HOLACRACY

Discover A Better Way of Working

As the peer-to-peer revolution reshapes marketplaces and business models, disruptive companies are also rethinking their internal structures and processes, abandoning top-down hierarchy in favor of decentralized models of management.

One of the most robust and comprehensive approaches available is the Holacracy® system—as used by Zappos, Medium, and others—which provides a proven model for making companies more flexible, more adaptable, and more responsive to change.

EVOLVING ORGANIZATIONS

Ask any trend-tracker about the evolution of marketplaces and business models, and you're likely to hear the term "peer-to-peer." Companies like AirBnB, Uber, and Lending Club are leading what's been dubbed the "peer-to-peer revolution," followed by a host of smaller startups whose key characteristics include greater flexibility and adaptability; decentralized control; increased efficiency; and quicker responsiveness to local demand. Emerging as a logical outgrowth of social media, and fuelled by a new generation of consumers eager to streamline their lives and reduce everyday inefficiencies, peer-to-peer models seem destined to reshape more and more industries. As the marketplace becomes increasingly decentralized, forward-thinking business leaders have begun to ask, how can we bring these same principles to bear on the way organizations themselves are structured and governed? How can we make the inner workings of our companies more flexible, more adaptable, and more responsive to change?

It is becoming increasingly apparent that the structure of modern organizations is at odds with the chaotic, fast-changing reality of today's world. Corporations still tend to be built on an industrial-age hierarchical model that seeks to achieve stability and success through centralized control and up-front planning. It's a model that was effective in the simpler times for which it was designed, but as management expert Gary Hamel points out, "The world is becoming more turbulent than organizations are becoming adaptable. Organizations were not built for these kinds of changes."[1]

In our post-industrial world, organizations face significant new challenges: increasing complexity, enhanced transparency, greater interconnectedness, shorter time horizons, economic and environmental instability, and growing pressure to be sustainable and ethical. The top-down, predict-and-control structure often fails to provide the agility desired and needed in this landscape of rapid change, and it rarely ignites the passion and creativity of the workforce in the way peer-to-peer networks are igniting the marketplace. The structure of our organizations is ripe for reinvention, and a few creative companies thinkers are taking up the challenge. "Today's most disruptive organizations," observes Aaron Dignan, CEO of Undercurrent and author of *Game Frame*, "are beginning to organize around a new pattern: the ability to evolve in real time."[2]

Among various attempts to replace top-down management with a peer-to-peer model that balances hierarchy and collaboration, is Holacracy, a proven management system currently used by Zappos, Medium, the David Allen Company, and hundreds more courageous and visionary organizations worldwide.

A ROBUST SYSTEM FOR DISTRIBUTING AUTHORITY

Holacracy offers a new "social technology" for governing and operating an organization—one that authentically distributes authority, and embeds flexibility and self-organization into the rules and processes through which the organization structures itself and goes about its business. "The social technology underpinning modern companies has become the primary constraint to their evolution and adaptability,"[3] explains Holacracy-

Case Study: *Precision Nutrition*

Propagating Leadership Throughout the Company

Toronto-based nutrition and fitness industry pioneer Precision Nutrition (PN) has been running Holacracy since early 2012. The company was in a period of rapid growth, having reached 25 people and millions of dollars in sales, and it began to become clear to founder and CEO Phil Caravaggio that his current approach, which he described as "personally trying to do every new task for our entire company" was unsustainable.

Caravaggio and his co-founder, John Berardi, turned to Holacracy in the hope of retaining the company's entrepreneurial spirit while allowing it to scale. And while the adoption has been "tough," Caravaggio calls it "the best decision I ever made."

PN has continued to grow at a rate of 25-50% per year and was recently named one of Fast Company's "10 Most Innovative Companies Of 2015 In Fitness. Now Caravaggio notices a fundamental difference: It can keep going—and growing—without him. "Holacracy has propagated leadership throughout the organization," he says. As proof, he cites the fact that last year he was able to take a three-week vacation in the middle of the biggest and most profitable product launch in the company's history—a moment he describes as "the demarcation point between being a collection of heroic individuals, and having a system that is trusted by talented people to do what needs to be done"[13]

One co-founder Brian Robertson. And while Holacracy is by no means the first attempt to democratize management, as *The Economist* points out, "Holacracy goes further in shaking up working practices than most [other] approaches."[4]

Initially inspired in part by lessons learned from Agile software development and Lean manufacturing, Holacracy enables just-in-time responsiveness to tensions and opportunities at every level of the organization. The result is an organization that is continually evolving and adapting its own structure and processes through ongoing, peer-to-peer governance.

Understandably, many business leaders have reservations about shifting to a more distributed power structure, fearing that they would be failing in their fiduciary responsibility by allowing their organizations to descend into leaderless anarchy. Many find the idea of self-organization appealing, but self-organization doesn't happen by itself. It requires smart, conscientious, forward-thinking leaders who know that authoritarian control is not the best recipe for success. Obviously, leaders can't afford to abandon structure altogether, and anyone who has tried running an organization by consensus knows that it can be cumbersome at best. In Holacracy, top-down leadership is replaced with a robust and comprehensive process that keeps everyone aligned and unified as they navigate the complexity of their daily business.

Holacracy is often mischaracterized as being "flat" or "anarchic," it is in fact a highly structured way to distribute authority and enable self-organization, with built-in safeguards and carefully tested rules and processes. Just as companies like Uber and AirBnB are effective because they're built on sophisticated technological platforms, companies using Holacracy are effective because they are built on a sophisticated social platform that allows the company to design itself.

Holacracy is sometimes compared to a new computer operating system—an upgrade from an outdated platform like MS-DOS to iOS or Windows. In this, it distinguishes itself from many new-paradigm business practices that merely "bolt on" innovative ideas while leaving the underlying operating system untouched. Rethinking the way the organization runs at this fundamental level, Holacracy includes the following elements:

- A constitution, which sets out the "rules of the game" and formally redistributes authority.
- A new way to structure the organization and define people's roles and accountabilities.
- A unique decision-making process for updating those roles and their areas of authority.
- A meeting process for keeping teams in sync and getting work done together.

A MORE ORGANIC STRUCTURE

Holacracy replaces the traditional pyramid-shaped management hierarchy with a structure based on the idea of holarchy (see page 7). A holarchy looks like a series of nested circles. Each circle (i.e. team) is made up of a set of roles, grouped together around a specific function—whether it be a specific project team, a department, a support function, or a business line. Some circles will contain sub-circles, and all are contained within the largest super-circle, usually called the "General Company Circle."

FIG. 01 CIRCLE STRUCTURE

SUPER CIRCLE

SUB CIRCLE

ROLES

The Holacracy Constitution

"The Rules of the Game"

In Holacracy, distributing authority is not just a matter of taking power out of the hands of a leader and giving it to someone else or even to a group. Rather, the seat of power shifts from the person at the top to a *process,* which is defined in detail in a written constitution. When an organization adopts Holacracy, the very first step is for the CEO to formally ratify the Holacracy constitution and cede his or her power into its rule system, paving the way for a distribution of power through every level of the organization.

Holacracy's constitution is a generic document applicable to any organization wishing to use the method. When a company formally adopts Holacracy, the existing power holders "sign over" their powers to the constitutionally defined process, which then acts as the core "rulebook" for the organization. That means its rules and processes reign supreme, and trump even the leader who decided to adopt it. Like a constitutionally backed congress defining laws that even a president can't ignore, so too does the Holacracy constitution define the seat of authority for the organization as resting in a legislative process, not an autocratic ruler.

This shift from personal leadership to constitutionally derived power is central to Holacracy's new paradigm. You can find the Holacracy constitution online at holacracy.org/constitution (note: don't feel that you need to read it to learn Holacracy. Reading a rulebook is rarely the best approach to learning a complex new game. It usually works better to simply learn the basic guidelines and then start playing; see page 8 for some suggestions).
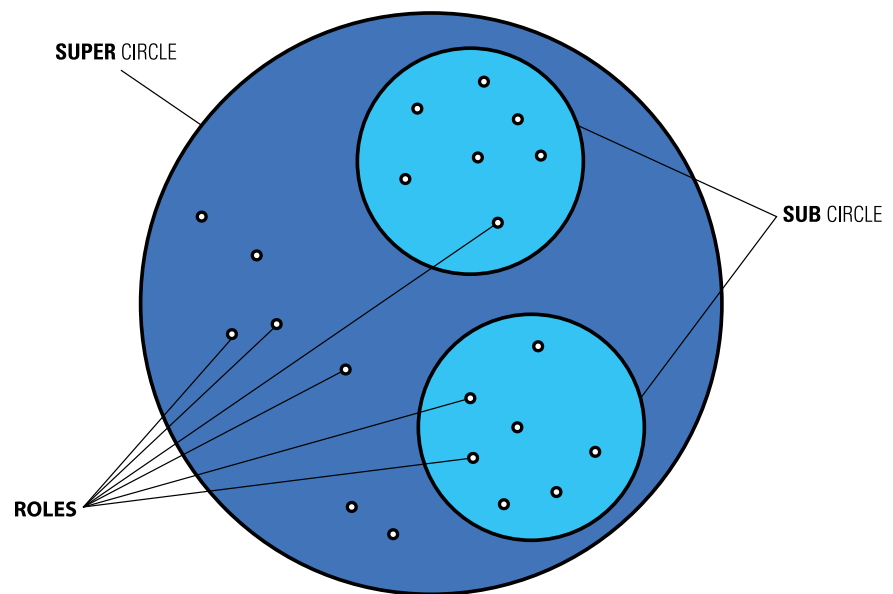
Again, each circle is a holon—both a self-organizing entity in its own right, and a part of a larger circle. As such, it has autonomy and authority to manage itself, but must also coordinate with other circles in the system. This allows companies using Holacracy to have both alignment and agency without the typical pathologies of "leaderless" groups or autocratic micromanagement.

The biggest structural shift in Holacracy is that, as Jena McGregor writes in the *Washington Post*, "at its core…holacracy aims to organize a company around the work that needs to be done instead of around the people who do it."[5] This shift—from a hierarchy of people directing people, to a holarchy of organizational functions—is critical. Instead of structuring a simple power relationship between people—who can give orders to whom—Holacracy instead structures where work lives within the overall system, and the boundaries between the various entities doing that work. Therefore, the "cells" of an organization in this model are not people, but roles, which people then fill. Most individuals will fill multiple roles, and therefore be members of several circles. The impact of this, in the words of Jeff Klein member of the CEO team of Conscious Capitalism, "We've been using Holacracy in the Conscious Capitalism, Incorporated Executive Team for nine months, and the effect that using Holacracy has had on our small organization is extraordinary. It's incalculable."

Particular roles are invested with the authority to carry out certain tasks and pursue particular aims, and a set of "accountabilities" that clarify what is expected of them. When the responsibilities attached to a role become too much for one individual to carry, that role may further need to break itself down into multiple sub-roles, becoming a circle of its own.

Unlike traditional job descriptions, which are often vague, theoretical, and soon outdated, Holacracy's role definitions are constantly updated and clarified based on the day-to-day needs of the circle. Along with all the governance records, they are fully transparent and available for any circle member to refer to at any time (feel free to check out HolacracyOne's current governance at: https://glassfrog.holacracy.org/organizations/5).

PEER-TO-PEER GOVERNANCE

We've been using Holacracy in the Conscious Capitalism, Incorporated Executive Team for nine months, and the effect that using Holacracy has had on our small organization is extraordinary. It's incalculable.

Jeff Klein member of the CEO team of Conscious Capitalism

In conventional organizations, "governance" tends to happen only at the top, among the board of directors or the executive team. Typically, the organizational bylaws (or equivalent) formally vest the power of governing the organization's operations with a single leader—a CEO, president, or managing director. Job descriptions, reporting structures, and responsibilities are handed down from on high, and often have little relationship to the reality of the day-to-day running of the company.

One of Holacracy's most significant innovations is making governance something that happens at every level of the organization. Governance is no longer the function of the leadership, but becomes an ongoing process that happens in each circle, during regular "governance meetings." Holacracy thus takes some of the organizational design functions that traditionally reside with a CEO or executive team and places them into peer-to-peer *processes* that are enacted throughout the organization, with everyone's participation.

Holacracy's approach to governance is *tension-driven,* meaning that issues are added to the agenda when any team member senses "a gap between how things *are* and how they *could be.*"[6] A tension could be a problem—something that's not working—or an opportunity that is not being harnessed. In governance meetings, typically held monthly, team members can raise specific tensions around roles, accountabilities, decision-making authority, and expectations of each other. These tensions are "processed" using a very specific "integrative" meeting format to gather and consider each circle-member's input, without relying on a single leader to arbitrate or needing to come to consensus (see "Integrative Decision-Making Process: A Brief Overview" in box below). The process is facilitated by an elected facilitator following the steps set out in the Holacracy constitution.

Integrative Decision-Making Process: A Brief Overview

01 PRESENT PROPOSAL

Who Speaks
Proposer Only, Unless Help is Requested

The proposer has space to describe a tension and state a proposal to resolve it, with no discussion. The proposer can optionally request discussion just to help craft a proposal, but not to build consensus or integrate concerns.

02 CLARIFYING QUESTIONS

Who Speaks
Anyone Asks, Proposer Answers; Repeat

Anyone can ask a clarifying question to seek information or understanding. The proposer can respond or say "not specified." No reactions or dialogue allowed.

03 REACTION ROUND

Who Speaks
Everyone Except Proposer, One at a Time

Each person is given space to react to the proposal as they see fit; reactions must be made as 1st or 3rd person comments. No discussion or responses.

04 AMEND & CLARIFY

Who Speaks
Proposer Only

The proposer can optionally clarify the intent of the proposal further or amend the proposal based on the reactions, or just move on. No discussion allowed.

05 OBJECTION ROUND

Who Speaks
Everyone Including Proposer, One at a Time

The Facilitator asks: "Do you see any reasons why adopting this proposal would cause harm or move us backwards?" (an "Objection"). Objections are stated, tested, and captured without discussion; the proposal is adopted if none surface.

06 INTEGRATION

Who Speaks
Mostly Objector and Proposer; Others Can Help

Focus on each Objection, one at a time. The goal is to craft an amended proposal that would not cause the Objection, but that would still address the proposer's tension. Once all are integrated, go back to the Objection Round with the new proposal.

Case Study: Zappos

Making a company more like a city

With more than 1500 employees and billions of dollars in annual revenue, online retailer Zappos is the largest company to have adopted Holacracy to date. Zappos' visionary CEO Tony Hsieh announced the rollout at the end of 2013, and a year later, approximately 80% of the company had been restructured into circles.

Hsieh discovered Holacracy while he was trying to figure out a way to scale his company without increasing bureaucracy. "Research shows that every time the size of a city doubles, innovation or productivity per resident increases by 15 percent. But when companies get bigger, innovation or productivity per employee generally goes down,"[19] he explains. "So we're trying to figure out how to structure Zappos more like a city, and less like a bureaucratic corporation. In a city, people and businesses are self-organizing. We're trying to do the same thing by switching from a normal hierarchical structure to . . . Holacracy, which enables employees to act more like entrepreneurs and self-direct their work instead of reporting to a manager who tells them what to do."[20]

With Holacracy installed as its operating system, digital business journal Quartz reports that Hsieh is "restructuring the company to work more along the principles of an open market—with real-time supply and demand—than a traditional hierarchy." And he's not stopping with the internal systems. According to Quartz, he "wants his call center, the bread and butter of the company, to operate more like the car-service startup Uber." To this end, Zappos recently began implementing "surge wages," offering higher pay for the busiest shifts.[21]

Hsieh makes a persuasive business case for his experiment: "Especially in today's world, where everything is changing much faster than it was 10 years ago, I think flexibility and adaptability is what's actually going to be the competitive advantage. And Holacracy allows for faster flexibility and adaptability."[22]

By distributing governance to every circle, the organization's capacity to harness input and capture learning is dramatically enhanced. Questions of governance are just as relevant on the shop floor as they are in the boardroom. In fact, those working on the front lines are often better positioned to drive continual improvements within their areas of expertise and monitor the results day-to-day. In order to keep up with a fast-changing world, governance needs to become an ongoing part of how an organization operates, at every level.
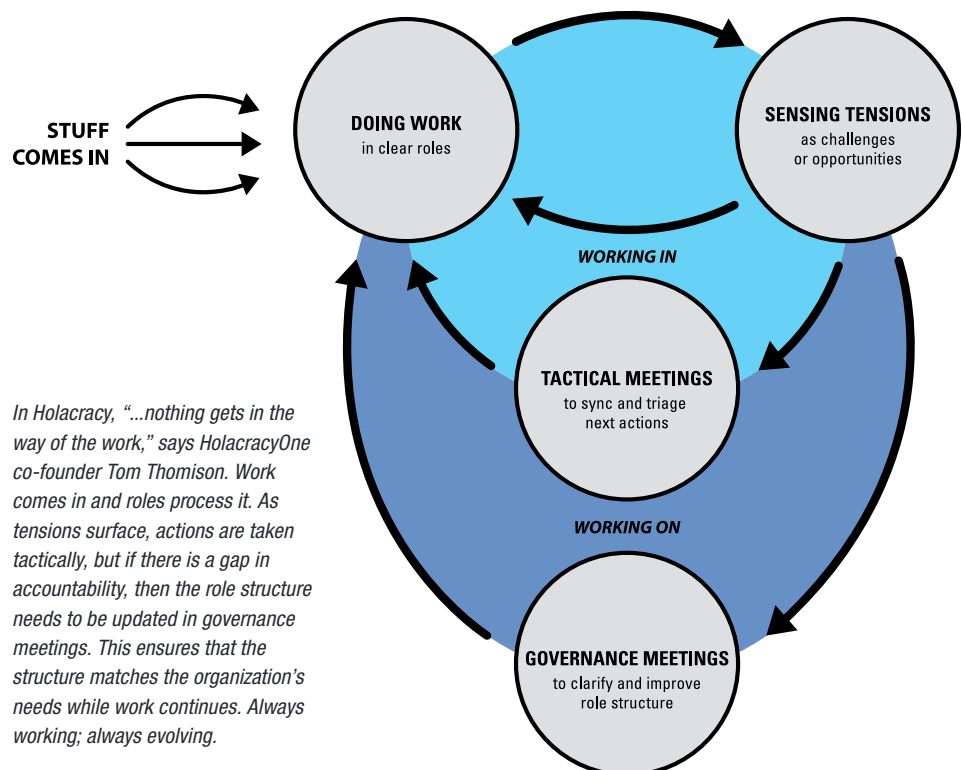
LEAN OPERATIONS

Within the foundational structure created through governance, Holacracy provides further rules and lightweight processes that help a team get work done together. Good governance enables more efficient, effective, and productive operations, because it clarifies exactly what is expected of each individual and what they can expect of each other, and gives individuals the authority to take action within their domains of responsibility.

In the sphere of operations, Holacracy encourages and empowers individuals to "lead" their own roles, taking action as they best see fit to fulfill the organization's purpose. In order to keep teams coordinated, weekly Tactical Meetings offer a fast-paced forum to deal with ongoing operations, synchronize team members, and "triage" any issues that are preventing forward progress.

In order to maintain efficiency, both governance and tactical meetings focus not on coming to "perfect" solutions but on quickly reaching *workable* decisions, knowing that any

FIG. 02 HOW IT WORKS

In Holacracy, "...nothing gets in the way of the work," says HolacracyOne co-founder Tom Thomison. Work comes in and roles process it. As tensions surface, actions are taken tactically, but if there is a gap in accountability, then the role structure needs to be updated in governance meetings. This ensures that the structure matches the organization's needs while work continues. Always working; always evolving.

> **The key to doing better, is to 'bring evolution inside' and get the wheels of differentiation, selection, and amplification spinning within a company's four walls.**
>
> Eric Beinhocker, Executive Director - The Institute for New Economic Thinking at the Oxford Martin School

What does "Holacracy" mean?

The term "Holacracy" comes from the concept of "holarchy", a term coined by Arthur Koestler who defined a "holon" as *a whole that is a part of a larger whole* and a "holarchy" as *the connection between holons*. Holarchy is the way that nature organizes itself. For example, each cell in the body is a holon—both a self-contained whole entity and at the same time a part of a larger whole, an organ, which is itself a self-contained whole yet also a part of a larger whole, the body. Similarly, particles interact to create atoms, which bond together into molecules, which group into crystals or proteins—each being both a part and a whole. Holarchies simultaneously honor autonomy and collaboration at every level of scale. This is the kind of structure that Holacracy uses, and it's the root of the term itself: Holacracy literally means governance (*-cracy*) of and by the organizational holarchy (*hola-*).

decision can be revisited any time should it create tension for any circle member. This frees teams to move swiftly from discussion and planning to actually testing decisions in reality and learning from the results. Solutions that start out imperfect can quickly become well aligned with actual needs through a continual process of incorporating feedback, and the team avoids the time-consuming trap of trying to "predict and control" outcomes during meetings.

CONCLUSION:
A Better Way of Working

With Holacracy in place, the potential result is an organization that is "not just evolved, but evolutionary,"[9] as Robertson puts it. He cites the work of Oxford University economist Eric Beinhocker, who describes evolution as an algorithm, "an all-purpose formula for innovation ... that, through its special brand of trial and error, creates new designs and solves difficult problems."[10] Markets, Beinhocker explains, are highly dynamic, but the "brutal truth" is that the vast majority of companies are not. Organizations have very little capacity to evolve and adapt. They are subject to evolution's process at the market level and may survive or die as a result, but they are rarely adaptive organisms themselves, at least on more than a superficial level. "The key to doing better," Beinhocker argues, "is to 'bring evolution inside' and get the wheels of differentiation, selection, and amplification spinning *within* a company's four walls."[11] Holacracy offers the possibility of doing just that, embedding within the organizational DNA an enhanced capacity to dynamically and continually evolve.

Ultimately, Holacracy is just one example of a system that uses peer-to-peer self-organization and distributed control in lieu of more traditional approaches to achieving order. It reflects a broader societal trend toward a new way of structuring human systems and interactions, and it aspires to contribute to that shift by modeling the benefits of leaving behind outdated autocratic models.

Holacracy helps create organizations that are fast, agile, and that succeed by pursuing their purpose, free from the tyranny of top-down planning or the impossible pursuit of consensus. It's not a silver bullet—it takes hard work and practice to make the shift into such a dramatically different way of organizing. As David Allen, author of Getting Things Done and a business leader with years of Holacracy experience in his own company, puts it, "Holacracy is not a panacea: it won't resolve all of an organization's tensions and dilemmas. But, in my experience, it does provide the most stable ground from which to recognize, frame, and address them."[12]

Case Study: *Medium*

Tapping the intelligence of the workforce

Evan Williams is no stranger to disruptive ideas. When the Twitter cofounder launched his new startup, content platform Medium, in 2012, he quickly adopted Holacracy as a more lightweight and adaptive methodology to manage his growing company. And he was happy to discover that it solved a problem that had always troubled him at his former companies.

"In the past, I've hired these amazing people, but I felt like I was getting less and less of them as the company got bigger," he explains. "Part of that was because they had ideas or concerns or perspectives that were relevant outside their particular area, but it wasn't clear what to do with those."[14] With Holacracy in place, Williams found that he was able to "tap into the intelligent perspective of everybody in the room"[15] and use it to inform the growth of the company.

Medium's 50+ employees are happy with the shift as well. Jason Stirman, who led the Holacracy implementation, told Al Jazeera, "our employees really feel like it's 'their' company because decision-making authority is not concentrated at the top." And employee Luke Esterkan commented that he's appreciated how Holacracy gives him "the freedom to try lots of different things without having to go through typical red tape and bureaucracy…It's an ongoing process," he explained, through which everyone is "constantly evolving the company."[16]

NEXT STEPS WITH HOLACRACY

Holacracy is a complex and comprehensive system, and is best learned through practice and experience. If you are considering adopting Holacracy in your company, or just want to find out more, here's what you can do:

PREORDER THE HOLACRACY BOOK

Holacracy founder Brian Robertson offers a detailed guide to practicing Holacracy through real-world stories, case studies, and step-by-step meeting simulations in this definitive book. *Holacracy* will be released June 2nd, 2015 and is available now for pre-order on HolacracyBook.com

Order the Holacracy Book to **Receive Your Free Bonuses!**

- Immediate access to the first chapter of the Holacracy book, in PDF format.
- Immediate free access to our new online course: *Governance Mechanics In Depth.* **($50 VALUE)**

"Hands down, by far the best way I know or have ever seen to structure and run a company."

—JASON STIRMAN, MEDIUM

ATTEND A TRAINING

HolacracyOne's events—which range from webinars and introductory workshops to advanced certification trainings—are designed to give people a taste of Holacracy in action. You can attend a public workshop or schedule one specifically for your team or company, where the principles will be applied to your particular circumstances, needs, and challenges. Learn about upcoming events in your area at Holacracy.org/events

"It feels like a system that is designed for people, rather than trying to fit people into a system. It feels fundamentally human."

– SHANE HIPPS, CHIEF LEADERSHIP OFFICER FOR ASPEN HEIGHTS AND RECENT TRAINING PARTICIPANT

SCHEDULE A HOLACRACY DISCOVERY SESSION

A two-day intensive with expert coaches giving you and your team an opportunity to test drive Holacracy in your environment. You will leave the two days with an initial experience of practice and clearly identified steps necessary to formally adopt new road rules for your organization. To learn more contact Hello@holacracyone.com

"I have to say that the Holacracy folks did an extremely good job. It's very much like GTD®; it was baked down to its essence, you can't beat it with a stick, this is how it works. I've tried to push a hole in it, but I can't find one."

– DAVID ALLEN, DAVID ALLEN COMPANY

NOTES

Purpose-Driven Organization

The concept of "purpose" is critical in Holacracy. An organization's purpose is its *raison d'etre,* or reason for being. Every organization has some potential or creative capacity that it is best suited to sustainably express, given everything available to it—its history, workforce, resources, founders, brand, capital, relationships, etc.

Holacracy points out the need to distinguish the *organization's* purpose from the founders' purpose, likening it to parents allowing their children to find their own paths in life rather than imposing their own dreams on them.

In defining purpose, the relevant question is: what does this organization want to be in the world, and what does the world need it to be? The organization's purpose is captured as a succinct phrase that becomes an important reference point in day-to-day decision-making. Holacracy is designed to allow an organization to better express its purpose.

Therefore, as Robertson, cofounder of HolacracyOne puts it, "Holacracy is not a governance process 'of the people, by the people, for the people'—it's governance *of* the organization, *through* the people, *for* the purpose."[7]

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Holacracy is not a panacea: it won't resolve all of an organization's tensions and dilemmas. But, in my experience, it does provide the most stable ground from which to recognize, frame, and address them.

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