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ORGANIZATIONAL DESIGN AT IQMETRIX: THE HOLACRACY DECISION

Professors Chris Street, Ann Frost, and Clayton Caswell wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

"Mind. Body. Spirit. Purpose." Christopher Krywulak, founder, owner, and current chief executive officer (CEO) of iQmetrix Software Development Corporation (iQmetrix), silently repeated this mantra early one morning as he looped through a mountain bike trail in the forests just outside Vancouver, BC. As he concentrated on the steep downhill switchback in front of him, the front tire caught the edge of a tree root and threatened to disturb what until then had been a calming 25-minute ride. The bike successfully made it around the corner, and the rider pulled off the trail for a moment to re-centre his thoughts.

Krywulak looked back up the side of the mountain at the site of his close call, took a seat on a fallen log, and considered the question that had led him to take an extended ride that morning. Sixteen years ago, he and his brother had decided to start a software company about as far away from any regional technology centre as it was possible to be. Their goal on day one had been to create a company that was different—one centred on individuals' abilities to create and contribute. Their "ultimate organization" was intended to be a place where sharing information and measuring results created an environment for innovators to flourish.

Looking into the distance, Krywulak thought about where his company was and the direction he needed to take it:

> We've been successful by any measure: profit, growth, pleasing clients, and creating a place where people want to work. We've grown from five employees to almost 500. I don't like what I think I'm seeing around me, though. We never wanted to be a company like all the rest with hierarchy, rules, policies—but that's where we're headed. I don't like to be told what to do and I don't want anyone else to be told what to do either. We're going to be a company of 500 people that runs and feels like a company of five people.

Settled somewhat, he focused on the problems: "How do you replicate the fluidity of a small organization in a single office in one with 500 people spread across four offices in the United States and Canada?" he wondered. "How do you scale the way we used to communicate, the common goals, and singularity of purpose into the future, where I want this company to be operating for 100 years?"

Getting up to finish his ride, Krywulak thought through the various paths the company could take, quickly dismissing traditional approaches. He could not risk stifling creativity and innovation with bureaucracy. Collaboration and transparency were going to be fuelled by the free flow of information. iQmetrix employees (iQers) would continue to focus on creating great experiences for the communities they worked in, for the customers who used the software, and for each other. Having steered back onto the trail, Krywulak settled in to finish the ride.

He finished the last wedge ramp of the fun box on his favourite trail and pulled to the side as his mind became clear. "I think holacracy is the next step," he thought. "It's going to be the operating system that will provide the benefits of self-organization with the process, structure, and tools to allow iQers to self-manage, self-organize, and fuel iQmetrix to the next milestone."

IQMETRIX ORIGINS

In 1987, Krywulak had a car stereo installation shop in a low-rent area of Regina, Saskatchewan. Around this time, car stereo installation shops were being asked to also install car phones, which were early mobile phones that cost several thousand dollars and incurred a usage charge of a dollar a minute. The phones were huge compared to modern mobile phones, and they had to be hard-wired into cars like stereos. Krywulak saw more and more of these installation jobs. Seeing the potential of the market, and having nothing to lose, he applied to the regional telephone carrier in Saskatchewan, SaskTel, for a license to become a retailer of mobile phones.

With this opportunity came a very complex business model. In most retail stores, the retailer bought the products for a price, sold them to the consumer for a higher price, and kept the difference immediately that day. However, the retail model in the mobile phone industry was very different. The price the consumer paid at the store was just a fraction of the hardware price. For example, the Motorola 650, a popular mobile phone in the late 1990s, would be sold to the consumer for CA$99[1] but would cost the retailer $400, meaning the retailer sold the product at a steep discount and took a loss on the sale. Retailers appeared at first to be at a disadvantage, but in reality, their financial situation was not as poor as it seemed. The contract retailers signed with their carrier provided three revenue streams: a rate plan commission, a hardware subsidy, and an ongoing residual payment. The rate plan and length of contract signed by the consumer determined the rate plan commission. The hardware subsidy was paid to compensate the retailer for having to sell below cost and helped them break even on the hardware sale. The residual payment was calculated based on the aggregate value of all of the retailers' customers to that point. Too complex to reconcile, the residual provided guaranteed ongoing revenue in a risky business venture and encouraged retailers to focus on high-value customers. In the mobile phone retail industry in Canada and the United States, where most people paid for multi-year contracts for carrier network access, the retailer who sold a device also claimed a share of the monthly subscription revenue going to the carrier. This steady future revenue stream enabled retailers to earn a profit even though they were selling mobile phones at a loss. This market created a business model where the more retailers sold, the greater the debt they acquired (that month). It became critical for retailers to ensure they were getting the proper rate plan commissions and hardware subsidy fees each month from the telephone system carrier. (AT&T Inc., Bell Mobility, Rogers Communications, and Verizon Wireless were large carriers.) Retailers had to cross-reference their monthly payments from the carriers (the rate plan commissions, hardware subsidies, and residual fees) to ensure they were being paid properly, but the payments rarely matched. A large company with 100 stores would have six full-time employees doing carrier reconciliation each month.

[1] All dollar amounts are in Canadian dollars.

The carrier reconciliation process compared what a retailer was paid by a telephone network carrier to what the retailer expected to be paid. In the early years of the industry, what a mobile phone retailer expected to be paid and what the retailer was actually paid could vary by as much as 10 per cent. However, that variance only ever went in one direction—in the carrier's favour. The carriers paid the retailers for what the retailers could prove to them they had sold, not what the retailers might actually have sold. For example, if a retailer sold 1,000 Motorola 650s in one month and was expecting $300 per device from the carrier in the next month—or $300,000—an underpayment each month of 10 per cent of that quickly grew to $360,000 a year in unpaid fees. Given this business model, retailers assumed incredible risk in the early days of the industry, when it was not yet even clear that mobile phones were anything more than a fad.

Quickly finding that the demand for mobile phones was outstripping the demand for car stereo installations, Krywulak and his brother Greg focused on the retail sale of mobile phones and rapidly outpaced their competition. Between 1992 and 1997, the business grew from two stores to seven, and sales grew at a rate of up to 15,000 per cent a year, placing their company on the list of Canada's fastest growing companies. It became clear that the business management software they were using to manage seven stores, Business Visions, was not able to properly handle carrier reconciliation for the volume of devices they were selling. They began to search for software that would better manage reconciliation and lower the financial risk for the company. Unfortunately, an extensive search for business management software for cellular retailers showed that a better software system did not exist. The brothers saw an opportunity to build software to solve this very specific problem and then provide the product to others in this emerging market.

IQMETRIX AND THE ULTIMATE ORGANIZATION

iQmetrix was founded on the idea that sharing information and metrics through computer systems led to breakthroughs in efficiency, productivity, and competitive advantage. More importantly to the founders, the company was also created with the intention to build what they called the "ultimate organization," where creativity and innovation would flourish and people could be their best. Flat decision-making structures, where staff had access to information, autonomy, and authority to make decisions, would allow solutions and innovations to emerge from anywhere within the organization. The idea of the ultimate organization became a foundation for the evolution of the iQmetrix culture. As a young entrepreneur starting out, Krywulak did not know what the ultimate organization looked like. All he knew was that he was dissatisfied with what he saw around him in the business world. Instead, he wanted to create an organization where people like him could flourish, and he would know what that looked like only after he had created it. This belief turned out to be the development strategy that iQmetrix returned to time after time. Each time growth put stress on the company, the strategy was to decide what needed to happen next to continue building the ultimate organization.

As cracks from the pressures of opportunity and ambition emerged, the recurring practice was to try to allow a solution to emerge from the group. The organization's flat decision-making structure was meant to remove bureaucracy from decision making, and access to information was meant to help the right person get the right information at the right time to make the right decision. Autonomy and authority gave iQers the trust and respect essential for moving forward with action. However, as their numbers increased, even though they were relatively autonomous and encouraged to be entrepreneurial, individual iQers tended to focus first on what they thought needed to be accomplished that day; if time remained, they planned for the next day, and only after that did they consider whether anyone else in the company needed to be explicitly aware of what was going on. Rather than facilitating transparency, the company was becoming increasingly opaque, even while the cultural expectation continued to be that everything was going according to plan.

BUSINESS DEVELOPMENT UPS AND DOWNS

The growth of iQmetrix's business since the early 2000s represented something that many software companies aspired to but few were able to maintain. The company established a compound annual growth rate of approximately 25 per cent, and although some years were more difficult to manage than others were, the company continued to manage high growth by doubling down. That is, its strategy was to meet significant growth challenges by returning to the founding principles of the company—to create the ultimate organization where employees self-organized and acted entrepreneurially regardless of whether there were 15, 45, 125, or 300+ employees. Taking a longer view, growth at iQmetrix cycled between looking for new targets, and changing the company's structure, policies, and brand (but never the culture) in a struggle to achieve those targets.

Since 2005, iQmetrix had been determined to develop new business in a familiar way—entering new markets and making acquisitions—although the outcomes were not always positive. In 2005, the company launched a new business line, iQmedX, which was intended to provide software to manage electronic patient records for the medical market in Canada and the United States. Because both wireless and medical clinics had recurring customers who purchased products and services in heavily regulated and complicated businesses, the strategy to have software development teams working on similar but different markets was seen as achievable. In reality, the two business models were different enough that collaboration, communication, and planning inefficiencies left development teams unable to design and build software to meet the intricate demands of the unfamiliar medical records market. The iQmedX business line failed to meet the anticipated targets—much to the frustration of the executive leaders, who eventually sold the business and technology in 2010.

Successful growth strategies played out in this period, too, such as the 2008 acquisition of the second-largest competitor for wireless retail management software, Work Wireless. The acquisition nearly doubled the number of employees at iQmetrix, and it launched the company into the position of market leader in Canada and the United States.

A combination of successes and failures prompted the executive team to try different approaches to managing growth. Management by objectives, a system where managers and team members jointly agreed on measurable goals,[2] was tried but abandoned due to a misfit with the company culture. It became apparent that traditional managers did not exist at self-organizing in iQmetrix the way they did in other companies. Moreover, the iQmetrix culture of allowing employees the autonomy to decide what actions to take meant that people could simply say, "I don't like those objectives," and this would allow them to ignore and then miss goals. iQers' actions were so rooted in autonomy and empowerment that they could choose not to participate—and enough chose not to participate that it eroded the efficacy of this management process.

Relocating the head office to Vancouver in 2008 to access a broader pool of prospective experienced employees was successful, however. In his continued pursuit of the ultimate organization, the founder and CEO decided that each of the offices, now located in Vancouver, Regina, and Winnipeg (in Canada) and Charlotte (in the United States), would have a maximum of 150 employees. This decision was based on Dunbar's number, defined as the number of people in an organization with which any one individual

[2] "Management by Objectives," *The Economist*, October 21, 2009, accessed July 5, 2017, www.economist.com/node/14299761.

could maintain social relationships. This "rule of 150" was described and popularized in Malcolm Gladwell's book *The Tipping Point.*[3]

Over the following few years, the company continued to enjoy equal amounts of success and failure as it maintained its 25 per cent annual growth. In 2011, iQmetrix hired a senior marketing executive from Microsoft to further expand the company's senior leadership experience base. This manager's reliance on the traditional command and control model that had been successful at Microsoft was neither appreciated nor effective in the iQmetrix culture, where employees did not like to take orders. Culture was beginning to interfere with growth at this point.

A major setback in 2012 exemplified the challenge of maintaining both growth and the iQmetrix culture. A major wireless telephone carrier in the United States contracted iQmetrix to develop a custom software application that would speed up the activation process in wireless retail stores so that customers could select, pay for, and activate their cellular phones quickly and seamlessly. The multi-million dollar contract represented a significant reward for taking on the risk of being able to deliver the software as promised. Unfortunately, iQmetrix was not able to complete the work as contracted. The company again faced familiar problems with hiring many new people and prioritizing new work, and the wireless carrier in the United States acknowledged that it had contributed significantly to communication and coordination problems related to managing software development teams. Both sides acknowledged that the proper processes for managing a project like this and meeting new higher expectations had not been in place. iQmetrix once again used its tried-and-true response of seeking out new ideas from the business world that could help. It discussed at length plans for re-organizing the company into semi-autonomous business units, but did not follow through with them. It did, however, research and develop an internal management training program for mid- and senior-level iQers and put this into action. However, this did not come soon enough to avoid the next significant disappointment.

Up to this point, several of the problems iQmetrix had experienced in its growth journey were known only to those inside the company and perhaps to a few select partners. This changed in January 2014, when a software product, XQ, was scheduled to be unveiled at a major North American retail industry trade show in New York City. In what came as a shocking surprise to almost everyone in the company, the software product was not ready—in fact, it was not even close to being complete enough to show to prospective customers and competitors. A year's worth of planning, marketing, and promotion—not to mention the costs of preparing for the trade show itself—were lost. Significant gaps were evident in transparency, communication, and—more importantly—in accountability, and these demonstrated clearly again that new ideas and new ways of organizing were required.

The response came in two forms. A new (to iQmetrix) performance evaluation system was launched in October 2014, called "Commitments." This system required employees to set measurable quarterly goals and to post their goals on the internal company intranet. Posting goals internally was expected to make everyone's activities more transparent; perhaps more importantly, it allowed everyone to see whether people were achieving their goals. The second response involved developing a custom built internal software system called Nimble, which would combine an employee-level directory of people, a team-level directory of projects and who was on them, and a company-level directory of important business metrics for growth, employee satisfaction, and customer experience. These changes were meant to align with the desired culture of self-organizing teams, autonomy, accountability, entrepreneurship, and increased communication and transparency within the business. Growth at iQmetrix over this period required patience and resilience on everyone's part.

[3] Malcolm Gladwell, The Tipping Point: How Little Things Can Make a Big Difference (Boston, MA: Back Bay Books, 2002).

IQMETRIX'S STRUCTURE AND CULTURE IN 2017

In July 2017, iQmetrix had four offices—three in Canada and one in the United States—and followed a strategy of keeping individual offices to a maximum size of approximately 150 employees to maintain a community atmosphere. To take advantage of regional employment pools of qualified software developers, each location was associated with a particular specialty.

The Regina, Saskatchewan, office was the original founding office and as a result had the widest variety of functions. Software developers for the primary commercial product, RQ, were based in Regina, as were most typical corporate functions, including customer-facing technical support, account management, finance, internal technical support, human resources (known at iQmetrix as "People & Culture"), and half of the marketing department. In total, there were 201 people in the Regina office, including one senior executive, the chief strategy officer. Regina was the provincial capital and had long been considered a government town, meaning that those looking for high-tech careers with a focus on software development had few options. Graduates of the local university's computer science program who wished to stay in the region mainly worked for a branch of the government or sought jobs at iQmetrix. As such, Regina iQers generally made long-term commitments and often started working at iQmetrix straight out of university.

In contrast, the Vancouver, British Columbia, office, with 111 employees, was home to three of the five senior executives; the CEO, chief operating officer, and chief financial officer operated in a downtown high-rise office overlooking the Vancouver harbour. While software developers in the Regina office worked on ongoing development of the flagship RQ software for the wireless retail market, the Vancouver office focused largely on new product development for other retail industry segments. The typical iQer in Vancouver had most likely moved to Vancouver from another region of Canada or from somewhere outside of Canada. Recruiters in Vancouver drew from a constantly churning pool of professionally mobile software developers, many of whom graduated from one of the three university computer science programs in the city. Many familiar high-tech giants had also recognized Vancouver as a software development region, including Amazon.com Inc., The Boeing Company, Google Inc., Facebook, and Microsoft Corporation. iQmetrix was less likely to be a Vancouver iQer's first job, and it was not likely to be their last, either.

The Winnipeg, Manitoba, 116-employee office shared characteristics with both the Regina and Vancouver locations. Like Vancouver, the Winnipeg office was responsible for new product development, and two large local universities provided talented computer science graduates. As in Regina, the Winnipeg office provided one of the few opportunities to work outside of government, although Winnipeg was also the home of several large insurance and financial industry companies that hired large numbers of software developers. In Winnipeg, a typical employee started working at iQmetrix as a first or second job out of university and, as in Regina, tended to stick around for a long time. One unique difference in Winnipeg was that there were no senior executives based in the office.

The Charlotte, North Carolina, office in the United States was home to the company's business development departments. The Charlotte office was unique in that it had no software developers. Instead, the office consisted of 36 employees who worked either in professional services, negotiating for and providing custom work for large clients, or in business development, finding and developing new large-enterprise customers. As such, the Charlotte location was exclusively a sales and professional-services office situated to respond to the U.S. market. Because it had a client business focus, as opposed to the software development focus in the other cities, and because several senior iQers in Charlotte came to iQmetrix as part of the acquisition of Work Wireless, the atmosphere in the Charlotte office was far less *laissez-faire*, and it had a much more traditional corporate culture. Like Regina, the Charlotte office was home to one senior executive, the president of U.S. operations.

At the beginning of December 2016, iQmetrix was purposefully composed of four mid-sized offices of roughly 150 employees each. The three offices in Vancouver, Regina, and Winnipeg were the software development centres, while the U.S. office in Charlotte maintained relationships with and responded to the needs of customers. The company had a stable customer base and had the largest share of the market; however, growth in both the number of customers and annual revenue, which had increased 25 per cent each year for the last decade, were showing signs of slowing down. Continued growth would mean getting an even larger market share, expanding into new markets, or both. Past and recent disappointments in developing new products and implementing new organizational systems were strong indicators, however, that continued growth for this ultimate organization was going to take something new. The company just was not "getting stuff done" like it had in the past. Asked individually, iQers could explain how their activities were contributing to the accomplishment of the company strategy, but they often could not explain what people even one desk over were working on, other than to say it was likely important, and it would take time to see results.

HOLACRACY

Krywulak wondered about the potential of holacracy to help support current and future growth at iQmetrix. Holacracy contrasted starkly with traditional organizational designs. The goal of holacracy was to create an organization based on simple rules for recognizing, articulating, and creating the tasks that needed to be accomplished and then giving people the authority to adapt their professional roles to these new tasks at their own discretion. Holacracy organized people around common tasks or projects. In holacracy, there were no job titles, only roles. Moreover, in holacracy, there were no managers. Instead, authority was distributed throughout the organization, and work was organized by circles that formed and disbanded as required by the tasks that needed to be accomplished. Circles were run democratically and openly, with detailed procedures on how decisions were made and meetings were run.

Holacracy sought to increase transparency and reduce the time required to make decisions by making three key changes to the organization: (1) organizing the work to be done by roles, (2) associating specific accountabilities to those roles, and (3) giving the person assuming the role all of the authority to make the decisions required for that role. This contrasted with traditional hierarchies, in which the organizational structure tended to push accountability upward and required people who did the work to continually seek authority to make decisions. This resulted in lost time, a lack of ownership, and low levels of accountability regarding decisions. Such a system could encourage bad habits for both management and employees, when the more powerful enjoyed the perks of power and the less powerful had little or no accountability. Both of these outcomes could be barriers to the successful implementation of holacracy.

DECISION TIME

Krywulak drove down the parking garage ramp at the downtown Vancouver iQmetrix office next to the harbour. Getting out of his car, he mentally reviewed his focus for that morning's conference call with the four other senior executives:

> If we're going to continue on this path, we need to be expanding, fast, into other retail verticals aside from the wireless market. If we're going to do that, we need to rely on the teams to develop, market, and sell new products to new customers, as well as manage the internals of finance, people, and everything else. But we're going to do it our way.

In the empty elevator bound for the 17th-floor office, Krywulak leaned back against the mirrored wall, smiled a thin half-smile, and thought, "OK, and then what?"