We will begin shortly!

Financial Management in Agile

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Today's Agenda 45 minutes

- ❑ Welcome & Introductions
- ❑ Agile Introduction
- ❑ Teams
- ❑ Capitalization & Amortization
- ❑ Q&A, Conclusion & Next Steps

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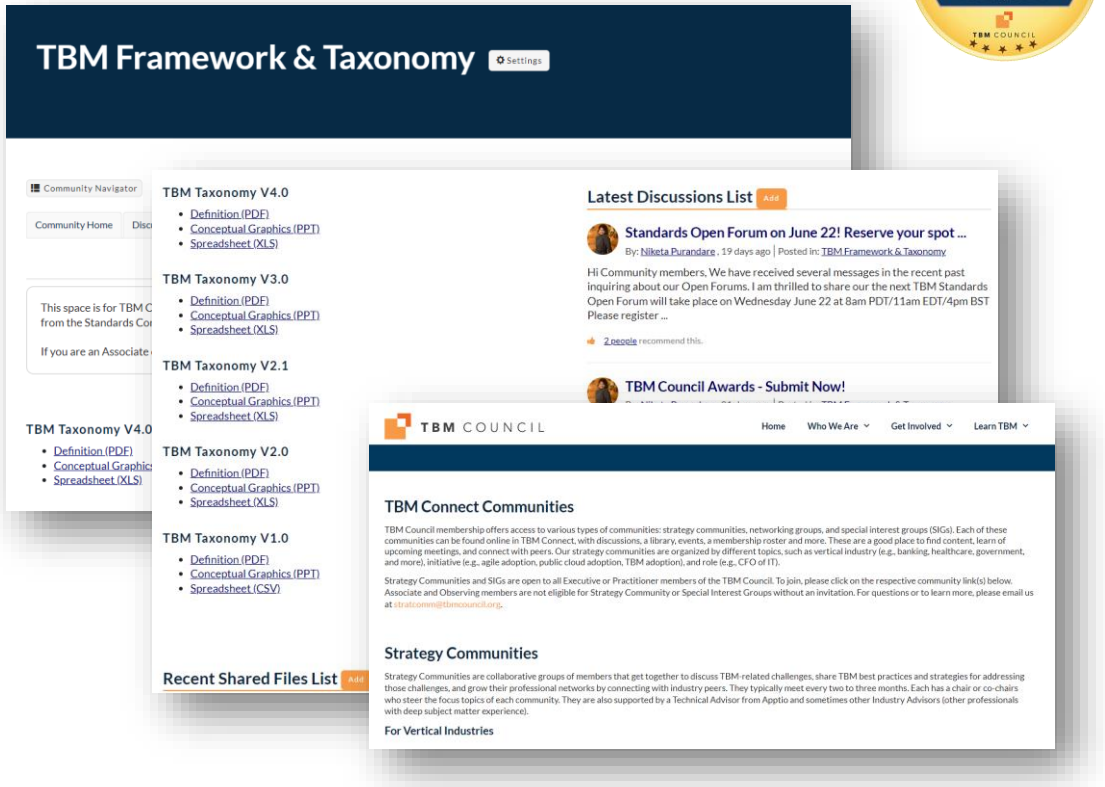

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The Financial Practices of Agile

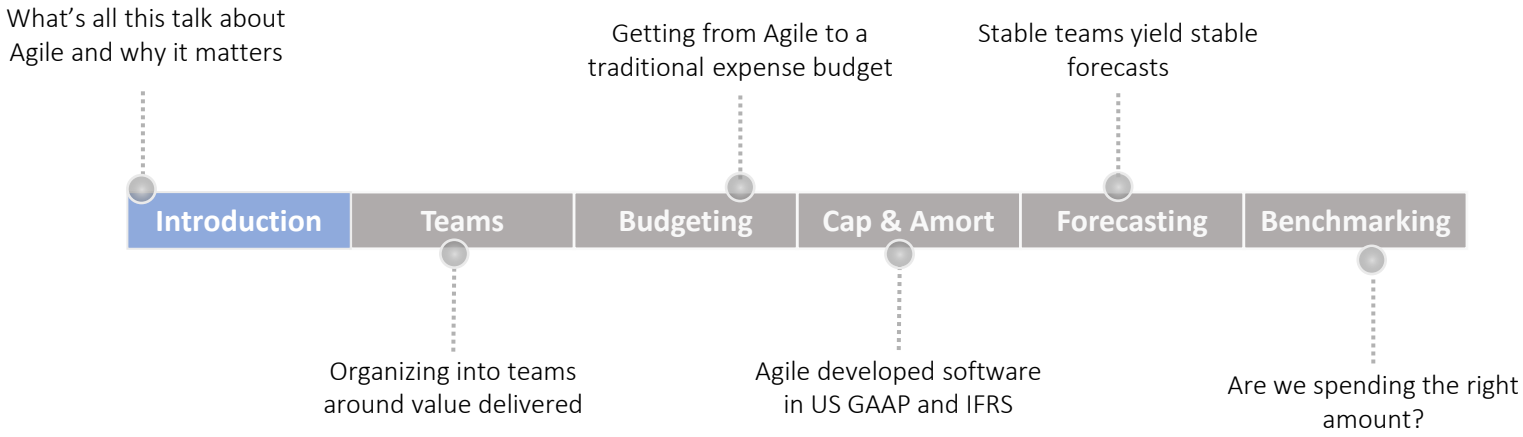
A Primer for Financial Professionals

TBM Council Standards Committee

July 2023

Context & Intent

It's time to talk Agile…but not about Agile. If you're a financial professional struggling to integrate Agile with Financial Management – you're not alone. A strength in Agile is the reorientation of discussion from cost to *value*. However, technology still requires fundamental financial management to operate. The below is a five-part journey which will take you through the 'behind the scenes' financial management of Agile. Let's go.



Agile Introduction

Agile Concepts-at-a-Glance

What was broken? Classical software development projects have long been ridiculed for low success rates related to budget, schedule, scope, or ability to deliver high-value business outcomes. The reasons are plenty – language barriers, deliverable rigidity, fractured attention, and sheer inability to transact modern-day work.

Close Language Gaps

Yesterday's functional operating models required (1) someone who "speaks business," (2) someone who "speaks technology," and (3) someone to act as a bi-lingual translator. This led to misunderstandings in requirements and intended outcomes.

Reduce mental distance with cross-functional teams

Bring Work to People

Yesterday's operating models meant a single project would pass through several functional teams – Development, Q&A, Infrastructure, Security, etc. Each team representing a hand-off, a prioritization, and re-orientation of attention.

Reduce task switching tax with persistent teams

Iterate with Feedback

Yesterday's project construct included intensive upfront requirement, cost, and benefit estimation. Once set, success was measured on ability to 'meet' this pre-defined outcome. This led and reinforced a focus on output instead of outcome.

Increase relevance with smaller increments & faster feedback

Value Orientation

Yesterday's projects were structured around the completion or building of systems and outputs. This led to a lack of clarity or recurring focus on the intended value delivery.

Increase value delivery with reframing of work objects

Agile Keyword Crash Course

What did they say? Agile, like any discipline, comes with a vocabulary-set. To successfully interpret or manage financial data on an Agile organization, it is imperative that you understand the language and its context. Many of upcoming financial solutions are only accessible due to constructs inherently in the operating model.

In Waterfall, work is traditionally broken down from Program, Project, Workstream, and Task.

In Agile, taxonomy is revised and shifts from task to value-orientation. Even the smallest piece of work is through the customer's eyes.

Work Object	~Duration
Epic	3-12 Months
--Features	1-3 Months
----Stories	1-2 Weeks
------Tasks	1-2 Days

Work is organized as outcome-oriented instead of task-oriented

Work Effort
Story Points

Work effort transitions from hours to relative-sizing using story points.

In functional operating models, people are organized to create economies of scale and quality within a set of tasks.

In Agile, people are organized around value delivery – from technology delivery to the interconnected business delivery.

People Groups
Value Stream
--Agile Release Train (ART)
----Team
------Individual

People and work are persistently organized around value.

Job Roles
Product Owner
Scrum Leader

Agile Resources

How can I go further? The following material will address key questions related to Financial Management of Agile organizations. To create the most impact, we encourage you further your learning of common Agile frameworks and resources. Below is a recommended list for education and further reading.

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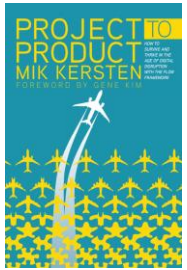

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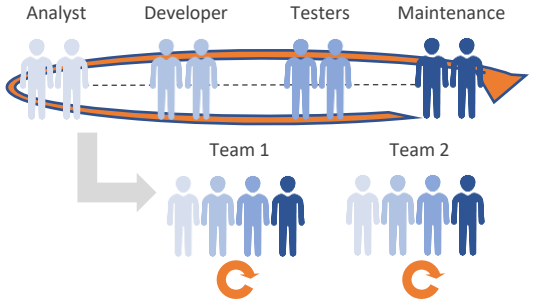
Organizing around Value

Teams and Cost Centers

The Telephone Game. Ever play the telephone game where each person whispers into the next person's ear what they were told? Within 3-5 'telephones' the message is different. Organizing people for less hand-offs and less distance means less confusion, faster delivery, faster feedback, and higher job satisfaction.

Hand Offs

Four teams trying to align on objectives to two teams equipped with all skills to manage end-to-end (autonomy).



Awareness & Feedback

Feedback is faster as teams work closely, and persistent team alignment increases awareness of work and people.

Cost Centers. Choosing Functional or Team cost center structure depends on managerial reporting and cost pool capabilities and how they intersect with budgeting, billing, and accounting.

Option 1: Resources in Team cost centers with functional dotted line CoEs
Option 2: Resources are in Functional cost centers with Team Cost Pools

Associates and Accounts

Persistently Predictable. Key to shifting focus from financials to value is creating predictable financials. Persistent teams represent predictable financial commitments. New Agile teams should avoid 'burst' capacity using discretionary funding with a preference towards predictable financials, capacity, and delivery.

Labor Types	Expense Accounts
Employees	Compensation, Benefits, Incentives
Consultants	Time & Material
Managed Services	Fixed Price & Milestone Delivery
Non-Labor	There are no non-labor costs in teams

Accounts. Labor types will use classical industry accounts.
Outlay. Employee and Consultant spend should be relatively flat month-to-month.
Managed Services. Common practice exists in isolating managed services into independent teams.
Non-Labor. There are no non-labor expenses in Teams, allowing clean view of cost and capacity.

All Together

Parallel Mgmt. IDing resources on teams allows for work management and financial management activities to occur. Resources have attributes for team & role (work mgmt), as well as cost center & account (finance mgmt). This simplifies financials through persistency and focuses discussion on work prioritization in each team.

Work Mgmt View

Team	Role	Name	Type
Team A	Analyst	John	Employee
Team A	Developer	Chris	Consultant
Team A	Scrum Leader	Greg	Employee
Team A	Developer	Shivani	Consultant
Team B	Analyst	Holly	Consultant
Team B	Analyst	Dee	Employee
Team B	Developer	Luisa	Consultant
Team B	Developer	Melissa	Employee
Team B	Scrum Leader	Brannon	Employee

Financial Mgmt View

Cost Center	Account	Cost Pool	Amount
123	Compensation	Team A	100
456	Time & Material	Team A	125
789	Compensation	Team A	140
456	Time & Material	Team A	110
123	Time & Material	Team B	110
123	Compensation	Team B	105
456	Time & Material	Team B	130
456	Compensation	Team B	120
789	Compensation	Team B	125

Financial – Expense Summary

Cost Center	Account	Amount
123	Compensation	205
123	Time & Material	110
123	**Total**	315
456	Compensation	120
456	Time & Material	365
456	**Total**	485

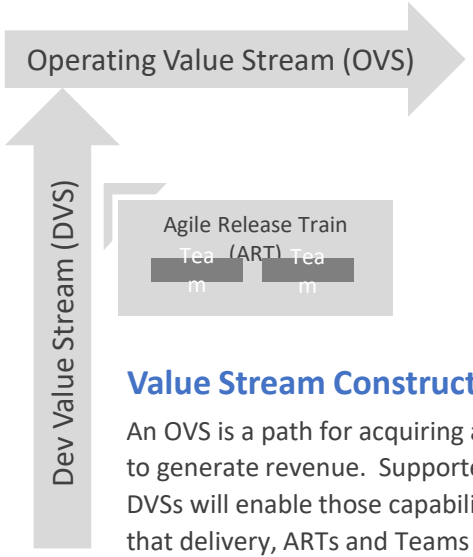
Financial – Cost Pool Summary

Team	Account	Amount
A	Analyst	100
A	Developer	235
A	Scrum Leader	140
A	**Total**	475
B	Analyst	215
B	Developer	250
B	Scrum Leader	125
B	**Total**	590

Cost Centers. In example, we assume a functional organization (leaders for development, business analysts, scrum leaders) but using cross-functional teams. Some companies may opt to organize directly around product; in which the expense and cost pool views would become the same.

Teams in Context

Value Flow. Autonomous teams capable of delivering outcomes is a fundamental to realizing Agile; however, we've skipped the broader context. How do these outcomes (teams) relate to each other and how do they relate to our overall success is a question worth exploring. This will be highly dependent on company maturity.



Value Stream Construct

An OVS is a path for acquiring and using resources to generate revenue. Supported by Technology, DVSs will enable those capabilities. Internal to that delivery, ARTs and Teams may be formed.

Product Construct

Within product models, Teams will reside within the Product tier, unless related to an allocated governance function.

Cost Centers. Most frequently, these constructs are managed using Cost Pools rather than classical cost center hierarchies.

Clarification. As significant variation occurs in the industry, it's best to consult with your internal Agile and/or Product transformation teams on the specifics of your organizational construct.

Capitalization & Amortization

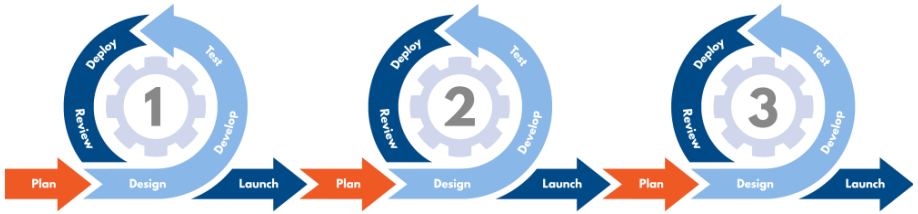
Waterfall, Agile, and Accounting

Is it possible? Agile work delivery has the *potential* to tear away at the legacy fundamentals that make Internally Developed Software Capitalization & Amortization functionally deliverable. While many paths to resolution exist, the below are some of the *possible* challenges in Capitalization & Amortization in Agile Delivery.

Waterfall Delivery

In Waterfall, a project executes over a long duration, slowly iterating through these phases before finally generating usability.

Agile Delivery



In Agile, work is organized around sized-down pieces of value which are incrementally delivered at a fast rate to deliver value faster.

(some…) Accounting Opportunities

- **Waterfall WBS replaced with Agile work**
  Identify appropriate Agile work object to measure
- **Definition of assets**
  Potential transition from project to other asset type
- **Activity-focus replaced with Value-focus**
  Work organization shifts from activity to outcome
- **Modification to measuring effort**
  Identify suitable replacement of quantified effort
- **Faster delivery – shorter cap & amort**
  Assess shorter standards and financial implications
- **Reduced commit – re-defining forecasting**
  Commit to LPM constructs and enable consistency

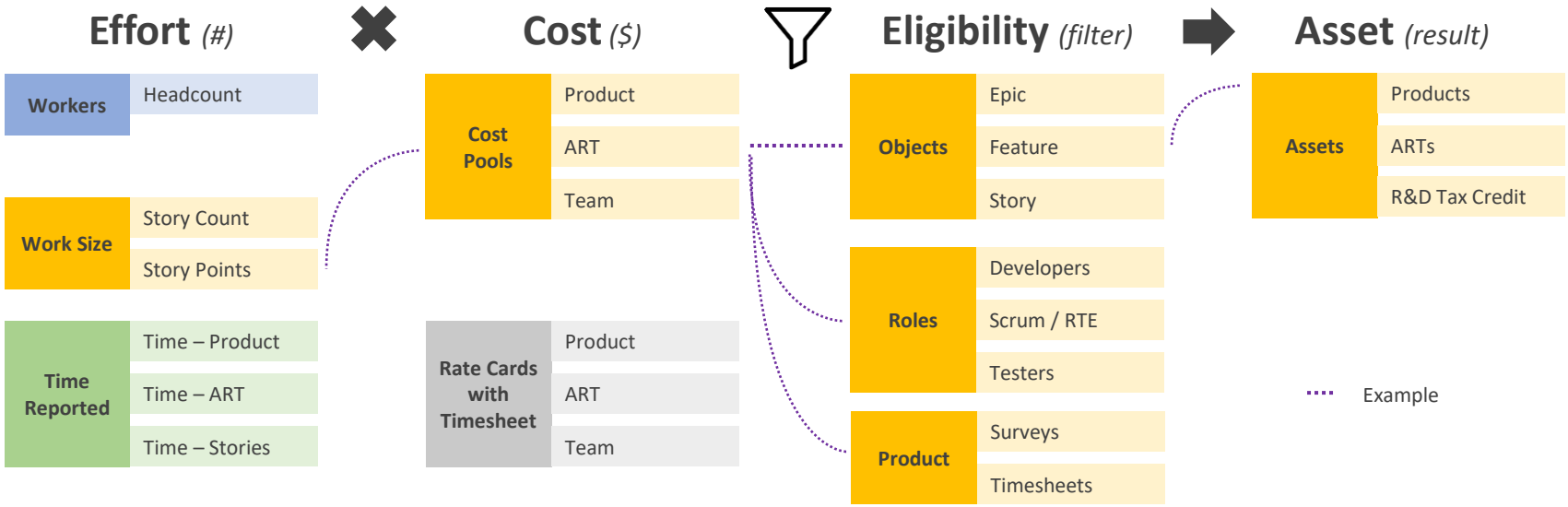
The Asset Formula

Back to fundamentals. Regulatory requirements focus on intent and outcome rather than exact practices. The process of identifying Capitalization & Amortization varies by company. Below demonstrates a few approaches of how this *could* be done. Understanding *your* approach and finding Agile parallels is critical to success.

	Effort *(#)*	✖	**Cost** *($)*		**Eligibility** *(filter)*	➡	**Asset** *(result)*
Waterfall *(example)*	Timesheets		Portfolio Hourly Rate		Timesheet Activities		Project / Program
Agile *(example 1)*	Story Points		Team Cost		Role and Feature		Product Quarterly Features Delivered
Agile *(example 2)*	Timesheets		Role Hourly Rate		Feature		Product (enhanced by monthly features delivered)
Agile *(example 2)*	Work Effort Unit		Team Cost		Feature and Timesheet Activity		Agile Release Train

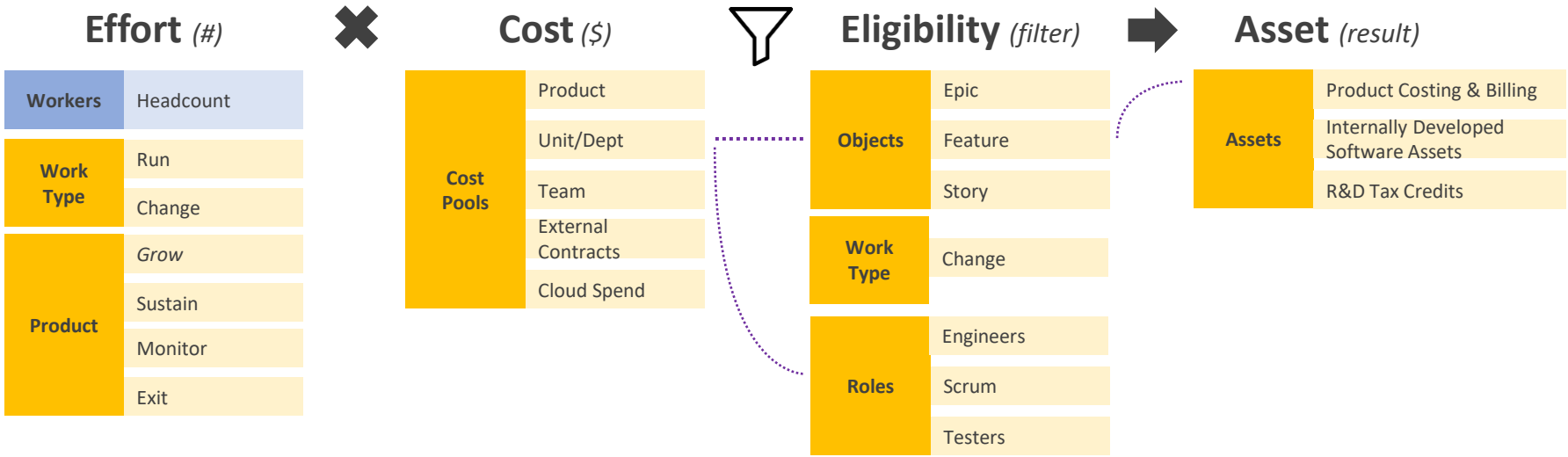
Finding Your Right Combination

No single path. There are numerous manners of configuring a valid model which would translate effort into quantifiable costs bound to an asset. Determining your model is highly dependent on your company's broader adoption of Agile and Product Management as well as accessible data and systems.



Company Example

> **"Kill Time Reporting.** I still expect a ticker tape parade when I retire for removing time reporting! Utilizing an FTE allocation has made our capitalization more efficient and accurate. Instead of 5K people taking 15 min-1 hour reporting time a week, ~250 managers spend 15-30 min a month reviewing and updating their labor allocations to product and work type, and we let the system do the math!"



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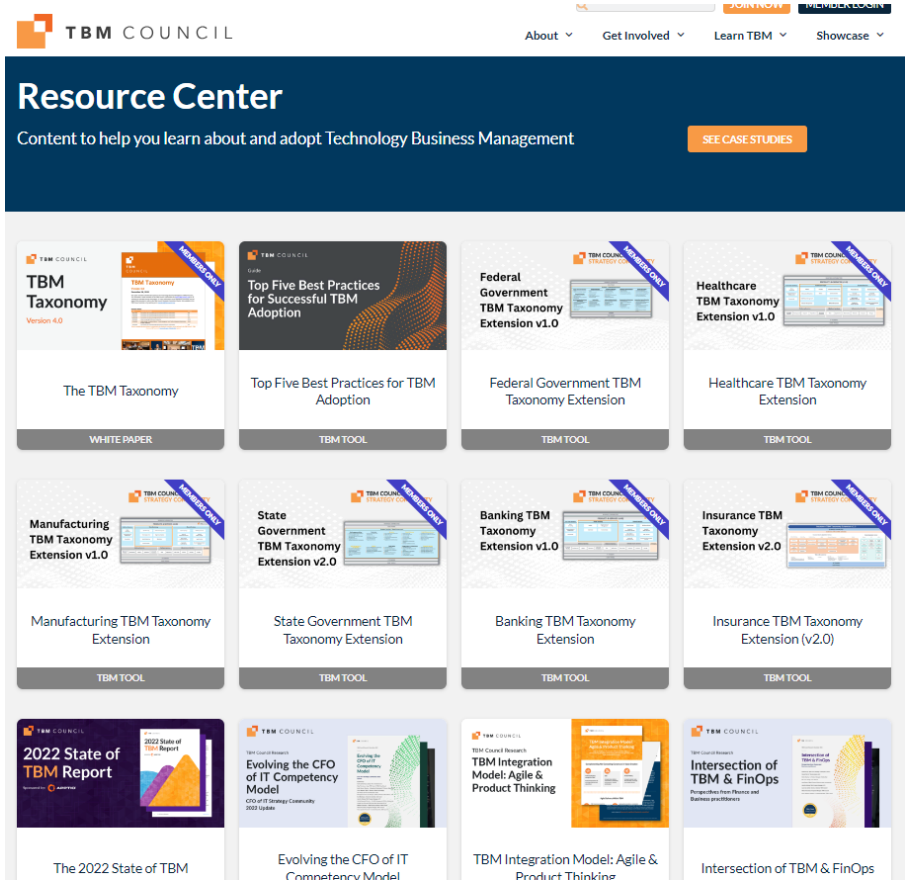

Q & A

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