EFFECTIVE CONTRACT METRICS FOR DELIVERING BUSINESS VALUE

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Susan Atkinson EVOLVE contracts
A CONTRACT THAT REFLECTS AGILE?
“Perhaps what you measure is what you get. More likely, what you measure is all you get. What you don’t (or can’t) measure is lost.”

H Thomas Johnson (2006)
CONTRACTS DRIVE BEHAVIOUR

"I’d exercise more if it were billable."
THE TRADITIONAL CONTRACT FOR SOFTWARE DEVELOPMENT

- Output-Based Requirements
- Activity-based metrics based on sequential development
- Change control mechanism

**NOTE:**

*The charging model is secondary*

*So are IP ownership, data protection, liability, indemnities etc.*
MAJOR INFLUENCES BEHIND THE TRADITIONAL CONTRACT

Sir Isaac Newton 1642-1727
Frederick Taylor 1856-1915
Henry Ford 1863-1947
Alfred P. Sloan 1875-1966

The Industrial Revolution 1750-1850
THE IMPACT OF THE TRADITIONAL CONTRACT

• Increases the risk of failure:
  ➢ Delivery risk
  ➢ Business value risk
  ➢ Existing business model failure risk

• Leads to the design of suboptimal software

• Leads to a poor return on investment
THE TRADITIONAL CONTRACT
FOR SOFTWARE DEVELOPMENT

- Output-Based Requirements
- Activity-based metrics based on sequential development
- Change control mechanism
SO WHAT IS THE COMMERCIAL MODEL? .....
START WITH WHY

HOW GREAT LEADERS INSPIRE EVERYONE TO TAKE ACTION

SIMON SINEK

THE GLOBAL BESTSELLER
THE COMPLEXITY THEORY

The Stacey Matrix

Supplemented by the Cynefin framework
<table>
<thead>
<tr>
<th>SIMPLE</th>
<th>COMPLICATED</th>
<th>COMPLEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Known Knowns’</td>
<td>‘Known Unknowns’</td>
<td>‘Unknown Unknowns’</td>
</tr>
<tr>
<td>Stable environment</td>
<td>Stable environment</td>
<td>Unpredictability and flux</td>
</tr>
<tr>
<td>Clear relationship between cause and effect</td>
<td>Clear relationship between cause and effect</td>
<td>No/little relationship between cause and effect</td>
</tr>
<tr>
<td>BUT not everyone can see it</td>
<td>Understanding only in retrospect</td>
<td></td>
</tr>
<tr>
<td>Right answer is self-evident and undisputed</td>
<td>Multiple right answers</td>
<td>No right answers</td>
</tr>
<tr>
<td>BUT not everyone can see it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>‘Sense, Categorise, Respond’</td>
<td>‘Sense, Analyse, Respond’</td>
<td>‘Probe, sense, respond’</td>
</tr>
<tr>
<td>‘Command and Control’</td>
<td>Consult the experts</td>
<td>‘Experimental’ mode of management</td>
</tr>
<tr>
<td>Trade-off between right answer and making a decision</td>
<td>Allow patterns to emerge and select the best ones</td>
<td></td>
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</tbody>
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THE BUSINESS ADVOCATES OF COMPLEXITY THEORY
THE COMPLEXITY THEORY

Software Development
SOFTWARE DEVELOPMENT IS COMPLEX

- The customer discovers what it wants
- The supplier learns what to build
- Many things change along the way:
  - Internal changes – customer’s perception
  - External factors – market, regulations, end user expectations
WHAT IS EXPERIMENTAL MANAGEMENT?

- Hypothesis
- Target outcome
- Boundaries
- Fast feedback
- Minimum viable product (MVP)
“Simple, clear purpose and principles give rise to complex and intelligent behavior. Complex rules and regulations give rise to simple and stupid behavior.”

Dee Hock, CEO Emeritus VISA International
“Measurement is a quantitatively expressed reduction of uncertainty based on one or more observations.”

Douglas Hubbard, 2010

“It is better to be approximately right than precisely wrong.”

Warren Buffett
THE EVOLVE CONTRACT - STRUCTURE

• Results-focused - agnostic to methodology

• Focuses on the goal and the constraints

• Modular structure for incremental development
  ➢ Sequencing of work
  ➢ Ability to take into account changes and learning in subsequent work

• No upfront design
THE EVOLVE CONTRACT – METRICS

• Framework with various options for each SOW

• Different metrics can be called off into each SOW to suit the circumstances:
  - Output and targets model – each SOW for an MVP
  - Throughput and targets model – each SOW for a specified number of story points / function points
  - Targets model – each SOW for an MVP

• “[The MVP] is the fastest way to get through the Build-Measure-Learn feedback loop with the minimum amount of effort” (‘The Lean Startup’ by Eric Ries)

• Variety of charging mechanisms
THE IMPACT OF THE EVOLVE CONTRACT

- Reduces the risk of failure:
  - Delivery risk – transparency of the process, prioritisation, reduces exposure to change
  - Business value risk – focus on targets of the customer
  - Existing business model failure risk – no ‘big bang’ roll out

- Increases the likelihood of optimal design
  - Design and development are not artificially divorced
  - Regular feedback from the customer

- Increases the likelihood of a good ROI:
  - Less waste
  - Increased productivity
CONCLUSION

“Natural selection may explain the survival of the fittest, but it cannot explain the arrival of the fittest”
Hugo deVries, 1905

• New contract model for complex contexts required
  ➢ Management styles need to change
  ➢ Different commercial models are required
THANK YOU

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