



# Designing & Creating Agile Organizations

DAVE WEST AND CESARIO RAMOS | MAY 2024

*The following paper is a collaboration between Cesario Ramos, co-creator of the Creating Agile Organizations approach, and Dave West, CEO of Scrum.org. It provides an executive overview of the approach's concepts and ideas, as described in the book *Creating Agile Organizations*.*



## An executive overview

Every business has a strategy, but executing it in the digital age is harder than ever. Planning horizons continue to shrink, opportunities continue to grow, customers continue to change, and competitors can deliver faster and cheaper than before. In response, leaders seek new ways to design their organization, organize their teams, align their priorities, and manage their work to execute the plan better, ultimately delivering more value and being more flexible when reality hits.

Organizations are adopting Agile capabilities to overcome these challenges. The ability to work in a way that aligns better with customer outcomes and be flexible in response to the business environment. There are many different approaches to agility. Ultimately, these approaches concentrate on aligning teams to clear outcomes, planning work in smaller chunks, empowering those teams to decide how they work, and sustaining them with flexible support organizations and modern management practices. At first glance, those ideas seem simple; however, the implications to organizations are considerable, prompting changes to strategy, structure, processes, rewards, and people.

The questions “How do I deliver more value?” and “How do I make my existing organization more agile?” have been at the heart of many leadership debates over the last ten years as organizations wrestle with becoming digital. New technologies and business models (e.g., blockchain Artificial Intelligence, LLMs, and products like ChatGPT), market changes (e.g., emerging markets, coronavirus pandemic), and responsibility for the future (e.g., global warming) just increase the challenges with increased opportunity, more information and the ability to operate in faster and faster horizons. This evolving landscape demands swift and informed decision-making and the capability to act quickly. The challenge is clear: Developing agile capabilities is essential for surviving and thriving in this fast-paced world.

## **One size does not fit all**

The idea of becoming more agile often leads leaders to look at organizations known to be agile, such as Amazon, Google, Netflix, and Spotify. There is merit in reviewing these organizations' management approaches, organizational structures, and process models. However, these organizations are unique and were “born” in the digital age with a digital foundation. Their culture, products, people, and history make their approaches work, and much of what makes their approach effective is invisible to a quick study or case study.

People are complicated, and changing how large groups work together to achieve a goal is complex. This realization often leads leaders to look to frameworks to fill the gaps. Leaders turn to frameworks like SAFe to manage the complexity of changing how large groups collaborate towards a common goal. These frameworks are popular for their valuable patterns and ideas. However, the real challenge lies in customization. While these frameworks allow for flexibility to suit different situations, figuring out how to effectively customize and optimize them is tricky. As a result, many organizations adopt scaling frameworks additively, leading to a superficial application on top of all the existing processes and practices they use. This often results in

merely renaming roles and responsibilities and adopting agile practices without truly transforming organizational processes. This phenomenon, known as "agile washing," reflects a deeper issue of not fully integrating agile principles at the core of the organization's operations. Similarly, at the team level, practices like Scrum are often implemented in a "water-scrum-fall" approach, focusing more on task completion than delivering value. While it's easier to address these issues at the team level through training and coaching, correcting "agile washing" at the organizational level presents a more significant challenge.

If copying other organizations and adopting off-the-shelf frameworks does not work, leaders need to develop an informed and contextual approach grounded in the truth of their situation, challenges, and opportunities.

## **A Systems Approach to Organizational Change**

At the heart of Creating Agile Organizations is the idea that the organization's design needs to support the strategy and development of its required capabilities. The design must be considered holistically, and the processes, structure, rewards, and people elements must reinforce each other. Optimizing an element of the system without regard for the whole will ultimately undermine the value sought. For example, implementing an advanced CRM system in the sales department to boost efficiency without aligning it with the marketing and customer services departments may improve sales efficiency but could lead to fragmented customer experiences and undermine overall effectiveness. This situation is similar to attempting to meet predetermined, fixed-scope targets while simultaneously striving to optimize the outcomes achieved; these two approaches conflict with each other rather than complement each other.

Of course, many things can be a system depending on your vantage point, so for the purpose of Creating Agile Organizations, the unit of change is the product group. A product group is defined as all essential organizational elements necessary to deliver the good or service defined by the Product. The product group fits into a broader set of building blocks:

- **Product** - The good or service that the change is focused on.
- **Product Group** - The organizational elements that deliver the good or service.
- **Cross-functional team** - The ultimate delivery unit is a team of people with the skills necessary to deliver value.
- **Shared Services** - Services provided outside of the Product Groups that provide specialized support to multiple Products.

## Building Great Product Groups

Traditionally, the term product group has been applied to product development or product-centric organizations (for example, consumer packaged goods and technology companies). We use the term to describe the complete grouping of capabilities and people necessary to deliver a good or service the organization provides. The line that the organization decides to draw around what that good or service is their choice; however, it must make sense to the people involved, have a clear boundary and defined value, and you can clearly determine stakeholders, customers, and users of the product.

The strategic focus of the product could be one of three types:

**Product or Development Centric** - Many organizations focus on innovation and rapid product delivery. Product-centric organizations tend to place heavy value on research and development and measure their success on product adoption and profitability. They are focused on technology shifts and customer needs.

- **Operations Centric** - The emphasis for this focus is cost efficiency and reliability. Volume is the key factor that drives price, efficiency, and quality. The organization is structured around efficiency rather than flexibility. Continuous improvement focused on quality and the impact of volume changes is the focus.
- **Customer Centric** - With this focus, organizations pursue high customer satisfaction and long-lasting customer relationships. Value is often measured by customer retention and satisfaction. Organizations are aligned around customer segments. Products are often unique and custom for a particular customer. The ability to rapidly adjust to customer needs is a key focus for any work.

The following steps drive the process of defining product groups:

- **Identifying Products:** For some organizations, products are already a mechanism used to organize people, plan work, and align goals. However, for many organizations, the idea that products are the unit of organization is new. The first step is to determine what the products are and what elements of the existing organization support each product.
- **Organizational Elements Assessment:** This step involves identifying the essential organizational elements that deliver the good or service. By understanding what is essential, it is possible to determine goals, align resources, and understand the scope of the product group.
- **Value or Revenue Stream Identification:** The second step focuses on pinpointing the product value. For some products, this is measurable in terms of revenue and costs; in other situations, value can be measured in other terms. Ensuring that the product's value is clearly understood and transparent is essential.

These steps aim to determine what is inside or outside the product group and why. Value and core vs context provide opportunities to add and remove elements. Core being capabilities that are central to delivering value and context describing capabilities that are ancillary or supporting that delivery. Each organization must decide what its core or context is. For example, when looking at the product development steps, we discover that an element required to deliver value was not considered core and has been omitted, allowing the team to change the scope of the product group or have an interesting discussion with stakeholders on what value is. Ultimately, designing agile organizations aims to improve the whole but focuses on what is core to delivering the required value.

## Getting Started

Implementing agile scaling frameworks can reduce significant risks in structuring an organization. Each framework has specific rules, guidelines, and roles, “a safety net.” However, choosing not to use a framework implies making all design decisions yourself, which might result in various mistakes. Nevertheless, this approach enables customization to meet specific needs and fosters a sense of ownership among teams as they actively contribute to the process. Use the organizational design principles and guidelines to avoid costly and unnecessary mistakes.

### Study first, then apply guidelines (in an incremental way)

To drive effective improvement in any organization requires first, an understanding of the existing organizational design in the context of the business strategy and a detailed understanding of the motivation for the change. By evaluating the existing organization and the strategic objectives, it is possible to ask: “Is the strategy compatible with the current capabilities?”. By looking at the current operating model, it is

possible to determine what is missing and what is challenging the business strategy. This analysis will determine the capability gap. Which capabilities should be kept, improved, discarded, or introduced? Unfortunately, any assumptions and ideas are speculative until you introduce the new organizational design to build these capabilities. Therefore, it is crucial to put in place a process that frequently revisits your design decisions, processes, structures, incentives, and required capabilities. From experience, I believe this process itself should be agile.



**Source: C. Ramos, I. Pavlichenko. 2022. Creating Agile Organizations. Pearson Education.**

## Guidelines

Each agile organization is unique, based on the business, culture, geography, and mission of that organization. It is not possible to adopt one pattern for every organization. There is no one-size-fits-all all. However, some guidelines help “guide” the design process.

These include:

- **Derive Required Capabilities from the Strategic Focus** - A product-centric organization typically focuses on innovation, new product development, or time-to-market capabilities. An operations-centric organization mainly focuses on low cost, reliability, automation, and quality capabilities. A customer-centric organization can deliver high customer satisfaction and nurture long-term customer relationships. The organizational focus provides guidelines for the change, allowing teams to select the capabilities that suit their situation and needs.
- **Decouple Unit Functions** - Product groups' ability to respond to their stakeholders' needs is at the heart of any agile organization. Dependencies between these product groups and other parts of the organization ultimately reduce their ability to respond. Excessive coupling between unit functions can hinder performance, make prioritization hard, create goal conflicts, and reduce agility. By decoupling product groups, organizations become more resilient and create an environment where adaptability thrives.
- **Combine Authority with responsibility** - Responsive, agile organizations push decision-making down, allowing teams working on the problem to make decisions within clear guardrails and direction. Ensure that when people are responsible for an outcome, they have the authority to make decisions to drive towards that outcome.
- **Contain Reciprocal task interdependencies** - Of course, every product group will have dependencies. However, excessive operational interdependence between product groups increases coordination costs and slows the learning cycle. However, knowing what excessive is will be different for each product group. By making these dependencies visible and removing the ones that make decision-making and learning hard, organizations reduce costs and increase their ability to learn and adapt.



- **Create conditions for emergent coordination** - People directly involved in the work have the best understanding of what needs coordination and how to execute it effectively. The question shifts from "Which coordination technique should different units use?" to "How can we establish conditions that enable individuals to know what, with whom, and when they need to coordinate?" A networked organizational structure, which connects self-organizing teams within and across groups, facilitates this. This structure allows teams to coordinate directly with each other as needed. A networked design promotes quicker learning and problem-solving as teams can quickly locate the required expertise. To develop conditions for emergent coordination, simplify interaction rules and support personal and professional networks beyond immediate team requirements, grow communities of practice, use visual management, and promote co-location.
- **Design shared services for support** - Aim for organizational resilience by swiftly starting, merging, or halting products or services without impacting the larger organization. Product groups loosely coupled to other groups, systems, processes, and policies have a greater capacity to investigate different methods and change direction when necessary. Dependencies that present minimal uncertainty in delivering products do not significantly affect key outcomes, have low incremental costs, and should be managed within a shared service.
- **Group by common customer** - Teams that understand what customers and users need make better product decisions. Organizing teams with a clear "line of sight" for the people using the product or service provides motivation and creates an environment for creating more value. Traditional separation of front and back-end responsibilities hinders customer focus. Having one set of clear customer-oriented metrics allows everyone within the product group to move in the same direction. This avoids conflict and disagreement when metrics are optimized for the parts rather than the whole.

- **Separate Product Management from Line Management -**

Popularized by models such as Spotify, the idea that product and people management are kept separate creates clear focus and attention. Traditional dual reporting lines and hierarchical competence management lead to less focus on product group priorities. This tension creates side steering, where team members prioritize the goals of their hierarchical managers over those of the product group. This structure also encourages individuals to follow narrow, single-skill career paths, optimizing individual performance at the expense of overall team performance. To address these issues, design the product group so teams receive work and priorities from a single source. A single product group lead can be more effective, focusing solely on product success and setting work priorities for the entire group. Line managers without the authority to assign tasks focus on improving the organization and cross-functional teams.

- **Multi Skill Development -** High-performing teams must collaborate effectively to meet business goals, adapting to the continuous evolution of required skills and technologies. Keeping pace is critical for staying competitive, and it's becoming increasingly normal with the developments in AI for individuals to acquire deep knowledge in new areas regularly. To support these dynamics, organizations must implement a human operations system that recognizes employees' individual and team contributions and encourages them to become multi-skilled experts. Such a system should balance deep specialists and adaptable generalists within teams. A focus on skills transfer and mentoring should be encouraged.

## Summary

The reality of modern organizational design is that you will never be done. Just as an organization has designed and implemented the model they think is the most effective, the environment changes, making it less effective. However, it is possible to structure organizations around elements that change less frequently and support the people inside those organizations to improve how they are organized and operate continuously. Product groups are a mechanism where people are organized around value. Everyone within the product group is accountable for delivering the product's value, and they are empowered to optimize the whole rather than the elements they work within. Agility is not a goal but a byproduct of the organization's ability to deliver value today and in the future.

The design process for optimizing the product group starts with a clear understanding of the objectives of the product group, combined with a sense of the existing capability gap, structures, and constraints and how they link to the strategy of the business. If you do not already have product groups, then it is essential to use the idea of a product to structure the organization.

Once you have product groups, employ a series of proven guidelines to ensure that any changes they make are designed to support agility. Guidelines include cross-functional teams, decoupling work from people management, and managing dependencies. Over time, organizations will add and change guidelines based on their improved understanding of the environment. Organizational capabilities will evolve to support the product group's objective, influenced by the guidelines, values, and principles for agility. This approach should be done iteratively and incrementally.

## About Scrum.org

Scrum.org, the Home of Scrum, was founded by Scrum co-creator Ken Schwaber as a mission-based organization to help people and teams solve complex problems. We do this by enabling people to apply Professional Scrum through training courses, certifications and ongoing learning all based on a common competency model.