LUISS

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Rethinking organizations: the Holacracy practice

An empirical analysis to assess the performability of the practice for small-medium and large-sized companies: ARCA and Zappos cases

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EXECUTIVE SUMMARY

ARCA, an important global leader in the cash-handling automation solution, and Zappos, online giant retailer of clothing and shoes, have undertaken the transformation to a holacratic-powered organization.

Holacracy, a totally break-through practice based on a self-managing approach, enables companies to high responsiveness and swift adaptation to constant changes occurring in today's economic environment, leading to a purpose-driving orientation.

This thesis aims to analyze the effectiveness of the practice, and the substantial benefits delivered, both for small-medium and large-sized companies, such respectively are ARCA and Zappos.

The analysis is based on recent literature and researches conducted by prominent experts and institutes research and enriched by interviews conducted directly with the two analyzed companies.

The need for this analysis has arisen due to the several discussions arose after Zappos' adoption of the practice, being the biggest company that has made the shift to Holacracy approach in the world.

The thesis is that even the big companies can benefit from the enormous benefits delivered by Holacracy practice, with longer time in the adoption but not at the expense of its effectiveness

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1 INTRODUCTION

In a fast-moving and ever-changing environment like today economic world, characterized by an elevated pace of technological change, firms continue to experience intensifying unpredictability and increasing performance pressure, as evidenced by US companies' decades-long worsening in return on assets (Jhon Hagel & Jhonny Seely Brown, 2016). Entire industries are facing new competitors and new approaches that speedily rewrite the rules and transform old models into obsolete (Maggie Wooll, Alok Ranjan & Jhon Hagel, 2016). A study conducted by *Deloitte's Global Human Capital Trends* shows that 88% of respondents expect their business to be "redesigned for the digital age", with a strong focus on the team, flattened organization, and less hierarchy. Although only 11% of the companies feel ready to these shifts, the sense of immediacy in finding new ways to competitive advantage is growing (Josh Bersin, Tiffany McDowell & Amir Rahnema, 2017).

A recent analysis (Tim Kastelle, 2013) has shown how organizations with flat structures outperform those with more traditional hierarchy approach in many situations. Furthermore, a study from Texas A&M (2012) researches on factory workers has evidenced that teams who managed themselves outperform workers organized in hierarchy structures.

On this basis Holacracy was born: a totally-break through practice emerged in these last years, based on a set of self-managing guidelines whose aim is to make companies more adaptive and responsive to changes through a de-structure of the internal hierarchy and a widespread share of the authority and of the decision-making through all the companies' members. Specifically, Holacracy has been defined as a comprehensive practice for structuring, governing and running an organization (Brian Robertson, 2010); it is a new operating system that facilitates accelerated evolution moved by emerging reality through the harnessing of self-organization in a fractal structure.

The aim of this thesis is to highlight the sustainability of the Holacracy practice, and the substantial benefits delivered, both for small-medium and large-sized companies. Holacracy has been applied predominately to small-medium companies: in fact, the average, in terms of the number of employees, of the 300 companies that worldwide have adopted it, is around 600. A positive performing result wants to be found in companies with more than 1000 employees.

The assumption is that Holacracy can deliver the same advantageous benefits to all the company despite the size and the industry, leading to a reactive structure that allows more immediate and localized decisions and

that therefore turns the company into a more effective and efficient organization. Huge companies might only require more time to embrace fully the transition, but not at the expense of the final result.

To analyze the effectiveness of Holacracy practice and the connection with positive economic turnover, due to an increase in responsiveness and adaptation (Adam Pisoni, 2015), two cases are examined: the Zappos case, a huge online American shoes and clothing retailer, counting 1500 employees, whose adoption has represented the biggest and more discussed one, and the ARCA case, a mid-sized American financial system company, with 600 employees, that has shown positive returns from Holacracy adoption. While in ARCA case no one has doubt about the effectiveness of the transformation, regarding Zappos many concerns arise.

The analysis will start with a focus on the main reasons and actual trends that require a totally innovative approach to business, such Holacracy is, it will then move to an analysis of the main organizational structure and a comparison among them, under some key organizational criteria, in order to highlight the limits and constraints of those models and to their subsequent overcoming. The study will then focus on the declination of the Holacracy practice in the two cases mentioned above, starting from an overview of their business, to move then to an analysis of the implementation of the practice and a balance of the adoption. In the conclusions, the main similarities and differences will be highlighted, and an overall and final consideration will be done.

1.1   OBJECTIVES OF THE STUDY

The specific objective of my thesis is to show how Holacracy is a performing practice suitable to create responsive, flexible and profoundly innovative companies, and how it is able to assess a proven ground base on which companies can develop a long sustainable economic performance, regardless the size or the business of the company. The objective is to reconsider the discussions and the criticism made to the Holacracy practice after Zappos's adoption. Despite the company has faced some challenges during the shift to the self-management organization, now Zappos is well performing under this practice and it is reaping its benefits.

For that reason, the two above mentioned cases are chosen: through an analysis of their implementation of the practice, of the initial challenges and difficulties, but especially of their final benefits, it would become possible to assess the profitability of the Holacracy practice both for small-medium both for large-sized companies.

The comparison between Zappos and ARCA is done in order to highlight the main differences and similarities arisen due to the difference in size and to show the feasibility of the practice also in large-sized companies, such Zappos is.

1.2   METHODOLOGY

The methodology used in this research is mainly gathered from the recent literature and contemporary information available through either research conducted by respected research institutes, either online source, and working conducted by experts. The following study is mainly theoretical and, therefore, it aims to provide reflections and encourage future analysis of the subject, also endorsed by an empirical economic support.

The conducted analysis, apart from being based on recent literature on the subject, it has been enriched by direct interview with the two companies analyzed, Zappos and ARCA. Thanks to series of submitted questions, it has been possible to provide a more detailed and specific framework for a deeper structured analysis.

1.3   LIMITATION OF THE STUDY

Although around 500 companies have adopted the Holacracy practice, they are all private companies resulting thus difficult to gain economic and financial data.

The same was for ARCA that, despite they were willing to speak about Holacracy adoption, they cannot give me financial balance sheets. Concerning Zappos instead, it is the case of a part of a publicly traded company whose balance sheets are merged with those of the owner, Amazon. Therefore, they cannot disclose these types of information.

Furthermore, even if the general literature concerning Holacracy do not miss, what miss are substantial researches regarding large-sized companies and an analysis of their performance under Holacracy, being Zappos so far the biggest one that has adopted the practice.

2   LITERATURE REVIEW

2.1   ORGANIZATIONAL STRUCTURE

There are many definitions of an organization. Historically, the core value of an organization was to be goal-oriented, with people grouped together that work interdependently to reach some purpose (Katz, 1966). This objective was often created by management and put into practice, through a system currently in place, to entrust tasks that would achieve the goal. However, the definition of the organization has changed over the years and now it is no longer focused on any one specific goal. The new definition of an organization is the one provided by Huczynski and Buchanan that is, "a social arrangement for accomplishing controlled performance in pursuit of aggregated goals" (Huczynski and Buchanan, 2007).

The perspective of an organization as changed from a single goal motivated identity to a collective goal driven one. The definition provided by Huczynski and Buchanan proposes an organization with a sense of structure and design. With a focus on structure and design, we can move forward to establishing the organizational structure, perceived as a smaller part of a whole picture (Connor, McFadden, McLean, 2009).

Organizational structure refers to the way in which an organization arranges people and jobs in order to better perform the work and meet its goals. The organizational structure affects the company environments in two ways: first, it provides the base and foundation on which operating procedures and routines rest. Second, it defines which individuals are allowed or are in charge of making decisions and thus, in which extend their visions can shape organization's actions.

According to Rishipal (2011), an organizational structure is "the framework for organizing formal relationship of authority, responsibility, and accountability and it provides the means for clarifying and communicating the lines of responsibility, authority, and accountability", it defines where the authority lies within the organization identifying also those who are in charge of the decision-making process.

Well defining an organizational structure and properly explicit its identification is crucial to let a business start operating.

It was the Professor William Newman that determined how the strategic development of an organization is interrelated with the organizational structure (W. Newman, 1971). Organizational structure, according to Newman, should be "harmonized" and correlated with additional "managerial arrangements" which are planning, leading and controlling. Consequently, the four aspects mentioned above are the determinants to define the management design. The fundamental point of Newman's research is that these arrangements might have a synergic effect on each other and those mutual effects are a delineation of a well-made management design (Newman, 1971).

If the impact of a good managerial design on the organization is clear, the process of establishing the perfect one is still not. Charles Handy has highlighted that the difficulty to arrange the designing process is intricate due to the simultaneous pressure of diversity and uniformity (Handy, 1993). Especially, large organization aspires at uniform to reduce cost, simplify and standardize operations within the enterprise. At the same time, large organizations face internal and external pressure to diversity, to keep up with technological and market heterogeneity (Handy, 1993, 225- 257).

During the years, several organizational structures have been formulated in order to balance uniformity and diversity and to achieve a design that is also suited on the surrounding environment, in terms of market and economic requests, and human trends, and that fits perfectly with it.

Nowadays economic environments are facing some important challenges, such as fast-moving global markets and digital disruption, that force companies to innovate faster and respond quickly to change, adapting their products and services (Deloitte University Press, 2016). The modern economy is in a constant state of change. The greatest overarching challenge that leaders and organizations are facing today is to be able to quickly respond to market changes. They must be the catalyst for organizational change that will drive their business to market leadership.

A comparison between the diverse organizational structures and Holacracy is made, under the criteria of diffusion of decision-making power, job description and internal push to innovation, in order to highlight the

benefits obtained through the adoption of the Holacracy practice, identified as the well-designed structure in nowadays environment.

2.2 TRAITS OF THE DIFFERENT STRUCTURES

2.2.1 Hierarchical structure
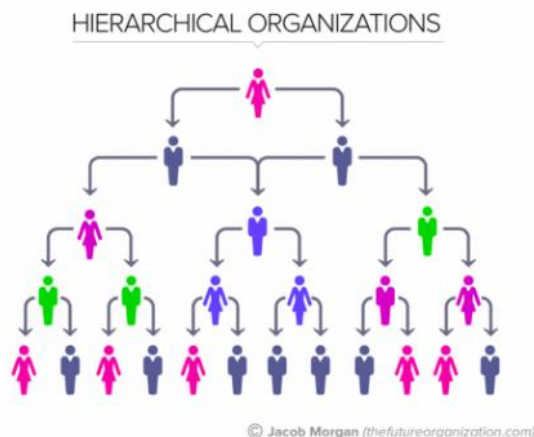
Figure 1: Hierarchical organization structure - Source: Jacob Morgan, 2015

The traditional organizational structure is the hierarchical one, a system in which authority flows vertically and upward, and it is characterized by a pyramidal structure. In hierarchical organizations, every single entity, except one, is subordinated to a specific other entity. A hierarchical organizational structure is characterized by two fundamental elements: the centralization of ownership and the organization of the supervision.

The also called the "predict-and-control" approach was the most adopted one over the past years. Thought to realize a robust centralized control over the entire company, this model has matured in the initial 1900s and has not undergone any change over the years. The predict-and-control tries to achieve stability through up-front, predetermined planning. The power distribution is well represented by a pyramid, where the chain of command lies at the top among few and it distributed to the larger part of the company.

2.2.2 Flatter structure
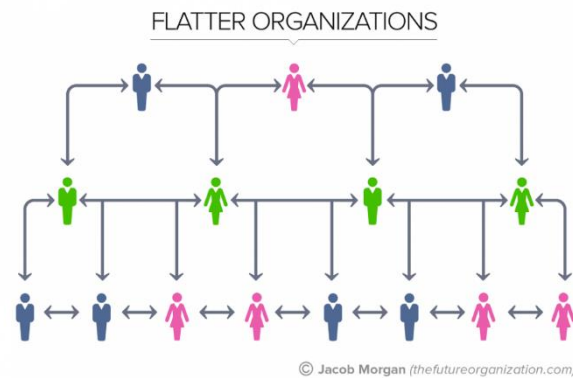
Figure 2: Flatter Organizational Structure - Source: Jacob Morgan, 2015

A flatter organizational structure is a way of making a traditional hierarchy more effective. Focusing on the reduction of bureaucracy and on creating a more engaging work environment, it allows communication to flow more efficiently and with less time through the whole organization. Formalized to streamline the bureaucracy characterizing the hierarchical approach, the flatter structure occurs when there are fewer levels of control between different roles in an organization. It is basically a hierarchical structure with a profound rethinking of approaches and roles.

There are few aspects that characterize a flatter organization: first of all, there is a complete re-thought of the traditional powering-roles and of the level-employee ones: the latter ones are recognized as fundamental and crucial assets for a business success and in this vision managers operate as their supports, creating a stimulating and simplified environment in which work in, pushing the power down to others.

The second aspect the awareness that employees do not need to work for your business, but they should desire to do it and everything should be settled around this principle. Crucial is also the presence of a widespread technology network, working as the central nervous system of the company and that allows for a capillary communication and eases a diffused and effective flow of information within the whole company. The fourth and last necessary aspect is that the organization in its whole must accept the idea that the work is changing and therefore must approve and sustain things like flexible work arrangements and abandon the idea of annual employee review.

2.2.3   Flat structure

FLAT ORGANIZATIONS

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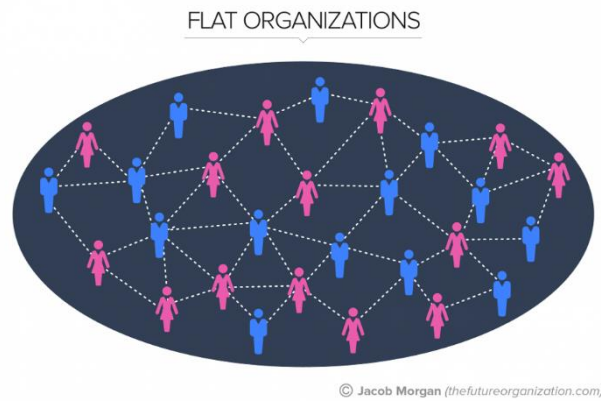
Figure 3: Flat organizational Structure - Source: Jacob Morgan, 2015

A flat organization is the one characterized by few or no layers of management. It is featured by a short chain of command and a wide span of control, where the span of control refers to the number of people accountable for reporting to any one manager. Hinge point of the model is basically a significant reduction of the supervision of employees while is fostered their increased participation in the decision-making process.

Usually, then, flat organizations do not consider job titles, seniority, executives, or managers. Equality is spread all over the business and everyone is considered a peer. The employees are simply self-governed to work on whichever project they think can best suit their skill base. It is then featured by flexible boundaries between jobs and units, with a strong emphasis on teams and on customer satisfaction.

The most famous example of a flat organization is Valve, an American software, and entertainment company creator of several of the most award-winning games. At Valve, there are no job titles and no one tells you what to work on. Instead, employees can see what projects are underway and freely decide which one to join. An employee can also decide to realize its own project; in this case, he will have the responsibility to find and ensure funds and to build the new working team.

2.2.4 Flatarchies
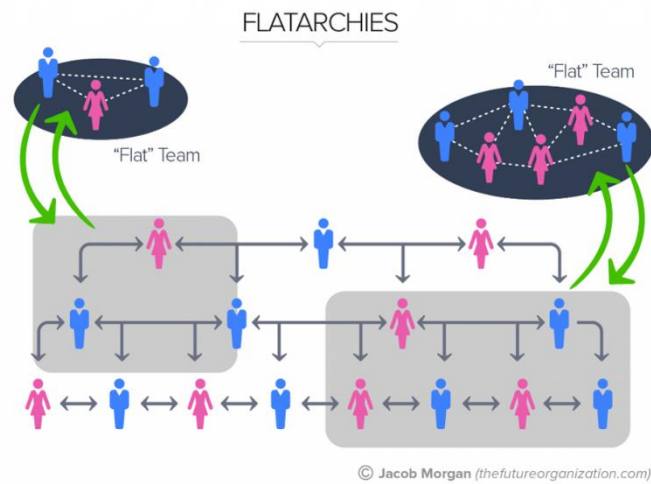
Figure 4: Hierarchical Organization Structure - Source Jacob Morgan, 2015

Flatarchies are a type of organizational form that lay in between hierarchical and flat structures. These companies have elements of both the structures: they can be flat organizations but have ad-hoc teams more structured by nature, or rather be hierarchies that form ad-hoc teams with a flat structure. One of the most common examples of flatarchy is a company with an internal innovation program or incubator (Jacob Morgan, 2015). In this case, the company operates using the existing structure and spur employees to mature innovative ideas and, if approved, to put them in practice. The project is then entirely self-managed and it adopts a flat structure. More than one flat teams can be created and work simultaneously but independently.

2.2.5 Holacractic structure
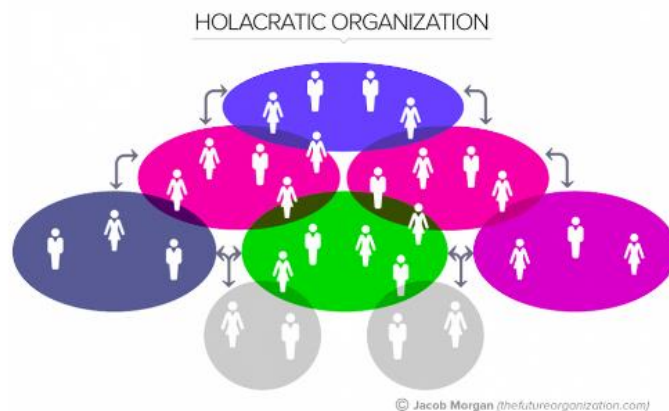
Figure 5: Holacratic organizational structure - Source: Jacob Morgan, 2015

Holacracy practice was developed in 2007 by the idea of the American entrepreneurial Brian J. Robertson who elaborated it for his own company, the Ternary software, that in 2011 he left to give birth to HolacracyOne, a consulting company providing tools and coaching to adopt the Holacracy practice. The objective was to create a more agile and responsive way to manage an organization, capable of capturing innovation from its internal structure, proving an effective structure able to take decisions quickly and efficiently and where all employees would have a central and decisive role within the organization. The result is a self-managing practice that empowers employees, defined "peers", to make a meaningful decision in pursuit of organization's purpose. Self-managing teams are organized and grouped into circles, for that reason Holacracy structure looks like a set of nested circles each connected and part of a larger circle without being subjugated from those above.

The whole process is codified in the Constitution, an underlying platform that is considered a set of core rules for defining, developing and enacting your business processes over time. Currently, core rules are updated to version 4.1.

The term Holacracy comes from "holarchy", a word coined by the Hungarian writer and philosopher Arthur Koestler in his 1967 book "The Ghost in the machine" to identify the hierarchical relationship between the collection of holons, particles that simultaneously function as parts and wholes, as the organs in the human body.

Characteristic of the practice is, then, that there are no bosses leading the company at least, not in the traditional sense. There are some crucial figures responsible to align team members and the work between circles, but they are not intended as traditional managers, but instead as coordinator and supportive figures.

2.3   COMPARISON BETWEEN THE DIFFERENT ORGANIZATIONAL STRUCTURES

In this chapter, we will analyze the different organizational structures and their relationship with economic performance, meant as the organization's ability to accomplish its aim through the use of resources in a properly structured manner, in order to understand how Holacracy approach can really be the solution to create effective, responsive and intrinsically innovative organization, able to deliver positive economic returns. The discussion is structured through an analysis of different central elements for a business, such as decision-making process, job description, formalization and internal push to innovation, that combined define the ability

of an organization to deliver satisfying economic performance and to harness a sustainable growth and innovation in the long run. A summary table is provided in order to underline the main differences and similarities traits between the diverse organizational structures.

The purpose of Holacracy is, in fact, that it can be applied to any kind of company, regardless the business or the size, still succeeding in providing these goals.

Table 1: Main features of the different organizational structures

		HIERARCHY	FLATTER	FLAT	FLATARCHIES	HOLACRACY
STRUCTURAL FACTORS	**The Form of the structure**	Organized as pyramid; high levels control the underlying levels	Organized with less levels of management and bureaucracy compared to hierarchy	Organized with few or no levels of managemt; middle-management has been abolished; an informa structure can emerge	Structured with both elements of a hierarchy and a flat structure that cohabits but in different "sectors"	Organized as embedded circles; work divided into autonomous but interconnected circles operating as a whole
	Decision-making diffusion	Decsion-making process follow a top-down approach; lower levels have no or little authority	Power and decsion-making lies in different levels	Promoted employees involvement in the decison-making process; few control on them	Decision-making is spread in the parts operating under the flat structure; in the remaining, it follows a top-down approach	Power is diffused among all the employees and decision-making process is done through governance meetings
	Relation to Superior	Perceived as "boss": they assign, control and facilitate the job	Perceived as a support for the employees; they create a stimulating environment	Superior give indications; everyone is considered a peer	Perceived as "bosses" in the part operating under hierarchy; peers in the flat one	Perceived as "coach" communicating and guiding roles but without interferring
	Employee Engagement	Very low; work is experienced as the need to survive	Reasonable; employees are aware of their value	High;employees are the determinant for success and their satisfaction is essential	Low in the hierarchical driven sector; high in the flat one	Very high; employees are perceived as the one who is driving and changing the organization
	Job Description and Responsibilities	JD is clear and rarely change; responsibility lies both on bosses and on employees	JD is clear and rarely changes; responsiblity lies both on bosses and on emlpoyees	JD is not considered; employees, "peers" are free to choose on what work; different responsibilities for employees and for supervisors	JD clear and does not change in hierarchical sector; no JD in the flat one; responsibility mainly on superiors	JD does not exist; "peers" fulfill role/roles at theri choice; responsibility lies on the executor
	Formalization	Very high	Moderate	Absent	High in hierarchical sector; absent in flat one	High with the focus on the process
INTERNAL FACTORS	**Internal Culture and Information**	Culture developed by departments and facilitated by superiors; information flows vertically	Culture developed by superiors but with an involvement of employees; communication is simplified	Culture developed by employees; communication is widespread and rapid	Culutre is developed by superiors; information flows vertically in hierarchy; information is widespread in flat one	Culture is a part of the working-progres; everyone contribute to it; communication is flat and organized
	Motivation	Employees are moivated by salary and hierarchical career growth	Employees feel motivated and engaged	Motivation is high and driven by the self-realization	Low under hierarchical lead; high in the flat one	Self-realization as the key element; employees do what they do best
	Adaptation to internal change	Driven by top-down training; ease of adaptation	Driven both by superiors and by employees request; ease of adaptation	Driven by employees; adaptatio can be difficult and require time	Driven by top-down training or by employees, it depends on the particular sector	Driven by governance meetings; ease of adaptation
	Internal push to Innovation	Very low	Moderate	Very high	Not constant	Very high

2.3.1 Decision-making process

The decision-making process aims at indicating where the power and authority lie, while the span of decision-making power refers to the degree of diffusion of such power within the organization.

A centralized diffusion-making process, typical of the traditional hierarchical structures, means that authority, and power, lies among few established levels and person within the organization, causing several limits, among which the slowness of the operating system, due also to the huge amount of bureaucracy combined (James Wilkinson, 2013). This slowness in making decision, but above all in making them operating, prevent the ability of an organization to properly react and respond to continuous changes that affect nowadays economic environment (Osmond Vitez, 2016). Slow decision-making increases costs, impedes performance and may also result in an organizational failure (Natasha Gilani, 2009).

The centralization of the diffusion making process, in fact, creates a rigid chain of command that takes time to make decision effective and to put them in practice. Furthermore, who take decisions are too the furthest from the frontline. In fact, the distance of those who take decisions from daily operations implies that there is no real and effective knowledge of what is really needed and on which are the main aspects that might be fixed in order to efficiently reach the goals.

Some researchers (Follett 1993; Redding, Norman & Schlander, 1994) have seen the limitation of the hierarchical approach, trying to solve it through the entrustment of others with the decision-making power. The so-called paternalistic leadership is the predominant view in today management approach and implies a dominant authority figure acting as a matriarch or patriarch and treating employees as they are members of an extended family. This approach, although benefits may seem many, can generate a dependency on the leader. Inasmuch as the leader operates as "the decision-maker and the person "who knows it best", the subordinates might perceive themselves less inclined to learn or search for solutions. In essence, "*if you are treated like a child, you'll start acting like a child*". Instead of getting in the game and making autonomous decisions, employees leave everything running by the leader. The negative side effect of the leader's well-intentioned work is rightly explained by Robertson: "In heroically "empowering others" within an inherently disempowering structure, he paradoxically put others in the role of victims"(Brian Robertson, 2015).

This method in fact not only threatens the ability of employees to learn and improve but also affects productivity levels. Not taking part in the decision-making process, the morale of subordinates may fall if they do not see and recognize decisions as beneficial. Even though the leader should ideally attempt to make decisions grounded on what is optimum for the employee, this is not always possible and various employees might see the same decision diversely. Consequently, just as autocratic leadership can harm employee morale, so can paternalistic leadership.

The continuous entrustment on the CEO or anybody else equivalent creates an important limit to the realization of the numerous perceived tensions across the organization, "creating a potential single point of failure in the organization's capacity to effectively govern itself"(Brian Robertson, 2015).

Also, in this case, managers results to be worryingly detached from the daily dynamics and processes and when the power is exercised by another's domain, tensions that arise do not have the means to be processed, thus preventing improvements and steps forward. As the famous business writer Gary Hamel has pointed out, "the most powerful managers are the ones furthest from the frontline realities. All too often, a decision made on an Olympian peak prove to be unknowable on the ground" (Gary Hamel, 2011).

On the other hand, some nonprofits and start-up are organizing through consensus-based approach: if at first sounds exciting and engaging give everyone the possibility to be heard, then a great limit appears: one thing is having a voice in the decision-making process, and another is having the power to transform what you say into actions, to be truly able to process what you feel and perceive into meaningful changes. Otherwise, everything becomes frustrating and not gratifying, leading to a loss of interest and involvement.

Therefore, both these solutions, the consensus-based and those companies without external power structure, incur in the same impasse: a consolidated decision of the group that becomes very difficult to change, trapping potential innovators with a blocked structure less than ideal to navigate.

To ensure the dynamism and responsiveness that economy requires just reject the authority is not enough. What is needed is a system that distributes authority through the whole process, giving autonomy but at the same time normalizing it to prevent chaos. Through the diffusion of decision-making power, a company can obtain the capacity to respond quickly and efficiently to the different needs that arise in everyday operations. According to Thomas Malone (2004), the organization of the future will be decentralized, a term defining the

"participation of people in making the decisions that matter to them." Decentralization brings with it increased productivity and quality of life.

And this is what Holacracy aim to do: distributing power to the system, to a network of autonomous self-organizing entities distributed through the body. Each particle has a specific function and at the same time, it has the freedom and the power to decide how to organize itself to complete its tasks in a consistent manner with the whole. The power is shifted to the entire *process,* which is described in detail in the Constitution and which set of rules become the guidelines, ruling supreme even on the person who adopted it. The seat of the power lies in a legislative process, not in an authoritarian rule. In an Holacracy system, the majority of the operational decisions is taken "autocratically", that is they are made by people at every level of the organization, within their sphere of authority, and there is no boss at the top who has the authority to intervene.

This radical and transformative shift brings people to really hold the power and thus responsibilities of their sphere of authority, aimed at making everyone a good leader of his role and, at the same time, a good follower of the work of other roles. This shift from individual leadership to constitutionally derived power is then essential. If we think that CEOs are reluctant to cede their power, the reality is anything but this: Marie Chiquet, a Holacracy coach, and past CEO, has found that many experienced CEOs would be happy to release their power into the process, as long as they find an effective and efficient way that meet corporate's need (Marie Chiquet, 2013).

Holacracy organizes the job around self-managing teams, called *circles*, ensuring simultaneously a more autonomous and collaborative environment to work in. This freedom encourage people to take action assuredly, having the certainty that a legislative process has endowed them with that right; at the same time, everyone is free to ask for suggestions or help and is also likewise capable of interrupting serenely the discussion when it is needed, having himself the power of decision and action.

Circles substitute for the traditional hierarchical pyramid.
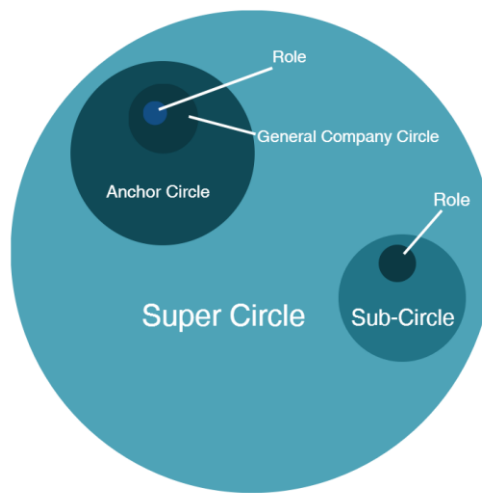
Figure 6: Herarchical embedded circle structure - Source: Sixsigma.co.uk

The Holacracy structure is formed by circles, each with a specific function and goal to achieve. Roles, that are specific tasks, are contained in these circles, which in turn are contained in wider circles up to the biggest one, the Super Circle that represents the organization as a whole. The Holacracy roles are highly dynamic, actively and continuously interacting with the effective reality and consequently changing in order keep up with it. Roles are exposed to incessant clarification and refinements driven by the actual and real tensions that arise, not on the basis of abstract forecasts. The organizational structure is defined according to those roles necessary to achieve company's purpose. Work is then settled around roles. Roles and role-ationship clarity bring transparency and organizational clarity; it is the latter one that allows creating an authentic distribution of power.

The holacratic structure looks then like a set of nested circles each connected and part of a larger circle without being subjugated from those above. Each circle maintains always its individual authority, autonomy, and completeness but without ever distracting from being part of a broader entity. In fact, it is fundamental to act taking into considerations other circle's need, as a particle of the body does, otherwise, the risk to undermine the system is concrete and impossible to overcome. To avoid this danger, Holacracy provides accountabilities and restraints each circle must align with.

The difference is, then, not only in terms of the type of structure, from hierarchy to holarchy, but therefore also in what to structure in the first place: from organizing people to organize corporation's roles and functions. For that reason, it is misleading to consider Holocracy as "flat" or "hierarchical", it simply works using a whole new scheme and approach. Each circle must follow a particular and defined purpose, and all the roles

within it are directly functional to what is needed to pursue the circle's purpose, perform its accountabilities and administrate its domain. Circles organize and perform their roles in a self-organizing way, the autonomy that happens and is managed during the circle's Governance Meetings. The tasks of a circle can considerably change in terms of scale and type; some may have the assignment of completing particular projects; others can be in charge of a division or business line, or also it can deal with comprehensive business operations.

The great benefit of effectively distribute the authority to those on the frontline, is also, as Robertson has explicitly pointed out, that "we are dramatically enhancing an organization's capacity to harness input and capture learning –thus solving a problem many leaders struggle with as their companies grow" (Brian Robertson, 2015). Holacracy, then, allows for responsiveness, readiness, and effectiveness: empowering all the employees, roles, with the decision-making power, it leads to faster implementations of decisions into concrete facts and, especially, makes sure that decision taken is more related to the real problems that arise in daily operation thanks to a capillary diffusion of the power.

The distribution of the decision-making power has also important effects on the employee's engagement. Ranked as a top priority issue to gain among executives (Jhon Hagel, Jhon Seely Brown & Maggie Wooll, 2016), it is not widely obtained. According to a Gallup Corporate Survey (2012), in fact, only 13% of employees worldwide truly feel engaged in the business process of their organization (Figure n. 2). The survey conducted in 142 countries and distributed to nearly 230 000 employees, has to lead to important results: Gallup Corporate Survey (2012) highlighted a correlation between employee's engagement and key business outcomes. According to it, engaging workplaces show a significantly higher level of profitability, customer rating, and productivity, whereas instead lower levels of engagement have an influence on absenteeism, quality defects, and turnover (2012). Furthermore, low employees engagement is reflected in the lack of top motivational factors among employees, such as self-actualization and self-esteem (Linder 1998; Maslow 1998).
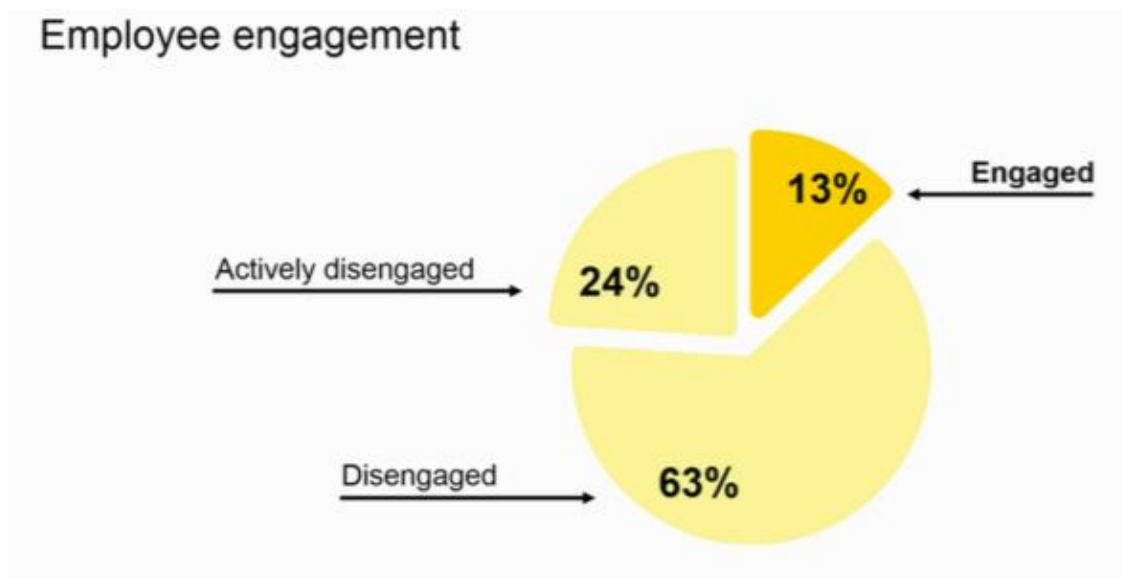
Figure 7: Employees engagement worldwide - Source: Gallup, 2012

Employee's engagement results to be prevented when dealing with top-down approaches. In a rule-bound organization, in fact, employees perceive that rules are everywhere and that individual cannot influence the organization. They become disaffected to the surrounding environment, feeling that decisions and changes are outside their sphere of influence (Clayton & Gregory, 2000). The hierarchical approach results than to have significant repercussion among employees that, through a loss of involvement and engagement, they fell demoralized and not stimulated. This approach leads to a non-participatory environment that dramatically reduces communication, commitment, and involvement with assignments among participants. Functions and actions result to be slowed down, causing delays, dissatisfaction, and overall inefficiencies and sensitively restricting the potential of a business and its overall economic performance (Morgan, 2015).

In hierarchical structures, the lack of communication among different departments tends to be not effective, inflaming the rivalry due to a compartmentalized logic in which every decision or action of the departments have to benefit its own interests and not the company as a whole. This limited view of the organization, seen as fragmentary and not as a single entity, brings to a dramatic lack of collaboration among employees that do not share information and knowledge but rather, they organize in groups and compete for the power. This kind of competition arises also between managers at the operational-levels, where they approach issues from their own department perspective.

Engagement is instead very high in the participatory organization. Tesluck, Mathieu, and Vance have examined how participation can influence the working environment and a result guarantee employee engagement (Teskluck et al., 1999). A system characterized by diffused decision-making contributes

positively on how employees fell about their work and tasks, making them feel satisfied (Wall & Lisheron, 1977).

Also, flatter structure result to have a positive outcome in terms of employee's satisfaction and engagement: Companies like Cisco and Whirlpool have seen significant success. In Cisco, employees are free to choose on what they would like to work on, while Whirlpool is organized around teams and it has been noted as, working in teams, it increases and positively impacts employee engagement (Morgan, 2015). A decrease in total absenteeism has also been noticed in flattered team-based organizations (Glassop, 2002). These acknowledgments are very significant because they show how also for the larger-sized company is it possible to maintain an efficient level of productivity while adopting an innovative way of working and thinking within the organization.

White and Rhu (1973) have studied the correlation between employee participation and job attitudes that resulted to be consistently positive and significant: employees are more involved and motivated, and these rates become higher when they are directly involved in the decision-making process.

Wanous (1974) has shown how higher job satisfaction is directly related to increased job productivity. Furthermore, Buchanana-Olson, Boswell and LePine's (2004) research also correlate higher job satisfaction to less stress on the job, sustained by previous evidence that stress and tension decrease job satisfaction. Finally, Morrison (1997) has evidence that higher job satisfaction leads to better job performance.

Holacracy not only lead to a participatory environment but it especially empowers employees. Employee's empowerment makes employees feel they are part of a team with a common goal, it enhances their sense of self-esteem increasing also creativity. Apostolou (2002) explains how employee involvement and empowerment is a long-term commitment, a fundamental change in culture and a new way of doing business.

2.3.2   Job description

The job description is an official framework that identifies the scope, tasks, duties, and responsibilities related to a particular function in the organization.

This document should be consulted every day, it is a fundamental tool in everyday work in order to understand clearly what are the precise tasks and responsibilities that we are required to complete. Instead, very often these documents are far from employee's reach and locked up in archives. Therefore, not having a clear identification of the tasks that compete with us, different expectations may arise concerning which are our responsibilities and duties, leading to what is knows as job discrepancy. According to Dunn Wilson (1997), the absence of standards and structures characterizing the job description contributes to the existence of job discrepancy.

Job expectations are usually held by managers towards employees and generally, they are not communicated to employees in writing. Expectations may change over time, in order to meet the different needs of a company or that of a manger. When an implicit change in responsibilities occurs, Bonner, Gender and Nagel (2010) have shown, conducting a study on the changing expectations of nurse with their job descriptions, that stress levels rose significantly due to the increased workload for 81% of the respondents while for 43% the increased stress was due to work changes. This study has confirmed that when responsibilities change over time, stress increase among employees, especially when there is not an adequate preparation of increased responsibilities (Frankson and Mccallin, 2010). Furthermore, stress leads to undesirable results, such as a decrease in productivity and lower job satisfaction (Boswell, Olson-Buchanan & LePine, 2002).

These characteristics of stress are common with the features of job discrepancy, creating a highly probable relationship. Traditional job description then, proper of the majority of the organizational structure of nowadays, leads to a negative outcome in terms of stress, productivity and job satisfaction.

In Holacracy-powered organizations, traditional job descriptions are replaced by roles. Roles are organizational entity used to determine functions within the organization, they are elements of traditional job description break down into a task. In fact, as we have seen, when the power is distributed throughout the process, it is given not to the individual but to the process and to the roles, they fill. And when responsibilities and duties of a role become too onerous for a single person, the role is divided into sub-entities, giving in that way rise to a *circle.* Role's description includes an accurate description of the "Purpose to explicit, Domain(s)

to administrate and Accountabilities to accomplish. The individual is free to choose and adopt several roles within the organization, becoming part of different essential aspects of the same set.
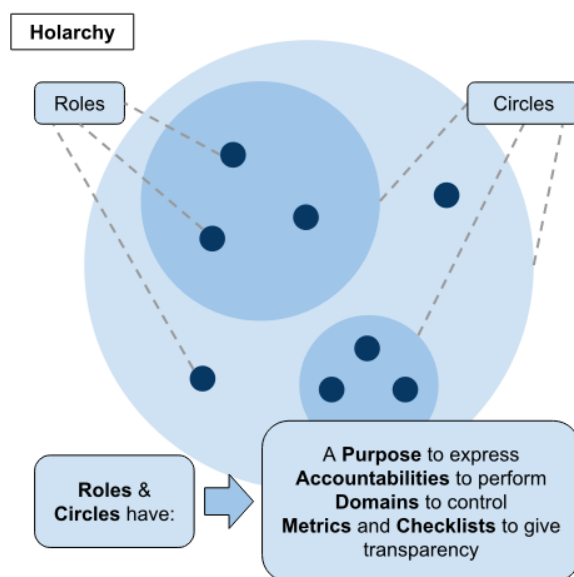
Figure 8: Holarchy: The connection between roles and circles - Sources: targetteal.com

The need for roles arises from the need to overcome the conflict of expectations between colleagues that very often emerges (Brian Robertson, 2015). The collisions of expectations are a direct consequence of a lack of clarity, emerging from a misalignment in our comprehension of what others have to do and for what is accountable for. It basically appears when there are different ideas on how to perform a specific task and, consequently, on what one should be accountable for. When there is a collision of expectations, considerable tasks remain unaccomplished and frustration emerges among all.

In Holacarcy-powered organizations, people refer continually to job's descriptions, whether they are own or other roles, in order to better understand the division of tasks and consequent spheres of authority. In Holacracy in fact, job's descriptions are accurate, precise and punctual and they become a useful and meaningful way to comprehend what makes sense to do and await. Great clarity is achieved when roles and expectations are explicitly expressed and clarified. Tamara Erikson (2012) has conducted a study on team dynamics and she has found out that successful collaboration is better on the team when each employee's role is clearly defined. Defining individuals role impact more decisively collaboration success than spelling out group's approach.

According to Erikson, without such clarity team members waste a lot of energy negotiating roles rather than focusing on the task. With a clear definition of roles, employees feel that their roles have clear boundaries that allow them to do a significant portion of their work autonomously. Furthermore, clarity on roles increases engagement, through a definition of how roles fit within the business and how to intersect with other roles and a precise explanation of how the employee can sustain and help the business to reach its goals, and (Tamara Erikson, 2012).

To gain these advantages, in Holacracy roles are explicitly defined in the Constitution and continuously updated only through governance meetings in order to stay aligned with the ever-changing reality in which organizations are operating. The problem that in fact arises with the traditional job descriptions, proper of the hierarchy and the other majority of the structures, is that they are highly static, being defined in an upfront-planning and not in accordance with the current reality. They become rapidly outdated in a fast-paced, changing environment, leading to an inability to react promptly and properly and affecting thus organization economic performance (Susan M. Heathfield, 2017).

In Holacracy people are always aware of which are the tasks, responsibilities, and accountabilities that belong to him and have a clear idea of what they can expect from others and where consequent spheres of authority lie.

Roles are highly dynamic and exposed to incessant clarification and refinements driven by the actual and real tensions that arise, not on the basis of abstract forecasts.

2.3.3 Internal push to innovation

Authors (Collison 2005; Bartàk 2006; Senge 2007; Hamel & Green 2007) agree that the 21st century is based on information, knowledge and innovative economy. Already in 1986 Tushman & Nadler suggested that there is no more pressing managerial problem than the research for a sustained management of innovation. The same authors (1986) identified how visionary leadership, people, structures, and values are important factors that affect the ability of an organization to benefits from innovation. Innovation still remains in fact as a crucial drive for economic performance.

Hierarchical structures, characterized by the high presence of rules and regulations, meant as the formalization of activities, excessive authority and poor participation of the employee in the decision-making, robustly limit the capacity of the members to take the risks of innovation (Child, 1973). Hierarchical organizations overuse bureaucracy and regulation to standardize and calculate output to achieve efficiency (Ouchi, 1979). Bureaucratic firms achieve efficiency through up-front planning and attempt for certainty in their internal operation (Covi & Slevin, 1989). The huge amount of rules, then, lead managers to use predetermined guidelines to manage, for example, conflicts. This is translated in an overall rigidity of the system that usually is trapped behind procedures and passages that might be completed and respected and by actions that usually are not decided on the ad hoc situation but rather are predetermined.

The out-coming rigidity of the system, due then to a pre-established strategy, fixed roles, and to a slow bureaucracy, lead the hierarchical structure to an imitative orientation, preventing their ability to innovate (Bolton, 1993).

According to Richard Germain (2003) in his study on the performance mediating supply chain management, formal structures have a positive effect on performance in stable environments and a negative effect is achieved in dynamic one. This is due also to the high rigidity reflected in terms of promptness in action and then, ability to respond properly to continuous change that affects nowadays environment, economic and not.

Neither partial adjustments to the hierarchical model can make the difference: a widespread trend is, in fact, that of trying to solve hierarchical limits partially flattering out the structure, such as the case of flatter and flatarchies. Their application in organizational systems that are still conventionally structured can lead to a major paradigm clash: the new technique risks to become a bolt-on, something that influences just one aspect of the organization and remains in perpetual conflict with the preexisting environment. Altering their outdated system piecemeal rather than redesigning it completely and entirely, they cause, in that way, confusion among the employees. According to Gill Corkindale (2011) in that case, the risk is that the hierarchy remains embedded into the new structure, without allowing the last to freely express its innovative potential. These new leading-edge ideas and techniques collide with the surrounding environment still imprinted with the older paradigm strongly rooted in the structure and mentality of the whole organization.

A flexible-oriented structure and culture, instead, result to favor innovative orientation, while stability-oriented one to hinder it. This is due to the fact that flexibility, lack of formality and organic structure indicates a proactive strategic orientation, as Matsuno has pointed out (2002) since freedom and autonomy encourage creativity, that is the key to develop pioneer innovation.

Flexibility and thus capacity to develop the innovation is specifically the aim of Holacracy. Holacracy fulcrum is, in fact, that it is an ever-evolving environment, a structure that adapts to changes to better reflect the current needs. Changes occur at role levels, at structure level, and at strategy levels, through the governance and tactical meetings where, in base on the necessity, a new arrangement is settled and organized accordingly. In Holacracy, in fact, the structure of a company is defined by the circles that compose it, which are created to achieve in the best way the value proposition to which the company aims. But circles can be changed if economic or environmental conditions change, and re-thought in order to better operate in the new changed ecosystem. Also, roles, as we have seen, are subjected to changes and are currently adapted to the reality around them.

To keep all the system updated and aware of the changes that occur, holacracy-powered organizations use a shared and for everyone cloud-platform, called GlassFrog. GlassFrog also informs about the repositioning of roles or changes in responsibilities and accountabilities, so everyone can always exactly know what is the structure and boundaries in which operate.

Here below we have an overview of the platform.
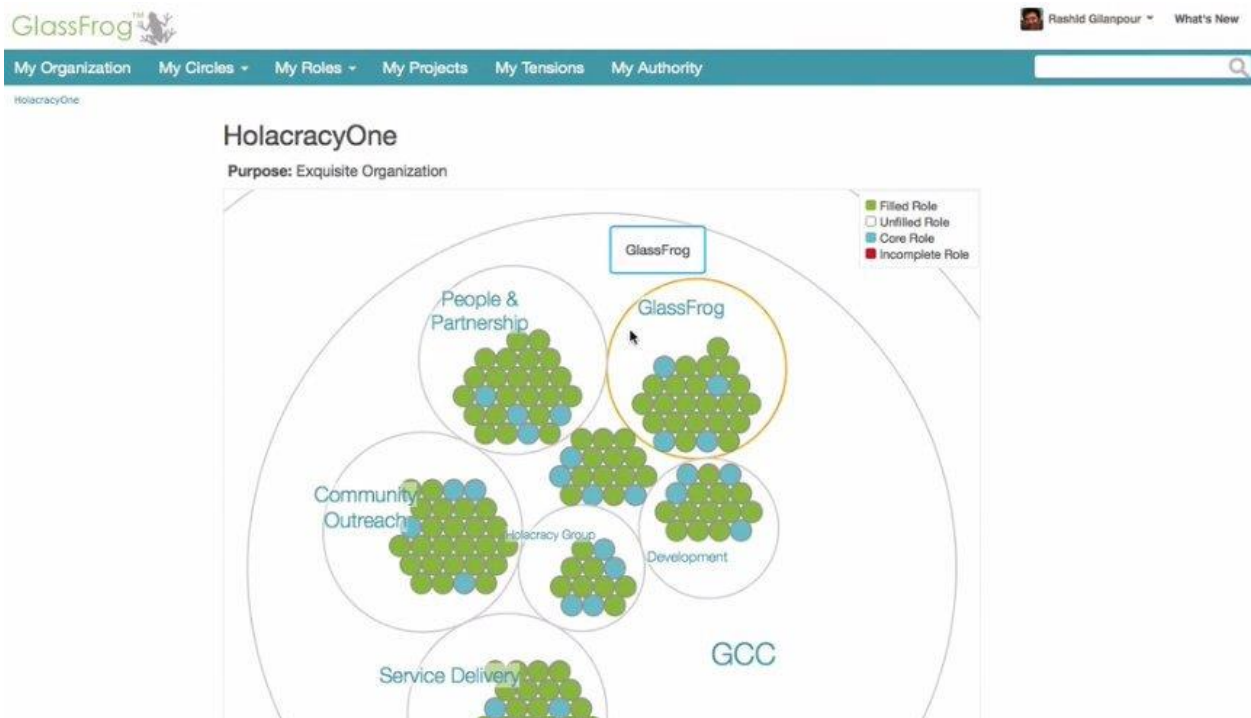
Figure 9: GlassFrog platform: an overview - Source: HolacracyOne.org

In the specific, Holacracy capacity to innovate is lead to the possibility to solve the "tensions" that each of us perceive daily. Tensions are meant in their neutral definition and have a specific goal: to move things forward. They are "the perception of a specific gap between current reality and a sensed potential" (Brian Robertson, 2015) and express the enhancements and changes that each of us perceives necessary for the good of the company.

To better understand what a tension is, we should focus the definition and explanation of the structures by the organizational theorist Jaques Elliott (1989). He identifies and separates three different types of structure: first, there is the "formal structure", that is essentially the job descriptions and the organizational chart and it represents how the work should be divided formally and empirically. As we have seen, employees neither know where they can find the organizational chart and, above all, usually it is completely detached from the daily work and needs, resulting in an irrelevant and out-of-date scheme due to the fact that job descriptions are static and defined in a upstream planning.

When the "formal structure" is not effective enough, employees work on it in order to effectively get the job done. This is what Elliott refers to as the "extant structure", a structure that is truly operating and "usually it

is shaped by personal relationship and politics" (Jaques Elliott, 1989). Working on it, it becomes the implicit and unconscious structure around which things and work are organized. Elliott proposes the third type of structure, that he calls the "requisite structure" and it is the structure to which the organization itself tends to best express its purpose, it represents the most natural way in which the organization should organize according to the specific work and purpose (Jaques Elliott, 1989).

Holacracy structure provides for an overlapping of these three structures, in fact, they become "one and the same" (Brian Robertson, 2015). It is fundamental to understand that Holacracy type of structure is basically not solid or fixed, being part of an ongoing process that is increasingly trying to evolve, and it does it through each perceived tension within it.

In traditional organization form, you have little or no power at all to express and realize tensions. In that way, organizations lose an important and powerful force to evolve and employees are forced to hold the tensions where they fester into frustration and eventually apathy or burnout (Brian Robertson, 2016).

This is the crucial point of the Holacracy practice: take the best advantage of the tensions each individual perceives. The ability to gather those tensions can speed up a much deeper transformation by releasing the power of evolutionary design on the organization itself. And thanks to a diffused decision-making power these tensions can be solved.
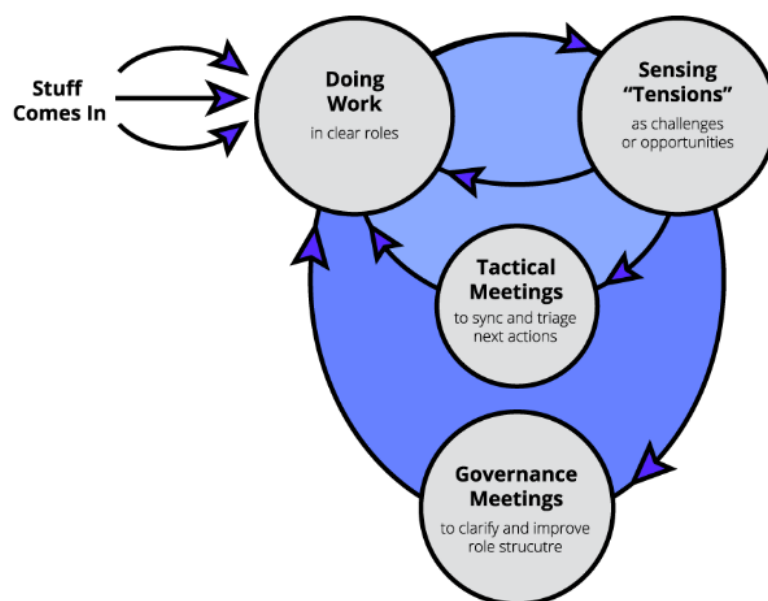
Figure 10: How to process a tension - Source: HolacracyOne.org

Furthermore, also employee's creativity is identified as a crucial factor that delivers innovation, especially if it is targeted to customers and bring added value (Pitra 2006).

Creativity is meant as the ability to generate new and valuable ideas (Amabile, 1998) or to perform work in a new and appropriate way (McLean, 2005). According to Sinkula and Baker (2007), generative learning process, in which creativity is persistent, are more correlated with innovative orientation than imitative orientation, defined as later entrants or followers (Athahene-Gima & Ko, 2001; Lieberman & Montgomery, 1998).

Studies (Thompson, Amason, Hockwarter, 1995) have shown that in structure with low levels of centralization, individuals are exposed to more and diverse opinions and information, resulting in a creative combination of perspectives. According to Leenders, Kratzer, and Van Engelen, (2003) decentralization are more likely to encourage creativity. This is also due to the facility interacts with individuals and of exchanges information that lead to the generation of meaningful interpretations and information (Senge, 1990). A flexible and decentralized environment leads then to increased creativity and out-of-the-box thinking.

Instead, the problem affecting traditional organizations is the bureaucracy, which rises with the increase in size, slowing or even blocking individual self-expression and creativity. High levels of centralization, in fact, lead to conflicting perspectives that can seriously harm the development and implementation of new ideas (Fiol, 1994).

It emerges, then, that hierarchical and flatter structures are not intrinsically settled to sustain a constant and long-term innovation incurring in structural limits due to a centralization of the decision-making power and the lack of creative development that follow, due to limitations difficulties in the share and flow of information. Another factor that can really affect their performance is the overall rigidity that characterizes them, due to an up-front planning and rules definitions which, if not continuously updated and informed about the ever-happening surrounding changes, risk making their operational plan obsolete, make them lose the competitive advantages, risking to remain out the market.

On the other side, neither flatarchies structures are able to assess a long-term and constant growth, having to be considered just a temporary structure that creates pockets of innovation within the existing business structure (James Morgan, 2015). This approach is considered temporary because, being linked to sporadic projects or products that require a particular charge of innovation to be realized or produced, it requires a considerable amount of resources and, of course, a significant reduction in bureaucracy. According to Morgan (2015), it is interesting is the focus that flatarchies have on innovation, an element considered to be a strong competitive advantage in the future of work. However, at the same time, being the focus not permanent, it cannot ensure a constant innovation process in the long term and its sustainable growth.

Companies such as Google, Adobe and Linkedin are very popular for the use of the internal incubator program. Linkedin, for example, has launched its incubator program in 2012 and, only in the first year, the incubator has realized 5 projects.

As the famous economic writer Eric Beinhocker affirms, if a company wants to survive in this complicated and articulated environment, where a steady change is persistently on agenda, the winning weapon is to "bring evolution inside and get the wheels of differentiation, selection, and amplification *spinning* within a company's four walls" (Eric Beinhocker, 2006).

2.4   SUMMARY

To conclude, decentralized and flexible structures facilitate innovation (Aiken & Hage, 1971) encouraging the exchange of idea and the creation of news. Furthermore, companies that have a strong focus on human capital and creative research work are more inclined and driven to innovation (Autant-Bernanrd, 2001; Zemplinerovà, 2010).

Hierarchical structures have reached their limit leading to a slowness of the operating system due to the high rigidity and bureaucracy proper of their approach (James Wilkinson, 2013). The slowness in the decision-making prevents then their ability to react and respond properly to continuous changes affecting today's economic environment (Osmond Vitez, 2016), precluding satisfying performances, which can lead ultimately to an organizational failure (Natasha Gilani, 2009).

Flatter and Flatarchies structures may instead incur in the creation of confusion and chaos among the employees, due to a fragmentary approach that tries to reap the benefits both from hierarchical both from flat

structures. The risk is to have a hierarchical system embedded in the new flattened structure, thus incurring in the seen limits and constraints of the hierarchy (Gill Corkindale 2011).

Flat structures, instead, result to deliver positive key outcomes and profitability, due to the diffusion of decision-making and the consequent engagement observed (Gallup, 2012). But the risks in which this approach can incur are substantial. The elimination of an explicit structure does not eliminate hierarchy. Actually, without a formal structure an informal one will arise, led by the creation of alliances and groups between employees that will, sure enough, replace the formal structure. This hidden structure results to be very deeply-rooted and then hard to change, because arise as spontaneously. The same Valve was affected by this problem: in theory, the company should be managed by self-managing teams but in practice there where a hidden layer of powerful management structure dictating the way of working (Jery Ellsworth, 2013). The emerged structure lacks the authority and accountability officially designed leaders, creating confusion and conflicts.

As flat companies grow, they face problems with scalability because the implicit structure can stifle productivity. Wistia, an American video hosting company, experienced flat structure. After the initial enthusiasm for the innovative approach, as they grew passing from 20 to 60 employees, the flat structure turned to be the opposite of what they intended: they were operating with a centralized decision-making process and relying on the secret implicit structure to make progress. Imposing an implicit structure, the flat organization slowed down Valve ability to execute, making an abandonment of the model inevitable (CEO Chris Savage, Wistia case).

Holacracy results then to have successful characteristics, which make it a model to be adopted to gain the benefits in term of effectiveness and rapidity of decision-making, increased engagement and satisfaction among employees, and thus productivity (Gallup, 2012), and to make a company able to react and respond promptly to continuous changes and external inputs due a ever-changing structure that change and update as needed, without neglecting clarity and transparency, both essential to effectively operate (Brian Robertson, 2015).

3 ARCA CASE

3.1   THE COMPANY

ARCA is a multinational leader in the field of banking services and technologies, providing cash handling solutions. ARCA is a $100-million designer and manufacturer of software and hardware systems and with its global headquarter in Mebane, in the United States, they provide cash automation and payments solutions to financial, OEM and retail industries.

With a presence in 50 countries and operating with 600 employees, ARCA's main network offices are based in the United States, the United Kingdom, Italy, the Russian Federation, China, and India. The company offers technology solutions such as cash dispenser, cash recyclers, check scanners, coin products, payment solutions, OEM solutions, and instant card issuance solutions with a great focus on security. ARCA's aim is to innovate the way payment transactions take place and facilitating cash management.

ARCA has always had a strong focus on innovation, the central and driving element of the company itself. Innovation has always been researched both on technology and mechanical solutions, both on the human and managerial approach. ARCA intent is to deliver high satisfaction to its employees and customers. It always tired, succeeding, in creating a stimulating and comfortable environment, where people were encouraged to establish good relations with colleagues but, also, with customers.

The whole idea of creating automatic cash solutions revolves around the intention to create a financial solution able to deliver efficiency reducing time and costs. The focus is on making transactions simpler, efficient, and more secure. The time gained by the automation of cash solutions is the precious time that employees earn and can exploit focusing on other decisive aspects for a business reality, such as the relationship with the customer, and his happiness, and those between colleagues.

ARCA sees innovation as a "feeling", it is a transformative concept that varies and changes depending on the perspective. Being ARCA in the forefront in the theme of innovation, it has been the sponsor for several times of the American Bank Innovators Road Show, a workshop with the aim of sharing insights on the latest and

exceptional ideas in banking; fundamentally, it is an innovation incubator for the banking industry. Its presence as a sponsor of this event underscores the central importance that ARCA confers to innovation and its willingness to share it with the whole sector.

ARCA persists to position itself as a global leader in cash automation technology, being preeminent in bringing cash automation technology to banks, retail stores, and self-service kiosks. From 2012 to 2014 Arca's revenues arise from $32 to $135 million, marking an increase of 321% (IDC Financial Insights, 2015).

3.1.1 The Business

ARCA is a leader in electronic manufacturing sectors, producing solutions to assist people to control and streamline cash operations in financial institutions, self-service kiosks, and retail stores around the world.

Positioned in the specialty finance industry, the company has three main sectors in which operates: financial solutions, retail stores, and self-service kiosks. Let's see more closely the benefits and opportunities delivered with its automatic and recycling services.

ARCA's automatic and innovative solutions help the users to simplify cash transactions and convert cash handling from a costly manual task to a fully automated and secure solution. The use of cash automation technology allows:

- To increase profit and reduces costs: this technology lets employees free to develop a deeper relationship and offer new services to the customer, eliminating the waste of time in counting and gather cash.
- To Save time: automating deposit, validation, denominational classification, counting and dispensing cash save cashiers more than 90 minutes a day
- To use cash more efficiently: recyclers permits to operate more efficiently with less cash-on-hand in each branch, helping also in reducing cash-in-transit costs.
- To save money: recyclers archive cash during the night. This help to reduce labor and cash-in-transit costs

- To increase safety: cash is more visible and remote monitoring gives you an immediate analysis of cash amount. Furthermore, to resort to an automation cash recycle decreases the risk of robbery
- To increase customer satisfaction: self-service terminals allow customers to complete their operations on their own and call for cashier if they need support.
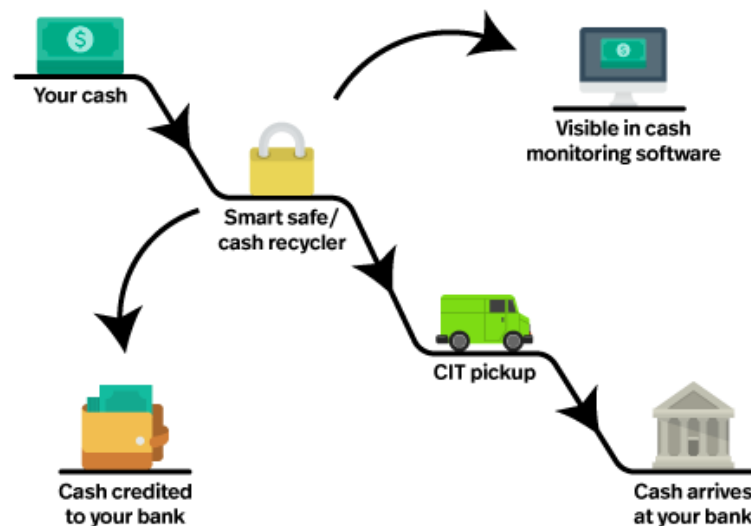
Figure 11: ARCA's retail solution - Source

The history of ARCA's success began in 1998 when the American Mort O'Sullivan founded the ArcaTech Systems, L.L.C., in a small Upper West side apartment, without knowing how much the company would have grown in years and how it would have revolutionized the cash handling business.

In 2002, the Italian manufacturer leader in cash automation technology, CTS, chose ARCA as its North American partner, giving birth to a successful alliance. CTS provided engineered machines, allowing ARCA to totally revolutionized the world of cash automation. CTS Group, based in Ivrea, has sold more than one million banking peripherals worldwide and was a pioneer in cash recycling and check imaging technology. ARCA has gained a lot from the alliance: substantial knowledge and resources, and an established partner with experience and high standard quality. The same Ivrea is well-known to be a famous technological pole, home of companies of the caliber of Olivetti. It was precisely the employees of Olivetti who gave birth to CTS in 1980.

The ARCA expansion did not wait to arrive and seven years later the opening of the first office in the United States, they expand in the United Kingdom.

In 2008 Italian engineers proposed the CM18 Cash Recycler, destined to become the most used cash recycler technology platform in the world.

In December 2014 ARCA announced the acquisition of the CTS Group, occurred through a foreign investment fund, acquiring its facilities in Ivrea and Bollengo with 250 employees. On the occasion of the acquisition, ARCA's CEO O'Sullivan has affirmed that he expected the Piedmont area to "become the center of excellence in Arca technology and to be the engine of growth for many years to come" (O'Sullivan, 2014). The goal was to become world leaders in the field of cash handling, control & automation. And this happened. Joining their forces and strengthening their products offering, they have constituted one of the strongest retail and financial automation companies in the world.

The acquisition has combined CTS's proven engineering and R&D capabilities with ARCA's robust commitment to costumers. In that way, the company became able to provide worldwide retail and banking client with customer-driven solutions structured on cutting-edge technologies. The aim was to respond faster to market changes while, at the same time, developing more focused and efficient products and services. This passage was achieved moving all CTS companies under ARCA umbrella: CTS Cashpro, CTS Electronics, CTS Solutions, CTS North America, and Finsolint. Acquiring CTS Group, ARCA has substantially expanded its portfolio, with highly scalable and resourceful products, deepening research and developing capabilities. As a result of the takeover, a huge variety of new products and solutions have emerged, thus reinforcing its presence and increase globally.

The integration of CTSNA, CTS Cashpro Ltd., and Finsolint with ARCA has had various immediate impacts: ARCA's existing bank and credit union customers have had the possibility to further optimize branch operations using new technologies. CTSNA held over 100,000 cheque scanners installed at retail and financial organizations across North America. CTSNA has had a diverse product portfolio presenting a variety of cash deposit mechanisms and instantaneous issuance hardware technologies.

Furthermore, the foundations built by CTS Cashpro Ltd., give the possibility to ARCA's retail customers in the United Kingdom to access to new and diverse products and more flexible service offerings. The two companies have strong histories and presence in deploying cash technology to retailers and banks of all size in the UK; the union has certainly given life to a giant of the sector. From Finsolint embedding, ARCA has acquired additional expertise and global market perspective through Finsolint's experienced developers. Finsolint has, in fact, developed a line of field-tested software solutions consenting financial institutions the ability to simply automate cash procedures at the branch.

O'Sullivan was sure that this integration would have expanded ARCA's portfolio of products, their global presence, and their software development capabilities. The purpose was to bring ARCA additional ability to deliver higher value to their customers by performing new efficiencies in everyday transactions.

After the acquisition, in fact, O'Sullivan's idea was clear and the point was not only the product but also to introduce a new organizational model in Italian facilities. The first actions, concrete and immediate after the acquisition were to remove the idea of rigorous marking and introduce a flexibility linked to the concept that is an important quality, commitment and the result of working time, regardless of the rigidity. And he had immediately introduced short meetings where people could exchange ideas, thoughts, impressions. It was just a beginning, important transformation still had to take place.

In 2015, after a year and a half from CTS's acquisition, ARCA has incorporated other three companies in the Eporidiese with 80 employees. Arca has sensibly enlarged, and, thanks to its new suppliers, it has made the choice to internalize production. The acquisition has involved Mavimec, Prosecure, and Sumotec, with 51 permanent and thirty employees in administration.

The three realities were founded fifteen years ago by two brothers and for some time they had been working for CTS. Now for ARCA, they become involved in the production of systems sold all over the world. With the acquisition of the three companies, ARCA thus maintains control of the entire industrial process, from software design to hardware production, through design, with an all made in Italy. ARCA decision to totally internalize its production chain was a winning strategy, allowing it to reduce costs while safeguarding quality.

At the organizational level, Arca has built its strategy based on the Holacracy operating and governance system, chosen specifically before the acquisition of CTS precisely with the view of the operation and

subsequent integration. If one of Arca's core values is to innovate, and the machines to count the money require incessant innovation, the company also has to focus on new internal organizational models, more effective and able to unlock organizational potential. In fact, the managerial Holacracy practice is applied, leading to a work environment in which relationships move on a horizontal and circular plane, facilitating the flow of information.

Moreover, in ARCA, Holacracy is also supported by the lean philosophical approach, that aims to eliminate all waste to reduce them to zero. The lean methodology aims at creating a perfect value for customers through a strong focus on transversal innovation processes, able then to optimize the flow of products and services over the entire value streams. The elimination of waste along the entire production chain, and not only through a sectoral reduction, create a process that is less dependent on human efforts, which requires less space, capital and which takes less time to produce the goods at significantly lower costs.

3.1.2   *Reason behind the change*

ARCA has always operated following the traditional hierarchical approach, with a well-defined chain of command and a pyramidal division of roles managers at the head of the different processes and employees with sectorial tasks. And, as the whole set of hierarchical companies, ARCA has always operated without a clear and spelled-out governance framework, neither with a documented set of rules and roles explicating how the company operates.

And before the acquisition of CTS's group, it emerged the fear that new employees coming from the acquisition would be rudderless, leading to a difficult alignment between the two realities. But with a system like Holacracy in place, the 450 ARCA's employees would be in a better position to embrace the new comings members and to integrate them into ARCA's way of doing business.

O'Sullivan was fascinated by the organizational potential that the Holacracy practice could unlock, helping ARCA to continue to be efficient and agile despite continuing to grow, able to render the company more responsive to changes, both internal and external ones.

3.2   THE SHIFT TO HOLACRACY

On July 2014 ARCA has embraced Holacracy practice, generating a profound and radical change for its over 600 employees and the company itself. The transition began in the United States and United Kingdom offices with great curiosity for what would have happened. The organizational change was specially made, as we have said, to the Italian facilities in order to facilitate the integration of Italian reality into a single company with global scope. Enrico Bocchiarchi, managing director of ARCA in Italy, was sure that this shift would have significantly helped Italian facilities, and its 250 employees, to better unify and grow in steps with American headquarters (Enrico Bocchiarchi, 2015). For Italy, it was surely an important change: ARCA is the first company that has adopted Holacracy approach in Italy, and they were enthusiastic to be on the wave of the new frontiers in organizational management, experiencing the change as a great opportunity (Paolo Dezutti, ARCA Holacracy Coach).

The transition, as we have said, began in 2014 when American headquarters started applying the practice. The transition was made applying Holacracy first to single departments and then to the whole company. The same progressive approach was used in the United Kingdom and Italian's facilities.

For 6 months ARCA's American headquarter was followed by HolacracyOne coaches that helped them to embrace the transition and to profoundly understand the new structure. HolacracyOne formed then internal coaches to ARCA, creating figures able to assist employees and the company in managing Holacracy in the long run. A constant and continuous support for the implementation of the practice is essential, especially in the first period after the adoption.

This is due to the fact that the change is substantial and important, bringing to a completely new ecosystem in which the workflow and relationships are exposed to changes.

At the end of 2014, the transformation was completed and ARCA started operating completely under the new structure. Once the American facilities completed the transition, they became able to follow strictly the Italian one. It was precisely the coaches trained by HolacracyOne that followed, by the beginning of 2015 the Italian facilities in their shift into holacractic-powered organizations. So, the 300 Italian employees were leaded towards Holacracy transformation by 6 internal coaches, which periodically did training courses in America. American employees were curious but not necessarily excited about the change, they were, instead, a little bit

skeptical. In Italy, there was much more excitement because it was something totally new and different. Surely, this transformation was more dramatic for Italian employees, requiring an important change also in terms of mentality). Always used to hierarchical logic, Italian employees have shown themselves immediately enthusiastic and ready to face a change of that magnitude (Kevin Joyce, 2018).

Also for a deeply change-loving organization like ARCA, it was a big deal. As its employees have pointed out, "this time, we only changed everything". Meant as comprehensive practice for structuring, governing, and running an organization, Holacracy slowly but effectively has changed the way the organization works and operates.

ARCA has fully embraced the shift, adopting all the elements that characterize a holacracy-powered organization, from the true distribution of authority to the adoption of a constitution to the changing-roles mentality, to regulated meetings, to the use of an internal platform. ARCA uses GlassFrog, a cloud-based platform designed from the Holacracy's experts that helps teams to stay updated with the constant internal changes.

GlassFrog, in fact, records the changes in roles and accountabilities as they take place in real-life; it captures tensions to be discussed in Governance and Tactical meetings, sending proposals to enhance your team's workflow and expectations; it allows for an alignment of the team, showing the work-in-progress, showing metrics, dashboards and underling projects and actions by role, circle, date, and outcome; among other decisive functions, this platform permits you to visualize the whole company organizational chart, allowing you to see who does what and who has the information you require to get work done.

ARCA has greatly benefited from the section of GrassFrog "Holacracy Habit Lessons", a set of bite-sized lessons that helps teams to make the jump to self-management: this feature assists to build strongly the skills and habits fundamental to Holacracy practice, such as how to move from personal to role-based power and how to effectively process a tension. With this cloud-platform ARCA's teams have felt more comfortable in facing the transition, having always at hand an instrument capable to helping and direct them towards the typical attitude of a Holacracy structure, and indicating them precisely what is the current state of things allowing for an incredible clarity. It has begun, then, a fundamental tool from which ARCA's teams cannot disregard (Kevin Joyce, 2018).

As we have said, it was a step-by-step transition and it could not be otherwise. In 2016, after one year of the change, Italian offices were between 60 and 70% of the implementation (Katia Razzano, Holacracy coach, 2015). The transition was even on the linguistic level because it is necessary to get used to the anglicism and it is necessary to adopt a radically different vocabulary, fundamental in order to be all aligned to the same terms and concepts. For example, the new company dictionary transforms carrying out an assignment in "energizing a role", the comparison of the results is done with "tactical meetings", and the obstacles at work are defined as "tensions", traveling halfway between business problems and emotional stability.

In that way, ARCA's hierarchical structure has been replaced and substituted with a diffused and spread authority between all the members, with the work organized around circles. For the moment, there 70 circles but they that might change based on the necessity.

 ARCA is working with a functional organization, that means that within the General Company Circle there are Sales, Finance, Operations and so on. Despite the traditional Holacracy way to organize, that is following a value-stream orientation that implies, for example, that in the largest circles should be settled the various line of business, ARCA has decided to continue adopting its previous functional distinctions also if upgraded to Holacracy circles and sub-circles.

According to Joyce, with Holacracy you can witness to an effective distribution of power but not made permanent. In fact, decision-power is related to the role, or roles, that you cover and each of them has different accountabilities related to it. Roles frequently change and so the responsibilities and thus the power necessary to accomplish them. For that reason, Holacracy is a continuing-evolving and changing environment in which clear communication and immediacy of information are determinants for an effective operation of the practice.

Despite the enthusiasm of the majority, there were also those who were quite skeptical about Holacracy. The fear was to lose some of the best working methods that the company had developed and matured over the years, as affirmed Vincenzo Alfieri, previously Olivetti's employee and now lead link in the circle accountant for the development of banknote readers. But they were unfounded fears, it did not happen.

The maturation process requires time because people have to realize and find their dimension in an environment in which they become autonomously responsible, and where everyone's experience is implicitly

recognized. But once the new method, mentality, and logic are acquired, it becomes a natural way of organizing and working.

Even if in ARCA's case there was not an escape of employees, as happened, instead, in the case of Zappos, which lost 260 employees from 2013 –we will analyze this aspect later on- someone has done struggle to adapt. Especially the former middle managers wiped out by Holacracy. The new practice, in fact, allows workers a substantial amount of authority to act, and many managers suddenly found themselves without decision-making power so they need time to figure out how to insert themselves in this new environment.

The traditional hierarchical logic might be abandoned and a new mentality might figure out. Former managers have to find their place in the new set of things, abandoning the idea of their previous powered-role and embracing the change in its whole.

The same Mort O'Sullivan has perceived a change in the way his employees see him. Rather than being the solution and the answer man for any doubts, he has become an employee with precisely demarcated supervisory functions. He is not seen as the CEO but as the global HR policy coordinator. Basically, what now he does is not so different from his previous role, but it is drastically different how the rest of the organization detects him carrying out that role (Ilan Mochari, 2018).

3.2.1   Critical Issues

While implementing Holacracy, ARCA faced two main criticisms on which they had to work a lot. The first one was to let people understand that lead links were not managers. To be suddenly without leaders can indeed be difficult to comprehend and manage; in fact, people, as happened in ARCA, may feel disoriented and confused by not having leaders that guide and indicate them what is the line to follow, the steps to carry out and the way to achieve them.

With Holacracy in place, people might be ready to profoundly and radically change their mind and their behavior, leaving behind the traditional hierarchical vision of functions and roles, the conviction and the belief that their actions need constant supervision and addressing. Indeed, people have to embrace completely the

shift to a new and different mental order that revolutionizes the working logic and the relationship that follow, and its reception is fundamental in order to let Holacracy work effectively. To properly work, It requires simultaneously time and practice.

However, according to Joyce it is misleading to speak about a total absence of bosses, because it is strange, and also hard, to think about that from a certain point you are not subordinated to anyone but rather, you have the possibility and indeed the duty to decide and take action.

Managers in the traditional sense are, of course, abolished but somehow a more typical managerial role is entrusted to lead and rep links: those roles ensure coordination between the members of the same team and between different circles, but they do not have the power to issue orders or decide in what order to perform a task. They serve to do not lose the overall view of the company, helping the coordination and ensuring a linear and without problems workflow. These roles, in any case, do not have the traditional managerial powers, they cannot control peer's activities, but only guide you, set priorities, transmit useful information, and help you be satisfied with the tasks. They become "leaders" at the service of the company (Kevin Joyce, 2018).

The second aspect of Holacracy that has created some challenges in ARCA was the structure of the governance meetings. Those meetings, that are an essential element to manage the continuous internal changes in the operational structure, are defined by very strict rules that make the execution quite unnatural. In the meetings provided by the holacratic system, it is necessary to follow a precise label: from the initial greeting to the final reflections, passing through the exposition of the problems. There are rules that define the general modalities of the meeting, others that define the timing and the ways to take the word and when, instead, it is impossible to speak.

All this, make the governance meeting a little unnatural and it takes time to get used to it. At first, it can appear too much restricting, imposing a forced approach that makes you feel a little uncomfortable thus leading to confusion and frustration (Kevin Joyrce, 2018).

Struggles with the holacractic meetings structure occurred also in the Italian facilities where, according to Luca Alfieri, the lead link of the circle that manages the quality, the self-managerial practice clashed with the Italian stubborn approach. In the first meetings they had under Holacracy practice, they continually interrupted each other and they could not understand the benefits of such a frequent and rigid process. Instead, as time

passes, and the "rules of the game" became clear, the Holacracy practice has become a natural approach and the benefits of such meetings emerged. Everyone has their own turn to intervene, and everyone has the right to speak, even the last-come (Luca Alfieri, 2016).

It is perceived by ARCA's peers a greater amount of time dedicated to meetings but, unlike what happened before, it is not time lost: meetings are never inconclusive but rather, they always allow to come to the resolution of a problem or a criticism. Very useful to comprehend how to approach these new forms of the meeting was the help provided by the role of the facilitator who guided and taught along the way, instructing on the steps and rules that have to be followed. This figure, even if it requires much more time to spend in meetings, can be fundamental and decisive at least in the first phase of transition (Kevin Joyce, 2018).

3.2.2   Advantages Delivered

On the other hand, in ARCA Holacracy has delivered important benefits. One of the main strengths is clarity. Clarity is brought by the precise rules and indications that explain users everything. The new practice has constituted a system that allows everyone to constantly know how the operative structure works, what are your tasks and those of your peers, in what role a particular responsibility lies and what is the progress of the projects. It truly and effectively shows how the entire company works. You have clarity around the work that has to be performed, clarity on where the work lives and how the work is accomplished, meaning a clarity on what role is responsible for a determined task and through what authority.

This extreme level of clarity allows for a much more powerful resource alignment: they have how easier it is to make better decisions when the right resource fits the right role, accomplishing concrete tasks. Clarity is also an essential element to better restructuring. In fact, being holacracy-powered organizations continuously subjected to the restructuring of work in order to better align the company structure with the work, a strong clarity allows to do that, creating a structure that is entirely engaged to deliver on the business of the organization, and that can easily change without throwing the company into chaos and creating confusion (Kevin Joyce, 2018).

Another strength of Holacracy is seeing people showing up in roles: once it is clear which are the roles and what they entail, everything is much easier. Peers exactly know who is accountable for what and who has a

certain responsibility, streamlining the wast of time and the useless circulation of information, being able to identify immediately what you were looking for.

Thanks to Holacracy structure, you are also able to change your role to better adapt it to your abilities and inclinations, all with the aim of bringing a benefit to the company, increasing efficiency, and responsiveness. As it happened to Carla, an employee in Ivrea area that, after the acquisition of the former CTS and the adoption of the new corporate management method, has seen an opportunity for her. She started in the staff office but, having a degree in modern literature and a master's in brand communication, she proposes herself as responsible for internal communication and for the launch of new products and she got the desired role.

3.3   BALANCE OF THE ADOPTION

It has been 4 years since ARCA has adopted Holacracy and, in this paragraph, we will try to get the point of the situation and pull a balance of the adoption.

In 2018, ARCA is continuing to fully operate under Holacracy practice and they have not experienced any setbacks. Despite some initial skepticism, that it also normal when such a radical change takes place, ARCA's people have found their dimension in the new structure, and the effects of such a transformation have also positive repercussion on the surrounding environment. The company, in fact, continues to hold the #75 position on the IDC Financial Insights FinTech Rankings, the rating that the company has been maintaining since 2014.

The annual IDC FI FinTech Rankings represents the most comprehensive supplier ranking within the financial services industry and it is established on the previous year revenues attributed to financial organizations. ARCA's ranking on this list is a confirmation of how much the company is at the vanguard in automation technology, providing a massive value to financial institutions. The IDC FI FinTech Rankings classifies and evaluate the top global supplier companies of financial technologies for software, hardware, and services and the judgment is based on the calendar year revenues from financial organizations. The IDC FI FinTech Rankings have become a considerable measure of the health and orientation of technology implementation in the IT industry and development of innovative solutions from new and existing players. This rating is, then, a

good benchmark that underlines how the upheavals within the organizational structure have not adversely affected its economic performance and how ARCA's conduct is perceived by economic observers.

The initial skepticisms and confusion, totally justifiable and understandable when facing a huge change like this, are now replaced by a sense of naturalness in applying Holacracy rules, in adopting its mentality and in dealing with changing roles. Such a radical change requires time to become really familiar with the whole concept and structure of Holacracy and, especially, with the self-managing.

In Italy, it is the first application of Holacracy practice and they have experienced the transitions as completely disruptive, changing deeply their way of thinking about the organization (Nicolo Giorgetti, ARCA Holacracy coach, 2015). The Italian mentality is very linked to the fear of fail because it is a common thought that failing will not give you a second chance. With Holacracy they had understood how false this is: they have understood that they have totally the ability to make the action and to take the risk, increasing sensibly their self-confidence and independence. Italian people are then very creative and Holacracy allows to transform effectively ideas into reality (Demetrio Labate, ARCA Holacracy coach, 2016).

Giving to everyone his accountabilities is the most empowering mechanism that gives people the freedom to do things. Holacracy has completely changed the way people interact and connect, simplifying, but at the same time clarifying the relationship among colleagues, here peers. What is commonly perceived is that Holacracy has created a structured framework that allows solving problems and criticism effectively and efficiently, saving time and efforts (Kevin Joyce, 2018).

Being a practice, Holacracy requires time and exercise to properly manage it. For example, struggles with meetings, in particular with governance meetings, has been overcoming understanding that the human component, more focused on the individual and on personalism, was not a necessary element for the proper functioning of the meetings. The idea behind is that to let them effectively work, meetings need to be more mechanical and algorithmic, allowing in that way to really focus on the important and central issues that have to be discussed. Once people understand how to use these tools and process, the company becomes able to move forward, really taking advantage of these techniques and speeding up the taking of operational and structural decisions. The human component results than to be intensely present through the rest of the time. (Katia Razzano, ARCA Holacracy coach).

According to Kevin Joyce, Holacracy has delivered greater autonomy and better clarity. They have assisted to a striking increase in dynamism and they are still gathering its benefits and advantages. Daily work and things result to be absolutely clearer, allowing for faster decisions, immediacy in action and in problems resolution. The perception is that the amount of rules is not so considerable, do not embed the system in a sequence of endless rules (Kevin Joyce, 2018).

Even if ARCA has become an ever-changing reality, as changes take place very often, there is always clarity on how the surrounded situation has changed, what the changes have affected, and how the roles have changed subsequently, leading to a change in responsibility that is easily identifiable. As the structure and internal division of labor organization frequently undergo changes, so peers and those involved are immediately aware of these changes and can act accordingly. Clearness and transparency are brought into the organization thanks to the governance meetings: they result to be a fundamental tool to effectively change the undercurrent structure, which is constantly modified to make it possible to respond properly and quickly to the economic changes in the market and in customer's demand, thus always succeeding in have an anchored position on the market.

Only thanks to governance meetings ARCA's teams are able to operate despite the continuous changes, letting everyone being updated with what is happening in the operating structure (Kevin Joyce, 2018). However, according to Joyce sometimes it happens that the output of these meetings is less clear than other times. Basically, governance meetings not always succeed in providing absolutely clear results, delivering up and down outcomes. But as we have said, this is a practice and takes some time to be improved.

In my interview with Kevin Joyce, we have also addressed the argument of performance indicators and profitability. In ARCA, as performance indicators, they use Employee Satisfaction, Employee Engagement, and Turnover. After the adoption of Holacracy, a change in turnover was detected: it has quite increased.

To test the effectiveness of the new practice, ARCA has used, and still, use, several Employee Performance Metrics, analyzing the work quality, work quantity, work efficiency and organizational performance. The most fundamental, and most used one, is CultureAmp, used to track how their employees were doing. The CultureAmp score tells ARCA the overall employee engagement. They analyze employee's satisfaction throughout two fundamental tools: the surveys and engagement tool. Surveys are usually 75 questions and they can range very substantially. Both of the tools, and the subsequent answers, are managed internally by the company and they are done every 6 months.

What emerged after the transition to Holacracy, was a significant increase in engagement that has stabilized after one year.

Thanks to it, they were able to catch that engagement is increased sensibly and people in ARCA perceive a greater autonomy and satisfaction.

Joyce has underlined how much Holacracy is sustainable for a long-term growth, allowing companies to react immediately effectively to the changing economy. Holacracy is able to deliver a sustainable growth especially when the company properly support the change, embracing it in its whole, not applying old mentality to this new scheme and not remain tied to the past, and thus facilitating the transition to a completely new order of things and way of thinking and working. Understanding that a complete change in mentality and habits is essential, it is the first step to truly embrace the change and let the new organizational structure release completely its potential.

In ARCA was observed that it was the first impact with the new practice that created some struggles and difficulties, immediately reabsorb once you have made the habit with the new approach and tools (Kevin Joyce, 2018).

ARCA vision was to experience the benefits that holacracy-powered organizations, such as Zappos, expect to gain: engaging, empowering, happy employees who work together to dynamically drive the organization to success. What we can say is that ARCA is certainly reaching its objectives, continuing to maintain a position of supremacy in the cash handling automation sector and has achieved its goal to have a strong employee's satisfaction.

ARCA is experiencing a true and effective flexible structure able to change its internal rules and dynamics base on the particular necessity of the moment, influenced by internal tensions or to the need to properly respond to exogenous situations.

ARCA has then reached its goal to truly unify the two existing realities before the acquisition of CTS, succeeding in giving life to a single global entity.

4 ZAPPOS CASE

4.1 THE COMPANY

Zappos.com, Inc. is a giant of online shoe and clothing retail based in Las Vegas, Nevada, with 1,500 employees. In July 2009, the company was acquired throw an all-stock deal by Amazon.com, Inc. for a value of $1.2 billion, with revenues registered in the same year for $1 billion.

Zappos, initially founded as ShoeSite.com, was created in 1999 by Nick Swinmurn whose initial inspiration came from its failure to find a pair of brown Airwalks at his local mall in California. In the same year, Swinmurn approached Alfred Lin and Tony Hsieh with the revolutionary idea of selling shoes online. Hsieh was skeptical: he did not believe that people would have bought shoes without previously seeing them, and Swinmurn did not have a footwear background.

At that time, in fact, the e-commerce was not yet an established business, especially for clothing and shoes. It was a gamble, and no one had yet launched into this venture. Tony Hsieh was about to erase the voice message from Swinmurn. But when Swinmurn mentioned that the footwear in the US is a $40 billion market and 5% of that is already being sold by paper mail-order catalogs, (Sminmurn, 1999) both Hsieh and Lin decide to invest for a total of $2 million through their investment firm Venture Frog, a provider of investment and consultancy for start-up, and early stage investments. Swinmurn who, at that time, was working at the Internet consumer site Autoweb.com, used the model behind that site to build its online shoes shop. In June 1999 the company, under the domain, ShoeSite.com, was officially launched.

A few months later the name of the company was changed in Zappos, a variation of "zapatos," a Spanish word meaning shoes, thus without limiting their business to shoes alone. In early 2000, Venture Frog made an additional investment into Zappos and welcomed the new company to join its space in its headquarter in San Francisco. Venture Frog was, in fact, born as an incubator of the small start-up and with the idea of hosting about 30 companies in its two floors building in San Francisco but in those years the economy was moving south, and so Zappos resulted in being the only company that ever went into the incubator.

Hsieh started enjoying and genuinely appreciating Zappos's reality, and in 2000 he decided to join the new online retailer joining the board as co-CEO, together with Nick Swinmurn. In 1999 the company experienced minimal gross sales but in 2000 Zappos produced $1.6 million in revenue.

From 2001 Zappos experienced a dramatic and dizzying growth: in that year the company brought in $8-6 million, more than quadrupling their yearly sales. In 2004, Zappos gained $184 million in gross sales and received a $35 million investment from Sequoia Capital, its first round of venture capital. In the same year, they moved their headquarter from San Francisco to Henderson, Nevada. In the three years that followed Zappos doubled their annual revenues reaching $840 million in gross sales by 2007, year in which also expanded its product range to clothing, eyewear, handbags, and kid's merchandise.

In 2008 the young Zappos hit $1 billion in annual sales, anticipating this milestone by two years than expected. The following year the company prematurely reached another goal that had been set for the long run, positioning at No. 23 on Fortune's "Top 100 Companies to Work For".

The original purpose was to create a web-site that offered the unequivocal best selection of shoes concerning the brands, colors, styles, widths, and sizes. During the first nine years, the company's brand and aspirations have evolved, and beyond proposing the best selection, the new crucial goal was to provide the absolute highest-quality service online, and not just in shoes but in any category.

So, the vision that inspired Zappos is:

- One day, the online retail transaction will account for 30% in the US.
- People will purchase from the company with the absolute best service and best selection.
- Zappos.com will be that online store.

In 2009 Zappos started analyzing and exploring an acquisition offer from Amazon. Tony Hsieh and Alfred Lin were mainly concerned with preserve the company's culture and identity, afraid that such an acquisition would have entirely incorporated Zappos into Amazon logic. The other three members of the board of directors, instead, were mainly interested in taking advantage of the opportunity with interest in maximizing profits in a suffering economy.

After an initial idea of Hsieh and Lin of buying out the whole board of directions, with an estimated expenditure of $200 million, Amazon proposed to acquire Zappos outright. Hsieh understood that Amazon, and its CEO Jeff Bezos, was flexible in letting Zappos independent, and so negotiation began. On July 2009, Zappos was acquired for $940 million in a stock and cash deal. Owners of shares of Zappos received nearly $10 million Amazon.com shares and, simultaneously, to employees would be given additional $40 million in cash and stock units. The deal was officially closed in November 2009 for a disclosed $1.2 billion.

In 2010 Zappos's incredible growth required a restructuring of the company to continue to be able to offer the best customer service despite the considerable size. The change was necessary, and so, on May 2010, Zappos was restructured into ten divided companies under the Zappos family umbrella.

In 2012, Zappos declared that it would be shedding their Kentucky warehouse, with the explicit intention of control internally the whole experience. In that way, the company decided to envelop its facilities into Amazon's established network. According to Hsieh, only in that way, managing the inventory and taking risks, they could differentiate attracting the attention of their clients indeed.

Tony Hsieh was, in fact, convinced that the speed of receiving a purchase made by shopping online was a critical determinant in customer's satisfaction and so Zappos firmly focused on making the items get delivered to their customers as quickly as possible. To do that, the only way was to control the inventory, having in their warehouse all the products they sell, and, despite other many online companies, Zappos only sells what has physically in its warehouse, to ensure immediate delivery.

The company suffered an important cyber attack in January 2012 and information of over 24 million customers was compromised. Zappos underwent a class action suit, and the company was accused of not properly protect its data and those of their customers.

In the same year, an important process of technological change was taking place: Zappos, in fact, had decided to uniform its technical systems to Amazon's ones, thus beginning the adoption of the Super Cloud system. The whole process was demanding and required an exceptional team of engineers to be completed. 20 different teams were settled to follow the transition, with 250 to 350 people, also composed by contractors. The idea

was to use Amazon's technical infrastructure for backend functions, like e-mail and the site's checkout service, so that the company could strongly focus on improving and innovating other technical offerings such as data-driven and mobile service.

Zappos was, in fact, focusing on developing methods to sell products through geolocation and weather; furthermore, a more sophisticated algorithm was developed, Zappos Zero, which suggests products and clothes pair with customer's choice of shoes.

In 2013 Zappos headquarters were moved to Las Vegas. Tony Hsieh wanted to be in an area where everyone feels like they can hang out all the time and where there's not a huge distinction between working and playing.

In order to create a stimulating environment where entrepreneurial-minded people will want to undertake a career, the CEO Hsieh invested $350 million of his own money into the DownTown project with the scope of revitalizing part of downtown Las Vegas. A considerable part of the investment was also addressed to redesign Zappos's headquarters; a minimal design was chosen, no furniture connected to the physical object and movable walls and desks to let employees move and arrange the space as they prefer according to future needs.

In the same year, the company moved to and adopted the Holacracy practice, changing the whole organizational structure into a self-management that would have led to greater accountability, and thus engagement of employees, and to an increase in transparency that would have sped the resolution of tensions. The adoption of this new practice was not well received by everyone, and a substantial number of employees left the company.

Zappos has always been a people and customer-focused company, and it was not the first unusual management technique applied. In the hiring process, in fact, Zappos does not look only at hire's skills quality but also if they are good people. For that reason, all hires pass through the training customer service representatives, passing two weeks on the phone. Zappos has also created an intentionally inconvenient office to foster employee collisions.

From the beginning, Tony Hsieh decided to make customer service the company's principal product, with the firm certainty that customers could buy shoes everywhere but that they would become faithful to Zappos if it

had proven particularly attentive to their need. Thus, Zappos's core focus is and has always been, on company culture and the relationship between employees.

Zappos, as we have said, was ranked 23rd on the Fortune 100 Best Companies to Work For in 2009, 15th in 2010, sixth in 2011, dropping to 11th in 2012.

4.1.1 The business

Zappos is positioned in the apparel market and has built its strategy on a relationship marketing and loyalty business model.

The apparel market business only in the United States is about $225 billion, and Zappos owns a share for around $2 billion. Therefore, the company still has a lot of room to move in and is determined to take advantage of it.

Zappos' central selling base is in shoes, which account for around 80% of its business. At the moment, its e-commerce counts more than 500,000 varieties of shoes, among which there also high profile brands like Ugg boots, Nike, Steve Madden heels, and ALDO.

Zappos offers different types of footwear including high heels, dress shoes, sandals, slippers, running shoes, basketball shoes, and soccer cleats. Their offer also ranges over niche shoe market, selling narrow and wide widths, sizes that are hard to find, vegan shoes and America-made ones.

Zappos' prominence in the footwear industry is gained through a smart solution to the problem that influences online clothing market, the limit that customers cannot try the products before buying them. To bypass and overcome this problem, Zappos has eliminated shipping costs and has strongly invested in a call center based not on answering quickly and to as many calls as possible but instead on building a lasting relationship with customers.

Call-center employees are trained to practice interactions with customers to build a relationship, and not conclude a sale. In 2016 Steven Weinstein, a Zappos's employee, recorded the longest customer-service call that lasted 10 hours and 43 minutes, breaking the record held by Amazon.com in the online retail sector. Through the provision of unlimited time for customers to explain their problems and concern, get recommendations, allowing them to order several pairs of shoes, try them all on and decide freely what to send back to the store without additional expenses, Zappos has carried the online shop to the customer's house.

Regarding financial turnover, the idea was that the additional cost in providing great customer service and free shipping would be overbalanced by increased sales volume and the declined cost of not having to maintain all those physical outlets.

The new approach was very advantageous, and Zappos scaled it by internalizing operations to increase efficiency and by extending the product line to handbags, eyewear, and accessories, to benefit from economies of scope. In 2010, thanks to the visionary management approach of Tony Hsieh, Zappos sales were well over $2 billion.

In 2007 the company enlarged its business introducing the selling of clothing, handbags, watches, eyewear and kid's merchandise, which all together count for 20% of its annual revenues. This enlargement of clothing and accessories has also brought $1 billion worth of revenue in 2015, is the clothing market four times the size of the footwear market. The purpose is still to build the best and most reliable brand of customer service.

In the same year, Zappos has acquired 6pm.com, the American online shopping selling bargain clothing, shoes, and accessories, enlarging its market share.

A year later, Zappos has launched into the consulting world, founding Zappos Insights, which aim is to help other businesses to refine and enforce their customer service and company culture. By paying 40$/months, participants can take advantage of a subscription video service that allows companies asks questions directly to Zappos' employees. The program also includes a three-day boot camp in which they can visit the headquarters in Nevada and have a restricted meeting with Zappos' executives.

In 2014 Zappos also launched the second line of high-end shoes, called Zappos Couture.

The American giant retailer, through the "no shipping costs and relationship marketing" model lar market segment: more than 75% of its sales come from loyal customers, the repeat ones. The same Tony Hsieh has recognized the necessity to push on more innovation to capture additional market segments of the massive apparel market. For that reason, Zappos is primarily in the same situation of any incumbent, standing at a crossroads to choose between refining an existing business model or giving up an absolute efficiency to open up to further opportunities.

And Zappos has chosen the second option, deciding to revolutionize its internal organization through Holacracy and thus opening itself to new and disruptive opportunities.

4.1.2 The company culture

The great fortune of Zappos is due mainly to the revolutionary vision of its CEO, Tony Hsieh, who has always been committed to making the company the online sales sites that offers the best possible experience to the consumer.

To achieve this goal, Hsieh and his team have formed an energetic and engaging company culture that plays a central role in every aspect of the company's business. In fact, the first fundamental value is to dispense WOW through service. The entire company is aligned with one mission: to deliver the best customer service possible. Their ten core values are:

- Deliver WOW Through Service
- Embrace and Drive Change
- Create Fun and A Little Weirdness
- Be Adventurous, Creative, and Open-Minded
- Pursue Growth and Learning
- Build Open and Honest Relationships With Communication
- Build a Positive Team and Family Spirit

Zappos publishes annually a "Culture Book," made up of contributions from its employees detailing what the company culture means for them.

Company core values are so important in Zappos that hiring is made according to the alignment of the candidates with these cornerstone values; regardless from the position, future employees have to undergo a 4-weeks Customer Loyalty Training course which includes, as we have seen, 2-weeks in the call center. According to Hsieh, Zappos is a service company that just happened to sell shoes.

The firm belief that customer service and its task to deliver at any cost a higher consumer's satisfaction was extremely evident in 2010. In that year, due to internal technical problems in one of their online shop site, 6pm.com, all the merchandising products were marked down to $49,95 for six hours. Among them, some items should have been sold for around $2000 but instead were priced at 97% off. This error costs the company about $1.6 million revenues.

Zappos' CEO decided to do nothing. And it was a winning move. The company's reputation could not be compromised leading Hsieh to honor all sales settled during that period. According to Hsieh, they were experiencing a learning curve, and from mistakes, you can only learn for the future. Despite this was a costly decision in financial terms, its following was resounding: it generated a vast number of positive murmurs and gratitude in Zappos customers.

This action made clear to it consumers that Zappos cared about their satisfaction and that it could ensure significant financial repercussion to do not compromise their happiness or lose their trust. The company was rewarded because not only these customers have returned to Zappos in the future, but they also promoted and fostered Zappos reputation and drew new customers to the site.

This example demonstrates the benefits that consumer happiness can bring. Every small interaction is considered fundamentals and parts of a wider environment made up of experience and culture.

Customer's delight and trust can only be possible if also employees' satisfaction is pursued and reached. Employees are the company's interface, are those with which consumers relate and then just if employees trust and love their company so that consumers can do it.

There are some ways in which Zappos focus to strengthen the relationship with its employees. First, Zappos encourage having fun and "being a little bit weird"; the company foster and celebrates their individuality and support them to always think outside the box. Second, the company places a lot of emphasis on creating a stimulating and comfortable environment where building a close team and family. The creation of genuine and open relationship is encouraged, and employees have always taken the thrust, welcoming honest relations and eliminating cynicism. Lastly, Zappos supports determination and passion, hiring people with positive attitude and honestly believe in the company's methods and in what is doing. All these elements have created excited and eager employees, who work together with synergy and spending in firsthand to reach the common business goals.

Zappos collect its fruits, and for that reason, it has been listed on the Fortune magazine's "100 Best Company to Work For" from 2010 to 2015. Zappos is still improving and striving its methods to delight its employees, always finding new ways to do it.

4.1.3 The reason behind the shift

Tony Hsieh is a visional leader that is always interested in finding new and revolutionary was of doing business experimenting with it. Therefore, as his company was continuing to experience a vertiginous growth, he realized that the existent and traditional organizational structure would not have been able to sustain Zappos's growth maintaining, at the same time, to safeguard the effectiveness of its core product, the customer satisfaction, reached through creativity and innovation.

The trade-off that he was facing was, then, between enlarging its market share and presence on it or preventing growth to protect a system that was already working very well.

But being an innovator, he could not opt otherwise than change. In that way, he approached Holacracy.

Hsieh was fascinated by the new self-managerial practice, already applied in those years by companies such as David Allen & Co and Medium, and he was intrigued by the ability of Holacracy to deliver flexibility and effectiveness not trampling innovation and creativity.

Hsieh was impressed by research made by Edward Glaeser in his book "Triumph of the Cities," showing that every time a city doubles regarding size, productivity or innovation per resident raises by 15%. But when companies become bigger, productivity or innovation per employee usually goes down.

Zappos CEO's aim was definitely to create an organization that was more like a city and less like a bureaucratic organization. And Holacracy could have allowed it.

4.2 THE SHIFT TO HOLACRACY

That is how, in 2013, Zappos's experience with Holacracy started. The Zappos's adoption of the practice is the biggest one regarding size and relevance of the company, having the company 1,500 employees and being considered a giant in the online clothing sales, especially in the U.S. market. Holacracy, in fact, has always been applied to small-medium companies. It was a real experiment and has raised many discussions.

The adoption started with a pilot program applied to Zappos' Human Resource team, around 100 employees, in Las Vegas.

The team was introduced to Holacracy' fundamentals and rules, and the characteristic aspects of the practice were applied: they abandoned their traditional job titles, initiated working on multiple tasks, rather than focusing on just a specific job, tracked the new organizational structure through GlassFrog, and the structure of the governance and tactical meetings were adopted.

This figure below was provided, to show and underline the new governance meetings structure adopted:
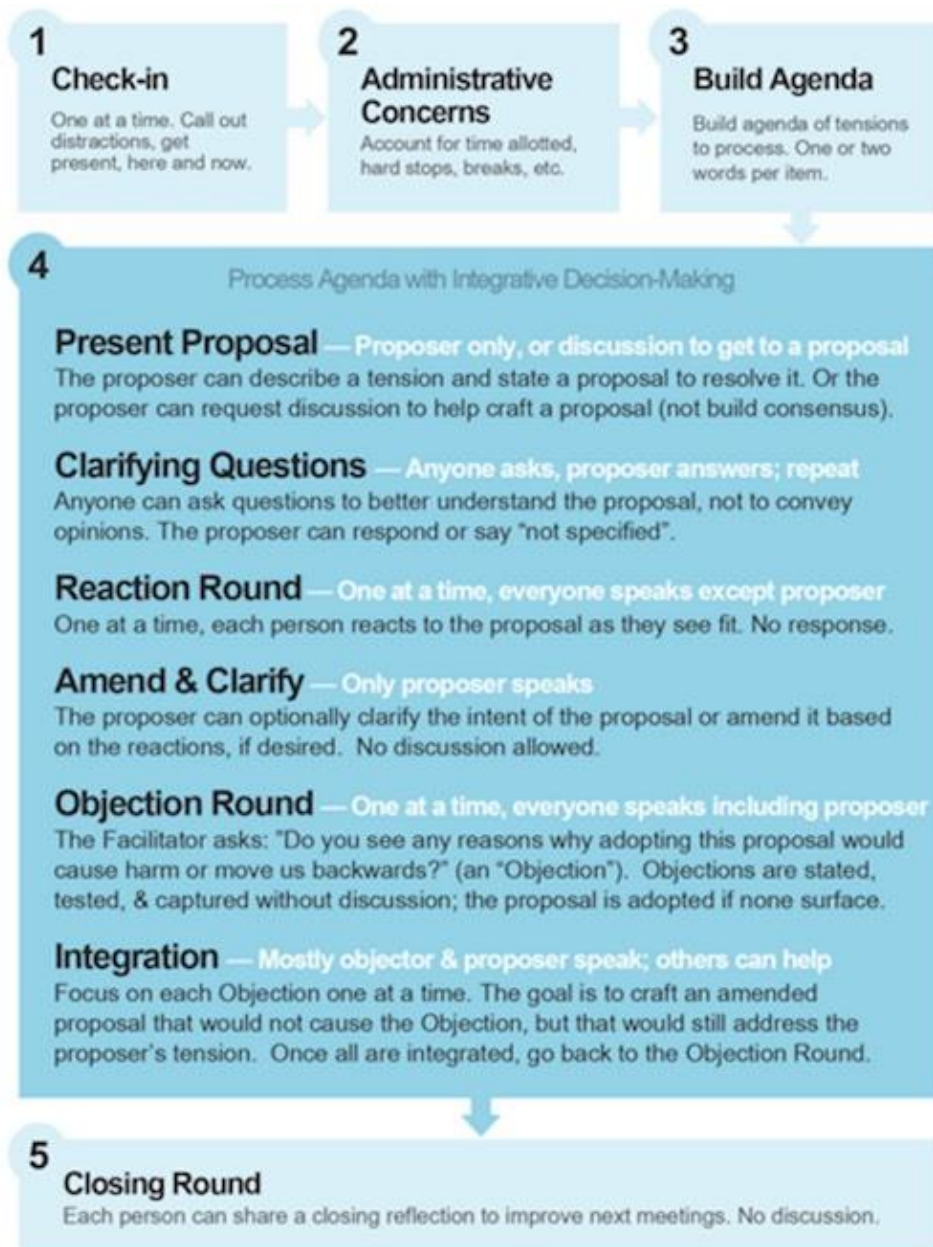
Figure 12: Holacracy Governance Meetings - Source: HolacracyOne.org

The initial transition faced some challenges: as the same Robertson recognizes, the beginning phase is the most uncomfortable and painful. And Zappos was not an exception. In the weakly coaching sessions that the HR team did, followed by the technical advisor Jhon Bunch, in charge of the transition of Zappos to Holacracy, not everyone was willing to change. Frustration and resistance were common; people were angry to cede its job titles and power that in some cases they had spent long time and careers developing.

Also among managers, the reactions were different. After the adoption and the distribution of power, some managers were not willing and disposed to help their former employees, enjoying the freedom they had just acquired; others, instead, find themselves disoriented and confused by the change, and tried to recreate the previous power logic.

Zappos faced a determinant turning point at three months from the adoption. People were starting to become familiar with Holacracy, and they began to see the benefits of the new practice. Weekly meetings became the moments in which to share what they had learned and to express what they liked about it. The same Robertson, who personally followed Zappos' transition, told how many people embraced him relief and enthusiastic, with tears in their eyes, and many of them were the same most reluctant at the beginning.

Finally, Hsieh obtained the majority of approval from the pilot group, and the Zappos's leadership decided to apply Holacracy to the whole company, according also to Zappos former organizational designer Alexis Gonzales-Black, who would drive the transition alongside Bunch.

In the following months, Robertson and his team continued to help and provide assistance to the pilot group and, by the end of 2013, Tony Hsieh made the official announcement that Zappos was going to turn into a Holacracy and that by 2015 manager roles and job titles would have been relinquishing.

Tony Hsieh recommended to all of its employees to read Laloux's book "Reinventing Organization carefully," to let them understand what means working in a self-managing company. According to Laloux, Zappos needed to become what he calls a Teal organization, substantially a body where every system works together and harmoniously to support the whole.

The same Laloux was extremely fascinated by Zappos situation because in the world he has studied some very successful self-managed organization across the wider industries, but no one has attempted to do it in a company large as Zappos is. What Laloux expected was a little bit of confusion and chaos.

While Zappos was slowly and progressively starting to apply the Holacracy structure in the whole organization, Hsieh asked the employees to follow the transformation and, thus convert to a self-managing organization, or leave. To those who did not feel able to undertake this radical change, the CEO offered a

generous severance. The idea was to continue working only with those that were ready to change their mentality and embrace the new era of Zappos, even with the inevitable initial difficulties that they would have faced.

In the end, many employees did not feel comfortable in facing such a transformation and decided to leave: at the beginning, 14% of the company's employees accepted the buyout that also comprised several months of severance. To a small group was given an extra extension until the end of 2015: this was the technical team involved with the migration to Super Cloud, a huge and long route to conform Zappos with Amazon's technical infrastructure.

In the end, 50 employees more, 38% of the Super Cloud team, accepted the buyout. This has raised the percentage number of voluntary departures to 18%, with what the company has renamed the "Teal Offer."

18% of Zappos' employees took the buyout. In that way, the company lost a total of 260 employees.

This was a hard blow for the company itself and Hsieh, but they continued with the transformation, convinced that is was the right choice. The adoption, then, continued and Zappos' 150 departments units were converted into 500 circles. The majority of them born spontaneously, as purposes, tasks, and initiative emerge, individuals, create circles or pods to face and solve them.

The company' transition was constantly followed by the Holacracy coaches which helped people understand the new structure and how to work in it.

The new Zappos' structure has this feature – also if it has to be considered as a snapshot, being continually subjected to changes due to the evolution of the work.

This represents the General Company circle and contains every other circle and sub-circle existing at Zappos.
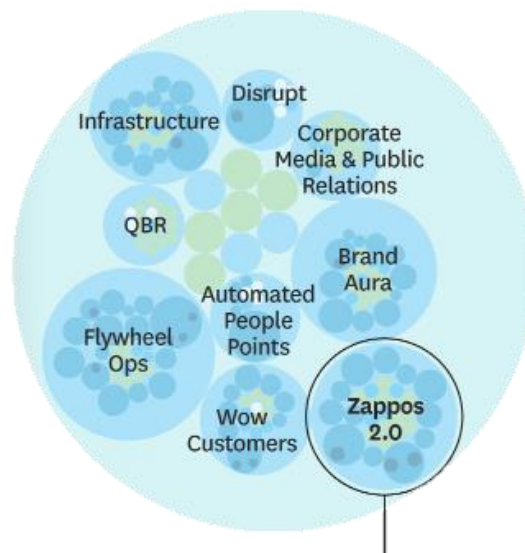
Figure 12: Zappos General Company circle – Source: Zappos

The following, Zappos 2.0, is a "meta" circle responsible for keeping the company moving forward in a self-managing environment. It contains a range of jobs to be accomplished, from operations to conflict resolution.

Figure 13: Zappos 2.0 Meta circles – Source: Zappos

Badging: the award of skill badges is one of the tools through which self-organization works. The roles contained in it are meant to motivate growth, assist and connect learning ecosystem, and drive employees to improve professionally and personally.
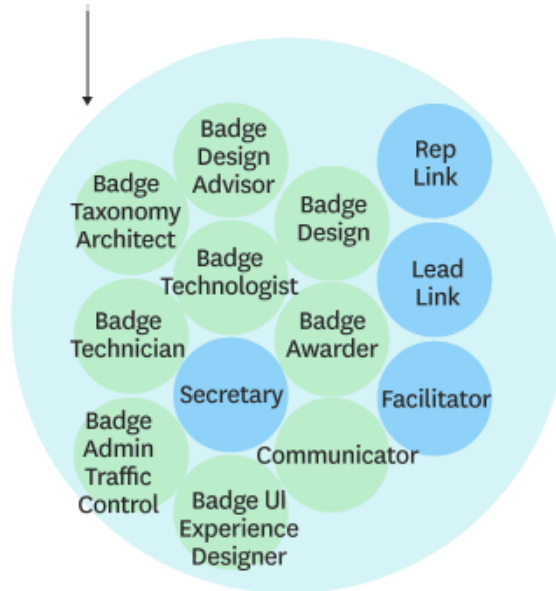
Figure 14: Zappos Badging - Source: Zappos

4.2.1 Critical challenges

The widespread feeling among employees, now significantly reduced, was that it was a disruptive change but, as time passed, they started getting used to it. The hardest aspect to become familiar with was the meeting structures, considered to be too much restrictive.

Defined as "military," they impose tight rhythms, scheduling the order and duration to speak (Christa Foley, 2018). This approach ultimately clashed with Zappos' culture and emphasis on letting everyone express freely and without constriction.

Therefore, the meetings ended often with frustration and discontent of many. When it became clear that these challenges were impassable due to strong company culture, too rooted to be changed, it was decided to soften and simplify the structure of the meetings to make them manageable and productive, thus creating a more "human" model for them (Christa Foley, 2018).

4.2.2 Advantages delivered

Despite the difficulty in adapting to meetings structure, the benefits perceived due to Holacracy are several. It has pushed people in the front-line, they have become accountable and responsible for accomplishing a task, with also the freedom to decide how to do it. This condition has created most active engagement and commitment to doing the job done.

Holacracy has then made the company move faster on decision-making, leading to real and immediate actions implemented: the absence of bureaucracy is felt great relief from Zappos' employees (Christa Foley, 2018).

This new condition allows Zappos to innovate faster and has a substantial impact on customer satisfaction that now can directly interface with a person that is immediately able to solve their problems with efficiency but, at the same time, preserving the usual attention and care at customer's gratification and happiness.

Furthermore, after having become familiar with the new framework, it has emerged also benefits from the Holacracy meetings structure. If before during the meetings you could not intervene, now with Holacracy in practice the new structure quite imposes you to express your opinion and say what you want. And it turns to be very liberating (Danielle Kelly, 2016).

Additional benefits concern the high transparency and clarity delivered. With the Glass Frog platform able to track precisely the state of the work undergoing and to indicate those who are responsible and accountable for a specific responsibility, operations have become faster and easier.

4.3   BALANCE OF THE ADOPTION

Zappo's adoption of Holacracy has raised many different discussions and opinions, primarily due to the high rate of departure that has followed. But some essential considerations might be done.

Optimistically, we can note that the rate of attrition was slowed down during the period: in fact, from the first 210 employees who have taken the buyout, the successive group that has left counted 50 employees.

Holacracy' transition was not, in fact, the only one that the company was enduring. The migration to the multiyear project Super Cloud was much harder and longer than previously thought. The transition of the backend services, began in 2012, was only completed in late 2015 and has led to problems and slowdowns that have affected Zappos's performances. The project has in fact consumed Zappos' tech departments for over two years, and during that time, Zappos site has been approximately completely static. That means the impossibility to generate improvements or innovations but only basic bug fixes. Zappos' web-site remained frozen for two years.

As Van Beek, the project's program manager has noted, Super Cloud was the single hugest e-commerce re-platforming ever undertaken, especially on this scale. The difficulty of the transition that required moving an incredibly complex set of custom software programs powering a billion-dollar per year e-commerce site to an entirely new environment, it was almost an unfathomable effort.

Furthermore, it has to be noticed that 75-80% of the Super Cloud buyout-takers were managers, which transition of the new practice would have led to the abandonment of the power and the familiar sensation was that they would have felt no longer crucial for the company, especially after the conclusion of Super Cloud.

So, the substantial migration might not only be seen as caused by Holacracy but as motivated by a set of factors that have weighed the situation. What many inside Zappos have pointed-out, is that the CEO Tony Hsieh would have waited for the complete transition to Super Cloud before proposing the buyout offer. In that way, people could only focus on Holacracy and not on the difficulties and slowdowns brought by the lacking completion of the IT system.

Furthermore, considerations might be taken on the Holacracy transition per se. Completely distorting and revolutionizing an organizational structure is not easy, especially if it is a company with 1,500 employees that do it. As the same Robertson has expressed on several occasions, the system at first can be frustrating. You move from the absence of a typical organizational chart to detailed governance and role-base structure that precisely indicate who does what.

Moving to a self-management does not mean moving to a rule-less environment; instead, Holacracy brings in a huge framework to align with, and learning and adapting to this new structure can take a while. And while Zappos was moving to Holacracy, a transition that has required almost five years to be accomplished entirely,

its business needs was demanding efforts and dedication to be met. The commitment was also necessary to embrace the new system that required 6-8 months per employees to understand.

Zappos' economic performance was not affected by Holacracy adoption (Christa Foley, 2018). In 2014, in fact, yearly revenues resulted to be $54.5 million, and the company has then faced an increase of 77.9% that has to lead to an operating profit of $97 million in 2015.

If from a financial point of view Zappos' performance was not affected, the challenging was mainly for its employees that have struggled to align with the new order. But the difficulties did not come from Holacracy per se but rather from the clash with the strongest culture that characterizes Zappos, whose essence is the leniency for the unruliness coming with individual self-expression. Many employees have, in fact, pointed-out that evidently without such a rooted culture the transition would have been faster and more comfortable (Christa Foley, 2018).

At present, we can say that the alignment with Holacracy rules, mentality and approaches has been completed. The company is entirely operating under the self-management and employee's satisfaction has risen again. "Zapponians," as they called themselves, are grasping the benefits and advantages delivered by Holacracy. An increase in its employee's satisfaction has been recorded through their tools to measure it. The most famous and used is Z60 culture review and engagement that, through periodic surveys, register the culture health.

The empowerment is felt like something incredible that gives you the power to produce change. Being the boss of your-self has released an enormous amount of proactivity and creativity that can now be put into practice through concrete decision-making and actions.

As has happened to Derek Noel, a one-time customer-service employee. Before the adoption, Noel was willing to transfer himself to Zappos's culture team, but his manager blocked him. With Holacracy, he discovered that there was no one telling him what he has to do and so joined the Fungineering circle, kind of events-planning squad where he has realized his several projects, among which weekday events where people watch a movie while working on their laptop, and this has gained a lot of traction. His worst day at Zappos is still resulting in being better than any other day elsewhere.

Now that Zappos's people have discovered how such a practice can be beneficial, also regarding transparency and clarity in the running operations and accountabilities, the feeling is that it is not imaginable to going back to traditional hierarchy anymore.

Zappos is moving towards becoming fully a Teal Organization, a unique, complete and self-sufficient organism capable dramatically innovate and of reacting even before encountering a problem and thus thanks to the empowerment that allows creativity and individual's visions to take place.

5   CONCLUSIONS

The given study justifies the importance of organizational structure and design in delivering successful key business factors and, above all, satisfying and sustainable economic performance. Through an analysis and comparison of the main organizational structures, in particular under the criteria of decision-making diffusion, job description, and internal push to innovation, the study has underlined how hierarchy, flatter, flatarchy and flat organizations result to deliver substantial limits and constraints that can significantly undermine a business performance.

In particular, the given analysis, has underlined how the second part of the 20th century has brought to the decline of the hierarchical structures: the classical pyramidal hierarchy model, in fact, has worked well in the industrial age, where the environment was relatively static and simple but in today's post-industrial world, organizations face new challenges that require a completely different approach: greater interconnection, shorter time horizons, increasing complexity, enhanced transparency, demands to have a positive influence and impact on the world, and economic and environmental instability.

In this changed and always more demanding landscape, it is impossible to find an application and to find the solution in the traditional models that are unable to react promptly, resulting then obsolete ones. What is needed is adaptability and dynamic agility, essential features needed in this landscape of rapid change and fast-moving complexity. Organizations are increasingly moving and evolving towards "peer-to-peer" models: examples are Uber, AirBnB, and Lending Club, which are leading what is known as "peer-to-peer-revolution",

followed by several start-ups whose key features include greater adaptability and flexibility; decentralized control; faster responsiveness to local demand; and increased efficiency. "Peer-to-peer" approaches seemed addressed to reshape more and more industries, emerging as a reasonable outgrowth to social media, and fostered to new generations of people and consumers willing to streamline their lives and overcome everyday inefficiencies.

Gary Hamel, a management expert, recently said at the World Business Forum in New York, "The world is becoming more turbulent than organizations are becoming adaptable. Organizations were not built for this kind of changes" (Gary Hamel, 2009). It is becoming imperative that companies are able to adapt more quickly. It has become then necessary to find a better way to manage business organizations, to think out of the schemes to find a decisive and effective solution. And here is the central role of the Holacracy method that commits solving this market failure giving more freedom and power choice to each individual employee, in Holacracy defined "partners", and creating a serene and stimulating work environment where the common interest become to improve the company wealth-being.

In this perspective, Holacracy practice results therefore to be a proven management system able to meet these goals and to create a stable ground in which to operate, structuring and "formalizing" this organizational revolution.

The subject of this thesis was to harness the feasibility and sustainability of the Holacracy practice for large-sized companies, such Zappos is, counting around 1500 employees. In fact, this model has been applied prevalently to small-medium size organizations, with approximately 600 employees. In these cases, the practice has resulted to deliver successful performance and advantages that have allowed companies to become fast, agile and to better identify, frame and address dilemmas and tensions that arise. A famous example of a company that has recognized all these benefits after Holacracy adoption is David Allen Company, a global training and consulting company, whose founder David Allen is the creator of Getting Things Done method.

The comparison between ARCA's and Zappos's adoption of Holacracy has revealed some similarities and differences in the transition to the practice and in the results achieved.

Similarities have been found, especially in final outcome; in fact, an increased clarity and transparency has emerged, both for roles, accountabilities and responsibilities identifications both for the direction in which the

company is moving and what are the objectives to be achieved (Kevin Joyce, 2018; Christa Foley, 2018). In both of the company, employees have experienced a push in front line, which has enabled them to respond and act promptly, with concrete actions, to local problems, solving them. This reactiveness and capillarity in the decision-making has improved considerably customers experience and has led to a speed in innovation (Kevin Joyce, 2018: Christa Foley, 2018).

Differences have emerged in the transition to the practice. While ARCA took only one year to complete the adoption and it did not face significant challenges, for Zappo's it was a little longer and more turbulent. The American online clothing and shoe retailer, in fact, took 4-5 years to move completely to Holacracy, losing also the 18% of its employees. This slowness was caused certainly also to a size reason, but what emerged as the determinant factor that slowed down the transition was Zappo's culture (Christa Foley, 2018). Resulting in being very deeply rooted and intrinsic in every aspect of operational life and made intensely own by its employees, it has clashed with the new mentality and culture required to be embraced by the Holacracy practice.

While, in fact, Zappos' culture was always founded on a strong encouragement of the self-expression and freedom for its employees to act and think out-of-the-box, with Holacracy in practice they found themselves channeled into a process that, although encouraging self-expression and freedom in the choice of the roles to cover and in how to accomplish their tasks, imposes also rules and processes to be respect. An example, are the governance meetings, in which employees have really struggled to adapt, living them as "militaristic" (Christa Foley, 2018), so that the rules to lead them have been a little soften. Over time, however, also for Zappo's employees, the practice has become natural and employees have found their dimension within it. It is important to underline that the transition to Holacracy did not hurt Zappos in economic term and financial performance, but it was a struggle and challenge for its employees (Christa Foley, 2018).

It should not be forgotten that while Zappos was adopting the Holacracy practice, it was also undergoing an important transformation of all its IT systems that has frozen for two years the company' site, creating discontent and trepidation among its employees. Therefore, the left of 18% of its employees must also be associated and reviewed from this point of view, and not as a direct consequence of the adoption of Holacracy.

The conclusion is that Holacracy practice is suitable and sustainable also for large-sized companies, with the condition to do not demand and expect an immediate transformation, as equivalently it can happen neither in

small-large sized companies. Being an important and revolutionary change, it requires times to be fully understood and embraced. The transition to new practice will happen also easily if at the base there is not an extremely deeply rooted and felt company culture like Zappos has. The adoption will then result also more feasible if a company adopts the practice from its creation, as the base on which to develop its business and culture.

As the famous economic Eric Beinhocker affirms, if a company wants to survive in this complicated and articulated environment, where a steady change is persistently on agenda, the winning weapon is to "bring evolution inside and get the wheels of differentiation, selection, and amplification *spinning* within a company's four walls"(Erick Beinhocker, 2006). And this is precisely what characterizes Holacracy.

6 APPENDIX

In order to better and deeply understand how the transition to Holacracy happened and which were the main obstacles encountered, I have interviewed James Joyce, responsible for Holacracy implementation in ARCA, and Christa Foley, Culture adviser and Director of Insights in Zappos.

6.1   INTERVIEW TO ARCA

1) What are the elements of the Holacracy practice?

ARCA was founded in 1998 and, since 2014, it has always worked following the traditional structure, with classical managers and well-defined scale of power. With the Holacracy practice, there is a true distribution of authority but it is not permanent: it depends on the role that you cover. Each role has different accountabilities and then, power related to each role. Roles change frequently and so subsequent decision-making power. When dealing with Holacracy, misleading to speak about the total absence of bosses: managers still exist but under other forms and with others functions. This is the case with the lead and rep link, who perform a managerial but revisited function. Fundamental and very useful for an effective Holacracy approach, is the use of an internal platform, capable to keep everyone updated with the constant changes. In ARCA we use Glassfrog, the same proposed by HolacracyOne.

2) Why is Holacracy preferred over other structures?

Surely Holacracy delivers greater autonomy and better clarity. We have assisted to a dramatic increase in dynamism and we are still grasping its benefits. Things are absolutely clearer and there are not so many rules. Even if changes happen very often, we always know how the situation has changed and who has become responsible for this or that aspect. Clearness and transparency are brought into the organization thanks to the governance meetings: they are a fundamental tool through which modify the current structure. In that way, we are able to operate despite the continuous changes, because we are always updated with what is happening to the operating structure. It has to be said that governance meetings deliver an up and down results: sometimes they have clearer output than other times.

3) How is Holacracy implemented?

ARCA adopted Holacracy in early 2014, and we first started applying the practice to single departments and then to the whole company. The same progressive approach was used in the United Kingdom and Italian's facilities. For 6 months ARCA's headquarter was followed by HolacracyOne coaches that helped us to embrace the transition and to profoundly understand the new structure. HolacracyOne formed then internal coaches to ARCA, thus creating figures able to assist employees and the company in managing Holacracy in the long run. By the end of 2014, the transformation was completed and ARCA's internal coaches were now able to follow strictly the Italian transition. It was precisely the coaches trained by HolacracyOne that followed the Italian facilities in their shift in a Holacratic organization. So, the 300 Italian employees were guided by 6 internal coaches, which periodically did training courses in America. American employees were curious but not necessarily excited about the change, they were a little bit skeptics. In Italy, they were more excited because it was something totally new and different. It was surely more disruptive for Italian employees.

4) What types of performance indicators have changed after the adoption of Holacracy? (Efficiency, customer satisfaction, employee satisfaction, innovation?)

As for performance indicators we use Employee Satisfaction, Employee Engagement, and Turnover. After the adoption of Holacracy, we have observed a change in revenues: they have quite increased. To verify the effectiveness of the new practice we have used, and continue to do it, Employee Related Matrix. Engagement is increased very much and people in ARCA perceive a greater autonomy and satisfaction. We analyze employee's satisfaction throughout 2 fundamentals tools: surveys and engagement tools. Surveys are basically 75 questions and they can range a lot. Both of them are managed in-house and done every 6 months. Employee's satisfaction increased a lot after the adoption and then became stable.

5) How does the profitability have changed after the adoption? How do you measure it? (Profit Margin, Return On Asset, Return On Common Equity…)

Profitability is not a valiant indicator for establishing the effectiveness of the practice; it does not give you an accurate view of the impact that Holacracy has had on the company. Profitability indicators can vary too much and depend on too many variables, such as for example market fluctuations. It would be misleading to entrust the judgment of the model based on these indicators.

6) What was the main problems/criticism of the adoption?

We faced two main problems due to the adoption. The first one was to let people understand that the lead link is not a manager: it was very hard. It was difficult to tell people upfront that there will be no bosses. You have to be ready to something like that; it is not for everyone. But at the same time, you are neither completely alone, as I told you before regarding lead and rep links. The second aspect of Holacracy that has created some challenges was the governance meeting. They are strictly ruled and it is hard to feel comfortable with rules. You feel a little bit unnatural: it is strange to tell people when they can speak and when they cannot. And thinks that, years ago, Holacracy rules for governance meetings were also more complicated. They have adjusted and simplified them.

8) Which are the strengths of the Holacracy approach?

With no doubt, clarity is one of them. With Holacracy, everyone knows exactly how the operative structure works and what he has to do. This clarity is brought by the precise rules and indications that explain you everything. Do you need to make a hire or to reorganize? There are clear instructions for that. Another strength is seen people show up in roles: once it is clear which are the roles and what they entail, everything is easy. You know exactly who is accountable for what or who has a certain responsibility.

9) How do roles work?

Roles are flexible and subject to change. You can cover one or several roles. It depends on you. For example, you are a marketing advisor and one day you decide that you want to test your ability and attitude in any other field. Well, even if this new role is in another circle, there is no problem actually. You can go and pick it; of course, the new role might be aligned with your skills, qualities, and attitudes. If I have never done finance or economics, maybe I won't go to the financial circle. The important to remember is they are not fixed but rather, subjected to continuous change also in terms of accountabilities.

10) Do you think Holacracy practice is sustainable for a long-term growth?

Yes, of course. I think that it can lead to a sustainable long-term growth, thanks to the creation of an environment that allows the realizing of innovation, being all about us, the employees and their attitudes and capabilities. To succeed fully

in the transition to Holacracy the company has to support properly the change and everyone within it might be aligned with the new mentality and approach. You have to be ready for the change. What we observed is that the change is at the beginning, because it is something completely different. But after a while, it becomes natural and you do not even notice it anymore. I think that Holacracy can really assess a long-term growth, thanks to the fact that it is always evolving, thus becoming more and more suited to the internal and surrounding environment, and requests.

6.2   INTERVIEW TO ZAPPOS

1) What are the elements of the Holacracy practice?

Zappos has adopted all the elements of the practice: from the structures of the meetings to the self-organization, to the platform. Of course, the most characterizing one is the self-organization: we really have lived an empowerment and we have gained the authority to make decisions and take concrete actions on the field on which we have authority and responsibility. Rember that authority and the consequent responsibility are related to the specific roles and are decided during the governance meetings. As I said, we use also the GlassFrog platform, the one provided by HolacracyOne. It is very useful and helps to track all the works in progress and the change in roles and also in the structure as a whole.

2) Why is Holacracy preferred over other structures?

Holacracy has the great benefits of delivering clearness, and transparency of course. It creates a clear ground base on which identity and better frame your daily and, also long-term obstacles so you can deal with them at best. The structure is always evolving and changing but, at the same time, there is a widespread knowledge of what and how it has changed. I think Holacracy is preferred because it allows the company to take decisions locally: I mean, by empowering who is in front line you are sure that the actions taken are really necessary to solve daily problems, and are not taken on an abstract basis. People in front-line know better what is needed in order to make the job done, and well!

3) How is Holacracy implemented?

We move to Holacracy in 2013. That is to say, we started our shift in 2013 but it was a gradual and long one. Zappos started implementing the practice to a narrow team, and then, once the pilot test was approved, it expanded it to the whole company.

We were constantly followed by Holacracy's coaches, which have helped us very much. At the beginning, in fact, it was difficult to understand things like the meetings structure and adapt to the model. We had faced some problems due to our strong culture. But thanks to time and coaches, the change was possible. Now we have 500 circles but they can change as needed.

4) What types of performance indicators have changed after the adoption of Holacracy? (Efficiency, customer satisfaction, employee satisfaction, innovation?)

I cannot speak about performance, we are part of Amazon and we cannot disclose this kind of information. I can only say that our customer satisfaction rating has improved.

5) How does the profitability has changed after the adoption? How do you measure it? (Profit Margin, Return On Asset, Return On Common Equity…)

I cannot disclose this information.

6) What was the main problems/criticism of the adoption?

The big criticism was with the meetings structure, it was really strict and we faced lots of problems to adapt to it. In fact, as we first have adopted it entirely, after we have had to soften them. Now we use their structure as a guideline. The problem was that they were so rigid that they could be defined "military", they imposed the time and modalities in which intervene, the order in which we could speak. They were too mechanical. Here in Zappos, the challenge was for the people, not for the financial side, in fact, Zappos was not hurt in economic terms. We had a very strong and deeply rooted company culture and, essentially, Holacracy culture has clashed with our existing one. We used to be encouraged to express our opinions and consideration freely. With Holacracy, instead, we faced an imposition of the process that had to be respected. But this feeling of constraint passed as soon as we understood how to move within the new process.

8)Which are the strengths of the Holacracy approach?

Holacracy has brought to speed in the decisions and their implementation. The absence of bureaucracy has extremely simplified the daily actions, allowing for faster operations and to an immediate communication. Now, we are able to

innovate faster, thanks to local and more targeted actions. People are encouraged to find out-of-the-box solutions to problems and this had led to great creativity. This new environment has surely impacted positively our customers: we are able to deliver higher services with less time and efforts.

9) How do roles work?

 You can decide what role to play, in base on your strengths, attitudes, and skills. You can cover one or more roles, even in different circles. Roles change frequently in base on the necessity: a role can be split into several different roles when it becomes too onerous for just one person, or even you can create others. Roles and their accountabilities and responsibilities are decided and defined during the governance meetings.

10) Do you think Holacracy practice is sustainable for a long-term growth?

Yes, sure. I cannot imagine coming back to the previous structure, now everything results clear. What I can say is that at first, the change is great and disruptive, especially for a company with 1500 employees, but once you understand how it works and you align with it, it becomes a natural practice. The structure is in continuous change, and thus to be aligned with internal and external needs, to be able to respond better and better to market demands, and allowing us to bring our purpose in a more effective way worldwide.

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ABSTRACT

This thesis aims to analyze the effectiveness of the Holacracy practice, and the substantial benefits delivered, both for small-medium and large-sized companies.

Holacracy, a totally break-through practice based on a self-managing approach, enables companies to high responsiveness and swift adaptation to constant changes occurring in today's economic environment, leading to a purpose-driving orientation.

Holacracy has been applied predominately to small-medium companies: in fact, the average, in terms of the number of employees, of the 300 companies that worldwide have adopted it, is around 600. A positive performing result wants to be found in companies with more than 1000 employees.

The objective is to show how Holacracy is a performing practice suitable to create responsive, flexible and profoundly innovative companies, and how it is able to assess a proven ground base on which companies can develop a long sustainable economic performance, regardless the size or the business of the company.

For that reason, the thesis will focus on the analysis of two cases: ARCA, an important global leader in the cash-handling automation solution, and Zappos, online giant retailer of clothing and shoes, that have undertaken the transformation to a holacratic-powered organization. While ARCA, with its 600 employees, represents a medium size company, Zappos is a large-sized company, counting around 1500 employees.

Through an analysis of their implementation of the practice, of the initial challenges and difficulties, but especially of their final benefits, it would become possible to assess the profitability of the Holacracy practice both for small-medium both for large-sized companies.

The comparison between Zappos and ARCA is done in order to highlight the main differences and similarities arisen due to the difference in size and to show the feasibility of the practice also in large-sized companies, such Zappos is.

The objective is to reconsider the discussions and the criticism made to the Holacracy practice after Zappos's adoption. Despite the company has faced some challenges during the shift to the self-management organization, now Zappos is well performing under this practice and it is reaping its benefits.

The assumption is that Holacracy can deliver the same advantageous benefits to all the company despite the size and the industry, leading to a reactive structure that allows more immediate and localized decisions and that therefore turns the company into a more effective and efficient organization. Huge companies might only require more time to embrace fully the transition, but not at the expense of the final result.

The methodology used in this research is mainly gathered from the recent literature and contemporary information available through either research conducted by respected research institutes, either online source, and working conducted by experts. The following study is mainly theoretical and, therefore, it aims to provide reflections and encourage future analysis of the subject, also endorsed by an empirical economic support.

The conducted analysis, apart from being based on recent literature on the subject, it has been enriched by direct interview with the two companies analyzed, Zappos and ARCA, which, thanks to series of submitted questions, have provided a more detailed and specific framework for a deeper structured analysis.

The analysis will start with a focus on the main reasons and actual trends that require a totally innovative approach to business, such Holacracy is, it will then move to an analysis of the main organizational structure and a comparison among them, under some key organizational criteria, in order to highlight the limits and constraints of those models and to their subsequent overcoming. The study will then focus on the declination of the Holacracy practice in the two cases mentioned above, starting from an overview of their business, to move then to an analysis of the implementation of the practice and a balance of the adoption. In the conclusions, the main similarities and differences will be highlighted, and an overall and final consideration will be done.

In a fast-moving and ever-changing environment like today economic world, characterized by an elevated pace of technological change, firms continue to experience intensifying unpredictability and increasing performance pressure, as evidenced by US companies' decades-long worsening in return on assets (Jhon Hagel & Jhonny Seely Brown, 2016). Entire industries are facing new competitors and new approaches that speedily rewrite the rules and transform old models into obsolete (Maggie Wooll, Alok Ranjan & Jhon Hagel, 2016). A study conducted by *Deloitte's Global Human Capital Trends* shows that 88% of respondents expect their business to be "redesigned for the digital age", with a strong focus on the team, flattened organization, and less hierarchy. Although only 11% of the companies feel

ready to these shifts, the sense of immediacy in finding new ways to competitive advantage is growing (Josh Bersin, Tiffany McDowell & Amir Rahnema, 2017).

A recent analysis (Tim Kastelle, 2013) has shown how organizations with flat structures outperform those with more traditional hierarchy approach in many situations. Furthermore, a study from Texas A&M (2012) researches on factory workers has evidenced that teams who managed themselves outperform workers organized in hierarchy structures.

On this basis Holacracy was born: a totally-break through practice emerged in these last years, based on a set of self-managing guidelines whose aim is to make companies more adaptive and responsive to changes through a de-structure of the internal hierarchy and a widespread share of the authority and of the decision-making through all the companies' members. Specifically, Holacracy has been defined as a comprehensive practice for structuring, governing and running an organization (Brian Robertson, 2010); it is a new operating system that facilitates accelerated evolution moved by emerging reality through the harnessing of self-organization in a fractal structure.

2. LITERATURE REVIEW

2.1 Organizational structure

There are many definitions of an organization. Historically, the core value of an organization was to be goal-oriented, with people grouped together that work interdependently to reach some purpose (Katz, 1966). This objective was often created by management and put into practice, through a system currently in place, to entrust tasks that would achieve the goal. However, the definition of the organization has changed over the years and now it is no longer focused on any one specific goal. The new definition of an organization is the one provided by Huczynski and Buchanan that is, "a social arrangement for accomplishing controlled performance in pursuit of aggregated goals" (Huczynski and Buchanan, 2007).

The perspective of an organization as changed from a single goal motivated identity to a collective goal driven one. The definition provided by Huczynski and Buchanan proposes an organization with a sense of structure and design. With a focus on structure and design, we can move forward to establishing the organizational structure, perceived as a smaller part of a whole picture (Connor, McFadden, McLean, 2009).

According to Rishipal (2011), an organizational structure is "the framework for organizing formal relationship of authority, responsibility, and accountability and it provides the means for clarifying and communicating the lines of responsibility, authority, and accountability", it defines where the authority lies within the organization identifying also those who are in charge of the decision-making process.

It was the Professor William Newman that determined how the strategic development of an organization is interrelated with the organizational structure (W. Newman, 1971). Organizational structure, according to Newman, should be "harmonized" and correlated with additional "managerial arrangements" which are planning, leading and controlling. Consequently, the four aspects mentioned above are the determinants to define the management design. The fundamental point of Newman's research is that these arrangements might have a synergic effect on each other and those mutual effects are a delineation of a well-made management design (Newman, 1971).

If the impact of a good managerial design on the organization is clear, the process of establishing the perfect one is still not. Charles Handy has highlighted that the difficulty to arrange the designing process is intricate due to the simultaneous pressure of diversity and uniformity (Handy, 1993). Especially, large organization aspires at uniform to reduce cost, simplify and standardize operations within the enterprise. At the same time, large organizations face internal and external pressure to diversity, to keep up with technological and market heterogeneity (Handy, 1993, 225- 257).

During the years, several organizational structures have been formulated in order to balance uniformity and diversity and to achieve a design that is also suited on the surrounding environment, in terms of market and economic requests, and human trends, and that fits perfectly with it.

Nowadays economic environments are facing some important challenges, such as fast-moving global markets and digital disruption, that force companies to innovate faster and respond quickly to change, adapting their products and services (Deloitte University Press, 2016). The modern economy is in a constant state of change. The greatest overarching challenge that leaders and organizations are facing today is to be able to quickly respond to market changes. They must be the catalyst for organizational change that will drive their business to market leadership.

2.2 Traits of the different structures

- *Hierarchical structure*

The traditional organizational structure is the hierarchical one, a system in which authority flows vertically and upward, and it is characterized by a pyramidal structure. In hierarchical organizations, every single entity, except one, is

subordinated to a specific other entity. A hierarchical organizational structure is characterized by two fundamental elements: the centralization of ownership and the organization of the supervision.

The also called the "predict-and-control" approach was the most adopted one over the past years. Thought to realize a robust centralized control over the entire company, this model has matured in the initial 1900s and has not undergone any change over the years. The predict-and-control tries to achieve stability through up-front, predetermined planning. The power distribution is well represented by a pyramid, where the chain of command lies at the top among few and it distributed to the larger part of the company.

- *Flatter structure*

A flatter organizational structure is a way of making a traditional hierarchy more effective. Focusing on the reduction of bureaucracy and on creating a more engaging work environment, it allows communication to flow more efficiently and with less time through the whole organization. Formalized to streamline the bureaucracy characterizing the hierarchical approach, the flatter structure occurs when there are fewer levels of control between different roles in an organization. It is basically a hierarchical structure with a profound rethinking of approaches and roles.

- *Flat structure*

A flat organization is the one characterized by few or no layers of management. It is featured by a short chain of command and a wide span of control, where the span of control refers to the number of people accountable for reporting to any one manager. Hinge point of the model is basically a significant reduction of the supervision of employees while is fostered their increased participation in the decision-making process.

- *Flatarchies*

Flatarchies are a type of organizational form that lay in between hierarchical and flat structures. These companies have elements of both the structures: they can be flat organizations but have ad-hoc teams more structured by nature, or rather be hierarchies that form ad-hoc teams with a flat structure.

- *Holacractic structure*

Holacracy practice was developed in 2007 by the idea of the American entrepreneurial Brian J. Robertson who elaborated it for his own company, the Ternary software, that in 2011 he left to give birth to HolacracyOne, a consulting company providing tools and coaching to adopt the Holacracy practice. The objective was to create a more agile and responsive way to manage an organization, capable of capturing innovation from its internal structure, proving an effective structure able to take decisions quickly and efficiently and where all employees would have a central and decisive role within the organization. The result is a self-managing practice that empowers employees, defined "peers", to make a meaningful decision in pursuit of organization's purpose. Self-managing teams are organized and grouped into circles, for that reason Holacracy structure looks like a set of nested circles each connected and part of a larger circle without being subjugated from those above.

The term Holacracy comes from "holarchy", a word coined by the Hungarian writer and philosopher Arthur Koestler in his 1967 book "The Ghost in the machine" to identify the hierarchical relationship between the collection of holons, particles that simultaneously function as parts and wholes, as the organs in the human body.

2.3 Comparison between the different organizational structures

In this chapter, we will analyze the different organizational structures and their relationship with economic performance, meant as the organization's ability to accomplish its aim through the use of resources in a properly structured manner, in order to understand how Holacracy approach can really be the solution to create effective, responsive and intrinsically innovative organization, able to deliver positive economic returns. The discussion is structured through an analysis of different central elements for a business, such as decision-making process, job description, formalization and internal push to innovation, that combined define the ability of an organization to deliver satisfying economic performance and to harness a sustainable growth and innovation in the long run. A summary table is provided in order to underline the main differences and similarities traits between the diverse organizational structures.

The purpose of Holacracy is, in fact, that it can be applied to any kind of company, regardless the business or the size, still succeeding in providing these goals.

		HIERARCHY	FLATTER	FLAT	FLATARCHIES	HOLACRACY
STRUCTURAL FACTORS	**The Form of the structure**	Organized as pyramid; high levels control the underlying levels	Organized with less levels of management and bureaucracy compared to hierarchy	Organized with few or no levels of managemt; middle-management has been abolished; an informa structure can emerge	Structured with both elements of a hierarchy and a flat structure that cohabits but in different "sectors"	Organized as embedded circles; work divided into autonomous but interconnected circles operating as a whole
	Decision-making diffusion	Decsion-making process follow a top-down approach; lower levels have no or little authority	Power and decsion-making lies in different levels	Promoted employees involvement in the decison-making process; few control on them	Decision-making is spread in the parts operating under the flat structure; in the remaining, it follows a top-down approach	Power is diffused among all the employees and decision-making process is done through governance meetings
	Relation to Superior	Perceived as "boss": they assign, control and facilitate the job	Perceived as a support for the employees; they create a stimulating environment	Superior give indications; everyone is considered a peer	Perceived as "bosses" in the part operating under hierarchy; peers in the flat one	Perceived as "coach" communicating and guiding roles but without interferring
	Employee Engagement	Very low; work is experienced as the need to survive	Reasonable; employees are aware of their value	High; employees are the determinant for success and their satisfaction is essential	Low in the hierarchical driven sector; high in the flat one	Very high; employees are perceived as the one who is driving and changing the organization
	Job Description and Responsibilities	JD is clear and rarely change; responsibility lies both on bosses and on employees	JD is clear and rarely changes; responsiblity lies both on bosses and on emlpoyees	JD is not considered; employees, "peers" are free to choose on what work; different responsibilities for employees and for supervisors	JD clear and does not change in hierarchical sector; no JD in the flat one; responsibility mainly on superiors	JD does not exist; "peers" fulfill role/roles at theri choice; responsibility lies on the executor
	Formalization	Very high	Moderate	Absent	High in hierarchical sector; absent in flat one	High with the focus on the process
INTERNAL FACTORS	**Internal Culture and Information**	Culture developed by departments and facilitated by superiors; information flows vertically	Culture developed by superiors but with an involvement of employees; communication is simplified	Culture developed by employees; communication is widespread and rapid	Culutre is developed by superiors; information flows vertically in hierarchy; information is widespread in flat one	Culture is a part of the working-progres; everyone contribute to it; communication is flat and organized
	Motivation	Employees are moivated by salary and hierarchical career growth	Employees feel motivated and engaged	Motivation is high and driven by the self-realization	Low under hierarchical lead; high in the flat one	Self-realization as the key element; employees do what they do best
	Adaptation to internal change	Driven by top-down training; ease of adaptation	Driven both by superiors and by employees request; ease of adaptation	Driven by employees; adaptatio can be difficult and require time	Driven by top-down training or by employees, it depends on the particular sector	Driven by governance meetings; ease of adaptation
	Internal push to Innovation	Very low	Moderate	Very high	Not constant	Very high

Table n. 1: Main features of the different organizational structures

2.4 Summary

To conclude, decentralized and flexible structures facilitate innovation (Aiken & Hage, 1971) encouraging the exchange of idea and the creation of news. Furthermore, companies that have a strong focus on human capital and creative research work are more inclined and driven to innovation (Autant-Bernanrd, 2001; Zemplinerovà, 2010).

Hierarchical structures have reached their limit leading to a slowness of the operating system due to the high rigidity and bureaucracy proper of their approach (James Wilkinson, 2013). The slowness in the decision-making prevents then their ability to react and respond properly to continuous changes affecting today's economic environment (Osmond Vitez, 2016), precluding satisfying performances, which can lead ultimately to an organizational failure (Natasha Gilani, 2009).

Flatter and Flatarchies structures may instead incur in the creation of confusion and chaos among the employees, due to a fragmentary approach that tries to reap the benefits both from hierarchical both from flat structures. The risk is to have a hierarchical system embedded in the new flattened structure, thus incurring in the seen limits and constraints of the hierarchy (Gill Corkindale 2011).

Flat structures might incur in substantial risks: the elimination of an explicit structure does not eliminate hierarchy. Actually, without a formal structure an informal one will arise, led by the creation of alliances and groups between employees that will, sure enough, replace the formal structure.

Holacracy results then to have successful characteristics, which make it a model to be adopted to gain the benefits in term of effectiveness and rapidity of decision-making, increased engagement and satisfaction among employees, and thus productivity (Gallup, 2012), and to make a company able to react and respond promptly to continuous changes and external inputs due a ever-changing structure that change and update as needed, without neglecting clarity and transparency, both essential to effectively operate (Brian Robertson, 2015).

3. ARCA CASE

ARCA is a multinational leader in the field of banking services and technologies, providing cash handling solutions. ARCA is a $100-million designer and manufacturer of software and hardware systems and with its global headquarter in Mebane, in the United States, they provide cash automation and payments solutions to financial, OEM and retail industries.

In 2014 ARCA acquired CTS's group, and it emerged the fear that new employees coming from the acquisition would be rudderless, leading to a difficult alignment between the two realities. But with a system like Holacracy in place, the 450 ARCA's employees would be in a better position to embrace the new comings members and to integrate them into ARCA's way of doing business.

On July 2014 ARCA has embraced Holacracy practice, generating a profound and radical change for its over 600 employees and the company itself. The transition began in the United States and United Kingdom offices with great curiosity for what would have happened. The organizational change was specially made, as we have said, to the Italian facilities in order to facilitate the integration of Italian reality into a single company with global scope. Enrico Bocchiarchi, managing director of ARCA in Italy, was sure that this shift would have significantly helped Italian facilities, and its 250 employees, to better unify and grow in steps with American headquarters (Enrico Bocchiarchi, 2015). For Italy, it was surely an important change: ARCA is the first company that has adopted Holacracy approach in Italy, and they were enthusiastic to be on the wave of the new frontiers in organizational management, experiencing the change as a great opportunity (Paolo Dezutti, ARCA Holacracy Coach).

For 6 months ARCA's American headquarter was followed by HolacracyOne coaches that helped them to embrace the transition and to profoundly understand the new structure. HolacracyOne formed then internal coaches to ARCA, creating figures able to assist employees and the company in managing Holacracy in the long run. A constant and continuous support for the implementation of the practice is essential, especially in the first period after the adoption.

At the end of 2014, the transformation was completed and ARCA started operating completely under the new structure. Once the American facilities completed the transition, they became able to follow strictly the Italian one. It was precisely the coaches trained by HolacracyOne that followed, by the beginning of 2015 the Italian facilities in their shift into holacractic-powered organizations. So, the 300 Italian employees were leaded towards Holcracy transformation by 6 internal coaches, which periodically did training courses in America. ARCA operates now formed towards 70 circles which fully embrace and represents their business purpose.

While implementing Holacracy, ARCA faced two main criticisms on which they had to work a lot. The first one was to let people understand that lead links were not managers. To be suddenly without leaders can indeed be difficult to comprehend and manage; in fact, people, as happened in ARCA, may feel disoriented and confused by not having leaders that guide and indicate them what is the line to follow, the steps to carry out and the way to achieve them.

However, according to Joyce it is misleading to speak about a total absence of bosses, because it is strange, and also hard, to think about that from a certain point you are not subordinated to anyone but rather, you have the possibility and indeed the duty to decide and take action.

All this, make the governance meeting a little unnatural and it takes time to get used to it. At first, it can appear too much restricting, imposing a forced approach that makes you feel a little uncomfortable thus leading to confusion and frustration (Kevin Joyrce, 2018).

On the other hand, in ARCA Holacracy has delivered important benefits. One of the main strengths is clarity. Clarity is brought by the precise rules and indications that explain users everything. The new practice has constituted a system that allows everyone to constantly know how the operative structure works, what are your tasks and those of your peers, in what role a particular responsibility lies and what is the progress of the projects. It truly and effectively shows how the entire company works. You have clarity around the work that has to be performed, clarity on where the work lives and how the work is accomplished, meaning a clarity on what role is responsible for a determined task and through what authority.

In 2018, ARCA is continuing to fully operate under Holacracy practice and they have not experienced any setbacks. Despite some initial skepticism, that it also normal when such a radical change takes place, ARCA's people have found their dimension in the new structure, and the effects of such a transformation have also positive repercussion on the surrounding environment. The company, in fact, continues to hold the #75 position on the IDC Financial Insights FinTech Rankings, the rating that the company has been maintaining since 2014.

ARCA is experiencing a true and effective flexible structure able to change its internal rules and dynamics base on the particular necessity of the moment, influenced by internal tensions or to the need to properly respond to exogenous situations.

ARCA has then reached its goal to truly unify the two existing realities before the acquisition of CTS, succeeding in giving life to a single global entity.

4. ZAPPOS CASE

Zappos.com, Inc. is a giant of online shoe and clothing retail based in Las Vegas, Nevada, with 1,500 employees. In July 2009, the company was acquired throw an all-stock deal by Amazon.com, Inc. for a value of $1.2 billion, with revenues registered in the same year for $1 billion.

Zappos is positioned in the apparel market and has built its strategy on a relationship marketing and loyalty business model.

Zappos' prominence in the footwear industry is gained through a smart solution to the problem that influences online clothing market, the limit that customers cannot try the products before buying them. To bypass and overcome this problem, Zappos has eliminated shipping costs and has strongly invested in a call center based not on answering quickly and to as many calls as possible but instead on building a lasting relationship with customers.

As Zappos was continuing to experience a vertiginous growth, Tony Hsieh realized that the existent and traditional organizational structure would not have been able to sustain Zappos's growth maintaining, at the same time, to safeguard the effectiveness of its core product, the customer satisfaction, reached through creativity and innovation. He decided then to move to Holacracy with the aim to create an organization that was more like a city and less like a bureaucratic organization. And Holacracy could have allowed it.

In 2013, Zappos started its transition to the Holacracy practice. The Zappos's adoption of the practice is the biggest one regarding size and relevance of the company, having the company 1,500 employees and being considered a giant in the online clothing sales, especially in the U.S. market. Holacracy, in fact, has always been applied to small-medium companies.

The adoption started with a pilot program applied to Zappos' Human Resource team, around 100 employees, in Las Vegas, and by the end of 2013, Tony Hsieh made the official announcement that Zappos was going to turn into a Holacracy and that by 2015 manager roles and job titles would have been relinquishing.

While Zappos was slowly and progressively starting to apply the Holacracy structure in the whole organization, Hsieh asked the employees to follow the transformation and, thus convert to a self-managing organization, or leave. To those

who did not feel able to undertake this radical change, the CEO offered a generous severance. The idea was to continue working only with those that were ready to change their mentality and embrace the new era of Zappos, even with the inevitable initial difficulties that they would have faced. At the end, 18% of its employees left Zappos.

The company continued its transition and was constantly followed by Holacracy coaches, which helped people understand the new structure and how to work in it. The company 150 departments units were converted into 500 circles.

The widespread feeling among employees, now significantly reduced, was that it was a disruptive change but, as time passed, they started getting used to it. The hardest aspect to become familiar with was the meeting structures, considered to be too much restrictive.

Despite the difficulty in adapting to meetings structure, the benefits perceived due to Holacracy are several. It has pushed people in the front-line, they have become accountable and responsible for accomplishing a task, with also the freedom to decide how to do it. This condition has created most active engagement and commitment to doing the job done. Holacracy has then made the company move faster on decision-making, leading to real and immediate actions implemented: the absence of bureaucracy is felt great relief from Zappos' employees (Christa Foley, 2018).

Zappos' economic performance was not affected by Holacracy adoption (Christa Foley, 2018). In 2014, in fact, yearly revenues resulted to be $54.5 million, and the company has then faced an increase of 77.9% that has to lead to an operating profit of $97 million in 2015.

At present, we can say that the alignment with Holacracy rules, mentality and approaches has been completed. The company is entirely operating under the self-management and employee's satisfaction has risen again. "Zapponians," as they called themselves, are grasping the benefits and advantages delivered by Holacracy.

5. CONCLUSIONS

The comparison between ARCA's and Zappos's adoption of Holacracy has revealed some similarities and differences in the transition to the Holacracy practice and in the results achieved.

Conclusions are drawn especially thanks to the materials and insights provided by the interviews made at the two companies analyzed. In fact, in order to better and deeply understand how the transition to Holacracy happened and which were the main obstacles encountered, I have interviewed James Joyce, responsible for Holacracy implementation in ARCA, and Christa Foley, Culture adviser and Director of Insights in Zappos.

Similarities have been found, especially in final outcome; in fact, an increased clarity and transparency has emerged, both for roles, accountabilities and responsibilities identifications both for the direction in which the company is moving and what are the objectives to be achieved (Kevin Joyce, 2018; Christa Foley, 2018). In both of the company, employees have experienced a push in front line, which has enabled them to respond and act promptly, with concrete actions, to local problems, solving them. This reactiveness and capillarity in the decision-making has improved considerably customers experience and has led to a speed in innovation (Kevin Joyce, 2018, Christa Foley, 2018).

Differences have emerged in the transition to the practice. While ARCA took only one year to complete the adoption and it did not face significant challenges, for Zappo's it was a little longer and more turbulent. The American online clothing and shoe retailer, in fact, took 4-5 years to move completely to Holacracy, losing also the 18% of its employees. This slowness was caused certainly also to a size reason, but what emerged as the determinant factor that slowed down the transition was Zappo's culture (Christa Foley, 2018). Resulting in being very deeply rooted and intrinsic in every aspect of operational life and made intensely own by its employees, it has clashed with the new mentality and culture required to be embraced by the Holacracy practice.

While, in fact, Zappos' culture was always founded on a strong encouragement of the self-expression and freedom for its employees to act and think out-of-the-box, with Holacracy in practice they found themselves channeled into a process that, although encouraging self-expression and freedom in the choice of the roles to cover and in how to accomplish their tasks, imposes also rules and processes to be respect. An example, are the governance meetings, in which employees have really struggled to adapt, living them as "militaristic" (Christa Foley, 2018), so that the rules to lead them have been a little soften. Over time, however, also for Zappo's employees, the practice has become natural and employees have found their dimension within it. It is important to underline that the transition to Holacracy did not hurt Zappos in economic term and financial performance, but it was a struggle and challenge for its employees (Christa Foley, 2018).

It should not be forgotten that while Zappos was adopting the Holacracy practice, it was also undergoing an important transformation of all its IT systems that has frozen for two years the company' site, creating discontent and trepidation among its employees. Therefore, the left of 18% of its employees must also be associated and reviewed from this point of view, and not as a direct consequence of the adoption of Holacracy.

The conclusion is that Holacracy practice is suitable and sustainable also for large-sized companies, with the condition to do not demand and expect an immediate transformation, as equivalently it can happen neither in small-large sized companies. Being an important and revolutionary change, it requires times to be fully understood and embraced. The transition to new practice will happen also easily if at the base there is not an extremely deeply rooted and felt company culture like Zappos has. The adoption will then result also more feasible if a company adopts the practice from its creation, as the base on which to develop its business and culture.

As the famous economic Eric Beinhocker affirms, if a company wants to survive in this complicated and articulated environment, where a steady change is persistently on agenda, the winning weapon is to "bring evolution inside and get the wheels of differentiation, selection, and amplification *spinning* within a company's four walls" (Erick Beinhocker, 2006). And this is precisely what characterizes Holacracy.