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**Abstract.** The relationship between software engineering practices and agile fundamentals are explored. The contents of the *Agile Manifesto* state several principles such as a focus on working software, customer satisfaction, and simplicity among others. This paper explores how agile creates value at a fundamental level by introducing the capability for the organization to take continuously decisions, which are modelled as options. And how this additional value can be eroded by having deviation on classical software engineering parameters, such as Cost of Poor Quality or Phase Containment of errors.

Additional focus on traditional software engineering best practices are proposed as the best way to achieve the benefits of the Agile paradigm is by combining it with mature engineering practices. Those practices are well known in the industry and academia. There are different sources that can be searched like SWEBOK and CMMI. As CMMI is organized in maturity levels the model can guide the engineering practices adoption.

**Keywords:** Agile, System Modelling, Software Engineering, Real Option Value

## 1 Background

Given the known problems of traditional software development such as massive delays, products that did not fulfill its purpose adequately after years of development and cost overruns, a group of pioneers thought of a radical paradigm shift. The traditional paradigm tries to establish the requirements comprehensively at the beginning of the project, whose duration is fixed, and then to estimate, based on the development plan, the effort, the necessary resources, and the schedule to be fulfilled.

There are multiple examples of failure, delays, and problems in such paradigm. In the new paradigm (Cockburn, 2007), as shown in Figure 1, a fixed time window is established, a small team of developers is organized and functionality is estimated, with the permanent help of the "owner" of the requirements providing the necessary sponsorship.

Agile methods are based on values and principles that are expressed in the Agile Manifesto (Beck, et al., 2001) (Duncan, 2019):

*"We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:*

- *Individuals and interactions over processes and tools*
- *Working software over comprehensive documentation*
- *Customer collaboration over contract negotiation*
- *Responding to change over following a plan*

*That is, while there is value in the items on the right, we value the items on the left more. "*

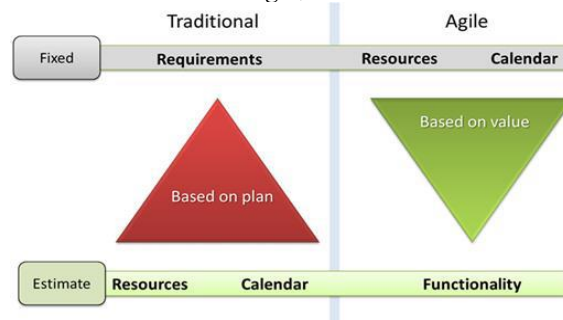


Figure 1 Agile conceptual modeling (Morse, 2012)

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2

The manifesto is complemented by 12 principles that highlight fundamentals such as customer integration in the development process, ownership by the entire team of everything that is produced, and a sustainable pace of work.

### *Agile implementation landscape*

Despite receiving XP most of the bibliographic attention, Organizations are increasingly focusing their attention on the agile methodology called SCRUM (Schwaber, et al., 2013), which addresses the problem of the evolutionary development of applications; this problem represents a significant part of the resources of the software development industry, which explains much of the interest in this methodological approach. The SCRUM methodology is shown schematically by Figure 2.

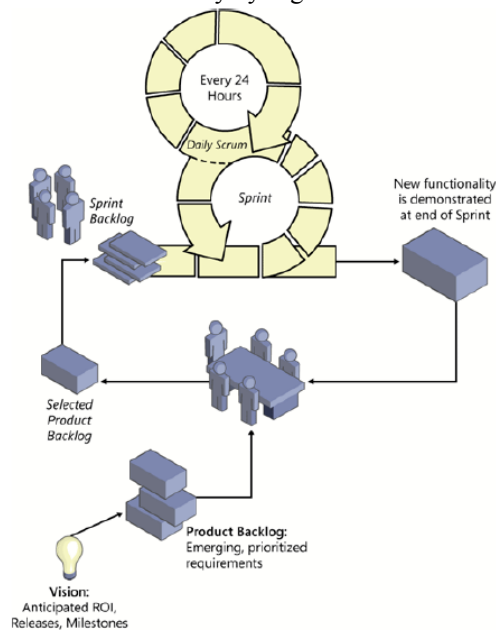


Figure 2 Agile (SCRUM) typical cycle (Schwaber, et al., 2013)

The requirements to be developed, called "user stories", are divided into groups according to their relative priority and then implemented in cycles of relatively short duration with fixed allocation of effort (from two weeks up to two months but with preference to the shortest, using teams from four to eight members approximately) called "sprints". The tasks are organized in the team in such a way that the assignments and priorities are reviewed daily in a brief meeting called "daily scrum". In this approach, the main Manifesto criteria are followed by obtaining incremental partial releases of the product under development. Teams are encouraged to embrace a reduced set of metrics such as the *velocity*, amount of work the team can tackle at the end of the sprint, and some measure of the remaining backlog but little encouraging is made to collect, analyze and manage other metrics related to the process performance (Kunz, et al., 2008) and/or product quality.

The evidence generated by industrial experience is consistent in showing that, by embracing the roadmap and committing the necessary investments to formally deploy the SCRUM methodology, key aspects of the deployment of mature process practices are addressed at the same time.

In this sense, SCRUM has been successfully compared against the requirements to be met in order to achieve an evaluation under levels 2 and 3 of the reference model SEI-CMMI™ (Alegria, et al., 2007) (Fritzche & Keil, 2007) (Shuterland, et al., 2008) (Turner, et al., 2002) (Glazer, et al., 2008) (Fritzche, et al., 2007) demonstrating that rigorous execution satisfies most of the objectives necessary to obtain these levels; the few process areas not directly covered, by not being required by SCRUM, are in practice a requirement for the correct performance of an organization dedicated to the construction of software, such as configuration management practices (Appleton, et al., 2005), which should be adopted anyway. Maller

(Maller, et al., 2004) discussed a map where the requirements for an organization to operate at SEI-CMMI™ Level 5 can be achieved by using Agile in general and SCRUM in particular. Other authors highlight the adaptations needed to perform SCRUM with geographically dispersed off-shore teams (Vishal, et al., 2007) (Banerjee, et al., 2011) (Sauer, 2005). Since then, practical experience in Argentina on several organizations achieving SEI-CMMI Level 5 using agile development as the main methodology has been fulfilled (Mendarozqueta, et al., 2014), all authors has been academically and professionally involved in such endeavor at different organizations.

For the purposes of this paper, this experience provides the conceptual framework to assume that an organization that deploys SCRUM embraces most of the generic and specific practices required by levels 2 and 3 of SEI-CMMI™ (Marcal, et al., 2008), and therefore can aspire to its benefits. This factor is particularly attractive given the relatively low organizational effort and investment needed to deploy and institutionalize SCRUM compared with other methodological alternatives.

Organizations are then naturally willing to grasp the perceived value of performing software projects using agile methods in general and SCRUM in particular (Schwaber, et al., 2013). Mukker discussed some typical metrics obtained on evaluated projects (Mukker, et al., 2014) demonstrating ways to deploy excellence and improvement paths into an existing SCRUM practice. However, the value might be elusive to obtain. The media reports a survey where an estimation that 12% of the projects fail completely and as much as 1/3 of them are unable to fulfill all the project expectations (Ismail, 2016) (Bhasin, 2012). Among the reasons geographical dispersion, culture issues, CIO's ability to bring up the change into the organization, lack of planning and architecture issues. About 2/3 of the project failures can be accounted to technical reasons and architecture mismatches. Miller (Miller, 2013), on a PMI sponsored conference, identifies as reasons for failure the lack of application of well-known disciplines, usually associated with Software Engineering best practices, driving projects into failure patterns usually associated with more traditional methodologies; in particular, lack of backlog management, improper defect management, configuration management issues, and team skill deficiencies. It's a matter of interest to preliminary explore strategies to avoid such project failures or to mitigate them into a healthier balance between available resources, calendar, functionality delivered and projected value of the project.

Although the bibliography shows consistent reports of success in the application of agile methodologies in general, and SCRUM in particular, to the solution of projects of different sizes and complexities, there are very few research efforts into addressing the evaluation of the value contributed by the methodology, being its application based primarily on intuition and obtained empirical results reported by the same organizations, especially in small and medium enterprises (Caballero, et al., 2011).

Missing the value perspective into the management of a SCRUM effort might lead for causes of value destruction to creep excessively into the project, up and beyond the point where the value lost outweighs the value gained by the methodology.

The contribution of this article is to explore factors contributing to value creation and destruction associated with SCRUM, and proposing some necessary instruments to begin to address the research question on whether the use of SCRUM derives in greater value for the organization, as well as to explore the conceptual reasons for what happens and some sensible ways to protect it.

By validating the proposal through simulation it is also possible to suggest tentative values for the main parameters involved and to obtain the preliminary magnitude of the expected results.

## 2 Systemic modeling of the Agile methodologies value

In his landmark book (Weinberg, 1992), Gerald Weinberg states that a systemic view and system modelling for software management and steering patterns, is needed for coping the traditional software development problems.

A previously developed model to explore the value of SCRUM (Colla, 2012) (Colla, 2016) will be adapted and used to preliminary assess the impact from the performance of process parameters usually

4

recommended by Software Engineering best practices such as the productivity, cost of poor quality, avoidance of injecting value into defects and phase containment of errors. The assumption using to model this scenario is that the usage of SCRUM creates value thru two different, albeit complementary, mechanisms.

The adoption of mature practices preserves the value of the project by minimizing deviation with the business scenarios in terms of cost and calendar. This aims to achieve the overall balance of income and expenditure as well as optimizing other organizational and intangible factors typically factored into the opportunity cost used to discount cash flows, in this way the value can be measured by using the *Net Present Value* (NPV) of the project flows. The analysis tries to grasp the value for the organization from an investment standpoint as it considers the cash flow and the risk to materialize them from an a-priori point of view.

Simultaneously, the possibility to prioritize requirements over time in a way that enhances almost continuously the value proposition of the organization configures options, which can be valued using the Real Option Valuation methods (Brealey, et al., 2016) (Mun, 2002).

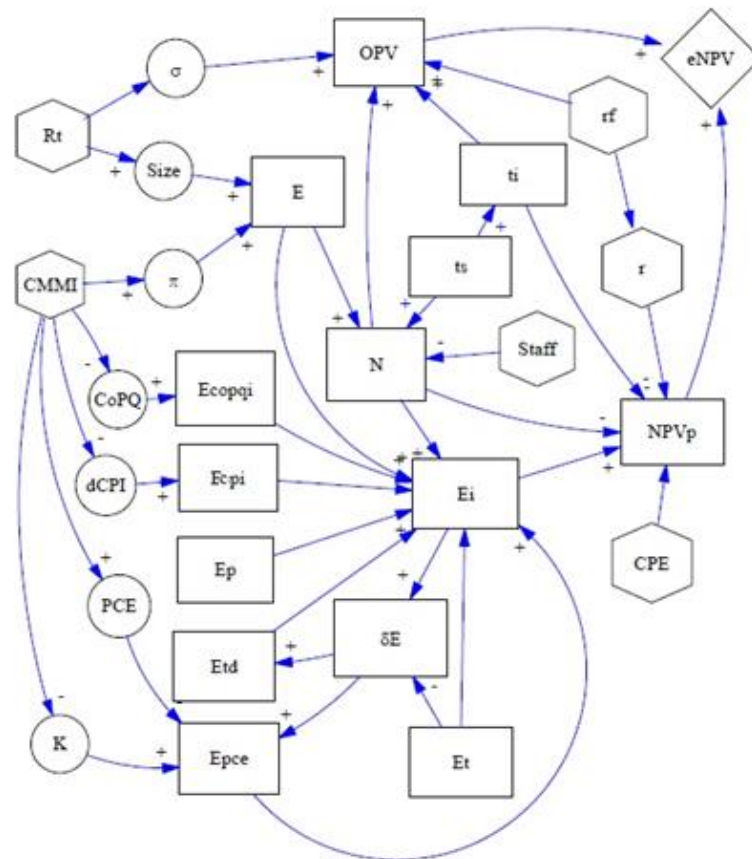


Figure 3 Systemic cause-effect model diagram

A systemic model has been adapted to study the problem discussed in this article (see Figure 3) from previous efforts (Colla, 2012) (Colla, 2016) to focus on system dependent variables of interest of the scope of this article and avoid the complexities of the full model.

The overall relationship among systemic variables can be expressed as a cause-effect model such as the one seen in the Figure 3 where the two main contributors to the overall value, the Net Present Value (NPV) and the Option Price Value (OPV) are established as dependent variables of several independent variables defined by the industry and organizational context as well as the decisions taken and results obtained during the project execution. The cause-effect model used represent independent variables defined by the organization outside the scope of the model as hexagons, with circles organizational factors represented by some assumed distribution and with boxes intermediate variables with some systemic relation with the rest. Finally, the target utility result is represented as a diamond.

The factors used and the relations assumed on the model will be explained with further detail in the following sections.

### 2.1 Net present value of the project

The *requirements flow* ( $R_i$ ), assumed as independent from the project and defined by the organization context, operational definitions and strategical plans, are subject to a *size* (Size) evaluation; a suitable method can be used in this evaluation to capture both extension and complexity (Matson, et al., 1994) (Hummel, et al., 2013). SCRUM teams usually use story points with similar purposes (Mahnic, 2012). Typically, the technology used, the business complexity, the tools involved and the detailed technical methodologies used configures an *organizational productivity* ( $\pi$ ) which can then be used to estimate the overall *project effort* ( $E$ ) needed to satisfy all requirements of a given scope. The productivity is strongly related to the level of performance maturity exhibited by the organization, which is measured by using the SEI-CMMI<sup>TM</sup> reference model (Clark, 2000). The organization decides then on the *staff* (Staff) which would allocate to address the requirements and the typically fixed *extension of the sprints* ( $t_s$ ). With this information, the *number of sprints* ( $N$ ) and the *maximum effort* ( $E_i$ ) of each one can be planned.

A suitable correlation between story points, the standard size and complexity measurement used in SCRUM planning, and size is assumed to be computed by statistical methods. The CMMI level (CMMI) is factored then as an organizational decision on the level of maturity to operate which will influence most of the process performance factors. For the purposes of this work, it's assumed that the proper usage of the SCRUM methodology levels the organization with a maturity equivalent to SEI-CMMI<sup>TM</sup> level 3.

Once a given sprint is started as much *technical effort* ( $E_t$ ) as possible is allocated to transform requirements into actual code. This amount is limited by several factors though, for a given technical context, the organization would generate errors as the code is written which will be identified as defects when the code is tested, a proportion of the effort needed to rework can be given by the organizational *cost of poor quality* (CoPQ), which is a factor capturing which proportion of the technical effort is actually applied *rework effort* ( $E_{copq}$ ), Knox (Knox, 1993) discussed a strong correlation between the increase in the maturity level as measured by the SEI-CMM<sup>TM</sup> model (Humphrey, 1989), (Team, 2010) and the reduction of this factor.

Variations between planned and actuals can be evaluated using the ratio between both for schedule and cost, named *schedule performance index* (SPI) and *cost performance index* (CPI), which are typical project management measurements. Both values go below one when actuals are smaller than the plan (usually a good condition) and above one when otherwise (usually a condition to avoid). Lawlis (Lawlis, et al., 1995) studied the correlation between the maturity level of an organization, also measured using the SEI-CMM level, and the distribution of both the SPI and CPI. The distribution goes closer to the unity and less disperse as the organization maturity goes higher meaning that, as the organization operates on a more mature way, it's less likely to miss the project planning parameters.

The usage of SEI-CMMI<sup>TM</sup> is used with the purpose of seizing the results of applying sound Software Engineering practices, the SEI-CMMI<sup>TM</sup> model can be used by an organization as a roadmap to implement them and grasping the benefits in terms of maturity, without necessarily embrace a formal assessment roadmap.

Therefore, as estimated and actual technical effort vary, additional *effort variations* ( $E_{cpi}$ ) needs to be accounted for. As the team size is fixed, the amount of *effort available* ( $E_i$ ) on a given sprint is fixed and quite inflexible, so essentially, all unexpected factors erode from the team capacity to deliver actual technical work. Therefore, as the sprint is finished, the planned scope of technical work might not be completed and pending rework is left to be satisfied at some future sprint. All effort estimated to complete the planned scope and execute the identified rework and other activities carried over future sprints is called the *technical debt* ( $E_{td}$ ) of the process; and it is assumed that it represents prioritized business requirements that need to be added to the backlog and addressed at the earliest opportunity. Two additional factors need to be accounted for. In one hand, the capability of the team to spot all defects is limited by the methodologies used; the maturity level of the organization as measured by the SEI-CMMI<sup>TM</sup> (Team, 2010) model is reported to significantly improve this capability (Goldenson, et al., 2006) (Hallowell, D.L., 2003) but it never achieves 100% of all defects A factor named *phase containment of errors* (PCE) can help to identify the proportions of defects which can be identified as part of the normal verification and validation activities of a given

6

cycle. This concept, which is part of the management of life cycle models in classical Software Engineering, is also applicable to SCRUM. Although the notion of a phase might seem strange in the context of an agile, continuous, lifecycle, a factor equivalent to PCE is introduced, which is sometimes called *iteration containment effectiveness* (ICE) as identified by Sandu and Salceanu (Sandu, et al., 2018). This factor reflects the fact that, in any given sprint, in addition to the faults detected and solved within the sprint, there are defects that were introduced in previous sprints and remain undetected till a future sprint. For the remaining of this paper, we will keep the classical PCE denomination for the sake of clarity. Therefore, the defects that are passed undetected from one sprint to the following ones would eventually need to be addressed at a greater cost, modelled as a *cost increase factor* (K), that if were detected in the same cycle where they were introduced, following a classical value model, would have added to the defect waste (Vijay, et al., 2014), the effort required is considered in the model as the *effort to address escaped defects* ( $E_{pce}$ ). Lee & Xia investigated (Lee, et al., 2010) some of the relationships among different factors which are used to perform an initial calibration of the model. Finally, the extra effort introduced by different venues would require the organization to either cut the original scope or to extend the project. Assuming the latter, additional *planning effort* ( $E_p$ ) will be needed to perform additional ceremonies related to the prioritization of the backlog for the additional sprints introduced to complete the scope originally planned with the planned level of defects. For any given sprint, the total fixed sprint effort would then represent the equilibrium of all factors with any excess effort to be added at the next sprint as technical debt to be addressed as given by Ec. 1 which represents the sum of all aspects requiring effort application during a given SCRUM cycle.

$$E_i = E_t + E_{copq} + E_{cpi} + E_p + E_{pce} + E_{td}$$

Ec. 1

In general terms, only the technical effort adds value to the business, as it transforms requirements into code, delivering value for the organization when executed. Therefore, the rest of the terms, no matter how necessary they are, can be assumed as destroying value and a good management practice would be to eliminate them, and if not possible, to substantially reduce its amount to the minimum. The overall cost of the project would be the aggregation of the costs of each sprint at its *finalization calendar* ( $t_i$ ), typically measured from the start of the project to help account for financial evaluations. As the value fades away when pushed into the future, because of financial considerations it can be transferred to the start of the project as the *present value of the cost* ( $C_{PV}$ ) which is obtained by discounting the resulting cash flows involved at each sprint by the *opportunity cost* ( $r$ ) which represent both the time premium and the risk premium in equilibrium for the nature of the organization's operating context as given by Ec. 2 which is just the cash flow produced by the effort expended on a given SCRUM cycle discounted at the opportunity cost used by the organization (Brealey, et al., 2016):

$$C_{PV} = \sum_{i=1}^n \frac{CPE \times E_i}{(1+r)^{t_i}}$$

Ec. 2

The average *cost per engineer* (CPE) is assumed constant for an organization and used as a suitable conversion factor between effort and cash flows, assuming the majority of the costs are directly driven by the manpower, which usually is the case.

To factor the project results, the expected business return after the implementation is also needed. This value is very hard to model because it might contain both tangible and non-tangible factors, however the organization should be assumed to be using a rational decision process, and, as such, it would expect a present value of the business results to equal or exceed those of the costs, perhaps with some *investment premium* (G%), so referring all values to the start of the project using the present values the *net present value* (NPV) is obtained as Ec. 3 which is a resort to express the net present value of the project without discussing the complexities of the different business models from the income perspective retaining the perspective of the cost expenditure perspective only.

$$NPV = (1 + G\%)C_{PV} - C_{PV} = G\%C_{PV}$$

Ec. 3

In the extreme, which is the present value of expenditures and income to be equal, the condition  $NPV=0$  is obtained and can be considered as the equilibrium for the project to be financially viable and therefore interesting for the organization.

## 2.2 Real Option Value of the project

Options are financial instruments which attempts to capture the value obtained from retaining the right to defer decisions for a later moment; those decisions might be to continue, alter, or abandon a given investment; the value of the options is increased when the project is performed under uncertainty of the outcome of one or more factors driving the results; the options then model the inherent value of retaining the possibility to alter the project outcome by managing the factors and taking decisions while the associated activities evolve. Options are typically defined by the *initial value* (spot price), the *exercise value* (strike price), the *option class* (European or American styles), and their *finalization schedule*. The pure financial instrument can be associated to actual projects applied outside a financial context, in this case are called real options and allow to defer decisions on a project, implying to abandon, grow, reduce, contract or perform management decisions in general. Either class options are valuable when uncertainty exists and, as a result of it, the outcome of the project might vary.

The option value differs from the inherent risk associated with an operation, which is best captured by the opportunity cost at which the organization discount their cash flows (Hung, et al., 2010), therefore, when the uncertainty is eliminated, the value of the option converges to zero, and the global value of the project becomes the one predicted by the net present value.

Black & Scholes (Black, et al., 1973) proposed a model to evaluate the value yield of an option; this method is best used on financial applications but can be extended to any kind of project. The model assumptions derive on it to be best suited to evaluate a continuous decision process where actions can be taken at any arbitrary continuous timeframe. When the decisions can be taken at discrete intervals, such as the end of each sprint in the case of SCRUM, the Lattice method (Mun, 2002) is preferred; the analysis performed can be seen at Figure 4

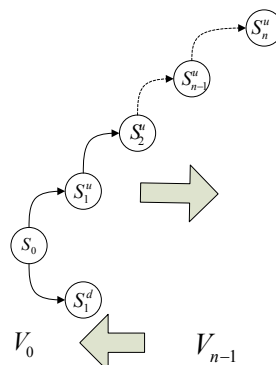


Figure 4 Binary decision tree (Lattice frame)

The *option pricing value* (OPV), which is the value of the option, is computed recursively and represents the total value added to the project by the management performed during the execution. To compute it, a binary tree is created starting from an initial stage ( $S_0$ ), and branching as each decision can be taken, the overall project then can be visualized as a given trajectory within the tree. In the case of SCRUM, each node can be assimilated as the planning ceremonies at the start of each sprint where the priorities of the activities to be made are based on the updated business context. At each node a decision might push an “*ascendant*” (u) trajectory or a “*descendent*” (d) one, representing the values associated with success or failure. At each node the ascendant or descendent values can be obtained by Ec. 4, Ec. 5, Ec. 6, Ec. 7 and Ec. 8.

8

$$Ec. 4 \quad S_{i+1}^u = u \cdot S_i$$

$$Ec. 5 \quad S_{i+1}^d = d \cdot S_i$$

$$Ec. 6 \quad u = e^{\sigma\sqrt{\delta t}}$$

$$Ec. 7 \quad d = e^{-\sigma\sqrt{\delta t}} = \frac{1}{u}$$

$$Ec. 8 \quad p = \frac{e^{r_f \delta t} - d}{u - d}$$

The Lattice methodology to evaluate the price of a Real Option Value is standard, due to space restrictions it will not be reproduced here, and can be reviewed at the bibliography (Mun, 2002).

The discrete *time interval* ( $\delta t$ ) is the time between successive opportunities to exercise the option or in general to define a course of action. The *risk free discount rate* ( $r_f$ ) is the time premium component of the opportunity cost and the *process volatility* ( $\sigma$ ) is a non-dimensional magnitude representing the uncertainty surrounding the project outcome, a previous research effort suggested a preliminary value for this magnitude at typical software development projects which will be used in this model effort (Colla, 2012).

Once the exploration of all the nodes of the tree is computed, in a process called *forward propagation*, the tree is traversed in opposite direction in a process called retro propagation, where residual values ( $V_i$ ) at each decision node at the end of the project are computed by the Ec. 9

$$Ec. 9 \quad \begin{aligned} V_{n-1} &= S_n - S_0 & \forall S_n - S_0 &\geq 0 \\ & & \text{and} & \\ V_{n-1} &= 0 & \forall S_n - S_0 &< 0 \end{aligned}$$

Ec. 9

The residual value of each node is computed recursively by traversing backward to all the rest of the nodes including the root ( $i=0$ ) by using Ec. 10

$$Ec. 10 \quad V_{i-1} = (pV_i^u + (1-p)V_i^d)e^{-r_f \delta t}$$

The residual value of the root node ( $V_0$ ) obtained at the end of the computation is the Option Price Value (OPV) representing the value added to the project by the real options made available by the methodology. As typically the OPV would be positive, this can be interpreted as the SCRUM methodology (Rico, 2008) performing at the enabling factor to obtain additional value by introducing decisions opportunities at each sprint, and therefore, allowing to evaluate the opportunity to abandon, execute, or modify at a later time the decisions regarding a given requirement. The value created thru this mechanism can be added to the overall value of the project as originated by the SCRUM approach, then, the *extended value of the project* (eNPV) might be computed as Ec. 11

$$Ec. 11 \quad eNPV = NPV + OPV$$

### 2.3 Model evaluation



In order to take into account the complex factor interaction on a given sprint and the value coupling of different sprints, the results of the model at Figure 3 can be approximated by using Monte-Carlo based discrete simulation techniques. The strategy to implement the model would consider the external and process-dependent factors as random variables obeying an assumed distribution. The results distribution of the target variables can be observed, a qualitative behavior inferred and relations between factors observed and interpreted. The utility function used is the extended value of the project (eNPV). Then, the dependency of the outcome with factors which the bibliography considers as subjects to be managed by the application of Software Engineering best practices is of particular interest of this work, and therefore the correlation among them is inspected with further detail. As such, the influence of the cost of poor quality, phase containment of errors, the additional effort needed to fix escaped defects, the productivity and the planning efficiency are evaluation targets. Other external factors that influence the outcome of the target variables such as Cost per Engineer, opportunity cost or risk-free discount values are assumed as some fair average value to avoid interferences from factors outside the scope of the development project management and thus being of no immediate interest for the analysis. The values of the dataset used can be seen in Table 1.

Parameter	Sym	UM	Min	Me- dian	Max
Size	S	FP	100	300	400
Productivity [Baseline]	$\pi$	Hours/FP	10	12	14
CoPQ[%] Baseline	CoPQ%		5	17	30
PCE Baseline	PCE%		70	80	95
Cost increase factor	K		1	2	3
Planning Effort [%] Baseline	P%		2	5	10
Sprint cycle time	$t_s$	Weeks	2	4	6
Cost Performance Index	CPI		0,95	0,99	1,1

*Table 1 Simulation parameters. All distributions assumed triangular unless noted otherwise. Team Size=8, Cost per Engineer=USD 18/hour, Opportunity cost=10% (yearly), Risk Free Cost=1% (yearly), Investment Margin=10%, Uncertainty Factor=0.12. Size expressed as Function Points (FP). All distributions extracted from bibliographic references corresponding to a maturity level equivalent to SEI-CMMI™ level 3.*

The simulation dataset are extracted from the review of the cases discussed at the bibliography and supplemented by metric baselines at organizations or projects where the authors has been involved. Based on such experiences, the values sound as reasonably representative of a typical development organization. However, other organizations can apply the same model with their own metric baselines to validate the applicability of results and conclusions to their environment.

Several simulation runs are performed using 1000 trials each, a typical outcome of a run produces the results seen at Figure 5 where the degree of influence of several modeled variables over the target utility function is analyzed.

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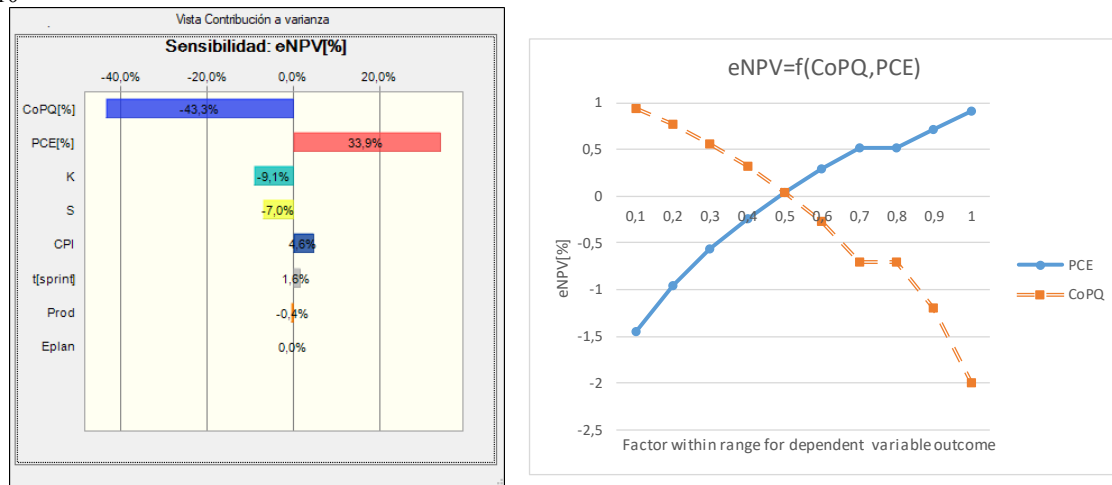


Figure 5 Sensitivity of total value with manageable factors and influence of main contributors

The main contributor to explain the variation of the project extended value is the cost of poor quality magnitude (lower better), followed by the phase containment of errors (higher better). The cost increase factor (K) experienced by repairing defects outside of the sprint (lower better), and the size/complexity of the project (lower better), are listed as relevant contributors. Other variables are observed as well with a lesser contribution to the project performance. From the two main contributors, a variation sensitivity analysis can also be seen at Figure 5. The higher the value of the cost of poor quality proportion within the evaluated range, the bigger the outcome is eroded. Conversely, the lower the value of the phase containment of errors within the evaluated range, the higher is the impact into the value delivered.

#### 2.4 Results interpretation

The identified contributors to the project extended value can be interpreted, if being on the zone of lower contribution, as net value destruction factors; the most relevant being the Cost of Poor Quality followed by the PCE and the cost increase factor K.

The SCRUM value model used as a reference from previous work is by itself an original piece of work in the exploration of possible sources of value from the usage of agile methodologies at large; therefore the adaptation to study the value eroded under the common configuration of technical debts is preliminary assessed by the authors as sound. Furthermore, the conclusions obtained in this work are both consistent with previous usages of the model, and with the practical experience of the authors on a wide variety of projects of different size, industries, technologies involved and complexities.

The additional value provided by the agile methodology, as compared with more classical life cycle methodologies, protects the value of the project to be positive to the organization by providing a larger buffer for value erosion.

This can be seen as a qualitative confirmation on the reason why organizations prefer agile over other methods.

However, if no attention is paid to structural process variables, eventually, the value is eroded to a point that, even with the added value of agile methodologies, the results turn against the organization. The simulation suggests the CoPQ can be in the neighbor of 18% as the upper acceptable limit, and 80% as the lower limit for PCE. Those values are very closer to figures reported by the bibliography (Sandu, et al., 2018) as obtained on successful typical agile projects; therefore, even minimal deviations might push the project beyond profitability.

### 2.5 *Model threats to validity*

Effort has been made to verify and validate the model implementation and execution along with the recommendations made by Sargent (Sargent, 2009). Despite the foundation of the modeling effort being based on previous work, the results need to be considered as preliminary and just with the purpose of gain some initial understanding of the dynamic behavior of the variables involved. Little assumptions have been made over the possible values and distributions of the different variables, those selected are either gathered from the available bibliography, previous modeling efforts, baselines obtained from projects where the authors were involved, and professional judgment about typical values present at projects found in the industry. Further refinement of the relations and values used, needs to be pursued as part of future activities. The base model can be executed with other organizational metric baselines to explore possible outcomes for a different context.

## 3 **Best practices and lessons learned**

The results shown by the simulation, although preliminary, seem to be pretty consistent with the practical experience of the authors in real-world projects of different sizes and complexities where, more often than not, the technical debt increases with the successive sprints eroding customer trust in the new features incrementally delivered, generating schedule overruns at product level, and forcing to add extra effort, and hence cost, in the form of additional sprints whose backlog is mainly composed of defect-correction stories. This kind of situation is against some of the Agile principles, first and foremost the one that states that “Our highest priority is to satisfy the customer through early and continuous delivery of valuable software”. The value of the software is put in question and could actually be destroyed if defects at product-level increase beyond acceptable thresholds. In addition to that, the effort consumed by sprints devoted to defect correction stories are essentially waste, contradicting therefore the Agile principle that states that “Simplicity – the art of maximizing the amount of work not done, is essential”. Author’s experience shows that, in order to fulfill at product level the Agile principle that “working software is the primary measure of progress”, certain practices and metrics borrowed from the plan-driven software engineering processes may be relevant.

In terms of instruments, ways and means to protect value, what the experience shows and the results of the simulation preliminary confirm is that, by large, the Cost of Poor Quality is the main driver in terms of value erosion all along the development cycle of actual software products, especially considering that a typical development cycle normally takes a significant number of sprints. This result is aligned with the classical principle that states, that the cost of fixing a bug increases exponentially trough the development process (Software Defect Reduction Top 10 List, 2001). The second driver in importance is the capability to detect and correct errors in the sprint where they were introduced, which is measured by the PCE metric. Having identified these two factors empirically through extensive industrial experience, and having seen the consistency with the preliminary results generated by the proposed model, the recommendation at this point could be to plan for acceptable ranges for CoPQ and PCE at product level, in the same manner as the backlog is planned, and distribute these figures as partial budgets assigned to successive sprints. At the time of executing the planned sprints, as part of the retrospective, the actual values shall be compared with the planned ones to grasp early enough if the scrum team is in the right track to deliver “working software” or if corrective measures shall be taken, as part of the planning of the forthcoming sprint, before value is destroyed at the product level by the same process that is supposed to create it. The authors believe that the definition and collection of such metrics shall be as agile as the rest of the process, for example identifying the stories where defects from previous sprints need to be corrected and deriving PCE from them, and considering the story points of the backlog devoted to defect correction stories as a measure of CoPQ. In the same manner, as a burndown chart is kept and used as a measure of progress, curves of planned vs actuals of PCE and CoPQ could be kept and used as key elements for product release decisions and for appropriate planning of successive sprints.

## 4 Future work

Further work is needed to validate the model and the proposed practices using data from actual projects. A possible line of work could be to take a small to medium-size project, implement the definition, collection and analysis of the CoPQ and PCE metrics as part of the sprint ceremonies, trying to identify, by means of the model, when value is being created and when is being destroyed, establishing early warning thresholds for the scrum team to take actions. The results, in terms of product defects and development costs, could then be compared with those of similar projects that have not introduced these practices

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