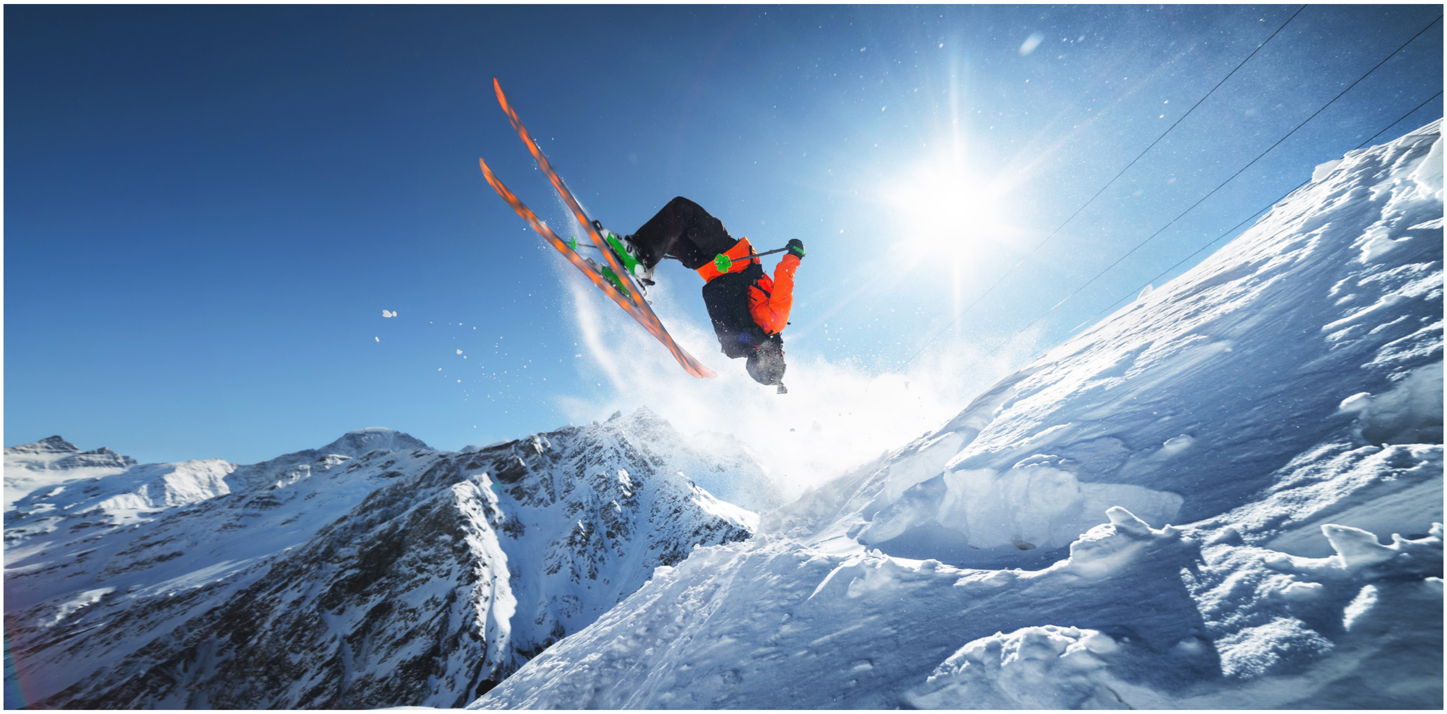

The art of agile: Success factors in building an adaptive business

As CFOs who lead transformations know, such efforts can be fraught with uncertainties (see "What changes in a transformation—and why it matters to CFOs," *CFO Insights*, January 2020). At the outset, it is often difficult to specify the critical changes to systems, processes, and behaviors that will deliver the desired outcomes. For example: If you build it, will customers come? And will employees engage with the systems and processes effectively?

To confront uncertainty and deliver desired outcomes in a timely way, some companies are moving away from traditional plan, build, and operate approaches to more agile efforts that deliver critical outcomes more continuously and frequently, while also resolving uncertainty.

On the surface, an agile approach can appear as if entrenched company structures have been discarded, in favor of team-based improvisation. But agile, it turns out, is built atop its own system—of ideas. Still, succeeding with an agile approach requires its own kind of rigor. Companies that go part way, or find the challenges too daunting, lose the opportunity to fully realize the benefits of dynamic decision-making and gaining increased visibility into how the business creates value.

In this issue of *CFO Insights*, we consider how CFOs can better enable and sponsor agile approaches to transformation to resolve uncertainties and deliver tangible results more quickly, while also maximizing such benefits as adapting fast, iterating as needed, and nurturing collaborative teams.

Agility: From software to business transformation

Agile originally gained traction among software developers as a response to overly long development cycles that could not keep pace with changing needs. Constantly facing shifting user requirements and changing demand, the pioneers of agile experimented with how to effectively navigate uncertainty and boost their responsiveness to sudden and unforeseen shifts. Now-familiar agile approaches and tools emerged: small cross-functional teams, working in "sprints" as short as a week, delivering improved versions of products or features to users, testing the new features, and harvesting user data to shape the next sprint and iteration of outcomes.

The same principles—clearly defined outcomes, small teams, speedy decisions and sprints, changing and adapting to uncertainties—drive the agile journey (see "The agile advantage: Moving transformations from unknowns to outcomes," *CFO Insights*, May 2021). Inflexible policies and procedures and detached silos are swapped out for networks of autonomous teams, empowered to execute quickly and flexibly. That foundational mindset is what enables companies to make decisions that aren't just faster but are also better; management can quickly allocate people and teams to critical problems and challenges to improve overall business outcomes (see Figure 1, "The five habits of high-performance agile organizations").

Executing agile transformation can result in a piece-by-piece reinvention of the business. Focusing on small releases and quickly delivered value—as opposed to waiting until new offerings are fully specified and can be built and transferred to an operational model—will likely require finance to develop new models for distributing funds to transformation efforts. CFOs will need to sponsor this change in model.

Sponsoring agile

Sponsoring agile in the organization requires a different approach to funding, controlling, and enabling projects. The elements of that approach include the following:

- **Focus on outcomes and learning.** The first and most important thing that a sponsor of an agile journey can do is to clearly articulate the desired outcomes. For example, if you are a software company going from stand-alone software sales to subscriptions, the ambition may be that 80% of revenues in three years will be derived from subscriptions. For a fashion brand sold through a brick-and-mortar retailer, the goal could be to drive more than half of revenues from e-commerce in three years. A clear transformation ambition sets the context for framing work that moves you toward the overarching outcomes (see "Crafting your transformation ambition" *CFO Insights*, March 2020). These efforts can also have near-term outcomes, delivered on a sprint-by-sprint basis. By accruing value in small increments from the start, teams reduce risk and enable parts of the end deliverable to be usable before it is complete.

  Given various uncertainties during the journey to the overall outcome, some sprints may exist just to test a hypothesis: e.g. Is one format of the customer online interface better than another based on consumer use and reports on satisfaction? Here the outcome may be determining which approach is better or more appealing to customers. The role of the sponsor is ensuring that the primary outcomes stay top of mind and that all work clearly contributes to enabling the overall outcome.

- **Provide a "fixed" budget to be dynamically allocated.** There is a misconception that the agile approach will not reconcile with traditional annual budgets and planning. However, that is not the case. Traditional approaches require detailed roadmaps so that budgets can be accurately forecast. But in traditional transformation models, changes in scope invariably cause schedules to stretch longer and increase the risk of runaway costs. Agile approaches recognize things will inevitably change, but budgets can still be relatively fixed. How? With fixed teams pursuing specific outcomes for set periods of time, the budget stays fixed, unless technology costs increase or substantially more teams are needed. Based on learnings, leaders can modify the intermediate outcomes and choose the best path toward the overall goals. Combining adaptation with fixed teams is likely to better control costs. If the work takes longer than anticipated, for example, it's up to the teams to shift resources or make trade-offs as they see fit to get to the best outcomes.

  Along with providing a budget, it is important for CFOs to ensure that the finance function's support for agile efforts is aligned with an orientation toward outcomes. If there is a controller for these teams, that individual's focus has to be on how budgets are supporting intermediate outcomes on the journey to overall outcomes and how they are enabling the teams to do their work. The controller should not necessarily be centered on output, productivity, or cost.

- **Enable high performing teams.** The key to any major transformation effort is having the right talent and freeing it up to drive the change while keeping existing cash flows in place. To do this as a sponsor, it is important for CFOs to ensure they have the right teams with the right talent in place. Good talent in an organization is often in demand, making it important to ensure that members of critical agile teams are sufficiently freed from some of their prior responsibilities to contribute effectively to a team. As a sponsor, it is critical to enable teams to be able to deliver the desired outcomes.

- **Foster psychological safety, autonomy, and transparency.** The agile approach relies on cultivating psychological safety, which means enabling teams to speak up without any fear of repercussions. Agile teams often find that they need to rethink their approach to solving a specific problem. The earlier they admit this, the better. Team members who recognize problems need to feel comfortable sharing the issues they have encountered, without worrying about others blaming or punishing them. Given how central feedback is to the agile process, transparency counts. Leaders may need to model psychological safety, whether by initiating difficult conversations or reinforcing the notion that everyone makes mistakes—but such mistakes are learning opportunities to improve ways to get to desired outcomes. Furthermore, the teams should have sufficient autonomy to decide how best to solve problems they encounter. After all, they are often closer to the problem and know the pros and cons of different approaches.

Figure 1. The five habits of high-performance agile organizations

Based on learnings from successful and failed transformations, we have identified five foundational habits that lead to high performance within agile organizations.

Improve everything
A continuous and unrelenting focus on seeking out opportunities to modify or change things for the better, whether it be processes, policies, etc.

Cross-functional real-time communication
Instant access to an information rich network of people and machines (not be limited to your team or organization)

Change as a non-event
Changes are uneventful and transitions are not a focal point

Focus on finishing
A predisposition to complete work before starting new projects or taking on more work

Feedback
Continuous feedback from customers, colleagues, 360 within the organization through the use of data, facts and observations

Source: Business Agility Practice, Deloitte Canada

What should you ask for as a CFO?

To implement agile transformation, it is important for CFOs to make a number of requests of various stakeholders and teams:

1. **What are the critical desired outcomes of an agile approach?** The key starting point with stakeholders is to agree on the critical outcomes. The top-level outcomes should be translated into tangible sub-goals about which stakeholders also agree. These should all be measurable, and to keep track of outcomes, CFOs and their key stakeholders can establish a joint scorecard of leading indicators.
2. **Can we agree on what initiatives should be agile?** Not all parts of the transformation need to be agile. Working with stakeholders, it is important to identify the greatest areas of uncertainty and where agile methods can most efficiently reduce uncertainty or enable critical outcomes.
3. **Have we identified the key teams?** Just as employees with specific competencies are vital to delivering transformation, it is important for CFOs and stakeholders to work together to identify which teams are key—and what their composition needs to be—to deliver the desired results.
4. **Are teams focused on the highest value and difficult problems?** Ask the best agile teams to focus on the hardest problems and highest value-creation opportunities. This helps establish quickly whether these problems are tractable and solvable, and lessons from these initiatives can help you improve pathways to the desired outcomes.
5. **Are we being transparent with information?** Whether on a monthly or quarterly basis, review the critical agile initiatives and determine what outcomes (not outputs) have been delivered and what has been learned that improve the odds of success. Ask yourself: How can I then help the teams be more successful?

Committing to agile

From the perspective of many CFOs, the opportunity to deliver outcomes faster, with better control over budgets, makes the promise of agile irresistible. While staging “agile theatre” is simple, making it work is hard. Infusing agile principles into the company’s character—from its structure to its processes to its strategic thinking—requires determined effort.

Scaling agile means educating and aligning all functional groups around a shared mindset. There are silos to be pulverized, collaboration tools and practices to be shared, perspectives to be challenged, and stakeholder commitments to be obtained. Taking their cue from agile, CFOs can break up the task into smaller chunks, soliciting help from their talented leaders across the company, and demonstrating success with a few key projects to establish credibility. Building on that will enable more agile transformation.

In today’s competitive marketplace, some companies will be able to change and adapt to their markets faster than others. Committing to agile methods can help CFOs make their companies more responsive and adaptive to their environments and deliver the outcomes they require.

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