

CAPCO

MODERN DELIVERY AND TOP-DOWN BUDGETING

HOW TO STEER AN ENTERPRISE AGILE TRANSFORMATION



The pressure of implementing a scalable agile delivery model is nothing new for banks. It has become a question of when and how to start the change — resulting in many transformation initiatives around the globe and across the financial industry. Key drivers to embark on such an enormous effort are improving **customer centricity**, faster **time-to-market**, and operating **cost reduction**. Common success stories of implementing effective agile delivery models include UX/UI improvements in mobile banking applications, faster reaction to ever-changing compliance requirements (e.g., sanction lists), and economies of scale from integration of IT and operations in cross-functional teams thereby reducing overhead. These success stories have put modern delivery on the agenda of every financial institution.

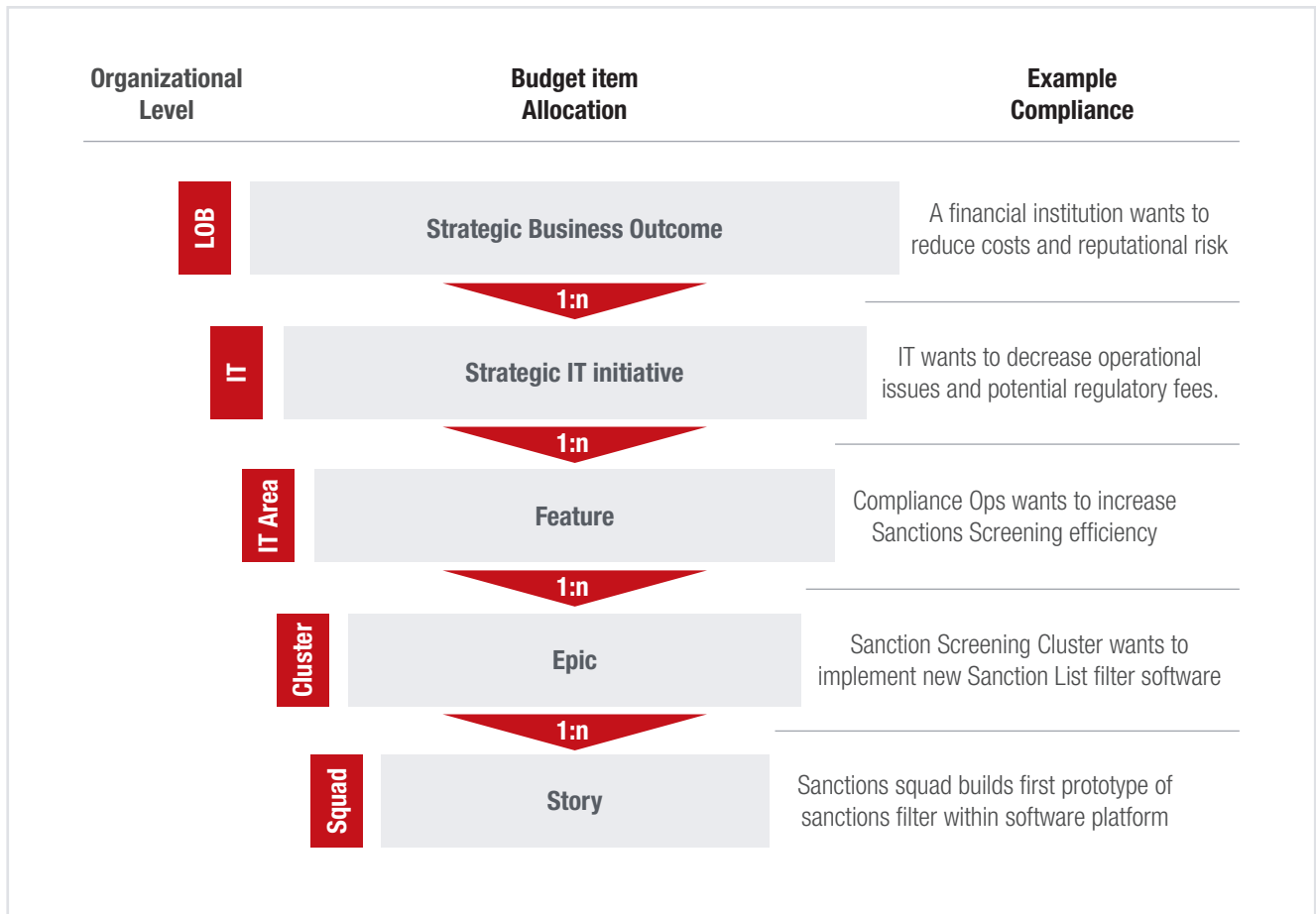
There are many common challenges we have observed in financial services during the evolution from a traditional waterfall model into a fully agile enterprise. There have been cultural challenges, suitability of technical infrastructure, right sizing governance and reporting structures — just to name a few. There is plenty of literature on how to tackle those topics, but in practice we observed one game-changing practice helping to overcome many of these pitfalls: Top-down budgeting.

So **what** do we mean by top-down budgeting in an agile transformation context and **why** is it such a crucial factor?

TOP-DOWN BUDGETING IN THE CONTEXT OF MODERN DELIVERY

In every successful enterprise initiative, the key step is linking technical features to a corresponding business strategy or outcome. This connectivity naturally follows a 1:n logic with many features and capabilities enabling a single business outcome. It is, therefore, critical for effective allocation of budget, resources, and time to have a clearly defined strategy with quantifiable, measurable business outcomes. For each enterprise-wide strategic outcome, there may be multiple IT related initiatives. These IT initiatives then trickle down into features for specific areas, Epics for a fleet or train, and eventually to stories for an individual team (note: terminology may vary by firm or framework used). Each organizational level therefore has a dedicated budget artifact, and each technical feature is — via a logical hierarchy — linked to a strategic outcome.

This trickle-down logic must be accompanied by a clear governance structure. Dedicated budget-responsible functions on each level and an associated operating cadence are critical for success. The setup must combine the flexibility of an agile structure without senior leadership sacrificing organizational control and decision transparency. The lowest levels (Agile Fleets/Trains and Squads) have full prioritization power over technical stories and epics while the highest level (senior management) can still maintain clear connectivity between current and future technical features to strategic outcomes. This governance structure needs to be clearly defined to ensure that each level is committed to streamlining decision making and aligned to enterprise strategic outcomes. This is summarized in the below picture.



IMPACT OF TOP-DOWN BUDGETING ON AGILE TRANSFORMATION SUCCESS









To ensure an agile transformation eventually leads to successful outcomes, reimagining the process by which funds are allocated to initiatives across the organization must lead the way. Allocation of funds indicates influence, authority, and control – of which every senior leader is highly aware. Therefore, the budget allocation process is usually prioritized and carefully executed by the leadership team. Its outcome drives the strategic focus of an organization's book of work in the upcoming months or even





years and is a major contributing factor to the focus and energy behind enterprise agile enablement. If the top-down allocation of company-wide budget is not directly tied to an agile delivery and operating model, the structure will become duplicative and administrative for middle management. In essence, if budget allocation is still based on the 'old ways of working', it will create a significant barrier for adoption of the target state agile delivery framework.

As soon as agile structures only hold in 'technology delivery incubators,' key strategic initiatives will run independently thereby manifesting status quo and preventing true transformation. Agile structures, processes, and concepts are then viewed as an additional administrative hurdle as opposed to a modernized, enterprise operating model and change management function. In such a scenario, agility eventually degenerates into an umbrella for software development buzzwords where teams work on agile islands disconnected from the bank's strategic business goals. Tightly integrating the top-down budgeting process with the agile

delivery model therefore significantly increases management buy-in of full-scale enterprise agility.

Besides the challenges of achieving full management buy-in, there are many pitfalls during such a fundamental transformation. Changes in roles, culture, and governance are common examples. The top-down budgeting has not only a positive effect on management buy-in, but also positively influences those other challenges as summarized in the table below.

Common challenges during Agile Enterprise Transformation	Impact of Agile budgeting on challenge	Description of impact
Agile delivery structure in laboratory and not taken seriously across divisions and levels		Top-down agile budgeting increases management buy-in for new structure
Standing governance not agile-ready		Full top-down budgeting introduces new modern governance structure across the firm
Underestimation of the cultural change		Budgeting process emphasizes the importance of new structures encouraging people to change
Building the organization "around" existing people not fully leveraging agile structures		Budgeting process gives full transparency of resource consumption across agile organization
Integration of vertical functions (e.g. HR, Legal, Risk)		Budgeting process gives transparency to interface functions, but does not operationally include them
Management fears loss of control by letting squats organize themselves		Budget allocation gives management full transparency of resource consumption
Middle management fears loss of power as higher & lower management are strengthened		Role clarity and functional accountability is increased in the new governance model
Technical foundation not agile-ready		Budgeting process helps to prioritize improvements across technical applications during strategic planning

Common challenges during Agile Enterprise Transformation	Impact of Agile budgeting on challenge	Description of impact
Qualification/ training level of employees		Agile budgeting process helps employees to start thinking along the new structure
Time-consuming negotiation with committees, workers council, stakeholder groups, etc.		Restructured budgeting process given transparency to both delivery and transformation costs
Agile Enterprise model to be adjusted for special requirements (e.g. Regulatory requirements)		Agile budgeting process is flexible to account for special requirements in regulatory driven areas
Constant communication throughout the entire endeavour shrinks after kick-off		Communication of new funding process is a key milestone in the Change Management process

CONCLUSION

Enterprise agile transformation in and of itself already poses many challenges to even the most adaptive organization. This makes it particularly important to view a top-down budgeting process as a facilitator to mitigate existing challenges rather than simply becoming another topic to address during transformation. Implementing a new budget allocation process necessitates 'going all in' on enterprise agility by ensuring full management buy-in and eliminating the possibility of a shadow hierarchy or parallel execution structure.

A capable partner can help banks implement top-down budgeting when performing an enterprise agile transformation. The right partner will provide broad agile coaching and transformation leadership, deep industry knowledge, and significant experience in supporting organizations along their transformation journeys. Together with such a partner, banks integrating a modern delivery framework with a top-down budgeting structure will unleash the full potential of enterprise agility.

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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