureaucracy and levels of hierarchy, it enables the company to foster the daily operations, decisions taken, and smooth communication. Besides, the flexibility offered by Holacracy allows the employees to move faster with the greatest creativity in return brings benefits to the customers.

3.5 How Zappos pay employees under Holacracy? - Badge-based compensation App

How employees being paid under Holacracy always becoming a focus area. Holacracy lacks some essential elements, like the compensation process. Zappos just launched its

way to deal with compensation. In the next session, we are going to discuss how Zappos pay their employees according to skills with the badge-based compensation system.

"Badges" represent a role or skill which also not limited to the area of expertise, achievement, or talent that will be useful for deciding compensation (HolacracyOne, LLC., 2015). Employees can earn a badge by showing the skill to peers who hold that badge. Besides, employees may self-nominate it to a "Badge Bootstrapper" role, when there are not many peers holding the badge and work with "Badge Bootstrapper" to reasonably assess the skill.

Similarly, the new badge can be proposed by employees and captured in the "Badge Library." An organization "Badge Library" stores those available "Badge" for an employee to earn it, and each badge has the defined definition. Badge's description may also explain the process of gaining or losing the badge. "At this time, compensation is tied to roles, and the badges encompass the work or skills being done in those roles," says Lisa Jewett, who holds the role of "Badge Librarian" in the Zappos. "Badge Librarian" is granted the authority to add, change or remove Badges from the Badge Library when there are no objections to the change or no response with an objection within one week of change proposal. However, no modification on an "inactive" badge can be processing while another process relies on that badge.

The exciting part is coming from how to transition to Badge-based compensation. When hiring a new employee, an organization will offer them an initial compensation level based on a set of badges, the role employs and presume the badge that new employees are more likely to earn. Besides, there are a 12 months compensation guarantee period to promise they will not get less than the initial tier placement after joining the organization. As of now, Zappos still practicing recruiting new people with traditional job roles and decides their basic pay accordingly. Nevertheless, after a period of mandatory Holacracy training, the new employees can start to design their career paths and taking different roles, which not limited to his/her circle to pursue their passions. Taking an example, if an employee hires for a project manager role, his/her basic pay will be calculated based on the market value of the project manager's compensation. Also, after a certain period, the employee can take the other role he or she found interested and start to gain different badges according to the position requirements. Each badge they achieve will result in a pay increase and results as internal learning for

themselves.

For the existing employees, the pursuit of new badges will equally beneficial to themselves in a pay increase. It is like the "leveling up" process when playing video games, higher satisfaction, and motivation for the employees to acquire a new skill/badge. Currently, Zappos' employees can submit their pay raise application to the Compensation Circle to approve the request. There are also no restrictions to Zappos' employees to what kind of roles they can go for it except prerequisites. For example, before an employee can earn a Business Savvy Badge 104, he/she requires to acquire Business Savvy Badge 103 beforehand (HolacracyOne, LLC., 2015).

Furthermore, Zappos also has specific non-monetary roles that are tie to Zappos core value no 3. Create fun and a little weirdness such as Yoga trainer to bring joy and health to the culture. In the table below, you can find the details example showing how the concept of compensation app works.

Example Badges / Badge Library

Badge: Business Savvy
Levels (each counts as a separate Badge):
I have repeatedly demonstrated that...

1. I can apply professional norms in the business world to my behavior when contextually relevant, and not stick out as an inappropriate young punk in a conventional business
2. I can participate in a conversation with more experienced business professionals about general business topics, without slowing them down or looking like the clear novice in the room
3. I can add to conversations about some common areas of business building from direct experience (e.g. operations, management, finance, culture, leadership, etc.)
4. I can add to conversations about almost any common area of business, while pulling in useful and relevant direct experience, and appear generally "business-savvy" to business pros
5. I can debate sophisticated business strategies toe-to-toe with other seasoned business leaders, with the feel of someone who has "been there, done that" in business
6. I can get my hands dirty in all common areas of business building, with the easy, grounded confidence and nuanced wisdom of experience
7. I can take the reigns of a conventional company as CEO (or equivalent), or build one from the ground up, and grow it through multiple phase transitions in scale/revenue/reach/etc.
8. I can teach CEO's and entrepreneurs about business building from deep experience, and keep them coming back for more
9. I have achieved wide recognition as a master in this practice area

Figure 12: Example of Badges: Business Savvy

Source: HolacracyOne, LLC. (2015)

Example of Tiers & Guidance Defined by Compensation Architect

Compensation Tiers (I-V) and Grades per Tier (A-F)
All figures represent target monthly compensation

Tier	A	B	C	D	E	F
I	$ 3,000	$ 3,200	$ 3,400	$ 3,600	$ 3,800	$ 4,000
II	$ 4,250	$ 4,500	$ 4,750	$ 5,000	$ 5,300	$ 5,600
III	$ 6,000	$ 6,400	$ 6,800	$ 7,200	$ 7,600	$ 8,000
IV	$ 8,500	$ 9,000	$ 9,500	$ 10,000	$ 10,500	$ 11,000
V	$ 11,500	$ 12,000	$ 12,500	$ 13,250	$ 14,000	$ 15,000

Guidance on Tier Placement of Badge Sets
The tiers defined above are meant to used for badge sets that reflect or require the following...

Tier	Judgment Capacity	Expertise in Technical/Specialized Skills
I	The judgment of some general adult life experience	No specialized expertise, other than what's easily learned.
II	The judgment you'd expect from an adult in the professional world	Some expertise developed in general, easy-to-learn skills
III	The judgment you'd expect from someone with significant professional experience and good mentors	Major expertise in general skills, or significant expertise in highly technical/specialized, hard-to-learn skills
IV	Well-seasoned judgment from many years of both succeeding and failing while "flying solo" without major guidance	Major expertise in highly technical/ specialized, hard-to-learn skills
V	The poignant, instant, discerning judgment of a deeply-experienced industry-leader, forging new pathways in their discipline	World-class, industry-leading expertise in multiple technical/specialized, hard-to-learn skills

Figure 13: Example of Tiers & Guidance Defined by Compensation Architect

Source: HolacracyOne, LLC. (2015)

Example List of Badge Set Valuations

Badge Set Label / Description	Badges in Badge Set	Tier/Grade Placement	Associated Comp Level
Basic Project Manager	Business Savvy 1-2 Orchestrating 1-4 GTD Ninja 1-3	3-B	$6,400
Super Project Manager	Business Savvy 1-4 Orchestrating 1-7 GTD Ninja 1-4	4-D	$10,000
Starting Holacracy Coach	Business Savvy 1-3 Holacracy Coaching 1-4 GTD Ninja 1-3	4-A	$8,500
Holacracy Coaching Engagement Lead	Business Savvy 1-4 Holacracy Coaching 1-6 Orchestrating 1-4 GTD Ninja 1-3	5-B	$12,000

Figure 14: Example List of Badge Set Valuations

Source: HolacracyOne, LLC. (2015)

4.0 Case Study

Many people wondering when, where, and under what conditions will self-management like Holacracy works best. Most of the people would agree that Holacracy might not be the solution for everyone. The change process is complicated. But is it essential for the organization to go through the change from the traditional management hierarchy to a self-management system like Holacracy? It is a gradual process that depends on several factors that influence the potential for success and failure.

The analysis will be based on case studies that are built into the two major groups of factors (internal and external market factors) on the literature review that has been discussed earlier. All the factors regarding the internal factors have been analyzed in case study 1 to case study 8. In contrast, the talent market factor in the external market factor has been investigated in case study 9.
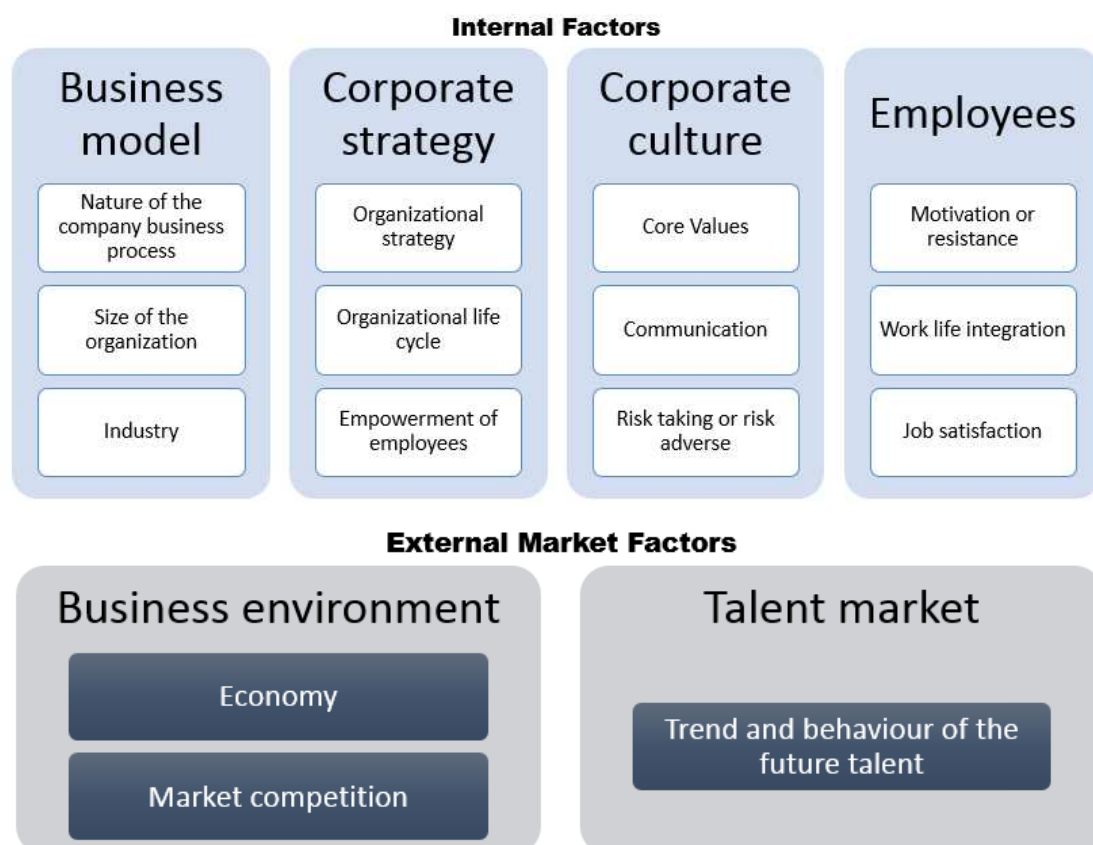

Figure 15: Case Studies: Analysis of Factors

Case study 1- Business Model

Velinov, E., Vassilev, V., & Denisov, I. (2018). Holacracy and Obliquity: contingency management approaches in organizing companies.

Does Holacracy Work?

The critical question that we need to find out for strategic management is Why are some firms successful, and others are not? (Foss, 2012). Hence, we will discuss the type of industries and size of the company that suitable to implement Holacracy.

Holacracy by industry

The table below shows the research of Velinov et al. (2018) regarding 97 companies worldwide that practicing Holacracy. It shows that a vast majority of them are from Consulting and Education (42.1%), makes up of Management Consulting (17.89%), Training or Coaching or Education (12.63%), and Incubator, Coworking and IT Education (11.58%). Next, it is following a group of IT-related industries (27.37%). It is included Digital, hardware and software systems (13.68%), Digital Marketing and Advertisement companies (7.37%) and IT and Agile Web Development (6.32%). Robertson pointed out his point of view regarding any industries recommended to invest in Holacracy (Russell, 2016). It's regardless of the type of sectors that might be a good fit for a specific management hierarchy. Holacracy having the concept of list it out every single work from who is holding the responsibility and accountability into pieces and reshape it, which can be broadly applicable to any organization. On the other hand, for those protected industries, they do not bear the competitive pressure to win the market or to be innovative and creative for the product. It might not be necessary for this kind of industry to invest in such significant changes.

Table 6: Statistics of companies by industry

Industry	Frequency	Percentage
Development, Aid, Nonprofit	7	7.37
Digital Marketing and Adv.	7	7.37
Financial Services	4	4.21
Digital, hardware and software systems	**13**	**13.68**
IT, Agile Web Development	6	6.32
Incubator, Coworking and IT Education	**11**	**11.58**
Management consulting	**17**	**17.89**
Other	13	13.68
Retail and Consumer Goods	3	3.16
Telecommunications	2	2.11
Training/ Coaching/ Education	**12**	**12.63**
Total	95	100

Notes: N = 97, missing values = 2

Others: Companies from Eco-chemical company, Eco-shops and restaurants, Events Services, Farming, , Insurance, Hospitality, Live sports, Real Estate, Oil & Energy, Tourism, Online publishing, and Annual Conference.

Source: Velinov et al. (2018)

Holacracy by size of a company

According to the research of Velinov et al. (2018), they have collected secondary data on the practices of 97 companies worldwide that practicing Holacracy. The analysis shows that companies that mostly applied Holacracy mainly are the small medium-size company (87.5%) with less than 200 employees. However, during the interview with Robertson, he pointed out some of the misconceptions about the world of Holacracy (Russell, 2016). From his point of view, even though smaller companies with 30 or 100 employees are much easier to do the coaching, training, and share the knowledge of the new work culture. It is much easier to make the change with thin layers of management to guarantee the same quality of the training or messages were delivered.

In comparison, more prominent companies may also have more potential, but it is much harder for the transition. For example, Zappos as their size grows to approximately 2,000 employees in recent years. It is a challenge to maintain when a company grows

due to more bureaucratic kinds of stuff, more people get involved, change in the layers of management, which impact an organization to slow down its pace.

Table 7: Number of employees by company

Number of employees	Frequency	Percentage
1-10	20	22.73
11-50	40	45.45
51-200	17	19.32
201-500	7	7.95
501-1000	2	2.27
1001-5000	2	2.27
Total	88	100

Notes: N = 97, missing values = 9

Source: Velinov et al. (2018)

Furthermore, according to the Holacracy.org, I found that there are about 180 companies records which are practicing Holacracy. To have a direct comparison, I have summarized the data as below. The data showed almost the same results as the research of Velinov et al. in 2018. The model is still popular among the small-medium size companies (87%) with less than 200 employees. In between the different company sizes, the company with 11-50 employees are the majority adopting Holacracy.

Table 8: Who's Practicing Holacracy?

Number of employees	Frequency	Percentage
0-10	45	25
11-50	83	46
51-200	28	16
201-500	13	7
Over 501	11	6
Total	180	100

Source: Holacracy.org (2020)

Based on the research of Velinov et al. (2018), those companies that wish to implement Holacracy are mostly young enterprise. The average year of foundation is 2004, and the 50th percentile is 2007. While the average year of implementation is 3.81, mostly starting from 2012.

Table 9: Statistics on years

Variable	Observations	Mean	Median	Sd.	Min.	Max.
Year founded	86	2004	2007	12.5	1920	2016
Year started to implement Holacracy	44	2012	2013	2.14	2007	2016
Years of Holacracy been implemented	44	3.81	3.5	2.24	1	10

Notes: N = 97, missing values 1 = 11, missing values 2 = 53.

Source: Velinov et al. (2018)

This study recommends that Holacracy would work consider work in the long-term, especially in a small company that less than 50 employees. Furthermore, the young and creative company that having dynamic culture would be adapt better in this organizational structure such as the software industry, consulting industry, IT industry, and training or education industry.

In short, Holacracy also offers the flexibility to the organization to test out their suitability in a small group of employees or pilot in one department such as HR department to find out will this new structure work for their company. If this does not work for the smaller team, the company can decide to withdraw it. Necessarily, the company would be better not just function as a mechanism and work well. Still, the ability to learn, change, and adapt should also be in the roof in the organization if something goes wrong.

Case study 2- Corporate Strategy Factor

Bernstein, E., Bunch, J., Canner, N., & Lee, M. (2016, June 20). Beyond the Holacracy Hype.

Zappos- the most significant company practically adopted Holacracy until now. Authors and observers continuously evaluate the effectiveness of the structure.

Exit interviews were carried out to the employees that decided to leave after the implementation of Holacracy with the offered severance package. After several months of transition, Hsieh 18% of Zappos employees took the package while 6% stated with the reason of self-management. This 6 % of the employees share that they are facing the situation of lack of progress information, compensation package, future

responsibilities, uncertainty, and ambiguity about the changes. They also received feedback "no definitive answers" to the doubts they raised and sum up that self-management was a not ready or a "half-baked" idea. The other side of the employees agreed with the changes and positively believe that future roles management utilize their best talents.

The research has shown although Holacracy has benefits for the companies in a different perspective. Somehow, the medium size, a social media company, discovered that Holacracy was challenging to operate and coordinate, hence the company decided to quit from Holacracy. The new circumstances of Holacracy restructure the entire organization on the PayScale, work structure, reporting structure, and many organizations found themselves hard to find a balance between the traditional models with the new model.

Before going to the details, previous studies found that multinational companies' performance and organizational adaptability was dependent on decentralization and non-bureaucratic work structure (Hales & Tamagini, 1996). We consider reliability and adaptability are essential elements that leaders and employees need from their organizations. The definition of adaptability in recent years is "to make suitable to requirements or conditions; adjust or modify fittingly" (Random House, n.d.).

Early research carried out by researchers at the University of California, Berkeley, defined the meaning of high-reliability organizations as:

> *'[…] One can identify this subset [of organizations that have high safety records] by answering the question, "how many times could this organization have failed resulting in catastrophic consequences that it did not?" If the answer is on the order of tens of thousands of time the organization is "high reliability"'* (Roberts, 1990, p. 160)

The degree of adaptability and standardization need to have the right balance. Over emphasize on any single area is harming the organization. Employees need to have a stable working environment, sensitive to market change, allow to make a change, adapt to the changing condition, and able to focus on the precise direction. Self-management is not a simple way for managers and employees to find out their comfortable balance between reliability and adaptability. The self-management has been a concept that

began back from 65 years ago, and it gained popularity between the 1970s and 1980s, especially in the manufacturing and service operation sectors. Companies that adopted self-management successfully reduced defects, increased productivity, and enjoyed cost advantage. For example, FedEx reduced service errors by 13% in 1989. The concept became even more common during the 1990s; the companies that adopted this concept required their employees to have more adaptability in return of increasing complexity. However, the difficulty of self-managed teams is keeping leaders away from the structure process and follow their thoughts on stuff is right for the company. Hence, self-managed teams declined, and companies looked for the new model.

Holacracy is the best well-known system within self-management. In Holacracy, the model has three main characteristics:

Firstly, teams are the structure. Instead of describing Holacracy is without a structured way to manage, they are "circle" and "subcircle" within General Company Circle. In these circles, each role is defined, and specific tasks are assigned. It has been subdivided into more detail segment compared to the traditional operating company structure. After the adaptation of Holacracy, Zappos changed its original 150 departments into 500 circles.

Secondly, teams design and govern themselves. Self-managed teams are hand in the responsibility of shaping and refining themselves within outlined guidelines. To be clear for the goals and direction, employees at Morning Star draft up a formal agreement- "Colleague Letters of Understanding" (CLOUs). This agreement stated the overall goals, roles, and responsibilities to be used for evaluating performance and help the colleagues to understand the task that they can include the other employees.

Thirdly, leadership is contextual. In self-management, leadership is allocated to the roles rather than individuals. Roles can be changed if the employee is not well performed. Leadership within the circle is not limited to the specific fixed role; instead, it constantly changes following the roles change.

Although self-management enhances company performance at the same time, it also has issues in contrast with traditional organizations. Individual employees are holding several roles that best suit their capabilities. Employees are free to negotiate with another team member for the swipe to find their interests and achieve company mission

(average 7.4 roles, Zappos). The effective working mechanism of Holacracy is it does not straightly fill in the employee that does not fit to the role. Instead, the lead link is responsible for recruiting a passionate candidate. The flexible working module of Holacracy allows a role to be created instantly when the employee feels that the new creation is beneficial for the company.

Case study 3 – Corporate Strategy Factor

Romme, G. (2015, September 10). The Big Misconceptions Holding Holacracy Back.

According to the study, Holacracy having the three big misconceptions behind to holding him back rather than the running concept. Those misconceptions that were damaging Holocracy are *Holacracy is running without hierarchical structure, the implementation specifics are not vital, and the board's functioning remains the same*. Therefore, most of them undervalue the risks behind and inventing thousands of monies to shift their original structure with a fancy title which putting themselves into an unpredictable future. Somehow, distributed management is still new to many people. Even sociocracy exists in some of the small to medium size companies but not for multinational companies.

Hence, still understandable if misconceptions appear around Holacracy. Herewith the closer look of each misconception.

Misconception 1: Holacracy is about eliminating the traditional hierarchy structure in the organization. The truth is Holacracy is not non-hierarchical. Instead, it is a robust hierarchy in self-management. Everyone in the organization belongs to self-managed circles where form like a network and links among each other between circles. Power and authority are distributed to individuals where they can voice out for the circle's decision in any direction and lead to establishing an exact order of responsibility and circle's activities. With the circular hierarchy under distributed management, everyone can voice out their concerns and throw out an idea freely in the circle where they work which is like an operating system with a limited number of circles somehow able generating creativity and organizational agility throughout its efficient meetings. The productive meetings are built up with transparent ruleset, make it have an explicit level of authority, distributed responsibility and create significant decisions.

Misconception 2: The objective represents any means, and implementation specifics are not vital. People tend to assume that once they adopted Holacracy, no matter what implementation strategies are not necessary. Taking Zappos implementation strategy into consideration, Hsieh's idea made Zapponians choose to accept the change or leave the company with a buyout package seems left employees in the darkness and confusion. Contrastly, the move should be well-planned and taking employees concerns into account to ensure everyone is comfortable with the changes. The shared objective within the organization and involve the executive team work together with the project team to decide its adoption decision creates a positive message like having the most significant support from the management during the awkward moment.

Misconception 3: Board members functioning remains the same after Holacracy. Many organizations fail to implement Holacracy because top management takes themselves out of the frame. Holacracy is a running system to redistribute of authority and power within the entire organization, which means not only middle management and operational employees are impacted after the changes. For example, a family-owned business company typically having a single significant shareholder owns the massive number of shares within the company, can create the capital crisis by he or she is leaving the company. However, by adoption, distributed management can avoid a family member in the family-owned company to be the single significant shareholder and keeping it's capital investment stable and enhance rapid growth.

By understanding the full conception of distributed management and Holacracy can effectively help organizations avoid several foreseeable misconceptions and confusion that can happen after implementation.

Case study 4- Corporate Culture Factor (Risk taking or risk adverse & Communication)

Obstacles to effective organizational change:

Many people consider change as a threat because the result is changeable. (Fox-Wolfgramm et al., 1998; Greve, 1998).

The definition of culture claimed by Pfeffer (1981) is a group of individuals share with a common set of beliefs and the methods of carry out those stuffs. Each participant has

their feeling, which seems to be unique yet tightly link the with surrounding from the daily work to the people.

According to the research, they found an interesting fact about change. Employees consider themselves require change and are willing to do it. Somehow, a lack of support from their managers because they seem to be unable to manage the change process (Kotter and Schlesinger, 1979; Mangenelli and Klein, 1994).

Popular mythology suggested the three main external factors that influenced change are workload, cost (Zaltman and Duncan, 1977), and legislation (Meyer, 1979). Individual managers argued that the failure of evolution is linked to the sunk costs of many resources. Hence, due to the facts of insufficient funds and budget; changes cannot be successfully implemented. Furthermore, they thought that any things that do not fit into the plan during transformation might endanger their position (Tichy, 1983). Some of them view themselves no extra capacity to cope with the change program when the program needs extra hours to complete (Kanter, 1995). As a leader, if lack of goals or fail to prioritize, changes always challenge the motivation of the team. The employees were not provided with sufficient details where the organization is expecting to head to because their manager does not communicate openly. All these signs are a typical failure in leadership, especially the employees as an executor of the change will face tons of anxiety without the support from the management.

Apart from the managers, employees that have behaviour like the "resistors" will resist any change at any circumstances. Those "resistor" employees will highly unable to cope with the changes result negatively to the organization. A relatively high turnover rate occurs as the impact of the layoff of some projects, or new managerial person is recruited (Fayol, 1987). In contrast, Zaltman and Duncan (1977) shared that most of the employees view that their organization must change to win external challenges. However, in certain circumstances, lack of training or knowledge were provided to the employees might put them into ambiguity about whether they could fit into the new team (Tichy, 1983; Kanter, 1995). Managers are the one holding the accountability for the success of its change. Hence, open and effective communication is encouraging as this practice building trust and confidence of the employees.

Researchers have related the positive relationship between cognitive flexibility and the

charges. The definition of cognitive flexibility is a person's willingness to discover there are many other options available and seeing themselves can be openly adapt to the change in any situation (Rubin, 1995). A person's openness and adaptability are related to internal state awareness (Fenigstein, Scheier & Buss, 1975; Richmond & McCroskey, 1989). Grant et al. (2002) linked inner state awareness with the ability to discover and show personal feelings. Insight and self-reflection are the cognitive factors that play a significant role in self-consciousness also toward the process of change. Insight and self-reflection are the key elements influencing cognitive flexibility, and hence create resistance to organizational change. Candidates with these two traits will significantly affect their adaptability to the organization culture by requiring a certain degree of flexibility towards frequent changes. Successful implementation of organizational change needs to has a well-planned pre and post-implementation strategy to take care of their feelings and any possibility to resist the change.

Case study 5 – Corporate Culture Factor (Core Value)

Warrick, D. D., Milliman, J. F., & Ferguson, J. M. (2016). Building high performance cultures. Organizational Dynamics.

A combination of the study by Kumar S., V., & Mukherjee, S. (2018). Holacracy – the future of organizing?

The journal is about how Zappos develop and sustain its influential organizational culture. Organizational culture has primarily influenced employee behaviour and performance on how they cooperate in the team with the common targets and visions. Furthermore, the researcher also discovered that culture has a significant relationship with the ability to attract and retain talent; somehow, a leader unaware of an unhealthy culture can incur a loss in operating costs. Let's take a deep walk-in Zappos culture.

> *"Every company has a unique culture that's all their own. Just like every person has their own personality, every company has their own culture. Building a culture is a special process that can't be taken lightly. It's the responsibility of every employee to represent and foster culture"* – Zappos website.

The culture of Zappos that Hsieh built is unique. Work-life integration is the concept that Tony Hsieh is believing. His idea is about creating a lifestyle company where

people are not only just colleagues but they also friends where they can hang out with each other after work. Hsieh aimed to shape the company to reach the level of excellence by putting its customers first and to going extra miles by delivering "Wow" to the customers. To "WOW" it requires not only to differentiate yourself with others and do it creatively and innovatively. Employees share the same values, adequate training which enable them to utilize their skills to meet the challenge they are facing. With Holacracy, they can make their judgement based on the situation, rather than waiting for management direction on their decisions or behaviour. Thus, they can receive feedback from their customers way faster, which mainly for being in a flow sate. Add the fact that it is aid by flexible yet engaged and happy employees.

Zappos began to build its culture to encourage excellent customer service, employee satisfaction and performance when Hsieh became CEO. Therefore, he creates a Zappos culture with online retailing not only selling shoes and other product, but they want to deliver excellent customer service. Zappos is well known for its organizational culture that focuses on adaptability and flexibility, offering high-quality customer service, risk-taking, eager for change and highly engaged and passionate employees. Committed leaders are one of the key drivers that are shaping an influential culture at Zappos. Hsieh believed that Zappos culture is strongly connected with company organizational strategy and establish a brand that centres on elite and personable customer service, fulfilling customer needs by offering a broad spectrum of products, and fast delivery period.

At Zappos, leaders are trained on culture in Zappos with the intention of Hsieh. Hsieh believes that the right culture is the best way to establish a great long-term brand, passionate and happy employees or either customer. Hence, effective communication among Zappos employees, customers and suppliers throughout multi-dimensional channels has been highlighted. In the image, they are encouraged to feedback their thoughts and personal experiences back to the company. This feedback mechanism is term as "culture inquiry" which help the company to understand if any changes needed to assist the company in reaching its target and realizing its competitive advantages. This accumulated learning enables the company to adapt and react to the rapid evolution of the external environment. Creativity and delegation in decision making are also encouraged to have in Zappos.

Another important event that changed Zappos culture was back in 2004. Customer Loyalty Team (CLT) or call-centre was generated more repeated loyal customers and 5% of Zappos total sales. Unfortunately, it was too costly having CLT in San Francisco. Then, Zappos senior manager had a decision to move Zappos headquarter to Las Vegas although it cost half a million dollars and only 70 out of 90 employees willing to relocate. However, in a long-term basis, it able to boost sales growth. They were able providing excellent customer service and became a first mover of e-retail of the footwear industry. This move appeared as a massive appreciation for the mission of Zappos (Hsieh, 2010a).

> *"Now that we were in Vegas…culture became our number one priority, even more important than customer service. We thought that if we got the culture right, then building our brand to be about the very best customer service would happen naturally on its own"* – Tony Hsieh (2010a: 71).

Besides, the influential organizational culture of Zappos started in 2004 when creating a Zappos Culture Book. Every single employee was asked to share their own opinion about their ideal working culture and to write a few hundred words about the implications of Zappos culture. Every stakeholder of Zappos was asked to participate in the contribution of the book. Jenny Lim, an employee of Zappos and the editor of Zappos Culture Book, shared that the book becomes a book of reference for anyone remotely curious about Zappos. Zappos ten core values were formulated from the stories that wrote from different employees (Table 10). The impact of the Zappos 10 core values is it is not just like a written value that many companies do. The core values are not like you remember it or stick it on the wall. Zapponians live with it from value to value and are an essential part of their daily operations. Furthermore, it has also considered as a brand book, the book that explains company mission and business strategies (Hsieh, 2010c).

People come first. Zappos believing people who share the same values can grow stronger. Candidates will be screened for their skills, experiences and the most important their value and will they be a good fit with Zappos culture. Those who were successfully selected also will be given five weeks of new hire training to understand Zappos core values and skillset. Zappos takes this very serious with the extra efforts of paying those people $2,000 to leave if they do not feel the job is the right fit for them

because they do not force people who do not feel fully committed to their job to stay.

The constant improvement of the company culture started bought up the interest of the people around the work and become the unique competitive advantage to the company. Zappos' also aiming to create a family working environment that encourages the interaction between manager and employees to stimulate continuous growth (Hsieh, 2010a).

Table 10: Zappos 10 Core Values

1	Deliver WOW Through Service
2	Embrace and Drive Change
3	Create Fun and a Little Weirdness
4	Be Adventurous, Creative and Open-Minded
5	Pursue Growth and Learning
6	Build Open and Honest Relationship With Communication
7	Build a Positive Team and Family Spirit
8	Do More With Less
9	Be Passionate and Determined
10	Be Humble

The unique Zappos culture brings the company towards the next level of change with the implementation of Holacracy. The leadership style of Hsieh also makes the differences to Zappos. Hsieh believes that bringing value to life should be core in his leadership. He is practicing with the right culture in Zappos and thinking once a company with the right culture then the company will be useful in return such as excellent customer service, branding, happiness in their employees and customers. Zappos employees are free to plan their careers based on their interests. Employees gain badges according to the roles and skills obtained, and it is equivalent to their compensation payback. The new self-management supply Zappos employees a chance to explore new areas, seek their interests and pay rise. Also, a co-worker reward policy uplifts a collaborative mindset and satisfaction within their operating circles by recognize and reward co-workers' efforts.

Case study 6 – Employee Factor

deJesus, N. (2018). Working with motivation to increase performance.

Management is critical but is difficulty at the same time. Proper management can drive an organization to perform well, and leading people within the organization have a better life (Amabile & Kramer, 2011). Dr Amabile is a professor at Harvard Business School and her research partner Kramer are the expert in the field of the work environment and how it can impact motivation, creativity, people and their performance. They found that the critical factor in motivating the employee to work at their best and enjoying what they are doing is about the presence of a good inner life. Apart from that, they claimed that meaningful progress at work, positive recognition from peers and superior had impacted employee's day by day performance which help them to soar up visible productivity.

The essential element to perform proper management is about managing for progress. Dr Amabile describes development at work with able creating significant pace towards solution (Amabile & Kramer, 2011). How can it be helped to keep this pace? It can be improved by catalysts (circumstances that straightly help the progress of the work) and nourisher (interpersonal conditions that brighten up people), inhibitors (conditions that straightly hinder the progress of the work) and toxins (circumstances that damage people). Catalysts that meant here are explicit goal setting, decentralized authority, gaining supports from management and team, adequate resources, and effective and efficient communication. Nourishers contain encouragement, respectfulness, interpersonal support, and the cooperative relationship of colleagues (Amabile & Kramer, 2011). Inhibitors are contrary to the catalysts, which include lack of resources, assistance, and communication and no clear goal from management.

Good inner life has a significant impact on people productivity and influences the success of an organization. Although the effects still hugely undiscussed, but it can bring the next level of innovation, revolution to an organization. If not well manage the inner work like, it is causing people to quit, losing talent and become a demotivated workplace (Amabile & Kramer, 2011).

According to the author (Natalija), what Holacracy so useful to her is the distribution of authority. In comparison with traditional hierarchy, which is based on the

hierarchical construct, well-structured reporting relationship, barriers in decision making, and politics workplace. In contrast, Holacracy removes barriers, and the roles and accountabilities are transparent and flexible because the power is not centralized like traditional hierarchy. Hence, problems can be solved faster or in an innovative way. The focus is on helping the organization advanced better off, a sense of progress, which match with Dr Amabile finding regarding the conditions for good inner life. It is well said like: 'Ownership is accountability, not control', and 'Authority is distributed, though not evenly or permanently' (Doyle, 2016).

For the Author, Holacracy could make the organization grow and move faster. This approach could work in any size of the workplace because it is regarding the openness of the corporate mindset more than size. However, it is going to be a not straightforward approach to adopt Holacracy in a big company compared to a small company. The time needed to train all the employees is vast and get complicated. Hence the transition period is more extended than usual. As for Zappos, it was challenging to keep all the employees to accept and get through the changes. Hence, part of employees decided not to stay in the company, but for those who stayed, the majority were reported Holacracy bought them positive experiences. Zappos also posted after the implementation of Holacracy; company achieved a 75% year-on-year rise in operating profit in 2015 (Bernstein et al., 2016). Hence, the author concluded that Holacracy is value exploring and being open-minded.

Even though Holacracy has its disadvantages when it comes to more significant company, but the traditional hierarchy also has its pain. For example, in the traditional hierarchy, approval process to get a project to execute might need to go through many levels of management review, submitting documents, justify the reasons, budget approval and at the end consumes longer time. After the project has been approved, coordination with other departments also requires a long cycle of meetings with various departments to get people related to work in the project. If the permission is not approaching by the immediate superior, the employee still able to proceed further by skip level reporting of his or her idea, but this method might potentially lead the relationship with the immediate superior become worst.

The author, Natalija, has conducted ten interviews with interviewees from different industries in the private sector. They were asked about the area of possible improvement,

motivation methods from the company, the way they used to motivate the team member and things that keep them motivated. The motivation-specific questions were asked are:

1. How does your organization motivate its employees?

2. What areas of improvement do you see?

3. What do you personally do to keep your team motivated?

4. Could you tell me about what motivates you to keep working?

She has separated into two different sections, including directly impacting work and indirectly impacting work. The directly impacting groups are including those immediately impacting them for the skills acquisition, development, autonomy, communication etc. While the indirectly impacting groups are regarding the items that surrounding by us in our job such as compensation, culture, value, perks etc.
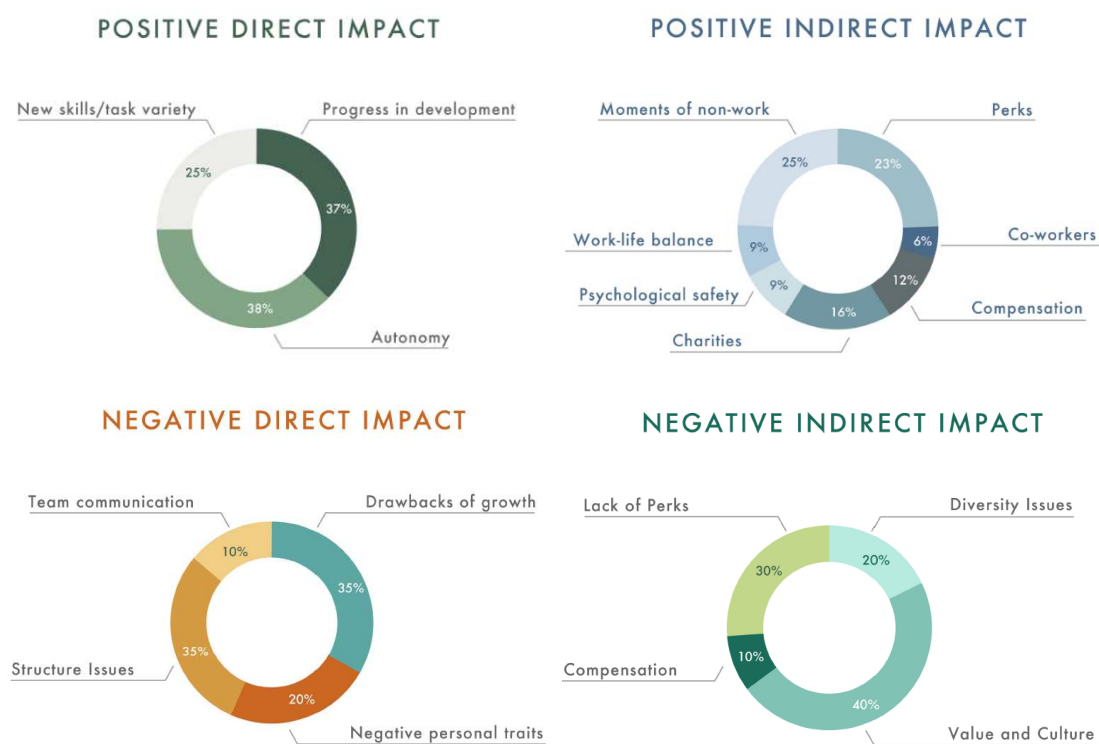
Figure 16: Visualization of research: direct and indirect, positive and negative impact on work

Source: deJesus, N. (2018)

Positive direct impact

In terms of the positive directly impacting groups, the aspects that affecting their motivation the most was autonomy (38%) and following by progress in development (37%). Autonomy also included the delegating authority to the employees to execute and accomplish a task. Next, progress in development here is matching with the description by Dr. Amabile's development at work is one of the essential factors motivating the employees to work at their best and enjoying what they are doing. Even though learning new skills is considered a vital element because they can build up their skillset, personal development, and get supported by management to learn new skills.

Positive indirect impact

There are indirect items that can bring towards good inner life. Two of the things that have the most significant impact are moments of non-work (25%) and Perks (23%). Moments of non-work is linking to the circumstances in the office, connect with colleagues, and hanging out with colleagues after work. Besides, people do care a lot about perks working in an organization. From the location, office designs, free breakfast or lunch, healthcare, childcare or even can bring a dog to the office, sports facilities and game room are like bonus and extra benefits to motivate employees and leads to the high level of satisfaction.

Negative direct impact

According to the results of the interviews, structure issues (35%) was ranking as equally highest influenced employees' performance. The elimination of autonomy becomes an issue when it comes to inexperienced new employees. They might deal with a lack of support from management, facing a lot of pressure, and end up demotivated and feel like burnout. When the organization grows too fast (35%), many issues appeared like goals and transparency getting confuse, also increasing the complication to get management approval can frustrate them in the workplace. Hence, Holacracy was created to get rid of these types of unhealthy behaviors. With Holacracy, power is decentralized instead of delegate, clear role descriptions, governance processes, transparency, and stay away from the toxic environment.

Negative indirect impact

Besides, value and culture (40%) are the most considerable aspect of negatively indirectly impacting employee's motivation. Therefore, from the results, we knew that investing in culture and value can help to engage and retain talents.

Case study 7 – Employee Factor

Groth, A. (2016, December 21). Zappos is struggling with Holacracy because humans aren't designed to operate like software.

As part of the biggest argument that the author came across is Holacracy running like a computer operating system which the complexity of human feeling is difficult to fulfil. For example, Zappos officially rolled out Holacracy since 2014. The formalized meeting format had complaints. Holacracy provides step by step guidelines in the Holacracy Constitution to the company how to carry out a tactical meeting such as what is the schedule and how it should be carry on. As described in the Constitution article 4.2.3 facilitation & process, the facilitator should follow the guided procedures to run the meeting. The meeting starts with check-in round, checklist review, metrics review, progress updates, triage issues and closing round. Although the facilitator offers each participant to share their thinking during the check-in round and closing round, no discussions should have occurred in these two rounds.

> *"In the beginning, you feel that the human element is lost completely," - Jamie Naughton's opinion, Hsieh's chief of staff. "I remember sitting in meetings wanting to scream at the founder of Holacracy, 'You don't get it, you don't get it at all!' He said, 'You've got to trust the process.' And I thought, 'This suck.' You just have to wait your turn to speak your opinion."* - Groth, A. (2015, January 14).

Some of Zappos employees feel uncomfortable how the concept of "badging" and "people points" have been practicing. Badging is a concept of granting every employee according to their skills, and people points are the points that employees could use to fill every single role in the company. Each role will be allocated fix amount of people points which can be used later to determine how an employee utilizes the working hours and impacting their pay. Contrastly, if an employee leftover many people points will be

considered as underperforming and send over to "The Beach" where people belong to when they do not have a role. Some employees who were sent to the beach found themselves being avoided like they were infectious. This circumstance creates insecurity to the employees whether they are doing good enough in the role or insufficient people points and get fire by the company. Consequently, way of getting off the human element does not always lead to good results, or it may push people out the door.

Case study 8 – Employee Factor

Appelo, J. (2016, July 14). Holacracy Is Fundamentally Broken.

Based on the case study 7, the argument that exists is Holacracy running like a computer operating system for organizations. As described in the Holocracy,

> *"Roles are the most basic building block of Holacracy's structure. When we distribute authority, we distribute it not to individual humans, but to the roles that they fill."* – Robertson, B. J. (2015)

The running mechanism of Holacracy is opposite with the traditional hierarchy from the above sentences. Roles will be distributed authority when coming to new task rather than people. A new role with define purpose, responsibilities, held a governance meeting, and decide who to hire for the new role all is needed again and again when there is a new project. Even though this enhances transparency within the organization, but it is time-consuming. Also, although explicit detail in every role's responsibilities creates fairness, despite that, it might constraint people proactive attitude.

> *"I felt like being part of a code, operating within an algorithm that is optimized for machines, but not for humans. Instead of feeling more whole, self-organized and more powerful, I felt trapped. The circles I was being part of did not feel empowering at all but taking away my natural authenticity as well as my feeling of aliveness. It was fully unnatural, and we were disciplined by rigorous protocols and procedures."*
>
> -- Julia Culen, "Holacracy: Not Safe Enough to Try" (2016)

From the author Appelo J. opinion, Holacracy could not meet organizations need in the

21st century. He argued that human could not work with only the system or the processes; network connection should have existed in work. In Holacracy, authority is going to distribute based on the role instead of human being, which makes him feel uncomfortable because trust seems challenging to develop in the system. For example, in the past, he would ask for an employee he trusts to help him for a new project. With Holacracy, he can only request a new role and distribute authority to the role where he does not have the idea who is going to fill the role yet and is it someone that he can trust and work together.

Holacracy mandates the entire governance process with a Constitution in a command and control manner. Hence, employees do not offer adequate freedom to decide with what they are going to deal with local issues at the bottom layer. Delegating the governance process at the local layer is generally seen as an essential pillar of good governance. When organizations want their employees to go beyond at work, they only can do it while explicitly assigned via Roles with a task and accountabilities that have been fixed. For Appelo J., Holacracy does not facilitate innovation by the bureaucracy which he instead prefers employees to freedom to innovate with products and management.

Case study 9 - Talent market

Kukreja, J. (2019). Holacracy: The Next Generation Leadership in a VUCA World.

The sample was conducted from a group of Generation Z with 105 respondents which included 51% males and 49% females. They were asked about the type of leadership appreciate the most among democratic leader, autocratic leader, bureaucratic leader and participative leader.

The results are half of the respondents (50%) chose a participative leader, and the other 43% of them appreciate democratic leader. Democratic leadership style can enhance job satisfaction because the democratic leaders make their decisions together with the team (Ngai, 2005; Malos, 2012). The participative leader that the most preferable during the attention of the survey on improving the performance of employees which in return of better outcomes (Negron, 2008). Besides, approximately 61% of them prefer to be leader, 19% of them more towards becoming a manager, and interestingly

there is almost 17% would want to be part of the team. Following the questions of the preferences of being, they also were asked about the challenges they think which exist for them to take up the leadership positions. Most of them feel that difficult decision calls (42%) is the most challenging part and follow by managing people 32%. They were also asked for the kind of method able to generate better results. 62% of respondents chose that motivation is essential to create a better outcome. Then, it is following by rewards and respects ran out as the second place because both get the same voting with 16%.

By 2025, 75% of the workforce will be filled by Millennials, and Baby Boomers number will decrease (Csorba, 2015). Generation Z is people who born after 1997, and they are ready to enter the workforce in these couple of years. As the motivation for each generation is quite different among each other, learning what is the value essential for them to is value to creating meaningful work and retain talent.

In this study, Gen Z cites the attractive characteristics of leadership are about to get their freedom and level of authority to a greater extent. In contrast, Gen X and Y are more passionate about coaching and mentoring in leadership. The idea of enabling people to find their area of interest and shape their career development in the company might appeal to Millennials. Millennials are confident, achievement-oriented, seek new challenges and meaningful things at work, ambitious, and team-oriented, which mean they want to be involved and feel like being part of the organization.

Companies that understand how generation Z feel and preferences can help them up for success. According to the results, motivation is a critical factor to motivate employees to generate better results. Thus, organizations should enhance further on the motivational aspects and at the same time, communicate in an effective way. Besides, the results show that Holacracy can be an upcoming operating structure for generation Z wherever they will work with minimal focus on traditional job titles. While generation Z are sought to be involved in making decisions, and the idea of the equal voice of everybody seems attractive to them.

Case Study	1
Factor	Business Model
Affects	
Final Performance in Holacracy	**Industries the most that practicing Holacracy:** - Management consulting (17.89%) - Digital, hardware and software systems (13.68%) - Training/ Coaching/ Education (12.63%) **Company size that practicing Holacracy:** - Small and medium companies (87%); approx. 46% are those companies with 11-50 employees **Companies Year founded vs. Years of Holacracy been implemented:** - Mostly young enterprise. - The average year of foundation is 2004 and the 50th percentile is 2007. While the average year of implementation is 3.81 mostly starting from 2012.
Implications/ Suggestions	**Suggestions:** - Holacracy would work consider work on a long-term especially in the small company that less than 50 employees. - The young and creative company that having dynamic culture would be adapt better - Practicable industries: software industry, consulting industry, IT industry, and training or education industry.

2
Corporate Strategy
Holacracy not a simple way for managers and employees to find out their own comfortable balance between reliability and adaptability

1. Teams are structure:
After Holacracy, Zappos changed their original 150 departments into 500 circles.

2. Teams design and govern themselves:
Self-managed teams are hand in the responsibility in shaping and refining themselves within outlined guidelines

3. Leadership is contextual
Leadership is allocated to the roles rather than individuals. Not limited to certain fixed role rather it's constantly changes following the roles change.

Implications:
- Individual employees holding several roles that best suit their capabilities and interests.
- Holacracy does not straightly fill the employee that does not fit to the role.
- The flexible working module of Holacracy allows a role to be created instantly when needed.

Suggestion:
" Colleague Letters of Understanding" (CLOUs)
- This agreement stated the overall goals, roles and responsibilities to be used for evaluating performance and help the colleagues to understand the task that they can include the other employees - drafted by employees at Morning Star

3
Corporate Strategy
Misconception 1: Holacracy is about eliminating the traditional hierarchy structure in the organization. **Misconception 2:** The objective represents any means, and implementation specifics are not vital. **Misconception 3:** Board members functioning remains the same after Holacracy.
Undervalue the risks behind and inventing thousands of monies to shift their original structure with a fancy title which putting themselves into unpredictable future.
By understanding the full conception of distributed management and Holacracy can effectively help organizations avoid several foreseeable misconceptions and confusion that can happen after implementation.

4
Corporate Culture (Risk taking or risk adverse & Communication)
Positive mindset of the employees: consider themselves have the need for change and are willing to do it. **"Resistors" employees:** some of them resist any change and highly unable to cope with change. **Failure in leadership:** - Thought that any things that do not fit into the plan during transformation may endanger their position (Tichy, 1983). - View themselves no extra capacity to cope with the change program (Kanter, 1995). - Fail to prioritize - Not providing enough details to the employees. - Lack of support from their managers because they seem to be unable to manage the change process (Kotter & Schlesinger, 1979; Mangenelli & Klein, 1994).
Suggestions: - An open and effective communication are encourage as this practice building trust and confidence of the employees. - Cognitive flexibility can impact one's adaptablity to the changes Successful implementation of organizational change needs to has a well-planned pre and post implementation strategy to take care of their feelings and any possible to resist the change.

6	5
Employee	Corporate Culture (Core Value)
Good inner life: - significant impact on people productivity and the success of an organization. **Distribution of authority in Holacracy:** - remove of barriers - roles and accountabilities are clear and flexible	**Leadership style of Hsieh** - Believes that the bringing value to life should be core in his leadership. - Work-life integration - People comes first. **Unique Zappos culture** - Employees live with Zappos 10 Core Values
Distribution of authority in Holacracy: - problems can be solved faster or in an innovative way. - helping the organization advanced better off, a sense of progress, which match with Dr Amabile finding regarding the conditions for good inner life. - created to get rid of many unhealthy behaviors such as goals and transparency getting confuse, also increasing the complication to get management approval can bring frustration. - power is decentralized which helps to stay away from the toxic environment.	- Employees can make their own judgement based on situation and receive feedback from their customers way faster which essentially for being in a flow sate. - Offer flexibility yet engaged and happy employees. - The new self-management supply Zappos employees a chance to explore new areas, seek their interests and pay rise.
	Implications: Practicing with the right culture in Zappos and believing once a company with the right culture then the company will be good in return such as excellent customer service, branding, happiness in their employees and customers.

8	7
Employee	Employee
Role oriented: Authority is going to distribute based on role instead of human being. **Holacracy Constitution:** Mandates the entire governance process in a command and control manner.	**Rigid meeting structures:** - Step by step guidelines in the Holacracy Constitution - tell the company how to carry out meetings. **Badging and people points system:** - Badging and people points concept - granting every employee according to their skills and allocated points them fill every single role in the company
Role oriented: - enhances transparency within the organization, but it is time-consuming. - explicit detail in role's responsibilities creates fairness, despite that, it might constraint people proactive attitude. - trust seems difficult to develop in the system **Holacracy Constitution:** - does not facilitate innovation by the bureaucracy.	**Rigid meeting structures:** *"In the beginning, you feel that the human element is lost completely,"* - Jamie Naughton's opinion, Hsieh's chief of staff. **Badging and people points system:** - Employees left over many people points will be considered as underperforming and send over to "The Beach". - People who were sent to the beach found themselves being avoided like they were infectious - creates insecurity to the employees
	Ways of getting off the human element does not always lead to good results or it may push people out the door.

9
Talent Market
Survey from a group of Generation Z: - Half of the respondents (50%) chose participative leader and the other 43% of them appreciate democratic leader. - 61% of them prefer to be leader, 19% of them more towards becoming a manager, and interestingly there is almost 17% want to be part of the team.
Generation Z: - the attractive characteristics of leadership are about to get their freedom and level of authority to a greater extent. - sought to be involving in making decisions and the idea of equal voice of everybody seems attractive to them.
Implication: Holacracy can be an upcoming operating structure for generation Z wherever they will work with minimal focus on traditional job titles, involving in making decisions and the idea of equal voice.

5.0 Analysis

In traditional organizations, most of them focused on accountability and stability. Hence, a formal and structural hierarchy structure enables management easier to manage with a clear reporting structure. Even though this traditional way seems safe, predictable and controllable, but when taking a closer look, it has the disadvantages for supply chains or different functionality to collaborate and win the market quickly in this disruptive digital world. Chadwick, K. (2018) suggests that companies should begin to change and to move beyond the organizational hierarchy by improving the management from "management by control" to "leadership through governance." Apart from that, department managers are recommended to "break down boundaries" with the method of team without the traditional borders in regards of functions, areas and business units.

Employee - Unlearning/ Role oriented/ No power distance

As always, the shift in the way how to manage the organization is not easy and challenging. The concept of Holacracy is opposite with the traditional concept people know at work. It is complex, challenging and new to some of them. Therefore, people might confuse with how they should make their own decisions during the transition. Training plays an essential role here to help employees not to lost track with the concept and ensure they are learning and giving assistance when needed. All employees require to undergoes a learning curve. From the point of the CEO decided to implement Holacracy means that all levels of management abolishing. They need to learn how to work with their subordinates as a peer, which means no differentiation of the power and let go of power control.

There is no one size fits all approach to fix all the bugs in the organizations. It must depend on various matrix which including the nature of the company production process, industry, size, life cycles, culture, employees' capabilities, availability of the resources and leadership. It can be very different from the solutions offering for the small internet-based start-up to the well-known multinational organizations. The reason behind is every business have their unique nature of the production process, the way how their deal with their customers and the core values that want to deliver which build up their image in the customer's mind. Although there is a variety of elements need to

consider, somehow managing the employees could be the huge challenge during the entire change processes in the company because the individual has their preferences, thinking, attitude and acceptance towards the change.

Since the power distance is reducing in Holacracy, but it may take time for people to get comfortable with the changes. For example, attitude is the most difficult to change when people are satisfied with their current situation and get used the way how they deal with the stuff, ambiguity would happen, instead to stay in their comfort zone and stay with what they have learned and not taking the risks (Dunham, 1984; Carnall, 1990). Especially when the company decided to implement Holacracy, this is a dramatic change for all the employees. For the management level employees, they will need to unlearn to take back control of the team as well as operational employees need unlearn to treat their superiors as the same level as them which is difficult in the beginning. Those people managers get to remove their privilege as higher level, start to be working down to the earth, handling tasks like others, not working in the circumstances like managing and reporting to them, all these habits will require to unlearn.

According to Hedberg (1981), both learning and unlearning is equally crucial for the organization:

> *"Knowledge grows, and simultaneously it becomes obsolete as reality changes. Understanding involves both learning new knowledge and discarding obsolete and misleading knowledge. The discarding activity – unlearning – is as important a part of understanding as is adding new knowledge."* – Hedberg (1981:3)

Before defining the meaning of organizational unlearning, it is essential to know the definition of organizational learning because two of them are closely related. Based on Hong et al. (2006) 'routine-oriented' approach, organizational learning is a process of *"encoding inferences from history into routines that guide behaviour"* (Levitt & March 1988: 320). The organizational routines that we are mentioned here, according to Feldman and Pentland (2003) or Feldman and Rafaeli (2002), are repeated patterns of interdependent actions done by different organizational employees to execute a specific task. There are quite many definitions regarding organizational unlearning, for our discussion in this chapter, Martin de Holan & Philips definitions as below are much

relevant.

Table 12: Definition of organizational unlearning

Authors	Definitions	Discarding something?	Value judgment on the discarded?	Replacing by something else?
Martin de Holan & Philips (2003)	'(in order) to make room for new knowledge, discarding knowledge that had once been functional for the organization but was now seen as hindrance' (p. 403)	Yes	Yes	Yes
Martin de Holan & Philips (2004)	'discarding old routines and understandings that are no longer useful and which are blocking much-needed learning' (p. 1605)	Yes	Yes	No
Martin de Holan et. al. (2004)	'disorganizing knowledge by breaking routines, changing structures and managing cultures in ways that dismantle deeply embedded knowledge' (p. 49)	Yes	No	No

Source: Tsang, E. W. K., & Zahra, S. A. (2008).

Apart from that, other than unlearning, the employees get the chance to contribute more into the organizations. With distributed power, every employee is their leader. They judge the situation, make faster decisions and trust their colleagues who made the decision the same as them. Therefore, in self-management structure like Holacracy, decision-making processes get streamlined rather than waiting for a longer approval decision from layer after layer management process. This "going role to role" working

method enhance effective communication and eliminate the unnecessary miscommunication to convey the message because they look for the employee who is responsible for that task and speak through it. For example, the benefits of self-management for Zappos are enabling them to have fewer layers between their employees and customers. In return, they can react faster and solve the issue with creative ideas that successfully improve customer experiences which meaningful for Zappos.

The unlearning and learning cycle for management and employees enhances the organizations to act faster in the marketplace and increase efficiency through purpose-driven management. However, it can be resistance to change occurred in between because it is not easy to unlearn. Klein (1989) advises that the unlearning could generate anxiety or fear among those who choose to stay with the transformation and disturb their following learning. These people manager may still reassert some management power and leading employees harder to follow the transition if their previous manager still imposing instructions on them. Especially if the company does not create open and freedom culture, then strong power distance, and micromanaging can be struggling the most in many families owned business. Therefore, such bred in the bone culture is challenging to get rid and adapt to Holacracy.

Thus, rather than having the unlearning and learning link together, organizational unlearning could be a single independent activity not following by learning. In other words, it is like when the discarding old routines do not replace by a new behaviour as mentioned in the table above, Martin de Holan and Philips (2004) definition. When the management level employees unlearn and remove the old habits such as not to take control of the team and the behaviour of seeing them as the higher level of employees and there is no need to replenish it. Instead, it is necessary to adopt the new routines that were linked to the removed habits. For example, the hierarchy power distance will be removed after Holacracy. The routine of supervising others from the managerial staffs will be considered as discarded routines. Still, the routine related to seeing their colleagues as working partners or team member must be revised as a result. Undeniable, the working mechanism between organizational learning and unlearning is complex which bringing challenge and uncertainty about the results generated from the unlearning for the organizations.

Multiple Roles in Holacracy

After shifting to Holacracy, the employees are no longer only doing their primary job. They will start to move around, play with their talent and switching over from one circle to the other circle. The system was designed to helps employees to self-manage themselves and discover a new way to do the job that they might have been dealing with for an extended period. It is an essential factor for the company like Zappos, which focus more on the quality of the customer services because it could stimulate the creativity of the people to deliver outstanding services.

However, some of them prefer a clear understanding of their job, expectation from the superior, and then they can try their best to reach this goal. Traditional organizational hierarchy does offer a very straightforward job role with basic job description and expectation. Thus, senior employees who have been used to this type of operating system in most of the company find themselves not fans of Holacracy.

Adding to the benefits of multiple roles in Holacracy, the system offers people with a high level of freedom to develop their skills. For example, Jenny is an event planner, but also can be holding the role as a graphic designer, and developer at the same time. The multiple role concept in Holacracy is matching with Zappos' corporate culture as you can find it in the Core Value No. 5 Pursue Growth and Learning. People are encouraged to learn and grow with their areas of interest. Zappos believes that the value of helping their employees to grow is important because the process continuously challenges one's limit. Thus, they will not rigidly stick to one label or title in the organization and slow down the learning curve of oneself. This type of freedom is difficult to get in the traditional organization because when people join in the department, they will only grow their skillset in that field and restricted their freedom if they would like to change their career path several years later. This core advantage link to the flow state characteristics of having the chance to take the level of challenge as well as extend their skillset that we spoke about it in the earlier chapter. As mentioned earlier, the execution failure occurring when the people proposition not motivating enough. It may due to several factors such as people are overloaded, not driving tasks, or restricted by the limited authority. Therefore, a flow state can be applied to people's proposition to motivate people to implement the strategy and avoid burnout. A flow state in psychology is a positive mental state when a person fully contributed to an

activity with the feeling of excitement and energized without burning out. It is like designing individual roles with flow state from the sense of enjoyable and natural. The whole process guides them to achieve their goals, learn and challenge their skills, monitor their self-development, feeling the meaningful life when they are doing it and more engaged in between work and life. Therefore, the state of flow is essential in our life to feel motivated when finding a different type of activities that align with our real personality and what we love to be.

Their pay also gets increase whenever they acquired the necessary skillset and become like a win-win situation for the company and employees. Furthermore, a company like Zappos viewing customer services as their core value could gain as much beneficial when their call agent is continuously developing themselves to deliver "WOW" services as they could.

I believe that people will start to appreciate the system when they discover the benefits of freedom to develop their talent and area of interest in Holacracy.

Overloaded meeting

Although unlearning is a painful way, but there is an opportunity for employees to learn and bringing the organization to grow. In the traditional organizations do have many meetings running every day, but let's have a closer look, is it effective and efficient?

> *"Meetings should be like salt—a spice sprinkled carefully to enhance a dish. Too much salt destroys a dish. Too many meetings destroy morale and motivation." - Basecamp founder and CEO, Jason Fried. - Williams, B. T. (2018)*

There are several different types of meetings in the organization from where you make decisions, update status, sharing information, enhance creativity and innovation or problem-solving. People usually found that excessive meetings tend to be wasting employees time and motivation to do the right things on their hand. Habitually, those meetings like decision-making meetings do not get tangible results as planned. The attendees might be unprepared and lack of enough information before the meeting. Thus, the meeting ends up with sharing information and discussion on the issue, rather than scheduled it as effective sessions where crucial decisions are made during the meeting. It is occurring between the managers and the executive's level. They are often

overwhelmed by various of meeting either face-to-face meeting or conference call, informal or formal talk. According to the data of MCI Inc (1998), they spend an estimated 11 million meetings held in the United States daily.

Many companies do conduct the cost analysis before approving a project. However, they seldom realize the cost behind that needed for meetings. Organizations could look at and calculate the meetings that their employees have in a week. For example, you may take one of the meetings invitations and take note people is involved in the meeting and the salary for those going to participate in the meeting, and then convert it to the hourly rate and adding up together to find out the cost of the meeting for the company. Meetings could be a waste of company money and time, and it should be evaluated throughout the organization to eliminate those who do not worth it. The overwhelming of meetings makes them overloaded, exhausted and cannot even rest for a moment to get their task to progress well because they fell like drowned in meetings during the week. This statement is supporting by Rogelberg et al. (2007) saying that the frequency and the length of the meetings are on the increase over the past fifty years. The data have shown that from less than 10 hours in the 1960s to approximately 23 hours a week. The excessive meeting is an unhealthy situation which employees get used to spending a lot of time into meetings and demotivate them. Even in Zappos, the problem with Holacracy that Zappos still not yet settled is the amount of time spent in meetings. Average of five hours has been spent per week for the employees to learn about the new system during the rolled-up period. The organization could take more in-depth analysis and modify the length and the frequency of the meetings which including cutting down the length from 1 hour to 30 minutes if there is less schedule to talk.

However, still yet including the cost of training for those employees found themselves do not fit into Holacracy after training and decided to quit the organization. Zappos was known for its unique practices in giving the new hires one-month salary to leave Zappos if they found themselves the workplace, culture, and job do not fit with them. Before the introduction of Holacracy, Zappos had average attrition, only 1% in a year, but after Holacracy 14% (210 employees) of Zappos employees decided not to stay with the company. Hence, it could be a massive cost for the company to invest in the new management system when they are not even able to assure the success of the system.

Holacracy places attention in meetings

The way Holacracy structured the Tactical meeting which places their focus on using the current structure of roles to do things effectively and efficiently because it allows all circle members sit together in the meeting update the work of the week. The productive meetings are built up with transparent ruleset, make it have an explicit level of authority, distributed responsibility and create significant decisions.

In Holacracy, all the circle members require to learn and follow the exact rules and procedures of how the tactical meetings run. For example, during the project updates step, the facilitator reads through each project in the list and ask the project owner is there any update from the last meeting. The project owner is only allowed to share the changes or "no updates" or clarifying the question again, but no discussion in this step. Somehow, during the triage issues, time per agenda is limited, such as five agendas for 30 minutes, hence each agenda should have only 6 minutes. This running method means that it just encourages members to quickly get through the topic and have the idea in mind what is the next step and move forward rather than drill long and deep into the discussion. Hence, the benefit of the meeting is allowing employees to learn methods to be efficient in the meeting and control the timing. If employees focus on the topics and agenda, they should talk about in the meeting, and this will help them to eliminate many of non-value added, and no results from the discussion. Thus, the tricks to survive in rigid yet full of guidance meeting structure is just following through what it has been set. Although it seems like a ludicrous idea from the start, this rigid structure could effectively help the people to get efficient during the meetings especially those meetings involving more than five people usually consume a lot of time.

Apart from that, the employees learning to listen more when they talk less. The interesting point about people is when they listening to others more deeply makes them understand people with the content and their body language.

Besides, there is a concern raised from various parties regarding the rule pre-set, too rigid, and hard to follow. In the tactical meeting, running through the agenda has been set with the aim to settle the tensions which blockwork. The goal here is to come out the next step so that the thing can proceed further. In this session, it can be beneficial to help people if they have any problem or conflict that unable to settle at their work

that is relating to the company. The focus here is to find out the need of the employees has tension by asking "What do you need?" from the facilitator. The facilitator will not ask for the story about how it happened or problem. This type of question-asking method mentally shifting the employee to think the technique that really could assist them in solving the issue instead of wasting time for unnecessary arguments and storytelling.

However, some people think that this tension processing method is too mechanical, and not everyone can handle it well. The reason is that some people feel that the process is cold and not addressing their personal needs. In another way, Holacracy process was specially designed to help you to deal with problems related to the work or organization. Then it will be advantageous if you have such concerns. With increasing of reflection and discussion with the team can make lots of things transparency and assist people with solving their issues and adaption into cases. Thus, the process design might be not suitable for everybody, as the acceptance level could vary. Especially if the corporate culture is not very tolerant, then it will impact and weaken the willingness of the people to get actively participating in this new meeting structure easily.

In short, the circular hierarchy under distributed management, it gives the chance to everyone to voice out their concerns and throw out an idea freely somehow able generating creativity and organizational agility throughout its efficient meetings.

Complexities of Holacracy

Furthermore, the complexities are existing in Holacracy, which seems no easy to get through. The complexities that exist are differentiating into two types: complexities to manage in Holacracy and complexities generated by Holacracy. Regarding the work structure is going to replace by a massive piece of roles, the complexities could be occurring in the topic of employee's concern.

Firstly, with regards to the complexities to manage in Holacracy, employees hold several roles because of the fragmentation of positions and causing employees having the difficulty on prioritizing and concentrate the works. As we know at Zappos, after the hierarchy has been eliminated, every employee is allocated 100 points to decide their tasks according to their preferences freely. One employee holding approximately 7.4 roles, with around 3.47 focus tasks in each role and together up to 26 different tasks.

This number is too much for an employee to deal with; they could have trouble to focus, which is the most urgent and later get occupied with other tasks and meetings. Some say multitasking is problematic and make people less productive than doing one thing at a time. Imagine that Zappos employees have 26 different tasks to deal with, employees might need to be multitasking quite often to get their stuff done. Hence, certain people facing the trouble in organizing their work instead to be overloaded all the time, and they were slowing down in efficiency and attention to detail.

Secondly, the compensation system in Holacracy is much complicated and challenging to manage than previously. In the traditional structure, the compensation and benefits are tied with the job position they are holding. When compensation and benefits team in human resources does their yearly market benchmarking project, they can directly benchmark the salary range with a specific role in the company as well as compare it to the marketplace. In contrast, now with Holacracy, traditional hierarchy-based compensation model does not apply, the benchmarking job becomes complicated because it must benchmark with the multiple roles. For example, in Zappos, an employee who is working in the IT department, also holding the project in the human resources department as a developer and project manager and at the same time he or she also passionate as an event organizer role. Then, the multiple roles are linked with a different salary range in the job market, such as developer salary could be higher than the event organizer, especially in the niche field such as software developer. If we only take into the consideration of the developer role, then how about the skills and achievements that employee acquired in the event organizer role and project manager. There is a "Compensation Circle" would review employee's skills and then determine on employee's salary based on the predetermined amount. Zappos launched its method to deal with this complexity through a system called "badging". Zappos pay their employees for every skill they earned according to market rate. For example, every role might consist of many skills, for existing employee pursuing new badges means that pay increase and the badge can be levelling up according to employees own preferences. There are also no restrictions to Zappos' employees to what kind of roles they can go for it except the prerequisites in levelling the badges such as to pursue Business Savvy Badge 104, and they require to acquire Business Savvy Badge 103 beforehand. Currently, Zappos' also permitting the employees to decide their pay. Employees can submit their pay raise application with a number, and justify their proposal to the

Compensation Circle, then waiting for approval.

Thirdly, there is happening with quite a few misunderstandings about the Holacracy as discussed in case 3. The misconceptions, including Holacracy is about eliminating the traditional hierarchy structure in the organization, implementation specifics are not vital, and Board members functioning remains the same. Therefore, most of the companies undervalue the risks behind and inventing thousands of monies to shift their original structure, and this undervalue action are putting themselves into a risky situation. Somehow, distributed management is still new to many people. Hence, the company needs to understand the full conception of distributed management and Holacracy before they are deciding for the shift. The detailed planning can effectively help organizations avoid confusion and many unexpected situations after implementation.

The complexity generated by Holacracy is in hiring because of the multiple roles. The fragmentation of positions in Holacracy, causing the roles to have increased, which means there are more roles to fill compared to the traditional structure. At Zappos, every employee holding an average 7.4 roles and imagine how huge the workload has increased even though the hiring was managed by Role Marketplace (a tool). The lead links have burden responsibility to decide who to take the roles quickly with this heavy workload and need to keep track all the time in order not to miss out any positions that roll out.

Besides, the next complexity has been generated is the career development of the employees based on the distribution of authority. Hollie Delaney, an HR executive at Zappos, commented her initial career goal was to become Vice President in the Human Resources department. Still, after the changes, she was no longer can pursue until this hierarchy at Zappos (Feloni, 2016). As people traditionally measure their career development by job titles because it is easily understandable even for those not working in the same industry. Hence, with Holacracy, the individual might feel a lack of a clear career path, and whenever they decide to quit Zappos with Holacracy and join the other company with a traditional hierarchy and job title.

Furthermore, the complexity could generate by Holacracy, also including the possibility of the mismatch of the corporate culture. Instead of focusing on people, the critical focus Holacracy is on the work, but Zappos is about their people. In Zappos work is fun

and Hsieh focus on delivering happiness. Even though the culture could be different, some of the employees were frustrated with Holacracy, but Zappos has evolved from how they use Holacracy at the same time they keep their culture and people top of mind. All the procedures and processes of the Constitutions seems like a rulebook. The rules and processes seem terrible, which might kidnap the corporate culture. However, there is another way to do it when you have decided on the shift. The Constitution can be as a reference for people and start to learn and to practise with the basics of getting a good coach. A good coach can guide the company throughout the transition, tell them what to do with their experiences and methods to do it well.

The next complexity generated by Holacracy is the difficulty of the transition. Based on Zappos' experiences, the shift to Holacracy consumes a lot of time and challenging. It was challenging to keep all the Zappos employees to accept and get through the changes. Zappos's company size is more significant than most of the companies adopted Holacracy but could slower the change process. Also, according to deJesus (2018), Holacracy could work in any size of the workplace because it is regarding the openness of the corporate mindset more than size. However, it is going to be a not straightforward approach to adopt Holacracy in a big company compared to a small company. The time needed to train all the employees is vast and get complicated. Hence the transition period is more extended than usual. Therefore, over-complicated the Holacracy implementation plan could make the burden of their employees. Although it was tough looking back, Holacracy was providing their employees' chances to learn and explore with new departments, chasing for their passions and providing the freedom for them to moving across circles, which is like for Zapponians themselves to customize their careers. The painful side effects from the transition are regards to if some of the employees found themselves not into this new type of self-management system, then they intend to leave the organization. Hence, the loss of talent could be a massive problem for the organization because the organization will need to invest time to hire a batch of candidates who can survive in this system as well as corporate culture and train them up. Finally, Zappos has been integrated its unique culture into the system, which not to lose its essential element in people than functioning as an operating system. Practicing with the right culture in Zappos and believing once a company with the right culture then the company will be good in return such as excellent customer service, branding, happiness in their employees and customers. The organizational culture is

one of the vital aspects that will negatively indirectly impacting employee's motivation, according to deJesus (2018) research in case 6 earlier. Therefore, we knew that investing in culture and value can help to engage and retain talents.

6.0 Conclusions

This study justified the importance of the new organizational structure (Holacracy) and the elements that would make it adaptive to the rapid change of the business environment. The core of this study was to investigate the American-based online shoe and clothing retailer – Zappos. When the company was continuing to expand, Zappos' CEO Tony Hsieh decided to discard their current flat structure and move to Holacracy. Hence, the fundamental of this dissertation is to find out the practicability of Holacracy and replicability Zappos' experiences throughout the entire development process when they are shifting from a traditional hierarchy to Holacracy.

The empirical part has been discussed about the working mechanism of Holacracy, comparison between organizations with traditional hierarchy and Holacracy, Zappos experiences during the transition, and the reasons behind the shift. Furthermore, the case studies have been investigated different aspects of adaptability from the journals and articles.

Keys for Successful Change

In this dissertation, Holacracy in action is still discussable. Based on Zappos' experiences, the transition to Holacracy took longer and challenging. According to Pettigrew, Woodman & Cameron (2001), the measurement of the success of change is defined by the velocity and achievement of a change process. Zappos' company size is one of the reasons to cause the slowness in change. However, the success of the Holacracy is regarding the openness of the corporate mindset instead of the size. However, it is going to be a not straightforward approach to adopt Holacracy in a big company compared to a small company. Over-complicated the implementation of the Holacracy model during rolled out could make the burden of their employees. If in the beginning, everything is already too complicated and too much information introduces to them. Also, the complexities of the Holacracy constitution, governance, and tactical meeting structures are higher than people expected, and if the complexities do not handle it well could resist people to accept the changes. Instead, the organizations can do it differently to get better results.

Firstly, the organization should introduce Holacracy more straightforwardly, not to give too much information too quickly and introduce them one concept follow by another to

increase their acceptance once they are familiar with the simpler mechanisms. Secondly, people are not born to be comfortable with the changes. Some of them have the personality of adventurous and looking forward to trying new things, but others would prefer to stay safe. The mindset of open to new ideas will not happen naturally, which mean this skill needs to be trained into employees. The importance of creating readiness for change is essential for any organizational change. Whenever people are enjoying the success, they will be actively participating in the change process and contribute more energy to learn things needed for the transformation. In practice, management can deal reluctance to change by showing empathy and support, giving effective communication, positive feedback about the change and involve themselves together with the staffs to change. The effective communication from the management about why they need to make the change, the advantages afterwards, and how this is going to impact them and introduce the pilot team can create positive expectations of the people. An open and effective communication are encouraging as this practice building trust and confidence of the employees.

Another key for the successful rollout of the Holacracy is implementing Holacracy on a small scale during the early stage. It is like an experiment for the company to test out whether this model suits their company and maintain the rest of the department running with the existing organizational structure. Although this type of rolled out plan takes longer time but can ensure a higher success rate, for example, the company can commit for three days workshops. The workshop, including selected employees from a different department to sense through what exactly is Holacracy, provide on the job training, and get the people to experience which stimulate their motivations to the change. Those employees who were selected as the first badge of the pilot team are trained for the exact value and rules to run Holacracy. After the implementation, the company need to mark down the performance of this group of employees to analyze whether the results align with that they expected. Furthermore, this group of employees can test out what will be the best way to teach other employees about the new concepts and adjust accordingly such as how much information should be introduced, acceptable complexities levels and the reaction from the team. Besides, the company requires to closely monitor their employee's performance to get to know if any precautions needed, the time required for the people manager to slowly get used to the non-hierarchy structures, and how is the feedback from the team and adapt it step by step. Based on

Zappos experiences, helping the people to pick up the system has been challenging. In those traditional company, everything comes as nature about how to do the work and the work culture. There is nobody purposely tell you the rules of the game. Instead, Holacracy requires company investing time in educating people on how to run the system and the reason behind. This dramatic change could be a challenge for them, especially when teaching people about the rules of the game not part of their culture. Therefore, successful implementation of organizational change needs to has a well-planned pre and post implementation strategy to take care of their feelings and any possible to resist the change.

Not one size fits all approach

Holacracy might be is not for everyone. Zappos experiences and its journey has the noteworthy lessons which including the conflicts acceptance between the different generations towards the new management system. For employees to survive in this type of organizational structures, they must be enough independent, self-organized and confident to make their own decisions. The benefits for those who like the idea of self-management can feel like they have given the highest level of freedom on how they are going to run projects or choose projects they want. This is the vast difference between the distributed authority and delegated authority. Within the Holacracy, the system becomes flexible to modify from the roles until the circles, so it can lead people to more significant job satisfaction or achieve a flow state. Unfortunately, some of the organizations may have only a few employees with these characteristics, and for those who do not fit to, this will find themselves struggle a lot.

Besides, many companies also struggle with their disengaged young professions and their weak response when facing changes in the market. Many people tend to look for a strong leader to guide them along with their career. For instance, the young professions could be the group of lack of these characteristics yet because they have limited working experiences, fear about the consequences of making wrong decisions or shy to voice out their dissatisfaction or foreseeable area of improvements. It is like kind of fear to decide if they have never worked on before, and once they choose, they will bear the consequences either good or bad. For those find themselves do not fit into this kind of self-management system might end up resigning like Zappos 260 employees or approximately 18% of Zapponians took the severance package during the

Holacracy transition.

Therefore, managing and retaining talent can be difficult during the transition to a holacratic structure. However, this circumstance is not regarding all the Millennial and Generation Z; the traditional role hierarchy and fixed-job responsibilities could be sound unattractive to them. Somehow, the flexibility, freedom and engagement can be more attractive to them as this age group will soon be the dominant force in the workplace. The idea of creating a "shadow board" could help in addressing the issue of inexperienced young professions – a working mechanism of a group of non-executive young professions working together with senior executives on strategic stuff. This mechanism can leverage the ideas of the younger generation and at the same time to broaden the ways of thinking that senior executives have.

Holacracy happens with a lot of doubters. Since the beginning, some of the companies such as Lausanne Business School and Medium did adopt Holacracy, but they end out with withdrawing the system. Somehow, there are certain things that we are still under discovering for Holacracy implementation. Besides, the complexity of career development based on the distribution of authority is still discussable. Holacracy providing the different measurements and no traditional job titles. The acceptance level of the people towards this type of career can be investigating. As some people feel that after the changes, they are no longer can pursue the career hierarchy from a financial consultant to the financial director in the organization, which can bring them satisfaction and a sense of honor. Hence, with Holacracy, the individual might feel a lack of a clear career path, and how many people would be comfortable with this working mechanism.

With the experience of Zappos in Holacracy, we have no clear-cut evidence about the success or failure of this new organizational operating system. There is no proof to say Holacracy is working for Zappos. As we only know that Zappos is still practicing Holacracy and no plan to change it now. Individual employees seem to struggle with the ways Holacracy structuring the company, but they even choose to keep going with it. In short, the new management system still requires time to prove its success or failure. It is best to be treated as a discovering journey to find out the functionality and shifting the new culture into the organization. Gidley (2013, p.29) argues that *"[...] [the] potential of holarchical structures will be dynamic, perhaps volatile, but invariably*

fruitful."

6.1 Limitation & future research

In the end, this study has several limitations. Firstly, the conducted case studies based on the factors that are influencing the design of an organizational structure identified had evaluated only the internal factors and talent market in the criteria of external market factor. Secondly, this dissertation has a certain degree of fully discover the answer of which circumstances will Holacracy works best. It is still not possible to answer the question of Holacracy will be successful in a specific organization or the type of skillset are necessary. Recent years, Zappos seems has quiet regarding the topic of Holacracy in terms of the interview or their growth with Holacracy.

The first limitation is because of the lack of studies discussing the topic related to the remaining factors. Certain elements have been too broad to discover and had been self-explanatory, such as the factors of the business environment in regard to the economy and market competition. This factor has not been directly reflected in the results of the study. What has been discussed above are those problems or circumstances that appear during the transition to the new system. The design of the operating organizational structure will not guarantee success. It also needs to customize a little to adapt better into the organization. Somehow, personal preferences, nature of the business process, industry, people, etc. might influence the functionality of the system. The second and third limitations require closely monitor the progress of pre and before the implementation of the system. For instance, the possibility of the involved in the company transition project from the point they decided for the shift until a few years later to discover the whole process. However, this type of research might take up a few years.

Although there is a limitation in this study, those limitations broaden the opportunities for future research. The future research could be based on self-management topics but as well as research on other organizations. Today, several hundred organizations practicing Holacracy other than Zappos, somehow the combination of the failure and the successful cases could in interesting. For instance, the early adopters, Twitter co-founder Ev Williams' Medium, have quit away from it. Furthermore, there is limited empirical research on the skills that could be necessary for the fixed organizational

structure. The future studies could also place their attention in this field to help in the area of organizational development.

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