

Adapting to Change: Exploring Zappos' Self-Management Structure and Its Impact on Innovation and Cultural Diversity

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Abstract

This paper examines the case of Zappos, a company that underwent a significant transformation in its management style and organizational structure, moving towards a self-management model. The research focuses on four key areas: old and new working ways, management of expected and unexpected changes, organizational culture and socialization, and diversification and interculturality. Using a case analysis approach, the study critically analyses the effectiveness of the new self-management structure and its impact on the company's overall performance. The study highlights the importance of exploration of the intersection between self-management structure, innovation, and adaptability. By examining how Zappos' shift towards a self-management model allowed for greater knowledge sharing and information exchange, the study provides insights into how companies can promote innovation and survival in the increasingly competitive market. Furthermore, the paper highlights the importance of culture for socialization, differentiation, and interculturalities in promoting innovation and effective management. Overall, the findings suggest that a self-management structure can enhance employee engagement and consistency in achieving company objectives, but attention must be paid to issues such as intercultural collaboration and motivation.

Keywords

Organizational Management, Corporate Culture, Cross-Cultural Management

1. Introduction

This essay selects four problems, which are old and new working ways, management of expected and unexpected change, organizational culture and socializa-

tion, and diversification and interculturality, to analyse and discuss the case. Because the working way in this case is largely different from the traditional working way. In this new working way, the employees' values and skills are different from theirs in traditional ways. Even though it has been shown that the employee turnover rate is the lowest, we need to analyse how the old and new organizational structures are generated, and whether or not the old and new organisational structures can have a positive impact on the realization of the enterprise's goals and vision. Second, in this case, Amazon even spent \$1.2 billion to retain its management style and culture when acquiring his company. However, in fact, his "community awareness" was not welcomed as expected when the company implemented a new structure, and even caused a large number of personnel to leave in order to successfully transform into the new organizational structure. This company, at the same time, has faced complex risks and uncertainties while transiting to the new online platform from Amazon. How the company in this case manages a series of predictable and unforeseen changes is necessary for us to critically analyse the reliability and adaptability of their organizational structure and management style. Most importantly, previous studies have found that innovation is the key to whether an organization can maintain a sustainable competitive advantage, but also the key to the survival of an enterprise under the context of increasingly severe global competition (Smith et al., 2019). A large number of studies have shown that management style, leadership, resources, organizational structure, technical capability, and other factors positively affect organizational innovation, while recent studies proposed a framework that organizational culture is the key to innovation management after a systematic literature review (Smith et al., 2019). An organizational culture that supports socialization, diversity, and cross-cultural cooperation directly leads to whether or not the organization can exchange information and knowledge sharing internally and/or externally, so as to generate and develop new ideas for innovation in the global market environments (Smith et al., 2019). Organizations that learn from mistakes and continuous innovation have different cultures and networks from those that give up when they make mistakes. Therefore, in the case analysis, the company's culture, socialization, diversification, and cross-cultural are a good direction for us to assess whether the new management style and organisational structure are good for business growth and innovation.

2. Case Analysis

This section is written to critically analyse this case from four different problems, which are old and new ways of working: technology, organisational structure and form; managing expected and unexpected change, culture and socialisation as well as differentiation and interculturalities.

To provide a context for the analysis, it is important to first introduce Zappos, an American online retailer specializing in footwear and apparel was founded in 1999 by Nick Swinmurn and later acquired by Amazon in 2009 for \$1.2 billion.

With headquarters in Las Vegas, Nevada, Zappos operates as a subsidiary of Amazon and employs over 1500 individuals. The company has garnered widespread attention and recognition for its unique corporate culture, which emphasizes customer service and satisfaction, employee empowerment, and a fun and fulfilling workplace. Zappos' focus on its core values has consistently earned the company recognition as one of the best places to work in the United States.

In recent years, Zappos has undergone significant changes, including a shift to a self-management structure that emphasizes employee autonomy and decision-making power. Additionally, the company has experimented with innovative approaches to customer service, such as free shipping and returns, and implementing a 365-day return policy. Despite these changes, Zappos remains committed to its mission and core values, including creating a positive impact in the world and delivering exceptional customer service. As the company continues to evolve and grow, its unique corporate culture and commitment to innovation are expected to continue shaping its future direction.

2.1. Old and New Ways of Working: Technology, Organisational Structure and Form

An organizational structure is defined as a team organized by one person, a group, or multiple people based on the achievement of a whole, common goal or goals, or a system that decides how tasks are formally assigned within a group, to achieve a common goal (Nene & Pillay, 2019). There are two main organisational structures: one is called mechanistic structure which is more formalised owing to highly specialized and administrative (vertical or hierarchical organisational structure), another is organic structure which is less formalised (horizontal organisational structure).

2.1.1. How Organisational Structure Merged from Technological Requirements, Goal and Vision of Company

Innovation will create new technology, but there is a need of the utilisation of technology to executive innovation processes (Smith et al., 2019). So if innovation is limited by the shortage of technological capabilities, learning from other employees in other departments or collaboration with other organisations is necessary for sharing and integrating knowledge (Lubberink et al., 2017). Traditional organisations with vertical organisational structure were discouraged from the emergence of innovative start-ups with the horizontal structure because they are more flexible and opening to external environments. Organisations are required to keep changing organisational routines so as to adapt to new rules and regulations for environments as well as technology developments (Lubberink et al., 2017).

The emergence of organisation is mainly because the goal is too big to be achieved by individuals. Organizations, hence, should be managed accountably for any deviations from their policies, missions, or visions (Smith et al., 2019). The responsibilities and the level of control of the Organization, therefore, must

be clearly defined and held accountable (Smith et al., 2019). Departmentalization, indeed, is beneficial for the organisation to assure the organisational performance and goals to be achieved after each department are planned, and more importantly when there is a deviation between the actual performance and the planned performance, it can be solved accordingly. So, departmentalization contributes to the achievement of objectives and the increase in the efficiency of the organization (Smith et al., 2019). Compared to other structures that employees share same objectives, vertical structure bring employees closer by specific objectives of departments and routine work processes (Eremina, 2017).

2.1.2. Whether the Organisational Goal and Vision Are Fulfilled Successfully

Tony Hsieh replaced hierarchical organisational structure with “Holacracy”, a self-management organization structure that distributes power and self- decision-making through self-managing teams. Their vision is to deliver happiness to customer, employees and vendors. We can analyse from three dimensions.

For customers, they enjoy best service from online shopping. Free shipping and returns allow customers to enjoy online shopping like they are shopping in physical stores. Besides, a customer community is built to replace call service, which allows customers to make complaints, suggestions or enquires as if they are shopping in physical stores. Employees closet problem are responsible for decision-making, which lead to shorter time for reporting complaints and waiting for feedback. On the other hands, suggestions from customers provide employees in charge with good ideas to rapidly improve services. Their excellent customer service eventually contributes to customer loyalty and best marketing for attracting new customers because of word of mouth.

For employees, “Holacracy” is one of decentralized management. It consists of teams called “circles”, each employee plays multiple roles, and “leadership links” perform leadership functions. Sufficient incentive mechanisms are built. Employees are encouraged to explore new opportunities and new interests to increase earnings to realise running mini-enterprises as mini-entrepreneurs through different “circles”. So, individual objectives are highly consistent with Zappos all the time (Kumar & Mukherjee, 2018).

For vendors, Zappos is different from other companies that try to cut every penny from vendors. By contrast, they show best respect and profits to their vendors to sustain good relationships and assure they have consistent objectives, which is providing best service and goods with end users. Zappos extends to B2B e-commerce to strengthen collaboration with vendors. Information transparency beneficial for vendors to work closely with marketing team of Zappos to quickly respond sudden demands by making more appropriate inventory plan. Vendors make profits with Zappos and are willingly to keep developing products and services for Zappos’s customers.

Although 18% of employees left when Zappos changed structure, their goal and vision are successfully fulfilled after the organisational change.

2.2. Managing Expected and Unexpected Change

However, there are also shortcomings of departmentalization, such as the negative impact on employees' work attitudes, such as employees in different departments who cannot understand each other and have difficulty in communicating, resulting in poor work motivation. Self-management is largely dependent on good team design and governs themselves through shaping and refining responsibilities themselves (Yew, 2020). This approach is intended to enhance communication and promote a positive work environment.

For instance, Zappos has implemented several initiatives to support its conflict resolution approach. The company's "Z'Appreciation" program, for example, encourages employees to express appreciation for their colleagues and recognize their accomplishments. This program helps build stronger relationships between team members and creates a culture of mutual support and respect. Additionally, Zappos has an "open door" policy that encourages employees to speak with their managers or HR representatives if they have any concerns or issues. This policy allows employees to address and resolve conflicts before they escalate and become more serious.

Moreover, Zappos has implemented a training program called "The Art of Feedback" to teach employees how to provide constructive feedback to their colleagues in a respectful and helpful manner. This program helps to improve communication and collaboration within the workplace and fosters a culture of continuous improvement. By encouraging employees to directly address and resolve conflicts with their colleagues, Zappos is able to create a more open and communicative work environment. This approach also helps to promote diversity and inclusivity by allowing employees to share their perspectives and experiences with one another.

2.2.1. Managing Expected Changes

Considering that some employees free from the loose organizational structure will negatively affect the enthusiasm of other employees, the company has introduced a peer pressure system (Kumar & Mukherjee, 2018). Peer pressure-based systems work effectively. For certain types of job functions, there are simple metrics to measure performance, and public leader board rankings create peer pressure by showing which teams are performing and which are underperforming. Peer pressure may seem good, but it doesn't completely stop a small group of people from working loosely if they're not ashamed of falling behind. In addition to the peer pressure system, company also needs to introduce a shame system to ensure that every employee can actively participate in the competition among colleagues, rather than not caring about rankings (Pontefract, 2015).

Another expected change is no managers available for solving conflicts. The design of conflict resolution mechanisms is to help employees adapt to the absence of post-leadership in Zappos. Through internal training of employees, the company allows conflicting employees to learn to take the initiative to solve problems, and one-on-one dialogue with conflicting objects instead of finding their man-

agers or superiors, so that each employee knows how to communicate and understand each other when encountering conflicts in new self-management structure. However, there are some people who question the effectivity of this approach to conflicts resolution, especially when employees encounter harassment or discriminations at workplace (Pontefract, 2015). There should be self-evaluation or self-meditation included into employee coaching program (Grasser, 2018).

2.2.2. Managing Unexpected Changes

Organisations are reluctant to change because a set of uncertainties and resistance in changing scare people away from working with unexpected change. Adaptability to unexpected change is significantly important for companies to survive in changing environments. Customers' online reviews and suggestions also provide reliable information about demand changing for employees and vendors. Information transparency promotes a close collaboration across different functions to respond changes rapidly.

There are two approaches to organisational change: consistency (revolutionary change) and contingency (permanent change). Zappos implement consistent change to become a self-management company directly. Self-management, however, requires employees to have more adaptability because managers are absent in this structure. A choice between leaving and changing is too sudden for employees within 3 month. Employees seem to be not prepared for this great change. People are less willing to change because the result is changeable (Kumar & Mukherjee, 2018). As Zappos focuses on the ideas of the new generation and ignores the working experience and professional knowledge of the older generation (Kumar & Mukherjee, 2018), risks are difficult to be controlled in Zappos. Although the new generation's ideas have brought more opportunities and earnings, the younger generation has less adaptability to environments changing. For example, they hardly make wiser decisions than order generations when they have technical problems with customers or suppliers without the support from senior employees. Alternative purchasing or distribution plans were neglected to assure delivery until they face uncertain risks (such as supply chain shortage caused by natural or social factors) (Herbst, 2020). Even the new project is difficult to be realised without technical supports. The absence of older generation leads to a decrease in the ability of assessing and controlling risks of "circles" and "sub-circles", which negatively affects the cost and profit of Zappos.

2.3. Culture and Socialisation

There is a framework (Figure 1) proposed to structure how the innovation process to be realised, in which management style and leadership, resources, organisational structure, corporate strategy and technology are the base of innovation (Smith et al., 2019). Organisational culture, while, is key to promote knowledge management and encourage employees to implement the innovation process (Smith et al., 2019).

The factors of innovation pyramid represent a hierarchical model of the key

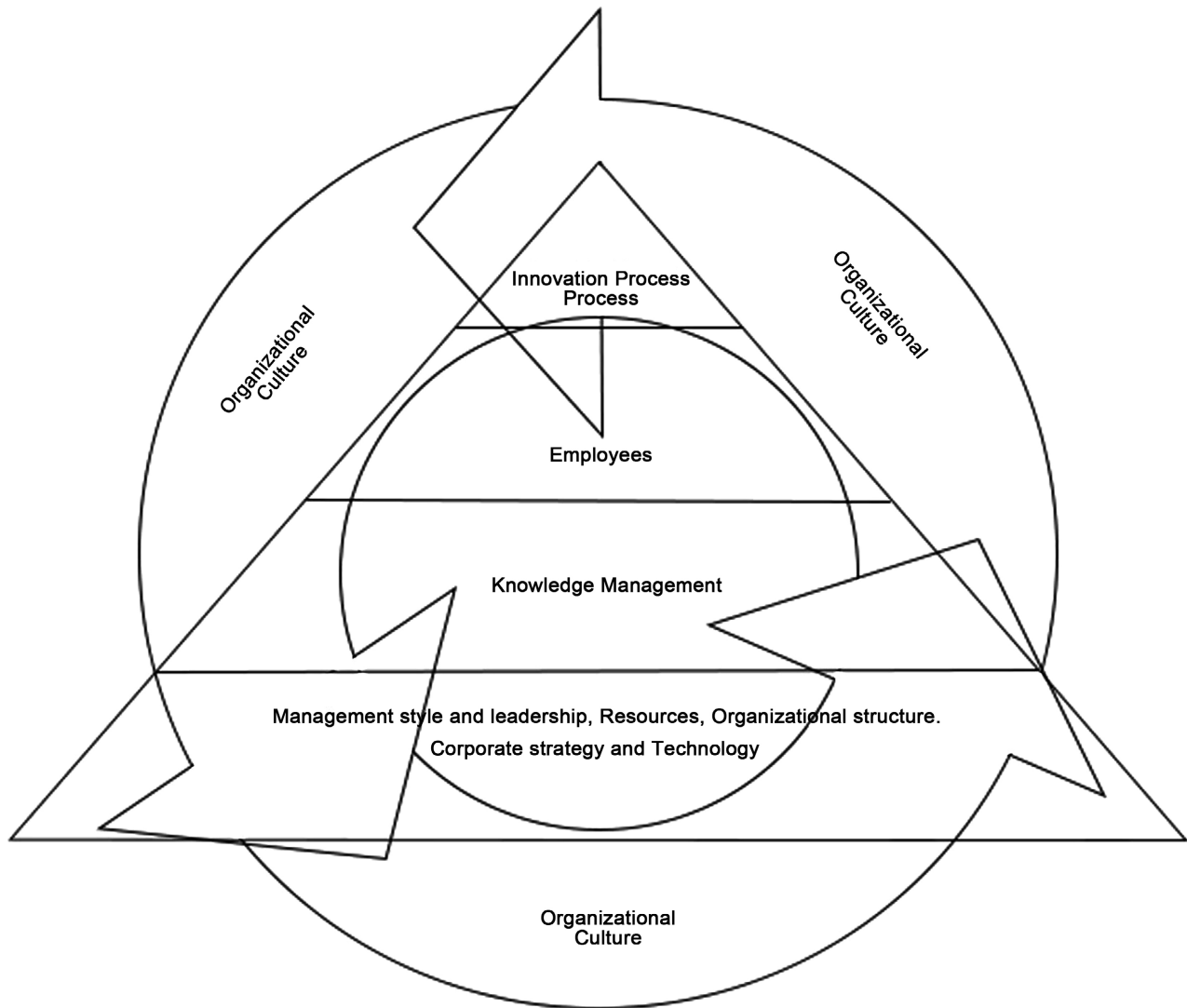


Figure 1. Factors of innovation pyramid (Smith et al., 2019).

factors that contribute to innovation in an organization. The top side of the pyramid, innovation process, refers to the overall process of developing and implementing new ideas or products. This includes everything from idea generation to product launch and marketing. The second side, employee, recognizes that the people in the organization are critical to driving innovation. This includes hiring, training, and incentivizing employees to contribute to the innovation process.

The third side of the pyramid, knowledge management, focuses on the importance of capturing and sharing knowledge within an organization. This includes knowledge sharing systems and processes, as well as encouraging a culture of continuous learning and improvement.

The bottom side of the pyramid includes management style and leadership, resources, organizational structure, corporate strategy, and technology. These factors all play a critical role in supporting innovation within an organization. For

example, effective leadership can provide the vision and direction necessary to drive innovation, while a supportive organizational structure can foster a culture of collaboration and experimentation.

Finally, organizational culture is essential to innovation because it influences how people work together and how they approach problems. An innovative culture is one that encourages creativity, experimentation, and risk-taking while also valuing learning from failures. By fostering a culture that supports innovation, organizations can create an environment where new ideas and approaches can thrive. A culture for socialisation and networking, therefore, is the benefit of staying collaborative and understanding each other's activities, helping different departments within the organization work in concert, coordinating everyone's activities, enabling the entire organization to work toward the same goal, and letting employees know the most important things in the organization (Nene & Pillay, 2019).

The factors are arranged in a pyramid to indicate that each level builds upon the one below it. For example, having an effective innovation process is necessary but not sufficient for innovation if the employees are not motivated or trained to contribute. Similarly, having a supportive organizational structure is important, but without effective leadership and a strong corporate strategy, it may not lead to successful innovation.

In Zappos, CEO believes that employees are not only colleagues, but also friends and family members. His idea is to build a lifestyle working environment where employees work together and entertain together after work. A part of employees cannot adapt to a culture for socialisation within Zappos have to leave. Some employees may not such outgoing but they also can generate new ideas for innovation process. So, 20% of employees from the tech department left owing to the great organisational change, which has brought complex risks to Zappos.

Significant changes in the organizational structure can pose several complex risks for a company like Zappos. First, such changes can lead to a loss of institutional knowledge and expertise, particularly if experienced employees leave the organization. This loss can have a negative impact on productivity and innovation, as well as on the company's ability to meet customer needs.

In addition, organizational changes can create confusion and uncertainty among employees, particularly if they are not adequately communicated or if they are perceived as unfair or arbitrary. This can lead to decreased motivation and morale, as well as a potential increase in absenteeism and turnover.

Furthermore, changes to the organizational structure can also create power struggles and conflicts between employees or departments, particularly if the changes result in a shift in the balance of power or resources. This can lead to increased tension and reduced collaboration, ultimately impacting the organization's ability to achieve its goals.

Overall, the complex risks posed by significant changes in organizational structure can have a significant impact on a company's performance and success, par-

ticularly if they are not managed effectively. It is important for Zappos to carefully consider and address these risks in order to mitigate their potential negative consequences.

Despite these risks, Zappos has turned to focus on recruiting passionate and highly engaged employees (Yew, 2020). All new employees will experience the same four-week induction training program, which is based on the company's consistent ten core values, regardless of their positions. Employees feel free to leave with a "quotation" of \$2000 if they cannot fit in their culture. This on boarding program helps new employees adapt to organisational culture even though they have great cultural differences before. In addition, collaboration within operating circles is encouraged through offering employees' reward if co-worker's efforts are cognised by team members. This mechanism, however, is questioned because there are human factors involved (Kumar & Mukherjee, 2018).

Zappos' culture is closely associated with company strategy, which is bringing happiness to the customer, employee and vendor. Zappos encourage employees to exchange thoughts and personal experience with each other to accumulate knowledge and working experience quickly in order to increase personal adaptability to new changes. On the other hand, feedback from employees provides a good understanding of current market environments so as to consider any changes needed to retain or increase competitive advantages. This is conflict with previous research theory that frequently changing would not positively affect business because routine is better to help performance improvement (Nene & Pillay, 2019).

2.4. Differentiation and Interculturalities

Self-management is different from working on routine processes, which requires not only to differentiate yourself from other colleagues and employees should run their "circles" creatively and innovatively (Kumar & Mukherjee, 2018). Differentiation is defined as uniqueness, which includes unique personalities, talents and skills that can help approach different roles so as to build effective teams. Zappos has 1500 employees who define roles themselves and work on different teams. Highly collaboration among different teams promote knowledge sharing, which can benefit to creative decision-making or problem-solving (Herbst, 2020).

Diversity can have a both positive and negative impact on the team. Knowledge integration with people who are different from themselves is not easy to be achieved in reality. Diversity is likely to lead to disharmony among team members in working environments. Particularly without the coordination of managers in Zappos, there were an increase in the difficulty of conflict resolution, resulting in difficult communication and low work efficiency. Certain degree of conflict, however, is regarded as a helpful tool to refresh organisation (Herbst, 2020). Zappos coach employees to solve conflicts with other employees directly to strengthen communication because diversity also can be of great value. The collision of different ideas may lead to more efficient cooperation.

Due to international division, quality of products and services should be supervised globally. Cultural differences and close intercultural relationship can benefit to creativity, innovation and entrepreneurship (Lu et al., 2017). In order to enhance cultural diversity in the workplace, organizations can develop more communication projects between offices in different countries. In Zappos, domestic divisions take full responsibilities for international projects. They do not invest in a lot of offices in other countries. An employee from domestic divisions' lack of intercultural ties is difficult to play a role in global teams. With the globalisation, cross cultural training within the enterprise can increase the sensitivity to culture, so as to bring higher sales returns to the company (Grasser, 2018). Some authors consider that organizations, like Zappos can increase interculturalities by recruiting international employees and helping them obtain work visas and residence permits (Lu et al., 2017).

Zappos neglects cross-cultural relations through joint activities internally and externally (Lu et al., 2017). At work, managers can assign foreign employees to complete tasks with domestic employees for cooperation, so as to reduce prejudice and obstacles between teams. Outside work, domestic employees can hang out with international employees. They will have more opportunities to participate in cross-cultural learning and stimulate creative insights. As to international vendors, Zappos should their respect through booking flight and picking them up from airport to companies. International vendors can feel warm welcomed. So, they are willing to collaborate with Zappos to improve quality and delivery. In other companies, such as L'Oréal, cross-cultural training is conducive to better communication and understanding, such as understanding how employees from different cultural backgrounds express disagreement. Cross-cultural training can also promote employees' self-reflection and prevent discrimination or cultural conflicts among team members due to different cultures (Grasser, 2018). Conflicts and discriminations are often derived from misunderstandings due to cultural differences (Herbst, 2020). So, increasing interculturalities is a simpler way to eliminate conflicts between peers, compared to one-to-one communication (Herbst, 2020).

3. Discussion and Conclusion

The old way of working is vertical and centralised. The responsibilities and the level of control are clearly defined between departments and then between individuals by managers. This old way of working is good for clarifying an individual's duties and responsibilities to make assure overall objectives can be achieved eventually. This old way of working, however, cannot adapt to current changing environments due to technological advances and demand changes. The value of technology is unseen before they are applied to commercial. So, knowledge sharing and information exchange internally and externally is significant for companies to innovate and survive in the increasingly competitive market. In Zappos, CEO implemented an aggressive way to change which resulted in 20% of em-

employees from the tech department leaving. Although this complex risk to organisational change, their organisational goal and vision are fulfilled successfully because they actively transition to the new online platform and self-management structure which promoted customer services. For employees, self-management helps them to achieve high consistency between self-objectives and objectives of Zappos. For vendors, they strengthen online information exchange to allow vendors to work with teams closely, so as to gain more profits. Nevertheless, there are also shortcomings of changing working, such as misunderstandings between employees from different departments and poor motivation due to being free from the loose organisational structure. Those are expected changes in the organisational change and are somehow dealt with by the design of the peer competition mechanism and conflict resolution mechanism. Others have doubted the effectiveness of those mechanisms because differences of individuals' attitudes towards ranking and cultural differences among employees. In addition, self-management working ways require employees with high adaptability to new changes. Although new ideas from younger generations have brought a lot of earnings increase. The result could be changeable because there are many risks difficult to be controlled by youngers only. As innovation is key to business's survival, and there are many kinds of research have shown that culture for socialisation, differentiation, and interculturalities is the key to innovation, management style, techniques, and behaviours of Zappos are critically assessed from the aspects of culture and socialisation, differentiation and interculturalities. In Zappos, employees with different cultural differences have the same coaching to assure they can fit into their culture. Rewarding programs are designed to motivate collaboration between employees even though their incentive systems are questioned due to human factors involved. Encouraging collaboration with vendors is reflected in showing higher respect and building atransparent information exchange platforms with vendors. Employees in Zappos are required to be equipped with unique personalities, talents, and skills to adapt to different roles and explore new projects. They also provide a platform for knowledge sharing and coaching programs to help employees increase their personal capabilities. However, Zappos paid less attention to recruiting international employees to build cross-cultural collaboration so as to adapt to global market changes.

In conclusion, a self-management structure is better for Zappos to achieve the consistency of objectives between individuals and the whole company. The fulfilment of the vision of the company is not restricted to the new working way, but also the application of new technology, the design of governing mechanisms, and coaching programs. Besides, Zappos need improvement in considering ideas from both new generations and older generations, increasing interculturalities for responding to global market changes.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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