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The rise of business agility

Kat Conner: Welcome to another edition of Agile Amped, and I'm your host, Kat Conner. We're here podcasting live at SolutionsIQ Employee Gathering in Tucson, Arizona. What an incredibly gorgeous day today is, so I'm so pleased to be here with my good friend and colleague, Evan Campbell, talking about one of my favorite subjects, business agility. I want to introduce Evan. You want to say hi, Evan?

Evan Campbell: You bet. Hi Kat. I'm Evan Campbell. I was the Chief Technology Officer of SolutionsIQ, and since the acquisition with Accenture, I continue to be responsible for our Agile solutions and our marketing organization.

Kat Conner: Wonderful. Thank you so much for spending the afternoon with us today. We're going to talk about business agility and that's a pretty huge topic. Evan and I were talking a little bit before this podcast about what's really important and what's happening in today's world with business agility and I thought we would just start off with a definition of what we believe business

agility is right now. Evan, what is your take on that?

Evan Campbell: Business agility really is the extension of agility, lean practices, the ability to sense and adapt and respond to change throughout the entire business. This is what we call the third wave of agility. A lot of people think of Agile, big A Agile, as something that goes on among the developers and technologists in the organization who are delivering software projects, technology, and things like that.

And of course, that is necessary, that's crucial for the rest of the business to leverage technology, to be Agile, but the larger organization, the corporation itself needs to be Agile to fully realize the benefits that competitive advantage demand in today's economy.

Kat Conner: Yeah. I think you pointed out a couple of concepts there I want to tease out a little bit. It really is an organization wide, a systemic approach that we're talking about, with business agility. You mentioned the third wave, so there are two other waves that preceded this, and did the layup for where we are today. If you want to share a little bit about that?

Evan Campbell: Yeah. The first wave of Agile really was Agile teams. "Let's take these high performance teams that are developing software, use Extreme Programming practices, Scrum,

continuous delivery pipelines, lots of test automation," and man, we really saw the results that these teams could produce.

Kat Conner: You bet.

Evan Campbell: We realized that these teams could release really high quality software, really fast, really often, and respond to change very quickly without destabilizing the software product.

The second wave of Agile was taking these practices into large organizations and scaling them. So scaling is the second wave of Agile, where you might have hundreds or even thousands of teams globally distributed using these practices in a coordinated, scalable fashion, to work on much bigger problems and much bigger systems for large organizations.

Then, having achieved that level of delivery competence, organizations realized that most of the impediments to being more competitive and successful lie outside of the technology realm in various fields of the business and operations functions of the company that needed to be leaned out, so that the whole company could really respond more quickly.

Kat Conner: And that's really more the third wave that you're talking about: where in the organization are there constraints to creating a full value stream of agility, for whatever we're delivering.

So, there's a lot of areas that we and others are exploring to address what we believe this third wave of business agility

is. There's a couple that you and I kicked around just a few minutes ago that are really the thought leadership space that we're involved in. We can talk through a few of these, and see where that goes.

Evan Campbell: Why don't you get us started? You and I have had the opportunity to work in this space and you're recognized as an expert and have a lot of experience in some of the most interesting realms of business agility. Why don't you get started and we'll trade some off?

Kat Conner: Sure. I would say the area that I'm most involved in right now is a space loosely termed as adaptive management. And adaptive management is the financial management control process, the forecasting and budgeting, and planning scenarios that surround everything that we do from both an IT and a product portfolio perspective. So, what does agility look like in that space? It's an enterprise-level function, right?

Evan Campbell: So a lot of people might be surprised that large public organizations are doing this, but you and I have experience where large, public, highly regulated organizations are even going away with annual budgeting.

Kat Conner: That's right. Getting rid of their budgets and reframing their entire performance management system to be able to enable getting away from these fixed targets and budgets, right? 'Cause that's a critical underlying piece of being able to do that.

Evan Campbell: I've found that it's easy to get the executives to a point of

agreement that annual budgeting is irritating and wasteful and not very efficient in the things that we use it for. The hard part, I guess, is coming up with more effective substitutes for the various purposes that we use annual budgeting for. Can you tell us any stories in your experience of how you've worked through that with executive leadership?

Kat Conner: Sure. Yeah, I think every organization will have their own strategy and way that they go into it that's contextual to them, but I would say that there are a couple of things that seem to really support organizations becoming more adaptable at that level. One thing is to be willing to separate forecasting from their annual or strategic targets, being able to decouple those two concepts. You still have both concepts and you still need to have a forecast as well as a way to understand where you really are today in relationship to a target, but a target needs to be just as flexible and adaptable, changeable, based on what's happening within the market conditions, as we're teaching at the product level, within Agile. You're applying very similar Agile principles to these high level, enterprise targets and goals.

So, a goal today that's typically three to five years away will change based on market conditions, and do we have the right budget systems, forecasting systems, strategic planning systems in place to understand that quickly and be able to change?

So, some of the stories that I've worked with are organizations that are willing to change their annual budget and

forecasting and planning process to something that's continuous, being able to put into place data and a portfolio management system to help them understand where they are moment by moment. When you have that kind of information, you can change. From this fixed annual process**.**

Evan Campbell: The idea of moving from making investment decisions, potentially up to 18 months in the future, depending on where you are in that accordion of time that annual budget plans for, and actually making the right decisions in the right timeframe for the nature of the investment decision-

Kat Conner: That's right.

Evan Campbell: ... that you're considering. Seems like a really powerful idea in and of itself.

Kat Conner: It is, yeah. Understanding you have operational time horizons which are closer to you, and strategic goals and time horizons that are further away, and having a process in place where you can adapt both based on really good data that's coming in from your marketplace.

Evan Campbell: Just sounds smarter.

Kat Conner: I think it sounds smarter. The organizations that are doing this, I find, will step into looking at creating a more continuous planning process, will start to decouple their forecasting from their target setting, and at some point when they get really courageous, they'll look at "How does bonuses and rewards and performance play into this, and drive behavior?" Okay? Those are usually

the three big rocks to look at how to create a more adaptive process.

There is an interesting component to this which I'm going to hold off until a little bit later on around strategic development and how that plays a critical role into this. But one of the things that I'm really interested in is, once you've got this enterprise level forecasting budget process in place, you've got to have some sort of mechanism to help you understand what's happening a little bit lower in the organization, and have the ability to make smart investment decisions around that.

We call that active or Agile portfolio management. There's a lot of different terms around that, and I know you have some thoughts in that area.

Evan Campbell: Yeah, and as a matter of fact, as we have worked together, we've seen often that, after that scaling of Agile practices throughout a technology organization is successful, the next step really is that IT portfolio management layer. Then, often after seeing benefits there, the budgeting processes follow very naturally.

Kat Conner: Yeah, expand right out into the rest of the business.

Evan Campbell: Yeah, just tackle the next biggest-

Kat Conner: That's right.

Evan Campbell: … problem as you're moving up and out. In our approach to Agile IT portfolio management, we really moved towards continuous flow of work.

The most foundational thing in Agile always is establishing high-performance teams that stay together as a cohesive unit, groups of teams that stay together in product lines, or value streams. Different languages or different terminologies, but the important thing is instead of thinking of projects as the primary means of asset allocation and organization of people, we look at the critical streams of value that are flowing from technology to business leaders or customers, and we create long-lived, persistent, capable delivery units.

We invest in them over time, and instead of measuring secondary outputs like on time, on budget, in exclusion to value delivered, we really focus on what's the impact this investment stream is having on the products, customers, and users in the marketplace? Should we increase or decrease that investment over time? – Relative to the other, many, many other opportunities in the portfolio that are competing for those resources.

Kat Conner: So you said two concepts that I'm going to tie right back up to the adaptive management, that allows an organization to even believe it's possible to get rid of budgets, or change budgets. Those two things were persistently funded teams, because you understand where your money is going, and the second thing is allowing the – having the right kind of data, the right kind of value metrics that are tied right back up to the strategic initiatives of that enterprise so that you can make some smart decisions quickly.

Again, persistently funded teams, having the right value metrics at that portfolio

level, and the data to be able to inform that.

Evan Campbell: And it moves a lot of the responsibility and accountability for that spend right into the hands of the corporate sponsors – the people that are requesting these features, who are justifying these investments in expensive IT professionals who are delivering features. It really puts responsibility for picking and prioritizing that work right in the hands of those line of business sponsors who understand the business case the best. But it also creates great alignment between those sponsors and the delivery teams who are providing fast feedback, being Agile and adaptive, and at the end of the day, if we're creating a leaner, faster moving, more responsive system, we also see tremendous productivity benefits from the reduction in excess work and process. The average IT shop that's using projects for organizing their work has too much multitasking, has way too many projects in flight, projects that are late don't finish on time, but projects always start on time. That results in more and more projects multitasking people thinner and thinner for lower and lower productivity.

We create more of a pull based system where work is pulled into the capacity of the delivery units within IT and thereby avoid the risk of excess work and process and multitasking. This alone can increase the throughput 30% or more in most IT shops, and it's even bigger than that. Because not only are they producing more, they tend to be much smarter about not building things that people don't want.

Kat Conner: Sure, yeah. It really reinforces that the same concepts that we all know and love, at the team level, all the work in process and multitasking and finding the right value, exist at the portfolio level and also exist at the enterprise level when we're dealing with budget controls, financial management controls.

To be able to have what you're talking about in place implies a number of different things. A couple of things come to mind to me. It's more digitizing your business, how do you change your product management structure and activities to something that's more lean and adaptive? There's a whole world of agility that has to happen in those spaces, as well.

Evan Campbell: Absolutely, Kat. One of my favorite statistics or one of the most interesting statistics that I like to bring to the table in conversations about innovation, digitizing, really leveraging modern technology in the line of business and making technology an inherent competency and strategic advantage for the business. Today, much, much more of the value of our business is based on intangibles, on knowledge, faster moving, more learning based assets in our organization.

In 1975, 80% of the market value of the S&P 500 was made up of physical assets. Plant equipment, property, transportation assets, things like that. 80% of the S&P 500 was physical assets. Today's, that flipped entirely. 80% of the value of the companies on the S&P 500, their market value is made up of intangible assets.

I'd almost argue that traditional fixed assets in many cases retard or delay the agility of businesses to be able to respond more quickly. This ability to understand your market, sense and respond to what customers want, competitive threats and things like that, this means information and knowledge has to flow through the organization very rapidly and these business agility approaches are all about helping our clients become learning organizations that can adapt themselves even more rapidly.

This goes all the way to the idea of changing their corporate structures, their policies, their rewards, compensations and measures. All of these things should be open to management innovation of the organization. Not just the products and services, but of the organ of the corporation itself.

Kat Conner: Yeah. I think you bring up a really good point, because we often talk in the Agile community around specific practices and even mindsets that need to be put into place, but if the organizational structures don't change to support what we're talking about, the flow of work and the flow of ideas, that's a major failure point for large scale business agility transformations. Now, we're starting to get into how does business and IT and all these other enterprise functions work together?

How do you introduce some Agile ideas of teams and the value stream management, and what does that look like in the context of your products and services? So yeah, running through this whole thing as we were sitting here

talking, the idea of intentional leadership or Agile leadership or Agile mindset seems to be pretty critical for us to be successful in any one of the areas that we've just been talking about.

Evan Campbell: Yeah. There's no way that we're going to be able to change critical governance and asset allocation and policy components of a large publicly traded company without the senior leadership of that company having the vision and the courage and the awareness to actually lead the organization to become something new for the new era.

Kat Conner: All right. And allow decision-making to really move to the place where the work is happening, and to trust and set up structures where information can flow back to them, so they can understand what's going on, feel more comfortable to allow a **decision-making to flow day on into the organization.**

Evan Campbell: It's a post-bureaucratic organization, the role of leadership really becomes something different from the old directive models that were more typical in an industrial era. What are some of the traits that modern leadership demands to be successful?

Kat Conner: Some of the traits are understanding, developing clarity and competence are the two things that come to mind for me. Being very clear about your strategic intent and being able to set up structures that really allow for the flow of that strategic intent to be enabled. As a leader, understanding that, communicating that, supporting that, seems to be pretty critical.

Evan Campbell: Is it scary for traditional leaders to delegate decision-making farther down to individuals and empower individuals further down the organization to make decisions independently.

Kat Conner: Sure, it was for me 30 years ago when I first dipped my toe into this. I'm an MBA, I come from a fairly large operations background, Lean Six Sigma, so in my mind I had very clear operational management techniques that made me successful. It's a hard transition to be able to believe that if you create the structure, create the knowledge, create the support, the information is going to flow back to you so that you can trust the decisions that are making.

I went through a transition phase and I'm sure that every leader I worked with seems to have their own version of that, as they're moving into this different world.

Evan Campbell: It's hard for large organizations to be fast and responsive and highly efficient if information and decisions have to flow up and down long chains of command.

Kat Conner: That's right.

Evan Campbell: It kind of reminds me of Saddam Hussein's army. No one on the ground could do anything without a whole chain of approvals up and down-

Kat Conner: Right. In the chain.

Evan Campbell: ... the chain. If anything in those handoffs breaks, if a commander is killed or a radio is broken,

all of the units on the ground stall and wait for instructions 'cause they're terrified to move forward, less they be blamed for not following orders.

Kat Conner: Yeah, so one of the interesting statistics, and I'm going to go back to the adaptive planning, adaptive management, or the budgeting process. We work with a group that studies across the world organizations that have been experimenting with this for the past 40 years, and predominate pattern they found is that the organizations that brought in this more adaptive, Agile, lean behavior within their leadership organizations, were the ones that were successful.

If you didn't have some of those core components, what we just talked about will change, will be something different. It was a failure mode. I think it's a very powerful message and pattern that you've seen in very large organizations.

Evan Campbell: So flatter organizations, would you say, not only are they less expensive, but they actually get more done faster?

Kat Conner: It's true. I mean, I would say that that's a pattern as well, but part of the work that I've seen is even in very large hierarchical organizations, if you can set up a way to facilitate decision-making at the right level, if you can shift your behavior into more of a steward leadership and a mentorship role, even in those larger structures you can still be successful, but you have to have some element of that.

Evan Campbell: Fascinating. In terms of innovation, we've done a lot of work in

lean startup, design thinking, creating innovation colonies and innovation labs for our clients. What about modern approaches to innovation? How does that fit in with the larger landscape of business agility that we've been talking about?

Kat Conner: I think it's contextual to the kind of product and service that you have. Where you are in the product development lifecycle with that product and service, and what stage you're looking at how to manage your portfolio. So, I think innovation is critical for every business. The definition of innovation can be specific. You may be looking at innovation within everyday activities, a developer's creating innovative ideas, all the way up to truly innovative business models or product offerings that are unique within your industry.

In a large organization, both exist in the spectrum of innovation and how you would introduce that into an organization is important.

Evan Campbell: One of the things that makes innovation safe and cheap and ultimately more efficient is taking an experimental mindset towards what you're doing. I've found that this idea that you have a hypothesis, I have a hypothesis, if we can get comfortable in an environment where we're using theory-driven decision-making, we can both accept that neither of us knows enough to be certain of our hypothesis, but we can agree to design experiments that will run fast and cheap and help validate one or both hypotheses as rapidly as possible. I think you can apply that not just to product and service innovation-

Kat Conner: I was just thinking that. I mean, this whole experimental mindset is a critical part to budgeting, forecasting, strategic planning. Why would you want to do a big upfront kind of plan that you know is going to change the next day, or the next month? You want to take this experimental approach, sense and respond. Even at that level, yeah.

Evan Campbell: It's a lot more fun to work in that environment than one where-

Kat Conner: It is, because it's real. You're able to make a difference and you don't have to play any games just because you've got a budget that you have to meet or a target that you have to meet.

Evan Campbell: It creates a whole cultural shift when everybody from the developers and testers up to the senior leadership is saying, "Have you validated that? I hear what you're saying and that's very interesting, but it's really still just a hypothesis. How can we validate that before we make too big a bet on it?" That's a healthy organization, isn't it?

Kat Conner: It's a healthy organization and you just called out I think the one thing that we haven't really talked about, is culture and change management in relationship to everything we just talked about, because what we're talking about is changing our hearts and minds, not just changing our practices, and that's a huge cultural shift. That requires some sort of strong agility-based change management process to be able – or thinking or engagement – to understand what's happening.

Evan Campbell: Of course, in our approach to transformation, change management – an Agile change management program to support the organizational transformation towards business agility is really the core or the capstone of what we bring to help the organization learn to learn, and ultimately to adapt to be more efficient. Culture is somewhat harder to pin down.

Kat Conner: It is, it is.

Evan Campbell: It's a mushy amorphous sort of thing. Can you tell me a little about some of the levers on culture or some of the techniques both to sense, understand, and adapt a culture to support these more effective behaviors in an Agile business?

Kat Conner: Sure, so I'm going to go right back up to adaptive management again, to be able to answer this. Understanding why an organization exists, what is the purpose and the goal and the strategic intent of that organization should be at the center of your cultural discussions. Whether that exists or it doesn't exist.

Evan Campbell: Is one important element of culture tolerance for risk and the blame orientation? I mean, one of the things in the innovation space that can really kill innovation is the idea that if a hypothesis is disproven, it is a failure in the sense-

Kat Conner: Sure, yeah.

Evan Campbell: … that instead of appreciating that we learned something and acquired some knowledge, we ask, "Well, why didn't you guess the right hypothesis the first time?" Doesn't that discourage the ongoing evolution of trying things and evolving?

Kat Conner: It does and what's coming to mind is I tend to work in a lot of heavy risk and compliance industries, and there's always a balance, right? When you're talking about risks and compliance, and when you bring in innovation or agility, an experimental approach, how do you do that in an industry that's highly regulated?

So, yes, I think that if we're talking about the things that I've noticed from a cultural perspective that make business agility really hard, it's trust and your tolerance towards risk, and coming to an agreement on what that tolerance level is. Where can you introduce greater degrees of flexibility around risk and where from a regulatory perspective you need to have fewer degrees of flexibility? But understanding that within the organization.

Evan Campbell: That makes sense. I guess what you're trying to do is de-risk learning. You don't want to make a bet, the company investment, on something you haven't really tested out with some hypotheses and validation. You want to find a way to de-risk these innovation attempts in the cheapest, fastest way possible.

Kat Conner: Possible, which is really what we're talking about here with Agile innovation, and being able to convince the leadership that that's appropriate in this segment or piece of the organization. But we could go on for all afternoon, Evan, talking about this, and I think that we've hit the highlights. We've

talked a lot about business agility in terms of some of the new areas that are emerging in the past year or two: adaptive management, active portfolio management, some intentional leadership, some innovation, design thinking. These are all the next things that are going to allow an organization to take the critical work that we've all been doing for the past 20-30 years to the next level. I don't know how you feel about that.

Evan Campbell: And we have a lot of good ... Yeah, absolutely. Over time, historically and going forward, we have good collateral and webinars and all kinds of interesting blog pieces and white papers around many of the components of business agility that we've been discussing. So, maybe this is just the beginning of a great conversation. It's exciting.

Kat Conner: I think it is. I think we should get together again and continue it.

Evan Campbell: Love that.

Kat Conner: Evan, I really appreciate your time today, and thanks again for listening to this in-depth edition of Agile Amped. If you enjoyed this episode or any other episode, we'd appreciate you taking a few minutes and add a rating, a review on iTunes. Check it out on iTunes, and thank you, this is Kat Conner, checking in from Tucson, Arizona.

Evan Campbell: And Evan Campbell. Thanks, Kat. Bye.