



Faculty of Economics, University of Niš, 13 October 2016

International Scientific Conference

**THE PRIORITY DIRECTIONS  
OF NATIONAL ECONOMY DEVELOPMENT**

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**HOLACRACY - THE NEW MANAGEMENT SYSTEM**

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***Abstract:** Traditional models of organization and creating hierarchical levels reach its limit. Modern companies search for the model of organization which would enable them to structure businesses and avoid unnecessary managerial – hierarchical levels and thus reduce costs. Holacracy represents one of the alternative ways of organization and creating new organizational structure which would largely help companies to run their business more effectively. This alternative system of management will be dealt with in this paper, as well as its development, practical application and advantages and disadvantages which such a model has.*

***Keywords:** holacracy, self-organizing teams, organization structure.*

**1. Introduction**

Numerous challenges that modern organizations are faced with, among others comprise rapid changes in the environment, and it can be said that these are at times completely chaotic. Predictability of environment has become a matter of past. However, even in these conditions many companies still function according to the traditional model of so called top down hierarchy. This form of organizing cannot be said to be bad, quite the opposite. It has become inadequate for the environment possessing characteristics of great complexity. According to the words of management expert Gary Hamel “the environment is becoming extremely turbulent and surpasses the capability of organizations to adapt in due course. The foundation of traditional organizations has not even been “made” for this kind of changes” (Hamel, 2009).

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Practice indicates that organizational structures of many companies demonstrate a high level of inefficiency so the need for the change is no longer disputable. Modern environment imposes a new imperative that reflects itself in a high level of agility. In the stated situation, traditional forms of organizing no longer have the potential they used to have. Many experts state the fact that hierarchy “stifles” innovation and in their opinion, the future of organizing is flat structure. They enable quick decision making and they save time that would otherwise be spent on different paperwork. For this reason, a great number of members of middle management in the companies worldwide have lost their jobs.

A few creative companies are making their way in the course of radical changes. Aaron Dignan, the CEO of a well-known American consulting company Undercurrent and the author of the book *Game Frame*, states that modern companies begin to organize following a new pattern – the ability to evolve in real time (Dignan, 2014).

## **2. Holacracy - organizations' response to new demands of environment**

Phenomena that have led to a need for a different way of organization, compared to previous century, are definitely the IT and telecommunications revolution. Modern devices and gadgets have enabled extremely fast information flow from sender to receiver, thus drastically speeding up the feedback time. Communication going on between two countries and/or continents can happen in real time.

In attempt to replace top down management system and introduce a new one that would in a more adequate way maintain the balance between hierarchy and collaboration, holacracy is introduced. This recognized management system is now being used by several visionary companies, such as Zappos (online clothes and footwear seller), David Allen Company (a consulting company), Medium (a company dealing with graphic and web design) and so on.

Bryan Robertson, the author of the book *Holacracy*, points out that human nature is extremely sensitive and that it functions in an excellent way when it comes to hunch and the cognition of change in general. When changes occur, people become uneasy, nervous, tireless, creative. The gap between real state and the one where they should be produces the feeling of frustration which triggers them to perceive the change in every possible way. This state is called tension by the author – with the occurrence of a problem (which, in his opinion, can present threats as well as chances in the environment), people put maximum effort into solving it in the best possible way (Robertson, 2015).

The author also states an interesting fact that organizations sometimes assign themselves far too many tasks than they can really efficiently execute. We are dealing here with an overestimate, just like it happens with people. Dave Packard, one of founders of HP states that more companies “die of indigestion than of hunger” (Robertson, 2015).

Contemporary markets are more than dynamic and a small number of organizations have the capacity to evolve and adapt in due course. Many of them have quickly entered the phase of organizational death precisely because of the evolution in the environment of global market. The fact is that most organizations have been established on outdated foundations. The paradigm which was valid in times of industrial revolution and which functions according to the principle of forecast-plan-control today is almost no

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longer usable. Robertson states that many managers tend to set up an organization still sticking to stated, outdated principles.

In this way they try to isolate tension, trying to create a system which will function in an ideal way. However, reality imposes a completely different pace – organizational design is to be changed constantly on the basis of real tensions and evolution of the environment. Change cannot be forestalled by creating an “ideal” structure which actually does not exist (Robertson, 2015).

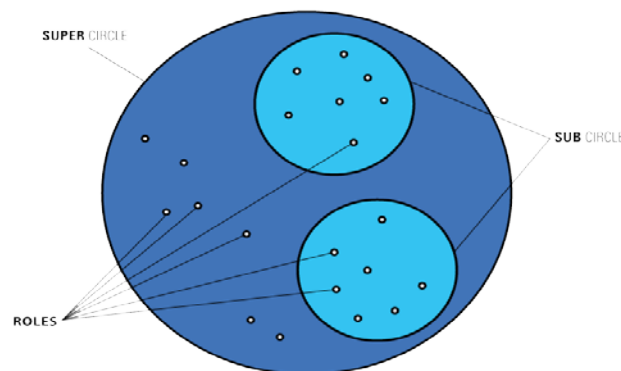
Holacracy is a means of organizing which in every way surpasses conventional norms. Some of the main characteristics which make it unique are an extremely flexible structure, high level of adaptability, constant contact with all stakeholders, good “tolerance” of uncertainty, a systematical approach to business, high involvement of employees in all the aspects of businesses and so on.

Furthermore, holacracy is the first real attempt in the sense of complete management democratization. The magazine Economist states that it has “shaken” the organization practice more than any other approach so far (The Economist, 2014). Compared to other management systems, it allows for organizations on a much higher level to create a shallow and extremely adaptable structure, holding effective work meetings, clearly distributed authority and work that is completely directed towards the task (Holacracy. One, 2008).

### 3. The way Holacracy functions

Holacratic organizational structure consists of self organizing teams which are in this system called circles or holons, as can be seen from the curcle structure model in Figure 1. Holon is a separate entity but at the same time it is a part of a bigger entity. The term was first introduced by the author Arthur Koestler, and it originates from the Greek word “holos”, which can be translated as “whole” (Koestler, 1990). A contemporary philosopher Ken Wilber defines holon as an identity in the phase of constant development and expansion (Wilber, 2001).

**Figure 1: Circle structure**



*Source: Holacracy One, 2016.*

Attempting to explain the term, authors state that examples of holon can be found anywhere in our environment. Atom is an entity but it is part of a molecule; a letter is part of the word and the word is part of a sentence. In organizational context, project teams are part of certain departments and departments are a part of a company as a whole.

Circles/holons are formed when the need arises, depending on the task the organization is executing at the given moment. In that way a natural and really necessary hierarchy that is directed to the work itself and the processes, not the individuals, is created (Robertson, 2007).

Each circle has its set of roles grouped around a specific function. Some of them possess so called sub-circles and all together are located inside of a big organizational circle, usually known as General Company Circle. Also, circles or holons have their own rights and autonomy, but they constantly have to be in mutual coordination. It is quite logical that the occurrence of autocracy in this environment is not even possible at all (Robertson, 2015).

One of the biggest differences between holacracy and traditional structures can be seen in the system of allocating titles in an organization. They do not exist in holacracy. Titles are replaced with roles of employees which are clearly defined, according to the task they perform and the way they can contribute to their circle and the organization in general. As soon as the role an employee has becomes no longer important for a goal that has been set, it is simply being recalled or cancelled. In this system, all leaders are responsible for their work and role they have at the given moment. It is highly important to point out that there are no pre-set rules in holacracy – they appear and are set up simultaneously with the performing of the work. Thus, all members of the organization understand clearly what is expected from them and mixing responsibility and duties no longer exists (Robertson, 2006).

The functioning of holacracy can best be described as “organizing the company focused on the work that has to be done, not on the people doing it” (MacGregor, 2014). During the process of getting work done, an individual can have more tasks and thus will function parallel in more circles/holons. Each role carries with itself a certain level of responsibility and authority and each employee understands clearly what is expected from them. In a situation when responsibilities connected to a certain role surpass the capabilities of an individual, the role can be divided into several smaller ones. In this way a new circle can be created (<https://glassfrog.holacracy.org/organizations/5>).

Unlike traditional structures where management is performed according to the top-down system, in holacracy it exists on every level of organization. This means that the classical CEO position becomes unnecessary. Instead, there is peer-to-peer cooperation where everybody has the right to participate. At the point when any member of the team sees a gap between real state and the one it should be, a meeting all employees attend is summoned, and everybody is expected to contribute to solving a problem (or taking a chance). A settled opinion, which seems quite logical, is that one man, a leader, cannot decide better than all of the people who are involved in the work (Robertson, 2015).

### **4. The History of Holacracy**

Although holacracy is a new model, many authors state that it actually represents integration of several models existing for a long time. Thus, some of them point out that today's holacracy is actually a kind of refined sociocracy. However, the term sociocracy was first introduced into corporate circles in 1960 by the author Gerard Edenburg, a Dutch engineer. Edenburg "enhanced" the sociocratic model using principles from the field of cybernetics and thus successfully managed the Endenburg Electrotechniek company. His system became extremely popular and it was then that it started being used by a huge number of companies in Netherlands and later worldwide (Buck, Gerard, 1987). Accordingly, many ideas of holacracy and the significance of integrative decision making can be found in works of contemporary philosophers and psychologists (Berens, 2001).

It appears that the founders of Ternary Software, a company that was first to use the holacratic model of organization, have united the work of their predecessors and designed a model which became a trend in organizing of the XXI century.

Its owner Brian Robertson left his job in 2001 and founded a company which deals with software development. It was then that years of experiment with organizational design and structure started. With the growth of company, problems with structure, processes and way of decision making became more frequent. For the purpose of solving the problem, this company starts to use the so called agile software development principles and practices (a set of development principles which implies the use of collaboration and self-organizing among teams), then the so called lean movement (an innovative way of business practice) and sociocracy. Naturally, each of the practices listed had its advantages and disadvantages and all employees had the right to state their opinion about the successfulness of their application. This move actually represents evolution when it comes to the autonomy of employees, orientation towards the task and a democratic way of decision making in general. In 2007, the owner of Ternary Software becomes partner with an entrepreneur Tom Thomison and a new organization is created – HolacracyOne. Ever since HolacracyOne has helped many companies all over the world with application of the new way of organizing through intensive training, consulting and so on. After that, in 2009, the method was formalized into the first Holacracy Constitution (<http://www.holacracy.org/backstory>) which is being improved.

### **5. Advantages and disadvantages of Holacracy**

Although the holacratic way of organization is extremely "young", it can be concluded from practice that many companies all over the world start to use it or experiment with its use.

One of the biggest advantages of holacracy is that it allows companies adapting to chances and threats in the environment, according to the JIT system. Also, organization structure is subject to quick adaptation whenever it is needed, whereas in this case it is not decided on by only top management but colleagues who are equally involved in the project (so called peer-to-peer governance) ([holacracy.org](http://holacracy.org)).

It is obvious that holacracy has all the characteristics of organic structure and that it is an open system. Employees are not limited by the rules of hierarchy, but are in constant

contact with changes in the environment. The work of holacratic circle performing a certain task does not have the option of “closing” but quite the opposite – in order to complete the task in the best possible way, chances and threats need to be observed on daily basis. Members of the circle organize meetings by themselves and in that way they exchange information and form opinions. (Robertson, 2007).

Holacratic structure wipes clearly defined boundaries which exist between more organizations with traditional structure. Thus, if several adopt the same/similar structures, in this case holacratic, they can function like one organization with more entities. Once the network is big enough, its potentials grow in every sense and the possibility of undisturbed functioning on global level arises. Such a system would further make possible the easier way of mastering all geopolitical and environmental influences, and the level of humanization of work inside an organization would be on a level that never existed before (Cook-Greuter, 2004).

However, considering the above mentioned fact that holacracy is an extremely young and accordingly, insufficiently explored means of organizing, many managers are quite reserved when it comes to its use. The idea of self-organization is extremely likeable, but putting it into practice can result in anarchic tendencies.

Naturally, after years of well-established practice, leaders and managers find it difficult to believe in the fact that an organization can be run solely according to the principle of consensus. A large number of managers and theorists claim that holacracy is an organization form that is too flat and where organizational chaos can appear.

Flat structures definitely have numerous advantages, but they are most convenient in the life cycle of an organization when it only begins to do business and especially in the areas of dominantly creative character. However, when an organization reaches certain size, it is hierarchy that tells people who is responsible for what. According to professor Schweitzer “there are always businesses that nobody wants to do no matter how much they love their work. And after all, who would do it if it was not for hierarchy?”. Today, bureaucracy mostly has negative connotations and people associate it with impediments in performing even the most trivial daily affairs. However, according to the research conducted by Stanford University, employees felt safer working in organizations that were set up in this way. According to their statements, they have never had problems in terms of precision and clarity of the task they had to do. They knew exactly how much each one of them had done and who should be rewarded (SHRM, 2016).

Experts from the field of organization think that the best way is to find the “golden mean” in order to use the best from both structures (formal and collaborative).

Although many managers believe that they are forced to choose in a “black-white” manner, so the hierarchy or the complete lack of one, Bill Pelster, a counselor from Deloitte company, thinks that teams can be formed in formal structures as well. In Pelster’s opinion, an employee can be member of a team and member of a formal organization at the same time. Also, Maurice Schweitzer, a professor at the University of Pennsylvania, says that “hierarchy has many good sides and it is extremely important when employees are to be coordinated in the right way and in the right time.” Alongside above listed statements, there are many who think that introducing holacracy and the lack of hierarchy leads to creation of chaos and confusion (SHRM, 2016).

## **6. Zappos company – holacracy experiences**

When we talk about the company Zappos, the holacratic way of organizing has given many opportunities – with its introduction, the company kept growing, improved liaisons with consumers/clients, and employees state that they are extremely satisfied and enthusiastic due to autonomy they now possess.

In order to understand better, the way Zappos reached position which it has today, it is necessary to highlight certain facts linked to the company's history. In 1999 Hsieh, who was then the general manager of an investment company Venture Fogs, approved initial capital of 1.1 mill dollars to Zappos in order to start business. It is well known that Zappos started running a business which is still functioning – on-line clothes and footwear sale. In 2000 he realized that this company, which was a year old, is extremely successful. It was then that he officially became CEO of Zappos and two main goals the company was supposed to reach were a profit of 1 billion and to take a place on the list "The Best Company to Work For" (Frei, Ely, Winig, 2011).

Hsieh had a vision of organizing a strong organizational culture which will inspire and motivate all employees to be truly committed to the purpose of doing business in the company. In an e-mail he wrote on 23 March 2015, he declared that all employees will have an opportunity to try out their capabilities in the field of self-management. Traditional hierarchy has been replaced with holacracy which should provide a higher level of creativity and innovation. In his opinion, employees who are happy and who have the autonomy in business will definitely contribute to business becoming more profitable (Thomas and Silverstone, 2015).

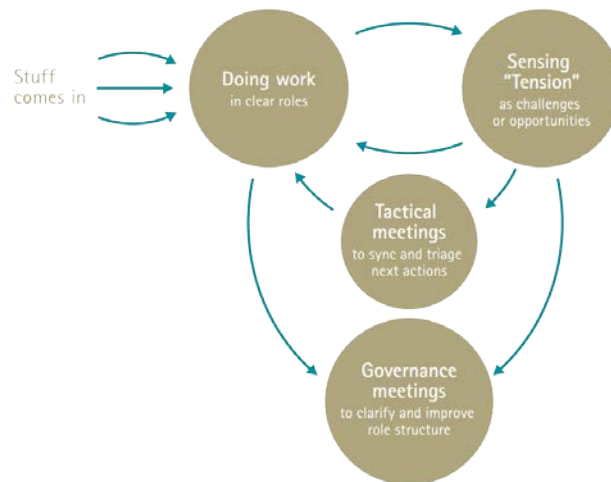
In 2006 Zappos declared its 10 main values. Many of them stemmed from the cognitions of the factors contributing to productivity and efficiency of business. Thus Hsieh encouraged employees to socialize outside work. Employees who socialize, build family and friendly ties, are open-minded and will in a much easier way accept the culture of the company they work for.

In the meantime, more precisely from 2006 onwards, Zappos made high profit from sales and it attracted public attention as a company. As early as 2008, which was two years before the deadline Hsieh had set, the company reached sales of 1 billion dollars a year. Since then, not a single fall in profits has been recorded, quite the opposite, it always rose. One year after, in 2009, Zappos was put on Fortune list "The Best Companies To Work For". With this, the second goal was reached, as well, and again it happened a year before the deadline.

However, Hsieh began thinking about the use of holacracy at the moment when the real threat from productivity fall had appeared. Together with the growth of company, there was increase in bureaucracy, which in no way suited business.

John Bunch, one of Zappos' team leaders stressed that the company applied holacracy in order to become more agile in every possible way. Employees in the company have all the conditions to feel like they are among members of their family when they are at work and are thus, more likely to readily accept changes in the environment in real time (Sunny, 2014). Figure 2 shows how Zappos' holacracy works.

**Figure 2: How Zappos' holacracy works**



*Source:* Thomas, Robert J. and Silverstone, Yaarit (2015). Empowering employees at Zappos.

Therefore, Zappos' "no boss experiment" began in April 2015. Like it was previously said, the company adopted the style of management where there are no bosses. Employees who thought that this step was too much for them quit. Although the number of those was small, about 14%, this move can be interpreted as a constant need of people to be supervised. Employees, with whole of their being, love having bosses and superiors. However, even besides that, Zappos is more and more heading towards absolute acceptance of its new culture (Groth, 2015).

The company possesses a department called Zappos Insight, whose main task is consulting other companies which want to apply this way of organization. Some analysts state that Zappos is doing its job excellently in terms of internal introduction of a new system, as well as consulting and training other companies (Mochari, 2015).

Although the number of companies which have accepted holacracy is still small, its proponents state that each one of them has recorded a rise in profits (Davita – a company selling medical equipment, companies Menlo Innovations and Valve Software – dealing with high technology, Precision Nutrition etc).

A style of management with no bosses is still a completely new approach. Although the example of Google has shown that managers are an important key factor in functioning of a company, Zappos is, with its 1500 employees, still one of rare companies sticking to this style of management and organization. Time will show whether the outcome remains positive for the company.

## 7. Conclusion

Regardless of all listed advantages, the applicability of holacracy is still questionable. The perspective will probably become much clearer in a few years time, but



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for now it has only been proven in practice that its application in systems which were previously traditionally set up does not produce impressive results. Sometimes it does the opposite. The holacratic way of holding meetings, where employees' autonomy is encouraged, is faced with obstacles when it is to be applied in organizations where employees are already "programmed" to the system of decision making according to the model of power structure. To put it simply, the old system does not accept so many innovations and rejects them just like a human organism would reject any foreign body. Even if some of the elements accept the old form, it difficultly reaches its full potential. Thus, if any change is being planned, it should not be introduced abruptly, but the focus should be on gradual update and improvement of the existing way the organization functions. Therefore, the situation should be regarded practically – the way system is structured, who makes decisions, what and how much can be expected from different people in the organization. Thereafter, the installation of a new system of functioning should be commenced at this level. Innovations are to be introduced step by step since the values they reflect should become the core of the future "new" organization.

Holacracy is primarily a practice, not a philosophy, theory or idea. Therefore, its application is realized through practice, naturally alongside with all possible mistakes that go with the introduction of such a revolutionary type of innovations.

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## HOLAKRATIJA – NOVI SISTEM MENADŽMENTA

*Apstrakt: Tradicionalni modeli organizovanja i kreiranja hijerarhijskih nivoa dostižu svoj limit. Savremene kompanije su u potrazi za modelima organizovanja koji bi im omogućili da u većoj meri strukurišu poslove i izbegnu nepotrebne menadžerske – hijerarhijske nivoe, a samim tim i smanje troškove. Holakratija predstavlja jedan od alternativnih načina organizovanja i kreiranja nove organizacione strukture. U okviru ovog rada biće reči o ovom alternativnom sistemu menadžmenta, njegovom razvoju, primeni u praksi i prednostima i nedostacima koje ovakav model sa sobom nosi.*

*Ključne reči: holakratija, samoorganizujući timovi, organizaciona struktura.*