Outlook Case Study | Workforce of the Future

Empowering employees at Zappos

By Robert J. Thomas and Yaarit Silverstone

CEO Tony Hsieh has done away with management hierarchy, replacing it with a “holacracy”—a system designed to simplify operations and streamline work flows by tapping into the online retailer's culture of employee enthusiasm, loyalty and commitment.
In an email dated March 23, 2015, Tony Hsieh, CEO of Zappos, an online shoes and clothing retailer, announced that the company would dramatically accelerate its journey to employee self-management. Zappos would replace its management hierarchy with “holacracy,” a system of self-organizing teams designed to simplify operations, streamline work flows and increase transparency—all in support of Zappos’ legendary customer service, itself based on similar flashes of creativity, innovation and initiative.

Is “holacracy” simply a smokescreen for eliminating job titles and managers, as many skeptics charge? Or, as purists may view it, a warmed-over version of earlier, largely unsuccessful efforts at employee empowerment? Not according to Hsieh, who views holacracy as a way to sever the link between size and complexity that has derailed so many fast growing companies.

Industry and business have long aspired to team-based organization and self-management—the quality-of-work-life programs of the 1970s, for example, participative management, and even Toyota’s vaunted TQM (total quality management) processes of simplification and decentralization during the 1980s-90s. However, what was previously an aspiration is becoming reality at Zappos because business strategy demands it, and technology (in the form of off-the-shelf information management and communications tools) enables it.

The real question may ultimately not be whether holacracy completely replaces conventional management, but whether it enables Zappos to continue growing without losing its intimate customer relationships and the high level of employee enthusiasm on which that intimacy relies.

To fully appreciate Zappos’ ambition, it is essential to understand a bit more about the company’s history, business model and distinctive use of digital technology.

**Having fun**

In 1999, Hsieh, then general manager of investment firm Venture Frogs, agreed to provide Zappos with $1.1 million in venture capital. By 2000, Hsieh had come to view the one-year-old company as the most “fun” and promising in his firm’s portfolio; he soon became CEO.

Hsieh set two goals for the fledgling organization: to reach $1 billion in sales and to be named one of *Fortune*’s “Best Companies to Work For”—by 2010. The key, he believed, was to consistently deliver an outstanding customer service experience (see figure, page 3). Indeed, even after becoming CEO, Hsieh was not particularly interested in footwear; shoes were primarily a vehicle for delivering outstanding customer service—the business Hsieh really wanted to be in.

Critical to his vision was developing a strong corporate culture that ensured that all Zappos employees were aligned with the company’s purpose. Hsieh tied customer experience and employee empowerment directly to

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A systemic view of Zappos’ growth model

The key to Zappos’ success is to consistently deliver an outstanding customer experience. The model is driven by a culture of employee empowerment tightly aligned with the company’s purpose.

![Diagram showing the systemic view of Zappos' growth model]

Source: Accenture analysis

profits: “Happier employees,” he avowed, “lead to strong, nurturing relationships—and a more profitable business.”

In 2006, Zappos announced it was adopting 10 core values. Many were based on research about the factors that contribute to worker productivity and efficiency. For example, Hsieh encouraged managers to spend 10 to 20 percent of their time socializing with other Zappos employees outside of work. All of the core values were designed to build a culture of near obsessive customer service and camaraderie. The core values framed Zappos’ expectation that employees “create fun,” “be adventurous and open minded,” “build family spirit,” and “be passionate, determined and humble”—and that they would be evaluated on their willingness to embrace the Zappos culture.

In the meantime, Zappos had reported $370 million in gross revenue in 2005— incredible growth that attracted the attention of the business community. That year, Amazon approached Zappos to suggest an acquisition, but Hsieh felt the timing was not yet right. In 2008, Zappos reached Hsieh’s goal of $1 billion in gross merchandise sales—two years ahead of plan. On net sales of $635 million—an increase of 20.5% from 2007 net sales—Zappos reported net income of $10.8 million, up from $1.8 in 2007.

In 2009, the company reached Hsieh’s second milestone—Fortune’s Best Companies list, debuting at number 23. Amazon came courting again, and now, the timing was perfect: Zappos was acquired by the online retail giant for $1.2 billion in cash and Amazon stock, marking the end of its rite of passage from entrepreneurial up-start to large enterprise.

Beware bureaucracy
Hsieh credited the Zappos culture with much of its growth and success. Employees were loyal and committed. As a result, Zappos enjoyed an

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unprecedentedly low rate of voluntary turnover—0% in 2012. But as the company’s payroll neared 1,500 employees, he became concerned that culture alone might not be sufficient to counteract the entropic forces of growth. Like every other enterprise at its stage of development, the company faced the risk of declining productivity, and Hsieh wanted to ensure that as Zappos grew, bureaucracy would not get in the way of “actual work.”

Could technology play a role in driving growth without sacrificing intimacy? John Bunch, a Zappos team leader guiding the company’s adoption of holacracy, thinks so. “We’re adopting [holacracy] to try to scale agility,” says Bunch. “As a company,” he adds, “we’ve [grown] past where we can be like a small family and really adapt our business to real-time environments.”

Zappos sees holacracy as an operating system (see figure, above). “[Holacracy itself] is not a technology in the traditional sense. [W]e use it to organize around the work we need to do,” notes Alexis Gonzales-Black, who works on the implementation team. Holacracy is a social technology that distributes decision-making by using self-organized teams, called circles, to complete tasks. According to Gonzales-Black, “It’s up to [the teams] to figure out how to break the work down into roles and accountabilities to energize that purpose.”

2 Unless otherwise indicated, quotes are from interviews conducted by Accenture.
The teams operate through two types of meetings: governance and tactical. Bunch explains: “Governance meetings just capture all of the work, authorities and accountabilities. But in tactical meetings, it’s about getting work done.”

Employees known as “lead links” replace managers. They are chosen based on their performance and their interest in increasing their level of responsibility and accountability. Employees are empowered to make decisions around tasks for which they are accountable.

“It’s not leaderless,” Bunch is quick to point out. “There are certainly people who hold a bigger scope of purpose for the organization than others. What it does is distribute leadership into each role. Everybody is expected to lead and be an entrepreneur in their own roles.” He goes on to add that “anybody, throughout the company, whether that be Tony or anybody else, can give you ideas, thoughts and data points on decisions they think you should be making in your role. But ultimately it’s up to you to make that decision.”

Glass house
To support holacracy, Zappos employs Glass Frog, software that serves as a meeting archive and coach, storing and tracking meeting results, organizing roles and “visualizing” the organizational holarchy. The platform, accessible to all Zappos employees, allows teams to solicit, document and act on rich information and peer feedback. In earlier times—the heyday of QWL in the US auto industry, for example—such information would have been hidden or simply too difficult to find.

Now, according to Bunch, “You can capture projects in Glass Frog, and other people in your team or in the company, can log in and see, ‘What is John Bunch’s role, what are the major projects he’s working on?’ The organizational structure is completely visible.”

Though some teams, like human resources, finance and legal, can keep data private, most do not. Bunch insists that “unless you have some really good reason to make something private, it should be public, up to and including the leadership team,” which is known as “the internal board”—Hsieh and his direct reports, who are responsible for overall business strategy and integration. Any employee can “follow” a circle’s work—including that of the internal board. Followers receive email notifications each time a circle meets or publishes changes to roles, authority, policies or domains.

Hsieh serves as the lead link for the internal board, which is one of the most followed circles. “Anyone can click on ‘internal board’ and see [the circle’s] purpose, the current strategies they’re using, all the roles that are being filled and by whom. Then they can see what policies [the circle] passes, its meeting history and meeting notes,” Hsieh explains.

Ambitious vision
Glass Frog and holacracy are only two components of an even more ambitious vision of employee self-management. Rachael Brown, senior developer, envisions that in the future, Glass Frog and similar apps will function as “journey tools,” serving as personal dashboards to provide each employee with a record of their skills, accomplishments, tasks and roles.

“If you want a new role, for example,” says Brown. “You have all your [performance] information available. You’ll be able to see the different skillsets required and sector goals. So if I want to become a software

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developer working on Java, for example, I should be able to look at that job and those skills, assess the skills that I don’t have and find a way to learn them.” She and colleague Darshan Bhatt collect performance data on all Zappos employees to create the dashboards so employees could review and assess their skills. “They will have all the information in front of them and it’s up to them, as individuals, to help themselves,” notes Brown.

Hsieh believes that holacracy and Glass Frog will enable Zappos employees to become more productive as the company grows. Even more important, he argues, employees will benefit from the growing size of the organization because they have better access to data that reinforces the company’s core values—which comes back full circle to what is at the heart of the Zappos culture: outstanding customer service.

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