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HOLACRACY

The New
Management System
for a Rapidly
Changing World

Foreword by DAVID ALLEN,
author of *Getting Things Done*



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PART ONE

EVOLUTION

AT WORK:

INTRODUCING

HOLACRACY



EVOLVING ORGANIZATION

If everyone had to think outside the box, maybe
it was the box that needed fixing.

—MALCOLM GLADWELL, *What the Dog Saw*

I learned my most important business lesson on the day I nearly crashed an airplane. I was a student pilot working toward a private pilot's license, and the day had come for my first long-distance solo flight. I'd be flying alone to an airport far from home, and with barely twenty hours of actual flight time under my belt I was more than a little nervous. Hundreds of miles lay ahead, and the only companionship I would have once airborne was a well-worn bank of instruments in the cockpit of my little two-seater airplane.

All seemed well just after takeoff, but before long, I noticed an unfamiliar light on the instrument panel. "Low Voltage," it said. I wasn't sure what that meant—they don't teach new pilots much about the plane's mechanics. I tapped the light, hoping it was just a glitch, but nothing changed. Unsure how to respond, I did what seemed natural at the time: I checked every other instrument for anomalies. My airspeed and altitude were good. The navigation aid told me I was perfectly on course. The fuel gauge showed plenty of gas. All these instruments were telling

me I had nothing to worry about. So I accepted that consensus and effectively let the other instruments outvote the low-voltage light. I ignored it. It couldn't be too serious if nothing else was amiss, right?

This proved to be a very bad decision. It eventually left me completely lost, in a storm, with no lights and no radio, nearly out of gas, and violating controlled airspace near an international airport. And this near catastrophe started when I outvoted the low-voltage light, which, it turns out, was tuned into different information than all the other instruments. Even though it was a minority voice, it was one I really needed to listen to at that moment. Dismissing its wisdom just because my other instruments didn't see any trouble was a short-sighted decision that could have cost me my life.

Fortunately I did make it down, shaken but unharmed. And in the months that followed, as I reflected on the decisions I had made that day, I came to an interesting conclusion. I was still making the same mistake—not in my plane, but in the team I was supposed to be leading at work. In fact, the near-fatal error I made in the cockpit is one made on a daily basis in most organizations.

An organization, like a plane, is equipped with sensors—not lights and gauges, but the human beings who energize its roles and sense reality on its behalf. Too often, an organization's "sensor" has critical information that is ignored and therefore goes unprocessed. One individual notices something important, but no one else sees it and no channels are available to process that insight into meaningful change. In this way, we often outvote the low-voltage lights of our organizations.

Our organizations become aware of whatever they need to respond to in their world through our human capacity to sense the reality around us. And we humans are all different—we have different talents, backgrounds, roles, fields of expertise,

and so on—so we naturally sense different things. Where there are multiple people, there are multiple perspectives. Yet, on most teams, critical perspectives that aren't shared by the leader or by the majority are often ignored or dismissed. Even when we intend to do otherwise, we don't have a way to integrate differing perspectives, so we end up falling back in line with the leader or the majority. We outvote the person who may have key information we need to keep on course or move forward.

I've always been fascinated by *how we organize*—how we humans work together in pursuit of a purpose. Before I started my own business, I was often frustrated when I sensed something that wasn't working or that could be improved, only to find there wasn't much I could do with that awareness, at least not without heroic effort in the face of bureaucracy, politics, and long, painful meetings. I didn't just want to complain—I wanted to help. I wanted to process that *sense* I had into meaningful change. Yet I routinely encountered big obstacles to doing so. I learned early on that if the boss didn't share my frustration and I couldn't convince him relatively quickly, I might as well forget it. The information I was sensing was not going to have much impact. And if I was the low-voltage light, then the organization was in trouble.

The human capacity to *sense dissonance in the present moment and see the potential for change* strikes me as one of our most extraordinary gifts—our restless, never-satisfied, creative spirit that keeps us always reaching beyond where we are. When we feel that sense of frustration at a system that's not working, or a mistake that keeps getting repeated, or a process that seems inefficient and cumbersome, we are tuning in to a gap between how things *are* and how they *could be*. I call this a tension, because that's often how it is experienced, but I don't mean the word in a negative way. We might label this state a “problem” that “should” be fixed, or we might label it an “opportunity”

to harness. Either way, that's just us projecting our meaning-making on the raw experience I'm calling a tension—the *perception of a specific gap between current reality and a sensed potential*.

We can hear an echo of that definition in the Latin root of the word *tendere*, which means “to stretch.” As in a rubber band stretched between two points, there is tremendous energy held in these tensions we sense. That energy can be used to pull the organization toward each sensed potential—but only if we can effectively harness it. Yet of how many organizations can you genuinely say that any tension sensed by anyone, anywhere in the company, can be rapidly and reliably processed into meaningful change? As the cofounder of HP, Dave Packard, once said, “More companies die of indigestion than starvation.”¹ Organizations sense and take in much more than they effectively process and digest. Consider the value that could be realized, instead, if our sensors had the capacity to dynamically update workflows, expectations, and even the very structure of the organization, in light of whatever tensions arise while getting the work done, without causing harm elsewhere in the process. That's a tall order, yet I've seen firsthand what can happen in an organization when its systems can do that, and the change goes well beyond creating better work environments or more effective processes. It can catalyze a much deeper transformation by unleashing the power of evolutionary design on the organization itself.

Evolution may not be a common topic within the business world, but its workings have an unparalleled capacity to produce exquisitely crafted systems that thrive amidst complexity. Said another way, evolution is the most intelligent designer around. As the economist Eric D. Beinhocker writes, “We are accustomed to thinking of evolution in a biological context, but modern evolutionary theory views evolution as something much

more general. Evolution is an *algorithm*; it is an all-purpose formula for innovation . . . that, through its special brand of trial and error, creates new designs and solves difficult problems.”² Markets, he explains, are highly dynamic, but the “brutal truth” is that the vast majority of companies are not. Organizations have very little capacity to evolve and adapt. They are subject to evolution’s process at the market level and may survive or die as a result, but they are rarely adaptive organisms themselves, at least on more than a superficial level.

How can we make an organization not just *evolved* but *evolutionary*? How can we reshape a company into an evolutionary organism—one that can sense and adapt and learn and integrate? In Beinhocker’s words, “The key to doing better is to ‘bring evolution inside’ and get the wheels of differentiation, selection, and amplification spinning *within* a company’s four walls.”³ One powerful way to do that is to harness the tremendous sensing power of the human consciousness available to our organizations. Each tension human beings sense is a signpost telling us how the organization could evolve to better express its purpose. When those tensions can be processed quickly and effectively, at least to the extent that they relate to the organization’s work, then the organization can benefit from an enhanced capacity to dynamically and continually evolve.

While this may be a compelling idea, it’s one much easier expressed than put into practice. Our organizations today are simply not designed to rapidly evolve on the basis of inputs from many sensors. Most modern organizations are built on a basic blueprint that matured in the early 1900s and hasn’t changed much since. This industrial-age paradigm operates on a principle I call “predict and control”: they seek to achieve stability and success through up-front planning, centralized control, and preventing deviation. Rather than continually evolving an organization’s design on the basis of real tensions sensed by

real people, the predict-and-control approach focuses on designing the “perfect” system up front to prevent tensions (and then on reorganizing once those at the top realize they didn’t quite get it right).

This model worked well enough in the relatively simple and static environments faced in the era in which it matured: the industrial age. In fact, it was a leap forward from previous approaches, enabling new levels of coordination, production, and progress. In today’s postindustrial world, however, organizations face significant new challenges: increasing complexity, enhanced transparency, greater interconnection, shorter time horizons, economic and environmental instability, and demands to have a more positive impact on the world. Yet even when leaders embrace the need for new approaches, the predict-and-control foundation of the modern organization often fails to provide the agility desired and needed in this landscape of rapid change and dynamic complexity. And the structure of the modern organization rarely helps ignite the passion and creativity of the workforce. In short, today’s organizations are quickly becoming obsolete.

As the wheels of change turn faster and faster in our increasingly chaotic global economy, it is becoming imperative that companies are able to adapt more quickly. As the management expert Gary Hamel recently said at the World Business Forum in New York, “The world is becoming more turbulent than organizations are becoming adaptable. Organizations were not built for these kinds of changes.”⁴

I found this out the hard way in my early experience working in organizations. Most tensions sensed by individuals, including me, simply had nowhere to go. Tensions are just not recognized as among the organization’s greatest resources. When I realized that my boss wasn’t able to make use of my human capacity to sense and respond, I did the only logical thing: I became a boss

myself. Now I could really process whatever it was I sensed, right? Well, there was still a higher boss to act as a bottleneck, and another, and another. After climbing the corporate ladder for a while, I realized that the only way I was going to have the freedom to respond to every tension I sensed would be to drop out of the system completely and start my own company.

So I did. And I loved it—for a while. But I soon discovered that even as the CEO of my own software company, I was limited. The organizational structure and management system itself became a bottleneck for processing everything I sensed, and the sheer lack of hours in a day became a limiting factor: there was far too much complexity landing on my desk for the organization to fully harness even my own consciousness as its CEO. And that wasn't the worst of it.

The more painful realization was that I had built just the kind of system I had worked for so long to get out of. Everyone who worked for me was in the same position I had been in. And my organization was not much more able to harness their capacity to sense reality than any other. I tried to be the best leader I could—to empower people and be sensitive to their needs and issues, to develop myself, to be a more conscious “servant leader”—yet despite my best efforts, I kept running into an invisible barrier. The underlying structure, systems, and culture of a modern corporation do not allow for the rapid processing and responsiveness necessary to fully harness the power of every human sensor, no matter what I did as a leader. So I began searching for a better way.

An Operating System Upgrade

I'm certainly not the first to point out the limits of a traditional organizational design and the need for new approaches. Over the past couple of decades, ever more books, articles, and talks

have shared perspectives on organization that are clearly beyond our conventional norms. While each of these authors and pioneers has his or her unique focus, it's hard not to notice some general emphases—on more adaptability, more flexible structures, a broader stakeholder orientation; on working with uncertainty; on new ways of engaging the workforce; on more systemic approaches to business, and so on. Each of these perspectives offers a glimpse of what may be a cohesive new paradigm taking shape at the edge of organizational practice today.

Yet, despite the power of these new-paradigm ideas and techniques, I routinely see a huge obstacle to their deployment: when they're applied in an organizational system that's still conventionally structured, there's a major paradigm clash. At best, the novel techniques become a “bolt-on”—something that affects just one aspect of the organization and remains in continual conflict with the other systems around it. A great new meeting technique helps empower a team, for instance, but those team members are still constrained by a power structure at play outside of the meeting and throughout the rest of the company. At worst, the “corporate antibodies” come out and reject the bolted-on technique, a foreign entity that doesn't quite fit the predominant mental model of how an organization should be structured and run. In either case, the novel practice fails to realize its full potential, however promising, and we don't get much of a paradigm shift in the organizational system.

This is a major challenge for anyone applying leading-edge ideas and techniques in conventional systems. How can we evolve some aspect of how we organize, when the innovations we try to use clash with the older paradigm still at play? Everything I've experienced continually points back to this conclusion: to really transform an organization, we must move beyond bolting on changes and instead focus on upgrading the most foundational aspects of the way the organization functions. For

example, consider the way power and authority are formally defined and exercised, the way the organization is structured, and the way we establish who can expect what, and from whom—or who can make which decisions, and within what limits. When we change things at this level, we are effectively installing a new organizational operating system, infusing new capacities into the core of how the organization functions, so that we can move beyond applying changes to a system that's fundamentally at odds with the very process of change itself.

If you're old enough to remember the days when most PCs ran MS-DOS, consider the leap in capabilities that came with a new operating system like Windows, or the shift from the old Apple II to the Macintosh. It would have been hard to imagine, back in the eighties, that my black screen with blocky green text would soon be replaced by an interactive, self-updating, user-friendly graphical interface constantly connected to a worldwide virtual network, with instant access to the world's collective store of information—and that all this would be available on a device that fits in my pocket.

Despite the radical difference a good operating system makes, we can easily ignore it and take it for granted—it's just an underlying platform, often invisible, though it shapes everything that's built on top of it. Your computer's operating system defines the space in which everything else happens and the core rules by which everything else must play. It defines how the overall system is structured, how different processes interact and cooperate, how power is distributed and allocated between applications, and so on.

Likewise, the operating system underpinning an organization is easy to ignore, yet it's the foundation on which we build our business processes (the “apps” of organization), and it shapes the human culture as well. Perhaps because of its invisibility, we haven't seen many robust alternatives or significant

improvements to our modern top-down, predict-and-control, “CEO is in charge” OS. When we unconsciously accept that as our only choice, the best we can do is counteract some of its fundamental weaknesses by bolting on new processes or trying to improve organization-wide culture. But just as many of our current software applications wouldn’t run well on MS-DOS, the new processes, techniques, or cultural changes we might try to adopt simply won’t run well on an operating system built around an older paradigm.

While I didn’t realize it at the start of my journey, my personal quest to find better ways to work together would eventually lead me to focus on the fundamental “social technology” of how we organize. After many years of experimentation, across several organizations, a comprehensive new operating system emerged, through my efforts and those of many others. Eventually, we called it Holacracy (a term whose origins I’ll explain in more detail later in this book). What is Holacracy? Essentially, it’s a new social technology for governing and operating an organization, defined by a set of core rules distinctly different from those of a conventionally governed organization. Holacracy includes the following elements:

- a constitution, which sets out the “rules of the game” and redistributes authority
- a new way to structure an organization and define people’s roles and spheres of authority within it
- a unique decision-making process for updating those roles and authorities
- a meeting process for keeping teams in sync and getting work done together

As of this writing, Holacracy is powering hundreds of organizations of many types and sizes around the world, including

HolacracyOne, the organization where I work day to day (so we eat our own dog food, as they say).

In the chapters that follow, I'll unpack how Holacracy distributes authority, and how this translates into a new organizational structure. Then, in Part II, I'll walk you through the nuts and bolts of how the operating system works—its structures, processes, and systems. These chapters are not designed as a how-to guide for installing Holacracy in your company; think of them more as an experiential workshop where you can participate in various scenarios and simulations and get a taste of what it's like to work in a Holacracy-powered organization. Finally, in Part III, I'll offer some advice and guidelines for how you might go about implementing what you've learned in this book, and what to expect when you do.

I'll continually attempt to convey how Holacracy looks and feels in practice, by sharing stories and experiences frequently reported by those working in Holacracy-powered organizations. This is my attempt to address a core challenge of writing this book: Holacracy is above all a practice, not a theory, idea, or philosophy, and it is difficult to truly understand a practice without experiencing it. The practice of Holacracy itself came into being through practice—through trial and error, evolutionary adaptation, and ongoing experimentation, all in an effort simply to unleash more creative capacity for an organization to express its purpose. Because Holacracy wasn't created by sitting down and designing a system on the basis of certain ideas or principles, the challenge of conveying it through words and concepts becomes even more difficult. When I look back at the end result, I see that while I may have extracted certain principles, these were after-the-fact tools for understanding what had organically emerged from experimentation.

Therefore, I hope my readers will approach this book not as a set of ideas, principles, or philosophies, but as a guide to

a new practice, which you may choose to use if it works for you and your business better than whatever you are currently doing. This is where Holacracy really comes alive—in the day-to-day work of processing tensions into meaningful change, for the sake of whatever purpose the organization is here to express. It is thus my goal in this book to convey at least a glimpse of the *experience* of practicing Holacracy, and give you a taste of what an evolution-powered organization makes possible.

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