OULUN YLIOPISTO
UNIVERSITY of OULU

OULU BUSINESS SCHOOL

Alexandra Eremina

COMPARISON OF ORGANIZATIONAL STRUCTURES – CASE ZAPPOS

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Author		Supervisor	
Alexandra Eremina		Vesa Puhakka	
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Abstract

Nowadays, hierarchical organizational structure, which has been created and dominated in 20th century, still remain widely used. The success of hierarchy in organizations in a period of time from 1960 to 2000 had been justified by such factors as: the relatively steady environment and preference of transparency and predictability over flexibility. However, in 21th century the business environment changed, therefore, the relevance of hierarchy becomes questionable. The given study provides a comparison between the hierarchical organizational structure and a modern holacratic structure.

The research problem for this study is the lack of scientific and empirical data on how organizations can embrace the change in its structure and increase its vitality and adaptivity. The purpose of the current master's thesis is to resolve the stated problem by investigating the organizational change of US-based company Zappos that was established in 1999 as a pioneer of online retail company and became a large corporation 10 years later. Following the process of expanding in 2013, the company switched from hierarchical organizational structure to the holacratic. The study is divided into three historical embedded cases in order to evaluate the reasons and outcomes of the organizational change.

According to the research findings, the premises of Zappos organizational change was exceptional culture, orientation on long-term perspective and the influence of CEO visionary leadership. Additionally, the outcome of this study indicated that for large organizations that have hierarchical organizational structure the transformation to holacratic structure is too risky due to the complexity and long duration of shifting process. It has also been stated that emerging and scaling enterprises should have a holacratic structure in order to support the growth of adaptivity by eliminating the hierarchical ladder, distributing authority to all employees, while ensuring the encouragement of active involvement into company's operations and strategic developments.

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INTRODUCTION

According to the English Dictionary, hierarchy is "any system of persons or things ranked one above another", which originally was referring to the church ranking system of priests (dictionary.com). Later on, hierarchical approach was implemented in military and further adopted by business-related organizations and companies. This organizational approach has been used widely for more than 60 years, due to its reliability (Morgan, 2015) and efficiency in terms of division of power.

Furthermore, hierarchy as an organizational mode refers to the classical management theory, where also known as functional structure (Morgan, 1997). Management theory includes hierarchical approach to the design of organizational structure, as well as bureaucracy, which is an inevitable element of traditional hierarchy, in order to represent the core idea of management: planning, organization, command, coordination and control (Massie, 1965; Morgan, 1997). In this research, hierarchy will be examined as an "image" of organization as the machine – metaphorical expression of the various types of organizational structures proposed by Morgan (1997). Distribution of power and authority in organization, as a main feature of the hierarchy, will be evaluated, as well as its relation to strategic contingencies theory (Yukl, 1989), the definition of authority (Engels, 1872) and contingency trait theory (Yukl, 1989).

As has been mentioned before, hierarchy is one of the most used organizational structure in the world for the last sixty year. In the period from 1965 to the 1990s the business environment was growing steadily, whereas nowadays (starting from the 1990s onwards) the speed of changes in technological and business environment is rapid (Brynjolfsson, 2008), therefore new organizational structures begin to appear and develop further.

The empirical study of this research will be partly dedicated to holacracy – a specific social technology or system of organizational governance, in which authority and decision-making are distributed throughout a holarchy of self-organizing teams rather than being vested in a management hierarchy (Robertson, 2015). In this paper the

holacratic approach as a perception of the organization as an organism will be explored (Morgan, 1997).

1.1   Goal of the research and relevance of the topic

The purpose of this work is to analyze the difference between two organizational systems: hierarchy and holacracy. The comparative analysis will be made by examining the data on an American company Zappos that has recently pivoted their structure from hierarchy to holacracy. The significance of the current study is on the novelty of the comparative elements – well-researched and theoretically justified hierarchy versus recently emerged holacracy system, which has been founded on the principles of self-management.

Theoretical background will be based on the classical management theory (Massie, 1965), the concept of management design (Newman, 1971; Handy, 1993), the definition of hierarchy in organization (Tannenbaum et al., 1974), as well as defining the principle behind the distribution of authority (Engels, 1872; Thompson 1968; Yukl, 1989; Yukl, 2010). Furthermore, a literature review with the suggestion of holacracy theoretical basis will be provided.

The context of this study is justified by the modern trends. For instance, the world is fascinated by new technologies and service startups. The world-known services, such as Facebook, Uber, Airbnb, Netflix appeared as a startup more than 15 years ago now, when the "innovation race" (Brynjolfsson, 2008) had already started its rapid growth. My questions of interest are what happens next when the company grows bigger and becomes a corporation or a large multinational organization and what happens with the competitive advantage. How do large companies face technological changes? What type of organizational structure do they use? In addition, most importantly, what could be the future of large organizations and corporations? The motivation to choose this particular topic comes from the curiosity to find at least a basis of the answers to those questions.

The relevance of the topic can be illustrated in following quotes. For instance, John P. Kotter in his book *Leading Change* argues that: "if environmental volatility continues

to increase, as most people now predict, the standard organization of the twentieth century will likely become a dinosaur" (Kotter, 1997, p.161). Today, twenty years after the book was published, the majority of large-size companies and enterprises still use the "dinosaur" standard model of organization, which is the hierarchical model.

Furthermore, journalist Jacob Morgan, in his article about organizational structures, argues that, "Today one thing is certain, the hierarchy belongs in a management museum locked up for people to see, but not touch" (Morgan, 2015).

Those two quotes demonstrate the demand of changing the hierarchical approach to something different. The purpose of this work is to identify possible options of how holacracy can replace hierarchy in big corporations. Therefore, the given research will be valuable to CEOs, managers, entrepreneurs as well as researchers interested in the evolution of the design of organizational structure.

1.2   Research gap, question and method

Hierarchy has a strong theoretical background and various cases of successful companies, that have existed for more than 50 or even 100 years without significant failure (for example, IBM, Coca-Cola, General Motors etc.).

However, according to the data (Murray, 2015), only 12% of Fortune 500 companies from 1955 remain on the list in 2015. Moreover, according to another source, the main challenge for CEO of large companies and corporations is rapid pace of technological innovation.

I argue that those two facts are correlating between each other, that unpredictable or rapid technological changes affect company's results and competitiveness on the market. Hierarchy as part of bureaucratic system, takes a certain amount of valuable time to proceed the change due to its inflexibility.

Holacracy, on other hand, is a managerial system, which was built in order to reflect and adapt environmental changes as fast as possible (Robertson, 2015). Its approach was built empirically and based on the personal experience of the inventor – Brian Robertson – and several years of investigation of various methods of controlling the authority within organizations (Robertson, 2015). Therefore, the system is rather flexible and adaptive due to its governance; however, the implementation of holacracy

takes around 15 months (Robertson, 2015) and requires a complete change of internal structure. For example, it also requires a change of mindset of each employee; since in a holacratic organization the system of self-management and self-control take place, a great amount of effort must be put into the HR practices of a company.

The purpose of my research is to examine the so far largest organization (more than 1500 employees) Zappos, which has made a complete switch from hierarchical to holacratic organizational structure. I believe that this analysis will help to understand the difference between the two types of organizational structures and evaluate its relevance in the current state of business and technological environment.

Based on the identified research gap, the main question of the research is: how did the Zappos development from hierarchy towards holacracy take place?

In order to answer the stated research question, a historical qualitative case study will be used (Yin, 2009). The study will consist of embedded cases (Yin, 2009), meaning that it will present the history of Zappos development from the creation of the company; its further stages as a hierarchical organization; then the phase of making a decision to have a change towards holacratic organization, and further implementation of holacracy principles and constitution (Robertson, 2015) to the current phase of company's development and progress.

The various sources of data will be used in order to compile a historical case study. For example, the history of the company provided on their website; an interview with the CEO; comments of the experts in the field regarding the case, articles, a blog post and a report from Holacracy.org – the organization that facilitated the process of switching from one organizational structure to another.

1.3   The structure of the study

This thesis consists of five chapters and the structure proceeds as follows.

The theoretical part of the research consists of a literature review that reflects the meaning and variety of organizational structures, and its perceptions, so-called, "images" of organization (Morgan, 1997), as well of the description of hierarchical

and holacratic structures. Moreover, the question of the distribution of authority, the main principle of hierarchy is evaluated and its importance in the era of rapid technological and business environmental changes is examined. Overall, the given part of the study concludes with a table of comparison between hierarchy and holacracy by three groups of factors. The following chapter describes the stated research problem, as well as it justifies the chosen research method and provides a short overview of the collected data, case analysis and limitations. Afterwards, the research presents the conducted case studies, followed by their analysis with theoretical implications. Finally, the outcomes of the study, along with scientific and managerial implications, discussion, limitations and suggestion for further research are stated in the concluding part.

UNDERSTANDING OF ORGANIZATIONAL STRUCTURE

According to the classic management theory, formulated by Henri Fayol, there are five elements of administration: planning, organization, command, coordination and control (via Massie, 1965). The second element, organization, is the one that provides the meaning of the organizational structure, as well as the influence of human capital on managerial issues. The definition of the element is "giving the form to the whole and to every detail its place" and "setting up the general structure of the enterprise with reference to its operation and its future course as determined by planning" (Massie, 1965: 388). Therefore, the term of organizing as part of the management theory includes the job division and assigning a position throughout the human labor force in order to be ready to proceed with enterprise's operations. According to Fayol, the planning and organization elements are preparations for the enterprise before the execution of operations will begin (via Massie, 1965). Thus, it is possible to assume that the importance of the organizational structure is rather high, since without its proper identification, it is hard for the enterprise to start operating.

Naturally, a new question arises: how to evaluate the degree of importance of the organizational structure in terms of its influence on enterprise? Professor William Newman in one of his works identified how strategic development of an organization is correlated with the organizational structure (Newman, 1971: 285). He pointed out that organizational structure, or organizing, should be "harmonized" and correlated with three other "managerial arrangements" that are a reviewed version of elements of administration from the classic management theory, which are planning, leading and controlling. Thus, the four stated elements are the basis of the definition of management design (Newman, 1971). The most important point of his research for this study is that each of those "arrangements" should have a synergetic effect on one another. Therefore, if "organization structure should facilitate control, control should generate useful data for planning, planning should be conducted in a way that assists in leading, and so forth" (Newman, 1971: 289) – those mutual effects are a description of a well-made management design.

While the impact of a good management design on the enterprise is clear, the process of designing the perfect organizational structure still remains unknown. According to

Charles Handy, the designing process is complex due to the simultaneous pressure of uniformity and diversity (Handy, 1993: 255). Organizations, especially large ones, which are the subject of the empirical part of this study, strive to be uniformed for simplification, cost reduction and standardization of operational and other processes within enterprise. However, large organizations also face the necessary pressure of internal and external diversity, such as an issue of distribution of power and technological and market diversity respectively (Handy, 1993: 255—57).

Throughout time, dozens of organizational structures aiming to balance between uniformity and diversity have been invented. One of the methods of grouping and understanding organizational structures and organizations themselves, proposed by Gareth Morgan, was to use a metaphor of "images" (Morgan, 1997). Morgan proposed nine metaphorical "images" of the organization: as machine, organism, brain, culture, political system, psychic prisons, flux and transformation, and as an instrument of domination. This study will focus particularly on "image" of an organization as a machine and organization as an organism.

2.1 Organizations as machines

In 1931, Henry S. Dennison introduced the theory of Organization Engineering, where he mentioned that the process of organizing should be similar to the process of machine designing (Massie 1965; Dennison 1931 via Duncan 1974). Nearly 70 years after, Gareth Morgan, while discussing the origin of the metaphoric images of an organization as a machine, agrees with Dennison's proposed theory.

Specifically, Morgan mentioned several practices, from which come "the machine" principles of an organization. The main origins of a mechanistic organization come from the military principles, introduced by Frederick the Great at the end of 18th century. Frederick implemented several major reforms inside military leadership, whereas the idea of standardization practices and decentralization of the control were taken into account while developing the factory systems (via Morgan, 1997). Thus, Frederick the Great was trying to make soldiers as "automatons", factories refer to those principles by producing actual machines, and finally, the emerging enterprises implemented those on the basis of bureaucratic organizations.

The next substantial contribution was made by Max Weber, who compared the routinization of administrative practices to the routinization of the machine production (via Morgan, 1997). Weber was the first person who provided the full description of bureaucracy, by assigning several fundamental principles, also known from the machine and industrial production. One of the principles – hierarchical supervision – will be one of the biggest topics for the further discussion.

Finally, the last significant contribution that is significant for the purpose of this research, was made by the inventors of the classical management theory mentioned at the beginning of this chapter. The classical management theory established the specific principles that reflect a process of organizing jobs in a hierarchical way in terms of labor division, the level of autonomy and communication. According to Morgan, the core of those principles is mechanic, whereas the design pattern is quite similar to the design of the machine (Morgan, 1997).

Overall, all those contributions are the core fundamentals of the bureaucratic organization with the hierarchical design structure. Before the discussion continues more precisely on the description of hierarchy, it is worth to mention that the conducted research is focused on large organizations, meaning enterprises having more than 500 employers and more than two departments in their structure. Zappos, the organization that is a subject of the empirical part of the research, fall under the term of large organization, therefore the results of the conducted study will present the pattern of Zappos as one of the large organization patterns.

2.2 Hierarchy in Organizations

In 1974, Tannenbaum, together with several other researchers, conducted a study about the hierarchy in organizations in five countries. While describing the hierarchy itself, the authors mentioned that "hierarchy comes as close as any social characteristics to defining a basic and universal dimension of organization" (Tannenbaum et al., 1974: 12). This statement comes from the theory of social system, where inevitably the division of society is unequal. According to Marx, hierarchy is a means of exploitation based on the class rule (via Tannenbaum et al, 1974: 14). In other words, in order to manage something as complex as an organization, the labor force should be divided

into "classes" in vertical hierarchy, when, for example, several divisions combined create a department or a branch of an organization. Just like in order to build a machine, it should be downscaled to the major functional blocks that, in turn, have another block within it that consist of a certain number of details and so on.

To give a more precise image of hierarchy, there is another definition of this phenomenon provided by Max Weber. According to him, 'hierarchy' can be understood as vertical formal integration of official positions within one explicit organizational structure whereby each position or office is under the control and supervision of a higher one (Weber, 1921/1980: 124; Diefenbach, 2011: 1517).

The basic structure of the traditional hierarchy in an organization is partly based on the principles of military structure and goes as follows. Every employee in an organization, except one, usually the CEO, is a subordinate to someone else within the organization. The layout, which has a form of a pyramid, consists of multiple entities that descend into the base of staff level employees placed at the bottom of the pyramid.

The culture in the hierarchical organizational structure is characterized as role culture (Handy, 1993: 185), meaning that it is produced for roles, for coordinating communication processes and for postulating the rules for settling disputes and internal organizational changes. According to Handy (1993: 186), this type of culture that is formed and facilitated by the senior management, offers security and predictability to the employees and, thus, satisfied the basis of motivational hierarchy on needs (Maslow, 1998).

The hierarchical structure has a number of advantages, which made it the dominant type of structure in mostly static conditions of the 20th century. First of all, the job responsibilities and level of control and authority are strictly and clearly defined. Power in a hierarchy is distributed disruptively, meaning that individuals on the upper levels have significantly more power than individuals on the lower levels (Tannenbaum et al., 1974). Second advantage of the hierarchical structure is a clear promotion path for the employees. The "ladders" or levels of hierarchy are usually transparent, therefore employers that are striving for promotion can easily observe what their future managerial position could be. Besides, promotion is also a

motivational factor for the employee, due to its privileges, such as salary raise, bonuses, longer vocational leaves, insurance and so on (Handy, 1993). The third advantage refers to the high level of expertise at managerial level. Hierarchical structure has a privilege of hiring or promoting managers with a narrow specialization, suitable for this particular department. This advantage is important not only from the perspective of the organization as a whole, but also from the human relations aspect. Employees tend to trust more to those managers that have an in-depth understanding of functions. Therefore, high results by the supervision of specialized leadership of the department can be beneficial for the entire organization. The last advantage stated in the literature refers to the employer's loyalty to the department. Unlike other structures, where employers are bonded by the shared goal of the organization, hierarchy brings people closer by specific objectives of the department and by the daily routine work processes. While loyalty is important for the supervision level to be sure of their employees, the feeling of membership and importance within a team are crucial motivational factors in providing better results on the employees' level (Handy, 1993).

Nevertheless, the hierarchical structure has several significant disadvantages. According to the study presented by Tannenbaum et al, hierarchy creates alienation, conflict and frustration among employers throughout various hierarchical levels (Tannenbaum et al, 1974: 15). Several researches suggested to use various techniques of human relations by the supervisors, such as behaving in a supportive and sensitive way and creating an environment of trust by eliminating the feeling of subordination (Tannenbaum et al, 1974). However, later on, those propositions have been criticized. They are claimed to be "sugar-coating the bitter and deeper conflicts in hierarchy" (Tannenbaum et al, 1974: 15). Another dissatisfying factor of hierarchy was proposed by Laurence J. Peter and is referred to as *The Peter Principle* (Peter, Hull, 1969). The Peter Principle states that in a hierarchy every employee tends to rise to his level of incompetence" (Peter, Hull, 1969: 22). This statement refers to the employees' disillusion when being promoted: employees tend to think that they know what their responsibilities would be and how to execute them. However, according to Peter, in most of the cases it is not true. Peter even came up with a new term of "hierarchology" – the study of hierarchies. Peter's research is supported by a large number of cases from different hierarchical forms that was a basis for formulating the principle, such as government departments, schools, universities and industries. Even though this

research neither had a legitimate scientific background nor get an approval by the scientific community, it can be considered as one of the drawbacks of the hierarchical structure.

Another disadvantage of a hierarchy is that departments can make decisions which benefit them rather than the business as a whole, especially if there is inter-departmental rivalry. In turn, that could be the consequence of the improper communication between vertical levels of hierarchy. Every department has its own objectives and goals to achieve. Therefore, it should be the responsibility of the department's supervision to communicate goals and to make sure that they do not contradict the overall goal or harm the organization as a whole.

The last major disadvantage of hierarchical structure became widely known and discussed in the 21th century, when the development of technologies and market conditions started changing rapidly. According to the survey conducted in 2015, 72 percent of companies' CEOs listed in the rating of Fortune 500 admitted that rapid growth of technological innovation are the biggest challenges of the future for their organization (Murray, 2015; Figure 1). Besides, due to internal bureaucracy and slow response to the customer and market needs, large hierarchical organizations began to lose their shares of the market. Furthermore, John P. Kotter in his book *Leading Research* mentioned that "if environmental volatility continues to increase, as most people now predict, the standard organization of the twentieth century will likely become a dinosaur" (Kotter, 1997: 161).

It is worth to mention that advantages and disadvantages presented here are characteristics of the traditional hierarchical structure of a large bureaucratic organization. However, hierarchical traits can vary depending on the type of an organization. For instance, Tomas Diefenbach (2011) in his research identified several types of organization with a hierarchical structure, such as bureaucratic, professional, representative democratic, hybrid or postmodern and network organizations, where hierarchical features vary due to the typicality of the enterprise. Evaluation of positive and negative traits of only traditional hierarchical structure is a limitation based on the objective of this study.

Despite controversial arguments of reliability of hierarchical structure, it is clear that the main principle of a hierarchy is the distribution of power. That is, what makes job responsivities and opportunities for career growth transparent in hierarchy and, simultaneously, brings frustration from employee's perspective, whereas bureaucratic processes that are driven by the authority division, prevent the in-time response to the market and customers. In terms of this research, the question of distribution and authority will be discussed separately in order to emphasize the difference between two "images": organism and machine.

GREATEST CHALLENGE?
Technology was chosen as either the greatest, or one of the three or four greatest, challenges facing their companies by 72% of CEOs.

The rapid pace of technological innovation
72%

Cybersecurity
66%

Increased regulation
61%

Shortage of skilled labor
34%

Management diversity
25%

Competition from a startup
20%

Shareholder activism
20%

Competition from China and other developing countries
4

Figure 1. The Greatest Challenge for CEO's of Fortune 500 Companies (adopted from Murray, 2015)

2.2.1   Hierarchy and Distribution of Authority

Various scholars have identified several definitions of authority. One of the fundamental treatise was conducted by Engels in 1872, where authority is defined as "the imposition of the will of another upon ours" (1972: 730). From the organizational perspective, Gary Yukl explained the concept of authority as the term that "involves

the rights, prerogatives. obligations, and duties associated with particular positions in an organization or social system" (1992: 199). Furthermore, Yukl explained the term "scope of authority" that indicates the range of requests that can properly be made and the range of actions that can properly be taken by the manager of the organization (Yukl, 2010: 199).

Particularly for a hierarchical organization, the scope of authority means a combination of rights of the superior, for example, of the senior manager, above his subordinates (Thompson, 1968; Yukl, 2010). For instance, the superior has a right to expect obedience and loyalty from his subordinates, a right to monopolize communication, to expect extra care and treat from subordinates, a right to initiate activities and settle conflicts (Thompson, 1968: 487—490). Generally, according to Thompson (1968: 486), the superior is considered to be a "boss", meaning he or she has a right to veto or affirm the organizationally directed proposals of his subordinates, subject to no appeal.

The justification of how the power and authority should be distributed in an organization has been covered by several theories. For instance, Yukl (1989: 30) referred to strategic contingency theory that postulates that power depends on several characteristics of organizational subunit, such as: problem-solving skills, certainty of function within the workflow, and extent to which the expertise is unique and substitutable. Furthermore, Yukl (1989: 31) argues that, according to the theory, a process of natural selection based on the selection of people who are the most qualified to help organization by facilitating the successful adaptation to the environment.

Another theory of the organizational authority distribution has been justified by political power and the process called "institutionalization" (Yukl, 1989: 31). This process means the dominance of top executives that provide an opportunity to have a control over information distribution and justify their policies to demonstrate the superior expertise. According to Yukl (1989: 32), the institutionalization process is the most successful, when the consensus with a dominant party is the best way to cope with the environmental conditions.

However, recently, the distribution of authority, and hence, hierarchical organizations had been widely criticized due to emerging factors that affected the stability of the business environment (Gursoy et al., 2008; Macky et al., 2008; Twenge & Campbell, 2011; Murray, 2015; Morgan, 2015). First, as has been mentioned before, the rapid innovation growth and technology adaptation became a threat for large organizations (Murray, 2015). According to the theory (Yukl, 1989: 31—32), if the power of the organization is highly institutionalized during the occurrence of major change in the environment, that leads to the lack of strategic solutions towards adaptation and can result in organizational inefficiency and even organizational failure.

Furthermore, the criticism concerns the authoritarian one-way rights of the superior above his subordinates. According to the Gallup Corporate Survey (2012), only 13% of employees worldwide feel engaged into business processes of their organization (Figure 2). The survey was distributed to nearly 230 000 employees in 142 countries and calculated the employee engagement rate by asking 12 questions, such as "my supervisor seems to care about me as a person", "there is someone at work who encourages my development", and "the mission or the purpose of my company makes me feel my job is important" (2012: 15).

The indicator of employee's engagement is important due to several reasons. First, the outcome of Gallup Corporate Survey (2012) indicated the correlation between the level of employee engagement and key business outcomes. Thus, according to the study, the engaging workplaces have significant higher levels of profitability, productivity and customer ratings, whereas the low level of engagement have influence on turnover, absenteeism, safety incidents and quality defects (2012: 22). Additionally, the low employee engagement rate reflects on the lack of top motivational factors among employees, such as self-esteem and self-actualization (Maslow, 1998; Linder, 1998), which also have a negative effect on productivity of hierarchical organizations.
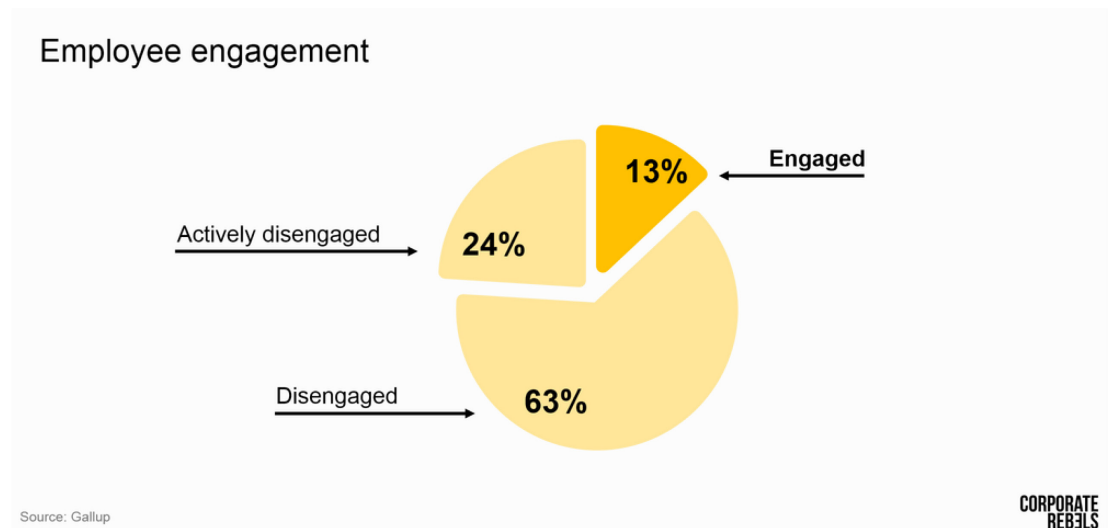
Figure 2. Employee Engagement Rate. Source: Gallup Corporate Survey (2012)

Another factor that has an effect on the scope and distribution of authority is the shift of perception about work responsibilities and duties by the generation millennium (Gursoy et al., 2008; Macky et al., 2008; Twenge & Campbell, 2011; Kerr, 2011). Several studies had indicated emerging labor force of young adults that have been born in 1990's, who are referred as generation millennium (Macky et al., 2008), as well as generation Z (Kerr, 2011) and "generation Me" (Twenge & Campbell, 2011), have significant differences from previous generations in organizational settings. Thus, studies show that the representatives of generation millennium tend to be overconfident, have high expectations about meaningfulness of their job, expect the fulfillment on their work, immediate gratification on their results and fast job promotion, have a high level of appreciation toward job's authenticity, as well as have an ability to multi-tasking and disability to focus on routine tasks (Gursoy et al., 2008; Macky et al., 2008; Twenge & Campbell, 2011; Kerr, 2011). Moreover, generation millennium value the fulfillment and meaningfulness of the job more than factors, that were essential for the previous generation, such as job stability, salary and compensation raise, seek and maternity leaves and so on (Macky et al., 2008). Such vast generational gap creates a dilemma for managers of traditional hierarchical organization: to be able to coordinate the young labor force that requires collaborative, reflective and flexible working environment (Kerr, 2011), which is possible to achieve mostly by the change of organizational design.

Overall, the scope and distribution of authority are one of the most significant features of a hierarchical organizational structure, which is the most known type of organization as mechanism "images". However, due to the consequences and criticism brought by recently emerging factors, the need of change of organizational structure has been demanded. The next section of the study is dedicated to fairly different approach to organizational design, taken from the perspective of organization as organism (Morgan, 1997).

2.3 Organization as an organism: Holacracy

According to Morgan (1997: 34), the organizational theory behind the "image" of organization as an organism switches the focus from "goals, structures, and efficiency" of mechanistic or "machine" approach to "survival, organization-environment relations and organizational effectiveness". Enterprises began to emphasize the "biological" concerns, such as identifying the organizational needs, evaluating the process of organizational adaptation into environment, as well as factors influencing the organizational health and development (Morgan, 1997). Thus, according to the literature review of Morgan (1997), the organizational needs are met, when the work outcomes, produced by employees, achieve the personal needs of employees. Specifically, Morgan (1997: 36—38) indicated the theories of motivations, which stated that personnel is most effective when organization has facilitated the reach to highest level of hierarchy of needs (Maslow, 1998) by, for instance, enhancing the personal identity of employee, providing autonomy, recognition for good performance, and encouraging of employee's full commitment (1997: 37). Furthermore, the focus on the need to integrate the human and technical aspect of work has been justified by contingency theory (Kast & Rosenzweig, 1973; Morgan, 1997: 38). Generally, contingency views have been defined by the organization design and management practice based on understanding configurations of subsystems and interactions among relevant variables in specific situations (Kast & Rosenzweig, 1973: 308). That definition is correlated with the perspective of organization as organism, since the main driver is the constant satisfaction of organizational needs (Morgan, 1997).

One of the first concepts of organizational management and structure that emerged from the "image" of an organization were concepts of Self-Leadership and Super Leadership, both introduced by Charles C. Manz at 1986 and 1989 respectively. According to Manz (1986: 596), the term self-leadership is defined as a process that "encompasses behaviorally focused self-management strategies and addresses self-regulation of higher-level control standards to more fully recognize the role of intrinsic motivation.", meaning that the intrinsic motivational factors are leading the employees' performance, controlled by the governance operational standards. In turn, the term super leadership refers to the leadership approach, where main objectives are stimulation and facilitation of self-leadership capability and practice (Manz, 1989: 8) by recognizing self-influence as an opportunity for achieving excellence (Manz, 1989: 10).

Several years ago, the new image of an organization as an organism called holacracy was presented by Brian Robertson (2007) (Bernstein, 2016). Holacracy is not only a new organizational structure, but also a specific social technology or system of organizational governance in which authority and decision-making are distributed throughout a holarchy of self-organizing teams rather than being vested in a management hierarchy (Robertson, 2015).

It is worth to mention that holacracy is perceived as a new concept of self-management system. The theoretical base of it comes from the organizational theory of self-management (Manz, 1986) and has reference to the contingency theory (Kast & Rosenzweig, 1973; Morgan, 1997). However, the concept has been tested only empirically. Therefore, no significant theoretical research on the origins of holacratic approach has been conducted so far.

Regarding the organizational "image" of organism, Robertson even uses the similar metaphorical image while describing the nature of Holacracy. According to him, holacracy works similarly to 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" (Robertson, 2015: 17). For further understanding, his metaphor continuous: "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 presented earlier refers to the major breaking point of Holacracy. Specifically, it refers to the emerging way of distributing authority, where leaders or superiors give their decision-making power to employees, who ultimately get an authority to control and facilitate their own actions, as well as being responsible for the further course of development. Thus, superiors are the "head" of a body – they communicate goals and operations, but they do not give commands, whereas employees are the "stomach", who knows what is their best capacity and function and, therefore, they cooperate with the superiors but take actions by themselves.

The term Holacracy refers to the word *holon*, which means a whole that is a part of a larger whole, whereas *holarchy* is the connection between holons (Koestler, 1967). The description of the term refers to the holacratic structure that presents as follows. According to Holacracy Constitution (2010), each employee of organization does not have a job description, but instead they have roles that define a name, a purpose, optional "domains" to control, and accountabilities, which are ongoing activities to perform. Roles are defined by each circle —or team— via a collective governance process, and are updated regularly in order to adapt to the ever-evolving needs of the organization. Despite of the fact that circles are organized hierarchically and each circle is assigned a clear purpose and accountabilities by its broader circle, also each circle has also the authority to self-organize internally to best achieve its goals. Circles conduct their own governance meetings, assign members to fill roles, and take responsibility for carrying out work within their domain of authority (Holacracy Constitution, 2010). Circles are connected by two roles known as "lead link" and "rep link", which sit in the meetings of both their circle and the broader circle to ensure alignment with the broader organization's mission and strategy (Holacracy Constitution, 2010; Figure 3). Thus, the perception of the superior as "boss" (Thompson, 1968) has been transformed to "coach" that provides guiding and arrange communication, if needed, but do not interfere in the role distribution and assigning processes (Robertson, 2015).
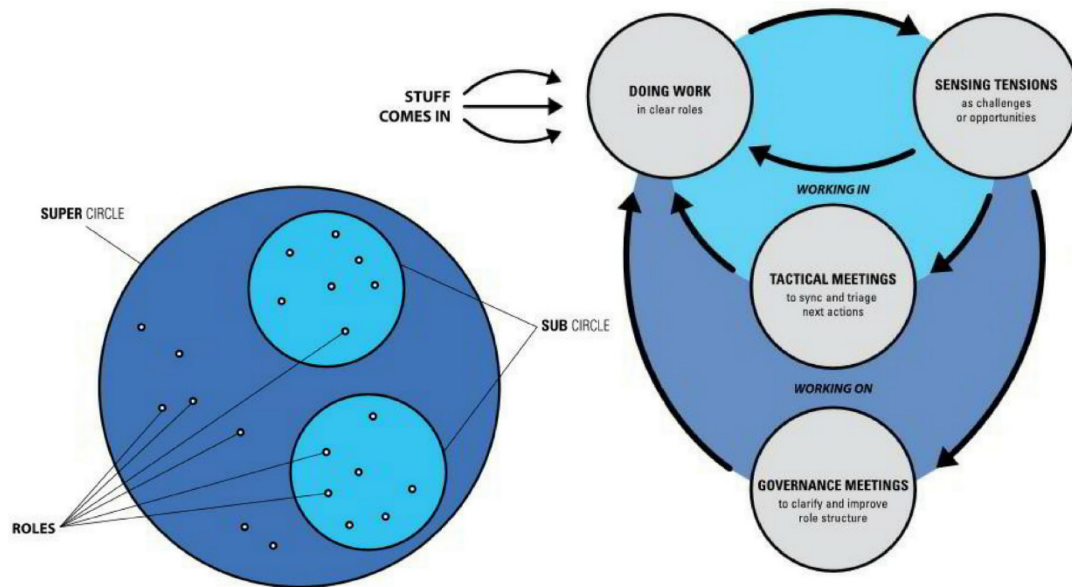
Figure 3. [On the right:] Organizational Structure of Holacracy. [On the left:] The Principle of Work Process. Source: Holacracy Constitution (2010).

The holacratic type of the organizational structure has several major advantages. According to its creator (Robertson, 2015), holacracy reduces dependency on the bureaucratic processes, which gives employees the opportunity to focus on their tasks and goals for contributing to the organization. Furthermore, culture becomes part of the working process that is created and facilitated by employees themselves, encouraging the high level of employee's engagement and feeling of ownership over organizational well-being. According to Robertson (2015; Russo, 2014), the engagement levels of the workforce are higher when all the employees are equally responsible and empowered. Thus, by providing employees more autonomy, a clear purpose and advanced possibility for mastery, holacracy increases intrinsic motivational factors that are considered to be the highest in the hierarchy of needs (Maslow, 1998).

Additionally, the role structure, due to its flexibility, gives employees the opportunity to unleash their potential and work on unique tasks towards individual fulfillment (Robertson, 2015). The changes of the structure happen naturally, due to the organizational development and reflection on the changes of the environment, which increase the organizational flexibility.

However, the holacratic system also has several disadvantages. For instance, according to Holacracy Constitution (2010), the shifting process to holacratic system of governance takes approximately 15 months, which can affect company's productivity during this period. Furthermore, due to the fact that holacracy is based on self-management practices, it also requires a certain shift of a mindset, meaning that employees should be mentally prepared to be self-determined and be fully responsible for their actions. Additionally, holacracy encourages the full commitment of the workforce, therefore, it can have a side-effect on work-and-life integration processes.

According to several media reviews and testimonials from companies that have a holacratic system, the consensual, democratic decision-making process, which is encouraged in holacratic structure, can seem too chaotic and confusing (Bernstein, 2016). Besides, it has been indicated that the elimination of teams and circles can be done simultaneously, if they were not operating successfully, therefore, it endangers the feeling of security and predictability for employees (Braudis, 2016).

2.4   Summary

Based on the discussion and the literature review provided above, I was able to identify eleven factors that can describe an organizational structure. Those factors have been combined into three groups: environmental, structural and internal factors (Figure 4).
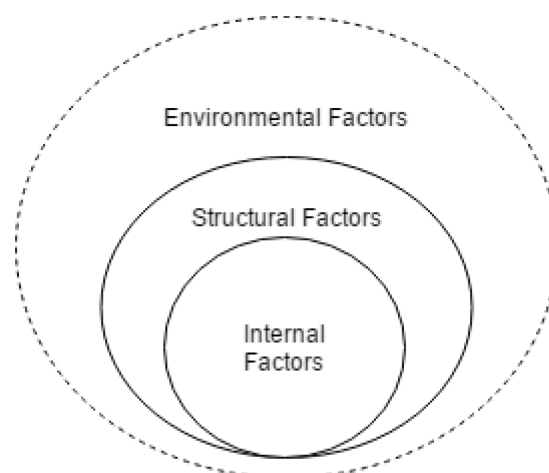
Figure 4. The diagram of main factors for comparison of Hierarchy and Holacracy

Environmental factors are the factors that appeared externally, regardless of the organization itself. This group includes emerging factors that has been discussed in a section of authority distribution, which are rapid growth of technological innovation and changing perception of importance of work by the generation millennium.

Structural factors, which can also be referred to as formal, include factors that describe characteristics of the structural design, such as the form of a structure, relation to superior, employee engagement, job description and responsibility, and limitation of authority. Thus, structural factors present the canvas of the formal organization process of organizing (Massie, 1965).

Finally, the group of internal factors includes several characteristics, which are important for organizational health and development (Morgan, 1997). For the purpose of this research, internal factors include internal culture and communication process, motivation, the feeling of work and life balance, and the factor of adaptation to change.

Three groups of factors were identified in order to simplify the process of comparison between Hierarchy and Holacracy (Table 1). Furthermore, the given table will be a basic for conducting the conclusions of the empirical research of the study, which is presented in Chapter 6.

Overall, according to the theoretical research and conducted summary of the investigated advantages and disadvantages of two organizational structure, hierarchy and holacracy, I have formulated a hypothesis for the empirical part of the research:

Hypothesis: In an era of constant environmental changes, large-size organization should adopt holacratic organizational structure rather than remain with hierarchical structure.

The given hypothesis will be confirmed or disproved at the final discussion of the thesis, whereas the next chapter is dedicated to the methodology, by which the empirical part of the study is conducted.

Table 1.Comparison of Hierarchy and Holacracy

Type of Structure		Hierarchy	Holacracy
Environmental Factors	Technology Innovation	Slow adaptation to the changes; challenge for the future of the company.	Fast adaptation to the changes due to constant development of the structure.
	Perception of Work by Generation Millennium	..has a negative effect on operations due to their failure of executing the routine work and disloyalty	..has a positive effect on operations, due to ability to boost creativity by executing unique task and having ownership of the fulfilled role.
Structural Factors	The Form of Structure	Organized as pyramid; high levels have control of the lower levels.	Organized as embedded circles; every role and sub-circle has its own authority but they all are parts of super circle of organization.
	Relation to Superior	Perceived as "boss": responsible for assigning, facilitating and controlling the job of employees.	Perceived as "coach": guiding and communicating the roles but not interfering.
	Employee Engagement	Very low; the work is perceived as the necessity for survival.	Very high; employees are perceived as the one who is changing and driving organization forward.
	Job Description (JD) and Responsibility	JD is clear and rarely has changes. Responsibility of executing lies on both employee and the superior	JD does not exist, instead each employee has a role that he/she is fulfilling. Responsibility lays completely on the executor.
	Limitation of Authority	Lower levels have no or very little authority power; decision-making process goes by top-down approach.	Superiors delegate authority rights to their employees; decision-making process is done by governance meetings of the teams and sub-circles
Internal Factors	Internal Culture and Communication	Culture is formally facilitated by superiors and developed by departments; vertical communication is developed poorly.	Culture is a part of working process – its development is made by everyone's contribution; communication process is flat and organized.

Motivation	Employees are mostly motivated by salary bonuses and hierarchical career growth.	Self-realization is a key element; each employee does what he/she can do the best.
Work and Life Balance	Facilitated by providing vacations, seeks days, maternity leaves etc.	Principle of work and life integration;
Adaptation to Internal Changes	Done by top down trainings; usually fast and easy to proceed further.	Done by governance meetings; can be long and confusing. Might require significant "shift" of operational activities.

RESEARCH METHODOLODY

Nowadays, more and more researchers are focusing on the rethinking of the organizational identification and structure in 21th century (Scott, 2013) – an era of massive globalization (Easnest, 2015), where the capability of being adaptive is considered as a core competence to ensure further development (Nadler & Tushman, 1999). According to the recent data, only 12% of companies that were on the Fortune 500 list in 1955 were able to survive by 2016, whereas 26% had dropped out only in 2015 (Bersin et al., 2017). Moreover, according to Deloitte Global Human Capital Trends (Schwartz et al. 2016: 4), the organizational design and the perception of the organization of the future are considered to be the most popular trends.

However, the scientific studies are primarily focused on the reasons and premises of the need for organizational change, as well as on what components of organization should be modified (Nadler & Tushman, 1999). Nowadays, there is no united technique or program that would help an organization to facilitate the change. Furthermore, there is no efficient data about how many companies were able to transform from traditional organization to, so-called, "new" organizations (Bersin, et al., 2017).

The research problem for this study is the lack of scientific and empirical data on how organizations can embrace the change in its structure and increase its vitality and adaptivity. The purpose of the empirical part of this research is to try to resolve the stated problem, by providing the empirical study of large organization that was able to have a successful organizational change.

3.1   Research method

The given research is investigating the unique precedent, when a large organization (Zappos) decided to abandon the traditional hierarchical structure and shift to holacratic system of governance. Thus, the research question was formulated to study *how did the Zappos development from hierarchy towards holacracy take place.* The "how" question, due to its explanatory nature, generally lead to the preference of such methods as case studies, histories and experiments (Hedrick, Bickman & Rog, 1993;

Yin, 2009). Taken into account the type of the research question, the historical case study method had been chosen.

According to Farquhar (2012), a case study is "an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (2012:5; Yin 2009). The choice of preference to the case study method is also justified by following two conditions: the stated research question is an attempt to investigate the contemporary set of events, over which the researcher has no control (Yin, 2009; Farquhar, 2012).

In this research, the case study method has two core characteristics – historical and exploratory. Historical characteristic refers to the documented set of events in a history of the subject on the research (Yin, 2009). Several conducted case studies are considered to be exploratory due to an attempt to enlighten how certain events affected the development of the subject, as well as to connect the theoretical implications of the research to the case study analysis (Yin, 2009).

3.2 Research Design

The research design in a case study is defined as a "logical model of proof that allows the researcher to draw inferences concerning causal relations among the variables under investigation" (Nachmias & Nachmias, 1992: 77—78; Yin, 2009: 26).

While using the case study method, five components of the research design have been identified: the question of the study (in our case, the research question), study proposition, units of analysis, the linkage between data and proposition and the criteria for interpretation of findings (Yin, 2009: 27).

Study propositions consist of several sub-questions that help to identify the context and ensure the "right path" of the investigation towards answering the main research question (Yin, 2009). For this research, the study propositions were:

1) *What is Zappos?*

     2) What were the critical event in Zappos history before shift to holacracy?

     3) Does Zappos have any features that distinguish it from other large companies?

     4) How did Zappos structure look like before holacracy?

     5) What were the premises of the shift of organizational structure?

     6) Why Zappos chose holacracy?

Those six sub-questions became the basis for several conducted case studies that will be described further.

During the research design process, two units of analysis were identified, which are the subject of this research – company Zappos along with its historical developments, structure and culture, and, as a separate unit – the employees of the organization throughout both phases, before and after the structural change. The second unit helped to evaluate the inner perspective of the change, which had a beneficial implication to further case analysis.

In order to simplify the process of comparison of hierarchical ("before") and holacratic structures ("after"), and reply to sub-questions 1-2 and 5-6 respectively, the case was split into two parts. sub-questions 4-5 were interconnected with both parts of company's history, the third case was embedded within logic of narration (Yin, 2009). Thus, the stated study proposals became a foundation for the embedded multiple-case design that is presented in the Figure 5 (Yin, 2009).

The first case presents the history of Zappos from its establishment in 1999 to further development until the acquisition by Amazon in 2009 with an emphasis on critical events. The purpose of this case is to evaluate the context and specifics of the company that lead to its success.

The second case is dedicated to the Zappos internal culture and its influence on company's development and success throughout 10 years. Furthermore, the case has implications of structural specifics of the company and mutual influence in-between culture and organizational structure. Additionally, the case contents the qualitative analysis of anonymous feedback from Zappos employees (Yin, 2009).

Finally, the last case describes premises and steps of transition from the hierarchical to holacratic structure, as well as gives a short overview of the current state of company's well-being and how it is affected by organizational structure change. Besides, as in the Case 2, the short overview of employee's reaction on the change is provided.
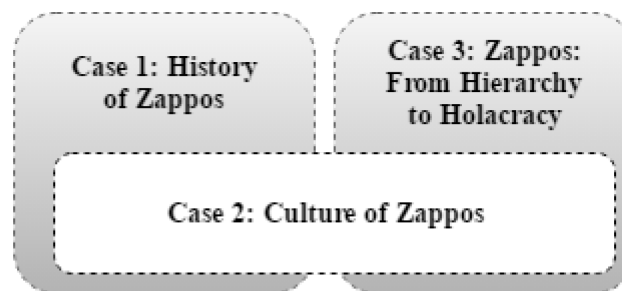

Figure 5. The Research Design: multiple-case design with multiple units of analysis (adopted from Yin, 2009)

3.3 Research Data

The process of the data collection for the case study is relatively more complex due to the necessity of in-depth analysis. Thus, Yin (2009: 114) proposed to follow three principles to ensure the proper evaluation: using multiple source of evidence, creating case study database (Table 2) and maintaining the chain of evidence.

The primary source of information for conducting the case from the organizational unit of analysis was a book called *Delivering Happiness*, written by the CEO of Zappos Tony Hsieh (2010a). This book consisted not only of the personal memories of the narrator, but also emails and recorded interviews and conversation with multiple stakeholders of Zappos throughout first eleven years of company's development as a hierarchical organization (Hsieh, 2010a). Furthermore, the organizational perspective has been supplemented by the official records of the company, as well as investigations of Zappos business, published by business and scientific journals, such as Business Insider, Harvard Business Review, Optometric Management and others.

On the other hand, from the perspective of employees as a separate unit of analysis, the data has been retrieved from the interviews, conducted by business journals, blog,

as well as news reports, such as CNN, Washington Post, Forbes and others. Additionally, the employee's perspective is complemented by the qualitative research of reviews about Zappos, which were retrieved from the database and research organization GlassDoor (Glass Door - Website).

Generally, while conducting three case studies, independent articles, essays, blog posts, as well as webinars and video reports about Zappos and Holacracy has been taken into account in order to control the maintenance of the chain of evidence and ensure the validity of the investigation (Yin, 2009).

Table 2. Case Study Database

Type of Source	Quantity
Book	3
Scientific Journal	4
Business Journal	7
Blog	2
Interview	2
Additional websites	5
News report	2

3.4   Case analysis and limitations

The process of the case analysis has been constructed by evaluation of theoretical implications for comparison of hierarchical and holacratic structure on the basis of the conducted case studies. Thus, each case contributes to the group of factors, which describes the organizational structure.

For instance, Case 1 was mostly contributed to the investigation of practical implication of identified environmental factors, whereas the Case 2 reflected on the formal factors by describing the structure of the organization and attempts to identify the labor division.

Furthermore, Case 2 describes the internal environment that is related to the third group of factors. Finally, the Case 3 has implications that reflected at all the groups. However, it is worth to mention that main purpose of the case 3 was an attempt to

answer stated research question and contribute to the discussion dedicated to proposed hypothesis.

Overall, the process of case analysis is dome by using explanatory logic with introduction to each theoretical application, followed by the data given before and after the organizational change with a perspective of two units of analysis (Yin, 2009). The actual case analysis is presented in the Chapter 5 of this paper.

It is worth to mention that the chosen research method has several limitations. First, the conduction process of cases has a certain lack of objectivity and researcher's bias (Yin, 2009) due to reliance on secondary data, specifically, in Case 1, where the main source was a book, written by the CEO of the organization, whose indication might be too subjective. Furthermore, complied historical cases had the gap of the data between 2009 and 2013 of organizational development, as well as lacked the official data about organizational structure of Zappos before 2013, however, due to the specifics of the whole research and the procedure of case analysis, this limitation did not affect the outcomes of the study. Finally, the third limitation is a lack of generalizability of the case study research method due to the focus on only one subject that complicate the applicability of the findings to another large organizations (Nachmias & Nachmias, 1992).

ZAPPOS CASE STUSIES

4.1   Case 1: History of Zappos

The history of Zappos started one day in 1999, when Nick Swinmurn came to the office of Venture Frog Investments and pitched his idea about "building the Amazon of shoes and create the world's largest shoe store online" (Hsieh, 2010a: 36). The pitch was made for Tony Hsieh and Alfred Lin, who recently became millionaires by selling out their previous company LinkExchange. First impression of Nick's idea was not pleasant: *"no way people would be willing to buy shoes online without trying them on first"* – thought Tony Hsieh (Hsieh, 2010a: 36). However, Nick had several reasonable arguments and statistics that, eventually, persuaded venture capitalists to change their mind (Hsieh, 2010a):

> *"Buying a pair of shoes shouldn't be so hard,* I remember thinking…(1) So I thought, why not create a single place online that people could come to, find exactly the shoe they want in exactly the right size, and have it show up on their doorstep in a few days?...(2) I went ahead and reserved the domain name Shoesite.com…(3) Even though I'd never bought a pair of shoes through mail order, statistics proved there were a ton of people doing it. I stopped thinking, *Hey, this is a good idea,* and started believing in it. Somehow, I had to make it work." – *Nick Swinmurn* (Hsieh, 2010a: 37).

A few weeks and meeting later, Nick brought another co-founder on board, who had an experience in footwear industry – Fred Mossler (Hsieh, 2010a). Approximately the same time, he proposed the name Zapos derived from Spanish word *zapatos*, which means shoes. To avoid mispronunciation, venture capitalists suggested to add another "p". Thus, the name of the future biggest online shoe retailer has been born (Hsieh, 2010a; Staff, 2009).

Planned operations of the just-born company were characterized as "drop ship" type of business: Zappos would publish the catalogue of multiple footwear brand's items on their website and when the customer registers the order, Zappos would refer to the manufacturer (Hsieh, 2010a: 38). Although this business model was already widely-known, Zappos was a pioneer to do so in footwear industry. However, the process of convincing manufactures to cooperate in e-retail operations was hard, especially

considering the fact that no one has done it before. Fred Mossler, the only board member of Zappos with an experience of working in footwear industry, described the first attempts:

> "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).

Eventually, Zappos found a delivery service that agreed to work with them on the constant basis. The business model was ready to be executed. However, soon after the tough start, another concern was raised – the financial sustainability. The initial financial aid from Venture Frog was rapidly disappearing and revenue was too small to sustain the amount of cash. Tony and Alfred from Venture Frog applied for the investments from Sequoia – venture fund that invested in their previous company – LinkExchange, and, in the future, became one of the fund that invested in such ideas as Whatsapp, Youtube, Airbnb, as well as Google and Apple (Sequoia Capital, 2017). The connections and former cooperation with Sequoia assured Venture Flog capitalists that they would invest into Zappos. However, by Zappos and Venture Frog's amusement, it did not happen. Later, Michael Moritz, a partner from Sequoia, explained it by referring to investment failures that recently happened with dot-com companies supported by them (Sequoia Capital, 2017).

A serious lack of funding was almost making Zappos a bankrupt, therefore Venture Frog was left with two choices – either they invest more in Zappos and shut down the opportunities for any other potential startups, or they let Zappos "die" (Hsieh, 2010a: 43). Tony Hsieh, co-founder of Venture Frog, decided to make the first (out of many further) risk move – to support Zappos, which led to moving Zappos office to Venture Frog incubator space and, more unusually, to renting out its other properties to Zappos employees for living for free. Tony's personality traits, entrepreneurship spirit and, more importantly, a strong unwavering belief in Zappos future led to the next pivoting decision in the history of the company – Tony Hsieh joined Zappos staff as a full-time member in 2000 (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).

Suffering with the lack of funding, Zappos was forced to review its current business model and to differentiate the short-term survival goals and long-time strategy of company's development. Thus, in October 2000 Tony Hsieh announced the 9-months plan: reducing budget expenses, cutting job openings, focusing on increase of average gross profit, conversion rates, number of new and percentage of repeated customers (Hsieh, 2010a: 51). This plan led to decrease of staff members and extra work hours for Zappos and helped for the company to survive but did not increase the level of sales. Company required a more radical change.

Thus, Zappos decided to raise money by solving the merchandising issue, which means opening a physical store to convince footwear brands to sell shoes to Zappos and renting the warehouse to storage the items. This decision to change the business model led to over expected success – the gross sales were up to $8.6 million by the end of 2001 (Hsieh, 2010a).

Later in 2002, Zappos signed a contract to outsource the warehouse operation to eLogistics due to its beneficial location (Hsieh, 2010a). Perspectives of running warehouse from "the middle of the country" were tempting, thus Zappos could provide better customer experience by delivering orders in just a few days instead of the promised week (Hsieh, 2010b). However, soon after signing the contract, operation had gone bad. Understaffed warehouse of eLogistics could not catalogued over 10 thousand Zappos items fast enough, orders was getting delayed, lost or mixed up. In addition, once moving items from old Zappos warehouse to a new one, a track with around 2 thousand items got into the accident and all goods were damaged. Tony Hsieh and Fred Mossler, senior managers of the company, spent next two days calling in person to customers and explaining that their order is cancelled (Hsieh, 2010a). Zappos was inevitably losing customers, hence, losing money, which led to another serious financial crisis. Tony Hsieh decided to sell his "party loft", which was enough to let the company be safe for the next 6 months.

"It was a valuable lesson. We learned that we should never outsource out core competency." – said Tony (Hsieh, 2010a: 64). However, the business model was still right. Soon Zappos opened its own warehouse at the same location and finished 2002 with $32 million in sales.

At this time, when the financial crisis was left behind, Zappos decided to focus on providing a great customer experience that made the company the first customer-driven business in the history of online retail (Hsieh, 2010a; Chandler, 2010).

One of the main reasons of Zappos' success from a marketing perspective was repeated customers and a word of mouth (Hsieh, 2010a). Thus, by finishing 2003 with $70 million revenue in sales, Zappos decided to spend the marketing budget on developing a great customer experience. That included several factors, such as: free shipping for both ways, 365-day return policy, encouraging communication between Zappos and customers via phone and opening the call center 24/7 mode, as well as a warehouse.

Telephone was considered the main branding device – no script of limitation on time of the call (Hsieh, 2010a: 75). All staff of the call center had a four weeks training to ensure the quality of provided customer service. Moreover, if customer was requesting an item that Zappos did not have, the company would refer the customer to Zappos competitors (Hsieh, 2010a; 2010b). Even Zappos was inevitably losing the customer but leaving him with a positive experience and, thus, company was investing in word-of-mouth marketing.

Exceptional working hours for warehouse was unusual as well, however it made it possible to have an overnight shipping that positively amused customer and created so-called "WOW" effect (Hsieh, 2010a; 2010b).

Call-center, or in Zappos vocabulary, Customer Loyalty Team (CLT) was bringing 5% of all sales and was increasing the number of repeated customer, however, having CLT in San Francisco was too expensive. At first, Zappos considered to outsource call service to India or Philippines, however, remembering the previous unfortunate experience, they declined this idea. Thus, in 2004, Zappos senior managers decided to move headquarter office to Las Vegas (Hsieh, 2010a; 2010b).

That decision cost the company half a million dollars and 20 out of 90 employees (Hsieh, 2010b). However, from the long-term perspective, it gave them a new boost of growth. They were providing an exceptional customer service for an online company, while being a e-retail pioneer of footwear industry. Unusual business model, visionary, long-term oriented leadership along with focus on the internal culture ensured Zappos success and led to reaching $1.14 billion in sales by the 10th anniversary of company's existence (Hsieh, 2010a; 2010b).

The unique techniques and development of Zappos brought press attention. Tony Hsieh had been invited to several conferences to talk about the company's development. Zappos slowly started to become not only online e-retailer but also a brand with a valuable history to other organizations. Zappos even started the website "Zappos Insights" to navigate and share their journey of success by cultivating happiness among employees and customers (Hsieh, 2010a; Zappos Insights Website).

Even though the revenue growth continued, the focus on other operations rather than on e-retail could not be unnoticed by Zappos board members, hence, investors. By reaching the revenue of $1 billion, board member expected Zappos to look for an exit, neither acquisition or IPO. CEO of Zappos, Tony Hsieh, among other senior managers valued the internal culture as the shape and the brand of the company, therefore they were afraid that selling the company would cause the destruction to the culture. Thus, they decided to buy out the board of Zappos (Hsieh, 2010a).

The communication with Amazon started already in 2005, however, both sides did not have any clear intentions then (Hsieh, 2010a; 2010b). By 2009, both Amazon and Zappos had grown dramatically.

> "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).

While discussing the deal of selling Zappos to Amazon, both sides perceived the deal more as a "marriage" rather than an acquisition. Even though the Zappos would belong

to Amazon, the former will retain the full control of the business, as well as continue working on its long-term vision and culture (Hsieh, 2010a; 2010b).

Until the negotiation was over, Zappos kept the potential deal with Amazon as a secret to its employees. Hsieh announced the deal to the staff and all shareholders via email, explicitly explaining what would it mean for the company's future. Senior managers of Zappos along with Tony Hsieh expected employees to be shocked by that news, however, generally, employees reacted in a positive way by understanding the value and benefits of Amazon's vast resources for the future of the company (Hsieh, 2010a: 102). By the end of October, Amazon officially became the owner of Zappos for $1.2 billion (Hsieh, 2010a; Hsieh, 2010b).

Overall, despite several drawbacks, within ten years, Zappos was only able to grow from a "pioneer" online startup to a successful large company without decreasing its annual profits, but also the first corporation which proved that investing into the organizational culture in the long run could lead to sustainability and success.
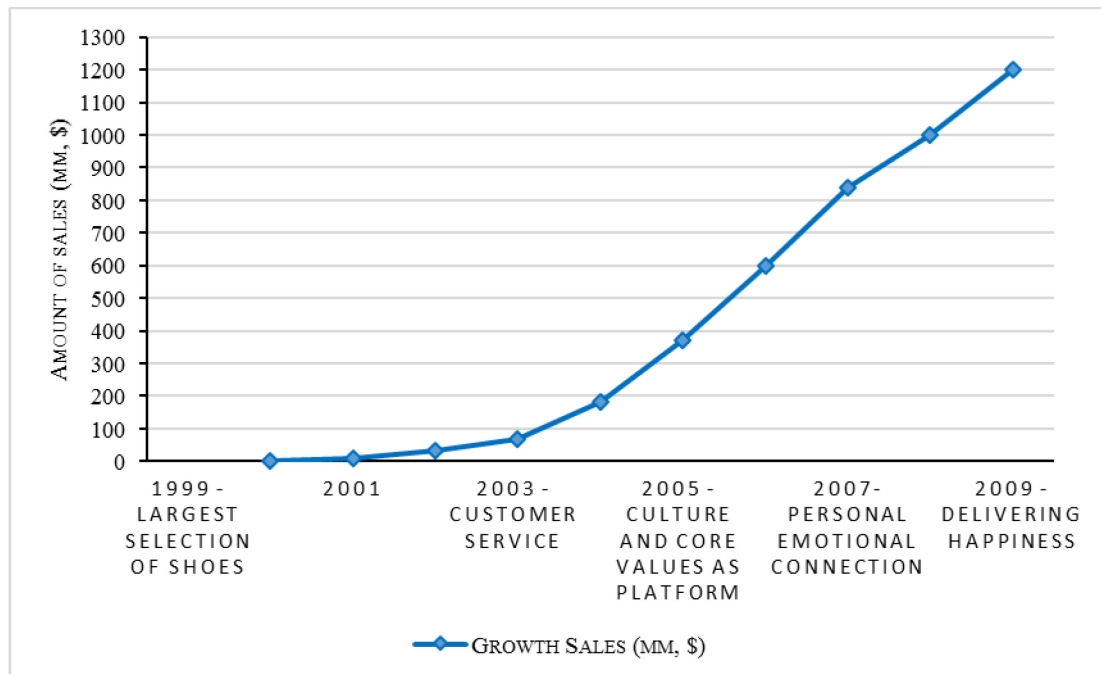

Figure 6. Timeline of Zappos: Growth Sales and Brand Development (Adopted from Staff, 2009; Hsieh, 2010a)

4.2   Case 2: Zappos – Culture and Structure

Due to the strong belief of Zappos founders into the company's success, the culture of the organization was extraordinary since the establishment. While overcoming financial and operational crises during the first years of company's development, the parent Venture Frog incubator dedicated the space of the owned property to Zappos employees for living, due to the need of significant salary cuttings (Hsieh, 2010a). That precedent can be considered as a foundation of the corporate culture with the emphasis on friends and family working environment. According to the CEO of Zappos, that struggling period was perceived as "all-for-one, one-for-all credo" (Hsieh, 2010a: 54), when unity of remained employees had disclosed the power of instilling passion, which later continued to be an element of organizational culture.

Further critical event that shaped the organizational culture of Zappos took place in 2004, when senior managers decided to move the headquarter office to Las Vegas. 70 out 90 employees agreed to move with the company and, hence, established even stronger appreciation for the mission of the company.

> "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).

The strong bond around culture that started in 2004 has resulted into the initiative to create a Zappos Culture Book. The idea behind was to ingrate the unique organizational culture into the part of company's branding. The CEO of Zappos asked employees to write 100-500 words about the meaning of Zappos culture to employees, as well as indicate the differences of it compare to other organizations and their favorite aspects of the culture. Eventually, the book was distributed to every shareholder of Zappos, inviting customers, investors and other concerned parties to participate into the contribution.

> "…it is become a book of reference for anyone remotely interested in Zappos, be it as a job applicant, a small business owner, or a future entrepreneur. Above all, because the company believes culture is an essential

part of its business, it has become a brand book." – *Jenny Lim, editor of Zappos Culture Book, employee of Zappos* (Hsieh, 2010a: 73).

The creation of Zappos Culture Book has two major consequences. First, stories that filled the book had become a foundation for formulating ten core values of Zappos (Figure 7). Those values signified not only the organizational culture, but also justified the mission of the company, its branding and business strategies (Hsieh, 2010c). Additionally, by 2009, the development of the culture as a brand leaded to the start of side, web-based project Zappos Insights to continue sharing cultural improvements and general insights of Zappos culture (Zappos Culture Book, 2012-2013). By the same year, the company started to organize cultural tours to the headquarters office to everyone who are interested. According to CEO and several other employees of the company, the uniqueness and constant improvement of corporate culture is the biggest competitive advantage and the most important element of Zappos brand (Hsieh, 2010a; 2010c).

It is worth to mention that Zappos' culture was not only developing organically by employees (Hsieh, 2010a: 78), but also had purposefully integrated elements. For instance, senior managers made a decision to have only one door available for exiting the building in order to increase changes of random employee's interactions. Furthermore, in 2006, when the company had approximately 400 employees, company management added additional step for logging in the computer systems, hence, employee would see a photo of some another worker of Zappos and given multiple options to name that employee and, afterwards, received a bio of that person (Hsieh, 2010a: 78). Thus, the aim of that exercise was to learn more about the staff and, therefore, keep the family working environment despite of constant growth and expansion (Hsieh, 2010a; CNN Money, 2014).

Figure 7. Zappos 10 Core Values (Source: www.zapposinsights.com)

Structure and employee's perspective

Throughout the company's growth, Zappos remained the hierarchical organizational structure until 2014 (Figure 8). The positions of senior management had been the same for the first fourteen years of company's existence, while the lower levels of organization had been added by the Zappos development. Despite the hierarchy, Zappos considered to have a flat organizational system that simplified the process of decision-making, especially at the first stages of company advancement (Hsieh, 2010a; Rothaermel, 2013).

According to the data service GlassDoor, where employees of the organizations worldwide can leave feedbacks and testimonials anonymously, Zappos' employees since 2007 were reflecting on the insights of working environment in the company (Glass Door Website). Thus, employees shared their impressions about labor division, indicating that senior management had some level of prioritizing the value of one department (specifically was mentioned warehouse operations) above others. However, at the same time, senior management was considered to be highly approachable and helpful.
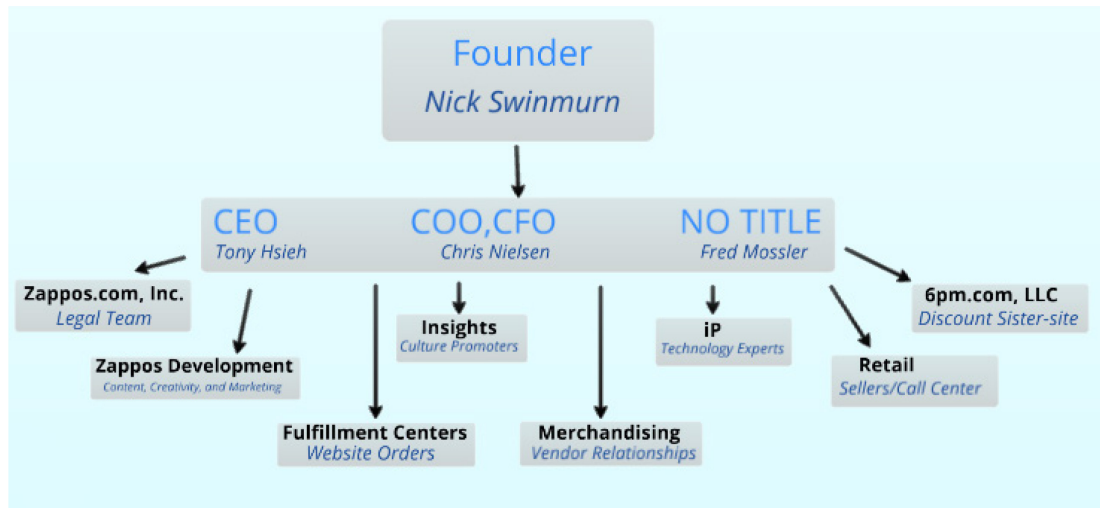
Figure 8. Zappos Organizational Chart in 2011-2013 (Source: www.zapposinsights.com)

Furthermore, the review of 20 employee's testimonials from 2009-2011 indicated that people were generally happy, thus the majority of quotes had titles like "a great place to work", "friendly and family environment" and had other expressions that emphasized the appreciation for the company culture. However, employees also criticized the confusion brought by rapid growth of staff, miscommunication and underestimation by the upper management, as well as "drinking culture" and misbalance of work/life integration system. Besides, several employees mentioned that it was not a "children-friendly" environment and abandoning corporate leisure events for the sake of personal or family time off were not well accepted.

4.3   Case 3: Zappos – from Hierarchy to Holacracy

After the acquisition by Amazon, Zappos started to expand the production services by providing not only shoes, but variety of products, starting from clothes and going further to kitchen utensils. Production expansion required the expansion of the staff, therefore, between 2009 and 2013, Zappos more than doubled the number of employees, increasing the total number up to 1500 people. Rapid growth of personnel led to miscommunications and difficulties with keeping up one of the core values of the company in a high level - the internal culture. Even though Zappos had a specific hiring technique, with 4 weeks of careful training and the out of standard offer to leave with at least $1000 right after the training, CEO of the company, Tony Hsieh, started to sense that the organizational change should be made.

Hsieh and employees of Zappos in several interviews and presentations repeatedly referred to the phenomenon of innovation growth in a city and an organization. According to the study, the growth of the city raise the productivity and innovation rate per resident by 15% (Glaeser, 2011). Whereas, generally, the company's growth influences the innovation and production rate per employee with downscaling pattern (Robertson, 2015; Glaeser, 2011). According to Brian Roberson, the inventor of Holacracy, during the first accidental meeting with Tony Hsieh, the latter said: "I am interested in how we can create organizations that are more like cities and less like bureaucratic corporations. Do you think Holacracy could achieve this?" (Robertson, 2015: 15)

After Robertson's affirmative answer and several meetings, in May 2013, Tony Hsieh announced the start of the focus group in Zappos, which would be working on Holacracy establishment. By the beginning of 2014, Zappos officially confirmed the start of complete transaction from the traditional organization with hierarchical structure to holacratic (Feloni, 2016).

Even though media had previously covered the topic of Holacracy, Zappos was the biggest company that decided to implement this governance system, thus causing, a new wave of press attention. Online business magazine Quartz was able to get an exclusive report from Zappos by the end of 2013, where two of transition leading managers commented on the change:

> "We're classically trained to think of 'work' in the traditional paradigm...(1) One of the core principles is people taking personal accountability for their work. It's not leaderless. There are certainly people who hold a bigger scope of purpose for the organization than others. What it does do is distribute leadership into each role. Everybody is expected to lead and be an entrepreneur in their own roles, and Holacracy empowers them to do so." – *John Bunch & Alexis Gonzales-Black, transition managers at Zappos* (Groth, 2013).

According to the same Quartz report, a complete transition was supposed to be done by the end of 2014 (Groth, 2013). However, by March 2015 only 85% of Zappos departments started the transition (Feloni, 2015a; 2015b). Presumably, in order to fasten the transition, Tony Hsieh sent an ultimatum email to all employees with a

request to make a decision – to embrace holacratic self-management system or leave with 3-months' severance package (Feloni, 2015a; 2015b). That, eventually, resulted in 18% loss of employee within half a year period. Despite of this, Tony Hsieh along with other supportive employees (the term "managers" did no longer exist) felt that this loss of staff was a reasonable sacrifice to protect the main asset of Zappos – its culture (CNN Money, 2014).

Along with internal struggles with Holacracy implementation, Zappos transition manager John Bunch mentioned as a main external difficulty that "fewer than 1% of companies in the world don't have a traditional hierarchy" (CNN, 2014; Feloni, 2015). In his vision, Holacracy empowers the clear vision, simplification of decision-making, celebrates diversity and entrepreneur spirit of employees and to lead the organization "more like a city" (CNN, 2014; Feloni, 2015b; Nickish, 2016).

Zappos implemented a software, empowered by HolacracyOne, which helped facilitate the job and authority division throughout the organization (Thomas & Silverstone, 2015). The software consists of "role market", accessible to every employee. Each staff member can apply for a certain role that consist of responsibilities and tasks to complete. "Lead link" person – the substitute of regular manager in Holacracy vocabulary, decides who is capable to fulfill the certain role (McGregor, 2014). Thus, the system gives an opportunity for every employee to unleash their potential and avoid "claiming a corporate ladder up" as in traditional hierarchy, but instead have a "job jungle gym" that allows development in several different types of expertise (Nickish, 2016). Later in July 2016, Bunch gave an interview for HBR podcast, where he talks about the internal environment:

> "We want to be able to give people the freedom to work on things that they think are really going to help the company forward. And on top of that, we need systems and processes to make sure that every employee is bringing enough value to the organization to keep them employed." – *John Bunch* (Nickish, 2016).

The same month of the interview, Fred Mossler, one of the co-founders of Zappos, announced his resignation. He had 12 different roles in organization that were distributed throughout several employees. Tony Hsieh commented that Mossler was

"a soul of organization" and that "anyone will ever be able to replace the unique spirit that Fred represents" (Abel, 2016).

Currently, Zappos continues to develop as an independently ruled business owned by Amazon. The exact growth of the company is unknown, since Amazon is not disclosing a financial report. However, it is known that Zappos has approximately 5000 order each day and continues "delivering happiness" by providing great customer support and exposing the development and benefits of their internal culture (Abel, 2016; Banjo, 2017).

Perspectives of employees

After Tony Hsieh's ultimatum email, the employee's perceptions of change were split in three categories: "the believers, the nonbelievers, and those who decided to remain out of convenience despite their reservations" (Feloni, 2015b).

Several employees pointed out the growth of freedom in a professional level, as well as increase level of empowerment and benefits of self-management.

> "The freedom to make real change if you're confident in your work and aren't scared of change." – *Anonymous Employee* (Glass Door Website: August 2016).

Additionally, employees expressed the level of appreciation to the opportunity to move within one role and to another. However, a shift to holacracy and an ability to have a choice of the role that employee wants to fulfill, several people from different field of work commented that the environment was "fake happiness". An employee who decided to stay at Zappos pointed that Zappos is "still a great place to work" on account of its benefits, pay, and its employees, but that it's necessary to deal with a "disruptive atmosphere" and "bothersome social experiments" (Glass Door Website: March 2015). Besides, he existence of criticism and frustration was not well-accepted due to lack of the open communication.

"Employees are in constant fear of losing their jobs for saying or doing something that proves to management that they aren't a 'culture fit.'" – *Anonymous employee* (Glass Door Website: April 2015).

Additionally, there were other reasons for employee's frustration. For example, although official titles were abolished, Zappos employees could choose how to represent themselves outside of the company. Currently, the examples of role's title are, for instance, Time Sorcerer and Agent of WOW. For many of those at Zappos, these names represent a self-aware silliness that makes the workplace more fun. Others worry how they're going to explain them on a resume (Feloni, 2015b). Furthermore, several employees wrote that the company with holacracy is lacking the united direction of development.

Overall, despite the amount of criticism and negative reviews, the number of current and former employees that holacratic governance system will, eventually, work is still rather high.

"…the system will end up working…. most of those who remained at the company are passionate enough to stick through challenges and young enough to find the challenge exciting." – *Former employee* (Feloni, 2015b).

CASE ANALYSIS

The case analysis is based on three groups of factors that are based on the literature review presented in the Chapter 2. However, based on the collected information for historical case studies, it was impossible to evaluate some of the factors a perceptive of comparison of hierarchical and holacratic structure. Thus, in the group of environmental factors, only the level of overall technical adaptation is reviewed. As for the structural group, factors such as relation to superior, employee engagement and authority limitation has been analyzed with an emphasis on the difference, brought by the change of organizational structure. Finally, all factors related to internal factors has been described by using feedback of Zappos employees presented in cases 2 and 3, which has been taken before and after holacracy governance system (Figure 9).
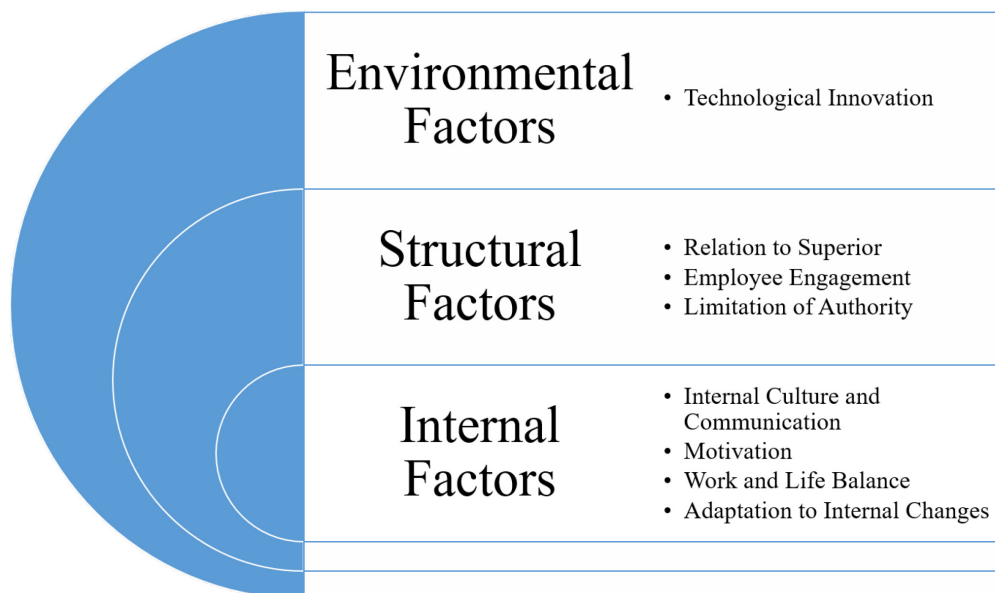

Figure 9. Zappos Case Analysis: Evaluated Factors

5.1 Environmental factors

Technology Adaptation

By the time of Zappos establishment in 1999, the online e-retail type of business was relatively new. The benefits of Internet development started to be widely used in a business sector only several years ago, however, not many of those businesses were

successful. Zappos was only not able to survive the so-called dot.com crisis in 2000, but, while being a pioneer at online retail in footwear industry, manage to steadily increase the revenue in an annual basis.

Furthermore, compared to other online retail businesses, Zappos quickly realized and took the opportunity behind owning and ruling logistic operations without outsourcing the merchandise. After adopting this technological concept, by opening their own warehouse and running it in a 24/7 mode, Zappos was able to dramatically increase its revenue and enable the further development.

Another innovative concept implemented by Zappos was an exceptional effort taken in order to create a great customer experience. While other companies in the field were spending the marketing budget on paid advertisements, Zappos fully invested in call-centers, assessable anytime of any day, to help customer in any possible way, thereby insuring the word-of-mouth effect.

Thus, even though the first ten years of company's development happened with a hierarchical structure, the level of technological adaptation and innovation was rather high.

5.2   Structural factors

Relation to Superior

According to the study of a relationship between the superior and the subordinate in a traditional hierarchy (Thompson, 1968), the superior is perceived as a "boss", who has the right to monopolize communication (1968: 487), defense from his subordinates (1968: 488) and to be insensitive to subordinates' personal needs (1968: 489).

Even Zappos had a board of directors since its establishment, various sources confirm that Tony Hsieh, since he joined the company as CEO in 2000, was the main ("visionary") leader. Some of his decisions, such as 9-months survival plan in 2000, moving headquarter office from San-Francisco to Las Vegas within a few months, acquisition by Amazon, forceful switch to holacracy – all of those were widely

criticized by his employees and subordinates and, thus, correlates with theoretical implications. However, compare to the study and the environment of second part of 20th century, when the study was conducted, the disagreements did not lead to prolonged organizational conflict (Thompson, 1968). In turn, unsatisfied employees were treated well and were able to leave the company with severance package, therefore it indicates the care for subordinate's needs.

The perception of the superior has dramatically shifted, when Zappos had switched to holacratic structure. According to Holacracy Constitution (2010) the term of "superior" or "boss" can been completely eliminated due to establishment of self-management regulations. Instead, CEO or any other superior of hierarchy loses the given authority above subordinates, becoming more as a "coach" or, so-called "lead-link" (Robertson, 2015).

The shift to strictly defined subordination to holacratic, self-management concept has been perceived ambiguously by employees. According to database service GlassDoor, throughout 2015-2016, 345 employees had left their reviews of the company, while only 31% of respondents approved the upper management.

Employee engagement and Limitation of Authority

In relation to the previous factor, in the traditional hierarchy, the level of employee's engagement in operations, decision-making processes and strategy is almost equal to zero (Thompson, 1968; Yukl 1989). Employees are framed by their duties and responsibilities in the way that prevent any contributions from beyond of their position in the organization (Thompson, 1968; Yukl 1989).

While still being a hierarchical organization, Zappos already made an exceptional effort for employees' engagement by asking them to contribute to the creation of Zappos Culture Book. According to the CEO of Zappos that shared initiative had a powerful impact on feeling of belonging and appreciation among employees. The boost of employee's engagement by 2004-2006 helped company to overcome obstacles with operations and keep most of their employees, while moving to another state.

According to the data findings, authority was limited by the hierarchical position of employee, however, the upper management were open for suggestions and conversations with any employee, regardless of the department or position in a hierarchical ladder. The conducted study of employee's review confirms the company's perceptive, however, it has been noted that when company started to expand rapidly and, eventually was bought by Amazon, upper management became not accessible and were not giving clear directions of company's future. Furthermore, some reviews stated the favoritism of departments or specific individuals by upper management, which could be indicated as the usage of authority to satisfy personal needs (Thompson, 1968).

According to the inventor of Holacracy, Brian Robertson (2015), creating the opportunity for employees to be as engaged as possible was one of the core reasons of creation a holacratic system of governance and structure. Thus, with holacratic structure Zappos gave an authority to employees for decision-making, setting the goals and responsibilities by choosing the one or several roles in organization.

From the employee's perspective, the growing level of ability to engage was perceived well, due to an opportunity to develop themselves in different fields and un-routinized the daily work activities by fulfilling different roles in the company. However, some review indicated that the equal distribution of authority at the phase of transition of holacratic structure led to confusion and disorder, as well as losing the long-term strategy. After several years, company is still believing in the further successful development of holacratic structure, whereas employees are still trying to adjust to a new system.

5.3   Internal factors

Internal culture and Communication

In a traditional hierarchical organization, culture is a documented manifest, coordinated by upper management that regulates the structure and cultural traits of the company by focusing on the importance, control and attitude of "doing things right" (Handy, 1993; Tannenbaum et al., 1974). Whereas the internal communication has

been developed in horizontal levels of hierarchy, several researchers had indicated the lack of communication techniques between vertical levels of hierarchical ladder (Thompson, 1968; Handy, 1993).

Culture of Zappos is one of the main factors that differentiate the company from other hierarchical organizations. As has been mentioned before, Zappos Culture Book was written by a combined effort of multiple shareholders, and, eventually, Zappos culture become also its brand and even its product (Hsieh, 2010a; 2010c). By the time of 2010, Zappos culture considered to be the main competitive advantage in a long-term development (Hsieh, 2010a). Ten Core Values is a milestone of Zappos culture and even though has been introduced by upper management, CEO claims that it has inspired by all Zappos employees. In terms of communication, Zappos upper management were trying to flatten the hierarchical ladder in order to simplify the communication practices within the whole organization.

According to the internal perspective of employees, running a company around the culture that cultivates "happiness" became a threat to productivity due to common distractions in the working environment. Zappos with hierarchical structure had more control on the culture and its development and facilitation. However, after the change to holacratic structure employees indicated the misinterpretation and misuse of company's culture had gone worse due to self-management and governance processes. Currently, some long-term employees are afraid that Zappos culture has lost its sacred meaning and can have a negative effect on company's productivity and growth.

Motivation

According to the studies, motivational factors in a hierarchy are usually related to the physiological and safety needs, such as a need for a safe working environment, stable salary, fair benefits, opportunity for a career growth, reasonable working hours and other (Maslow, 1998; Linder, 1998). Further studies in motivation in management indicated the correlation between hierarchy of needs and employee engagement level (Linder, 1998; Gallup Corporate Survey 2012). Thus, inability to fully satisfy the top level of needs, such as self-esteem and self-actualization (Maslow, 1998) led to poor engagement of employees.

As has been mentioned before, active participation and contribution to the creation of Zappos culture has been a foundation for the empowering and collaborative working environment. Thus, Zappos by being still a hierarchical organization was able to invest in the satisfaction of such employees' needs as feeling of belonging and appreciation, comradery among colleagues and inclusiveness (Maslow, 1998). Furthermore, Zappos specific hiring technique with the opportunity to leave the organization right after training with the bonus of $1000 has ensured that new employees has intrinsic motivational factors that are beyond the physiological needs (Linder, 1998).

The shift to holacracy had boosted the satisfaction of self-esteem and self-actualization needs of Zappos employees due to increase level of independency and opportunities for personal development and entrust of decision-making process (Linder, 1998). According to Holacracy regulations, the role structure increases the accountability for self-management, however, the ability to choose the assigned duties creates an ownership over the work, co-called "individual organization" (Robertson, 2015). Thus, by assuring the satisfaction of highest motivational needs for employees by using holacratic governance system, Zappos increases the productivity of employees and, hence, the profitability and adaptivity of the company.

According to the review of former and current employees, the company benefits, such as medical insurance, free food, entertainment activities, and boost of professional growth are the biggest advantages of the company and, possibly, the most attractive factors for potential new employees. By the time of holacracy establishment, according to the data service GlassDoor, the rating of the category "compensation and benefits" has raised from 3.6 to 4.2, and became the highest trend.

Work and Life Balance

This factor has not been thoroughly researched in terms of hierarchical structure, however, some studies refer to the work-and-life balance as one of the needs (Linder, 1998) that in the traditional hierarchy are facilitated by providing vacations, seeks days, maternity leaves and so on (Tannenbaum et al., 1974).

By the specifics of Zappos culture and strategic development, the company perceived its environment as "family spirit that creates fun and a little weirdness" (Zappos Website). Furthermore, the working attitude has been stated as work-and-life integration, instead of work-and-life balance. The intention is described by the company as an effort to empower happiness and engagement of employees (Hsieh, 2010a; 2010c). However, inner perspective by Zappos employees has a negative implication: several reviews has indicated that work and life integration turned out to be fully committed to the company and its activities regardless of employees' personal life.

Holacracy, by its principles of driving change and focus on personal development, also encourage the attitude of work and life integration. However, in Zappos that attitude had become the part of the culture, therefore, even after the transition the development and adjustment according to the employee's request has not been facilitated. So far, according to the data service GlassDoor, the absence of a proper work and life balance has been the most unattractive factor for the potential employees and the most common reason for the former employees to leave.

Adaptation to Internal Change

Organizational or structural change in a hierarchy are usually strictly regulated by documented order and procedures that are distributed and executed by top-down approach (Handy, 1993). Thus, the hierarchical organization is attempting to establish transparency of the change with a minimum or no harm to the company operations (Handy, 1993).

By the first ten years of Zappos development, the CEO of the company had facilitated the inner changes by distributing the official email that stated the following adjustments and by organizing Q&A sessions and meeting with managers (Hsieh, 2010a). The acquisition by Amazon at 2009 is a practical example of how traditional hierarchical organization distributes the major change in the future of the company (Handy, 1993).

In turn, according to Holacracy Constitution (2010), the holacratic organizational structure eliminates the power of CEO to fully drive the change of the organization and dictate company's future direction by himself. The process of transition to holacratic system has been delegated to the specific team that has experimented with several focus-groups of Zappos department for seven months and, afterwards, started to distribute the change to the whole company. Overall, the transition process took almost two years and cost Zappos almost 20% of its employees. The complex process of employee's adaptation is currently considered the biggest disadvantage of holacratic structure in Zappos and in general. However, recently Zappos was able to rehabilitate the loose of the staff and continue to develop as a holacratic structure without any intention to return to the traditional hierarchical structure.

CONCLUSION

The given study justified the importance of the organizational structure and design in terms of business operations and strategies by providing a comparison of examples of organizational "images" as a machine and as organism (Morgan, 1997) – hierarchy and holacracy. According to the conducted literature review, the success and popularity of hierarchical organizational structure that pursued in the second part of 20th century had recently been in decline, due to the rapid and turbulent change of the business environment. Therefore, this research was attempting to study an alternative organizational structure, which would be more adaptive to the emerging changes.

The subject of this thesis was an American-based company Zappos, which was established in 1999 and acquired by Amazon ten years after that. By the time of the acquisition in 2009, the company had approximately 1500 employees. While continuing to grow, Zappos made a decision to switch their organizational structure to holacracy. The purpose of this thesis was to reply on the research question, which is: *How did the Zappos development from hierarchy towards holacracy take place?*

The empirical part of the research has been done by conducting several case studies that described the process of Zappos development, the unique characteristics of the organization and, specifically the reasons of the structural shift. Further case analysis described the development process from hierarchical structure towards holacratic in a reference with investigated theoretical implications.

It is worth to mention that, according to the findings, Zappos has never been a bureaucratic hierarchical organization in a traditional sense. Instead, Zappos had several indications of relation to "image" of organization as organism (Morgan, 1997), such as low degree of specialization and formalization and focus on satisfaction of organizational needs (Morgan, 1997; Rothaermel, 2013). However, analysis also confirmed several indications from the "image" of organization of machine, therefore, it remained unclear, whether Zappos was a fully mechanistic or organic organization.

Furthermore, according to the case analysis, the premises of the change of organizational structure had a wide and narrow perspective. The former can be

justified the shift from hierarchy towards holacracy by the rapid expansion after acquisition and the desire of CEO to lead organization "like a city" (Glaeser, 2011), whereas, the latter perceptive included premises, such as culture, unusual techniques of operations and, uncommon for this type of industry, focus on long-term vision.

Three years after the holacracy establishment, Zappos continued its successful development, despite of the negative feedbacks and media coverages and, so far, remains the first large organization that was able to facilitate the full change from the outdated hierarchical organizational structure to a modern holacratic governance system.

6.1 Scientific Contribution

The theoretical findings of the conducted study were 11 factors for simplification of comparison between holacracy and hierarchy that were divided into three groups, which are environmental, structural and internal. Thus, those factors are considered to be a proposed solution for resolving a stated research problem to decrease the lack of scientific data of how large organizations can change their organizations structure in order to increase the vitality and adaptivity to changes in business environment.

The benefit of the scientific outcome is the opportunity to use factors for further research to, for instance, identify downsides of the hierarchical structure and advantages of alternative organizational structures. Furthermore, suggested factors can serve as a basis of the further investigation of components that hierarchical structure need to change in order to increase its potential towards adaptivity, as well as researching the possible substitutions of those components.

Additionally, the outcomes of the theoretical implications can be used for the study of the other organizational "images", beside machine and organism, proposed by Morgan (1997) for deeper analysis of the premises and importance of organizational structure in the current business settings.

6.2 Discussion and Managerial Implication

The outcomes of the theoretical part of the research has resulted into the proposition of the hypothesis, which stated that *in an era of constant environmental changes, large-size organization should adopt holacratic organizational structure rather than remain with hierarchical structure.*

The purpose of stated hypothesis was to evaluate the possibility to generalize the outcomes of the first and successful switch from hierarchy to holacracy. However, as has been stated, Zappos can be considered as the unique case due to the wide list of premises that inspire the change. It is also worth to mention that Zappos became considered to be a large organization only a few years before the shift, therefore, large corporations that had been established before 21st century might consider the change to holacracy too demanding to be executed.

Overall, in the era of constant business environmental changes, large corporations should increase the level of adaptivity in order to prolong the changes for further successful development. However, according to research findings, the complexity of the shift to holacracy overwhelm its benefits. Nonetheless, leaders and managers of large companies should consider the power behind internal culture and how active engagement of employees can be beneficial for company's productivity, sustainability and profitability. The practical advice on the culture embedment and on exceptional culture service integration, beside the presented thesis, could be found in Zappos Culture Book and side projects dedicated to the internal culture and its perception: Zappos Insights and Delivering Happiness (Zappos Insights Webpage).

In addition, the findings of the conducted study have practical implications for recently scaling startups and companies. Due to high level of competitiveness on the market and rapid speed of technology innovation, adaptivity and adjustment are the keys for the emerging companies to survive. While scaling the business, hierarchical structure along with bureaucratical procedures has a strong negative effect on the adaptivity. Therefore, establishing the holacratic structure from the foundation or scaling phase of company's development can support the growth of adaptivity by eliminating the hierarchical ladder, distributing authority to all employees with ensuring the

encouragement of active involvement into company's operations and strategical developments.

6.3   Limitations and further research

The given study has several limitations. First, the literature review did not have a full overview of the holacracy governance system and a proper indication of the origins of this type of organizational structure. Second, the conducted case analysis of comparison factors identified as theoretical outcome had evaluated only 8 of 11 stated factors. Finally, as has been mentioned before, the thesis has a certain degree of a lack of generalizability, while attempting to disprove the stated hypothesis.

The first limitation was made in order to focus on the purposes of the study, which is the comparison of organizational structures, therefore, the overview of holacracy has been made only in terms of its structure and how is affect the formation of the organization. The second limitation is justified by the lack of data about the subject of the study for enlightening the correlation of 3 remaining theoretically related factors with the conducted case studies. Furthermore, some of the factors, such as the form of the structure, had been self-explanatory, therefore, it has not been reflected in the outcomes of the whole research. The last stated limitation can be determined by the choice of the research method, whereas the discussion had provided the application of the findings that are relevant to the managers of different types of organizations.

However, the given limitations broaden the opportunities for the further investigation of the matter. For instance, findings of this thesis can be used for the study of the ground theories of self-management practices, hence, holacracy. Moreover, other researchers might be interested in making a deeper analysis of holacracy as governance system, as well as researching another organizations, apart Zappos, that have practiced it. Furthermore, on the topic that has been fully disclosed in this study is the generational change and its impact of organizational efficiency. Finally, according to the conducted research, hierarchical organizational structure is remaining to be the most used in large organizational, therefore the proposition will be to study the hierarchical companies that were created in 20th century and continued its operations successfully throughout the beginning of 21st century.

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