

University of Economics, Prague

International Business – Central European Business Realities



Management Innovations in International Organizations

DIPLOMA THESIS

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Scholar year: 2016/2017

Declaration:

I hereby declare that I am the sole author of the thesis entitled “Management Innovations in International Organizations “. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on 30.06.2017

.....

Evgeniia Tetenova

Acknowledgement

I would love to express my gratitude to Vyacheslav Gatin for his continuous support and incredible ability to help in the hardest moments.

Also, I hereby wish to express my appreciation and gratitude to the supervisor of my Diploma Thesis, Mgr. Emil Velinov, Ph.D. for his valuable remarks, amazing patience during my work on this Thesis and for being a best supervisor I could ever have.

Abstract

Recent studies have shown that traditional management approaches are “not capable of handling a hypercompetitive and fast changing environment” (Rishipal, 2014). At the same time, most commonly used organizational structures have to be questioned - according to a recent study of Deloitte, most of the companies are not satisfied how their organizational structure functions (Greenfield, 2016). Therefore, this thesis aims to examine the development of modern innovative management methods and practices (including ones which are denoted as Obliquity, Adhocracy, Sociocracy, self-management, etc.) and in practical part it focuses on recently emerged organizational structure called Holacracy. Holacracy is a framework for structuring the organization, it is like an operating system for business that requires the installation of different applications (Knopka Company, 2014; Mint, 2016): for example, applications for hiring employees, for setting salaries, for planning or logistics. Therefore, within the framework of Holacracy, you can apply any other practices such as Lean, Agile or Scrum.

For the purpose of this study, the following methods are implemented: the method of qualitative systematic literature review and the analysis of the practices of 97 companies worldwide are summarized and presented in order to critically examine previous research and companies' experience and, consequently, identify positive and negative elements of Holacracy, its comparison with hierarchy, give suggestions on implementation and create the layout of ideal company for Holacracy.

Key Words: Organizational Structure, Management Innovations, Holacracy, Flat Organizations, Self-Management

Abstrakt

Nedávný výzkum ukázal, že tradiční přístupy v řízení (managementu) nejsou schopny zvládnout hyper-konkurenční a rychle se měnící obchodní prostředí. (Rishipal, 2014). Nejčastěji používané organizační struktury je třeba dále zkoumat a zpochybňovat - podle nedávné studie společnosti Deloitte většina společností není spokojena s vlastní organizační strukturou a jejím fungováním. (Greenfield, 2016). Cílem této diplomové práce je tedy výzkum vývoje moderních, inovativních metod a postupů v řízení (včetně - těch, které jsou označovány jako obliquity, adhokracie, sociokracie, sebeřízení, apod.), v praktické části se pak zaměřuje na nově vzniklou organizační strukturu nazvanou holokracie. Holokracie nabízí rámec pro strukturování organizace, je jako operační systém pro podnikání, který vyžaduje instalaci různých aplikací. (společnost Knopka, 2014; Mint 2016) Například aplikace pro přijímání zaměstnanců, stanovení platů, plánování nebo logistiku. V rámci Holokracie lze uplatnit i jakoukoliv jinou metodu, jako například Lean, Agile nebo Scrum.

Pro účely této studie byla implementována kvalitativní metoda systematického průzkumu tematické literatury a analýza praxe 97 společností po celém světě tak, aby bylo možné kriticky přezkoumat výsledky předchozího výzkumu a porovnat zkušenosti společností. V důsledku toho byly identifikovány pozitivní a negativní prvky holokracie, bylo poskytnuto srovnání holokracie s hierarchií a byly předloženy podněty k vytvoření a realizaci uspořádání ideální společnosti fungující v holokracii.

Klíčová slova: Organizační struktura, Manažerské Inovace, Holokracie, Ploché Organizace, Sebeřízení

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The old ways of management have taken business far, but under new management, we can go even further in our changing world. (David Burkus, p.12, 2016)

1. Introduction

Recent studies have shown that traditional management approaches are “inadequate to cope with a hypercompetitive and fast changing environment” (Rishipal, 2014). Also, most commonly used organizational structures have to be questioned - according to a recent study of Deloitte only around 38 per cent of more than 7,000 companies stated they were “functionally organized” (Greenfield, 2016).

If an organization is willing to survive in today’s rapidly changing and evolving environment and succeed among rivals, it has to constantly look for new different ways to improve its operations. It is important to make sure that all resources available for the company are used in a most rational way. Therefore, “it is not necessarily those firms that are largest or have the most resources that do best, but rather those that are smartest, those that see the new opportunities, and those that develop new ways of doing business” (Foss et al., 2012).

Since the nature of economies and organizations is changing: it is more complex, environment changes faster, and acceptable reaction time decreases, the old management structures simply cannot catch up with its pace. Something, to what Darwin once referred as “adaption to change” is very similar to a process, which we, in the context of rivalry among companies, understand as “Management Innovations” or MI (Foss, 2012).

This thesis aims to examine the development of recent innovative management methods and practices and address the question of necessity of fundamental change in organizational structure. In theoretical part, various core benefits of innovative organization management are discussed and compared with other types of organizational structures.

The fact that experimentations and innovations in management techniques and organizational performance are positively related (for instance, Janssen, Van De Vliert, & West, 2004; Yuan, Woodman, 2010) The previous studies show that MI can explain variations in productivity across firms and countries (Cappelli and Neumark, 2001), as for

example, there is a strong positive correlation between management practices and productivity (Bloom et al., 2010) or change in organizational structure and performance (Velinov & Denisov, 2017). Some research state that establishments in better managed firms are significantly less energy intensive and there is a positive correlation between increased quality of management and total-factor productivity (Bloom, Genakos, Martin, & Sadun, 2010).

Therefore, in theoretical part of this thesis, first, the results of the research on different approaches and implementations of management innovations (such as methods, which are denoted as Obliquity, Adhocracy, Sociocracy, self-management, etc.) in international organizations, including world practices and various techniques, will be reviewed as examples.

In Practical part, the thesis aims to aggregate practices of different companies of implementing recently emerged organizational framework called Holacracy, as well as scientific literature studying this topic, analyze them and to study the process of implementation of the framework, performance of companies, what are the positive and negative elements of this organizational structure, what are the problems arising along the implementation, and why companies leave the structure. So, consequently, the study tries to draw a conclusion what is Holacracy, how it should be implemented, in which conditions (industries and optimal size of companies) it is best to be implemented.

Research Questions:

The study aims to aggregate practices of different companies, find common issues faced, and answer the following questions:

- What are the industries in which companies are expected to succeed with this organizational structure?
- What is the optimal size of the company for this organizational structure?
- What are the most common problems companies face, while implementing or practicing Holacracy?

Significance of the Research

For the purpose of this study, the method of qualitative systematic literature review has

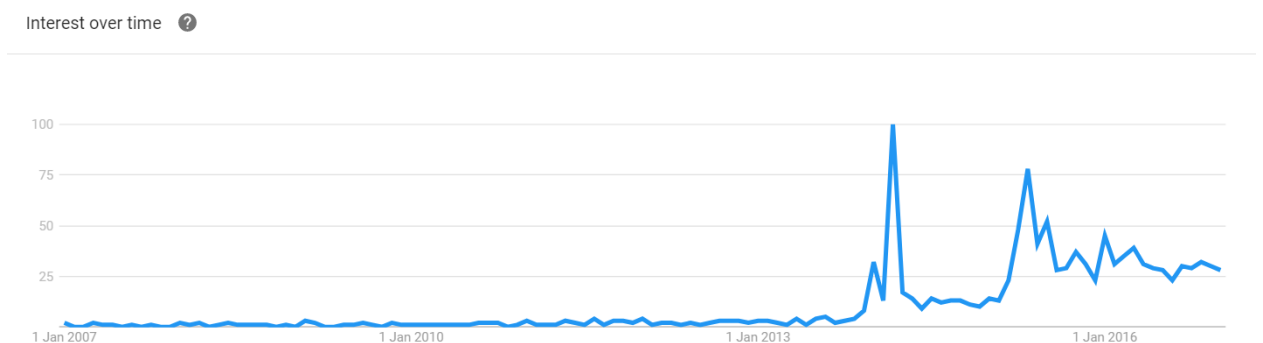
been conducted in order to critically examine previous research and answer the questions stated by this thesis. Also, the practices of 97 companies worldwide are summarized and analyzed.

No systematic review and summary of companies' cases and practices have been done regarding this study's research questions so far. Moreover, the interest to a new organizational structure has rapidly expanded in last few years (see *Figure 1*), the common problem the companies face is that if they decide to implement Holacracy, there is no structured analysis of practices and cases, so a new adopters have to spend many hours looking for answers and examples (Knopka Company, 2014).

Therefore, this systematic review tries to address these problems and identify, critically evaluate and integrate the findings.

The findings of all relevant, high-quality individual studies addressing one or more research questions in form of scientific papers, books and articles as well as blogs and different conferences' notes, presentations and interviews with founders and CEOs of companies are analyzed.

Figure 1: Google Trends: Interest over time (%) for search term "Holacracy"



Source: Author

The following chapter explains the concept of management innovations and terms relevant to MI.

1.2. Management Innovations Aspects

The fundamental question in the field of strategic management is “Why are some firms

successful – perhaps continually – while others are not?” (Foss, 2012). To this effect, we stand that more attention should be paid to the role of organizational design and management processes in order to understand the possible reasons of success of certain companies. In current chapter, one can find an overview of the key concepts and terms used in the study.

Company`s success and prosperity play a role of foundation for creation of organizational strategy. In turn, success can be gained through fostering the right competitive advantage, reflected in gaining profits higher, than it is of competitors.

However, already nearly a decade ago, studies indicated that even though technological innovations were given a lot of attention through scientific researches and media, innovations in management still lack the development (Birkinshaw, Hamel, & Mol, 2008).

Conditions in which corporate world needs to operate has been drastically changed during the last decades. Regular approach towards sources of organizations` advantage has now become irrelevant. Access to land, capital, markets or labor is now much less crucial than it used to be, all due to decentralization and international connectedness brought by globalization. Instead of traditional sources of advantage, company`s ability to develop proper competencies is now observed as more important, meaning, to produce and enhance specific “know-how” of operational procedures and management style. This paper will aim to indicate and show on examples how management processes can become the real advantage in modern ever-changing business environment.

Management innovation practices can be portioned into three spheres of management innovations as defined by Nicolai J. Foss, Torben Pedersen, Jacob Pyndt, and Majken Schultz in their book “Innovating Organization and Management New Sources of Competitive Advantage” (2013):

1. Changes in strategy (such as goal-setting)
2. HRM (people management, incentive structures, and communications)
3. Changes in organization (organizational structures and delegation)

In that regard, we might refer to the systemic nature of MI, because in practice companies do not isolate their change to only strategy, organization, or Human Resource

Management, but usually they adopt changes in all areas.

In theoretical part of this thesis all three spheres of management innovations are studied and practical part is dedicated to the more thorough analysis of the change in organizational structure, since it requires more fundamental change, more time and resources.

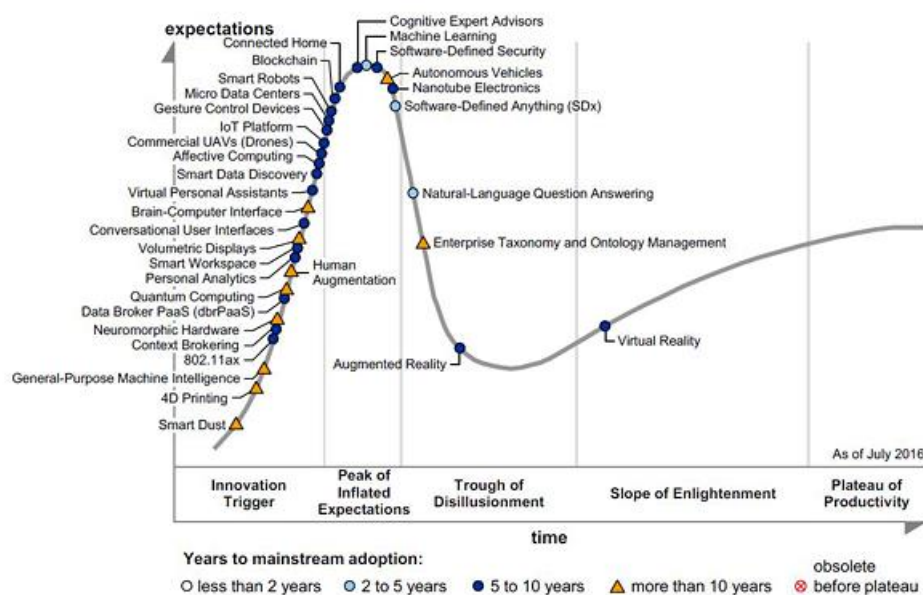
Hype Curve and Hype Cycle

Another term, which might be connected and is important to management innovations is Hype Cycle.

Hype Cycle is a trademarked presentation technology, developed by American research, advisory and IT company Gartner.

Cycle graphically reflects the stages of technologies` development, their cultural world application and their predicted usefulness in gaining potential opportunities in business environment. According to Gartner, their Hype Cycle for Emerging Technologies uncovers “cross-industry perspective on the technologies and trends that business strategists, chief innovation officers, R&D leaders, entrepreneurs, global market developers and emerging-technology teams should consider in developing emerging-technology portfolios” (Gartner Inc, 2016). Graphically, Hype Chart looks somewhat the same to related marketing charts as, for example, Product Life Cycle.

Figure 2: Hype Curve for emerging technologies



Source: Gartner (2016)

1.3 Reshaping of Organization's Strategy

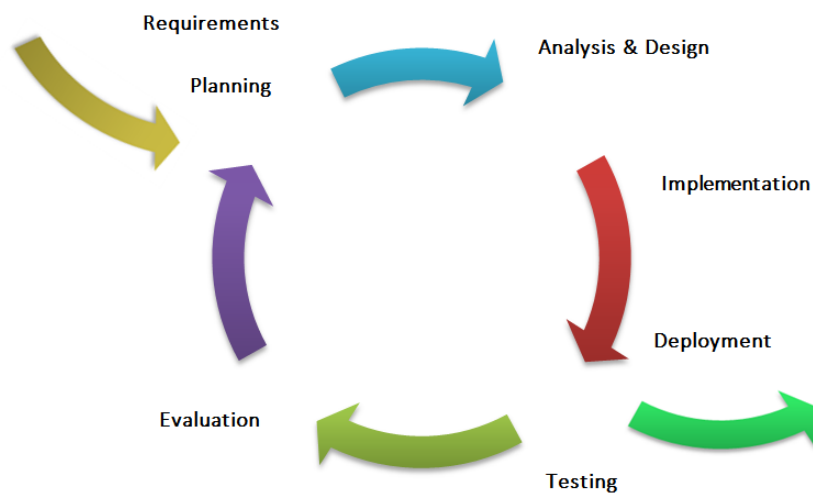
Management - Post bureaucratic era

A founder of Netflix, Reed Hastings has once noticed: “as a society, we’ve had hundreds of years to work on managing industrial firms, so a lot of accepted HR practices are centered in that experience. We’ve just beginning to learn how to run creative firms, which is quite different” (McCord, 2014). With the change of centuries we have also witnessed the shift from industrial age work to knowledge work (Burkus, 2016) or to post-bureaucratic era, and as Peter Drucker noticed we had to keep in mind that knowledge workers are not like manual workers from a manufacturing firms – they possess the means of production such as knowledge which they have in their heads (Drucker, 1998).

Agile software development

Agile software development describes a set of approaches or principles focused on software development in fast changing environment with the help of self-organizing teams of specialists with different profiles (Collier, 2011). It stands for continuous improvement, early delivering, testing and high responsiveness of the product.

Figure 3: Iterative Development



Source: Author

In the end of 1980s-beginning of 1990s, software development teams started to question too formal approaches to software engineering and a lot of bureaucracy connected to this after all creative industry (Apello, 2011). The need in change especially emerged when it was noticed that small but passionate development companies with sometimes awkward ad hoc approaches and flexible requirements are more capable of delivering high quality products in less time, while big formal organizations were stuck in paperwork and endless waiting for authority approvals. So, more “lightweight” approaches have been developed such as Scrum (1995), DSDM (1995), Extreme Programming (1999) or Adaptive Software Development (2000).

In 2001 some leading experts in this area at that time decided to organize a meeting, where they came to the conclusion that it is possible to find a middle ground between formal structures and “lightweight” approaches, so a new approach with the name “Agile” was born.

Agile software development centers on four core values, which are identified in the Agile Software Development Manifesto (see *Figure 4*).

Figure 4: Manifesto for Agile Software Development



Source: Manifesto for Agile Software Development (2001)

1.3.1 Strategy Formulation, Implementation and Evaluation

Strategy is formulated by listing actions that has to be taken by the firm to attain a competitive advantage by choosing and managing a group of business activities available for the firm. Strategy implies the huge set of nuances necessary for consideration such as choosing among differentiation or cost efficiency, deciding the type of customer orientation (segmentation), type of market, innovation trends, competitors analysis, business model, type of management, plans for expansions/acquisitions, considering incentives and resources, etc. (Jeyarathmm, 2007).

After choosing the appropriate strategy, company brings it to live through implementation process. Modern unstable environment force companies to execute chosen strategies rapidly but effectively. This process is about managing forces during action, focusing on

efficiency and it requires collaboration of representatives of all layers of organization. Strategy execution includes participation of employees and stakeholders and high commitment.

When strategy is implemented, it is necessary to monitor and assess it. There are many ways to perform the evaluation: starting with traditional measures like net income, EPS, ROA, ROE or Sales, to more sophisticated options that assess all company indicators in each sphere of activity. To the latter belongs well-known KPI method (Key Performance Indicator), measuring company's prosperity and effectiveness through financial, customer (customer satisfaction, retention, acquisition), internal (e.g. manufacturing cost, job turnover, product quality, inventory management) or even future perspectives (employee retention, R&D core competencies, etc.). In addition, continuous feedback is one of the keys to assess if the strategy is well formulated and implemented.

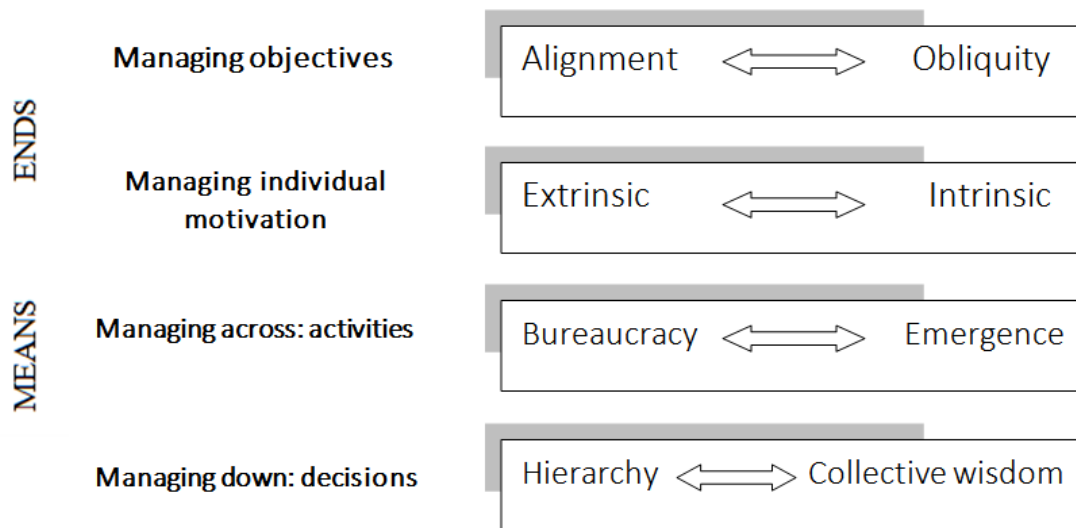
As choosing appropriate management model is perceived to be one of the most important parts of strategy formulation (Worley, Williams, & Lawler, 2014), this work will consider *Birkinshaw management model*, which perfectly allows and promotes the existence of untraditional models.

Birkinshaw management model

Birkinshaw management model is one of the relevant sources of managerial theory upon which a proper organizational structure can be based. Model deals with four dimensions of management and offers a different approach towards each dimension. Those areas of expertise are Activities, Decisions, Objectives, Individual Motivation.

Each of them implies two divergent ways of working: from one hand, there is a traditional, top-down management style while from the other there is an alternative, much more informal option that implies perceiving management more like a leadership. According to Julian Birkinshaw, four dimensions - management activities can be broken down to eight principles: *bureaucracy vs. emergence*, *hierarchy vs. collective wisdom*, *alignment vs. obliquity*, *extrinsic motivation vs. intrinsic motivation* (Birkinshaw J. , 2012). In line with the purpose of the thesis, term obliquity will now be observed and defined in detail.

Figure 5: A Birkinshaw framework for rethinking management



Source: (Julian Birkinshaw, 2009)

1.3.2 Obliquity

This part of the thesis defines Obliquity and aims to give examples of successful changes in strategy or unusual practices of different companies around the world.

Oblique principle is the notion that the goals are often best achieved when pursued indirectly (Birkinshaw J. , 2012). A small company in a predictable business environment will often succeed when pursuing its aims directly, for example, by setting narrow financial goals. However, the more changeable and unpredictable the environment is and the more complex the organization, the more relevant this principle becomes. In general, obliquity principle can be brought to use through following three approaches.

1. Setting out indirect goals

Guidelines for this point are the following: employees should feel connected to the goal, it has to be meaningful and value-adding; executives or owners should be able to show how following indirect goal leads to achieving end goals (e.g. profit for stakeholders).

2. Pursuing the creative goal

Employees should be given freedom to push their own agenda: best people seek intrinsic rewards rather than extrinsic. Hence, they should be given the ability to attain recognition through their work.

3. „Leap of faith“

This concept implies the following guidelines: executives should start to believe, that profit is not that important; your cause has to be the one that consumers would be glad to support; performance should be tracked on every level.

The LEGO Example

LEGO Group once has noticed that their “old” core values can be extended in order to achieve more corporate success: they decided just to turn boundaries of the company into more permeable ones. They created a new system which allowed millions of fans worldwide, key customers and suppliers to be involved and contribute in some processes inside LEGO, mainly product development and design. They found that loyal lovers of LEGO are source of enormous energy and creativity which has never been used, so they started to invite some of them to become partners.

Goal-setting and the follow-up process

Good examples of innovations in Goal-setting and follow-up process can be found in Danish companies Chr. Hansen and Vestas. Chr. Hansen has involved its more than one hundred top managers in better communication by implementing monthly result reviews (KPIs) and benchmarking of all units in the company. Vestas has put its ambitious goals into simple slogans as “The Will to Win” and “No. 1 in Modern Energy”, and those slogans are used in internal and external communication very often and successfully.

Putting Customer Second

Experience of many companies show that putting interests of employees first and customers second help to become more profitable: if employees are happy, customers simply get better served. For example, US company Wegmans Food Markets, family owned chain, invest more than \$4 million in education for their employees, the company wants its workers to get the best practices in order to serve customers passionately lately – for instance, they can send people from Bakeries to France in order to teach them how to prepare proper bread, or Cheese department to Italy to learn about the process of preparation of cheeses (Burkus, 2016).

Communication

“The next generation of leaders should pay increasing attention to online social networking platforms so as to be more effective in fostering employees' social and emotional well-being” (Korzynski, 2015). Lately, many companies started to pay attention how the internal and external communication is build and how the old-style system can negatively affect the performance. As CEO of French company Atos SE, which employs more than 70,000 people around the world, Thierry Breton, noticed: managers can spend between 5 and 20 hours per week only for writing and reading emails (Atos Global Newsroom, 2011). So, the company decided to implement “zero-email” policy: they did not completely banned communication, but introduced a special social network for internal commutation. The software allows the network to be fully transparent: employees have a full overview what is going on in the company, they can start a conversation, everyone can access it, join or easier find a specialist who is able to help. It also affected performance of the company: operating margin has increased from 6,5 to 7,5% in 2013, administrative costs have decreased for at least 3%. Another example can be again LEGO. As it was already mentioned the company extended its external communication: it created special LEGO fan groups for fans around the world to stay connected to them.

2. Management Changes in Organization

How to achieve optimal effectiveness by choosing a right organizational structure – has long been an important question in management research (Lee, Valentine, & Adler, 2016).

Companies set aims that can be reached only when needed combination of resources is met. Those resources include the division of labour, taking into consideration required organization`s needs and specializations of people. Appropriate organizational structure is crucial for the company to obtain its aims. Structure should effectively match the needs of constantly changing conditions in which the company operates.

2.1 Organizational Structure

In organizations, employees or groups of employees are arranged regarding to the tasks or activities they perform, and the way how it is settled can be called organizational structure (Greenberg, 2011; Delich, 2015). The organizational structure can be defined as “the work roles and authority relationships that influence behavior in an organization” (Hitt et al., 2011). With the help of organizational structure, the lines of responsibility, authority, and accountability in the organization are clarified and the communication flow and framework is set (Rishipal, 2014).

Organizational structures can exist in many forms, and the form of the structure influences the way how the company will be governed. Dr. Rishipal (2014) determines the number of factors on which the choice of organizational structure can depend:

- Organizational values
- Size of business
- Type and nature of business
- Geographical regions
- Work flow
- Leadership style
- Hierarchy
- Other: such as level of technology (Rajan & Wulf, 2006) and diversification (Harris & Raviv, 2002) or Human vs. Capital intensity (Rajan & Zingales, The firm as a dedicated hierarchy: A theory of the origins and growth of firms, 2001)

Taking into account these factors, the company decides which organizational structure or a combination of several ones it will choose for the management purposes. Below, review of the most common organizational structures can be found.

Functional Organizational Structure

Among traditional organization structures can be split into divisional and functional types. Latter type is characterized by assigning employees with the same skills onto one specified function. Research shows the definition of functional structure to be as follows: “A structure in which work and workers are organized into separate units responsible for particular business functions or areas of expertise” (Workman, Homburg, & Gruner, 1998). If company follows this type of structure, the communication within the organization is limited and people may not be able to see the whole picture or attain understanding of

other functional clusters.

Functional hierarchy consists of several branches that pursue different functions in their fields of work, which in turn are necessary for the company to produce and operate. Such structure groups people by their skills and assign them into teams/departments that most closely correspond to their skills. Separation criteria might be similar knowledge, routine use of the same tools and techniques or just similar activities. (Anumba, Baugh, & Khalfan, 2002). For example, sales, construction, IT, compliance, audit and logistics are the functions of given firm. Thus, since these functions support operating needs of the company, employees are grouped in these departments and rarely interact with others.

Divisional and Multidivisional Organizational Structure

In the divisional structure, company is divided into division that have their own functions to the extent of being autonomous and independent from the head office. Division often have own support functions as well. In other words, if a car company operates worldwide, it can have separated divisions for different regions of the world, and each region will have its own manufacturing, marketing and sales units. Same works for operating in different industries, for example, Robotics organization that produces both for military and civil purposes. Divisions might be split by geographical, product/service, market segment or any other basis. Literature defines divisional structure as “an organizational structure in which support functions are placed in self-contained divisions” (Day, 2006). Divisions of course should necessarily be supplied with all resources, needed for effective operations. Theoretically, each unit of the system should follow its own goal but with the background focus on achieving the global objectives as well.

The difference between divisional and functional organizational structures is that in the first one, each division system organize employees of various sets of skills and capabilities that are required for divisional departments. Summing up, it should be noted that each division is made of collaboration of different functions, teams and departments. Such structure seeks to establish smaller, controllable business units inside the company, and obviously is much more widespread among huge multinational companies operating worldwide.

The biggest example of divisional structure can be made of Coca Cola Company. It has five big divisions spread out geographically and being self-sufficient and almost independently controlled by the zone directors (Griffin, 2008). Those five divisions are

Eurasia & Africa, Europe, Latin America, North America, and Pacific. Each Continental division has vice presidents that control sub-divisions based on regions or countries. This structure is efficient for Coca-Cola since it is a very large company.

Mix of different various organizational structures is referred as hybrid structure. Such structure tries to achieve organizational strategic goals through allowing flexible synergy of different formal structures (e.g. divisional and other structure). Such combinations are perceived to be more adaptive towards modern challenges and conditional changes (Shane, 1996).

Vertical and horizontal expansion of organizations leads to the necessity to add up new branches, functions and layers, obviously resulting in organizational structure becoming too complicated and tall. This is the reason many of such huge companies are eventually switching from functional to divisional structures, reducing centralization hence easing the governance for top management. That is when multidivisional structures take part.

In such a structure, company's is broken down into smaller independent divisions responsible for variety of functions. There are clear boundaries between units, which in turn are adaptable, responsive and moderately independent. Not only support functions can be placed to be performed in such separated subparts, but the variety of other functions as well. In general, scientist indicates distinguished purposes for forming multidivisional structures (i.e. process-centric, product-centric, geographical, and industry-centric). However, the focus of attention is now at customer-centric kinds of multidivisional structures hence many of the Fortune 500 firms, such as IBM and Cisco, have moved their system to match their divisions with key customer groups (Lee, Sridhar, Henderson, & Palmatier, 2014).

Product and Process Organizational Structure

Product-centric or process-centric multidivisional organizational structures are organized around different products form the company portfolio, or around the specific process of production. Companies with such a structure consider their divisions to manage processes form the very beginning to the very end and assess overall process results instead of functional achievements.

Matrix Organizational Structure

Abovementioned structures are quite crystallized and coordination among them is limited either per divisions or per functions. Thus, organizations worldwide with the support from top consulting companies have been constantly working on developing such system that would combine both functional and divisional structures together. It led to creation of Matrix structure (Jones, 2010). Such structure promotes variability of problem solving capabilities due to its adaptability and relatively increased flexibility.

Team Structure

It is an organizational structure that delegates functions and processes into groups following the same general objective. Team structure overcomes departmental and functional obstacles, evolves erudition, improves speed of decision-making, and encourages educational attainment all over the whole organization (Bresman & Zellmer-Bruhn, 2012). Material and people resources are collected and represented in teams that can be temporary (compiled to perform specified project) or permanent. The downside of such model can be increased time for meetings and check-ins.

Types of teams can include the following:

- Project teams
- Work teams
- Ambidextrous – involve two separated and independent project teams one from which regards “developing business units”, dealing with applicable for quick takeover business opportunities and second being “developed business units” team, responsible for already existing capabilities.
- Hypertext – incorporates self-sufficient squads for emerging prospective opportunities and usual tall structure for routine processes, while employees are offered to switch from these two synthesized structures (Acharya & Mishra, 2016)

Network Organizational Structure

“Recently, increasing attention has been paid to more informal and intangible types of structure, such as network structure” (Lee, Sridhar, Henderson, & Palmatier, 2014).

This structure presume that corporate managers will sustain and regulate business relations with various third parties like customers, vendors and associates following the goal to

achieve mutual benefits. Connections are performed through digital communications such as internet (Microsoft Outlook) or mobile networking services. Nevertheless, heavy reliance on telecommunications and internet only can possibly lead to complications, as remote communication is incapable to replace the live one. In IT industries and modern start-ups Network or Virtual models are commonly used (Gleason, 2015).

Figure 6 shows the characteristics of different Organizational Structures and their comparison.

Figure 6: Linkage between types and characteristics of organizational structure

Types of Organizational Structure	Characteristics of Organizational Structure					
	Centralization	Formalization	Specialization	Interdependence	Integration	Modularity
Functional Structure	High	High	High	Low	Low	Low
Multidivisional Structure	Moderate	Moderate	Moderate	Low	Low	Low
Matrix Structure	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Team Structure	Low	Low	Low	High	High	High
Network Structure	Low	Low	High	High	High	High
<i>Definitions</i>	<i>To which extent the power to make decisions resides in the top level of organization</i>	<i>The degree to which rules govern decisions, roles, procedures, and communications</i>	<i>How narrow skills should be defined for the jobs</i>	<i>How much cooperation is needed among groups to operate</i>	<i>How much internal units of the company are cooperating with each other</i>	<i>To which extent the company dissemble business into separate units</i>

Source: (Lee, Kozlenkova, & Palmatier, 2015)

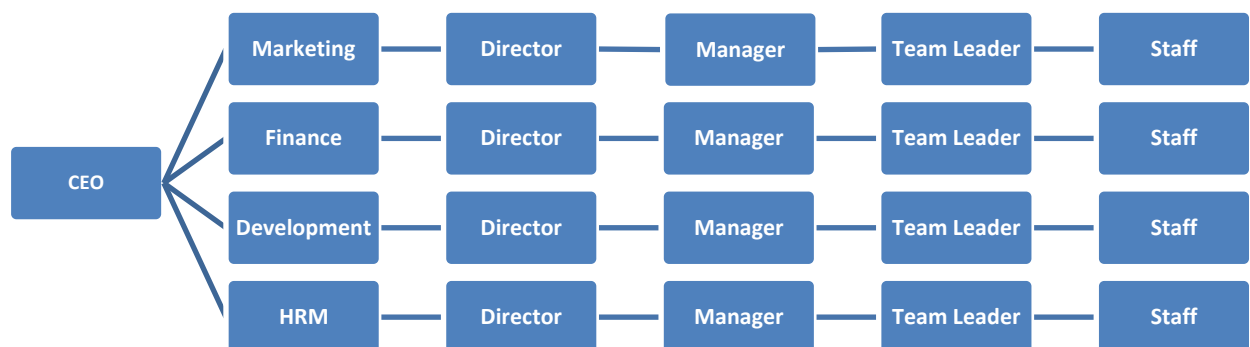
2.3 Changing Paradigm of Organizational Hierarchy

“The techniques, concepts and structures articulated by people such as Taylor, Fayol and Weber are proving less effective in today's increasingly connected/wired world.” (Rishipal, 2014). As we moved to Information or Knowledge Age, which is characterized by a new economic reality, different organizations and companies find that traditional management methods and structures, which were effective in past century are not being able to cope with the new environment – so the companies seek to change their very fundament – structure - from old-style hierarchical to different self-managed structures, which the following chapter analyses.

2.3.1 Tall Organizational Structure

In a tall organizational structure there are “many layers and a long chain of command from the top to the bottom layer” (CAPCO, 2013), in other words, there are many levels of authority between the CEO of the company and an average low-level employee: for instance, team member reports to a team leader or supervisor, team leader reports to a manager of the department, the manager reports to a director, director – to a vice president, vice president reports to CEO (Rishipal, 2014), see *Figure 7*. The span of control is narrow – one has to report to a lower number of people in an organization and has fewer functions he is responsible for, compared to a flatter organization. The authority is typically organized in pyramid shape.

Figure 7: Example of tall organizational structure



Source: Author

Limitations of Hierarchy:

Although, in tall organizations the planning is simplified and process of controlling is easier when it is strictly from top to down, as a prominent opponent of hierarchy Valve Corporation notices in its Handbook for New Employees: “hierarchy is great for maintaining predictability and repeatability” (Valve Corporation, 2012) and some studies state that tall organizations are more efficient because they have higher control over the environment (Leavitt, 2005), currently there exists widespread critique of hierarchical

structure (Morgan, 2014; Greer, Schouten, De Jong, & Dannals, 2015; Burkus, 2016).

As it was already mentioned the span of control in a tall organizational structure is narrow, which has shown to be ineffective: “increasing span of control can improve the effectiveness of the budgeting process, an important component of most firms’ control environments” (Hannan, Rankin, & Towry, 2010)

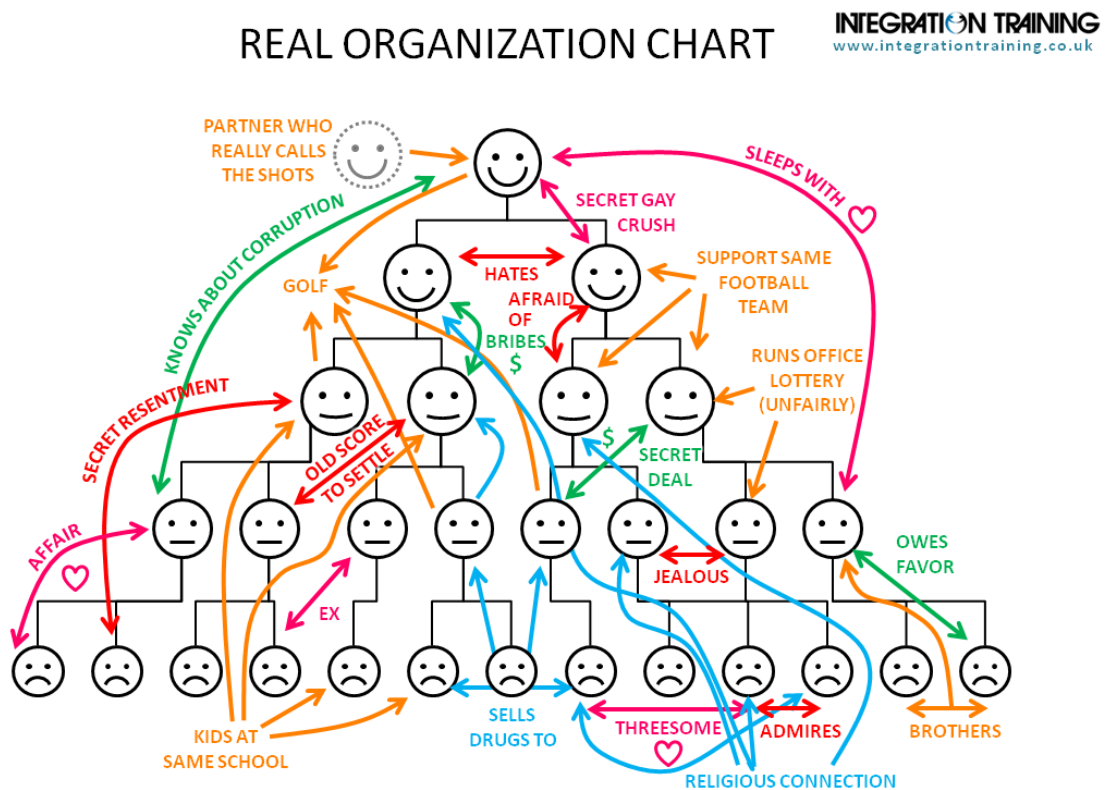
Below we can define the *main limitations of tall organizational structure*:

- Organization and individuals are separated (Takei, 2015)
- Innovation stagnates and opportunities for innovations are below potential
- Engagement and autonomy are low, employees have less freedom and possibilities to fulfill their potential
- Collaboration typically does not exist
- High level of bureaucracy (Morgan J. , 2014)
- Flexibility of the organization is limited

Consequently, because of these factors, the companies with complicated hierarchical structure can face various problems, such as:

- ⇒ It is hard to adapt to changes of external situations and the reaction is slow
- ⇒ It gives higher chances to rivals to get competitive advantage
- ⇒ It is harder to attract top talents, since flatter structures are becoming a growing trend (Burkus, 2016) (LexisNexis, 2016)
- ⇒ Power is concentrated in certain hands, and can negatively impact the performance of other employees (Robertson, 2013)

Figure 8: the “exaggerated” example of hierarchical structure



Source: by Mark Walsh from Integration Training (Robertson, 2013)

2.3.2 Flat Organizational Structure

As Business Advisor Chuck Blakeman noted “In the Participation Age, people don’t want jobs that just pay the bills, they want work that allows them to be fully human, make decisions and own their stuff. As more companies leave the Industrial Age management structures behind and invite people to decide, they are more likely to retain the great people they have. Giving people their brains back is becoming a necessity for keeping them. Self-managed teams is one great way to do that.” (Rombaut, 2017).

Usually, flat organizations are the ones with literally no managers or with just one or a few ones, employees work in flexible teams and report to each other. In this kind of organizations, chain of command is short and the span of control is wide. As Rishipal (2014) defines, flat organizations have following characteristics:

- Strong focus on the needs of customer
- Distributed authority

- Highlighted role of working in teams
- Horizontal career path that crosses different functions
- Broadly defined jobs and general job descriptions or absence of ones
- Flexible boundaries between jobs and units

One of the most prominent examples of practice of flat organizational structure is Valve Software, the flagship game developer. Employees at Valve do not have job descriptions, when a new person joins a company, the one is welcomed to walk around, look what is going on in different projects, and choose one he likes or just start a new project (Burkus, 2016). Company has a “Flatland”, as they call it, for almost 20 years, and it proved to work successfully: the 400+ employee-corporation is a world’s top game developer (Tassi, 2014), who, for instance, has launched Steam – online distribution portal of video games – sales through this portal accounts for around 70 percent worldwide (Burkus, 2016).

Another example of flat organizational structure is American company Morning Star founded in 1970. The company currently is a largest tomato processor in the world (Hamel, 2011) with also more than 400 self-managed employees. Each person working in the company has to create his own mission statement, saying how he personally can contribute to the well-being of Morning Star. After employees discuss possible implication of their statements with people who can be affected and they together construct CLOUs (a Colleague Letter of Understanding), which later replace the organizational chart of the company (Burkus, 2016).

There are many other companies who practice this philosophy, for instance, a collaborative platform called for software developers GitHub, who work with volunteers, there are no managers and workers just do what they want and see as necessary – only the innovation is kept as a main goal (Dannen, 2013). Also, we can mention a firm behind WordPress, Automattic, who employs more than 200 people, has a flat structure and also has an open source system of working with volunteers (Jeffery, 2015).

2.3.4 Flatarchies

The term *flatarchy* was firstly introduced by California based author Jacob Morgan in 2014 in his best-seller book “The Future of Work”. This concept is applicable for the type of

organizational structure that lies in between hierarchy and flat organization. The core idea is that flatarchy enables companies to implement flat substructure being in fact hierarchical. Vice versa, flat organizations could form hierarchical division in order to achieve some ad-hoc goal, after which such heavily structured team should be disbanded. This approach allows both flat and hierarchical companies to be much more flexible and quickly adjust to an ever-changing work environment (Morgan, 2014). However, a flatarchy can be considered of as a more temporary structure, which creates isolated projects of new structures, such as in the case of developing a new product or service.

Main features:

- Middle point between hierarchy and flat organization. First with elements of the second and vice versa.
- Applicable for medium and large sized companies
- More autonomy, more resources, less bureaucracy
- Perfect for temporary R&D and innovative projects
- Gives firm the ability to actively respond to changed circumstances when needed

Examples of Companies with Flatarchy:

One of the earliest example of what can be referred as flatarchy has originated in 50-s in USA. The aerospace company Lockheed Martin launched so called “skunk works” project in order to design and create spy planes. Formally named Advanced Development Programs, skunk works clearly represented flat, dedicated project within hierarchical organization, combining 40 engineers to work on innovative and advanced technology (Bennis & Biederman, 1997).

In 1993, General Electric (classically hierarchical giant) implemented perfectly flat type of organizational structure inside one plant facility (Burkus, 2016). Aircraft engine-assembly facility in Durham, North Carolina has hundreds of employees that basically report to each other. They formed several teams responsible for each part of the engine, which resulted in utmost quality of the work. GE cut the costs for this plant in 50%.

2.3.5 Adhocracy and Sociocracy

Adhocracy

Term *adhocracy* was initially introduced almost half of the century ago bearing the opposite meaning to bureaucracy (Bennis & Slater, 1968). Now term adhocracy is expanded and redefined as an organizational model, setting priority on decisive, intuitive action rather than formal authority or knowledge. Specifically, adhocracy maximizes a company's return on attention, defined as the quantity of focused action taken divided by the time and effort spent analyzing the problem (March & Simon, 1958).

In other words, adhocracy emphasizes building activities around opportunities: proactively anticipating the future need, companies with such structure creates special teams, invest in projects, implementing innovations and doing whatever else necessary to beat the goal of fast and successful growth and profit gaining.

Main features:

- Activities are coordinated around the problem or opportunity
- Decisions are made through experimentation, trial and error
- People are motivated by stretch goals and recognition for achieving them
- Suitable for unstable / highly unpredictable market conditions

Examples of Adhocracy:

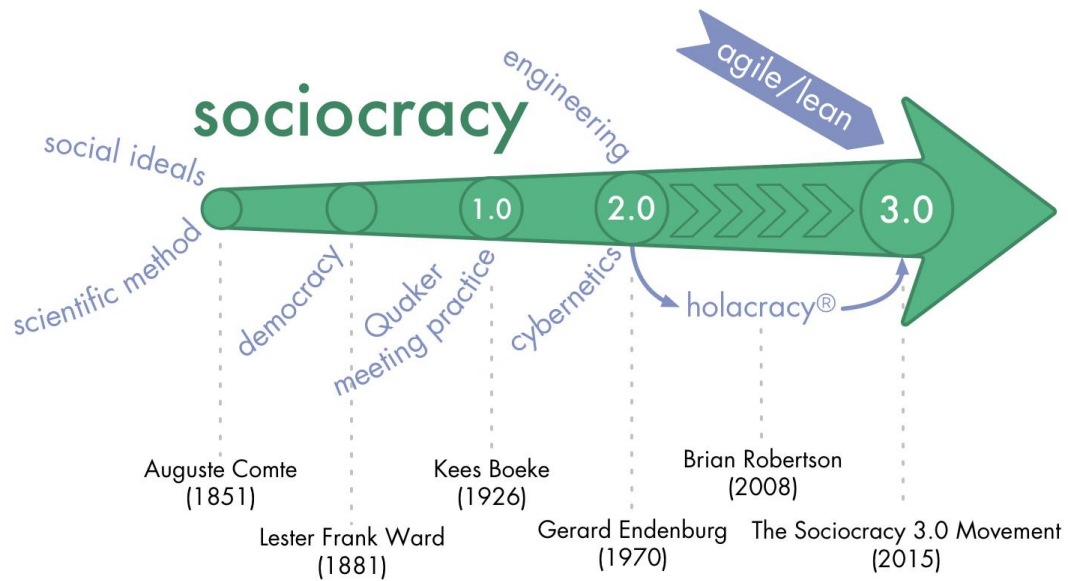
Perhaps the main example of how adhocracy coordinates activities around opportunities is represented also by gaming company Valve. Even though, they do not state it, but their model is more like flat organization with adhocracy. As an employee, you don't possess specific set of activities and routines that have to be repeated as your everyday job. Instead, you can move around the building, join projects where you see yourself most efficient and useful, work with related team and then leave the project when it's done (SAPM: Course Blog, 2014). Although Valve doesn't really use the term adhocracy to define its management structure, they operate on the same principles and motivate employees on the same grounds. According to the Valve Handbook, employees have rights to give green lights to projects or even ship new products. They are rewarded accordingly: Valve has the system in which employees should rate each other and ones who did the most get the most (Valve Corporation, 2012).

Another bright example of adhocracy can be made of Costa Coffee Company, specifically referring to so called Project Marlow. The idea was to transform Costa Coffee vending machine offering by creating an entirely new self-serve coffee system that would engage all the five senses of the customer. For that purpose the most talented excellent engineers, salespersons, analysts and employees from all other spheres were combined into a small team of initially 20 people to deliver the execution of project Marlow in very short terms. They had extremely quick deadlines and a huge set of targets, working in “uncomfortably fast” pace, citing the project leader, Eric Achtmann (J. Birkinshaw; J. Ridderstråle, 2015). Such approach towards project execution clearly indicates one of the main principles of adhocracy: decisions are made through experimentation, trial and error.

Sociocracy and Sociocracy 3.0

Sociocracy is a governing system that applies the methodology of cybernetics, sociology and general management theory. Sociocracy emphasizes systematic observation, measurement, and experiment to assess the value of its decisions and its ability to achieve an company`s goals. It seeks to achieve harmonious development of the organization, taking into account diversity of opinions of included group of people (Endenburg, 1998). The term sociocracy originated in works of French philosopher Auguste Comte in 1851. Since then, definition was evolving a number of times in 19 and 20 century. An electrical engineer Gerard Endenburg, who updated and then used the concept to educate and consult companies worldwide, performed the latest expansion of the term in late 1960-s and 70-s. In a recent past, term sociocracy has been further reviewed and enhanced to become so called Sociocracy 3.0. The development of the concept from early ideas to sociocracy 3.0 can be represented as a graph:

Figure 9: From Sociocracy to Sociocracy 3.0



Source: <http://sociocracy30.org>

Main features of Sociocracy 3.0 (Bockelbring & Priest, 2017):

- **Goals**

Sociocracy aims at making the best use of already existing talents and support the organization's growth with its own tempo via consistent development.

- **Equity**

Anybody who is impacted by taken decision has the right to take back his or her consent.

- **Rules**

Policies inside identified domains are guiding the flow of the value. Policies are made to meet the criteria of drivers. Values are the crucial principles and rules. Employees should seek the ultimate expertise in the policies.

- **Powers**

Expectations are managed through self-accountability. Accountability is a main principle. Cooperation emerges inside circles and follows principles and values.

- **Needs**

Sociocracy promotes the continuous process of defining needs concerning the organization itself, its stakeholders, members, customers, consumers and external environment

- **Organization**

Organization is defined through main drivers, values and core strategy

- **Personnel**

People compile around drivers, take part in creation of rules, and play role of receptors (sensors) for the company.

Main examples:

At the moment, there are several businesses worldwide using sociocracy as an organizational system. Some of them are:

1. Creative Urethanes, Inc. (<http://www.creativeurethanes.com/>)

Plastics manufacturing company based in Winchester, VA, USA, making pipes, wheels, gears, and other products of urethane. Creative Urethanes employs 30 people and operates with a \$20 million annual revenue. Company has been using Sociocracy since the 1980s.

2. Endenburg Electrotechniek (<http://www.endenburg.nl/>)

Holland based Electrical installations contractor with 120 employees, \$20 million annual revenue, using Sociocracy since 1970.

3. Fabrique Public and Industrial Design (<http://fabrique3d.com/en>)

Netherlands based design and communication agency: 100 employees in three locations (Amsterdam, Rotterdam, Delft); \$11 million annual revenue. Website:

2.3.6 Holacracy

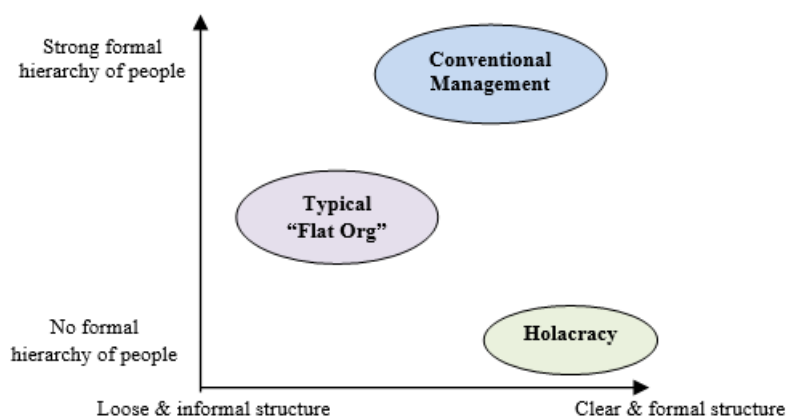
For companies who neither appreciate hierarchical structure nor want to get rid of all managers and control by becoming a flat organization, there exist another option in between, self-managing structure called Holacracy®. Holacracy is a registered trademark

of US company HolacracyOne, LLC. The idea behind this controversial structure emerged when co-founder Brian Robertson left the big corporation and founded his own company Ternary Software. Keeping in mind that working in the corporation with complicated hierarchical structure reduces self-realization and managing a start-up becomes harder as it grows, the software company started trying to find a way how people can work together as efficient as possible (Holacracy website). They started experimenting with different structures (as for example, agile software development, lean management and sociocracy), studying what stands behind the organizational culture and values, they were trying to create an organizational structure which distributes the authority among employees and at the same time is solid enough not to put the company into the mess.

“Holacracy is designed to move companies away from rigid corporate structures and toward decentralized management and dynamic composition” (Doyle, 2016).

So, in yearly 2007 Ternary Software turned into a new company HolacracyOne with Brian Robertson and Tom Thomison in head. Since then, the company provides trainings and consultations for firms wishing to implement Holacracy. As for today, as company states, there are more than 500 companies worldwide, practicing this organizational structure – among them are such big companies as Zappos, David Allen Company, Precision Nutrition and until 2016 – Medium (more extended list of companies can be found in *Appendix I*)

Figure 10: How Holacracy compares



Source: Adopted (Compagne, 2014)

The structure of a company with Holacracy

In order to understand how Holacracy works, one can imagine an average city. There is a city hall, a major, a head of police, and a few other hierarchical structures which manage districts and city as a whole. But these “managers” can’t say people how they should handle their households, clean their teeth and so on – a person decides himself which fridge he can buy or where he can do grocery shopping; one can solve problems involving other people as well – as requesting a hole on the road to be repaired, planting flowers in front of an apartment building, creating a business which benefits a society. Of course, there is a set of rules and laws defining scope of one’s actions, such as you should not disturb other people or break other’s property, but those rules normally do not describe your every small step as how you should buy a new vase.

In other words, a city represents a complicated self-managed structure with thousands or millions of inhabitants or participants, who are free to allocate their resources as they want and they behave in their own interest to optimize their gains from it. In a perfect city, a self-organizing, distributed power structure emerges that allows one to influence the development of the system and its individual parts while maintaining personal responsibility for one’s own well-being. In this case, the larger the city - the higher personal effectiveness of each unit – a district, house, apartment or a person. At first, it might seem that more complicated the structure becomes – less productive it would be. But the evidence shows that when a city grows, it becomes more productive: a labour productivity in a city grows by 5.98 per cent when that city’s size doubles (Sveikauskas, 1975), while in majority of companies above medium size productivity of a laborer falls (Cummins & Xie, 2013).

That was idea behind Holacracy – how to run a company more like a city with a certain set of rules, elements of hierarchy and with more flexible self-organizing and learning structure. Also, “Holacracy attempts to take the best parts of startup culture and scale them to larger organizations” (Wood, 2015).

Holacracy is a way of implementing a decentralized power that allows you to build a hierarchy (so called holarchy) in such a way that each employee can influence life of the company and has full power within the framework of his role. Holacracy is not managed by management teams, but by the company's overall goal, a transparent process, expectations and metrics. At the same time, you do not have bosses, but any person in the

company has the right to know what you are doing and how efficiently you do your job.

If a company decides to adopt Holacracy, the management or owners of the company have to read and sign a Holacracy Constitution – a 30-page document, which sets the rules, defines processes and structure – explains “rules of the game”, in other words. Below the main terms are explained and an example of Holacratic structure can be found.

Main Terms

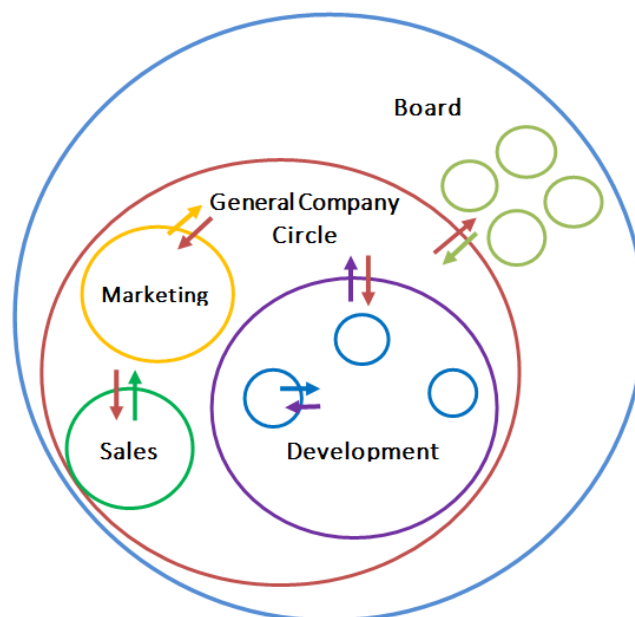
In company which has adopted Holacracy a hierarchical structure is replaced by “Circles” with different scope; employees become “Partners” and occupy “Roles” instead of positions; there are no managers, but their power is distributed among certain roles. *Figure 11* shows how organizational structure with Holacracy can look like.

When practicing a new structure, HolacracyOne suggest to use a cloud-based software tool Glassfrog (available online at glassfrog.com), which helps to make the process and structure transparent and accessible.

- Roles

Every employee has an explicitly defined “role” instead of a position in a company. A role has a precise description of a person’s competencies in an organization (Holacracy Constitution, 2015).

Figure 11: Holacracy structure.



Source: Adopted from HolacracyOne Governance Records and Knopka company's blog

Each Role has:

- “Purpose”, which presents a potential, unrealizable goal which the person keeps up with on behalf of an Organization (or a company). “Holacracy gives you a strict framework on how you can organize yourself around your purpose.” (Linders, 2017)
- “Domains”, processes, activities or other matters in an organization the person occupying the certain Role exclusively controls and regulates
- “Accountabilities” –activities of the company which the person enacts

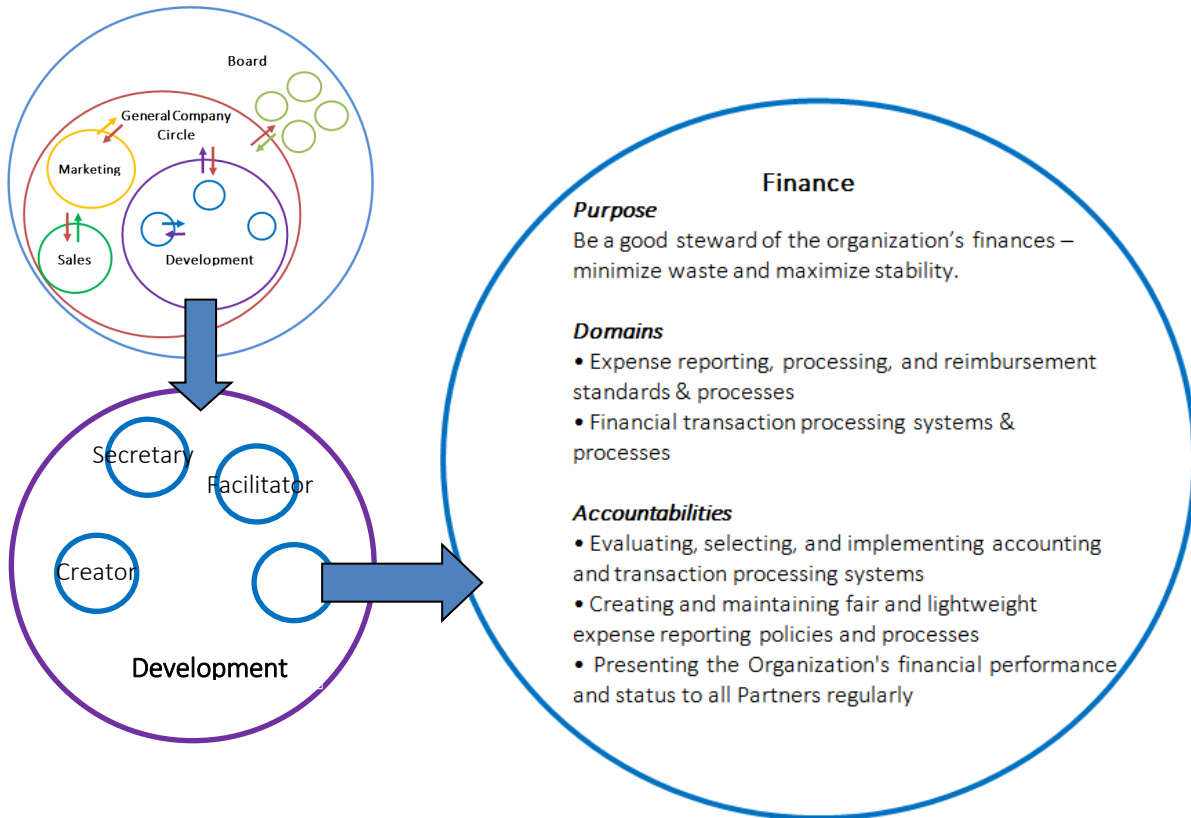
A person occupying a Role, is not only responsible for accountabilities of this role, but also “has the authority to take final decisions within that role” (Jergitsch, 2014).

Roles are grouped into circles; a person can occupy a few different roles, and thus belong to different circles.

Usually, the description of each role is available for everyone in a company or for public in order that all employees know what their colleagues are responsible for and what do they do.

If a role becomes too big for one person – functions and responsibilities are growing - a role can be transformed into a circle and it can be divided among a few people.

Figure 12: an example of the description of the Role in Holacratic framework



Source: Adopted from HolacracyOne Governance Records

- *Circles*

In Holacracy, the company instead of departments is divided into “circles”. In Figure 11, there are a “General Company Circle”, “Marketing”, “Sales” and “Development” circles.

The system of circles presents a sort of hierarchy: the bigger circle as “General Company Circle” is called a “Super Circle” and it includes its “Sub-circles”: Marketing, Sales and Development. These circles, in turn, can have their own Sub-circles, and they will be called Super Circles relatively to smaller ones. Formally, all circles work independently: Super Circle cannot influence the processes in Sub-circles, even CEO cannot say to some Sub-circle how they should allocate resources for the projects, if everything goes well.

Core Roles

The functions of managers are distributed among four “core roles” in each circle: Lead Link, Rep Link, Facilitator and Secretary.

- *Lead Link*

This person is assigned to the circle by the upper circle (or Super Circle) and he passes information to the Sub-circle from the outside. Lead Link is not the boss, he “holds the Purpose of the overall Circle” (Holacracy Constitution, 2015) and structures the governance of the circle. His tasks are mainly to fill the circle with participants with relevant competencies or to fulfill their functions if they cannot handle the workload, he allocates resources across projects and connects Super and Sub-circles.

In the *Figure X* Lead Link represents the arrow coming *into* the circle - for example, the purple arrow connecting Development Sub-circle with the General Company Circle.

- *Rep Link*

Unlike the Lead Link, this person is chosen by the participants of the Sub-circle in order to represent a Sub-circle in Super Circle and transfer internal problems called “Tensions” outside. He accumulates the questions, problems and suggestions from his circle and present them to the upper circle in order to discuss these on special Governance meetings.

It is an arrow coming from the Sub-circle – the red arrow between Development and General Company Circle.

Consequently, due to this structure, the information inside the company does not go through dozens of layers of organization hierarchy mostly from top to the bottom as orders, but rather dynamically circulates between the circles, so it can faster reach people who are interest in this information or have a good idea how to change a certain problem.

The same person cannot have roles of both Lead link and Rep Link.

- *Secretary*

A participant of the circle who coordinates the meetings and collects their results.

- *Facilitator*

The leader of the meetings of the circle - like the secretary, he is chosen by the other

participants of the circle.

- Tensions

Gaps in working processes or problems arising inside the circle are called Tensions. Each Partner is responsible for monitoring and tracking projects assigned for his Role, so also he has to track all Tensions connected with his scope.

- Meetings

A special place in this organizational structure belongs to meetings – some practitioners mention it as one of the main positive elements of Holacracy (Hsu, 2015).

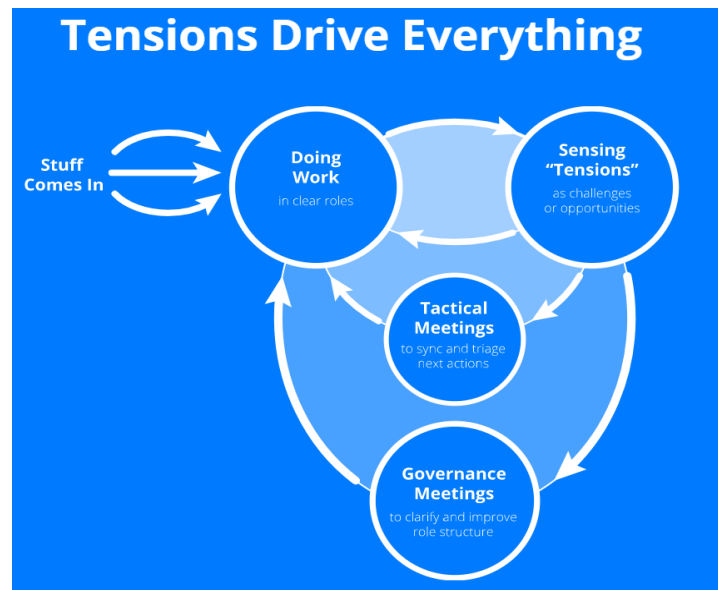
Strategy Meetings - are the least frequent meetings every 2 months for the Lead Links of each Circle.

Governance Meetings – are usually held once a month and are aimed to determine accountabilities, responsibilities and tasks and how they should be distributed among Roles. Each team comes up with these Roles and after Lead Links distribute Roles among the members of the Circle.

Tactical Meetings – are usually held every one or two weeks, they are more about metrics, tasks and projects. Tactical meetings “are very much about getting the work done, unblocking roadblocks, and resolving practical issues.” (Hsu, 2015)

Daily-Stand Ups – the most frequent, are held every day, and are similar to Scrum meetings for everyday updates - what everyone did yesterday, are planning to do today and how.

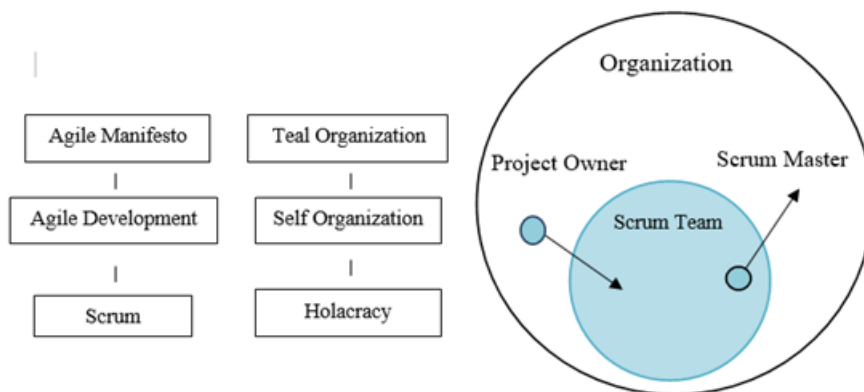
Figure 13: Tension-driven model of Holacracy.



Source: HolacracyOne website

There exist different ways of handling different types of meetings, but the flow of the meetings can be compared to one which is used in Scrum, where you have a Scrum Team, the leaders - Project Owner and Scrum Master, see *Figure X* (Velinov & Denisov, 2017).

Figure 14: Scrum in Holacratic Management Model



Source: Adopted from Velinov & Denisov (2017) and Liip Drupalcon (2016)

3. Methodology

For the purpose of this study, the method of qualitative systematic literature review has been conducted in order to critically examine previous research and answer the questions stated by this thesis. Also, the practices of 97 companies worldwide are summarized and analyzed. The list of companies has been extracted from ‘Structure and Process-Organizational Development’ website (last updated June 14th, 2017), and extended by the author, can be found in the Appendix I, together with the information about the industry, number of employees, years since foundation and adoption Holacracy.

For the purpose of the study the information about companies have been collected based on previous research, books, articles, companies’ reports, blogs, websites, or the case studies provided by companies themselves, advisory firms or consultants. As Velinov and Denisov (2017) noticed: “It is difficult to find information about what time of organizational structure companies use unless they disclose this information on their websites or reports”.

For systematic review and meta-analysis PRISMA flow diagram (Preferred Reporting Items for Systematic Reviews and Meta-Analysis) suggested by Moher D, Liberati A, Tetzlaff J, Altman DG, The PRISMA Group (2009) has been used in order to show the flow of the research (see *Figure 16*).

Data Sources and Search Strategy

Systematic literature search in this thesis had a two-step strategy. First, a search through different available databases for relevant articles, scientific papers, books and following search of reference list from these articles. Second, the hand-search has been performed in order to find relevant practices, case studies, reports and blogs of companies which had introduced Holacracy as their organizational model. English and Russian language articles have been searched. The selection process consisted from three review stages: title, abstract and full text of the paper. The inclusion and exclusion criteria can be found in *Figure 15*.

Figure 15: Inclusion and exclusion criteria

Inclusion criteria:	Exclusion criteria:
<ul style="list-style-type: none"> • Studies of flat structures or Agile/Scrum, mentioning Holacracy • Studies of implementation of Holacracy • Experiments with Holacracy • Case studies and reports of companies implemented Holacracy • Personal experience of Holacracy • Interviews with Top Management teams 	<ul style="list-style-type: none"> • Repetitive news (As for example, about Zappos) • Non-relevant studies • Non-professional opinion

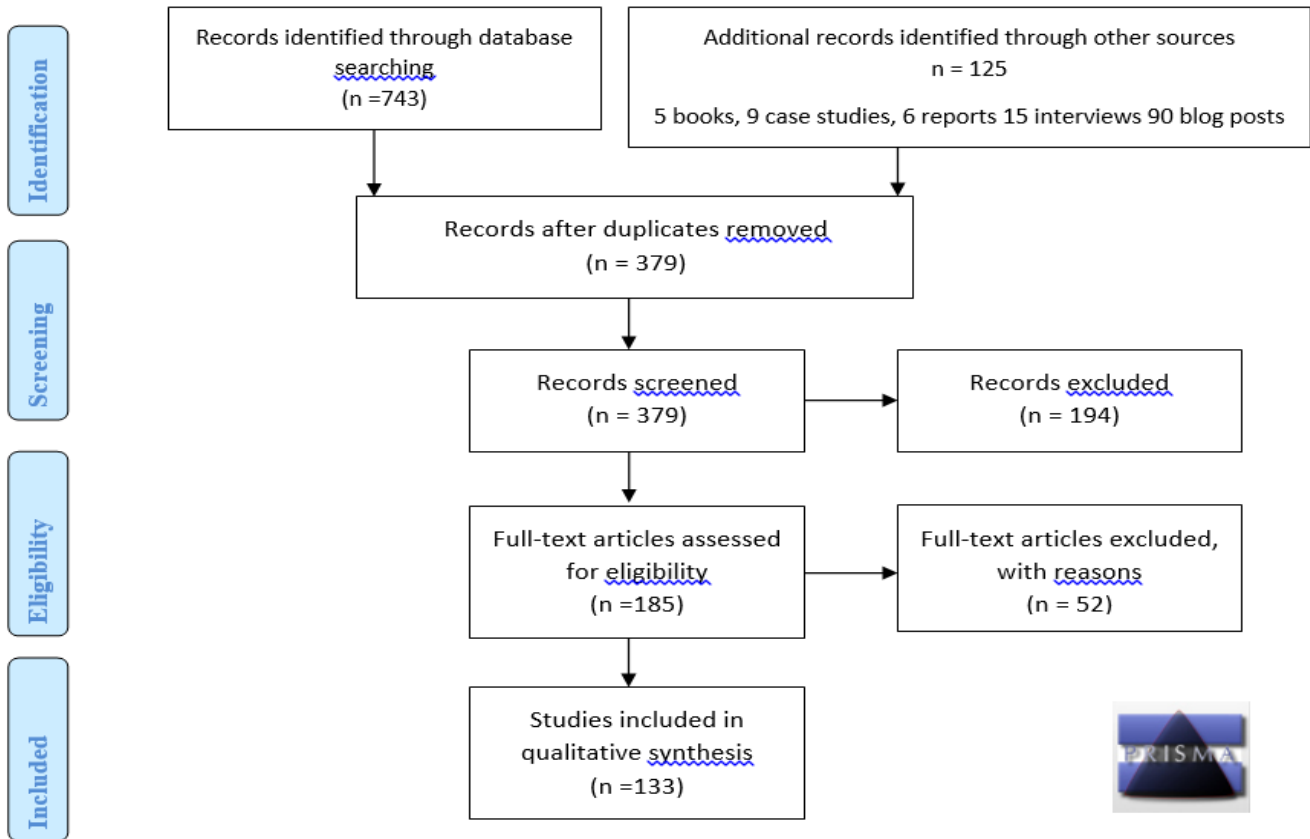
Out of 743 records identified through database searches, most of works did not meet the inclusion criteria (Number of work duplicated was found to be 489). The search has been conducted through such databases as JSTOR, ProQuest, EBSCO Academic Search Complete + EconLit, ACM Digital Library (ACM-DL), LexisNexis Library, Thomson Reuters and Academy of Management Review (To the most of these databases the author had access as a student of University of Economics, Prague and that's why the decision has been made to choose above mentioned databases along with the fact that those databases are considered to be of high quality (Winona, 2015). The words of search were "Holacracy", "Holacratic", "Holarchy".

Through databases it was possible to access different Articles, Scholarly Journals, Dissertations, Reports and Case studies, Newspapers, Trade Journals, and Magazines.

Additional records identified through other sources – found by the author in hand.

In Eligibility stage full-text articles were excluded for the following reasons: the information provided was not relevant.

Figure 16: PRISMA 2009 Flow Diagram



Note: “Additional records identified through other sources” are companies’ case studies, online articles and other sources.

Figure 17: Database searching results

JSTOR	ProQuest	EBSCO Academic Search Complete + EconLit	ACM Digital Library (ACM-DL) + Academy of Management Review
“Holacracy” - 0 Search Results	“Holacracy” - 337 (121 books, ebrary) (2007-2017)	“Holacracy” – 88 results (2014-2017)	“Holacracy” – 4
“Holacratic” – 0	“Holacratic” – 27, 12 books, ebrary (2013-2017)	“Holacratic” – 4 results	“Holacratic” – 0
“Holarchy” – 7, 0 – relevant	“Holarchy” – 229, 81 books, ebrary	“Holarchy” – 46	Note* Search in LexisNexis Library and Thomson Reuters did not show any results

3.1 Results

Descriptive statistics

Based on the information about 97 companies which practice Holacracy, we can observe the following results:

Holacracy by Industry

From *Figure 18*, we can see that the majority of these companies belong to Consulting and Education industries (42,1%): these are Management Consulting firms (17,89%), Training/Coaching and Education (12,63%), Startup Incubator, Co-working spaces and IT education (11,58%).

The second group of companies is connected to Information Technologies and Digital Marketing (27,37%), among them are Digital, Hardware and Software systems (13,68%) IT and Agile Web Development (6,32%), Digital Marketing and Online/Offline Advertisement companies (7,37%).

Figure 18: Number of Companies by Industry

Industry	Freq.	Percent	Cum.
Development, Aid, Nonprofit	7	7.37	7.37
Digital Marketing and Adv.	7	7.37	14.74
Financial Services	4	4.21	18.95
Hardware and Software Systems, Digital	13	13.68	32.63
IT, Agile Web Development	6	6.32	38.95
Incubator, Coworking and IT Ed.	11	11.58	50.53
Management Consulting	17	17.89	68.42
Other	13	13.68	82.11
Retail and Consumer Goods	3	3.16	85.26
Telecommunications	2	2.11	87.37
Training/Coaching/Education	12	12.63	100.00
Total	95	100.00	

*Note** Total number of observations = 97, missing observations = 2

Notable that significant number of companies with Holacracy are among Development, Aid and Nonprofit Organizations (7,37%), such as Belgian company Durabilis (Investing in Base of the Pyramid Market) or Swiss organization Euforia (youth-driven social enterprise). Even companies providing Financial Services (4,21%) show interest in Holacracy, for instance young Russian accounting company Knopka.

A few companies from Retail and Consumer Goods (3,16%) and Telecommunications (2,11%) also present: among them are shoe-retailer Zappos from Las Vegas, and German Soulbottles (production of plastic-free, eco-bottles).

Among other companies (13,68%) are: Tourism, Live sports, Eco-chemical company, Eco-shops and restaurants, Farming, Hospitality, Real Estate, Events Services, Oil & Energy, Insurance, Online publishing, and Annual Conference.

Holacracy by Size of Company

Figure 19 shows the distribution of companies who applied Holacracy by number of employees, majority – more than 87 per cent are SME (Small and medium sized enterprises with less than 250 employees – if Eurostat categorization is applied): among them there are 22.73% of micro enterprises and 45.45% - small companies.

Figure 19: Distribution by Number of Employees

Number of Employees	Freq.	Percent	Cum.
1-10	20	22.73	22.73
11-50	40	45.45	68.18
51-200	17	19.32	87.50
201-500	7	7.95	95.45
501-1000	2	2.27	97.73
1001-5000	2	2.27	100.00
Total	88	100.00	

Note N=97, missing values=9*

Holacracy by Country

The next table (Figure 20) shows where the companies have the headquarters. We can see that Holacracy is popular mostly among American companies -33.33 per cent, Netherlands – 17.86 per cent and Switzerland – 11.90 per cent.

Figure 20: Number of Companies by Country of Headquarter

Headquarter	Freq.	Percent	Cum.
Australia	1	1.19	1.19
Austria	3	3.57	4.76
Belgium	2	2.38	7.14
Canada	2	2.38	9.52
Denmark/Zealand	1	1.19	10.71
France	2	2.38	13.10
Germany	7	8.33	21.43
Hungary	2	2.38	23.81
Iceland	2	2.38	26.19
Indonesia, Denmark	1	1.19	27.38
Netherlands	15	17.86	45.24
New Zealand	2	2.38	47.62
Russia	1	1.19	48.81
Spain	1	1.19	50.00
Switzerland	10	11.90	61.90
UK	4	4.76	66.67
USA	28	33.33	100.00
Total	84	100.00	

Note: N=97, missing values=13

The *Figure 21* shows how old companies using holacratic model are, when they have adopted Holacracy and for how long they have been using Holacracy.

We can see that the companies who wish to use this organizational model are mostly young: the year of foundation is in average – 2004, while the 50th percentile is around 2007. Among outliers are the oldest companies, which are, for instance, David Allen Company (1920), Oliver Valves Nederland B.V. (1979), Kahler Financial Group (1981), and Scarabee Biocoop (1983-84).

The average number of years of implementation is 3.5, mostly because the companies have adopted Holacracy very recently (on average - in 2012), with such outliers as HolacracyOne (the inventor of Holacracy) and Diamond Media, who have been using Holacracy since 2007.

Figure 21: Statistics on Years

Variable	Observations	Mean	Median	Std. Dev.	Min	Max
Year Founded	86	2004	2007	12.5	1920	2016
Year of start of implementation of Holacracy	44	2012	2013	2.14	2007	2016
Years of implementation (How long Holacracy has been practiced)	44	3.81	3.5	2.24	1	10

Note: N=97, missing values1=11, missing values2=53

Qualitative Analysis

In this part, the results of qualitative analysis of literature and integration of findings about practices of companies and studies dedicated to Holacracy are shown in order to answer the research questions raised in the beginning of this thesis.

Figure 22 summarizes the results of analysis of positive and negative practices, experienced with Holacracy. Below, the more thorough explanation of given points as well as couple of the most prominent examples can be found.

Figure 22: Positive and Negative Practices of Holacracy

Positive Elements	Negative Elements
<ol style="list-style-type: none">1. The meetings are more effective (Hsu, 2015; Wincor Nixdorf, 2015)2. Explicitness of Roles3. Subordinates as owners of business – Personal leadership (Klompma, 2014; Hodge, 2015; Groth, 2015)4. Flexible structure - Continuous improvement, more agility and Scrum5. Projects are self-organized6. Framework for effective conflict resolution7. Clear governance structure (Emesa Case Study, 2013) and transparency (Wirthman,	<ol style="list-style-type: none">1. Possibility to lose valuable employees due to change2. Can be perceived as less secure and stable3. No one tells what to do – confusion4. Complicated terminology and structure (Groth, 2015)5. Not clear about how to set salaries and hire/fire employees6. Hard to make people accountable for deadlines and responsibilities (Groth, 2015)7. Complex system - 40-page constitution

2014)	
8. Increased commitment and feeling of responsibility and collaboration, sense of own and others' work	8. Need a considerable investment of time and energy – proper transition can take up to 5 years (especially if people are not ready for it and are not enthusiastic – mostly for a bigger companies (Ecker, 2013; Gelles, 2015; Rockwell, 2016)
9. Great for organizations with a purpose	
10. 93% reduction in decision-making time (Ecker, 2013; DeAngelo, 2016)	9. Sometimes, too much and fast changes (Gelles, 2015)

Positive Elements

1. *The meetings are more effective* – Many practitioners notice that regardless their attitude towards Holacracy, they really appreciated the imposed structure of meetings (for example, Hsu 2015; Wincor Nixdorf 2015) – they became much more effective, more structured, way more problems are tackled and less meaningless talks present. People show more initiative to talk, and “Nasty stuff gets tackled also by others than former managers” (Liip AG, 2016)
2. *Explicitness of Roles* – the Roles are well-defined (Klompsma, 2014), have clear stated Purpose, Domains and Accountabilities (see *chapter 2.3.6 of this thesis*), which removes ambiguity and helps employees to understand what is being expected from them => communication becomes more straight – forward
3. *Subordinates as owners of business* – Personal leadership (Klompsma, 2014, Hodge 2015, Groth, 2015) Due to its “boss-less” structure Holacracy brings in more Personal Leadership (Klompsma, 2014), because it allows employees to work independently on projects as contractors or entrepreneurs in big organization (Hodge, 2015). As Mr. Groth (2015) in his article noticed about Zappos, they try to make “the company to work more along the principles of an open market—with real-time supply and demand—than a traditional hierarchy and wants his call center, the bread and butter of the company, to operate more like the car-service startup Uber.” Overall, the level of satisfaction of Holacracy by employees is high (DeAngelo M. , 2016), for example as survey at Liip AG has shown 64% of employees want to continue using Holacracy, 10% - drop, and 26% - do not know (Zemp, 2016).

Figure 23 - Figure 22 continued: Positive and Negative Practices of Holacracy

Positive Elements	Negative Elements
11. Efficiency (Liip , Velinov, Denisov) 10x productivity of resolving issues (WaTech Source – DeAngelo 2016)	10. Negative popular press coverage
12. Giving even the lowest-paid workers a voice (Gelles 2015)	11. Some younger and less experienced workers do not feel comfortable to be entrusted (Arvedlund, 2015)
13. Easy to implement in smaller company (Arvedlund, 2015) (DeAngelo M. , 2016)	12. Hard to handle free time (Arvedlund, 2015)
14. Collective Creativity, more initiatives	13. Some practitioners say it is hard for not-centralized companies (Medium, Arvedlund, 2015, Rockwell, 2016)
15. Tension distributed throughout the organization (Cardoso & Ferrer, 2013)	14. It is expensive to be implemented (Knopka, 2014): from \$4,000 to more than \$500,000 (Silverman, 2015, Greenfield, 2016)
16. More welcoming and diverse environment (Ecker 2013)	15. Creates just a new kind of red tape (Knopka, 2014; Greenfield, 2016)
17. Less pressure on founders	16. Some practices show that old “boss-employee” relations are present – pushing on employees
	17. Initial sacrifice of reduced delivery

4. *Flexible structure - Continuous improvement, more agility and Scrum* – a very important point, mentioned in the majority of cases. It is easy to be changed, it is agile (practices from Liip AG and David Allen), adaptive (Energized.org, 2016) and brings better understanding of processes inside the company more responsive to customer needs (Pichler, 2014). A governance structure can be changed, extended or diminished as a response to its own needs and present circumstances without any managerial interference (Tossel, 2014; Energized 2016). In fast changing environment and emerging situations (McKergow, 2016) it allows to take decisions at the “last responsible moment”. Reduces the artificial pressure from managers and, thus, substitutes a “push” for a “pull” management strategy (Cardoso & Ferrer, 2013). As CEO of Valsplat Company points out, the changes can be implemented organically.

5. *Projects are self-organized*

6. Holacracy is not completely flat structure; *it is a framework for effective conflict resolution* (Groth 2015), because it is less-hierarchical, self-organized with distributed

authority and more adaptive. As Valsplat Company pointed out, the process of learning from mistakes is visibly better (Valsplat Case Study – Energized.org, 2015).

7. As Emesa Company in its case study highlighted, Holacracy has *a clear governance structure* (Realize, 2013) and well-working principles of dynamic steering, which allows the organization “to organize itself without being ‘controlled to death’”. Another positive element of Holacracy is greater personal responsibility and increased *transparency* (Wirthman, 2014; Liip AG, 2016) inside the organization.
8. *Increased commitment and feeling of responsibility and collaboration*, sense of own and others’ work – Another positive feature of Holacracy has been pointed out by Emesa Company (2013). Other point (Mint, 2016) is that Holacracy states the bounds for everyone, so you know your responsibilities as well as responsibilities of other – you know who and how you can get involved in your project or just ask for a help. As Diana Christian (2012) in her article “Busting the Myth that Consensus-with-Unanimity Is Good for Communities” has noticed Holacracy has a “win-win” decision making process and “they do not allow the kinds of power-over dynamics that can occur with consensus-with-unanimity”, an improvement of communication was especially noticed by other companies as well (for example, German company ZEGG (Ecker, 2013), Liip AG or Valsplat). As founder of Valsplat mentioned, the people (including himself) started to pay more attention to the work they do as it was mentioned in Valsplat company Case (Energized.org, 2015). An important point of Holacracy is that with the help of the framework people can *sense* the organization and support emerging and actual character of a company (Energized.org, 2016). David Allen company in its case study for HolacracyOne mentioned that it is well aligned with GTD (Get the things done approach) and with the help of tactical meetings, it is easier to synchronize and collectively review tasks and project (HolacracyOne, 2013)
9. *Great for organizations with a purpose* – as the director of process of implementation of Holacracy in Washington government agency (WaTech) Mr. DeAngelo says, one of the reasons why Holacracy can work well in public sector is that people usually go to work in government because of government’s mission: “They want to give back to their communities and improve the world.” (DeAngelo, 2015) – It also works well in

organizations with purpose: charity, development, eco-products, etc. (see *Descriptive Statistics from this thesis*)

10. Many companies report increased productivity (Ecker, 2013; Wincor Nixdorf, 2015). As it was already mentioned, the experiment has been conducted in Washington DC: Government agency WaTech with a small team of 10-20 people (Wood, 2015) inside the hierarchical structure started to work, applying the Holacratic framework. They have found that there is **93% reduction in decision-making time** (DeAngelo, 2015). The employees also noticed the change in degree of them being able to resolve their own impediments: “The result was a 50% increase with the empowerment measure increasing from 60% to 90%” (DeAngelo, 2015). After a year of implementation, 20-25 issues are usually being processed during the meetings: discussion of each topic has decreased from average 20 minutes to 2 minutes per Tension. The employees liked working with no managers so much that the majority concerned about working in organizations with hierarchy in the future. After all, the experiment was so successful that WaTech decided to conduct a more serious study with 600 people applied for participation.
11. ***Efficiency and productivity.*** As recent study conducted by Velinov and Denisov (2017) found, performance positively correlates with the fact of practicing Holacracy. The same study of WaTech also showed 10 x productivity of resolving issues (DeAngelo, 2016). Many other companies also report increase in productivity, for example, Liip AG (Realize, 2013) or Precision Nutrition Company.
12. *Giving even the lowest-paid workers a voice* – the authority is distributed evenly and everybody has a right to say whatever he wants, as Gelles (2015) mentioned "A person who just takes phone calls can propose something for the entire company"
13. *Easy to implement in smaller company* (Arvedlund, 2015; DeAngelo, 2016) - another results of findings of WaTech: in smaller companies Holacracy is very effective.
14. *Collective Creativity, more initiatives* – An example can be found in article of Mr. Perry (2016) about Vaslplat Company practice.

15. *Tension distributed throughout the organization* (Cardoso & Ferrer, 2013), reduced overhead (Realize, 2013) and distributed authority (Valsplat case study).
16. *More welcoming and diverse environment* – As German company ZEGG reports that from a very dogmatic community they have turned into “a very welcoming and diverse place, open to all aspects of life” (Ecker, 2013) also with the help of Holacracy.
17. *Less pressure on founders* – many CEOs and founders of organizations reported that they were able to split their responsibilities among other employees (Groth, 2015), they became more like coaches (Energized.org, 2015), the company became more self-sufficient (HolacracyOne, 2013).

Negative Elements

1. *Possibility to lose valuable employees due to change* – When implementing Holacracy it is possible to lose employees who do not appreciate a new structure and change or smart managers, who are great workers, but are afraid that their life will change drastically due to elimination of their position (Source, Zappos example – 14%- 200 people left the company). Due to negative coverage in press, the fact that the company practices Holacracy can scare away needed talents.
2. *Can be perceived as less secure and stable* – ever-changing structure of Holacracy can be perceived negatively by people who are risk-averse and are searching for a corporate job (Groth, 2015).
3. *No one tells what to do* – Confusion as a result. As Zappos example also shows, people who used to receive orders can be confused when they are left without their managers.
4. *Complicated terminology and structure* – most of companies admits that it is hard to learn all terms needed for a successful implementation of Holacracy, it takes a long time (Groth, 2015). For example, the practice shows that "the biggest pain point was, with a growing company, investment and teaching new people when they show up how to use Holacracy" - Jason Stirman (Greenfield, 2016).

5. *Not clear about how to set salaries and hire/fire employees* – another problem, with one many companies struggle (e.g., Knopka Company, 2014; Groth, 2015), is that when Holacracy is implemented, it is not clear how to set salaries or how to prepare a process of hiring and firing. Holacracy provides a guideline but does not say how exactly it has to work – companies need to think about it by themselves.
6. *Hard to make people accountable for deadlines and responsibilities* – for example, some former Zappos employees say the system makes it hard to hold staff accountable for meeting deadlines, and get people to take responsibility for things that need to be done (Groth, 2015).
7. *Complex system* – in order to successfully implement Holacracy, it is necessary to read 40-page Constitution, learn all the terminology and teach the employees how to use it (Knopka Company, 2014). Holacracy is criticized for being too rigid and dogmatic (Groth, 2015). Especially, common practice is that employees get annoyed about the fact that there are many protocols and rules connected to meetings, which don't allow for small talk.
8. ***Need a considerable investment of time and energy*** - Especially if people in a company are not ready for it and are not enthusiastic –of course, it must be applied mostly to a bigger companies (Ecker, 2013; Rockwell, 2016; Gelles 2015). The founder of HolacracyOne, Mr. Robertson says that the proper adaptation to Holacracy can take up to five years (Greenfield, 2016).
9. *Sometimes, too much and fast changes* – for instance, “the procedural formality of Holacracy, the ever-expanding number of circles and the endless meetings were a drain on productivity” (Gelles, 2015).
10. *Negative popular press coverage* - which is bad again when obtaining talents or for highly dependent on public opinion companies as, for instance, Medium. In popular press, there are many articles with headlines like "Holacracy or Hella Crazy?" or "A Holacracy of Dunces." (Gelles, 2015) – this was also a reason why Medium left the structure.

11. *Some younger and less experienced workers do not feel comfortable to be entrusted* – another reason why Medium decided to abandon Holacracy (Arvedlund, 2015).
12. *Hard to handle free time* - It is claimed to become challenging to properly allocate your time (Arvedlund, 2015).
13. Some practitioners say *it is hard for not-centralized companies* (Arvedlund, 2015; Rockwell, 2016) – Medium has found it hard to coordinate employees and have essential meetings with videoconferences. At the same time – “Robertson's company, HolacracyOne L.L.C., has no employees, only 14 partners who live around the country and work virtually. Every other month, they stay at Robertson's home and another residence down the street with a pool” (Arvedlund, 2015).
14. ***It is expensive to be implemented*** (Knopka Company, 2014): for example, HolacracyOne, the inventor of Holacracy who sells the patented system can charge from \$4,000 to \$500,000 for consultations (Silverman, 2015; Greenfield, 2016), plus around \$4,000 more for seminars and GlassFrog, the software for better running Holacracy, costs \$500 a month more (Greenfield, 2016). This does not include the economic costs of time needed for implementation, additional meetings and teaching, and most probable reduce in initial performance. Some companies report of spending in total up to 800,000 euro for everything, (ZEGG company – Ecker, 2013)
15. Companies also become disappointed in the framework *because it can create just a new kind of red tape* (Knopka Company, 2014; Greenfield, 2016)
16. Some practices show that *old “boss-employee” relations are present* – Evidence shows that even in Zappos ex-managers are still in power of decision-making and they are pushing employees on meetings to do some activities (Gelles, 2015).
17. Some companies report an *initial sacrifice of reduced delivery* as, for instance, in company Voys (Energized.org, 2016).

Figure X summarizes the difference of Hierarchical Structure and Holacracy in practice.

24: Comparison of Hierarchy and Holacracy

	Hierarchy	Holacracy
Leadership	Power, Position	Servant, Personality
Decision-making	Top	Case by case
Relationship	Levels	Flat
Structure	Rigid	Flexible
Information	Controlled	Open
Roles	Not clear	Flexible
Management	Command, Control	Self-management
Rewards	Money, Fame	Satisfaction, Happiness
Thinking	Analysis	Syntesis
Business Projection	Planned and Predicted	Unpredictable
Mindset	Predicting and Fixed	Evolving and sensing

Source: adopted from Diamond Media case study (Takei, 2015) and extended by the author later

3.2 Discussion

Based on the results of the analysis, the challenges the company, which decides to adopt Holacracy, might face during the implementation are proposed. Consequently, the suggestions for new Holacracy adopters are given. In the end of the chapter, based on the findings, the description and layout of a company, which can operate under Holacracy in a most efficient way, is prepared, which might be useful when deciding if Holacracy is suitable for a certain organization.

Challenges

The following are the challenges associated with transformation from traditional/hierarchical structures to self-managed ones:

Meetings

Since the meetings are very strictly structured, and prevents people from going away from the topic, in the beginning it is hard to hold your opinion and wait till your turn to speak starts (Energized.org, 2016; Groth, 2015). As consultants claim, after a while meetings will become faster and more productive exactly due to their strict rules.

The Ambiguity of Roles – since Holacracy tries to make things less personal, it is hard to start behaving on behalf of your Role, not on behalf of yourself.

“One example is speaking from the perspective of a role holder, when you express the needs of your role. So for example, I may approach another person filling a Marketing role and say ‘I’m speaking out of my Sales role, where I’m accountable for establishing relationships with clients. I would like to take this action... to make it possible, I need you, as a Marketing role, to do...’. (Energized.org, 2016)

Former “Boss – Employee” Relationship

If the company is not a very young one and, at the moment of decision about transition to Holacracy, it has employees who got used to corporate hierarchy.

Consequently, another thing, which companies have to have in mind during transition from traditional system to a self-managed, is relationship between former bosses or managers and employees. Even if people are thrilled about autonomy and independence, they still believe in superiority of former manager’s opinion. On the other hand, former “bosses”

struggle with *trust*, it is hard for them to accept that now they cannot say people what to do and they just can become observers, can only give advices and “allow for emergence and evolution” (Energized.org, 2016).

As Zappos experience shows (Hodge, 2015), middle managers tend to actively resist the transition for the same reason. In a bigger and mature organization (such as Zappos which employs 1500+ people and is almost 20 years old) this can become a serious problem. People can ignore the change or adopt it superficially – the possibility to face a strong resistance, in Zappos 21% of employees in tech department left the company (Hodge, 2015). “Many managers feel threatened by the concept of a system in which they perceive their own importance to be diminished. And employees may also struggle to adjust to a system in which they have more power” (Wood, 2015)

Fixed to Sensing Mindset

One of the purposes of Holacracy is to teach employees to understand projects they are responsible for as Entrepreneurs – as their own business. It means, people need to “sense” what they can do, how they can make it better and not to be afraid of being creative – this often contradicts the concept of traditional management structures, which states what you have to do and how. This switch from fixed and assigned mindset to more “sensing” one – it can be hard for employees who have been working in hierarchical structures for a long time and got used to it or for the ones, who is not interested in his job and works as a robot – in this case, Holacracy helps to get rid of not passionate people, if the Board of directors once have decided to switch the structure.

When implementing a transition to Holacracy, Zappos offered employees to leave the company and get 3000 USD Offer or one month salary for each year on the job, and, in the end, the average severance paid out was approximately 5.5 months pay (LexisNexis, 2016) As Zappos mentioned in their statement in January 2016 "We have always felt like however many people took the offer was the right amount of people to take the offer, because what we really want is a group of Zapponians who are aligned, committed, and excited to push forward the purpose and vision of Zappos." (LexisNexis, 2016)

Where to Go for Answers

After restructuring, introduction of Roles and change in responsibilities, many questions arise along the process. In order to solve it, suggestion from company Concept7 is to

introduce the Role – “Holacracy Coach” – a person, a point of contact who everyone can ask about everything. In Zappos in order to make the transformation easier and faster, former managers were allowed to keep their salaries, but they did not have not their previous responsibilities, till the end of 2015, if they decide to stay and chose to find new Roles inside the company. In explanation email, the CEO asked everyone to read “Reinventing Organizations” by Frederic Laloux— in Zappos, they refer to it as “the book”—and to state their decisions by the end of April the same year. If they chose to not accept changes, they would receive an above mentioned leaving offer.

The transformation is slowing down the work

If employees do not fully and passionately share and understand the interest of implementing a self-organizing structure (which is most probable in big companies as Zappos), they need some time to understand a new system, read 30-page Constitution of Holacracy, spend time for “Catch up Sessions”, decide if they want to accept it and how their lives can be affected (as elimination of managers’ positions) – all in all, the frustration which might follow can slow down the whole work in the organization. So, the company has to start transformation in a calm period, when people are not under stress due to some other important changes, as Zappos when it was acquired by Amazon. (Groth, 2015)

"It is really painful and slow at first," said Christa Foley, who has been an employee at Zappos for 10 years (Gelles D. , 2015).

Authority Questions

Another thing that can go wrong is that after the transition – is the loss of understanding who really has an authority to decide – as it happened in Zappos: “No one knows how to get things done anymore” after two months after the transformation. As one employee mentioned later: “My Zappos life is not very productive right now and I hate that.” (Hodge, 2015).

Even though, Holacracy is designed in order to distribute power more evenly, the old system of hierarchy and authority is still present in people’s mind: it is hard to stop to believe that you do not have to follow the “advices” of the manager, to whom you have been reporting for many years. Not surprisingly, the former “bosses” usually have such Roles as Lead or Rep Links.

Costs

As it was already mentioned, Holacracy is very costly to be implemented. It is not only that company can spend from \$4,000 to more than \$500,000 in direct costs for training, consulting, coaching, usage of software (Silverman, 2015; Greenfield, 2016), but one should also keep in mind that there are many indirect costs⁶ as well. They include reduced productivity, it can take a lot of time for employees to adapt and a company might have to arrange additional meetings or trainings, which also drain working time.

Salaries/Hiring/Firing Employees

Holacracy doesn't offer a predefined approach neither to hiring nor to how to set up salaries. Each self-organized company who has implemented Holacracy invents its own, customized approach. (Energized.org, 2016)

Usually, it is a collective process, said representative of Devhouse Spindle company - they have their own recruitment approach where the functions are divided among workers. Developers sense whether there is a need for a new person and they deal with the recruitment themselves - the only way to get the right fit is to have technical people fully engaged in the process. So developers, aside from their tech roles, also hold roles connected to hiring. They engage with the candidates and examine their fit, not only in terms of skills, but also mind-set and culture, what we think of as their 'soft side'. So, if anyone feels like his Circle needs a new person, he can go to a Lead Link, discuss the possibility and start the process of looking for a new employee.

Another role engaged in the process in DevHouse Spindle is "the Salary Crafter". This role is held accountable for the negotiation process with a potential hire and for gaining an understanding of what salary offer is appropriate. This role has a domain on salary levels. That means that no other role may influence this area of decision making unless given permission in order to escape a never ending conversation about who should make how much and not get into a mess when everybody is rising their own salaries. This role is also obliged to collect data and information from the group of existing colleagues and learn what salary range they appropriate (taking into consideration the skillset of a new hire).

Also, it is good to have a role "the Interview Coordinator", who is responsible for matching the candidates' availability with our schedule.

After a potential hire is invited to the company, spends there the whole day, got introduced

to other employee, etc. in order to check if he is a good fit for the team. Next step is that the whole team gets involved in the special Holacracy-style Integrative Decision Making process (IDM). So, the team members discuss together should they hire a person or not. There are even few rounds of this talks - anyone can object to the proposal of accepting this new team member, but, if anyone during the meeting objects, the company drop the proposal straight-away.

Time Management

It is challenging to properly allocate your time. At Zappos, they found time management to turn into a challenge. A boss typically instructs employees on which project to work on when. "You have a system where there are no bosses, no direct answers coming from one particular person" (Rockwell, 2016). Zappos attempted to solve this by creating a special tool - called "Chedda" in order to help employees with time management.

Right people at right places

It is important to place and choose right people for Roles of Lead and Rep Links – since it depends on them how well the information flows inside the company – and for many companies information is essential. The problem might arise if they cannot present their circle or Upper circle in a right way (Knopka Company, 2014).

In the end, we can notice that there is a certain trend among companies which are successful with Holacratic system: these are mostly small (11-50 employees) and are Eco-friendly oriented companies, community-concerned organizations, coaching/training or management consulting (mostly introducing new employee-friendly informal organizational structures, CRM, etc.) – companies which can be called ones with the “high” values, more self-driven with inside-driven employees, who think that their work has a purpose. Consequently, there is a great base for Holacracy in those companies – their employees, almost the same as Valve Corporation principle to call a new employee a “fearless adventure in knowing what to do when no one’s there telling you what to do” (Valve Corporation, 2012).

Suggestions for implementation

- **Coach first.** If decided to adopt Holacracy – invite someone who is familiar with it, even though it is expensive – consultant or a coach, who knows the rules and can manage the process and helps when something goes wrong.
- **Software.** Glassfrog software stores all up-to-date information about all meetings, Circles and Roles, their responsibilities and accountabilities, keeps the process of transition clear and transparent to everyone, many companies have advised to use the tool or at least think how you can substitute it. (Hodge, 2015)
- **Introduce in one department first** – as many companies did (for instance, WaTech, Zappos or Knopka), it is better to give a “trial version” to Holacracy first in one team or smaller department in order to see how your organizational culture and people can take it. Moreover, it can save you money, if the experiment fails.
- **“Catch-up Sessions”.** When starting a process of transition, it is necessary to make sure that everyone knows “the rules”. Consequently, in the beginning it is good to implement “Catch-up Sessions” (Hodge, 2015).
- **Give people time to get used to it**

Layout of an Ideal Company for Holacratic Structure:

An ideal company, which can work well under Holacracy framework, should be:

- Young with dynamic culture
- Micro to small size 11-50 employees
- Consulting (independent partners), IT, Software, Digital marketing, Co-working, Education/Coaching/Training, Social and Civic organizations
- Self-driven values (“high” values –such as producing eco-products, training/education/co-working or making a world better) or creative environment (IT, software development, digital marketing or advertising)
- Holacracy works best for communities that have a clear common purpose or aim (Christian, 2012)

- Young (but not too much) employees who is not fully ready to work in completely flat and boss-less companies, but want to have autonomy
- Company and employees who are not dogmatic about our lifestyles (Ecker, 2013)
- The company with Collective Wisdom, which is defined by (Birkinshaw, Hamel, & Mol, 2008), encouraged employees who pursue their business ideas

Limitations

This thesis has several limitations to be noted. First, only English and Russian language articles and resources have been examined, consequently more research in other languages is advised to be studies in later works. We can say that there is a significant lack of scientific research evaluating Holacracy, since companies tend to keep their inside information about structure and organization in secret. In April 2016, Washington Government agency WaThech has launched the experiment with higher number of people divided into 14 teams of approximately 130 people who will be in control group and work within Holacracy and another 14 teams of 130 people as a comparison group; the experiment has been running for one year. (DeAngelo, 2016) It has to end during this year – 2017, so this experiment can shed a light on how Holacracy can perform under the scientific experiment. The last problem to be mention is that there is not much of information about why companies leave the framework, this topic also needs a more thorough research.

Conclusion

At some point almost every company realizes that surrounding environment is changing too rapidly and becomes more unpredictable (Hodge, 2015) and it needs some change in order to stay competitive (Foss, 2012). In theoretical part of this thesis the results of the research of different approaches and implementations of management innovations (such as methods which are denoted as Obliquity, Adhocracy, Sociocracy, and other self-management structures, etc.) in international organizations are presented, including world practices and various techniques. For the purpose of this study, the practical part examines

a recently emerged organizational framework called Holacracy. The following method is implemented: the method of qualitative systematic literature review and the analysis of the practices of 97 companies worldwide are summarized and presented in order to critically examine previous research and companies' experience and, consequently, answer the questions stated by this thesis.

As Dan Cook noticed in his article, Holacracy “is a theory for structuring (not running) a company” (Cook, 2014). Holacracy says how to organize environment around work, but it would not tell you how to do concrete tasks, or how to pay a salary or hire/fire an employee – this you have to figure out by yourself, Holacracy will provide you with guidance. So, you still have to dedicate time to think how you will organize those processes, once you are interested in this framework. We can conclude that Holacracy is like an operating system for business that requires the installation of different applications (Knopka Company, 2014; Mint 2016): for example, applications for hiring employees, for setting salaries, for planning or logistics. Therefore, within the framework of Holacracy, you can apply any other practices such as lean, agile or scrum.

This thesis identified positive and negative elements of Holacracy, its comparison with hierarchy, gave suggestions and created the layout of ideal company for Holacracy, based on the findings, which can have the following implications:

- For further studies of self-management techniques
- It might be useful for the companies deciding either to implement Holacracy or not

The main findings of the thesis suggest that Holacracy will work the best and the negative effects will be minimized if it is a micro or small-sized company (2-50 employees) which internal informal and ad hoc communication is not capable to catch up with the growth of organization. The ideal company is a young company with dynamic culture and self-driven employees who love their work, believe that their job has a better purpose (such as eco-productions, training/coaching, or social or civic organizations) or it is a modern creative industry such as IT, software development or digital marketing and advertisement. Collective Wisdom defined by Birkinshaw is crucial for the company using Holacracy. And it is important to note that Holacracy is a good feature which is possible to implement in one team or smaller department which needs more agile approach or it can be a good experiment to test if Holacracy is suitable for your company.

After all, your management model should be a conscious choice in order to:

- suit the task at hand and the challenges you face
- enhance your distinctiveness

In conclusion, we can say that no matter if Holacracy is chosen as an “operational system” or not, any of modern practices of Management Innovations mentioned in this thesis worth consideration, since as once, supporting field of strategic management and organizational studies, which is called complexity theory, Jurgen Apello in his book *Management 3.0* noticed: "complexity thinking adds a new dimension to our existing vocabulary. It makes us realize that we should see our organizations as living systems, not as machines." (Apello, 2011). In other words, we want our company not just to work as a mechanism, which is ready to break due to a smallest mistake, but we want it to live, to be able to respond to changing environment and unpredictable problems. This can be compared to Machine Learning: we want our mechanism/company to work well, and if there is an unexpected problem, it should not stop as any mechanical soulless creation would do, but solve the problem by itself by learning, changing, adjusting.

At the same time, the old-style management, the one we got used to and the one, which in many cases we do not want to change, is the biggest obstacle to the adoption of flexible and learning structures around the world.

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