

Enthiosys, Inc.

Business Agility

Harness the Power of What's Possible

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The Gist, In Brief

Many software technology companies have grown and nurtured Agile development teams that are delivering tremendous productivity and quality improvements. While these improvements are extremely important, they do not fulfill the broad promise of Agile. Executives and leaders have begun to discover that their real goal is **Business Agility**, not just development agility.

A March 2007 CIO article by Michael Hugos offered the following definition of business agility:

“The ability to consistently earn profits that are 2 to 4% (and sometimes more) higher than the market average because they can make a hundred small adjustments every day to reduce operating costs and increase revenues. And sometimes agility enables you to earn even more by sensing and responding quickly to opportunities for new products or services that for a while, have terrific profit margins.”

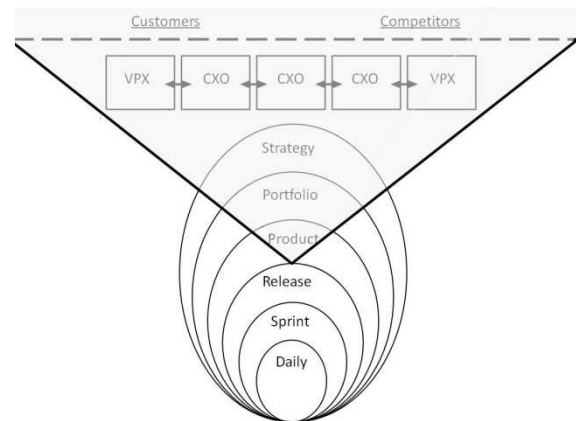
Business Agility allows companies to achieve a competitive advantage by creating cultures, processes and systems that can:

- Effectively take full advantage of the wisdom, skills and expertise that exists across the entire organization.
- Collect, synthesize, distribute and act (in a highly coordinated way) on the vast amounts of market data that exists outside and inside of the organization.
- Frequently adjust portfolio investments to address new markets and opportunities, with organizations that can deliver whole products.
- Adjust business models to add new revenue streams or improve profits of existing products with new pricing and packaging options that fit market segments and price elasticity curves.

Achieving these goals will require companies to address a new class of challenges that include:

1. Promoting whole team cooperation and collaboration by engaging all of the big silos.
2. Enabling decision-making by appropriately applying governance and decision frameworks that empower teams yet set good boundaries.
3. Ensuring that everyone has the best market information possible by leveraging customer collaboration and market-sensing activities across all products and teams.
4. Steering entire product portfolios and product/solution roadmaps through frequent and effective re-planning.

These challenges and the opportunities are deeply rooted in aspects of culture and human behavior. Additionally as illustrated in the graphic below, they represent a class of problems that exist **“above the release”, “beyond the team”** and **“outside the company”**.



Executives who have successfully taken the first few steps along their Agile journey must now tackle this new set of challenges. They must continue to improve and adjust their systems, processes and cultures to unlock the value and realize the full potential of Business Agility. Fortunately, these challenges are situated within the domain of product management, a group that has wrestled with these issues for decades and are well equipped to help bring about the solutions.

The Details, In Full

Over the past several years, executives and leaders within large software product companies have built increasingly effective Agile software development capabilities. They have scaled development organizations to deliver large projects with hundreds of people spanning the globe. This is often referred to as **Enterprise Agile**. These executives are now asking a fresh set of questions:

- Have we really achieved the goals that Agile purported to deliver, or is there more to do?
- How do we fully leverage this new development capability to maximize **business** benefit?
- What issues and challenges lay ahead as we seek to realize these benefits?

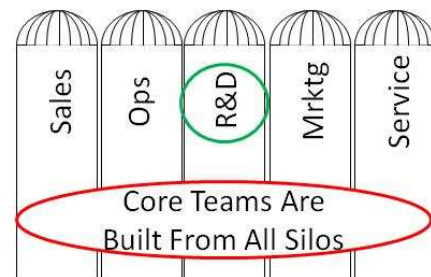
This paper defines a goal beyond Enterprise Agile, framed as Business Agility. By examining four key challenges and exploring their root causes, we characterize what it takes to achieve business agility. We find that solutions lie within the middle management and execution ranks, where effective product management is the key contributor to organizational leadership.

1. A New “Whole” Team

Dr. Tom Grant of Forrester correctly stated that “Agile is a company-wide revolution.”

Unfortunately, Enterprise Agile today is almost exclusively about getting hundreds of engineers, testers, architects, designers, project managers, program managers and sometimes product managers working together on big programs. For most, this set (with a few title variants) represents a whole and complete, cross-functional team. We rarely hear about the team members who provide the inputs or take the outputs from these R&D teams – Marketing, Sales, Operations, Support, Finance and

Legal – even though we know that market success requires much more than a technically sound product. This team is limited because Agile has been driven primarily by development organizations. Development has been largely focused on breaking down the internal R&D silos and scaling up technical processes, rather than worrying about the silos that exists across the larger end-to-end system.



However, as we expand our team definition of teams, we recognize that the same dysfunctions that waterfall created within development, also exist across the company. In a public presentation

Independent Silos

- Each group executes on their objectives with little coordination
- Work that requires coordination suffers
- Alienation and suspicion between departments
- Only works well when areas are independent
 - e.g. GE: aircraft engines and Universal Studios

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about the culture and policies that have made it successful, Netflix describes the problem well:

Expanding the definition of whole teams will be very challenging as will getting the necessary cross-silo coordination and cooperation. However that is exactly what we want from an organization. Netflix provides some good organizational design suggestions.

Highly Aligned, Loosely Coupled

- Highly Aligned
 - Strategy and goals are clear, specific, broadly understood
 - Team interactions are on strategy and goals rather than tactics
 - Requires large investment in management time to be transparent and articulate and perceptive and open
- Loosely Coupled
 - Minimal cross-functional meetings except to get aligned on goals and strategy
 - Trust between groups on tactics without previewing/approving each one – groups can move fast
 - Leaders reaching out proactively for ad-hoc coordination and perspective as appropriate
 - Occasional post-mortems on tactics necessary to increase alignment

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Lisa Crispin and Janet Gregory remind us that “organizational culture is too frequently not considered when attempts are made to implement an agile process, leaving people wondering why it

didn't work as promised. It's hard to change established processes, especially if individuals feel they have a stake in the status quo. Each functional group develops a subculture and processes that meet their needs. They're comfortable with the way they work.”

So how do we build these new organizational structures? Typically, the responsibility for creating and nurturing human-centric systems belongs to Human Resources. Richard A. Shafer, Associate Dean and Executive Director of the Center for Leadership in Dynamic Organizations at Cornell University, challenged traditional HR organizations and structures. “This move toward agility will create a new role for the HR function,” he wrote. “In many organizations, existing HR systems are major impediments to creating agile workforces. For the most part, HR systems are designed to reduce variability and to standardize behavior, not to promote flexibility and adaptive behavior.”

Ideas to Consider

- Expand the definition of a whole and complete, cross-functional team to include marketing, sales, service, support, operation, legal, finance. These are the people needed to bring products

to market and actually capture the revenue and retain the customers.

- Engage cross functional teams early and often throughout the product development lifecycle to exchange information about strategies, market opportunities, key business goals and to help make decisions.
- Engage the VP of HR in your Agile adoption process. In her article “Are You Ready for an Agile Future?” Susan M. Heathfield suggests we need to “build HR systems that build and reinforce agility.”

Whole agile teams include outward-facing members as well as development/engineering. Product Management bridges the internal and outbound activities.

2. Governance-Enabled Decisions

Once companies have redesigned their organizations to fully leverage cross-functional teams, they need to enable appropriate decision-making. Often we see teams unable to make decisions because they lack situational context and clarity about their boundaries. Larger cross-functional teams have both a negative and positive impact on this issue: more perspectives provide more context but may muddy decision-making boundaries.

When talking about decisions, we are referring to those that relate to products, markets and customers – including financial, technical, market and legal aspects of the business. Executives should want to invest time and energy to create guidelines for teams to efficiently and safely navigate complex decision scenarios with business implications. **However, we rarely see this happening.** Instead, we find that the decision rules have been informally defined within each silo and passed along as “how we do things around here”.

As an example, consider a large consumer online company with a variety of different offerings. Each product team must adhere to certain legal, financial, market and technological guidelines:

- Using correct legal verbiage about information disclosures and privacy when signing up new users.
- Meeting corporate standards for response time and display of personal information.
- Following master data management rules about end user information to enable accurate billing, revenue recognition and correct targeting of advertising.

Providing company-wide boundaries and policies on these issues lets each team focus its effort and creativity on other product-specific problems.

The goal of any governance initiative is to allow teams to safely innovate within appropriate boundaries. Rules should exist within functional silos, but their impact should be considered across silos. A good governance structure minimizes unintended consequences and drives interoperability between groups. This means finding the right level of clarity and specificity to empower teams instead of implementing detailed command and control. Here again the folks at Netflix have a few good examples to share.

Context, not Control

Provide the insight and understanding to enable sound decisions

Context	Control
<ul style="list-style-type: none"> • Strategy • Metrics • Assumptions • Objectives • Clearly-defined roles • Knowledge of the stakes • Transparency around decision-making 	<ul style="list-style-type: none"> • Top-down decision-making • Management approval • Committees • Planning and process valued more than results

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Good Context

- Link to company/functional goals
- Relative priority (how important/how time sensitive)
 - Critical (needs to happen now), or...
 - Nice to have (when you can get to it)
- Level of precision & refinement
 - No errors (credit cards handling, etc...), or...
 - Pretty good / can correct errors (website), or...
 - Rough (experimental)
- Key stakeholders
- Key metrics / definition of success

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Ideas to Consider

- Review your current formal or informal governance policies within and across functional silos.
- Invest in your governance framework to unlock the decision-making potential of every team.
- CxO's and VP's should model good governance and decision-making behavior by delegating appropriate decisions whenever possible.
- For each class of decisions, establish unique and appropriate levels of proof or confidence.

Boundaries and guidelines can either be empowering or stifling; creating the right balance is essential. Creating context for others will help them understand rules. Product managers are great at providing this context.

3. Making the Most of Market-Sensing

Having addressed some of the foundational building blocks of organizational structure and cultural issues, we'll now consider good market-sensing. This is the ability for an organization to efficiently and effectively **gather** market data, **synthesize** that data into information, and **distribute** that information to those who need it to make decisions and take action.

Most technology companies lack a well-designed market-sensing process. Their market analysis is at

best highly disorganized, non-systemic, redundant and event driven. This is in part due to multiple “voice of the customer” and “innovation” efforts, with many uncoordinated groups introducing their own processes and techniques. As a result, we see an expanding number of market inputs streaming into the organization, with ownership of these streams becoming more fragmented, uncorrelated, and unaligned with product strategy.

Agile has compounded this problem by introducing yet another “voice of the customer” activity using separate tools and processes that are often not integrated with broader market research efforts. In fact, we see some Agile teams taking almost immediate action based on their individual and sometimes limited version of the market truth.

In his article “*Building an Agile Organization*” Michael Fillios suggests that “Agile organizations have the processes and structures that enable them to know what is going on both internally and externally, as well as to provide the mechanisms needed to act quickly on that knowledge.” Unfortunately we don’t see this integrating with corporate efforts or scaling well.

Business Agility requires capabilities such as these that jointly design and manage business processes and technology enablers within three distinct yet related areas including:

- Learning to sense and respond
- Emphasizing improvement and innovation
- Distributing and coordinating authority

This creates a very powerful capability to connect the outside-in and inside-out information flows among various organizations.

One of Enthiosys’ clients has created an effective approach addressing the collecting and analyzing of market data streams, and delivery of information to decision makers. They have created an internal

services group within the product management organization whose charter is to unify the global “voice of the customer” inputs and make information available to product development initiatives worldwide. Although this group lives within product management, it has explicit connection points to Marketing, Sales, Field Services, Support and Operations. As this group evolves its service offerings, it is growing a system that can more effectively synchronize with the rapid information demands of Agile teams.

Ideas to Consider

- Get control of your market input data streams and unify them into a system that can be leveraged to amplify learning and create a shared understanding of the markets.
- Clarify who is responsible for analyzing and transforming the unified data into actionable information that can create context for decision-making and can move teams forward toward strategic goals.
- Specify information distribution channels that empower the decision making as far down and across the organization as practical.

Many companies are data rich but information poor and only a select few have access to or can act on the information that does exist. This slows down response times and leads to execution missteps.

4. Steering the Product Portfolio

Once you’ve created a coordinated and systemic way to sense, and for everyone to understand your market dynamics, you will want to work on improving your product-level response time. The key to **business agility** is an organization's ability to re-plan and capitalize on new opportunities. Responses to market shifts in the medium term (1 to 3 years) often requires material adjustments to an entire product portfolio. These adjustments

typically come in one of three flavors; New Product Development (NPD), flavors of continuing Product Development (PD) such as doubling down on promising options, or scaling back into maintenance or End of Life (EOL).

This is not a new challenge, yet we see most technology companies failing to make medium-grained, intermediate-level portfolio adjustments as needed. Companies often have very sound long-term (5+ years) business, technology and product strategies but lack middle management execution. This inability to make decisions for the medium term can be attributed to a lack of a decision making frameworks and models into which all of the inputs can easily be gathered and considered. These frameworks need to be able to incorporate information about the current strategic thinking along with the market data pouring in from the field, the facts and data being generated internally by development and finally the current business constraints and context such as capacity, costs structures, skills/talents, etc.

Another contributing factor is that most companies are deeply rooted into their annual planning and budgeting cycles. This annual cadence produces what are now, for many companies, very long **re-planning** timelines. These long timelines significantly diminish the opportunity to consider new strategic options. Additionally, this *once-and-only-once-a-year* cadence encourages unhealthy behaviors. It is not uncommon for people to game the system by providing less than accurate information to ensure that their product or program receives more than its fair share of the pie.

Finally, we have to acknowledge that making product-level adjustments to the portfolio is simply hard. It requires thinking through complex sets of financial, staffing, operating, market and product development information to make thoughtful tradeoffs and tough decisions. However, because

these tradeoffs live below and are framed by the corporate strategy and our coordinated governance models, adding the right decision frameworks and models will allow companies to allow these bigger, product level decisions to be made as far down in the organization as possible.

For example, a 2007 paper by Luke Hohmann and Peter Hodgkins describes a portfolio management technique implemented at VeriSign that accommodated for both speed and safe decision making to exist within the system. In this case, even large projects (from a cost perspective) could proceed with no sign-offs, assuming the projects were tightly aligned with the corporate strategy. Alternatively, small projects that diverged from the overall product strategy required more formal business cases before getting the green light for development.

For PD (continuing Product Development) projects, we have more confidence in our market understanding, so can trust individual teams to make appropriate course corrections. This is the idea of failing and learning faster than the competition. However, for NPD (New Product Development) efforts, especially those that are “new to the world” or “new to us”, we may want to slow down and make better initial decisions. The cost of new product development is much higher than the cost of market analysis.

Ideas to Consider

- Design and implement decision support tools that enable lower levels of the organization to rebalance product portfolios that are market data driven in the context of corporate strategy.
- Decision frameworks and models should consider the distinctions between NPD and PD and the confidence levels needed to make "go / no go" decisions for different situations.
- Break free from the shackles of annual planning and budgeting cycles by creating the capabilities

to easily take advantage of business opportunities that arise.

Agile execution of intermediate-level portfolio planning requires tools and decision frameworks that support complex tradeoffs among desirable choices.

The Conclusion, In All

Ultimately, by investing in Agile adoption and transformation efforts, executives seek bottom line business benefits such as access to new markets, new innovative products and increased revenues and profits. These benefits can only be achieved if leaders work at building, empowered, whole teams and give them the context and boundaries to freely execute. They must build organizations that can sense and react to market shifts through effective re-planning and making critical portfolio decisions.

Product managers who have been toiling away at these problems are able to help overcome these challenges and harness the potential of Business Agility.

Sources of Information & Inspiration

Agile Project Management: Creating Innovative Products, 2nd Edition by Jim Highsmith

Reference Guide on our Freedom and Responsibility Culture, by NetFlix CEO Reed Hastings. can be found at <http://www.slideshare.net/>

A Business Value Focus for Portfolio Management by Kent McDonald of Cutter Consortium

Building an Agile Organization by Michael Fillios

Agile Changes How Technology Companies Operate By Dr. Tom Grant, Forrester Research

A Formula to Measure Business Agility by Michael Hugos

Agile Testing by Lisa Crispin and Janet Gregory

Are You Ready for an Agile Future? An Agile Organization Embraces Change by Susan M. Heathfield