FREESTANDING AGILITY

AGILE BUDGETING IN ACTION

Bringing Transparency and Flexibility to Project Finances

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What is Agile Budgeting?

One of the hallmarks of effective agile development teams is that they don't work in a vacuum. They are continually interacting with other functions in the broader organizational ecosystem, including Finance.

Typically in the realm of budgeting, cross-functional interactions relate to flows of money, approvals, examining variances from initial estimates, and more. In an agile organization, however, the goal is to achieve Business Agility – that is, the ability to discover obstacles and opportunities, to react as quickly as possible, and to produce positive outcomes. All the functions that interact with development must be aligned and working toward the common goal of sustainably delivering value of high quality that delights the customer in the shortest possible time. Without that, the development team and the firm as a whole will be unable to deliver effectively.

Why Do Organizations Need Agile Budgeting?

Traditional budgeting processes have several drawbacks. For example:

- **Traditional budgeting makes Finance into an "enforcer" rather than a partner in value creation.** Examining budgets and asking teams to justify variances slows teams down. Instead, Finance should focus on ways they can remove obstacles facing development teams and increase the speed at which value is delivered. The goal should be accounting for value, rather than solely for dollars.
- **Traditional budgeting encourages centralized decision-making with long feedback loops that prolong decisions.** This makes it difficult for development teams to cancel projects or start new ones based on customer feedback. This dramatically reduces the organization's ability to be flexible in the face of market changes.
- **Traditional budgeting doesn't always encourage collaboration.** A good example is a team where QA specialists must carefully track the time spent on testing activities. The QA staff has no incentive to help team members resolve issues that are unrelated to testing , if they have to manage against a QA budget. The result is silos and isolation within teams.
- **Traditional budgeting promotes a "use it or lose it" mindset.** This results in teams staffing up more quickly than needed. It also introduces waste, as development ramps up to use their budgeted funds, often leading to lower profit and ROI. In some instances, teams decide to fund projects that won't benefit the organization, simply because money was budgeted in that area earlier in the year.
- **Traditional budgeting can lead to poor organizational decision-making over the long term.** When organizations make decisions based on what will help them meet their original budget goals, they often end up "kicking problems down the road." A challenge that is identified shortly after the budget is put in place may linger for up to a year before funds become available to solve it.

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What Powers the Agile Budgeting Mindset?

The biggest shift related to agile budgeting revolves around changing priorities:

1. The priority given to budget accuracy should be replaced by priority given to agility.
2. The priority given to tight controls should be replaced by trust that value is being delivered. The goal is to operate based on the notion of "trust plus verify."

Since agile processes demonstrate working software on a frequent basis, decisions can be made on what will be produced.

Agile budgeting can be accomplished in several ways:

- **Reconsider the unit of work.** Fund value streams or teams, rather than projects. This enables organizations to understand the anticipated spending for a particular area, even if the specific features that will be delivered in that area are not known upfront.
- **Redefine cost centers.** Some organizations create a higher level of granularity for cost center planning, such as changing the size of cost centers from 50 people to 500 people.
- **Find new ways to view evidence of progress.** Rather than focusing on budget variances, representatives from Finance and other functional areas attend sprint reviews to observe how teams are progressing.
- **Implement ways for teams to flex without rebudgeting and reallocating people.** If project feedback is positive, there must be an easy way for the organization to invest more resources. As noted in a paper by Rami Sirkia and Maarit Laanti, when project execution velocity is slower than expected or the scope of the project grows, the project cost increases. If the features in the project are considered to be important by the customer, the project priority is deemed to be high and more resources are allocated without additional approvals from Finance.
- **Define a fixed, reliable iteration burn rate.** As Jesse Fewell has observed, a fixed iteration burn rate enables organizations to make informed decisions on several fronts. These include:
  - Whether a feature should be implemented, based on the number of iterations it is expected to take and the associated cost.
  - Whether implementing unexpected functionality is worth the additional cost, based on the expected number of iterations it will take.
  - The cost of different actions, such as devoting resources to bug fixes, removing resources from a project, extending a release by one iteration, and so on.

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Case Study: Agile Budgeting in Action at Curaspan

Curaspan offers a SaaS solution that streamlines and improves the fax, phone, paper-based, and highly regulated process of discharging and transitioning patients from hospitals. Around three years ago, the company changed the way it budgets, tracks, and accounts for projects to be in greater alignment with the agile development process.

Before adopting agile, budgets at Curaspan weren't meaningful. At the end of the year, the organization would set a budget for the year ahead with targets for revenues and costs. However, so many variables changed over time that the organization was never really managing to that original budget. It became clear that the high-level, year-long budget was a useful planning document for the board and the bank, but it wasn't effective for running the business. As Ken Manning, Chief Operating Officer, noted, "We used to have ridiculous discussions as we tried to budget for things nine months into the future."

On the development side, modified waterfall development projects at Curaspan led to "big batch, logjam nightmares." The development team realized that six to eight month projects were not the best way to work. They were susceptible to problems and they didn't allow the organization to shift priorities rapidly, in response to the dynamic healthcare industry.

> **"I see two major benefits of agile budgeting. First, it takes wasted communication out of the process. It has eliminated insane conversations and saves a lot of time. Second, it creates transparency which enables everyone to do their jobs. It's easier to do your job when you understand what's going on in the rest of the business."**
>
> – Ken Manning, Chief Operating Officer, Curaspan

An Agile Approach to Budgeting

Curaspan decided to revise its approach and take an agile approach to budgeting. The company still publishes a budget at the end of the year to provide to the board and bank. However, to support the business it has implemented a different, independent process that occurs on a quarterly basis.

Thirty days before the quarter starts, budget owners and functional leads have discussions about the upcoming quarter. These discussions incorporate information about sales and bookings that are expected for the upcoming quarter, as well as new resource needs. There are several benefits to this methodology:

- **Quarterly updates give a more accurate insight into revenues.** Curaspan's business is characterized by long sales cycles. The sales cycle can be nine months long and it can be an additional six months before the company recognizes revenue. With that level of uncertainty, it's hard to forecast revenue in December for the year ahead. As Dan Krzmarzick, Vice President of Business Development and Finance, observed, "How we spend money shouldn't be based on a plan that was developed early on with limited information. That approach can miss opportunities to fill gaps that we didn't know existed when the plan was originally developed."
- **Investment decisions are made based on revenue projections.** The team holds monthly revenue calls to determine what's in the pipeline. These calls are complemented by monthly meetings with the engineering and technical teams to discuss capital expenditures, as well as conversations with the head of HR to determine who the organization can hire. Spending is throttled based on revenue estimates.

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- **Greater visibility into the company's financial position leads to faster decision-making in all areas.** Since Finance has greater visibility into the company's revenues, it's easier for other parts of the organization to take action. For example, HR can accelerate hiring or development may elect to use an offshoring firm for the short term to meet project needs instead of hiring new FTEs.
- **Teams are funded, not projects.** Curaspan views teams as the equivalent of "factories" in a manufacturing setting. They fund teams as a means to get projects done. Dollars are not tied to projects. Teams focus on specific types of work, such as building new features, reporting, database work, or core services. When engineering resources are added, entire teams are spun up, rather than hiring one additional engineer. From a finance perspective, engineering spending is a step function, rather than linear in nature.

> **"We don't use a traditional model where we invest in projects. Instead, we consider our mission and decide how to deploy our team capacity in a way that will move us there fastest."**
>
> – Andrew Miller, Vice President of Engineering, Curaspan

- **Teams stay together and are viewed as interchangeable resources.** Curaspan's development function keeps teams together with the same product owner as long as possible. This strengthens working relationships and makes team output more predictable. When prioritizing work and assigning it, projects don't have to go to one particular team. Based on Scrum and Scrumban recommendations, teams are kept to around ten people.
- **Velocity is more important to Finance than ROI.** The key question for finance is whether the company can sustainably develop and release new functionality at a fast rate. Velocity affects how quickly the company will see a financial return on projects. A key concern for Finance is whether the company is doing a good job monitoring and managing engineering capacity. If problems arise, it signals that either the organization doesn't understand velocity or there isn't enough development capacity to deliver on what was promised.
- **A business case is published and approved, before any requirements or code are written.** A Portfolio Planning Committee reviews the business cases and prioritizes them. The group considers who will buy the functionality, how much it will be sold for, the amount of time and investment required to build it, and the use cases it will meet. Investment levels are estimated in the number of two-week sprints that will be needed to complete the work.

> **"It's important to put money where you think you can get the best return and that profile can change over time. That's why an agile approach works better."**
>
> – Dan Krzmarzick, Vice President of Business Development and Finance, Curaspan

- **Sprint reviews provide transparency to stakeholders throughout the organization.** Key stakeholders include information security, compliance, technical operations, clinical, and customer support. At sprint reviews, the group sees what has been delivered. This provides transparency and helps identify dependencies. Sprint reviews help downstream stakeholders think differently.

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Get Started

FreeStanding Agility helps organizations bring agility to all parts of their business. Our team can partner with yours to develop an agile mindset, streamline operations, and promote adoption of agile practices beyond the development team to areas like finance, human resources, and more. Our goal is to help clients overcome hurdles and plateaus and take agility to the next level.

The FreeStanding Agility team includes consultants with diverse skills in agile coaching, facilitation, interaction engineering, and teaching. Unlike some consulting firms, we hold a radical belief that "less is more" with coaching and long-term dependence on coaches works against you. Instead, it's important that organizations become truly agile as quickly as possible.

If you're interested in learning more about agile budgeting or simply want to have a conversation about the role of agile in your organization, give us a call. One of our coaches would glad to help you get started.

Development Work: An Investment or a Transaction?

Organizations that take an agile approach to budgeting view development work as an investment, not as a transaction like buying a meal. Some common themes that we've heard from organizations we've worked with on agile budgeting projects include:.

- Like financial investments, development is speculative with no guarantees.
- When individuals or organizations make financial investments, they do so based on expected returns. They check the returns often and adjust based on current conditions. The same should be true for investments in development.
- As documented in the Agile Manifesto, agile teams value customer collaboration over contract negotiation, and responding to change over following a plan. This is the essence of agile budgeting and development work.

Does Your Organization Have an Agile State of Mind?

VersionOne's 10th Annual State of Agile Report shows that the benefits of agile are real for organizations, but success requires an agile state of mind throughout the organization.

- Survey respondents find that agile aides their organizations with flexibility, productivity, and transparency. The three top benefits of agile include: the ability to manage changing priorities (87%), increased team productivity (85%), and improved project visibility (84%).
- Yet, adopting agile within Development alone isn't the answer. Success relies on an organization-wide culture that values agile practices, such as agile budgeting. The leading cause of failed agile projects is company philosophies or cultures that are at odds with core agile values (46%). The top barrier to further agile adoption is the ability to change the organizational culture (55%).