

Please note that the **highlighted portions below** represent what we believe are the most important takeaways from the Q&A.

Q1:

Generally speaking, how would you characterize the accuracy of the latest round of press on departures from Zappos? Looking for your personal reaction and how you'd respond if someone asked you about it at a cocktail party. Feel free to be blunt.

A1:

Response from Fred Mossler:

For what it's worth as I noodle on the press coverage, what no one has mentioned, is if "any" company were bold enough to offer their entire employee base a severance the likes of which we did, what percent of any other company's employees do you think would "take the offer?". In reading all the exit interviews and speaking with people leaving, the exodus is less about Holacracy/teal/dissatisfaction and more about the opportunity to pursue other passions or fulfill other goals in life. The fact we can make such an offer and "only" 18 percent choose to leave is I'm guessing an impressive statistic in the corporate world.

Additional response from Tony:

I completely agree with Fred... the ironic thing is that we didn't actually have to make an offer. The reason we did was because it's always been a part of our culture to treat our employees well and is consistent with our ongoing practice of making every single new employee an offer of several thousand dollars to quit the company during our 5-week new hire training. The headline really should be "82% of employees choose NOT to take the offer."

In addition, most of the stories I've read are based on either incomplete information, out of context, or are relying on link-bait headlines because many of the media companies measure success based on the number of clicks they receive (and resulting traffic). I asked one of the reporters if she thought the headline was "link-bait" and she admitted it was, but justified it by saying that it was at least not as link-bait as the headlines were in the previous media organization she was employed at before. *Literally, the headline of the article is prefaced with the words "SEE YA".*

Here's the data that most of the articles did not include for proper context:

- Zappos annual turnover in 2013 and 2014 was each about 20%
- Teal Offer takers totaled about 18% (including the delayed Super Cloud Teal Offer takers)

- Our estimate is that roughly half of the Teal Offer takers took the offer not because of anything related to Holacracy or Teal, but because the economics of the offer were too good to pass up (minimum of 3 months severance or 1 month for every year worked (whichever was greater)). Some long-time employees were offered over a year of severance, plus they are still eligible to join Zappos again after 12 months, so it allowed people the opportunity to pursue their new startup ideas, or take time off to take care of their sick relative, for example.
- Our total turnover for 2015 was about 30%
- Based on the above numbers, our extra turnover was about 10% more in 2015 compared to what's normal, and that 10% was mostly due to us giving long-time employees the opportunity to pursue their dreams (average severance paid out was about 5.5 months pay when we last analyzed the data).

And finally, a misinterpreted conversation with our COO Arun resulted in reports suggesting that we would had a layoff if enough folks had not taken the offer. This is factually incorrect.

Q2:

The FAQ says that Zappos had an annual turnover of about 20%. Isn't this unusually high? I thought Zappos was a place where people stick around, especially considering your company culture. Has it always been around 20%, or has something changed over the years?

A2:

Our annual turnover has generally been around 20% (except for 2015 due to the Teal Offer). A quick Google search suggests this is well below the turnover for most call centers, but regardless, our goal has never been to hit a certain turnover metric. Instead, our goal is to maximize the number of employees that believe in the company mission, are passionate about customer service, and believe that this is the right culture for them. This is why we make an offer to every single new hire (regardless of department) during their 5-week new hire training class, for example. We offer every new hire several thousand dollars to quit and leave the company before they start the actual job they were hired for. This obviously will increase our turnover compared to if we didn't make the offer, but we think it's the right thing to do to make sure employees don't feel "stuck" in a job or company that's not the right fit for them.

Q3:

The holacracy experiment: do you have a sense of whether it's benefiting the company yet? I know it's early, but perhaps you have some numbers that help you gauge whether it's a success. Or, if you

don't have numbers, what are some examples or other indicators that it's worthwhile (or not working)?

A3:

We've had some great examples of folks that were able to move much faster, be more innovative, and take on a lot more responsibility compared to if we had stayed under the old structure. I'm happy to introduce you to some of those folks if you'd like to interview them directly. One quick example: Tyler Williams, our "Fungineer", went from a budget of a few hundred thousand dollars overseeing campus events to a multi-million dollar budget overseeing what we're internally referring to as "Brand Aura" overnight, producing popular customer promotions such as [Pawlidayz](#) and most recently hosted a Zappos-branded drone racing event resulting in a [viral drone racing video](#).

In the old world, it would have taken Tyler several years to work his way up the "corporate ladder" to be given approval for that big an increase in his budget.

Additional response from Arun (COO):

Some examples:

1. CTO Circle : in a traditional structure, a single person plays the role of CTO. In our holacratic structure, we've broken down the accountabilities of the CTO role and the role is now filled by a circle. Pre-Holacracy, there would simply be no way to capture and implement something like this..

2. Breaking away from a siloed/hierarchical structure : As companies get bigger, there is a natural tendency for hierarchally organized functional silos to form. We were not immune from this and we started to become siloed across functions like technology, merchandising, marketing, etc. which resulted in us moving much slower and less fluidly. We are starting to see the benefits of Holacracy in this context given that it has a built-in mechanism to continuously iterate on the organization so that structures and funds fluidly coalesce around the most important work as it relates to delivering on the company's purpose and accountabilities. Given this, we have started to see cross functional/cross disciplinary structures form where budgets and people are unlocked from their legacy silos into structures that have cross functional representation.

Here are a few examples:

(a) we have a circle where our customer facing technology team moved out of the legacy technology structure and now sits in a structure composed of merchandisers and engineers working side by side

(b) our customer service technology team no longer sits in a centralized technology silo – instead they work in a structure where they are directly aligned with our Customer Loyalty team.

(c) Portfolio Manager circle – in the recent few years, 100% of our brand marketing funds were given to the brand marketing team on an annual basis to spend as they saw fit to develop the Zappos brand. This implicitly meant that our marketing team was solely accountable for growing our brand. However, the reality is that the Zappos brand has grown in many different ways – word of mouth due to the emotional connections made by our Customer Loyalty team, value propositions like free shipping and returns, the addition of new product brands by merchandising, etc. By giving our entire brand marketing budget to one circle, we starved non-marketing areas, who historically helped grow the brand, of much needed funds. As a result of this tension, we have moved these funds to a portfolio manager structure that will release funds to any circle/proposed circle in the company that can make the case to effectively use these funds to develop the Zappos brand.

Q4:

When I initially wrote a feature on holacracy, one of the early adopters of the management shift was the CTOs department. The implication of the latest round of press was that one of your techteams (the super cloud) was a particularly bad fit for holacracy. Was this something unique to the team, higher-skill departments in general, or do you not think that there has been some misstated link between the super cloud team and holacracy?

A4: Response from Arun Rajan, our COO and former CTO:

Over the course of the Super Cloud project, we ramped up heavily on management roles including people, product and project management roles. This made sense in the context of a large program in a centralized/non-holacratic tech structure. However in a post super cloud, holacratic structure where engineers are inline with various business circles working on smaller projects with faster iterations, the need for these types of roles is diminished. In this new structure and approach, people who were/are in people/product/project management roles would have to find other roles in the company. Given this, significant numbers of employees in these roles chose to opt out of this direction and take the Teal Offer.

Q5:

Any particularly interesting examples or stories that you think should give my audience optimism that your experiment is working?

A5:

As I mentioned above, happy to introduce you to some folks so you can talk to them directly if you'd like. But fundamentally, I think the real question should be about what happens if there is no innovation on how companies are structured? This isn't just about Zappos, this is about all companies. The default future for companies under the traditional structure is death. Something like 88% of the companies that were on the Fortune 500 list in 1955 are no longer on that list. **The simple fact is that command and control structures do not stand the test of time, but self-organized and self-managed structures (such as cities) are resilient and do stand the test of time.** In addition, research has shown that every time the size of a city doubles, innovation or productivity per resident increases by 15%. But with traditional companies, the opposite happens — innovation or productivity per employee generally goes down.

Holacracy just happens to be the technology that we are using today, but our ultimate goal is that we want to structure Zappos more like a city and less like a top-down bureaucratic command and control organization. **Our march towards self-organization and self-management isn't an experiment. It's the future of work and it's the only structure that has stood the test of time.** It's the only structure that can become more innovative as it gets bigger (vs. typical corporate structures that become less innovative as they get bigger). Self-organization and self-management isn't a theory. It exists in nature, and it exists in human-created cities.

By adopting Holacracy as a first step towards breaking down legacy bureaucratic hierarchies through the adoption of self-management and self-organization, we believe Zappos can stand the test of time, build on our culture, and continue to foster innovation.

Q6:

The media, for better or worse, is going to judge you. In your mind, if an 18% departure isn't a good metric, what might be a better number that they should focus on in the future (revenue, turnover, new hiring, etc).

A6:

To start, I would focus on the percent of employees that stayed. The headline really should be "82% of employees decide give up the easy money (3 months severance or 1 month for every year worked, so in some cases over a year's worth of pay with the ability to join Zappos again in a year)."

As a thought experiment, take Holacracy out of the conversation and just imagine if the same offer was made to all the employees of any company in the world right now. What percent of employees

would refuse the offer and stay? My guess is that our 82% number at Zappos would be higher than the vast majority of companies out there.

From a financial productivity point of view, I think looking at long-term profit per employee is an interesting metric. Ultimately though, what drives me is helping build a company that will stand the test of time.

Will Zappos still be around and relevant 100 years from now, or 500 years from now?

Q7:

I think what strikes people about the holacracy story is that Zappos was a generally successful company. I think the media is used to stories about radical restructuring only when there's some serious issue. Why did you take such a big risk when everything was going (relatively) OK? Or, did you anticipate some problems down the road that wasn't immediately apparent about the company?

A7:

At 1500 people, we just generally felt like things were moving slower compared to when we were 150 people. I don't think it's really anyone's fault, I think it's a byproduct of the normal hierarchical structure and processes. There's never a good time to make a change like this, but I can tell you that it would have been a lot harder to do at 15,000 people than 1500 people, though I wish we had done it earlier.