**Zappos Holacracy – Case 1**

**(from textbook)**

**A Manager’s Challenge: Zappos Holacracy**

How can a company be controlled without becoming rigid? Zappos has always been a zany place to work. Before an employee even starts, the Las Vegas–based company offers the employee $2,000 to leave.1 The company believes it saves money if an employee takes the offer because the company gets rid of someone who would be there only for the paycheck. The CEO wrote a book called *Delivering Happiness* about how concepts from happiness can be applied to business.2 Then there's the call center. Rather than running a lean call center, Zappos encourages its employees to spend lots of time talking to customers and going the extra mile to resolve their issues. There are stories of the great lengths to which customer service representatives will go. For example, one employee went to a rival shoe store, bought a pair of shoes that Zappos did not have in stock, and delivered the shoes to the customer's Las Vegas hotel.3

This different way of doing things is reflected in the Zappos core values, like “deliver WOW through service,” “embrace and drive change,” “create fun and a little weirdness,” “pursue growth and learning,” “be adventurous, creative, and open-minded,” “build a positive team and family spirit,” “build open and honest relationships with communication,” “be passionate and determined,” and “be humble.”4

And while the book and the active call center do not sound like trappings of a traditional lean company, another of the Zappos core values is “do more with less.” The company claims that while it may have an informal culture, it is serious about operating efficiently. On its web page the company states, “We believe in operational excellence and realize that there is always room for improvement in everything we do. This means that our work is never done. In order to stay ahead of the competition (or would-be competition), we need to continuously innovate as well as make incremental improvements to our operations, always striving to make ourselves more efficient, always trying to figure out how to do something better. We use mistakes as learning opportunities.”5

Now the company is getting even leaner by removing the traditional chain of command, job titles, and managers.**6** The change is designed to prevent the company from becoming too rigid as it grows. “Research shows that every time the size of a city doubles, innovation or productivity per resident increases by 15 percent. But when companies get bigger, innovation or productivity per employee generally goes down,” said CEO Tony Hsieh. “So we're trying to figure out how to structure Zappos more like a city, and less like a bureaucratic corporation. In a city, people and businesses are self-organizing. We're trying to do the same thing by switching from a normal hierarchical structure to a system called holacracy, which enables employees to act more like entrepreneurs and self-direct their work instead of reporting to a manager who tells them what to do.”**7**

A holacracy is different from a traditional organization in three important ways. First, the former hierarchy is replaced with overlapping and self-governing circles of employees.**8** Second, employees are assigned several roles in different circles where they perform different functions. There are no job titles because holacracy organizes around the work to be done instead of the workers who do it. Decisions about what each role involves are made within the circle. Third, managers are redefined as “lead links” who assign employees to roles but do not tell them what to do. Despite this lack of formal structure, Zappos says employees will still be appraised. The constitution of holacracy begins with roles, which it defines as “an organizational entity with a ‘purpose' to express, ‘domains' to control, and ‘accountabilities' to perform.”**9** From this definition of roles, the constitution builds to include a circle structure that contains and integrates roles; a governance process that defines roles and policies, and an operational process in which members of the circles rely on one another to do operational work.**10**

John Bunch, who is leading the change for Zappos, was quoted in *The New York Times* as saying that people see the holacracy as removing managers. However, Bunch explains that they are “decoupling the professional development side of the business from the technical getting-the-work-done side.”**11**

 1. S. Rosenbaum, “The Happiness Culture: Zappos Isn’t a Company—It’s a Mission,” *Fast Company,* June 4, 2010, www.fastcompany.com/1657030/happiness-culture-zappos-isnt-company-its-mission.

    2. “About the Book,” deliveringhappiness.com, n.d., www.deliveringhappiness.com/about-us/about-2/.

    3. J. Edwards, “Check Out the Insane Lengths Zappos Customer Service Reps Will Go to,” *Business Insider,* January 9, 2012, **[Error! Hyperlink reference not valid.](http://www.businessinsider.com/zappos-customer-service-crm-2012-1)**.

    4. “Zappos Family Core Values,” **[Error! Hyperlink reference not valid.](http://zappos.com/)**, n.d., **[Error! Hyperlink reference not valid.](http://about.zappos.com/our-unique-culture/zappos-core-values)**.

    5. “Zappos Family Core Value #8,” **[Error! Hyperlink reference not valid.](http://zappos.com/)**, n.d., **[Error! Hyperlink reference not valid.](http://about.zappos.com/our-unique-culture/zappos-core-values/do-more-less)**.

    6. J. McGregor, “Zappos Says Goodbye to Bosses,” January, 4, 2014, **[Error! Hyperlink reference not valid.](http://www.washingtonpost.com/blogs/on-leadership/wp/2014/01/03/zappos-gets-rid-of-all-managers/)**.

    7. “Holacracy,” **[Error! Hyperlink reference not valid.](http://zapposinsights.com/)**, n.d., **[Error! Hyperlink reference not valid.](http://www.zapposinsights.com/training/Holacracy)**.

    8. J. McGregor, “Zappos Says Goodbye to Bosses.”

    9. “Holacracy Constitution in Plain English,” holacracy.org, n.d., Holacracy.org/constitution.

  10. Ibid.

  11. McGregor, “Zappos Says Goodbye to Bosses.”