Sociocracy in for-profit organizations
CASE STUDY ✴EUROPACE - PKU

- based on an interview with Europace members Leif Hanack and Michael Geiß as well as blog articles and documents provided
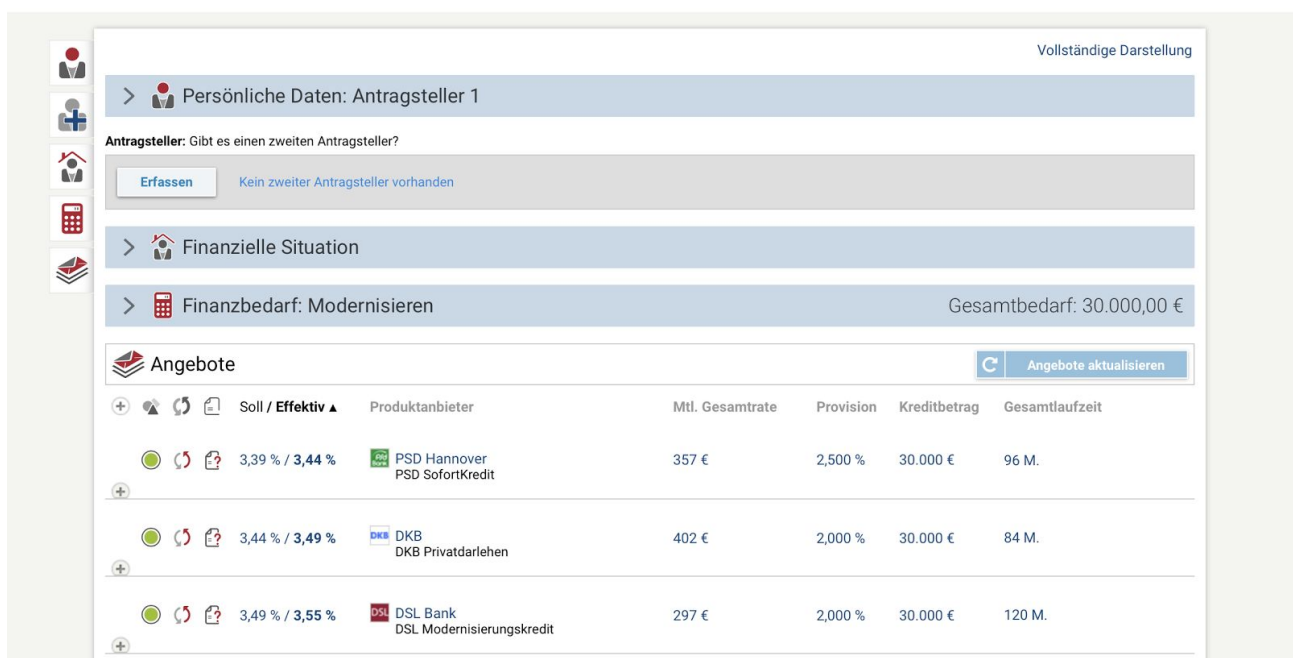
Summary

Europace's "Privatkredit Unit" (also called "PKU") was created by merging three divisions in the middle of 2015. During the initial phase of team building there was a sharp increase in employees. That, along with the implementation of new processes, hindered further organizational development and in the end even stopped it completely.
In early 2017 PKU made another attempt on organizational development and now is about to change the structure and type of cooperation among the unit in small steps using sociocracy. The PKU is convinced that with sociocracy a form of organization has been found that will enable further growth.

The company EUROPACE Inc.

Europace Inc. is a subsidiary company of Hypoport Inc. and has around 140 employees. Europace is Germany's largest financial market place for real estate financing, building saving schemes and private credits. With a transaction platform (see screenshot below), Europace Inc. creates and develops markets for the consumer. Europace is, roughly spoken, divided into four units. One of these is the "Privatkredit Unit" (short: PKU), which consists of 20 employees.

How did the PKU come to sociocracy?

Motivation for a new organizational form

Strong growth and the merger of three divisions, three divisional cultures and processes, brought new challenges which had to be overcome.

For example, within a short time the number of people increased from 5 to 9 and then to 20 people. As a result, unit meetings (on decisions concerning several circles) became large and with everyone wanting to participate actively, the meetings took much time.

Additionally, the participants of these unit meetings used IDM (= Integrative Decision Making - from Holacracy®) for decision making. By strict application of the Holacracy® objection catalog almost no objection was classified as being valid. Thus, people's objections were not integrated into the proposed solution and participants were left frustrated. Participants felt that every proposal could be pushed through.

Out of these reasons, the team's need for a new organizational form grew little by little.

Progression over time

First steps into sociocracy

IDM from Holacracy® was first brought into the management group of the mother company Hypoport Inc. and was applied in management meetings (without having a circle structure yet). Seeing IDM to resolve issues, Leif Hanack (head architect and line manager at the time) was motivated to do research on Holacracy®, where he came across a sociocracy primer.

Leif is a supporter of modern leadership and is convinced that responsibility and competence for decisions belongs to skilled employees. He took the merger of the three divisions as an opportunity to make a change and proposed the formation of circles and the use of consent decision making. Using the IDM process this was decided on by the team. With this decision he gave up his role as head architect.

As a first step, there were circles based on competency (for example, all front-end developers formed a circle), which proved to be an advantage because the associated change step was not too big and implicit responsibilities were now explicit.

However, conflicts within the team took a considerable amount of time so that less governance meetings were held and thus the new organizational form could not be consolidated sufficiently.

A second attempt yielded change

Leif felt that the development of the organisation needed a revival based on sociocracy and so organized a workshop on Sociocracy 3.0 with Bernhard Bockelbrink. After this workshop everyone had the basic theoretical knowledge, but sociocracy was not necessarily more tangible. So Leif asked if any colleagues were willing to work with him on

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making sociocracy more tangible. With three other colleagues he formed the Helping Circle, called "Deep Dive Into Sociocracy" or DDIS. DDIS informed itself mainly through the platforms sociocracyforall.org and sociocracy30.org and has now developed a proposal for further development of the circles, which is currently being implemented.

Key factors for a successful implementation

Collecting know-how and experience

It was very important to reach a basic level of knowledge among all employees.
The DDIS Group (as a "Sociocracy Competence Center") created a great added value, as new things could be tried and implemented in small rounds in order to gain initial experiences.
In order to gain know-how and get feedback on implementation of sociocracy, it was also essential to get external support (as provided by Jennifer Rau, Sociocracy For All).

Buy-in of the new organizational form

The acceptance of the new organizational form for the entire team depended decisively on the DDIS Group. It was extremely important to gather practical experience and to develop proposals which were adapted to the specific needs of the whole group.
Another aspect contributing to acceptance was that the whole group saw suggestions coming from the DDIS-group rather than from an individual and this group being composed by heterogeneous characters.
The team's acceptance of sociocracy was increased by calling in external specialists.
In addition it was important to make small steps of change; excessive steps can lead to overburden and resistance.

Building trust - a cultural key factor

For the implementation of a new organizational structure, trust is needed from the people, which depends on various factors.
On the one hand, there is the inner attitude of the leader. The leader should be able to let go of power and control. Leif says, "*if you - as a leader - demonstrate that you do everything to make the employee shine and become better, it will be seen and valued by the employees.*"
On the other hand, trust is created by transparency through good communication and through everyone's access to the decision-making data.
Another aspect for building trust is letting every voice be heard. Everyone can address one's concerns to the "Circle Coordinator" (circle leader) and the Circle Coordinator takes those concerns to the appropriate circles within the organization. If there is a topic on the agenda in the upper circle that concerns a lower circle the Circle Coordinator asks the lower circles' opinions prior to the meeting of the upper circle. In this way everyone knows his or her opinion is being represented in the upper circle meeting.

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Lessons during implementation

Learning by doing

Trust is also needed here, in terms of confidence that one will find the solution to problems that may arise. *"There must be problems first in order to be able finding a solution"* says Michael Geiß, software developer and part of the DDIS circle.

Various lessons

Below is a comparison of the problems encountered and the related learnings or developed solutions:

Problem	Lesson/Solution
Decisions are blended with discussions and take too long.	"Do it in rounds" so that everyone - one by one - gets the opportunity to speak. This gives structure and prevents getting trapped in unnecessary discussions and losing time.
It is often unclear how much autonomy a circle has, what responsibility, and why it exists.	The superordinate circle gives the subordinate circle the mandate and can also withdraw it. The mandate includes the driver, the domain, and the aim.
Circles sometimes overlap in their responsibilities.	Since the superordinate circle defines the individual mandates of its subordinate circles, it has the overview of the domains and can prevent overlaps.
The interplay of individual circles is unclear.	At first all circles were on the same level. Now we have a circle hierarchy and thus a comprehensible circle structure, which we also have displayed as a diagram in the team rooms.
Often, actions within a circle are not transparent.	Each circle is made transparent by providing policy decisions and minutes of the meetings in a shared log book (e.g. Trello-Board, Google Doc, ..).
Often it is not clear who is responsible for a circle, if it does not function well.	Each circle has a Circle Coordinator. The Circle Coordinator (CC) takes care of the vitality of the circle and, in doubt, about its dissolution/integration.

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It is unclear whether and how an outsider can bring topics into a circle.	Each circle determines and communicates ways to bring feedback and issues to the circle (for example through a slack channel) and makes transparent who circle members are so they can be approached directly.
Elements from Sociocratic systems were used and interpreted without adequate background knowledge, so that the original sociocratic intention was reduced or lost.	It is advisable to develop a deeper basic knowledge and understanding - e.g. supported by external consulting - in a small group, best with learning by doing. This knowledge and experience can then be brought to the unit much more effectively.

Agile software development - advantages and disadvantages regarding a start into sociocracy

Because agile software development has many parallels to sociocracy it initially helped with the implementation of sociocracy due to agile's emphasis on self-determination in working and self-organization.

However, this knowledge is also a disadvantage. Agile software development already has well-functioning operational decision-making. Sociocracy also covers operational decisions and often a choice had to be made about which model to follow. Is the topic being dealt with using agile or sociocracy? At first this superposition of operational decision-making models was irritating.

"Above all, with sociocracy we focus on organizational matters," says Leif. *"It establishes explicit rules of play and clarifies the scope for action of the circle members. Sociocracy 3.0 promises to bring together sociocracy and agile software development. Our knowledge on this is still superficial."*

Tips for the implementation of sociocracy

It is important to understand the intention and principles of sociocracy: Consent, equivalence, transparency, accountability, continuous improvement, empiricism and effectiveness. The following mottoes were also particularly important for the PKU:

- *"Good enough for now, safe enough to try."*
- *"Do not ask for volunteers!"* Choose people for roles by nominating explicitly and consciously.
- *"Do it in rounds!"* One after each other can speak one's mind.

Self-organization does not mean being without hierarchy! A sociocratic hierarchy must not be compared with a conventional one. Hierarchy in a sociocratic context is meant in the sense of broadness of perspective. The "higher" a circle in the circle hierarchy, the broader its perspective. The top circle for instance takes care of the vision and strategy of the entire organization.

Decisions made in a superordinate circle, but affecting a subordinate circle, can be rejected by the subordinate circle.

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So, in sociocracy there is no power-over. However, a small group of people can strongly influence the future of the whole unit with strategic decisions. This requires trust in the system and in the representatives.

What could have been done differently?

"In general, we are quite satisfied with the process. We have tried, implemented small things and brought in external help," said Michael.

You cannot try to solve all the potential problems in advance, but you can solve them best when they occur.

Leif adds: *"At first, there were many circles on equal footing without a circle hierarchy."* The circle hierarchy with the superordinate general circle (see picture) is now introduced. *"It would probably have been easier to form circles from top to bottom rather than from bottom to top."*

The current state

The sociocratic organizational structure of the PKU
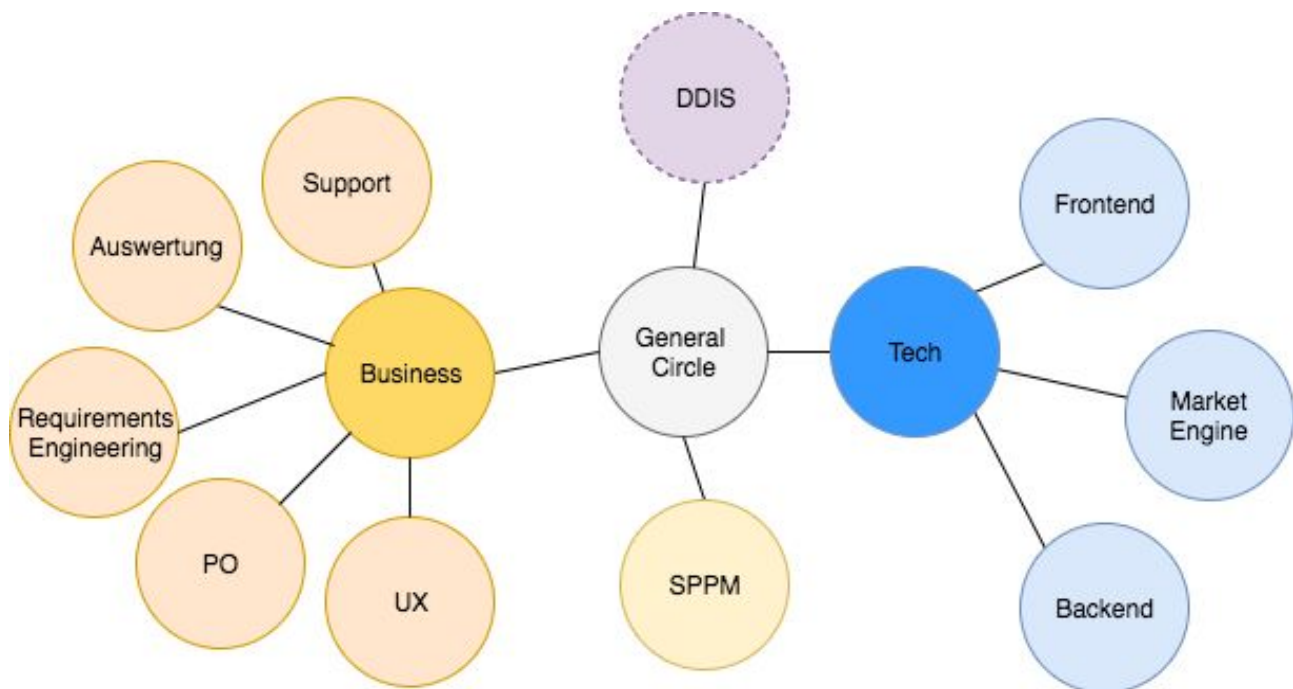
The General Circle is a delegate circle (single linking from the directly connected circles) currently consists of 4 people, who only meet for policy decisions coordinating the organizational development of the unit. Leif is Circle Coordinator of the General Circle, who from there makes the connection to the board. The additional three persons are Circle Coordinators from circles Business, Tech and SPPM (the helping circle DDIS is not represented in the General Circle).

DDIS (Deep Dive Into Sociocracy) researches and tests sociocratic elements and brings the experience into the General Circle and unit.

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The mother circles "Business" and "Technology (Tech)" decide for themselves, whether they form further sub-circles. The sub-circles shown above are historical legacies and reflect the functioning circles of the old structure.

At PKU, a superordinate circle defines the domains of the sub-circles, so that there is no overlapping of the individual subgroup sectors. At the moment, this driver mapping is in progress.

The company's board is right above the PKU. Currently, one board member is the superordinate leader of Leif and one of his colleagues.

The other units as well as the board already have formed circles, which currently do not orientate themselves on Holacracy® or sociocracy.

Which sociocratic elements are used

At the moment there are circles (not yet double-linked), consent, elections, circle syncs, standups, driver mapping, role reviews (but no role development yet), proposal forming, helping circle, concerns and integration of objections using CDM (consent decision making) and governance meetings. Each circle has a governance backlog.

The digital toolbox for sociocracy

Meeting Minutes and the Governance Backlog are saved in Trello. Proposals are organized via Trello and either written and discussed there or through Google Docs.

Slack serves the announcement of meeting minutes and refers to Trello cards. This software is also used to exchange information and provide feedback. News is also communicated via Slack.

Other than that, supporting systems like Google Drive, Google Docs, and Outlook Calendar are being used.

The tooling is currently very diverse and therefore can be improved.

Effects of sociocracy

Remarkable effects and feedback

Michael: "*The circle structure makes it clear who is the contact person for specific questions. Due to this, topics can be addressed more quickly to the appropriate entity.*"

Leif: "*We no longer have meetings with 20 colleagues. Rather, decisions are made transparently in the smaller groups. By this we retrieved the feeling of being efficient regardless of our size.*"

He adds: "*The DDIS Group triggered a momentum, which also has a positive effect on our unit's development.*"

To the outside - that is, to the customers - not much is yet noticeable at the moment. This may be due to the fact that the agile software development process has not changed, but also due to the fact that sociocracy was only introduced a short time ago.

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Future plans

With the sociocratic experience gained so far, DDIS is of the opinion that the right organizational form for a self-organized unit has been found. Michael: *"For the present moment, sociocracy offers many aspects that are very suitable for us and supports us with what we want to achieve."*
Leif's estimation: *"Further growth of the unit is especially made possible with sociocracy."*
Further design of the circular structures will be exciting, as well as aligning them with agile software development.

Case study written by Thorsten Scherbaum,
revised and amended by Leif Hanack and Michael Geiß

Sources and additional literature

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