STRUCTURE REORGANIZATION. IS HOLACRATIC STRUCTURE THE ANSWER?

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Abstract: Is self-management possible? Can organization and managers move from their traditional decision making? Can managers give more autonomy to their teams? Can the organization structure be more agile? These are the questions that in this paper the authors will look forward to research, analyze and to get better understanding whether the organization on one side and managers on the other side are prepared to go level up with their organization structure.

Organizational structure is a must. That's what is defined in management literature, no matter what. There are different organizational structures that organizations put into use, from traditional ones to the newly implemented ones such as flatarchies and holacratic, which will be discussed in this research paper. Within the traditional hierarchy the authority is delegated by the top-bottom method and the responsibility for tasks completed is required by the bottom-up method. The less people in decision making process involved are the more traditional, vertical and centric the organizational structure is.

One of the best description of holacracy is from Zappos CEO Tony Hsieh, such as "In a city, people and businesses are self-organizing … in organization, holacracy organizational structure enables employees to act more like entrepreneurs and they self-direct their work instead of reporting to a manager who tells them what to do." 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.

The above presented paragraph of Zappos CEO explains what all holacracy structure is about: more innovation, better productivity, self-directing, and decision making etc. We can't compare organizations in Macedonia with organizations in USA mainly because of business factors that are so different starting from the entrepreneurship culture, but we can analyze how much employees are prepared to be part of and to function in this organization structure.

This research paper is focused on analyzing how the employees define their work organization structure, is there any room to change that rigid structure and to move forward. Holacracy is not just a paper based rules of implementation. If the employees are not up to the task to take responsibility, to make decisions and function as a team, then it is hard to implement any reorganization no matter if it is more hierarchal or flexible. The authors will apply online questionnaire survey in order to gather more accurate information and through inductive approach they will try to complete this paper with pointing new issues such as how and what to analyze in the future regarding holacratic organization structure in Macedonian organizations.

Keywords: Organization structure, holacracy, employees, flatarchies, managers.

1. INTRODUCTION

Organizations are considered to evolve in much the same way as organisms in nature and as such would also change over time[1]. Considering the fact that organizational structure is a must, all organizations have to be aware for the necessity of establishing the most appropriate organizational structure according to their main activity. In order to achieve the settled goals, the organizations` existence in modern and dynamic environment inevitably leads to the need of development and improvement of their organizational structures. As working conditions in global environment are changing and as the organization itself develops and grows, there is a need for structural reorganization and changes in the way the organization is managed.

The traditional organizational structures that exist worldwide in the last 60 years, slowly give place to the modern organizational structures that are basing on dynamic governance which includes shared leadership, self-determination, cooperative leadership and self-management along with others. But this "transition process" is not happening very fast and easy, especially in large organizations with hierarchical structure, where the transformation to modern structures is too risky due to the complexity and long duration of shifting process.

2. TRADITIONAL VS MODERN ORGANIZATIONAL STRUCTURE

When talking of traditional organizational structure, the hierarchy is the first word that associates to that bureaucratic structure. According to the English Dictionary, hierarchy is "any system of persons or things ranked

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[1]Drew, S. A., & Wallis, J. L. (2014). The use of appreciative inquiry in the practices of large-scale organisational change. *Journal of General Management*, *39*(4).

one above another" (dictionary.com). The hierarchical system was firstly implemented in the church raking system of priests, than in military and further adopted by business organizations and companies. According to Max Weber "hierarchy" is a vertical formal integration of official positions within one explicit organizational structure whereby each position or office is under the control and supervision of a higher one[2].

This organizational approach has been used widely for more than 60 years, due to its reliability[3] and efficiency in terms of division of power and authority, performing job responsibilities, clear promotion path of employees, high level of expertise at managerial level and loyalty to the department. Hierarchy has a strong theoretical background and various cases of successful companies that have existed for more than 50 or 100 years without significant failure such as: IBM, Coca-Cola, and General Motors etc. Despite this, only 12% of Fortune 500 companies from 1995 remain on the list in 2015[4]. Why is this happening? According to Uhl-Bien, Marion and McKelvey (2007), traditional leadership in traditional organizational structures controlled behaviors and this has been the best option for stable and unchanging environments. Also, the linear approach of the traditional top-down hierarchy does not manage complexity with the speed necessary for the omnipresent connectivity of the modern workplace[5].

In nowadays the main challenge for CEOs of large companies is rapid pace of technological innovation, which evokes modifications in the way of working, the way of communicating, the behavior of employees and the way of organizing the things in the companies. Such rapid changes in the global business environment to which large companies with complex hierarchical structure can`t quickly adapt, emphasize the disadvantages of traditional organizational structure that obviously in the near future will have to be removed on one way or another. According the analysis, the hierarchical structure creates alienation, conflict and frustration among employees through various hierarchical levels, making improper decisions by the department managers and the rapid growth of technological innovation – which is the biggest challenge as mentioned above. Also, due to the bureaucracy and slow response to the customers and market needs, large hierarchical organizations began to lose their shares on the market. These are good enough signals that something has to be changed in the organizational structure.

Therefore, today modern organizational structure are coming on "stage" which are less focused on structure as a physical construct, but rather on the resources of leadership. Rod Collins (2014) an expert in management innovation created his own new model for organizations in 21st century called "Wiki Management"[6]. The term "Wiki" translated from Hawaiian language to English means (quick). According to the Wiki Management, like technology, organizations are network-based and they are made up of people who for the most part are usually part of some network – that simple as a family or supporting group, or a Face book collection of friends. Many companies have moved to this direction and Collins (2014) cited Google, Craigslist, Wikipedia, Linux, Amazon, Sales force, Whole Foods, Valve, Threadless, MorningStar and Zappos as examples of companies switching to a nontraditional hierarchical structure. In this dynamic environment organizations are under the pressure of consumer market from one side and the changing demographics of the workforce on the other, and they have to decide whether they will adapt the modern organizational structure or will fail to survive.

3. COULD HOLACRACY BE A DYNAMIC ORGANIZATIONAL STRUCTURE FOR THE MODERN WORKFORCE?

"Having one foot in one world while having the other foot in the other world has slowed down our transformation toward self-management and self-organization" (Tony Hsieh`s quote). Holacracy is one of the modern organizational systems designs that flattens traditional hierarchy based on dynamic governance. It is a pretty new organizational structure and therefore the literature review did not have a full overview of the holacracy governance system and a proper indication of the origins of this type of organizational structure. Holacracy is managerial system which is built in order to reflect and adapt environmental changes as fast as possible[7]. The system was built by Brian Robertson in 2007, based on his personal experience and after several years of investigation of various methods of controlling the authority within organizations. The implementation

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[2]Weber M. (1921/1980). *Wirtschaft und Gesellschaft*, 5, rev. edition. Tübingen: J. C. B. Mohr (Paul Siebeck).
[3]Morgan, J. (2015). *The 5 types of organizational structures: Part 1, the hierarchy*. Available at: <http://www.forbes.com/sites/jacobmorgan/2015/07/06/the-5-types-of-organizational-structures-part-1-the-hierarchy/#4a14c22d3853>.
[4]Murray, A. (2015). *Fortune 500: Five things you didn't know*. [online] Fortune.com
[5]Collins, R. (2014). *Wiki management: A revolutionary new model for a rapidly changing and collaborative world*. New York, NY: Amacom, Div American Mgmt Assn. p.11
[6]Ibid. p.17
[7]Robertson, B. J. (2015). *Holacracy: The revolutionary management system that abolishes hierarchy*. Penguin UK.

of the system takes around 15 months and requires a complete change of internal structure and a change of each employee mindset and great amount of effort that must be put into the human resources practices of a company. According to Robertson, holacracy works similarly to the principles of a human body. "Each organ within the body is able to fill its role, with minimal (yet important) feedback from other organs"[8]. In holacratic structure leaders or superiors give their decision-making power to employees, who ultimately get an authority to control and facilitate their own actions, as well as being responsible for further course of development. The term Holacracy refers to the word Holon, which means a whole that is part of a larger whole, whereas "holacracy" is the connection between holons[9]. In this revolutionary organizational structure, the approach towards employees and towards job responsibilities is significantly different from that in hierarchical structure. According to the Holacracy Constitution (2010), each employee does not have a job description, but instead they have roles that define a name, a purpose, optional "domains" to control and accountabilities, which are ongoing activities to perform. As any other model of organizational structure, holacracy has its own advantages and disadvantages such as:

- ✓ Reduces dependency on the bureaucratic processes, which gives employees the opportunities to focus on their tasks and goals;
- ✓ Culture becomes part of the working process that is created and facilitated by employees themselves, encourages the high level of employees engagement and feeling of ownership over organization well-being;
- ✓ Increases intrinsic motivational factors that are considered to be the highest in the hierarchy of needs;
- ✓ Increases organizational flexibility.

- 15 months are needed for shifting process to holacratic system, which can affect company`s productivity during this period;
- It requires a certain shift of a mindset, meaning that employees should be mentally prepared to be self-determined and be fully responsible for their actions;
- It encourages the full commitment of the workforce; therefore it can have a side-effect on work and life integration processes.

All these positive and negative sides of holacracy organizational system have been personally experienced by the author of the above mention quote - Tony Hsieh, who is the CEO of Zappos – US based company that was a pioneer in implementing the holacracy organizational structure. Zappos was established in 1999 also as a pioneer of online retail company and became a large corporation 10 years later. Following the process of expanding in 2013, the company switched from hierarchical organizational structure to the holacratic.

This move made Zappos the most popular company in the media worldwide and brought to the company significant publicity and popularity. The premises of Zappos organizational change was the exceptional culture, orientation on long-term perspective and the influence of CEO visionary leadership. The case of Zappos shows that emerging and scaling enterprises should have a holacratic structure in order to support the growth of adaptability by eliminating the hierarchical ladder, distributing authority to all employees, while ensuring the encouragement of active involvement into company's operations and strategic developments.

4. RESEARCH RESULTS

In order to "measure" the pulse and readiness in Macedonian business sector for implementing changes in organizational structure, we applied online questionnaire survey, which gave us more accurate information about the level of awareness among the employees in different sectors for the actual model of organizational structure in their organization and their willingness for changes and eventual reorganization.

The whole focus in this research is on main disadvantages of holacracy and if the organizations are prepared to introduce this new organizational structure. For better analyzing and researching purposes, the authors have gathered data through online questionnaire (see Appendix 1), and the finding are presented below.

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[8]Ibid. p.17
[9]Koestler, A. (1967). *The Ghost in the Machine.* Hutchinson & Co, London.

Chart #1. Area of employment
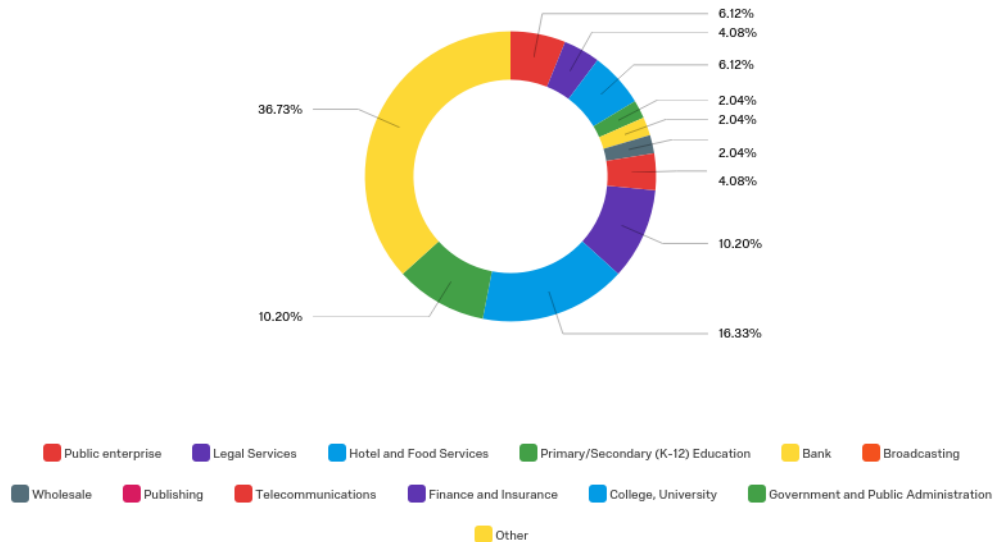
As seen from the chart #1, the research has big reliability and integrity because the authors have an approach on analyzing organizational structure in different industries. There are sectors such as public enterprises, banks, broadcasting, college/universities etc.

According to the answers gathered from the questionnaire, the majority of the enterprises has functional organizational structure, or more than 45%, and is followed on the second place by "none of the above" and "no defined structure". Functions in organizations are seen as the primary source of authority, meaning the higher the function in organization, the higher authority and involvement in decision making, but in some ways it is the opposite of what the holacracy organizational structure really stands for.

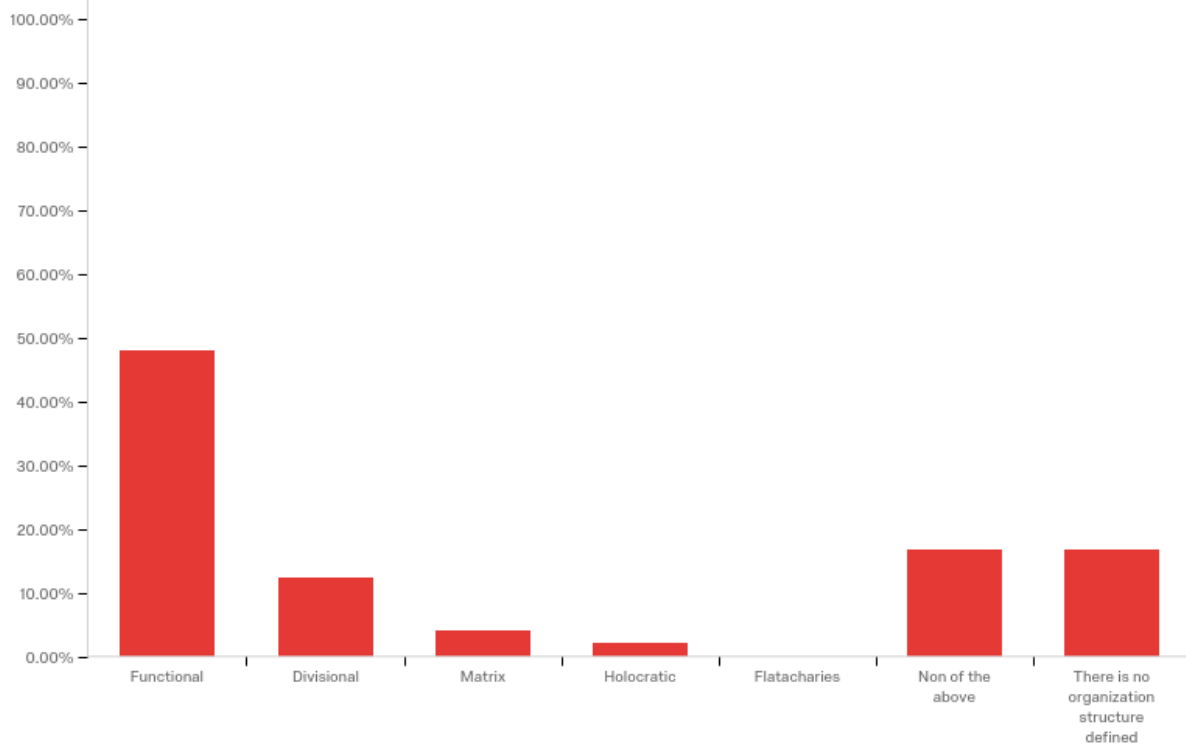Chart #2. Types of Organizational structure

Table #1. Organizational levels

#	Answer	%
1	Many hierarchical	64.58%
2	Few/flat	18.75%
3	There's no defined levels	16.67%
	Total	100%

Table #2. Employees` knowledge

#	Answer	%
1	Outstanding	8.33%
2	Above average	31.25%
3	Average	50.00%
4	Below average	8.33%
5	Rather not say	2.08%
	Total	100%

Results in the Tables show that, the many hierarchical levels and also the average employees` knowledge limits the opportunity to introduce new organizational structure such as holacracy, where the main figures in the organization are the employees themselves. Also the majority of organizations have stated that their organization has gone through very small or moderate changes in their business models, which prompts the authors to believe, that the organizations didn't even try to remove their hierarchal or rigid systems of their organizational structures.

Hierarchical structure Cross Tabulation(1)

How many people are employed in your company?		Do You try to introduce innovative ideas, concepts while performing given task?					What is the core competence of organization?					Human resources performance drivers are						
		Always	Sometimes	Never	Management dont take into consideration	Total	Great value to customers	Unique Business Model	Human Values.	I don't know	Total	Goal oriented performance	Self - motivated performance	Self - commitment	Working for career aspirations	Working for value creation of the company	Not clearly defined	Total
	1 - 10	30.00%	70.00%	0.00%	0.00%	100.00%	50.00%	0.00%	40.00%	10.00%	100.00%	40.00%	20.00%	10.00%	10.00%	20.00%	0.00%	100.00%
	11-49	60.00%	40.00%	0.00%	0.00%	100.00%	20.00%	40.00%	20.00%	20.00%	100.00%	20.00%	20.00%	10.00%	10.00%	20.00%	20.00%	100.00%
	50 - 249	28.57%	50.00%	14.29%	7.14%	100.00%	35.71%	7.14%	28.57%	28.57%	100.00%	14.29%	21.43%	0.00%	14.29%	7.14%	42.86%	100.00%
	> 250	41.67%	41.67%	0.00%	16.67%	100.00%	50.00%	25.00%	16.67%	8.33%	100.00%	33.33%	8.33%	8.33%	8.33%	25.00%	16.67%	100.00%
	Total	39.13%	50.00%	4.35%	6.52%	100.00%	39.13%	17.39%	26.09%	17.39%	100.00%	26.09%	17.39%	6.52%	10.87%	17.39%	21.74%	100.00%

How many people are employed in your company?		Do You try to introduce innovative ideas, concepts while performing given task?	What is the core competence of organization?	Human resources performance drivers are
	Chi Square	10.69*	10.82*	10.75*
	Degrees of Freedom	9	9	15
	p-value	0.30	0.29	0.77

*Note: The Chi-Square approximation may be inaccurate - expected frequency less than 5.

Through the above presented cross-tabulation the authors tried to understand how ideas, sharing information, drivers of human resource are connected with the size of organization. Looks like the innovative approach and also trying different concepts while performing different task is more represented to small size organizations that have number of employees from 11-49. Sadly, the organizations can not define what their core values are and percent's are stretched through different statements such as costumer value, unique business model, human values etc. This can lead to greater problems in organization, especially when managers will try to introduce new organizational structure. Human resources in general are goal oriented, but what leads to some concerns from these results is the self-motivation performance in large organizations which is 8%. Corporative culture in this case is presented as not preferred for achieving career aspiration, nor self-motivation.

The second cross-tabulation presented below focuses on the process of communication and information sharing. As expected, big-size organizations have more formal approach when it comes to communication, and regarding sharing information all organizations have an advantage and they try to share information between organizations, but when it comes to initiatives that organizations take to promote knowledge sharing culture, seems like there is nothing at all. If organization doesn't engage in rewarding methods for knowledge sharing in long run, we can have total different results regarding the motivation of employees to share knowledge, experiences, information, ideas, and innovation with their peers or work-colleagues.

Hierarchical structure Cross Tabulation(1)

How many people are employed in your company?		How does the communication process work in your organization?			Do You show willingness to share knowledge and information?			What initiatives your company takes to promote knowledge sharing culture?				
		Formally	Informally	Total	Yes	No	Total	Reward	Considering in appraisal	Providing the infrastructure	Nothing at all	Total
	1 - 10	6 54.55%	5 45.45%	11 100.00%	8 80.00%	2 20.00%	10 100.00%	2 22.22%	1 11.11%	3 33.33%	3 33.33%	9 100.00%
	11-49	7 63.64%	4 36.36%	11 100.00%	8 72.73%	3 27.27%	11 100.00%	4 36.36%	2 18.18%	1 9.09%	4 36.36%	11 100.00%
	50 - 249	7 50.00%	7 50.00%	14 100.00%	13 92.86%	1 7.14%	14 100.00%	3 21.43%	3 21.43%	3 21.43%	5 35.71%	14 100.00%
	> 250	10 83.33%	2 16.67%	12 100.00%	10 90.91%	1 9.09%	11 100.00%	4 36.36%	1 9.09%	1 9.09%	5 45.45%	11 100.00%
	Total	30 62.50%	18 37.50%	48 100.00%	39 84.78%	7 15.22%	46 100.00%	13 28.89%	7 15.56%	8 17.78%	17 37.78%	45 100.00%

How many people are employed in your company?		How does the communication process work in your organization?	Do You show willingness to share knowledge and information?	What initiatives your company takes to promote knowledge sharing culture?
	Chi Square	3.46*	2.44*	4.11*
	Degrees of Freedom	3	3	9
	p-value	0.33	0.49	0.90

*Note: The Chi-Square approximation may be inaccurate - expected frequency less than 5.

The idea and goal of this inductive research approach was to analyze how much organizations in Macedonia are prepared to introduce new organizational structure with the main focus on Holacracy organizational approach. Holacracy requires intelligence, different mindset and different approach. Some of the disadvantages of holacracy mentioned above are such as time need up to 15 months for shifting process, certain shift of a mindset, meaning that employees should be mentally prepared to be self-determined and be fully responsible for their actions and to encourage full commitment of the workforce.

The main conclusions that can be taken from this research are the following:
- Organizations need to communicate and explain to employees their form of organizational structure
- Organizations have to improve the recruitment process and select personal with higher level of intelligence and knowledge
- Organizations need to introduce adequate rewarding system or something that will motivate the employees to participate more in information and knowledge sharing process
- Organizations with time should try to freshen up their organizational structure or business model
- Organizations need to have clear idea what their core values are.

This paper will be distributed to all organizations that participated in the research process, because the goal of this research paper was at the end to create clear hypothesis, that will help and motivate the authors to make further research in order to analyze how much and why organizations will fail/or will succeed in implementing a holacratic organizational structure.

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