

Creating Agile Organizations Guide

The Leader's Guide to Resilient and Adaptable Organizations

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Acknowledgements

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Purpose

The Creating Agile Organizations (CAO) guide describes the foundational elements of the CAO approach, its axioms, principles and guidelines.

This guide assists organizations in their journey towards agile organization design, ensuring they are well-equipped to navigate the complexities and challenges of the modern business environment.

Definition Of Creating Agile Organizations

A systemic approach to Agile organizational design that emphasizes axioms, principles, and guidelines for evolving your own framework and guiding its adoption.

CAO enables organizations to make more informed decisions about their Agile organization design, by emphasizing the study of their unique context and leveraging insights derived from it. Studying to understand context is key to successfully applying the CAO approach. It allows organizations to evolve their own Agile frameworks that really fit what they need.

Basic Concepts

- **Product:** Product represents the goods and services that an organization offers to its external customers.
- **Product Group:** A Product Group is defined by the purpose within the company, the necessary organizational elements like cross-functional teams, separate functions and roles to achieve the purpose. Leadership is provided by a senior manager with in-depth market understanding, and the autonomy to make budget, resources and planning decisions. A Product Group is a semi-autonomous unit that is created to develop, enhance and sustain a product.
- **Cross-functional Team:** A group of people who depend on each other's skills to accomplish shared goals. The cross-functional team is seen as a key asset because they are the ones who create customer value.

Why Use Creating Agile Organizations?

CAO promotes internal evolution and context-driven solutions, making it a suitable choice for organizations seeking a custom, agile transformation.

Instead of forcing organizations to fit a specific model, the "Creating Agile Organizations" (CAO) approach offers a flexible and adaptable model that prioritizes understanding an organization's unique context. This approach emphasizes collaboration, ownership, learning, and innovation.

Creating Agile Organizations Theory

The theory behind "Creating Agile Organizations" integrates key principles from both Axiomatic Design and Systems Thinking:

The Systemic Approach:

- Start with determining the whole system. Its purpose, and its essential parts and then improve the whole by improving its parts and their interactions.
- A system's overall performance is determined by how its parts interact. Individual parts should work efficiently together to optimize the performance of the larger whole of which they are a part, maximizing the outcomes of the entire system. Parts are improved only if it also improves the performance of the whole system.
- Enhancing the whole system might mean one or more of its parts are not operating at their optimal performance.

Axiomatic Design:

Axiomatic Design focuses on identifying functional requirements and their associated design parameters. A functional requirement is a particular function that an organization must carry out to achieve its objectives. These functional requirements are assigned to design parameters, where a design parameter is an organizational unit responsible for fulfilling a functional requirement.

Axiomatic design uses the following two axioms for evaluating designs

- **The Independence Axiom:** Emphasizes ensuring each organizational unit remains autonomous, not overly relying on others to fulfill their functional requirements by finding the balance between autonomy and alignment. In the context of a systemic approach, this ensures that while parts interact, they maintain their distinct functions and contributions to a larger whole.
- **The Simplicity Axiom:** Suggests choosing the simplest and least complex organizational design option when faced with multiple choices. Choose a design that is straightforward to implement and minimizes complexity. In an organizational context, streamlined processes and systems are more manageable and easier to navigate, facilitating better interactions between parts.

By combining the axioms with the systemic approach, the emphasis of CAO is on designing organizations where Product Groups are both independent and simple, and where the focus is on optimizing the interactions and overall performance of the entire organization, not its parts.

Understanding Adaptability

Adaptability is the ability of an organization to modify its course in response to new situations while optimizing value and improving the customer experience.

Adaptability in organizations operates on two levels:

Organizational Level: This concerns the organization's ability to restructure the relationships between the units in alignment with shifting management strategies, enabling it to initiate, merge, or discontinue products or services.

Product Group Level: This focuses on how products or services can swiftly adapt to market and technology changes and evolving user needs.

Coupling Between Elements

Decoupled Product Groups For Organization Resilience

Organizations with tightly intertwined systems, processes, and policies tend to lose resilience and struggle to adapt to evolving contexts. In contrast, Product Groups with looser coupling are more likely to explore alternative approaches and pivot direction as needed.

Tightly Coupled Units For Product Group Adaptability

Within a Product Group, close interlinking between units is essential for enacting effective, system-wide change. Tight coupling facilitates the alignment of units, as changes in one unit inevitably impact the others

There are three primary considerations for evolving adaptability:

Prioritizing Learning Speed: The speed at which a Product Group learns and adapts is crucial. Rapid delivery, coupled with precise measurement, determines the priorities for the next work cycle and reduces innovation risk.

Reducing Switching Costs: Transitioning between work can incur various costs - from learning new information to the cognitive burden and the expenses linked to halting current work to start something new.

Cutting Transaction Costs: Working in short iterations means repeating similar activities over and over again. Some activities, though essential, don't directly add value or are

outright unnecessary. Such costs are caused by non-core activities like coordination, repeating manual activities and communication.

The higher these costs are, the lower the ability or willingness to adapt.

Prioritize Flow Efficiency Over Resource Efficiency

Resource efficiency: The quotient of time utilized over to the total time available.

Flow efficiency: The quotient of total time invested in activities that add value over the complete time of the flow.

Resource efficiency aims to keep resources (like equipment or people) in use as much as possible. Flow efficiency, on the other hand, concentrates on reducing the time it takes to meet a need from when it's first recognized to when it's fulfilled, ensuring that tasks keep moving until they're done.

CAO prioritizes flow efficiency over resource efficiency. This choice promotes adaptability and affects the organization, its structure, coordination activities, and the approach to managing people. First design for flow efficiency, then improve the interactions to increase resource efficiency while maintaining flow.

Organization Capabilities

For a business strategy to be successfully executed, an organization must have the necessary capabilities to execute it—the skills, competencies, and alignment of the people that create a competitive advantage. At the level of the overall organization, capabilities are more general, such as “Produce leading-edge products.” At the product group level, a capability could be more specific, such as “Customer Centric Development”, or “Flexible Resource Allocation”. When there's a mismatch between an organization's capabilities and its strategy, its performance suffers.

The necessary capabilities develop within a supportive organizational design.

Organization Design

Organizational design refers to the arrangement of five elements: strategy, structures, processes, reward systems, and people practices. The organization design is effective when these elements are in harmony and mutually supportive, thereby providing clear guidance to individuals about expected behavior. Organizational culture emerges from organizational design. One needs to change the latter to evolve the culture.

A proper organizational design creates the conditions for the required capabilities to develop over time. When an organization concludes it requires new capabilities due to industry trends, competitive pressure, or its current performance, it may find that its

existing capabilities are outdated or inadequate. To address this, the organization might need a redesign to develop the new capabilities.

Creating Agile Organizations Approach

The Creating Agile Organizations approach is about designing your own organizational framework and coaching its adoption. It is important to note that it is different from frameworks which have specific structures, rules, events, and artefacts to build upon. Instead, Creating Agile Organizations provides none of that, but provides guidelines that draw upon decades of academic research and practical experience in organizations similar to yours.

Study First then Apply Guidelines

The guidelines focus on Agile Organization Design, which helps you create a customized model that aligns with your specific context. By **studying** your organization and understanding its current situation, you gather **valuable data** to use in applying these guidelines.

Overview of a Design Process?

It starts with understanding your business strategy and clarifying the reasons for change. From there, you can determine the required organizational capabilities, assess your current organization, and create a design that facilitates the development of those capabilities.



Most design decisions are speculative until you start working in the new organizational design. That's why it's crucial to have reflection and continuous improvement, regularly revisiting your design decisions, process, structure, and required capabilities.

To help guide you through the design process there are organizational design guidelines that cover typical challenges encountered in building an Agile organization.

Agile Organization Design Guidelines

To assist organizations in evolving and customizing their own agile frameworks that align with their unique context and needs.

Basic building blocks for Agile Organizations

- **Product**
- **Product Group**
- **Cross-functional Team**
- **Shared Service (unit that provides specialized support to multiple units)**

Derive Required Capabilities from the Strategic Focus

The organizational design supports the strategic emphasis of the company. Consider your strategic focus. Is your organization product-centric, operations-centric, or customer-centric?

Each focus requires a different set of capabilities and organizational design.

Product-Centric: Focuses on innovation and speedy product development. The value lies in unique products and features. The organization revolves around its products, emphasizes R&D, and measures success by new product profitability. Agility and adaptability centre on responding quickly to customer needs and technological shifts.

Operations-Centric: Emphasizes cost-efficiency, reliability, and adaptability to production volume changes. Value is linked to price, efficiency, and consistent quality. The organization structures around key processes, seeking operational excellence. Agility is crucial for managing volume changes and evolving customer demands.

Customer-Centric: Aims for high customer satisfaction and long-lasting relationships. Value is determined by customer retention and satisfaction. The organization is structured around customer segments, prioritizing personalized solutions. Adaptability involves adjusting to specific customer needs and market changes, with agility essential for understanding and meeting shifting customer demand.

Organize Into Product Groups

Structure into product groups that enhance value. The formation of a Product Group contains all the essential parts required to create value. Essential parts are derived from the purpose/mission of the Product Group.

By bringing together several teams under an Agile organizational framework, larger groups are formed that can respond swiftly to customer needs and focus on delivering the greatest value. This structure streamlines coordination as teams work within the same group, reaching for the same goal, under a unified leadership aligning towards common objectives and experiencing fewer conflicts on priorities. Additionally, they often share the same physical and information environment which makes coordination cheaper.

Decouple Unit Functions

A unit function in an organization refers to a specialized set of activities critical to achieving the organization's purpose. This may include primary functions like product development, sales, marketing, and IT, as well as support functions such as staffing, planning, and budgeting

Excessive interdependence between unit functions can hinder the organization's performance, leading to increased coordination costs, goal conflicts, and reduced adaptability. Decouple unit functions to enable adaptability.

In general, there are three ways to resolve the functional coupling:

- Restructure and transfer responsibilities between units or to a separate unit
- Merge units so that they share measures of success or customer outcomes
- Remove overlapping or conflicting function goals between units by redefining them

Combine Authority With Responsibility

Front-end units, like sales, focus on revenue, while back-end units, such as IT, target efficiency. Misalignment between these units can impede overall performance, competition and local performance optimisations. Combine authority with responsibility for global systems optimization and ensure adaptability. For example by assigning the responsibility of sales and development to a single unit.

Contain Reciprocal Task Interdependencies

The design of work should be based on the level of interdependence involved, followed by the implementation of appropriate coordination methods for each type.

There are three distinct types of interdependence:

Pooled Interdependence: This arises in scenarios where multiple units are engaged in either identical or closely related activities at the same time, or when they depend on a shared resource. For instance, various teams within an organization may simultaneously depend on the services provided by the legal department.

Sequential Interdependence: Here, units depend on each other in a predictable sequence for the flow of work, information, and decisions. Each unit must complete its portion of the work before the next unit can begin. A prime example is a production assembly line, where a product must be fully assembled, then wrapped, and finally shipped, in that order.

Reciprocal Interdependence: This involves a more complex relationship where units engage in an ongoing, iterative interaction, adjusting their actions in response to unpredictable changes. This type of interdependence often occurs in software development teams working on the same product. These teams might either share functional dependencies – dividing a feature into separate technical

components developed by different teams – or technical dependencies, where each team works on a complete feature but within the same software components.

Design work based on the level of interdependence and apply specific coordination techniques for each.

For pooled interdependence, use rules, like reservation rules for shared testing environments. Sequential interdependence benefits from proper central planning, while reciprocal interdependence requires continuous information sharing and adjustments, ideally within the same unit such as a team or product group.

Create Conditions for Emergent Coordination

Teams handle their inter-team coordination themselves since they best understand what and how to coordinate. Establish conditions so that the teams have the conditions to know with whom, about what and when they need to coordinate. This is achieved through:

- Information Radiators
- Establishing communities.
- Introducing temporary coordination roles.
- Implementing co-location practices.

Design Shared Services for Support

Deciding to make a function a shared service is influenced by the cost of delay, and the relationship between a product group and the function. Key considerations include:

- **Cost of Delay:** The potential expense incurred due to postponed actions or decisions.
- **Uncertain Dependency:** When an external service's delivery introduces uncertainty in product delivery.
- **Critical Dependency:** When the actions of a shared service significantly impact crucial outcomes like customer satisfaction or revenue.

Dependencies that carry high uncertainty, criticality, and significant cost of delay are contained within the group.

Group By Common Customer

Avoid dividing the units that deal with customers from the ones that create the product. This is because when both sides understand the customer well, they can make better products and decisions. When the product-creating teams are in tune with the customers' needs and challenges, they can work more independently and adapt more quickly to changes, which helps the whole organization be more efficient and flexible.

To improve adaptability and efficiency, two main strategies are proposed:

- Merge customer-facing and product development units into one product group that oversees the entire product lifecycle and uses customer feedback for improvements.

- Introduce shared customer goals and performance measures for all managers, encouraging decisions that benefit the overall customer experience rather than individual unit goals.

Separate Product Management from Line Management

Separate product management from line management in your organizational design.

- A single product group lead focuses on product success and sets work priorities for the whole group.
- Line managers, without task assignment authority, concentrate on enhancing the organization and team effectiveness and oversee individual development.
- Expert leads mentor employees without HR responsibilities or task assignment authority.

Multi-skill Development

Since the need for specific skills within teams changes over time, it's best not to fixate on specific skills. The right mix of skills, specialists and generalists is determined by team context and product requirements.

Develop a human operations system that:

- Recognizes both personal and team achievements.
- Values multi-skilled specialists.
- Strives for a balance between deep specialists and generalists.

The teams decide the best skill balance and who should develop which skills, with management supporting their growth into effective agile teams.

End Note

Think of Creating Agile Organizations as your friendly guide to shaping a unique organizational structure. While most frameworks hand you a set rulebook, this approach is like a wise old friend, offering valuable advice and insights based on years of research and real-world experience. It's all about flexibility and finding what works best for you – no strict rules, just helpful guidelines!

History of Creating Agile Organizations

Cesario Ramos penned the 'Emergent' book in 2012 about Agile adoptions that started the idea of creating agile organizations. Later, in 2018, Iliia Pavlichenko and Cesario Ramos got together to write down the lessons learned from working in many organizations attempting to become adaptable at a large scale. The CAO community of trainers and practitioners was formed in 2023.

Learn More About Creating Agile Organizations

Dive deep into the transformative world of agility with the insightful book "**Creating Agile Organizations - A Systemic Approach**" by Cesario Ramos & Iliia Pavlichenko. This essential read lays the foundation for understanding and creating agile organizations.

Continue your learning and application of agile principles by visiting creatingagileorganizations.com, for the latest insights and resources in agile organization design.

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