

THE POWER OF PRODUCT-CENTRIC ORG DESIGN

PRODUCT-LED DOESN'T MEAN JUST CHANGING WHAT WE BUILD, BUT HOW WE DECIDE WHAT WE BUILD.

»»» HIGHLIGHTS

- ▶ Most Fortune 1000 companies are elevating product management to the executive level, an accelerating trend
- ▶ An outcomes-focused organization requires an executive leader to establish and cultivate requisite behaviors
- ▶ Organizational design choices directly impact the success of product transformations

In today's rapidly evolving business landscape, driven by the proliferation of technology and data, the role of product management is increasingly recognized as pivotal to organizational success. As companies strive to adopt a product-led approach, the elevation of product management to the executive level – often embodied in the role of the chief product officer (CPO) – becomes crucial. This whitepaper explores the impact of organizational design choices on the effectiveness of product management, emphasizing the strategic benefits of having a dedicated executive function. By examining trends, data, and best practices, we highlight how elevating product management fosters customer centricity, innovation, and strategic alignment, ultimately driving sustainable business growth and adaptability in an ever-changing market.

“ **In the best companies...the CPO is not just a voice in the C-suite anymore, but the key partner to the CEO in ensuring the long-term viability and success of the business.** ”

-2023 CPO Insights Report

➔ **USE THIS GUIDE TO MAKE A MEANINGFUL IMPACT ON THE PEOPLE AND PROCESSES IN YOUR ORGANIZATION**

According to some of the most recently available data, many top companies are elevating product management to the C-Suite – a trend that is only expected to accelerate.

TRENDING UP

According to a Forbes 2023 article *“The Ascent of Chief Product Officers,”* seven out of 10 Fortune 100 organizations have hired chief product officers.

A [2023 CPO Insights report](#) found 30% of the Fortune 1000 companies have chief product officers – a 15% increase from 2022. A majority of these roles, roughly 61%, are found in the IT and fintech sectors. This same study projects [70% of Fortune 1000 companies will have the role of chief product officer by 2027.](#)

“**By 2022, as we reported in our CPO study last year, approximately 15% of Fortune 1000 companies had a CPO. At that time, we predicted that the percentage of Fortune 1000 with a CPO would grow to 70% within five years. However, the data for 2023 already shows that this share has been increasing even faster than expected, with 30% of the Fortune 1000 now having a CPO.**”

-CPO Insights Report

WHY ARE COMPANIES HIRING & ELEVATING THE CHIEF PRODUCT OFFICER ROLE?

This is likely a result of two converging strategic goals. One is the advantages provided by a product-led model and the core benefits of customer centricity, continuous learning and experimentation, an outcome focus, data-driven decisioning, and strategic alignment at the executive level. This includes considerations of investment and budgeting alignment, as well as talent acquisition and people development.

Another factor is many companies are looking to the chief product officer role to set the foundations for the future growth of product standards, ways of working, and operations.

It is worth exploring how choices in organizational design related to the product management function can impact an organization’s ability to achieve those advantages.

GENERAL PRINCIPALS OF ORGANIZATIONAL DESIGN

Organizational design is the deliberate process of structuring, arranging, and aligning the components of an organization to achieve its strategic objectives effectively and efficiently. It encompasses various elements such as roles, responsibilities, reporting relationships, workflows, and communication channels.

For organizations looking to become product-centric, the structure of their product management organization – and where that organization fits into the broader enterprise – can have a significant impact on their success.

Good organizational development design accelerates success. It aligns and enables your company to meet and adapt to evolving customer and market conditions.

A flawed organizational design can frustrate an organization's ability to develop valuable products and solutions and compete in the market.

Effective organizational design for a product operating model elevates product to an executive function. For reasons we will examine, it does not subordinate product to other areas such as sales, marketing, operations, or engineering.

Effective organizational design creates a framework that optimizes productivity, fosters innovation, enhances collaboration, and enables organization to adapt to changing internal and external environments. In their book *Designing Effective Organizations*, Michael Goold and Andrew Campbell lay out some principles that guide effective organizational design.

- **Specialization:** In a healthy organizational structure, boundaries exist to protect and encourage the development of specialist skills and protect entities within the organization that need differentiation.
- **Coordination:** Activities that are done should be coordinated in a single unit. The unit may be matrixed (e.g., value delivery and functional hierarchy units can be overlaid), but the encapsulation of dependencies is preferable to orchestration.
- **Knowledge & competence:** Both in terms of horizontal specialization and vertical layering, a good organizational structure creates space for responsibilities to be allocated to a person or team best fit to do them. Teams with narrow visibility should not be making “tail wag the dog” decisions about portfolio strategies; vice versa, executives should not be making decisions about data structures and how to write tests. Both scenarios represent a misalignment of perspective and specialization.
- **Control & commitment:** Organizations must always strike a balance between effective control structures and an efficient, motivating environment for teams and departments. An effective organizational design is intentionally structured to support that balance.
- **Innovation & adaption:** The structures articulated in an organizational design should be sufficiently flexible to adapt to changing environments and circumstances. Does the organizational design support innovation and the creation of new strategic directions?

When a company is looking to organize itself around its products and services, having the product management function at an executive level sets the foundation for advancing these principles and outcomes.

Executive Product Management ensures two critical outcomes for the organization:

- **Alignment to Strategy:** The Product Management executive drives the success and outcomes of the overarching product strategy. They align the company strategy to the portfolio of products and services. They lead and coordinate the cross-functional alignment for delivering sustainable value.
- **Support and Development for Product Talent:** Product Management is a unique function. It requires experienced executive leadership with the expertise to attract, retain and develop talented product professionals. The Product function's independence allows it to elevate and focus on the product model capabilities outlined below:

PRODUCT MANAGEMENT CAPABILITIES IN ORGANIZATIONAL DESIGN

Companies moving to a product operating model need to develop a handful of core capabilities:

- **Outcome-focused:** Key indicators of organizational performance are measured by the impacts produced and value created, not the volume or rate of output.
- **Customer-centric:** The organization operates under the paradigm that business value follows from doing what's right for its customers. Policies, procedures, and decisions are viewed from an "outside-in" customer perspective.
- **Empowered teams:** Teams have all the skills, tools, authority, and context to continuously explore and solve problems and solutions, and exploit opportunities. Teams, not individuals, are the fundamental unit of execution.
- **Data-informed:** The organization operates on evidence, not assumptions, even when assumptions are backed by seniority and experience. Decisions can be made with low evidence, but those risks are explicit. The organization understands that everything is an experiment until there is evidence about how the market will respond.
- **Continuous discovery & delivery:** The core pattern for product in an organization is a virtuous cycle of discovery and delivery. Product iterates on solving the right customer problems and in ways effective for the organization's success. These are critical capabilities that need to be supported and developed throughout the organization.

It can be difficult, if not impossible, to foster these characteristics without an appropriate structure for a product management function in the organizational design.

There are clear benefits to having an organization that embodies such characteristics, but many organizations – especially those with long histories and organizational designs based on legacy structures – struggle to truly make those characteristics a part of the culture. Having product management as an executive function establishes the requisite structure and leadership to enable the success of product-led organizational design.

KEY FACTOR DESIGNING THE PRODUCT ORG: CENTRALIZED OR DECENTRALIZED

One of the fundamental considerations in organizational design is whether to adopt a centralized or decentralized structure. A centralized structure concentrates decision-making authority. A decentralized structure distributes decision-making authority across various levels and units of the organization.

We examine by Organization Function, e.g. centralized and by Business Unit, or decentralized models.

BY ORGANIZATION FUNCTION (CENTRALIZED)

In the Organization Function model, various organizational functions are centralized as a way of establishing and elevating the core value each function and role brings to a product-led org. This could be product, engineering, marketing, or any number of organizational functions.

This model tends to be most successful when an organization is early in its product transformation, where there is need for a unified perspective on product transformation and holistic product strategy

Characteristically you will see the roles of a chief product officer (CPO) and chief technology officer (CTO) – or some executive role – as peers reporting to the CEO. This model enables enterprise functions to focus on their core value propositions to the organization. This will become a key factor in product-led models because each role/function brings unique value to empowered product teams.

For example, product leaders can focus on connecting product strategy to company strategy, aligning the organization's products and services to customer and market dynamics, developing value-based KPIs and metrics, and so forth.

Also, the centralization of product leadership is best able to establish foundations for product management competencies, how they are developed and supported, as well as the vitally important career progression.

Likewise, the same is true of other functions such as engineering. The Functional model allows chief technology officers to maintain critical focus on excellent technology practices and standards (scalability, security, DevOps, etc.) and identify strategic technology opportunities and challenges to inform important build-borrow-buy decisions.

The same functional value frames apply to marketing, data, talent strategies, and so forth.

In a product-led model with empowered product teams, each functional area can best support the key roles on each product team to produce the best outcomes for customers with sustainable business impact.

The risk of a centralized model, especially in larger organizations, is a potential loss of market- and customer-specific value in favor of a singular strategic narrative. Too much centralization can also create dependencies that slow lines of business down as cross-functional dependencies go unmanaged. This results in greater bureaucracy, low market adaptability, and escalating costs.

(We examine the problems of subordinating the product function below.)

BY BUSINESS UNIT (DECENTRALIZED)

The key element in this model is that the “general manager” role functions essentially as a CEO. In this Business Unit/GM model, the same organizational functions above are encapsulated within that business unit. They are decentralized from a single-threaded, centralized executive product officer role.

However, with this decentralization, there are tensions and risks. For example, you may have multiple platforms, databases, and processes, as they are no longer centralized. Likewise, product may function completely differently from one business unit to the next, with little to no standardization. Business units are typically free to pursue any product strategy – and method for achieving it – in a manner that fits their market environment.

This preference for a more decentralized model is sometimes seen in native digital companies or global organizations. In this model, product, engineering, design, marketing, etc. are all encapsulated within the budget and authority of the business unit or general manager. Some examples include Amazon, where Amazon Web Services is separate from Amazon Stores, or Ford Motor Company, which has various heads of international business units acting effectively as CEOs with ownership and control of various functions and resources.

Some organizations may look to move from a centralized to more decentralized model as they grow and mature. This is often done, however, after a stable foundation of product competencies and frames are in place.

THE PROBLEM WITH SUBORDINATING PRODUCT MANAGEMENT

Subordinating product management under other enterprise functions, such as engineering or marketing, can present significant challenges for organizations striving to adopt a product-led organizational model. While there may be historical reasons or traditional structures that lead to this arrangement, it can create several problems that hinder the effectiveness of a product-led approach:

MISALIGNMENT OF FOCUS & PRIORITIES

Placing the product function under another department can lead to a misalignment of priorities. For example, if Product reports to Engineering, there may be a bias towards technical considerations and solutions, rather than prioritizing customer needs and market opportunities. Similarly, if Product reports to Marketing, there may be a tendency to prioritize short-term promotional objectives over long-term product strategy and innovation. This misalignment can result in conflicting objectives and decision-making processes that hinder the organization's ability to deliver customer-centric products.

It should also be noted that this encapsulation and subordination can also hinder your engineering or marketing effectiveness as well since they will be expending time, energy, and focus on responsibilities orthogonal to the priorities of their functional area. This creates distractions from what we need great engineering and great marketing to do, e.g., technical excellence and innovation and market and channel expertise.

LACK OF AUTONOMY AND EMPOWERMENT: OUTPUTS OVER OUTCOMES

Subordinating the product function under another function can limit its autonomy and empowerment. Product managers and teams may find themselves constrained by the agendas and priorities of the parent department, leading to a lack of ownership and accountability for product outcomes. Without the authority to make strategic decisions and drive product direction independently, Product may struggle to advocate effectively for customer needs and influence key decisions that impact product development and delivery.

SILOED COMMUNICATION AND COLLABORATIONS

Subordinating product can exacerbate siloed communication and collaboration. Product teams may become isolated from cross-functional partners and stakeholders and worse, end users and customers. This leads to fragmented decision-making, duplication of efforts, missed opportunities and, fundamentally, products that fail to deliver the promised value.

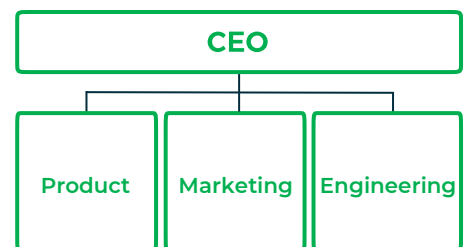
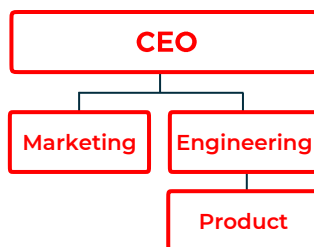
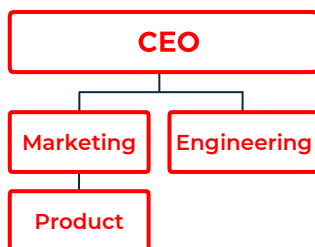
LIMITED STRATEGIC INFLUENCE

Subordinating product leads to erosion of strategic **influence** across the organization. Which ultimately leads to strategic misalignment. Lack of executive leadership and governance structures causes fault lines and gaps between the company's direction and strategy and the necessary product direction and strategy. Correcting this type of executive misalignment is not insignificant in terms of missed opportunities and costs.

MISALIGNED INVESTMENT STRATEGY

Subordinating product leads to suboptimal investment strategies and budget allocations. When product teams – and their target outcomes – lack authority and accountability for their own budgets, it can result in an organization's investments being allocated based on the priorities of the overseeing department, rather than the strategic needs of the product. This results in critical product development efforts being underfunded or deprioritized in favor of initiatives that align more closely with the goals of the controlling department. Across a broad portfolio of products, these localized priorities can be redundant or even conflicting.

To overcome these challenges, organizations are elevating the Product function to an executive role (commonly a chief product officer) to align on strategy, establish coordination and standards, support empowered product teams and leaders to focus on solving customer problems and capturing business opportunities.



CONCLUSION

The elevation of product management to an executive level, embodied in the role of the chief product officer (CPO), is crucial not only for ensuring strategic alignment across the company, but also for championing the needs and perspectives of the product management job family. As organizations strive to transition from traditional models to a more dynamic, product-led approach, the choice between centralized and decentralized structures becomes pivotal. This decision must be informed by the organization's specific context, maturity, and strategic objectives.

Subordinating the product function under other business functions can be a significant challenge to driving customer outcomes and strategic alignment. To avoid these, organizations should commit to a design that promotes customer centricity, outcomes, and continuous discovery and delivery.

As evidenced by emerging trends and current industry shifts toward more product-centric leadership models, it's apparent that placing product management at the heart of organizational strategy is not merely a theoretical ideal, but a practical necessity. The shift toward this model is accelerating, driven by the demonstrable success of organizations that have adopted this approach.

Companies that aspire to remain competitive in an increasingly complex and evolving world must consider how their organizational design can support the evolution toward being genuinely product-led.

ABOUT THE AUTHORS



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Sources & additional reading:

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