

IS3103 Information Systems Leadership and Communication
Mini Case: Zappos (for Week 10 Lecture Discussion)

Box 5.7 Case Study
Self-Leadership at Zappos⁴⁶

Online shoe retailer Zappos has always prided itself on being playful and unconventional. In fact, one of the firm's core values is "Create Fun and a Little Weirdness." For example, the firm sponsors "Bald and Blue" events where employees get their heads, legs, and eyebrows shorn for charity by a group of their colleagues known as the "Blue Man Group." Company meetings can include comedians, live music, circus performances, costumes, and appearances by CEO Tony Hsieh's favorite animal—a llama. The firm's mission is to "deliver happiness." To fulfill that mission it pays for shipping both ways (many customers order several different pairs of shoes, try them out and return the ones that they don't like or don't fit), provides free overnight shipping to loyal customers, and staffs 24-hour call centers. Customer service representatives are evaluated on how well they meet the needs of callers, not on how quickly they end the calls. They might provide free fashion advice, for instance, or talk with someone who is lonely. If Zappos is out of a specific style and size, the customer service representative will visit at least three other websites and then direct the customer to competitors. Hsieh credits the firm's success to its unique culture. Zappos reached \$1 billion in sales in its first ten years and was purchased by Amazon.com for \$1.2 billion in 2009. As part of the sales agreement, Amazon CEO Jeff Bezos agreed to let Zappos operate independently as long as it met its financial targets.

In 2013 Hsieh took a step that made Zappos even more unconventional. Worried that the firm was turning into a traditional bureaucracy, he introduced a new operational structure called holacracy designed to foster creativity and risk taking. (Holacracy describes a collection of holons, which are parts that function simultaneously as parts and wholes, much like the organs in the human body.) Instead of being organized around hierarchy and job titles, employees take on a variety of roles to get work done, roles that are constantly changing. A worker without a marketing background might take on a marketing role along with several other roles, for instance. When conflicts arise, employees air their issues at governance meetings that focus on accomplishing goals. Tactical meetings are held to coordinate team members to complete specific tasks. Each circle or team of employees must coordinate its work with other circles. Individuals called "lead links" assign roles to individuals in their circle and represent their circle as a whole. However, lead links have no control over individuals. Instead, power to hire and fire and approve expenditures is made by a committee. Employees must record their activities on the company's software program.

According to those spearheading the transition, self-leadership is at the heart of the new model.

One of the core principles is people taking personal accountability for their work. It's not leaderless. There are certainly people who hold a bigger scope of purpose for the organization than others. What it does do is distribute leadership into each role. Everybody is expected to lead and be an entrepreneur in their own roles, and holacracy empowers them to do so.⁴⁷

Hsieh first rolled out holacracy in the human resources department and by 2015 85% of employees had started the new process. Frustrated at what he viewed as a slow rate of adoption, Hsieh wrote the entire workforce that "having one foot in one world while having the other foot in the other world has slowed down our transformation towards self-management and self-organization." He then made an ultimatum: Get with the program or take a three-month severance package and leave. Fourteen percent of the staff took him up on the offer, helping send the company's one-year turnover rate to 30%, well over its average.

Both those who left and those who stayed report a number of problems with holacracy. To begin, there is widespread confusion about who does what. Employees complain that they spend endless time in meetings. They don't have bosses to turn to for advice and there is no longer any opportunity to move up in the company. Managers must give up their power, and skilled

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employees may no longer be able to use the expertise they spent years developing. Then, too, the lack of job titles has made it hard to set compensation levels. Employees don't know how to represent themselves outside the firm and those who leave don't know what to put on their resumes. The company dropped off the Best Places to Work list after holacracy was rolled out. (Employees gave management especially low scores on the question of whether leaders have a "clear view of where the organization is going and how to get there.")

Some workers have responded well to the new model. Said one employee who took on new job duties: "My worst day at Zappos is still better than my best day anywhere else. I can't imagine going back to traditional hierarchy anymore." More junior and nontraditional employees have been able to exert more influence. One introvert noted: "The structure of meetings forces each person to ... say what they want. Before I might've thought something and wouldn't have jumped in."⁴⁸

Outside observers are skeptical that Hsieh's self-leadership experiment will succeed. They note that while other companies have tested the model, they are much smaller than Zappos. Some of these businesses, like the content site Medium, have discontinued the experiment. (Estimates are that less than 1% of all companies in the world operate without traditional hierarchy.) Journalists point to the recent exodus of Zappos employees as a sign that the company has veered off course. Then, too, critics have taken issue with the way the program was implemented—from the top down. Stanford business professor Jeffrey Pfeffer points out, "It's deliciously ironic that self-management is being decreed from above."⁴⁹

Hsieh appears more committed than ever to self-leadership. He is not concerned about those who have left the firm, believing they weren't a good fit for the company. While admitting that he was surprised by the level of resistance, "at how hard it is to let go of the psychological baggage," he wishes he had implemented the change faster. "In retrospect, I would have probably ripped off the Band-Aid sooner."⁵⁰ Hsieh expects the new system to make the company more successful: "I'm personally excited about the potential creativity and energy of our employees that are just waiting for the right environment and structure to be unlocked and unleashed."