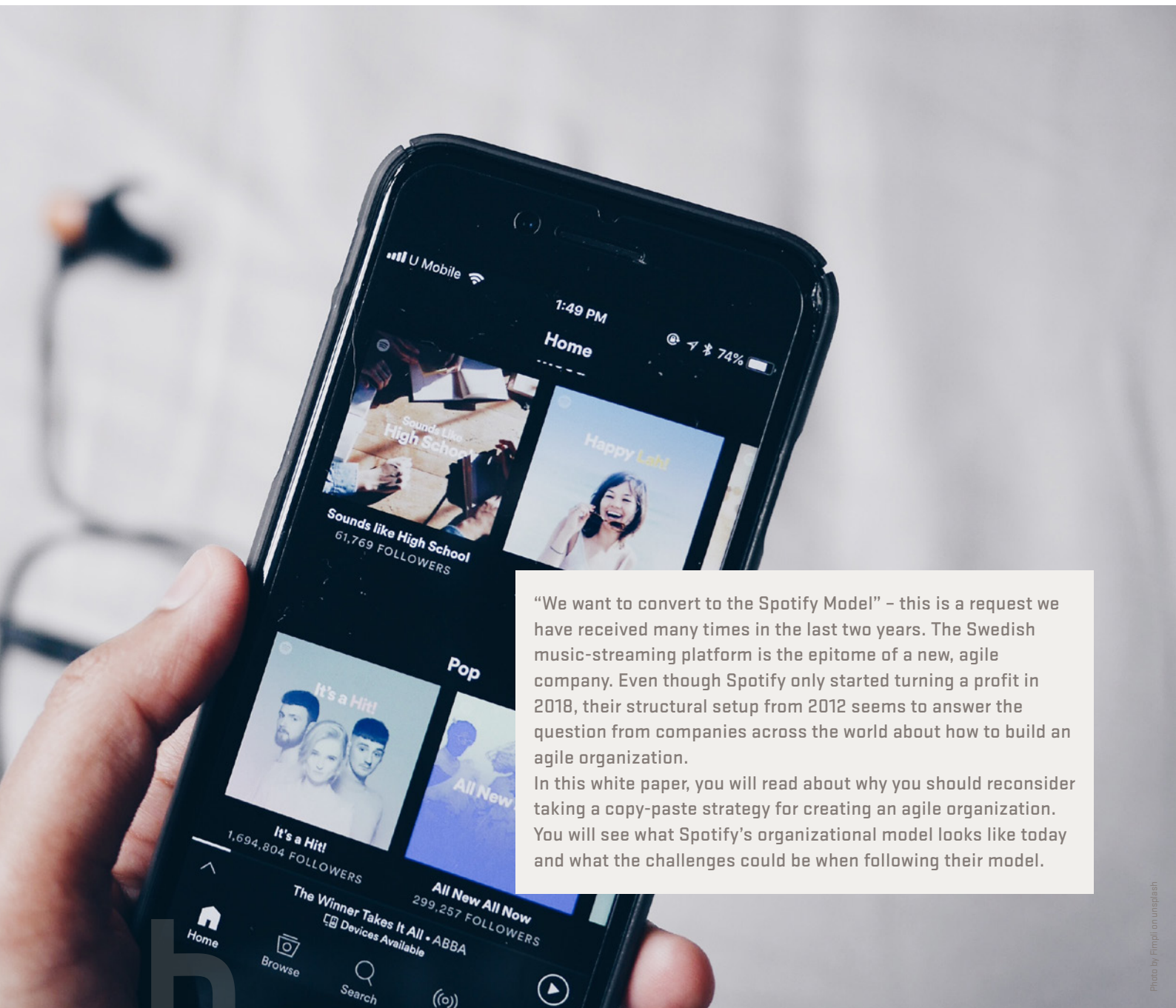# SPOTIFY AS A ROLE MODEL? WHAT YOU SHOULD KNOW BEFORE YOU COPY THEIR ORGANIZATIONAL MODEL.

BY CHRISTOPH SCHMIEDINGER

"We want to convert to the Spotify Model" – this is a request we have received many times in the last two years. The Swedish music-streaming platform is the epitome of a new, agile company. Even though Spotify only started turning a profit in 2018, their structural setup from 2012 seems to answer the question from companies across the world about how to build an agile organization.

In this white paper, you will read about why you should reconsider taking a copy-paste strategy for creating an agile organization. You will see what Spotify's organizational model looks like today and what the challenges could be when following their model.

A PHENOMENON TURNING CORPORATIONS UPSIDE DOWN

The "Spotify Model"[1] has caused a lot of waves in the past few years. It is the symbol of an agile organization, of a hip and innovative corporate culture. Within a short time, the Spotify organizational structure from 2012 became the template for restructuring a company. The ING Bankgruppe played a major role in the proliferation of the Spotify Model. An established company, whose roots reach back to the 1800s, undertook a complete transformation[2] and with it started a huge trend. From this point on, it was no longer a model that seemed to only work for start-ups. Other corporations followed. Today, companies like Commerzbank[3] , the Deutsche Telekom[4] and REWE[5] are among those that use the Spotify Model.

An impressive, courageous step – but as often is the case, the devil is in the details. We have seen how companies take on this model too quickly just because it is currently fashionable without considering their unique situation. Often, they don't even question whether this model is appropriate for the company and its associated business model. The pressure these companies put themselves under means essential aspects of this approach are misunderstood, ignored and ultimately implemented incorrectly. Another phenomenon: Many companies work intensively with the model, but never with the changes Spotify has made since 2012. "The" model was a way for Spotify to deal with the challenges they faced in 2012. Thus, it is nothing more than a snapshot – the world has continued to turn since then, even for Spotify.

This white paper clears up misunderstandings around the Spotify approach. It describes the most common challenges and possible solutions for them. We will carefully examine the organizational model and take a look behind the scenes:

❥ Why did Spotify use this particular model at that point in time? Is the whole thing really so new, or is it just a 90-degree turn from the organizational structure?

❥ Which adjustments were made when Spotify had to scale up?

❥ What are the biggest challenges when traditional and large corporations take on this model?

❥ How can this model be adapted to your individual context?

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[1] Kniberg, H.; Ivarsson, A.: Scaling Agile@Spotify with Tribes, Squads, Chapters & Guilds. Whitepaper October 2012.
https://bit.ly/2PneB7L

[2] McKinsey Quarterly: ING's agile transformation. January 2017. https://mck.co/2FEpcGp

[3] Mussler, H.: Die Commerzbank nimmt sich Spotify als Vorbild. FAZ online, 19.08.2018. https://bit.ly/2GTa8ti

[4] Bäumler, M.: Das Spotify-Modell: Squads, Tribes & Chapters bei der Telekom. Artificial Intelligence Blog der Deutsche Telekom, 14.11.2017. https://bit.ly/2IGxYJx

[5] Maser, J.: Conways Gesetz: Welchen Zusammenhang gibt es zwischen Organisationsstruktur und Softwarearchitektur und wie kann man ihn nutzen? Vortrag von Jens Maser. https://bit.ly/2H8E8Q3

A QUICK LOOK IN THE PAST

Stockholm, 2012. Approximately 600 employees, many of these IT experts, are working for the young startup Spotify, which was founded in 2006.[6] In order to prepare for strong growth and hold their own against the market supremacy of Google and Apple, an organization that guaranteed the ability to deliver quickly is needed. Just as before, there is a very open culture and the organizational structure hierarchy is not really practiced as it stands on paper.[7] It is not only a young company in terms of its founding. In 2012, Daniel Ek, founder and CEO, is just 29 years old.

The now well-known white paper from Henrik Kniberg and Anders Ivarsson is written in 2012 and has the following disclaimer:

> Disclaimer: We didn't invent this model. Spotify is (like any good agile company) evolving fast. This article is only a snapshot of our current way of working – a journey in progress, not a journey completed. By the time you read this, things have already changed.

Kniberg and Ivarsson make it very clear that the structure they talk about in the paper will have already changed by the time the paper is published – as should be the case in a true agile organization.

What will be denoted as "the" Spotify Model is the documentation of a structure (see Figure 1) that was current at a particular time and is today used in many established organizations as an example for their own structures [8].
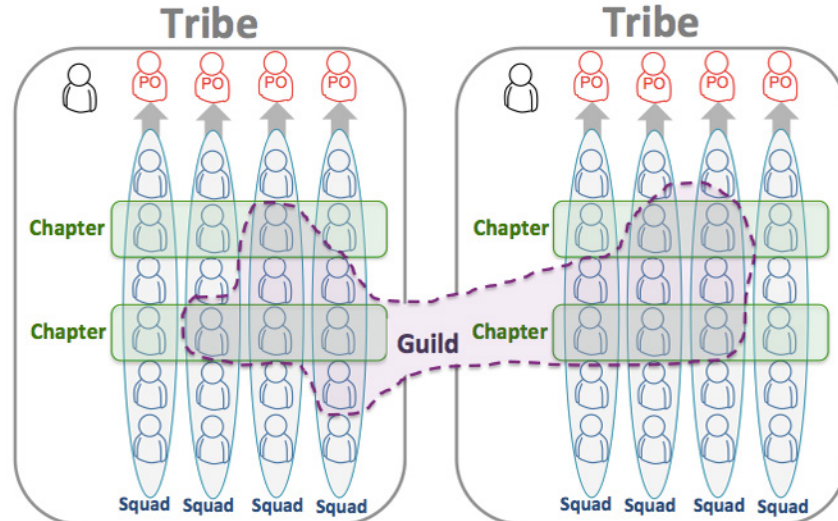

Figure 1: Schematic Organizational Model from Spotify 2012

Spotify talks about a newly designed matrix organization that, compared to classical structures, is weighted towards delivery, i.e. the focus in on a customer-oriented value stream. The functional subject matter expertise is ensured in the background through matrix assignments to Chapters. In the delivery-oriented structure with cross-functional work on products and services, the team setup stands at the forefront (the Squads) because this is where the majority of work is accomplished. As already mentioned, the Spotify culture is completely different and cannot really be described in terms of Schein's interpretation of organizational culture.[9] You could say that Spotify was born agile.

CHANGES IN THE SPOTIFY MODEL AFTER 2015

Why do companies today use a model that is already more than seven years old? Since 2012, Spotify has gained so much more experience and used this to continue changing their organizational structure. There are also published articles on these changes, but these have not received the same amount of attention as the original white paper.

Two talks in 2015[10] and 2016[11] , as well as two articles from 2015[12] and 2018[13], describe how Spotify has continued to develop since 2012. The company has scaled from the 600 employees back then to an almost sevenfold growth of more than 4000 today.

LEADERSHIP TRIOS AND ALLIANCES

One of the biggest changes was the implementation of Leadership Trios at the Tribe level and establishing so-called Alliances. The latter was an answer to the increasing need of vertical alignment, i.e. between the Tribes, caused by the strong growth at Spotify. This allowed at least two affiliated Tribes to be consolidated into the next largest unit, an Alliance. In addition, the Alliances and Tribes were separated into Business and Support Missions based on their type of customer (internal or external). The Business Missions are typically divided according to customer segment in order to ensure optimal service through several products.

[9] Kukreja, S.: Edgar Schein's Model of Organizational Culture. Management Study HQ. https://bit.ly/2UrTKBl

[10] Goldsmith, K.: The Spotify Tribe. Vortrag im Rahmen der Spark the Change Conference am 1.7.2015, London. https://bit.ly/2H1OxxT

[11] Sundén, J.: Tribes, Squads, Chapters & Guilds: Agile at Scale at Spotify. Vortrag im Rahmen der Agile Tour Vienna 2016. https://bit.ly/2Uow41E

[12] Tracey, E.: What's it like to work at Spotify?" Honeypot Blog, 13.11.2015. https://bit.ly/2ERfzpj

[13] Kendis Team: Exploring Key Elements of Spotify's Agile Scaling Model. Medium, 23.7.2018. https://bit.ly/2nTi0ym
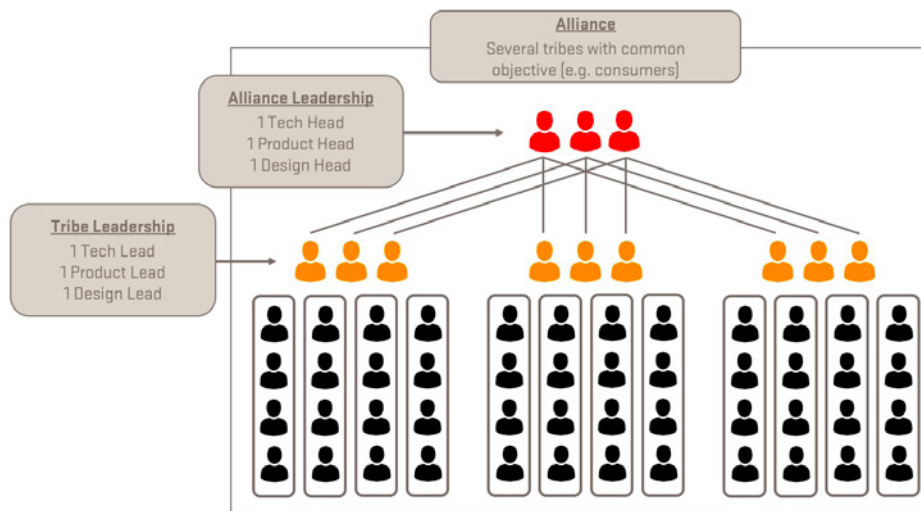
Figure 2: Spotify Structure after 2015

In the original model, the focus of Tribe Leads was very one-sided – they were either technology or business. In comparison, the Tribe Leadership Trios are three people with competencies in product/business, technology and design (Tech Lead, Product Lead and Design Lead). These employees lead the corresponding Chapters. At the Alliance level, there is a Head for all of the Leads (Tech Head, Product Head and Design Head – see Figure 3).
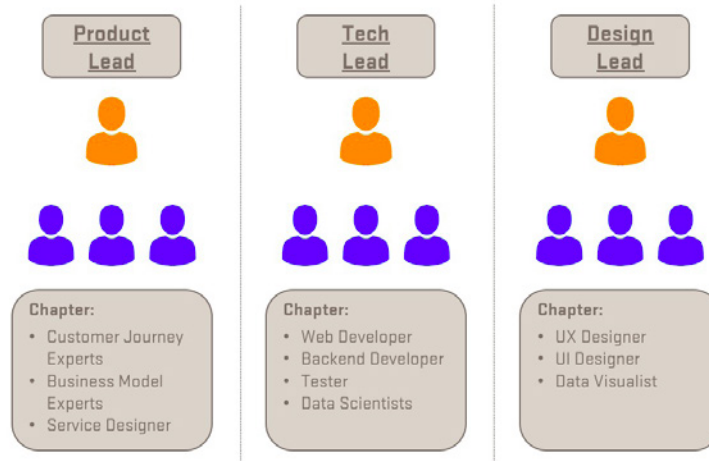

Figure 3: Example of Chapter Assignment to the Tribe Leadership Trio

THE MISSION DETERMINES THE RULES

Spotify made it very clear in their publication that in many areas the organization would deviate from their own rules because the Mission to be completed at the time was more important than the structure. The principle behind this: Agility is to deliver to the customer in the best possible way, independent of rules and dogma. When examined superficially, it appears that seemingly unagile constellations are created at Spotify. For example, Squads that are only responsible for testing the mobile application before the rollout.

Today, in 2019, more than 4100 people work for Spotify, and you can be sure that the organizational structure has continued to change since the latest publications. As a side note, Spotify achieved their first operational profit in the history of the company in the fourth quarter of 2018.[14] At the same time, this means that the company was in a strong growth phase in the years before and the originally modeled structured was used for this goal.[15] This fact should also be critically regarded by established organizations and questioned when considering this structure for their own organization.

BUSINESS-ORIENTED ORGANIZATIONAL DESIGN

As Kniberg and Ivarsson wrote in their white paper, what Spotify was considering at the start of the decade was not completely new. Instead, it was influenced considerably by two ideas from the 1990s: Business Units and Business Process Reengineering.

Through market liberalization it became clear that a company of the future would only survive if they had a strong focus on the customer. From this, the idea of Strategic Business Units was created, allowing a decentralization of decision making in large companies.[16] A majority of the functions that were central for the sale of products or services were bundled under one manager, the Business Unit Manager, who ideally has profit/loss responsibility. This ensures that all employees, regardless of their function, have the success of the Business Unit as their goal. However, this decentralized thinking is not continued within the Business Unit. The internal structure remains strongly function-oriented and there is a risk that small silos will form within the unit.
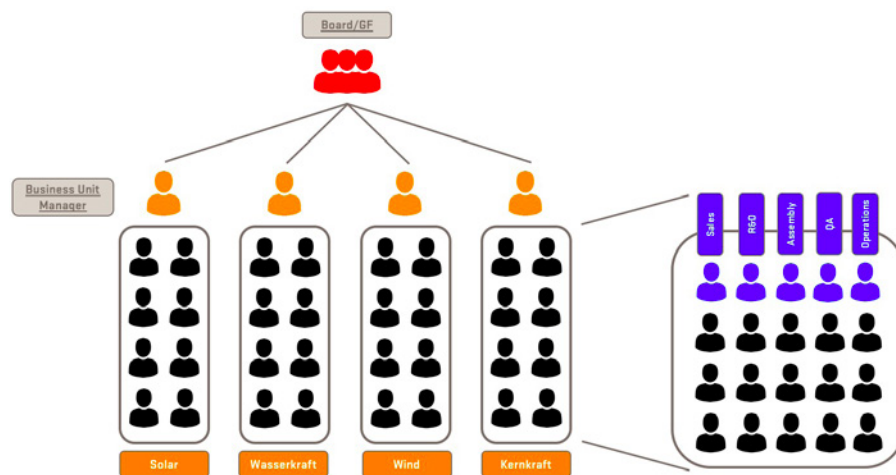

Figure 4: Example of Strategic Business Unit Organization from a Power Plant Builder

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[14] Spotify: Shareholder Letter February 6, 2019. https://bit.ly/2H5ODDU
[15] Brandt, M.: Spotify weiterhin unprofitabel. Statista.de, 2.3.2018. https://bit.ly/2CYPOEi
[16] Erste Ideen zu strategischen Geschäftseinheiten finden sich bereits in Büchern von Gerl und Roventa aus den 1980er-Jahren
(z.B. „Strategische Geschäftseinheiten" aus dem Jahr 1983).

The second approach, the Business Process Reengineering, postulates the idea of putting value creation for the customer at the forefront of the workflow management (and as such the processes).

BPM expert Michael Hammer wrote in 1997 that the permanent organization should consist of centers of expertise, each with a coach that is responsible for making the professional expertise. [17] The employees should come together in autonomous and independent process teams to ultimately generate value for the customer under the guidance of a Process Owner. With the exception of the terms (Center of Expertise vs. Chapter, Coach vs. Chapter Lead, Process Owner vs. Product Owner), it becomes clear that there are many similarities to the approach from Spotify.
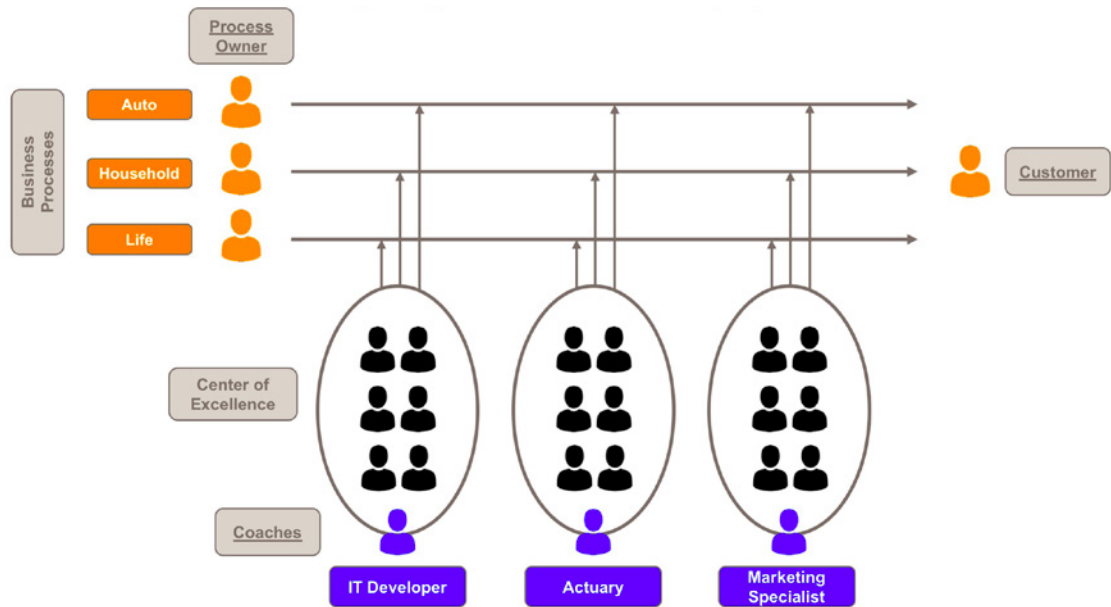

Figure 5: Example of a Process-Oriented Organizational Structure for an Insurance Company

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[17] Hammer, M.: Beyond Reengineering: How the Process-Centered Organization Will Change Our Work and Our Lives. HarperBusiness, 1997.

CHALLENGES WHEN USING THE SPOTIFY MODEL

When companies want to use the Spotify Model for their own organization, they all seem to face similar challenges. Here the most important ones are discussed, along with possible solutions. Difficulties are often caused by the organizational cross section of Tribes, the role of the Product Owner and the configuration of the Chapter Lead role.

THE ORGANIZATIONAL CROSS SECTION OF TRIBES

One of the central ideas in the Spotify Model is gathering technology and subject matter experts for a specific product or a (sub-)process in the same organizational unit and thus under one manager. At the same time, this is one of the biggest challenges that is not stringently modeled in the future design. The consequence of "one manager for many different types of experts" is frightening. But it is exactly this design pattern which makes the model so appealing: Using a common goal ensures strong alignment for everyone. At the same time, it is a challenge for the future manager, the Tribe Lead.[18] Similar to a Product Owner, only more strategic, the manager must bring and bind together professional, business and technical skills to be able to management the area adequately. Usually, these managers come from the business area and must also learn how to manage the technology employees.
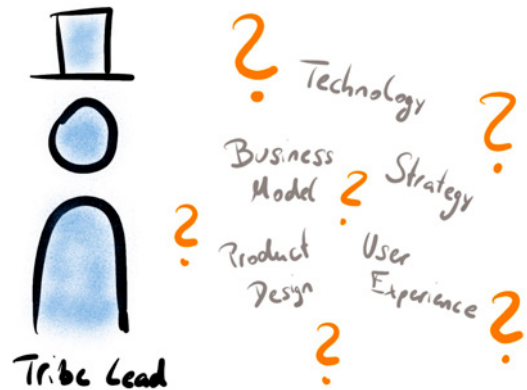
Another issue is the size of the Tribes. The so-called Dunbar's Number[19] is often discussed in professional literature: This is the number of people in group that know each other and feel like they belong. This number of people, 150, is typically used as a design criterion for organizational units, such as Tribes. Spotify defines the maximum size of a Tribe as approximately 100 people. In practice, however, even this size creates a challenge for companies when looked at from the perspective of the management span. If we are talking about small Squads, we are dealing with a total number of 100 people with at least 12 Squads and their Product Owners (in the case of a 1:1 relationship between Product Owner and Squad). Because of the various skill sets needed for the development and sale of a service or product, there is usually at least 10 Chapters with their associated Chapter Leads in a Tribe of that size. In the case that all of these Chapter Leads report to the Tribe Lead, the management span quickly reaches over 20 people. Such large management spans rarely have a positive effect on management because a modern management style means investing a large amount of time in each employee (for example, through personal coaching).

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[18] For simplicity, a Tribe Lead typically references a manager with a business background.
[19] See also https://bit.ly/1gWyhFw

SOLUTION

The situation can be eased if Tribe leadership is expanded to include technology and/or design managers, as has become the case at Spotify in the meantime. We have established this variation of using technology leads in several of the companies we have assisted. They support their Tribe Lead, who has product responsibility. Whether or not Design Leads are necessary, like at Spotify, can be decided on an individual basis. Even if the management responsibility is divided, smaller Tribes with less than 100 people make sense because the business manager is still responsible for the Product Owner and the Business Chapter and the management span should have a reasonable size.

CEO CTO "CEO"
Experience
Leadership Trio

## THE ROLE OF THE PRODUCT OWNER

Sooner or later, companies ask the question of how the role of the Product Owner should be set up. Since there is no additional level between the Product Owner and the Tribe Lead, Product Owners must work very strategically with more than five or six Squads because this task can no longer be performed by the Tribe Lead in such a large setup. Essentially, this corresponds to a "mature" agile setup: The Product Owner primarily works on strategy and can easily manage two to three Teams or Squads. The prerequisite for this is autonomous teams that also possess enough business know-how to be able to write User Stories by themselves and be able to coordinate with the user and customer. Since the Spotify Model imposes multi-functional Squads with technology and subject matter experts, this should be easier to achieve. Despite this, Product Owners are often overwhelmed with performing this strategic work at the beginning.

We have also seen that developing an employee to go from the role of a Product Owner to potentially the role of a Tribe Lead is difficult because these two roles have very different responsibilities. While a Product Owner typically manages a small team of up to nine people, a Tribe Lead manages at least 50 people and, in many companies, reports directly to the executive management. Since there is no level between these two roles, the leap from being a Product Owner to a Tribe Lead is quite big and is almost impossible to master without the support of the employees.

SOLUTION

One solution is using a Product Owner for several teams, such as is suggested in the scaling framework LeSS.[20] As was already mentioned, one of the prerequisites for this would be the team having a certain professional maturity, being able to write User Stories by themselves and coordinating with the stakeholders and users. In large setups, utilizing a Chief Product Owner (CPO) is another possibility for bundling the work of alignment and communication with the stakeholders. CPOs take over the strategic work for products consisting of more than three Squads. This way, the whole construct can be scaled without implementing a formal hierarchical intermediate level while minimizing the direct management span of the Tribe Lead by having only the Chief Product Owner reporting to the Tribe Lead regarding content.

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[20] See also https://less.works/
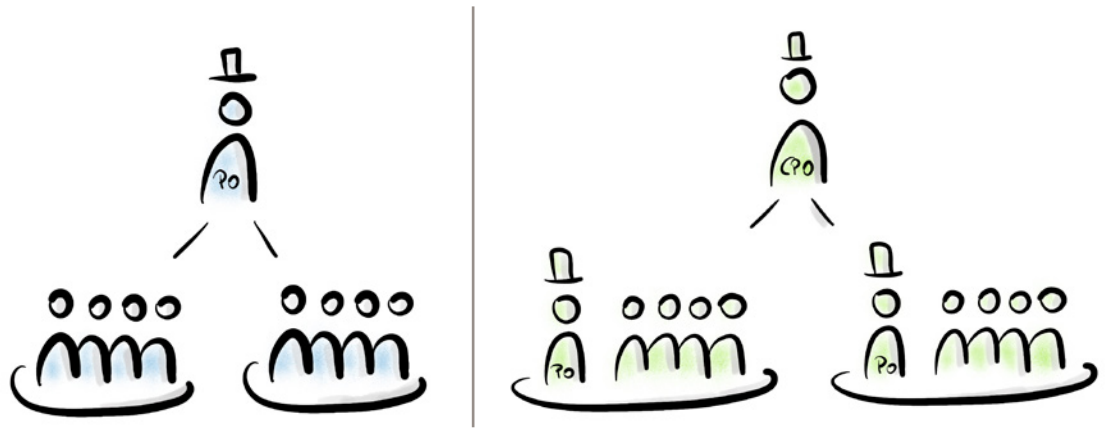
DESIGNING THE ROLE OF THE CHAPTER LEAD

In the Spotify Model, there is one large unknown: the function of the Chapters and the associated role of the Chapter Lead. What exactly does the Chapter do and how do they ensure alignment? Is the Chapter Lead a disciplinary manager who really works in a team? What if a second Chapter member is working in the same team: Is it still a hierarchy-free area?

In the case of Spotify, the Chapter Lead was actually the disciplinary manager with all the associated tasks, such as personal development of their colleagues, determining performance as well as salaries. The Chapter Lead also continues to be part of the operational work in a Squad so they keep in touch with reality.[21] Nevertheless, there is a cultural difference between companies that implement this model today versus how Spotify was in 2012. Back then, Spotify was a start-up in Sweden, which is known for not strictly defining hierarchies.[22] That's why there is much speculation that the management by Chapter Leads at Spotify was more loosely followed that how the Chapter Leads work today in companies.

In practice, there is often a paradox that can be observed: There is a compulsion to condemn hierarchical management – at the same time, it is missed when it is no longer there. That's why in many companies inspired by the Spotify Model, the Chapter Lead is installed as a new manager and is assigned the typical old management tasks like feedback, performance and appraisal management. A classical management role in installed under a new name.

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[21] Literal quote from the white paper by H. Kniberg and A. Ivarsson (https://bit.ly/2PneB7L)

[22] Jenkins, J.: Vorbild Schweden – Was wir von der skandinavischen Arbeitskultur lernen können. Business Insider Deutschland, 31.8.2017. https://bit.ly/2T2ODOw und Hannemann, M.: „Beweis es mir!" brand eins online, 2016. https://bit.ly/2NyekOz

SOLUTION 1

My recommendation is to consequently continue on with an organization as hierarchy free as possible, which orients itself on the management model from Daniel H. Pink.[23] The employees are managed by the three roles of Product Owner, Agile Coach and Chapter Lead in the areas of purpose, autonomy and mastery, without any formal hierarchy. All three roles manage laterally and have the same common goal, to create the best work environment for the employees so that these employees can continue to develop and work efficiently on the company's goals. In this case, the Tribe Lead can still be the final disciplinary authority, although they won't have regular contact with all of the employees. Better is to have a mature 360-degree feedback process, including a collective salary determination process, in order to awaken this hierarchy-free setup. A large part of the management tasks that arise should be managed collectively by the three roles, thus making the Tribe Lead actually just a disciplinary last resort on paper. The biggest challenge is this deals with major changes in sensitive areas and companies avoid a consequential implementation.
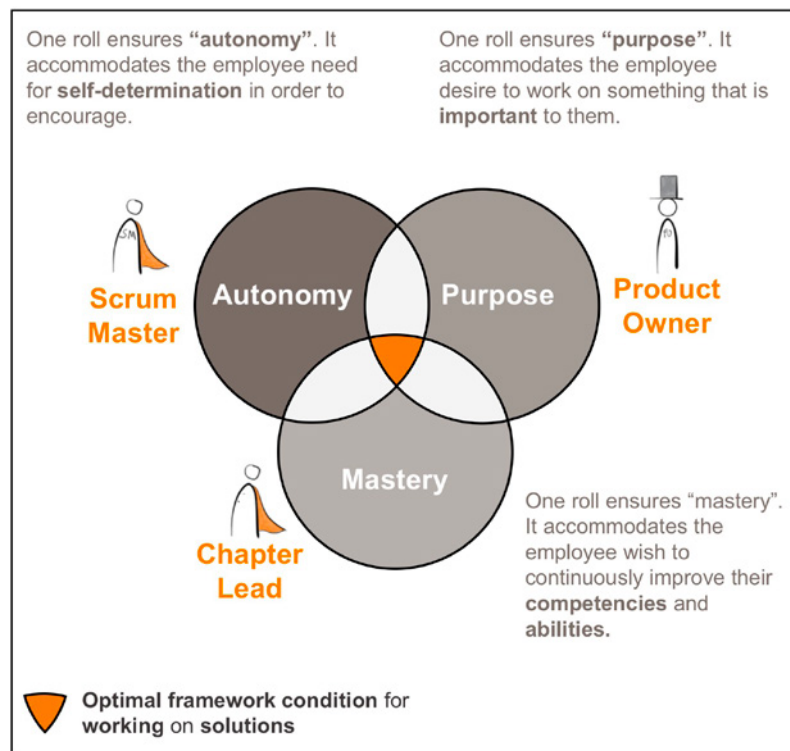

Figure 6: Agile Management Model

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[23] Pink, D.: Drive: The surprising truth about what motivates us. Riverhead Books, 2011.

SOLUTION 2

Working in the Chapter is really dependent on the intensity of the work on alignment, on strategy and on setting standards. If only a little alignment is needed (<20% of normal working time) and the primary focus is on the professional development of the colleagues, it is absolutely acceptable that the colleague continues to be engaged in a team. At the same time, it must be taken into account that the focus of these colleagues will suffer because they find themselves again in a classical double function, which can cause (prioritization) conflicts. If the primary focus is not only the professional development of the employees, but also on a greater need for alignment, the Chapter Lead should place their focus on this and quit doing operational work. A common example for the second case is the UX Design Chapter, where the Lead is not only responsible for the professional development of the Chapter members, but also for the development of a style guide and the brand presence. The challenge in many organizations is that many former managers are no longer capable of fulfilling a collaborating role. Due to focusing for years on coordination and strategic duties, they simply no longer have the expertise to do operational work. What's important is that even if the Chapter Leads do not do operational work, there should not be a management ivory tower created but rather one that is close to the real issues of the Chapter members. The Chapter, as well as the Chapter Lead, should never become a "quality gate" that approves all deliveries. A vision for each topic should be enough to enable each Chapter member to make autonomous decisions so that the Chapter itself does not become a bottleneck. For the Chapter Leads to be able to fulfill their duties, experience has shown that they need guidance on how to manage teams in the beginning so that the alignment towards the vision succeeds and high-quality standards can be put in place.
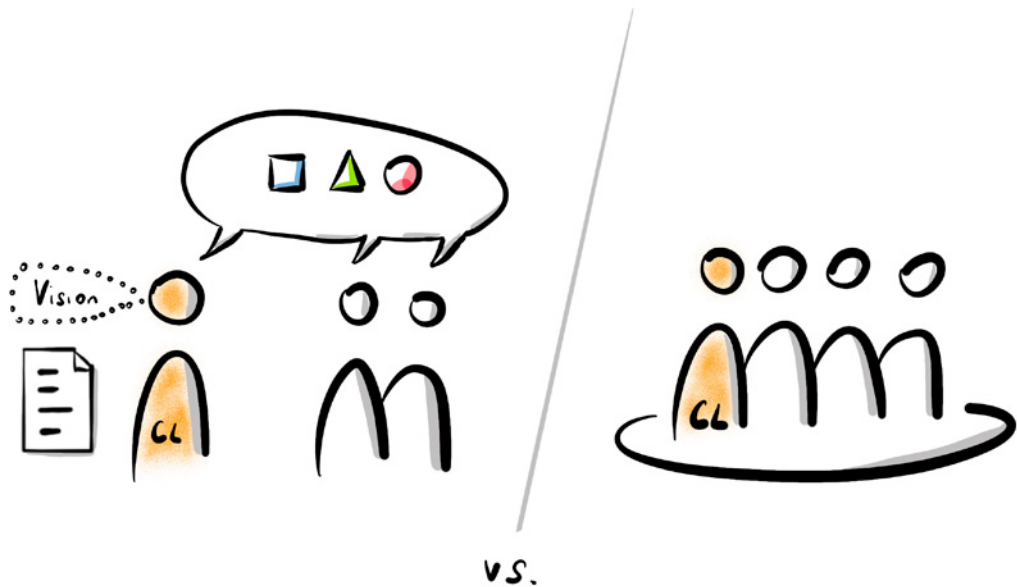
REDESIGNING THE ORGANIZATIONAL STRUCTURE – A REVOLUTION

Redesigning the organizational structure is always a decisive turning point. Even if only a small area within the company is changing, typically there will be at least 50 employees or more affected. That's why it is so important to give yourself enough time for these changes. Take time to plan and ask yourself the question, what should be achieved from these changes and if the Spotify Model is really the right solution. From our experience, we can say that during many change processes, the company must expect a productivity drop during the changeover. Teams and constellations must be newly found before they can get to a productivity phase. With the support of a structured agile change process (for example, by using a Transition Team) and transparent communication, this transformation can succeed.[24]

"The ING conceptualized the One Agile Way of Working to achieve agility – a global model based on Spotify, but not completely copied, and instead adjusted to meet our needs and goals. An example of this is our Quarterly Business Reviews and our Obeya Rooms. These ensure a strong alignment to the global strategy and bank-wide priorities, creates enormous transparency on performance, goals and initiatives of the bank while strengthening collaboration between the various units. We see ourselves as a learning organization and continually improve our model. In every country where ING is present, we have different experiences with the model and share these experiences with each other."

Nadine Zasadzin, Lead Way of Working for ING in Germany

THE FIRST STEP

You are convinced that your company should consider a redesign of its organizational structure? Then please think about the clarifying the following questions before you get started:

❯ Which challenges do we have to overcome and what is necessary to do this?

❯ Aside from the hype, is the Spotify Model an adequate solution for our goals?

❯ How and with which employee grouping do we distribute the product and service units into Alliances, Tribes and Support units?

❯ Do we tender new job profiles for Tribe Leads, Product Owner and Chapter Leads and if yes, how does the placement process look for this?

❯ How do we ensure that the employees will be capable of performing their new functions and roles?

❯ How can communication be used to support the change in order to reduce uncertainty within the company?

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[24] Schmiedinger, Ch.: The Digital Agile Transformation – 3 Approaches to the Future. Whitepaper borisgloger consulting. https://bit.ly/2Vmbr6g

borisgloger consulting supports digital and agile transformation processes for companies in various industries. We help during the conception of the transformation, for example with the help of a Transition Team, up to implementing these solutions. According to your current situation and your goals, we assess various points:

❥ Together we examine your current situation and evaluate to what degree the Spotify Model can help you achieve your goals.

❥ In the second step, we develop an appropriate solution and define the working method in which this solution will be filled with content by your employees.

❥ Together we define the cornerstones of the change project, which includes the construction of the new organizational structure as well as empowering the employees.

❥ And finally, we help you effectively anchor agile values and practices in your entire company.

Let's talk about the challenges you are facing!
A trust relationship between our company and yours is an absolute requirement for successfully implementing your agile transformation. We will gladly come by for a non-binding initial consultation to show you who we are, how we work and what we can do for you. We are looking forward to hearing from you!

Your point of contact: Christoph Schmiedinger

As a system engineer, project manager and Product Owner, Christoph Schmiedinger has successfully implemented many complex, scaled development projects in safety-critical areas using agile methods. This expertise flows into his current work supporting large banks with their digitalization initiatives. He consults management on the necessary strategic direction and designs suitable implementation measures.

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