



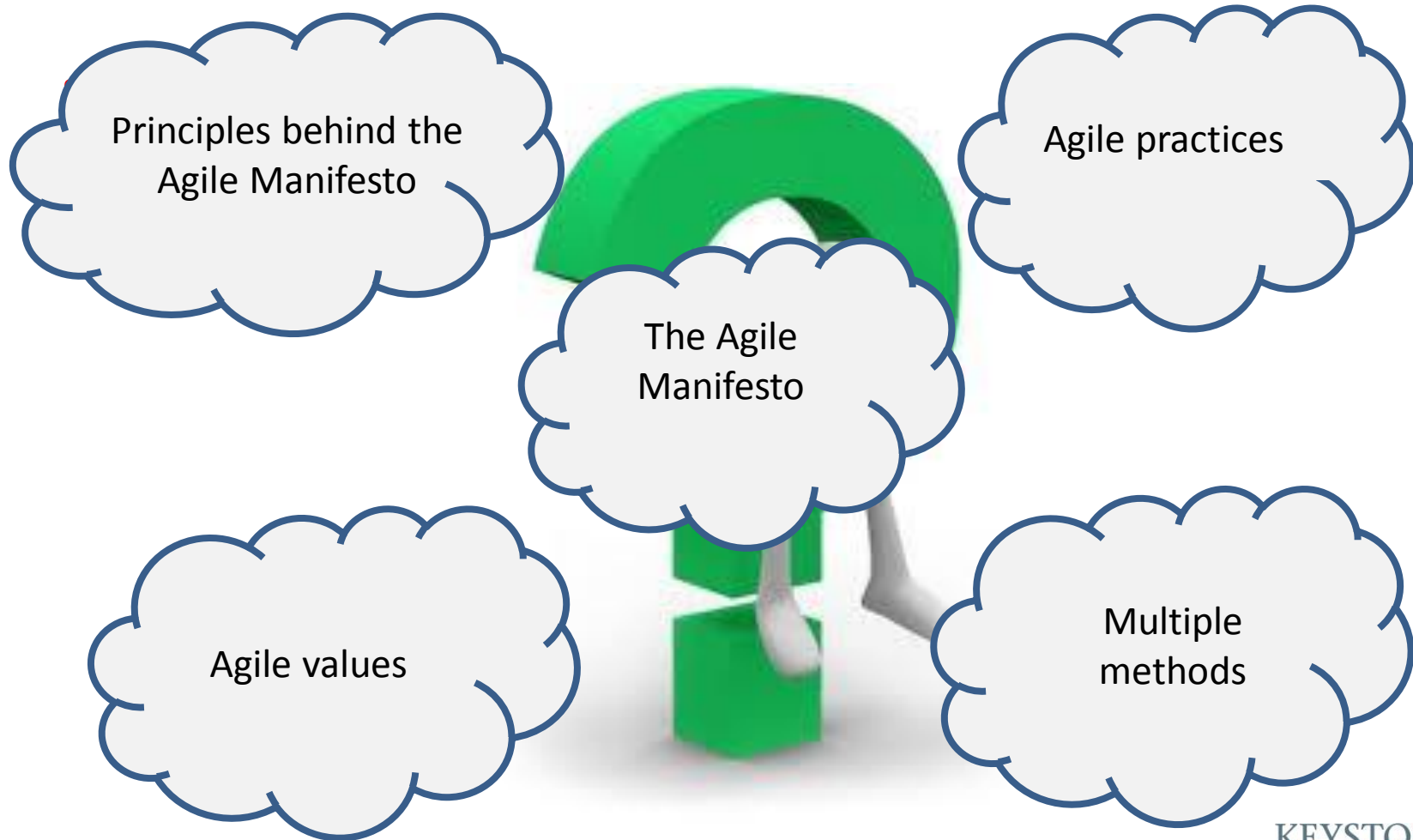
The Problem with Agile & Contracts

Agile Business Conference

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Susan Atkinson
Keystone Law

The Problem with Agile



The problem with contracts

- Traditional contracts are out-dated
- Contracts distort behaviour
- You get what you measure

Influences behind the traditional contract

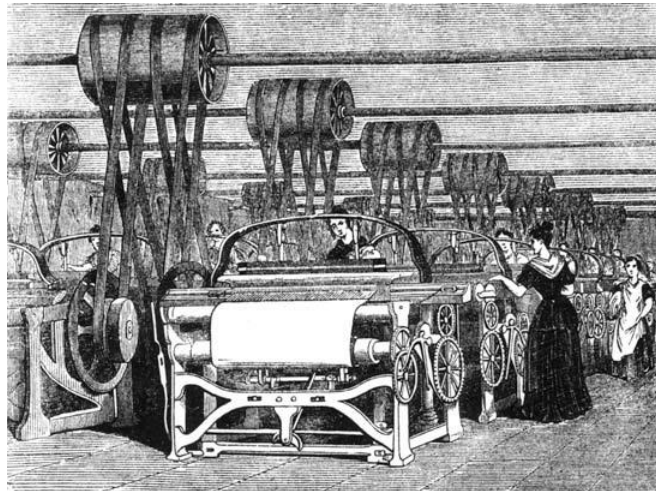
*Sir Isaac
Newton*
1642-1727



The Industrial Revolution
1750-1850



**20th century
US manufacturing**



*Frederick
Taylor*
1856-1915



Alfred P. Sloan

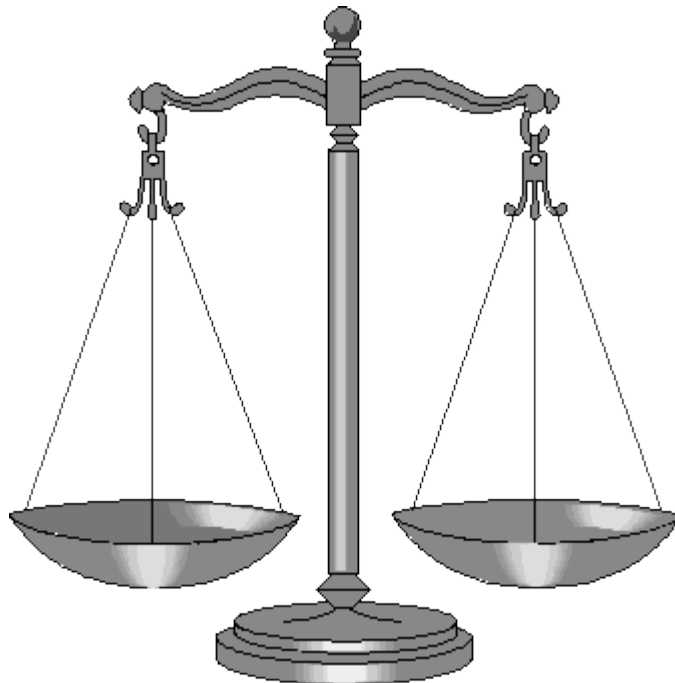


Henry Ford

You get what you measure!

**“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 distort behaviour



Early versions of Agile contracts

- Contracts with shorter development paths
- Velocity-based contracts

PLUS:

- *'Agile methodology'* contracts

Contracts with shorter development paths

- Typically the solution is decomposed into a series of '*minimum viable products*' or the equivalent
- Pros:
 - Customer insight into the development process
 - Mirrors current procurement models
 - Appears to facilitate the management of budgets and schedules
- Cons:
 - The solution will not necessarily meet the customer's expectations
 - Risk of amateurish design by the customer
 - Supplier is incentivised to create more features

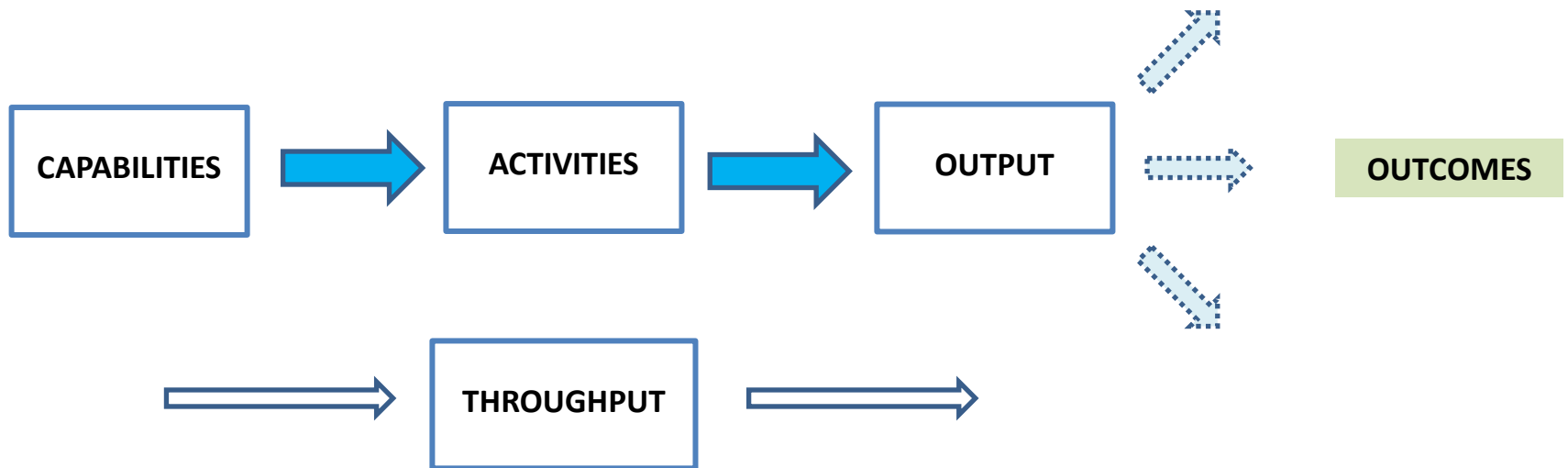
Velocity-based contracts

- Typically the supplier commits to provide a certain number of '*units of work*' which may comprise story points or function points over a set period of time
- Pros:
 - Increased flexibility
 - Easy to measure
- Cons:
 - The solution will not necessarily meet the customer's expectations
 - An emphasis on velocity is no guarantee of quality
 - The supplier is incentivised to create more output

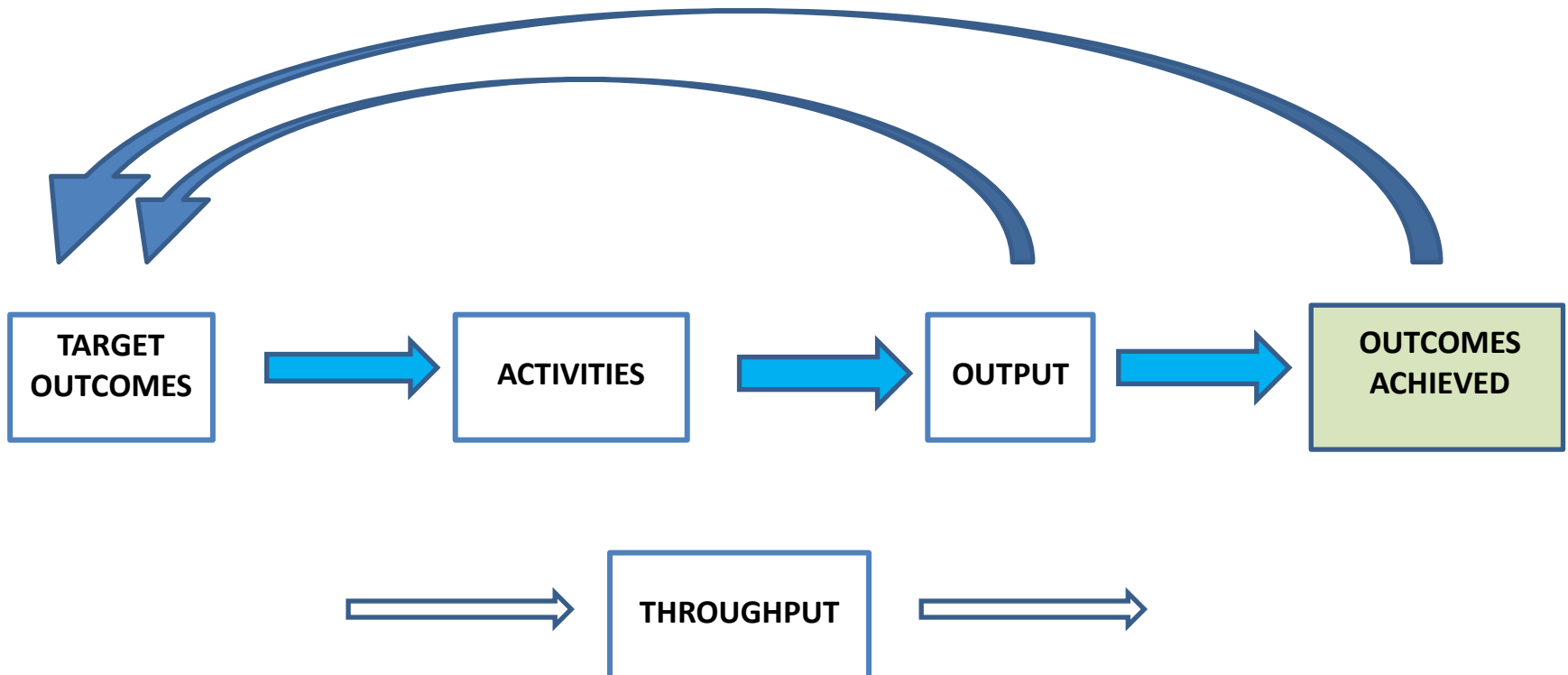
'Agile methodology' contracts

- The contract documents the Agile development process
- Pros:
 - More accurately reflects the *'Agile process'*
- Cons:
 - Typically the Agile process changes over the course of the project
 - Inconsistent with the principles of Agile which are 'results-focused'
 - The supplier is incentivised to create more activities
 - The solution will not necessarily meet the customer's expectations

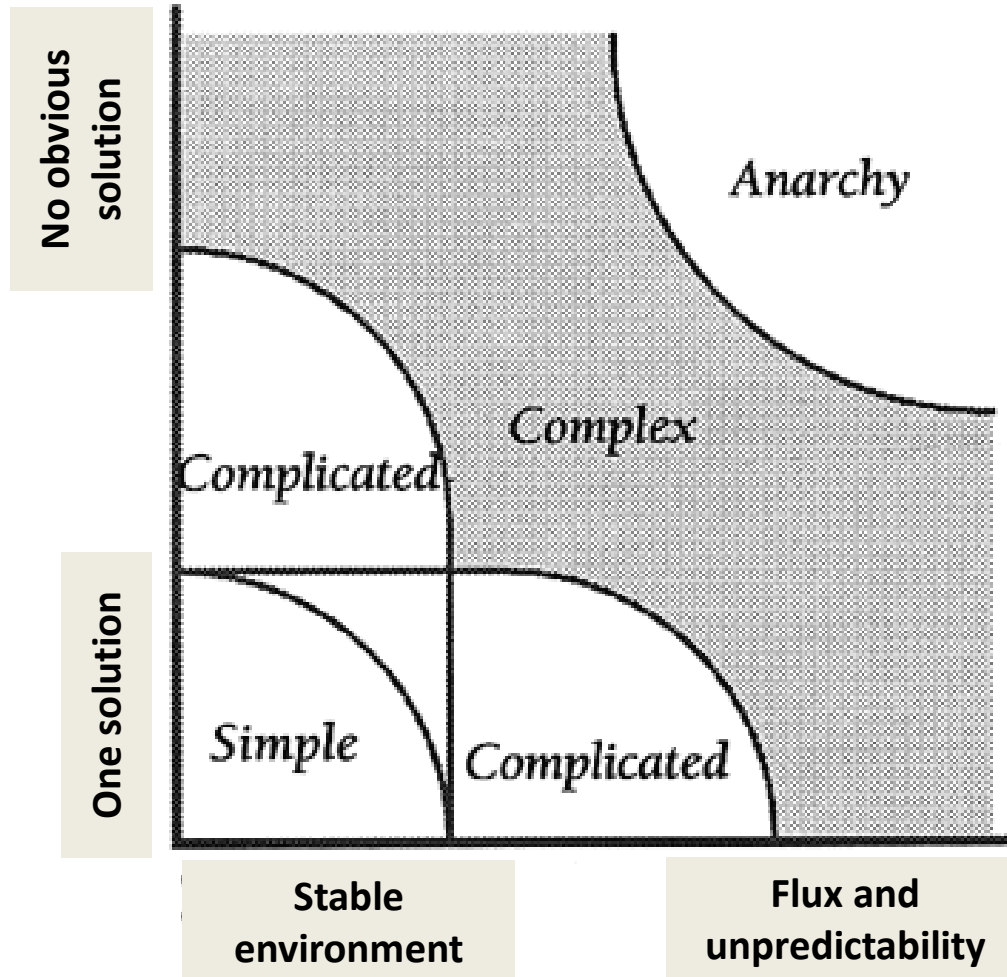
Traditional view of contract metrics



Outcome-driven view of contract metrics



The scope of this presentation

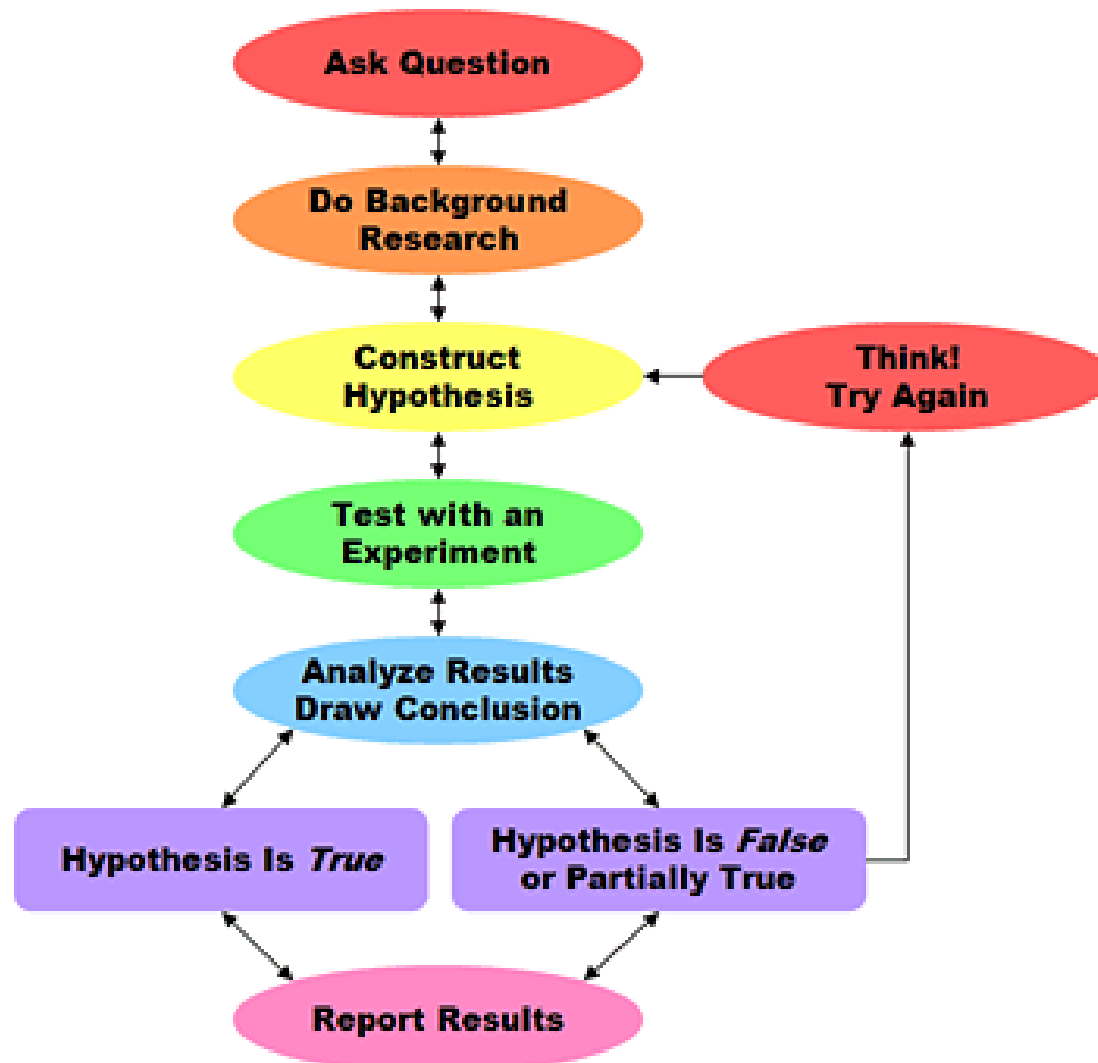


The Stacey Matrix

Management for different contexts

SIMPLE	COMPLICATED	COMPLEX
<i>'Known Knowns'</i>	<i>'Known Unknowns'</i>	<i>'Unknown Unknowns'</i>
Stable environment	Stable environment	Unpredictability and flux
Clear relationship between cause and effect	Clear relationship between cause and effect <u>BUT</u> not everyone can see it	No/little relationship between cause and effect Understand <u>only</u> in retrospect
Right answer is self-evident and undisputed	Multiple right answers <u>BUT</u> not everyone can see it	No right answers
<i>'Sense, Categorise, Respond'</i>	<i>'Sense, Analyse, Respond'</i>	<i>'Probe, Sense, Respond'</i>
'Command and Control'	Consult the experts Trade-off between right answer and making a decision	Empirical management Allow patterns to emerge and select the best ones

An introduction to empirical management



The Flexible Contract

- An open source, outcome-based contract
- Freely available at www.flexiblecontracts.com under a Creative Commons license
- Created by Susan Atkinson and Gabrielle Benefield
- Any feedback greatly appreciated!



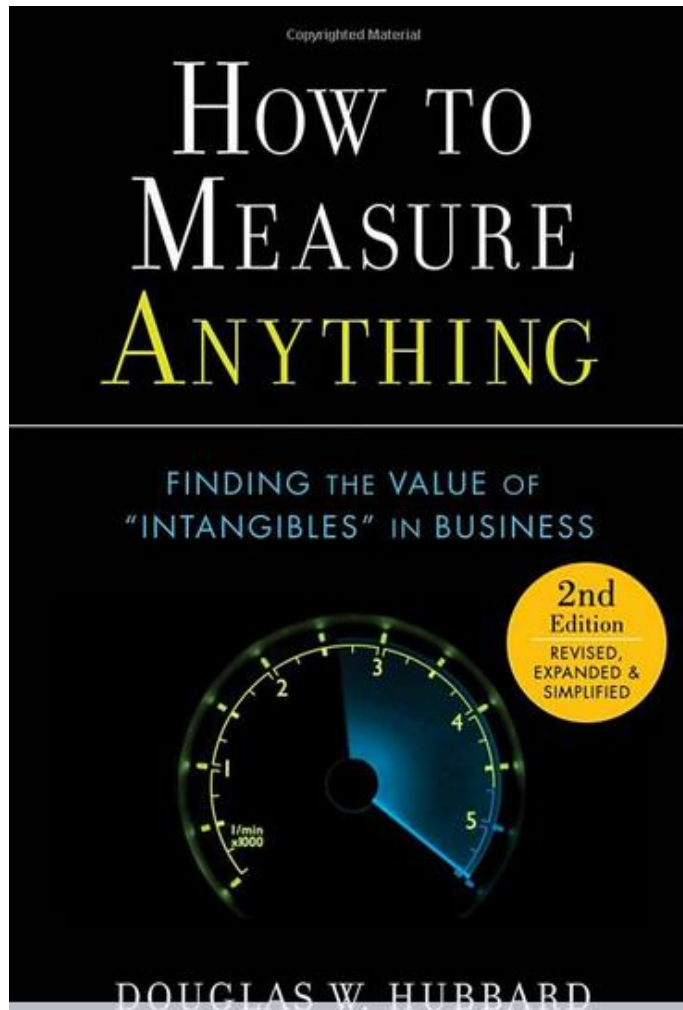
An overview of the Flexible Contract (part 1)

- **Modular delivery** – To increase contractual flexibility.
- **Outcome-based delivery** - The supplier is free to develop the optimum solution within the constraints to deliver the target outcomes which will achieve the business objectives:
 - **Business objectives**– The opportunity(s) to address and/or the problem(s) to solve and how they will deliver tangible value to the customer.
 - **Target outcomes** – The business results aligned with the business objectives that the customer wishes to pursue. These must be objective and either quantified or qualified.
 - **Constraints** – The constraints outside of which the solution must not deviate.
 - **Options** – Potential solutions which facilitate measurable progress towards the target outcomes.

An overview of the Flexible Contract (part 2)

- **Outcome-based metrics** – Any potential solution must be measured against the target outcomes.
- **Outcome-based fees** – At least part of the fees should be payable on the achievement of target outcomes.
- **No contractual sanction if the outcome-based metrics are not achieved** - It is an empirical process to explore whether the target outcomes are achievable and when enough has been done to achieve them.

How to measure anything



“Measurement is a quantitatively expressed reduction of uncertainty based on one or more observations.”

Douglas Hubbard, 2010

“A problem well stated is a problem half solved”

Charles Kettering (1876-1958)

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

Warren Buffett

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Pros and cons of the Flexible Contract

- Pros:
 - A structured approach for focusing on the customer's strategic plan
 - The creation of shared goals helps to align the interests and motivation of the parties
 - The supplier is incentivised to achieve the target outcomes in the most cost-effective way
 - Outcomes are less susceptible to change than output
 - The parties can learn rapidly what works and what doesn't by measuring progressively the outcome delivery
- Cons:
 - Lack of familiarity
 - Outcomes are not as straightforward as other contract metrics and require some training

Characteristics of Agile

Characteristics \ Contract	Shorter development paths	Velocity-based	'Agile methodology'	Flexible Contract Model
Evolutionary and emergent solution				●
Experimental approach				●
Fast feedback loops / learning cycles	●			●
Rapid response to embrace changes	● ½	● ¾	● ½	●
Collaborative relationship				●



Thank You!

Susan Atkinson
Keystone Law

susan.atkinson@keystonelaw.co.uk