



## **HOLACRACY: REDEFINING ORGANIZATIONAL STRUCTURE WITH A FLAT HIERARCHY**

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**Daksh Bhargava\***

### **INTRODUCTION**

New organizational models are quite high as the cornerstones of the management world, with greater importance placed on flexibility, teamwork, and power-sharing with the workers, challenging conventional hierarchies and infusing dynamism into the work culture. Holacracy provides flexibility and self-governance by introducing revolving 'circles' initiated by job-assignment individuals by responding more sensitively and speedily to the change. The basic component of this approach allows for achieving a lower chain of command; it prefers flat structures so that any workplace becomes sensible and responsive. The flat hierarchies are not like the traditional top-down models. They try to have fewer layers of management, make decisions faster and sharper, and communicate more clearly. If workers are in control of the work, only then can the ideas of workers flow and increase their overall productivity. Another organic part of this theory is teams that can manage themselves well. They go on without a leader simply because they have clear-cut roles and make decisions communally. Self-managing teams help organizations respond to problems and opportunities much faster by eliminating the lags in a hierarchy. These are some fundamental ideas in the fast-moving business world today. Companies face more competition, rapid changes in technology, and changing expectations from their workers. Old management systems are often too slow and rigid to adapt. Models such as Holacracy can be an alternative means of making things smoother with operations and giving more power to the employees. The article shall discuss the basic principles and mechanisms of Holacracy, which explore its performance and limitations. This presentation aims to discuss the benefits, challenges, and practical applications to determine if this new approach would help companies survive.

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\*BBA LLB, FIRST YEAR, VIVEKANANDA INSTITUTE OF PROFESSIONAL STUDIES (GGSIPU).

## THE EVOLUTION OF ORGANIZATIONAL HIERARCHIES

Until recently, businesses were operated using only the traditional organizational hierarchies. The organization type where lines of authority are clearly defined forms a pyramid. A pyramid is where power flows down from top executives to middle managers and employees. Such an organization is characterized by clearly defined roles and responsibilities, but this can raise problems such as slow decision-making and less freedom for the employees or new ideas due to rules. The models of hierarchies concentrate power, which creates a gap between leaders and frontline employees, leading to poor communication and a lack of engagement. Modern flat hierarchies help solve the problems mentioned above. Unlike traditional hierarchy models, flat models can support fewer management layers teamwork, and direct communication. In these setups, employees can make decisions and have choices in planning for the organization without always waiting for the manager's approval. This is why many start-ups and progressive organizations like flat hierarchies. They help create creativity, new ideas, and a feeling of ownership among employees<sup>1</sup>. Holacracy is how flat organizations work better. Entrepreneur Brian Robertson started this in 2007. In Holacracy, power is shared among self-managing groups called "circles." These circles work on their own but are guided by the main goals and rules of the organization<sup>2</sup>. These circles do not have job titles. In Holacracy, roles can change because of what the organization needs. Many of the biggest companies have exploited flat structures and Holacracy to promote innovation and response. For instance, Zappos began implementing Holacracy in 2014 to empower its employees to enable fast change. Valve Corporation, the well-known company that makes video games, also runs on a flat structure and allows employees to self-organize and pick projects that they feel are relevant to them. Such and similar models that prioritize flexibility, involvement, and teamwork have gained popularity over the recent past.<sup>3</sup>

### HOW HOLACRACY WORKS?

Holacracy is a management framework that redefines traditional organizational structures, providing governance in a dynamic and decentralized way. It doesn't adopt fixed hierarchies as it operates on three fundamental principles: roles replace job titles, governance through

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<sup>1</sup> Tony Hsieh, *Delivering Happiness: A Path to Profits, Passion, and Purpose* (Business Plus 2010)

<sup>2</sup> Brian J Robertson, *Holacracy: The New Management System for a Rapidly Changing World* (Henry Holt & Co 2015).

<sup>3</sup> Valve Corporation, *Handbook for New Employees* (2012)

[https://www.valvesoftware.com/company/Valve\\_Handbook\\_LowRes.pdf](https://www.valvesoftware.com/company/Valve_Handbook_LowRes.pdf) accessed 13 December 2024.

circles, and distributed authority for decision-making. First, Holacracy replaced the fixed job titles with roles. A role has a purpose, specific accountabilities, and domains of control. The roles are dynamic; they can be changed according to the needs of the organization. In contrast, fixed job titles are one-dimensional and linear. Employees can play multiple roles in different contexts, and thus they become more versatile and aligned to the organizational goals.<sup>4</sup> Holacracy also employs circle governance. Circles are semi-autonomous teams with specific, particular organizational functions. The circles meet regularly to update roles, decide on conflicts, and effect changes in operational needs. These circles can be nested, with a bigger circle having a smaller, functional circle. Circles allow decisions to come from the right level such that the system is always agile and clear without becoming overly managerial.<sup>5</sup> Holacracy uses distributed authority for decision-making. The power is not concentrated among one leader but is embedded in defined processes and the constitution of an organization. Decisions are rolled out based on roles. It avoids bottlenecks because of top-down hierarchies and gives an account of what happens. The focus is on consent rather than consensus, where a decision can move forward with no serious objections.<sup>6</sup> Probably, the company Zappos which has practiced Holacracy since 2014 may serve as an example of Holacracy implementation. It led to innovation and independence at the cost of resistance to new change and complexity in managing their governance process.<sup>7</sup> Anyway, Holacracy is in great demand by organizations that need a better, more flexible, and fair system of management.

## **BENEFITS OF HOLACRACY AND FLAT HIERARCHIES**

The benefits of Holacracy and flat hierarchies are that they provide flexibility, give power to workers, and increase accountability. Therefore, these are some of the best choices for a modern organization. The primary advantage is flexibility and adaptability. Traditional hierarchies are slow in decision-making because of their strict rules and centralized control. Holacracy, however, allows organizations to quickly respond to changes by giving power to self-managing teams. Decisions are made by the people who do the work. This helps them react quickly and reduces unnecessary steps. For example, Zappos used Holacracy to stay creative in a fast retail environment. Research shows that companies that allow more people to make

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<sup>4</sup> Brian J Robertson, *Holacracy: The New Management System for a Rapidly Changing World* (Henry Holt & Co 2015).

<sup>5</sup> Ibid.

<sup>6</sup> Ethan Bernstein and others, 'Beyond the Holacracy Hype' (2016) *Harvard Business Review* <https://hbr.org/2016/07/beyond-the-holacracy-hype> accessed 13 December 2024.

<sup>7</sup> Tony Hsieh, *Delivering Happiness: A Path to Profits, Passion, and Purpose* (Business Plus 2010)

decisions can solve problems better and adapt to changes because they are more flexible. Another benefit is that giving power to employees encourages new ideas. Since their job titles changed into new roles, people were doing different things that matched what they were good at or interested in with such responsibilities and creativity. Valve Corporation is flatly structured. Therefore, people can organize themselves and pick projects that interest them. That freedom is how important new ideas come in the gaming industry. Research indicates that if a company values independence and trust, then employees are more likely to be engaged and satisfied. In addition, clear role definitions help make sure people take responsibility. Unlike the traditional structure where job descriptions stay the same, Holacracy changes roles based on what the company needs. This clarity provides clear tasks instead of confusion and overlapping responsibilities. In Holacracy, roles can often be changed. This results in greater transparency and performance. These are robust advantages. However, organizations must decide whether such models would work well with the culture and operations to best benefit from them.<sup>8</sup>

## LIMITATIONS AND CHALLENGES

Holacracy and flatter hierarchies do have many strengths. Still, they can impose essential limitations and challenges about which organizations should think and care. It becomes difficult to change from this big challenge. From traditional hierarchies to flat structures or Holacracy usually involves a lot of cultural and operational changes. This can cause problems because some employees may find it challenging to adapt to the new system. They might even show resistance and confusion in their attempts. For example, Zappos started to use Holacracy in 2014, but workers hated it, and it made many people leave the company at that time of transformation. The rules of Holacracy are hard and force firms, especially big ones, to constantly update their jobs and processes of decision-making, which is overwhelming. Another problem is role ambiguity and choice. Holacracy attempts to clear up the roles, but when there is no defined job title and responsibility, it gets confusing. Employees may face problems and argue when they switch and share responsibilities. Furthermore, distributing authority takes time to decide, especially when no leader can make quick decisions, especially during emergencies. Scalability problems arise. Flat hierarchies and Holacracy work only in small, agile organizations but do not work well in large companies. A lot of self-organizing teams and keeping everything connected at all levels will be resource-consuming and

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<sup>8</sup> Daniel H Pink, *Drive: The Surprising Truth about What Motivates Us* (Canongate Books 2009).

communication will be a problem.<sup>9</sup> Critics of Holacracy say that there is a danger of having no traditional leaders in an organization when it is huge, as it may hurt the long-term planning and coordination of the organization. Lastly, there is a condition called employee burnout and gaps in responsibility. As employees get more liberty, they also take on extra responsibilities. Burnout is created through bad management of jobs and workloads. A bad self-discipline-related problem is that responsibility gaps get severe due to lack of control or traditional supervision in a Holacracy. The adoption of Holacracy or a flat structure requires a culture and size in which staff can easily transition before adopting.<sup>10</sup>

### COMPARISON WITH TRADITIONAL HIERARCHIES

Holacracy and traditional hierarchies serve different purposes in organizations and are effective in different situations. When their strengths and weaknesses are weighed against each other, using a mix of both often is the best solution in most cases. Holacracy works especially well in places that need speed and new ideas. Technology companies, start-ups, and creative industries adapt well to flexibility and worker power, where a flat structure and shared authority are very useful. For instance, Valve Corporation's flat structure allows the teams to self-organize and come up with new ideas very fast to produce new products in the gaming industry.<sup>11</sup> The same is true with Holacracy, where it's most suitable for organizations supporting teamwork and involvement of their employees because, under its mechanism, people can make decisions and assist others without waiting for their manager.<sup>12</sup> However, traditional hierarchies are better suited to large operations or industries which require strict rules. Those fields like finance, manufacturing, and government require vigilant supervision and following the rules; hence, having a central authority and straight lines of command is more important. Hierarchical models tend to be clearer and responsibility-giving, especially when the decisions are complicated and also important. For instance, large companies such as General Motors rely on hierarchical structures where coordination is made efficient in their global operations.<sup>13</sup> Hybrid approaches combine the best parts of both and are becoming more popular. These models keep some level of hierarchy while allowing decentralized decision-making where it is most helpful.

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<sup>9</sup> R. E. Freeman, *Strategic Management: A Stakeholder Approach* (Pitman Publishing 1984).

<sup>10</sup> Teresa Amabile, *Creativity in Context* (Westview Press 1996)

<sup>11</sup> Valve Corporation, *Handbook for New Employees* (2012)

[https://www.valvesoftware.com/company/Valve\\_Handbook\\_LowRes.pdf](https://www.valvesoftware.com/company/Valve_Handbook_LowRes.pdf) accessed 13 December 2024.

<sup>12</sup> Brian J Robertson, *Holacracy: The New Management System for a Rapidly Changing World* (Henry Holt & Co 2015).

<sup>13</sup> Alfred D Chandler Jr, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (MIT Press 1962).

Companies like Google use a hybrid structure, blending flat team dynamics with hierarchical leadership to balance new ideas and strategic control. This hybrid approach helps an organization adjust to changing situations without losing its operational stability. In a nutshell, Holacracy is flexibility and creativity, while traditional hierarchies are order and accountability. Organizations must take their goals, industry needs, and cultural background into account to find the best fit between the two models. Hybrid structures often provide the best of both worlds in the face of the unique challenges that today's business world faces.

## CASE STUDY

Zappos made headlines in 2014 as the company adopted Holacracy. It is an online shoe and clothing store that is famous for great customer service and company culture. With its CEO, Tony Hsieh, this approach was aimed at making sure Zappos would not lose its core values of innovation, empowerment of employees, and flexibility. This change was a lot different, intended to replace the traditional management system with self-management clear roles, and shared power. Zappos is using Holacracy, which means that there are no more typical job titles or management positions. The company has established governance circles representing teams or groups. They have varied roles in circles, depending on the employee's skills and interests. In cases where employees want to decide something immediately, they are allowed to do it, without permission from the manager. To describe how things work and what everyone is responsible for, the company adheres to the official rules of the Holacracy Constitution.<sup>14</sup>

**Results:** Adoption had a few significant positive impacts. Employees felt much freer, which helped them to be more creative and to generate new ideas.<sup>15</sup> It remained focused on the customer; employees became better problem solvers and shared ideas. It was flexible in such a system to allow teams to adapt fast to changes in business needs. Change is a painful phenomenon. In some of the businesses, some employees find it hard to swallow that managers in such offices have their respective, different tasks while other employees were finding stressful going on some sort of a meeting due to sustaining and managing affairs with approximately about 18 percent of those at the time the organization was compelled to out themselves due to such occurrences. Lessons Used and Resilience Zappos' experiment shows that Holacracy is not the same for every company. Success depends on the company culture,

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<sup>14</sup> Brian J Robertson, *Holacracy: The New Management System for a Rapidly Changing World* (Henry Holt & Co 2015).

<sup>15</sup> Tony Hsieh, *Delivering Happiness: A Path to Profits, Passion, and Purpose* (Business Plus 2010).

how ready the employees are, and how big the operations are. For companies thinking about using Holacracy, clear communication, thorough training, and a step-by-step approach will help to handle the challenges. Mixed models, which combine parts of Holacracy with traditional structures, might work better, especially in larger companies or where there are clear hierarchies.<sup>16</sup>

## CONCLUSION

Holacracy is a revolutionary departure from the traditional organizational hierarchies, which focus on adaptability, empowerment of employees, and decentralized decision-making. As discussed, the reason for its success lies in the creation of innovation and agility in dynamic industries, but it is usually accompanied by implementation complexity, scalability issues, and cultural resistance. The power is that Holacracy informs the employees of what role to play and who has the power to make which decision. Firms like Zappos and Valve prove innovation and also the need for speed points especially during high speed happening. There are risks too though. The high turnover rate of employees leaving Zappos and the uncertainty accompanied by fear of job change among its workers is what put danger in front of the organization if not prepared and equipped correctly. Outdated buildings still apply to a control-intensive business that needs stringent management in a particular industry, long-range planning, or rule-abiding. A balanced view should bring home the realization that some people did not agree with the idea of Holacracy but could perfectly change it to fit their traditional models. Many companies are now looking at hybrid approaches, which mix free and controlled environments of low hierarchies with clear roles and stability of current structures. This hybrid will be of much importance in finding new ideas for businesses to work effectively and responsibly. Therefore, in the future, the work environment will increasingly shift the balance between order and freedom. As technology changes businesses and what workers expect increases, companies must be adaptable regarding how they lead and manage. Holacracy, though troubled, is a big improvement in how we arrange work. Perhaps, in an era of constant change, the question is no longer whether to adopt Holacracy but how best to adapt those ideas into something that meets your particular needs and goals. The question doesn't end with what makes for the best

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<sup>16</sup> Derek Thompson, 'The Zappos Exodus Continues' (2015) *The Atlantic* <https://www.theatlantic.com/business/archive/2015/05/the-zappos-exodus-continues/392354/> accessed 13 December 2024.

organizational model, but the ideas of Holacracy help us rethink what's possible and trust in the collective ability of our teams.