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How Finance can enable Business Agility

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Mastering budgeting as a key success factor for agile business units, teams, and projects

The uncertainty and complexity confronting today's businesses calls for an adaptable organisation that can rapidly identify and respond to change, such as fast-rising inflation – a key risk at present for Swiss CFOs. But traditional budgeting often becomes a limiting factor for business units transitioning to an Agile model that enables adaptability through dynamically formed, product-based cross-functional teams. To unleash the full potential of Agile, we propose an evolution to an adaptable portfolio-based budgeting approach, one that transforms how value is defined through fast feedback loops for agile business units, teams or projects.

But how can this be done exactly and what are the key considerations to maintain the necessary integration with Finance?

How Finance can enable business agility

Agile budgeting is not an "all or nothing" approach, but rather one that balances business obligations and value delivery. In essence it considers the impact and value delivered across portfolios/initiatives and makes the necessary adjustments accordingly. With the goal of achieving a higher return on investment, high-performing and value-creating lean portfolios are re-evaluated to identify opportunities to optimise resource allocation.

From our experience, we have identified the following best practices:

1. Allocate budgets to portfolios based on the overall company strategy on a yearly basis. Then empower the portfolios to autonomously distribute the assigned budget across their value streams or cross-functional Agile teams. The portfolios are responsible for the budget allocated to them, and must justify it by delivering on set targets, defined, for example, by objectives and key results (OKRs).

2. Establish a governance framework within the portfolios that allows budgets to be allocated or re-allocated dynamically between the different value streams on a quarterly basis. The quarterly budget allocation is based on the actual value delivered, measured against the expected value defined in the business case.

3. Within a portfolio, changes to the business budgets are assigned only for the upcoming quarter and to fund a specific stage. Funding should be performance-based, according to business priorities. For example, consider a multi-stage project with estimated funding requirement of CHF 1 million. Only CHF 200,000 is initially allocated as this is the estimate for reaching the first stage i.e., the minimum viable product (MVP), and the rest remains in the portfolio central reserve. After the MVP an evaluation of project progress and value delivery is made and funding for the next quarter is decided based on achieved targets and forecast value. Should priorities shift or the expected value decrease, the budget can be redistributed to a more value-generating project within the portfolio. Accurate data and the use of predictive forecasting can be used to effectively measure the budget and costs, enabling more precise estimates of ongoing and expected value.

4. During the year a cross-functional steering board of the portfolio management team dynamically reallocates the remaining budget to the most beneficial non-strategic projects. Decision-making is informed by analysis of rolling forecasts and predictive analytics to determine the current financial status and estimated benefits to be achieved. To facilitate this some companies we have seen maintain a central funding reserve for new unforeseen projects to be pursued.

5. Continuous value management to maximize return on investment. An agile portfolio enables funding to be adjusted, paused, or stopped at any time, allowing for more valuable initiatives to be pursued. To enable a successful approach to budget distribution within portfolios we propose leveraging the following Agile product stages as opportunities to assess value:

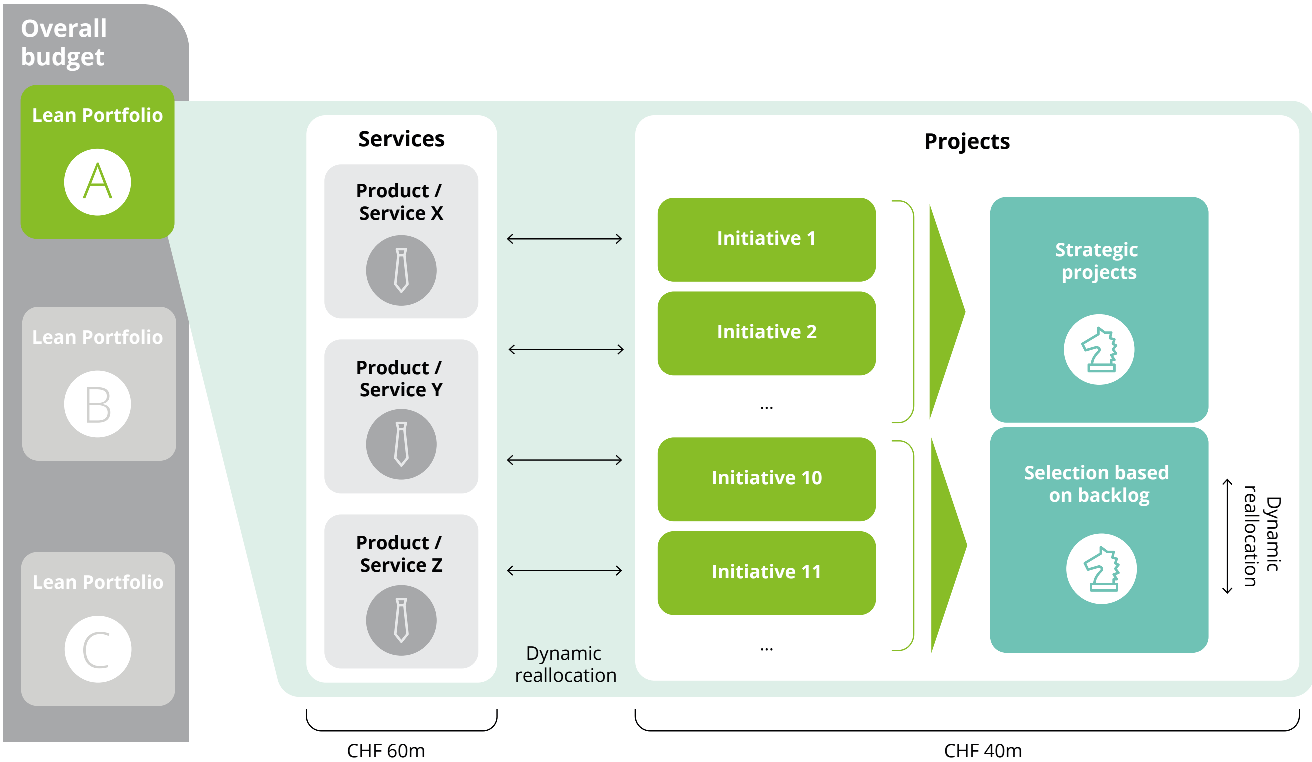
- The minimal viable product (MVP) – to test if the initiative is valuable
- The minimal marketable product (MMP) – to confirm precisely what users need
- The minimum marketable features (MMF) – to maximise value with minimal effort.

MVPs and MMPs should be used to update the business case, using predictive forecasting to enable better portfolio level decision-making. The value delivered by MVPs and MMPs should be key in deciding to release further budgets or not. That is why an MMP is essential: if it really is a minimum marketable product, then the best value-to-cost ratio has been achieved.

In addition to the above best practices, the budgeting approach calls for new methods for project reviews (incl. non-financial KPIs) and governance structures. Frequent evaluations need to take place within the project itself rather than at the aggregated portfolio level, in addition to dedicated reviews upon completion of every funding cycle. This dynamic budgeting and tracking requires governance structures to adapt accordingly, focusing on specific project phases and introducing entrepreneurial practices that allow for central reserves to be quickly allocated to relevant project phases.

The benefit of this portfolio-based budgeting is a performance-oriented approach underpinned by Agile ways of working while maintaining the necessary financial controls for Agile working business units, teams and projects. As a result, the foundation for a shift toward a customer-centric culture is laid and the business remains competitive by rapidly responding to change.

Illustration 1: Portfolio-based budget allocation



Example: Portfolio-based budgeting in an IT function

MVP
Minimum Viable Product

The minimum set of functionalities that allow users to use the product, so that feedback can be collected. One famous example is the first-generation iPhone. At launch reporters noted that it was flawed and lacked some features found in the most basic phones. But Apple wasn't trying to build a flawless fully-featured product. It was building a product with the core features needed to validate the assumptions about the idea of a device for everything, based around a touch screen and without a keyboard.

MMP
Minimum Marketable Product

The minimum set of functionalities that allow users to use the product, so that feedback can be collected. One famous example is the first-generation iPhone. At launch reporters noted that it was flawed and lacked some features found in the most basic phones. But Apple wasn't trying to build a flawless fully-featured product. It was building a product with the core features needed to validate the assumptions about the idea of a device for everything, based around a touch screen and without a keyboard.

MMF
Minimum Marketable Feature

A feature that is good enough to be delivered to users and used by them. Keeping with the iPhone example, the App Store was launched many months after the launch of the phone itself and is a great example of a MMF. With just 500 apps available but open to third-party developers, it made the old way of distributing software seem primitive.

In summary

While a traditional budgeting approach can still serve a purpose, for organisations running Agile projects and portfolios it creates limitations and new challenges . We therefore propose a more flexible budgeting approach in this instance, one that empowers Agile project and portfolio teams to quickly react to market changes by allocating capacity to business priorities that maximise value for the organization. This step could trigger profound change in your organisation.

Are you ready to take the first step? Our experts are here to support you.

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