

**COMMITMENT**



*"KEEPING YOUR OPTIONS OPEN SOUNDS LIKE A BAD DATING STRATEGY,  
BUT IN FACT IS A GREAT PROJECT MANAGEMENT STRATEGY.  
IT IS THRILLING TO SEE THESE SIMPLE IDEAS  
TAKE FORM IN THIS NOVEL GRAPHIC NOVEL."*

MARTHA AMRAM  
BESTSELLING AUTHOR OF "REAL OPTIONS" AND "VALUE SWEEP"

*"PROJECT TEAMS OFTEN STRUGGLE TO LEVERAGE "BEST PRACTICES"  
BECAUSE THEY'RE EXPLAINED IN COMPLEX, JARGON-FILLED BOOKS  
THAT ARE DRY, OVERLY VERBOSE, AND BORING. AND THAT'S A SHAME,  
BECAUSE THE PRACTICES DESCRIBED IN THIS ENGAGING  
AND DIRECT STORY ARE APPLICABLE IN ANY PROJECT.  
HIGHLY RECOMMENDED."*

LUKE HOHMANN  
FOUNDER AND CEO OF THE INNOVATION GAMES® COMPANY

*"THESE AUTHORS ARE SETTING A NEW STANDARD:  
BUSINESS BOOKS DO NOT NEED TO BE BORING!"*

HENRIK KNIBERG  
BESTSELLING AUTHOR OF "SCRUM AND XP FROM THE TRENCHES"  
AND "LEAN FROM THE TRENCHES"

*"THIS IMPORTANT TOPIC IS DELIVERED  
IN AN ENGAGING WAY BY TWO PEOPLE  
WHO KNOW THE TOPIC INSIDE AND OUT!  
A MUST READ!  
YOU WON'T BE ABLE TO PUT IT DOWN."*

POLLYANNA PIXTON  
CEO OF ACCELINOVA

# COMMITMENT

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# CHAPTER ONE

THAT'S  
FANTASTIC NEWS  
FOR YOU.

HMMM...  
YES, GREAT.

SO DID  
YOU GET IT  
IN SHARES  
OR CASH?

YES,  
THAT WOULD  
BE LOVELY.



YES,  
YOUR SUIT IS  
STILL IN MY  
WARDROBE.

I'VE HAD IT  
DRY CLEANED  
FOR YOU.

SO THAT  
MEANS YOU  
CAN'T MAKE  
SATURDAY  
NIGHT?

THAT'S  
OKAY.

SUNDAY  
NIGHT? YEAH,  
SUNDAY NIGHT  
IS GREAT.

RIGHT,  
NEED TO GO.  
SOME OF US  
ACTUALLY HAVE  
WORK TO GO  
TO.





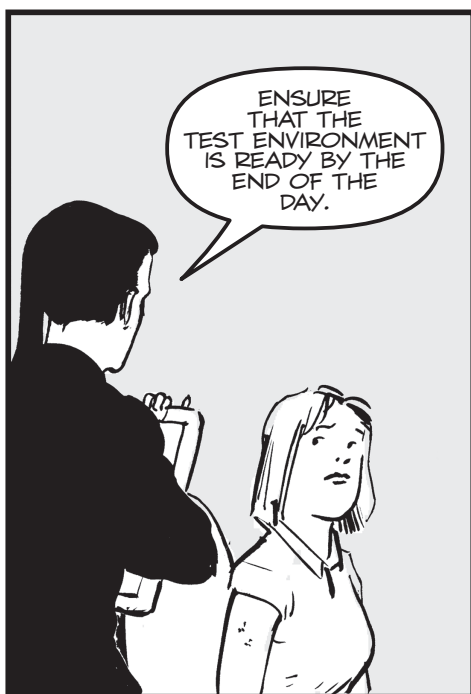








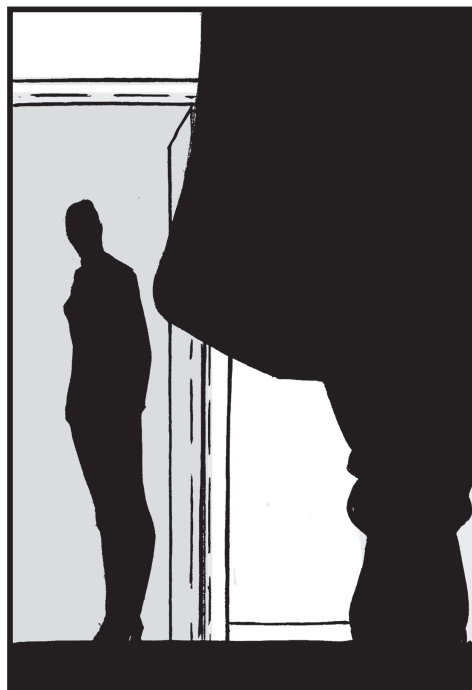
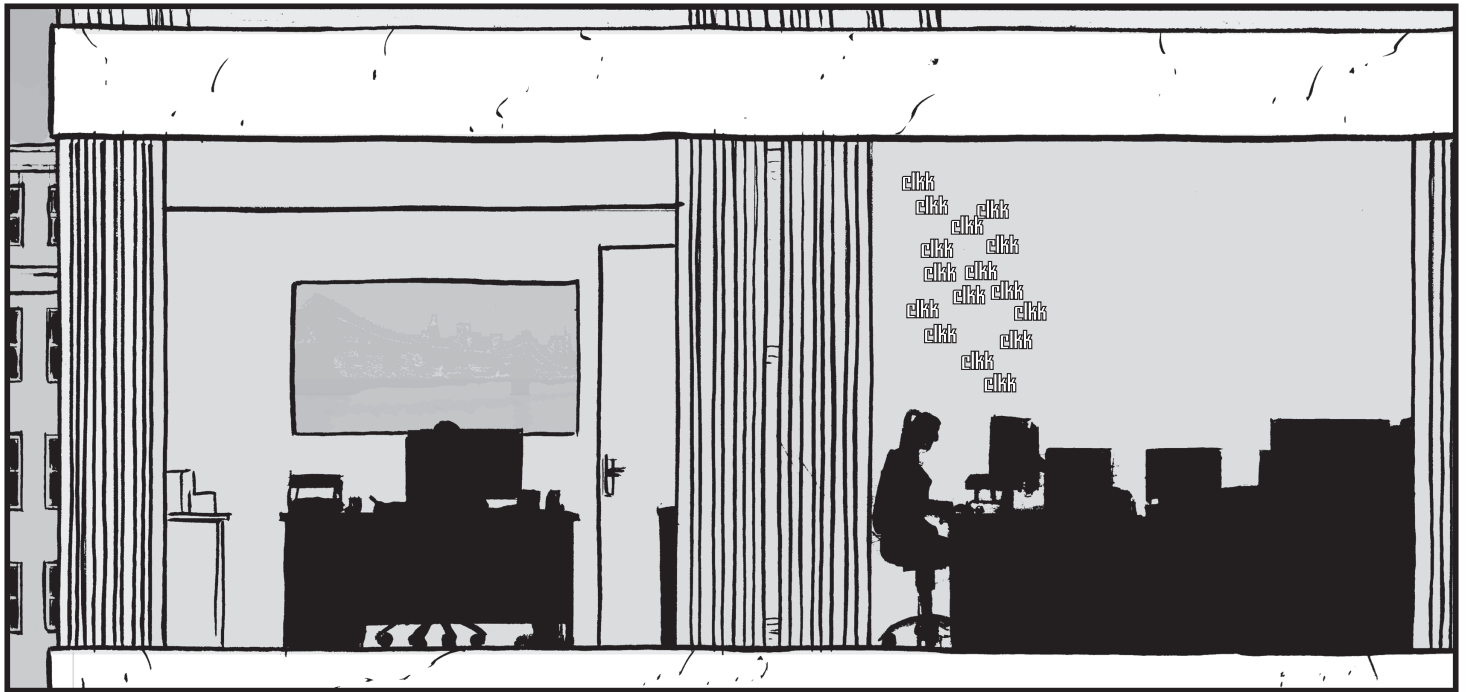


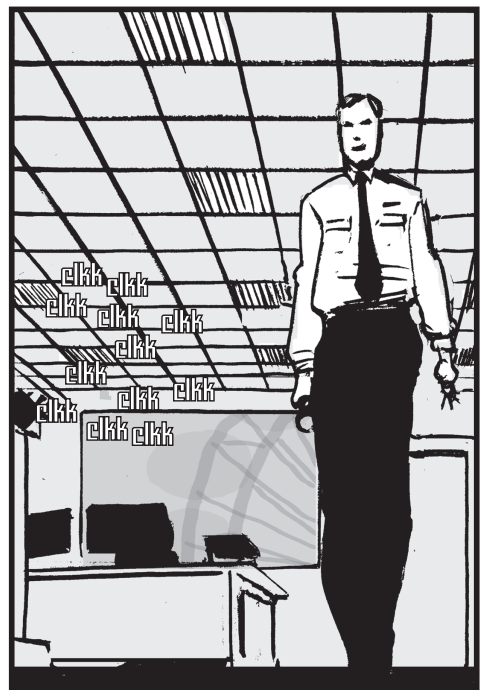
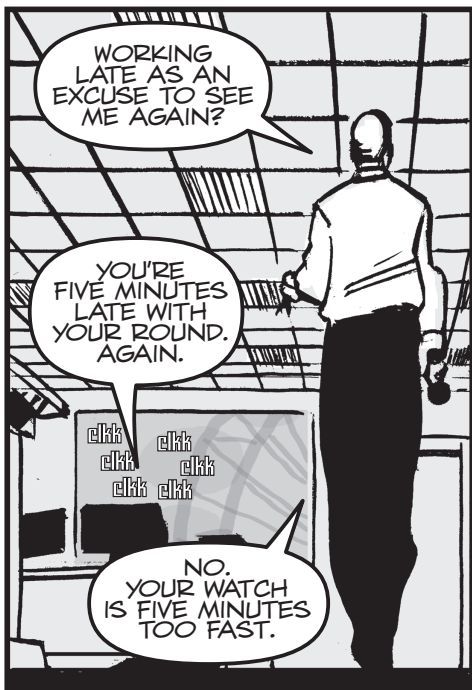
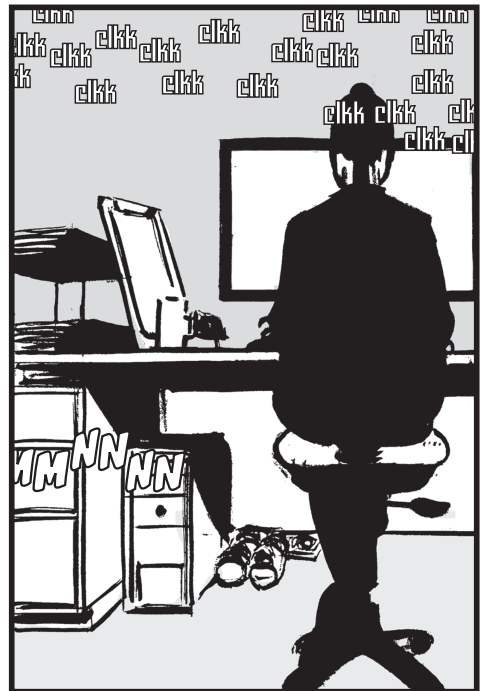
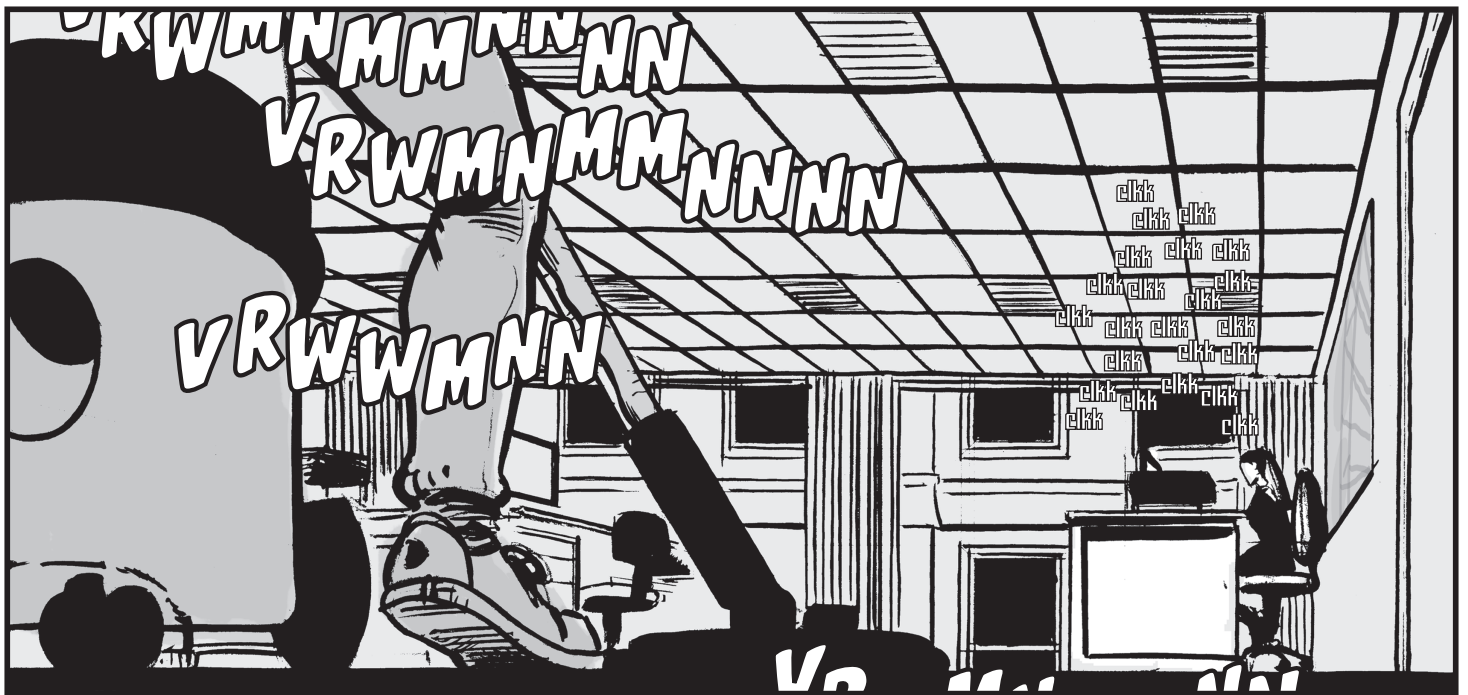






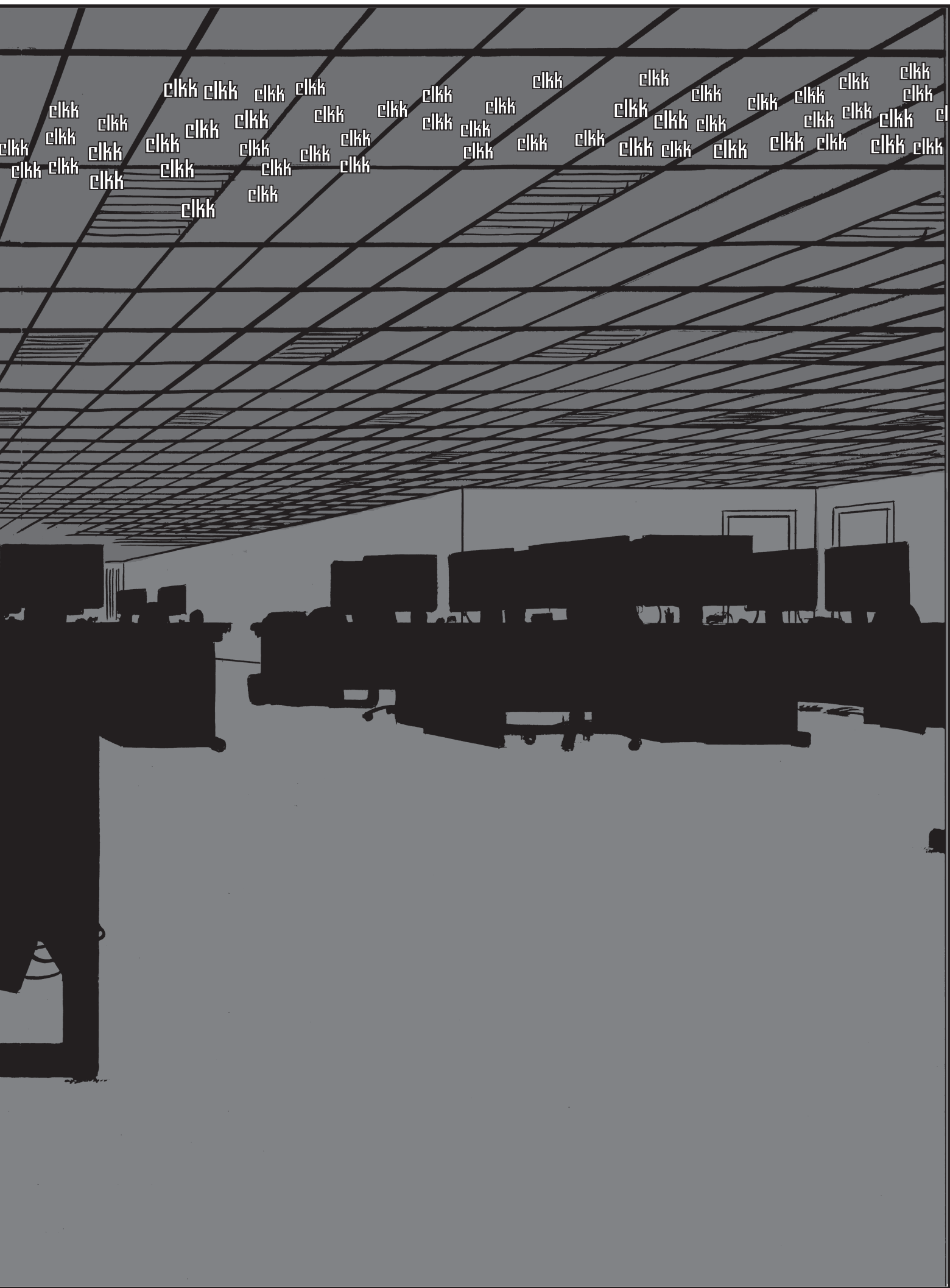


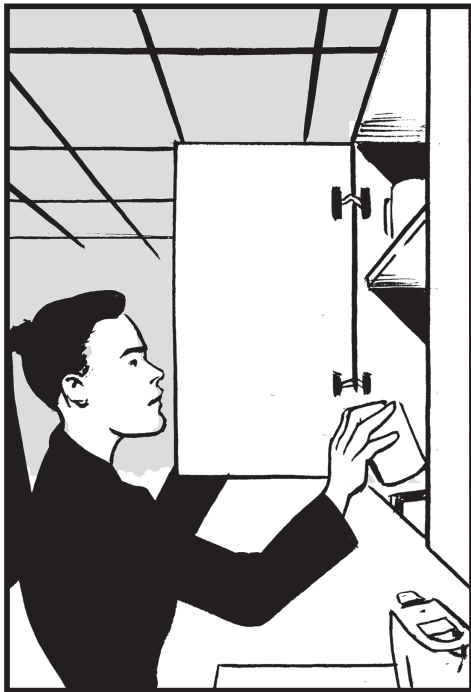


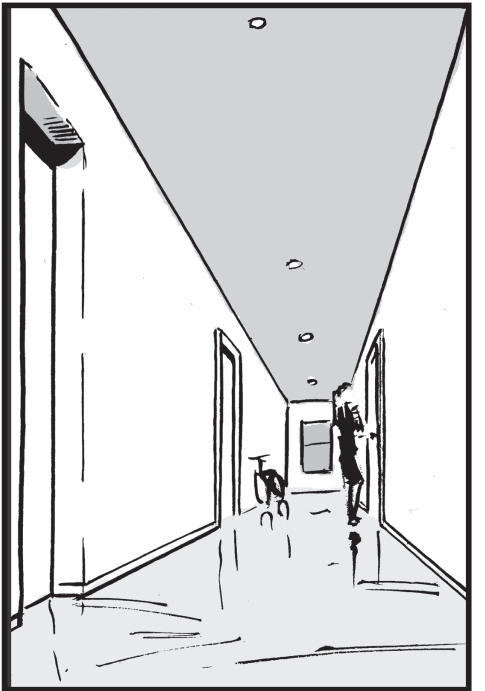




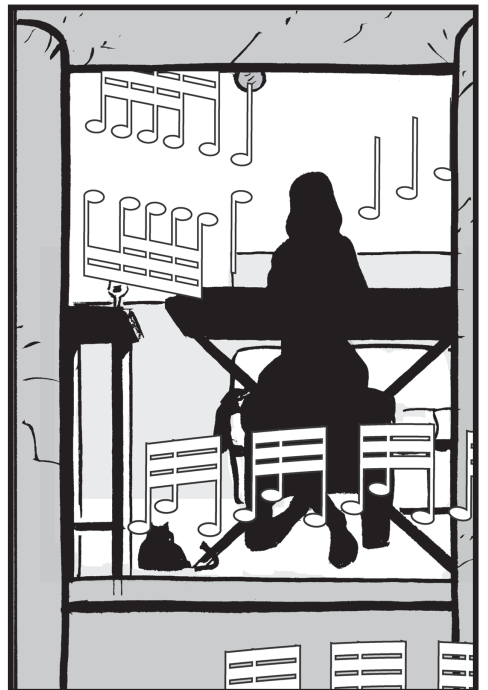
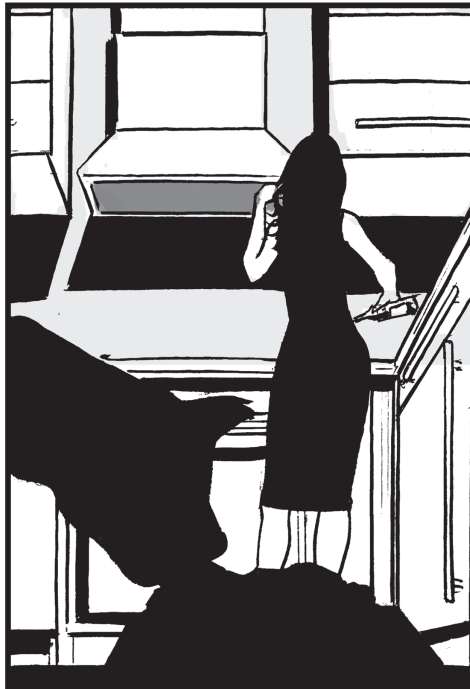


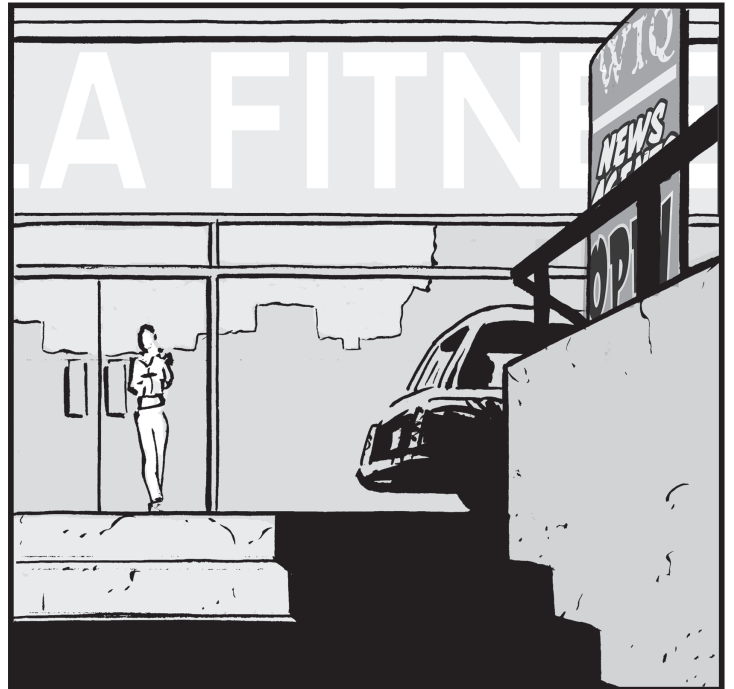
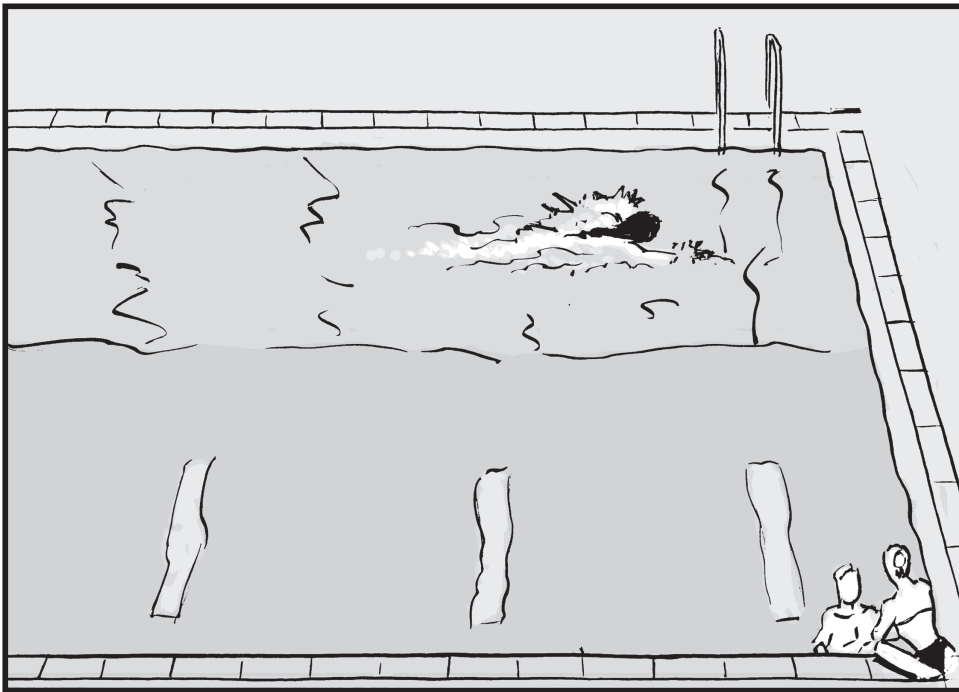






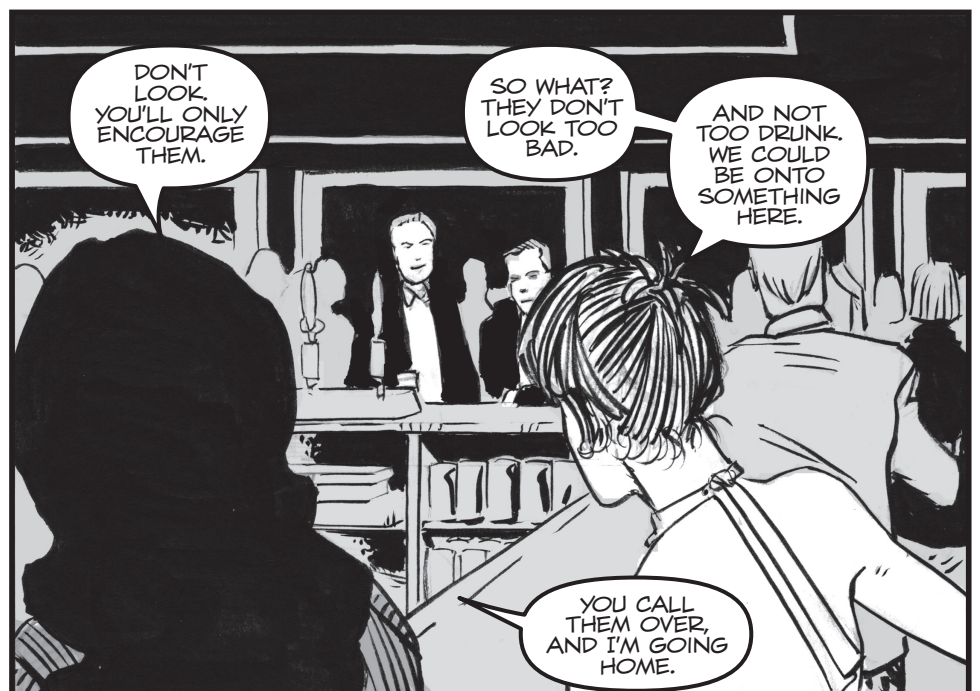
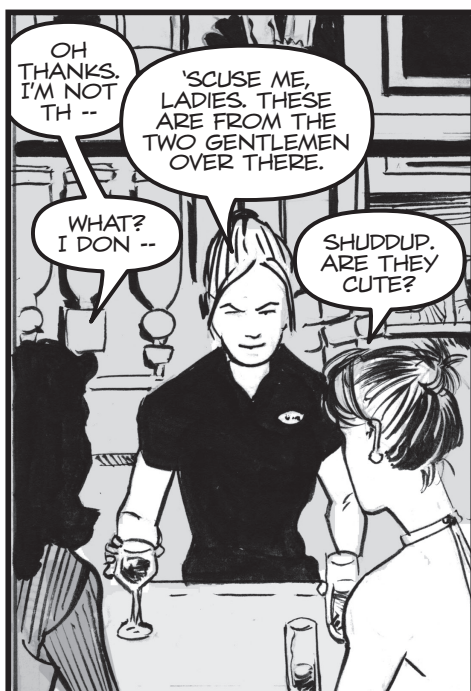




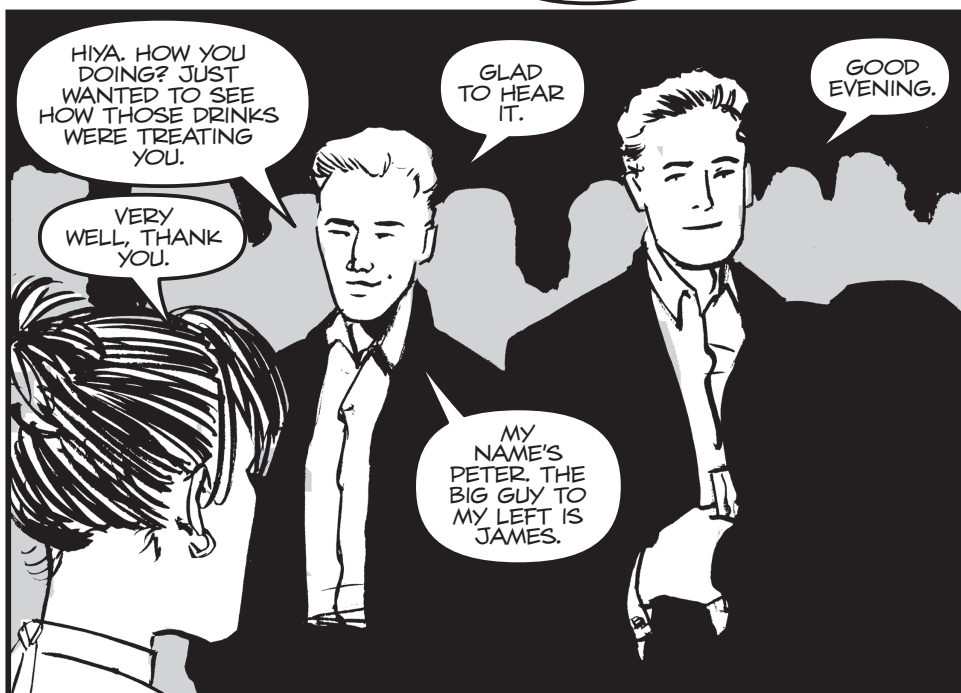


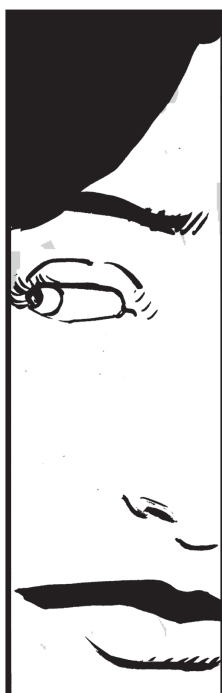






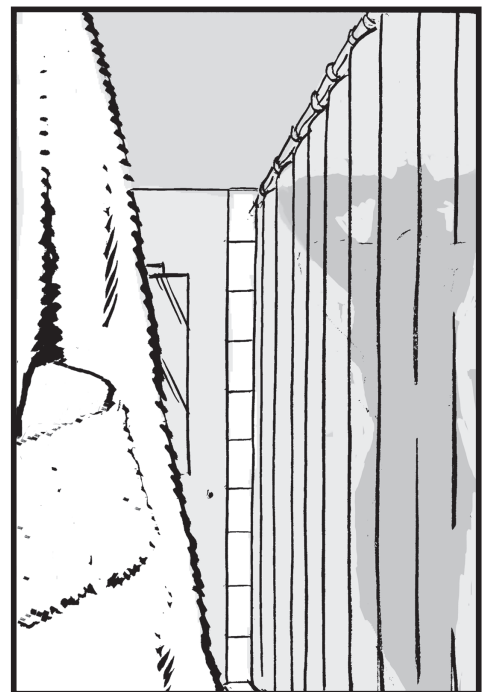
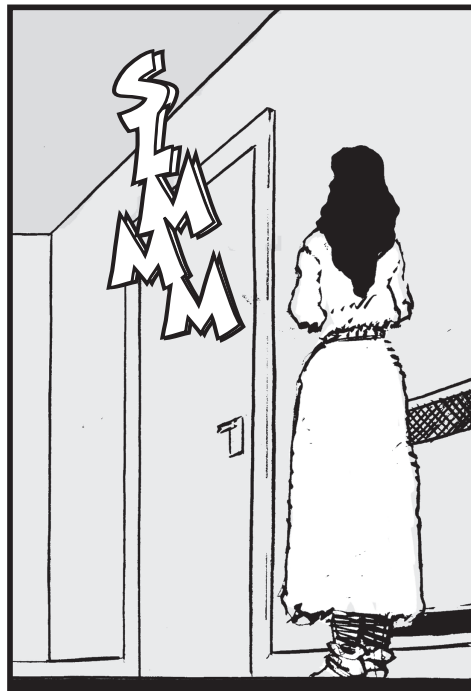












23rd September

Sunday

Dear Susan,

Just got back from the West End with Lil. She wanted to do something for my 30th birthday. How could I refuse spending some time with my sister? We even encountered two guys who were hitting on us and I'm sure Lil would have had us waste the whole evening with them. You could tell they were not interested in anything other than a one night stand. Luckily they got my hints after a few minutes.

Lil gave me grief about David again. What she forgets, is that David was the ONLY person who would hire me after Nimrod bombed. David may get me to do a lot but he has been a good and loyal friend. Not only did he give me a job after Nimrod, he has given me every job since. Not everyone can join a dot com, some of us actually have to have a bit of stability in their lives.

Lil went on about that "Ski Trip" story again. It's like she hasn't told me about it a hundred times already. You know what, I'll just write it down now so that I can remember the details and interrupt her with them next time. That way, she might give me a break. So Susan, I present Lilly Randall's Most Marvellous Ski Trip.

Lilly had booked a ski trip with friends for a weekend, but later realized she had to be in the London office early in the morning the next Monday for a business presentation. Her flight was scheduled to return to Stansted Airport at 11pm, which was pretty late at night. She checked the time of the last train to London from Stansted to find out it was at 11.30pm. That was okay as long as her flight landed on time, got through customs quickly and there was no delay with her luggage. Then she would make it to the train for London in time. Given the flight was from an airport near to a ski resort, it was possible the flight might be delayed... by snow or all manner of things.

She didn't want to cancel the ski trip and miss out on the fun and she had to be in the office on Monday, so she decided to look for options. Something she picked up in a "Real Options" course.

She started looking at hotels near Stansted. Found a couple but she would have to pay for the hotel unless she was able to cancel by 6pm. No good as this meant she was committed

23rd September

Sunday

to a night in the hotel. Instead, she made a list of hotels at the airport so she could ring them to see if they had anything free when she needed them.

She considered taxis. Black cabs are expensive and if the flight landed late she would be fighting with the rest of the flight for those available. If her bag was off first, that was fine, but if it wasn't, she was at the back of the queue. She considered a minicab from her local firm which would be cheaper and more reliable as she used them ALL the while. She makes a big deal out of building a relationship with them. The problem is that the journey is an hour and she would not know if she needed it until after they had to set off. She wrote down a list of mini-cabs close to the airport so that she could call them as soon as she knew she had missed the train.

She had her options to get home from the airport: get the train, mini-cab close to the airport, black cab, hotel at the airport.

She called the mini-cab companies to find out which ones might have a cab on a Sunday night. She called the hotels at the airport to see which ones had free rooms.

For some reason, she stopped and asked herself "What is my goal?" All the while she had been focused on getting home on Sunday night. She asked herself "Why?" (Susan, I sometimes think "Why" from Annie Lennox's Diva album should be the theme tune to Lil's Ski Trip Story). Why do I want to get home on Sunday night?

I love the theatrical way she delivers the next bit. "AND I REALISED THAT GETTING HOME WAS NOT MY GOAL!" Hushed tones "My goal was to be at work on Monday morning before 9am. And I need to be showered, nice smelling and as fresh as a carnation." She realised that she did not care where she stayed the night as long as she could get to work on time. So she left a freshly pressed suit and blouse and clean shoes in the coat cupboard in her office. That was all she really needed to ensure she could stay anywhere on Sunday night.

In the end a friend on the trip had a change of plans and offered to give her a lift home. As they drove home at 1am she realised her friend would have an additional hour driving in order to give a lift home. She ended up crashing in her friend's spare room. She showered at her friend's place, travelled into work with them and got dressed into her work clothes in the toilet at the office.

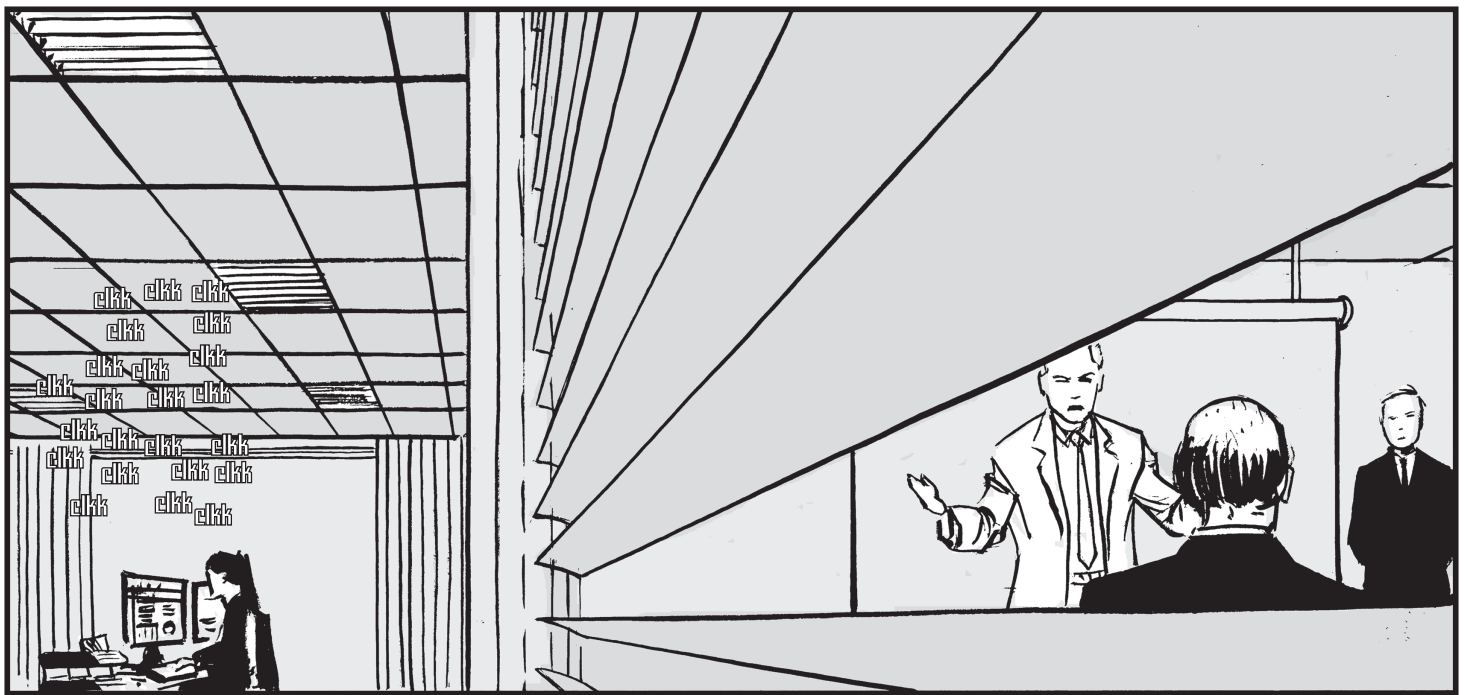
And she has never shut up about the story since. And that is why she now keeps a clean suit in my apartment. Just in case.

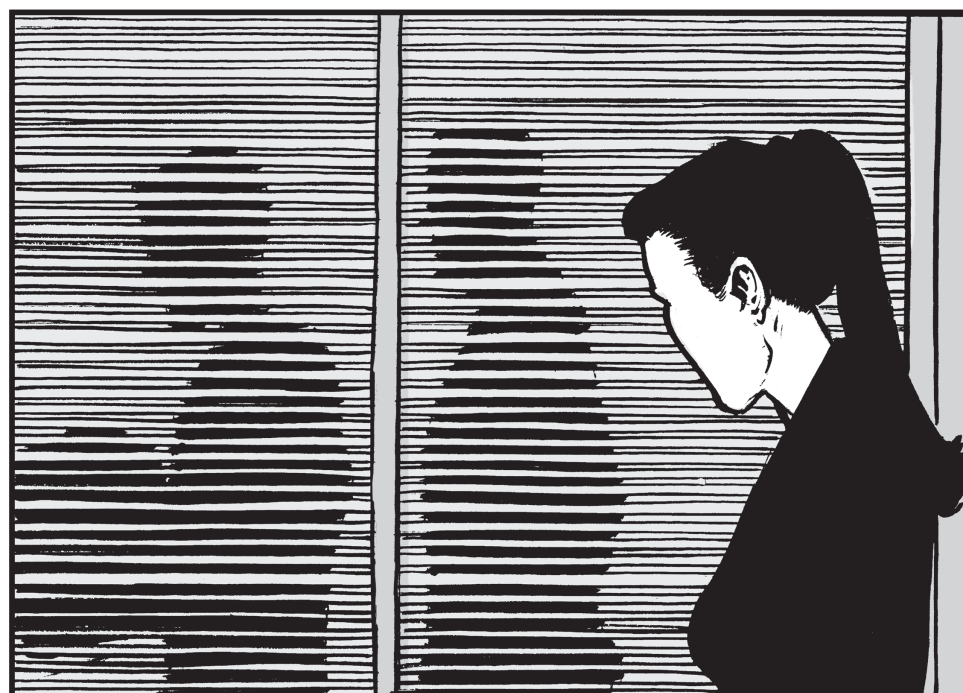
Night Susan.



# CHAPTER TWO



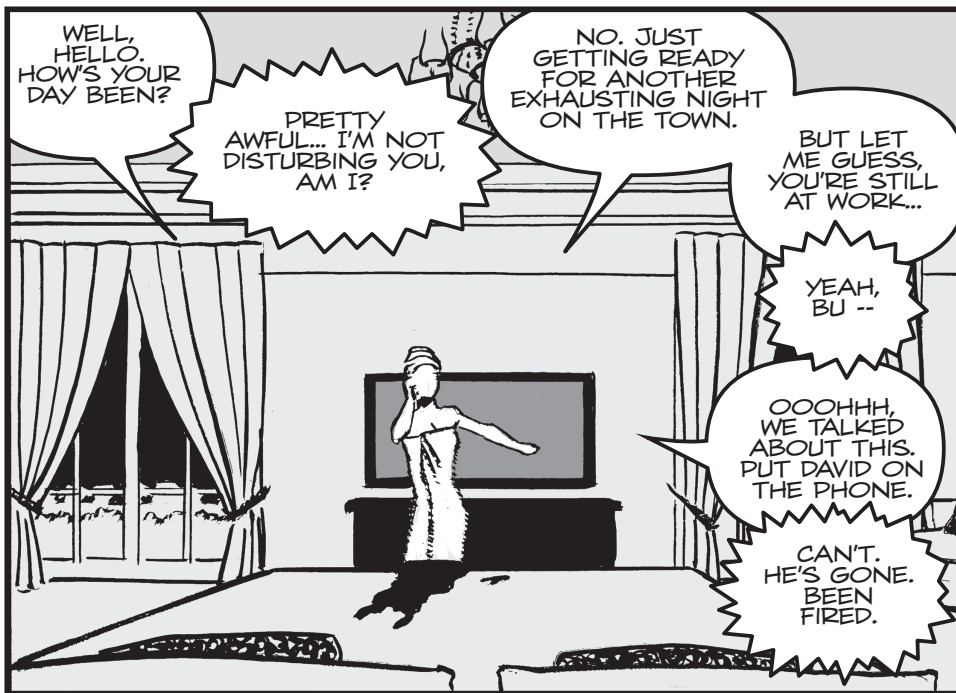




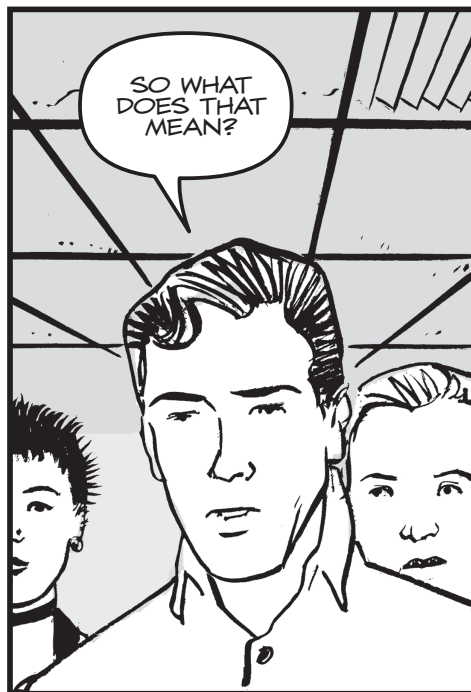
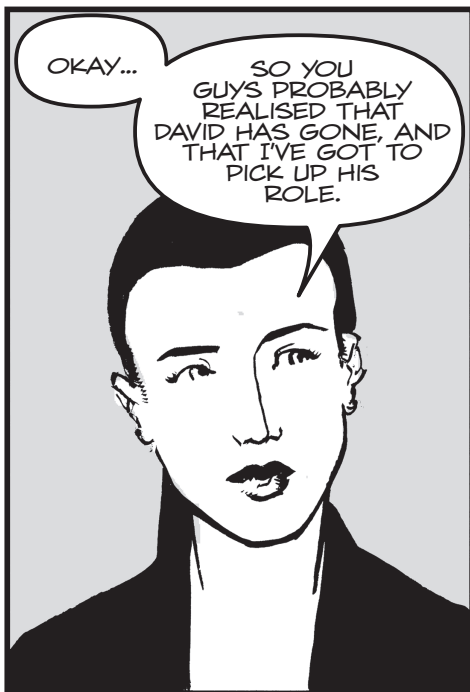




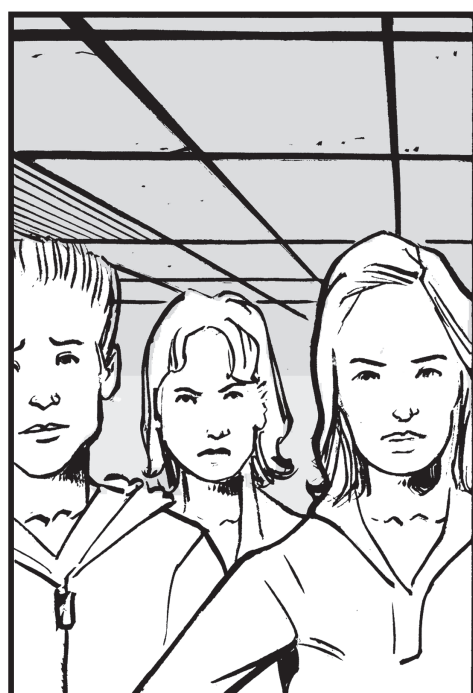
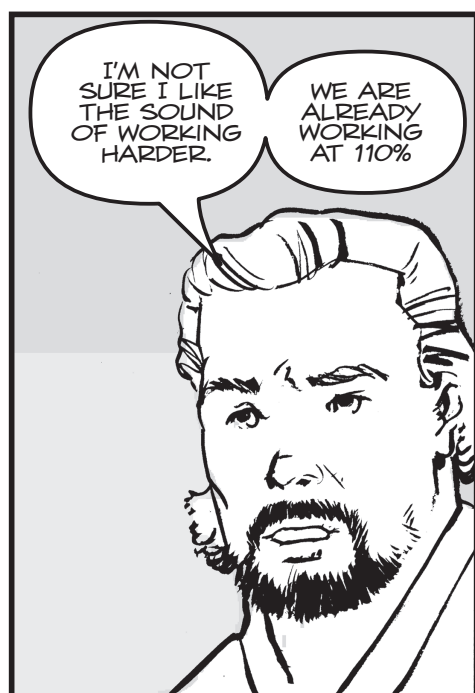
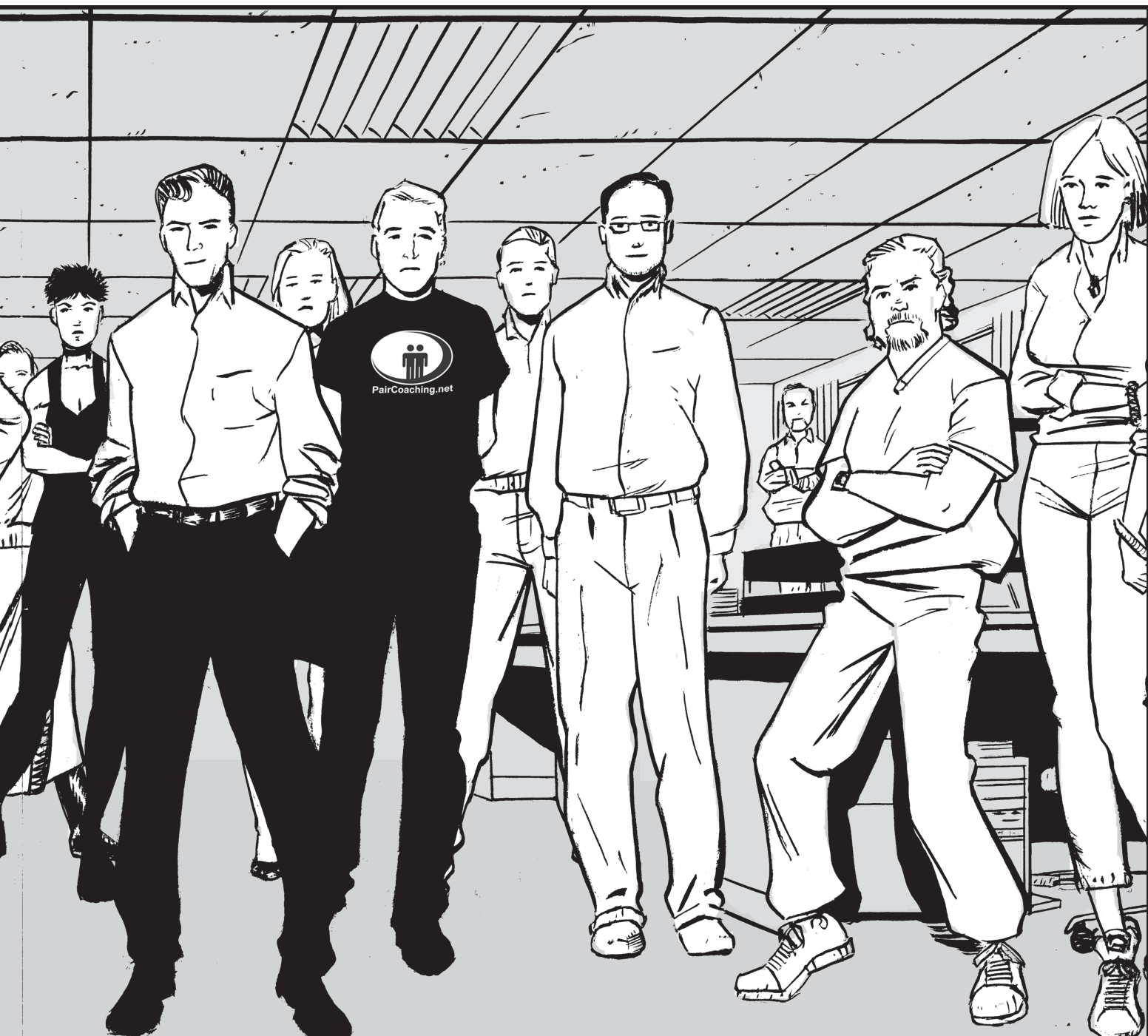














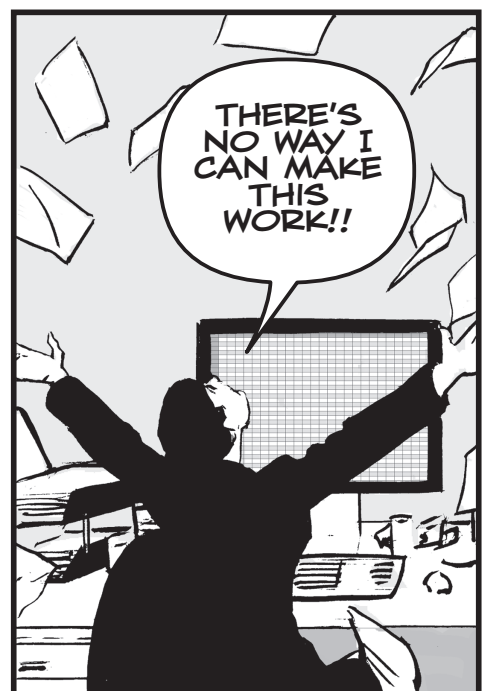
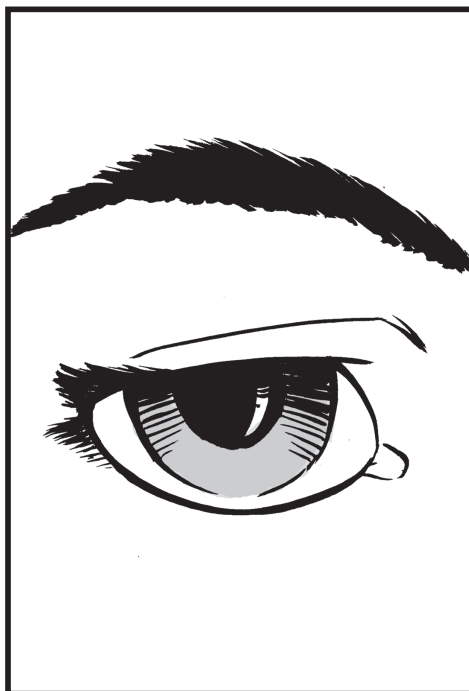
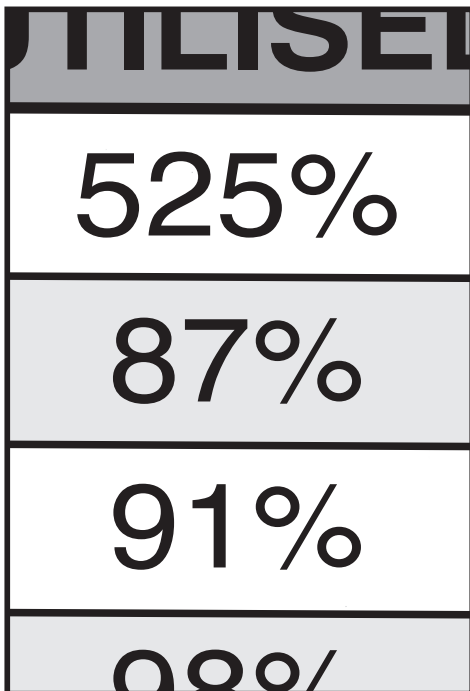
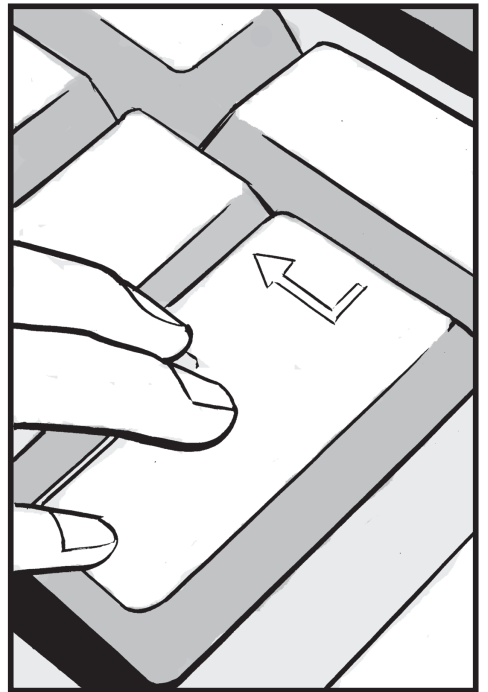


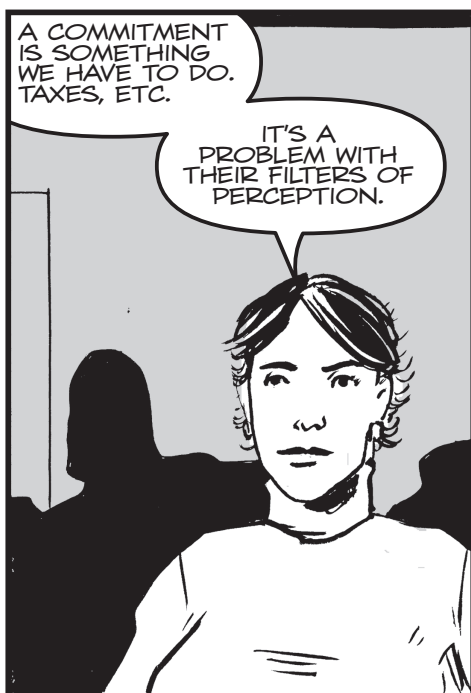
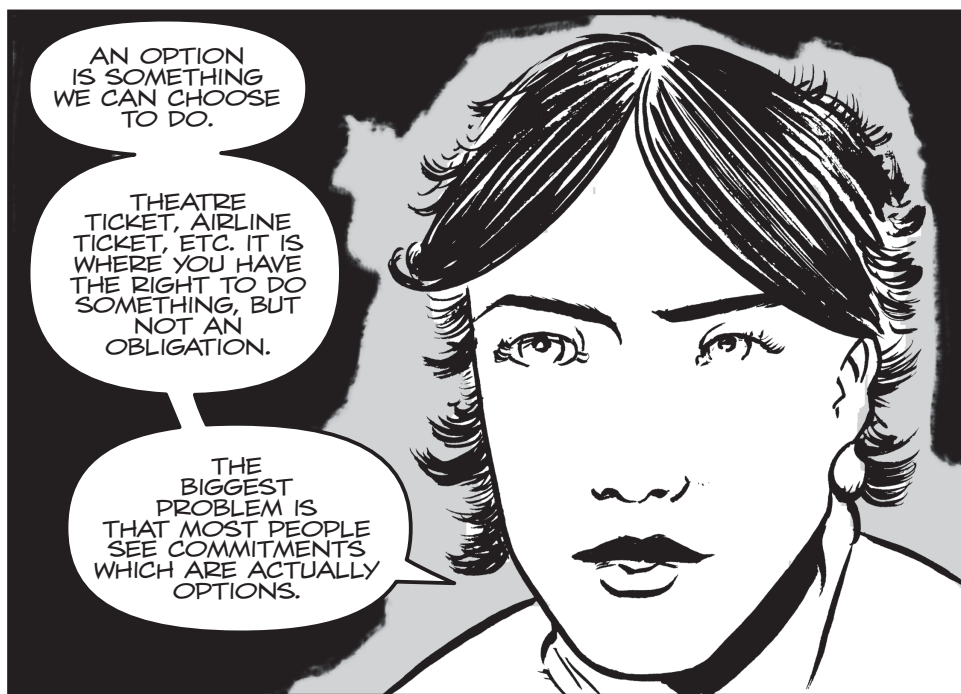
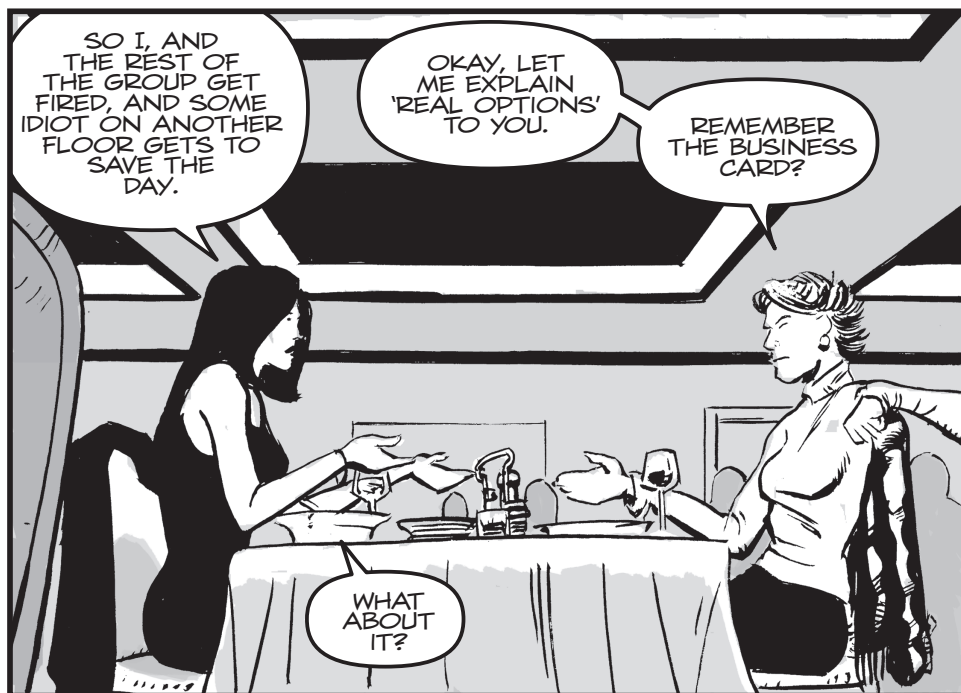
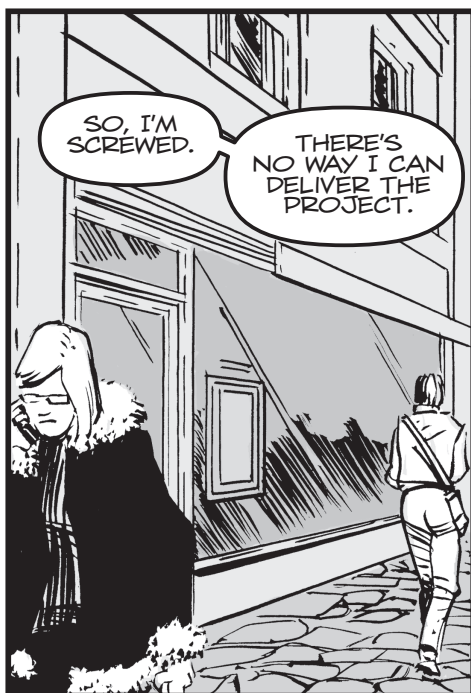
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ESOURCE 2
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ESOURCE 4
ESOURCE 5

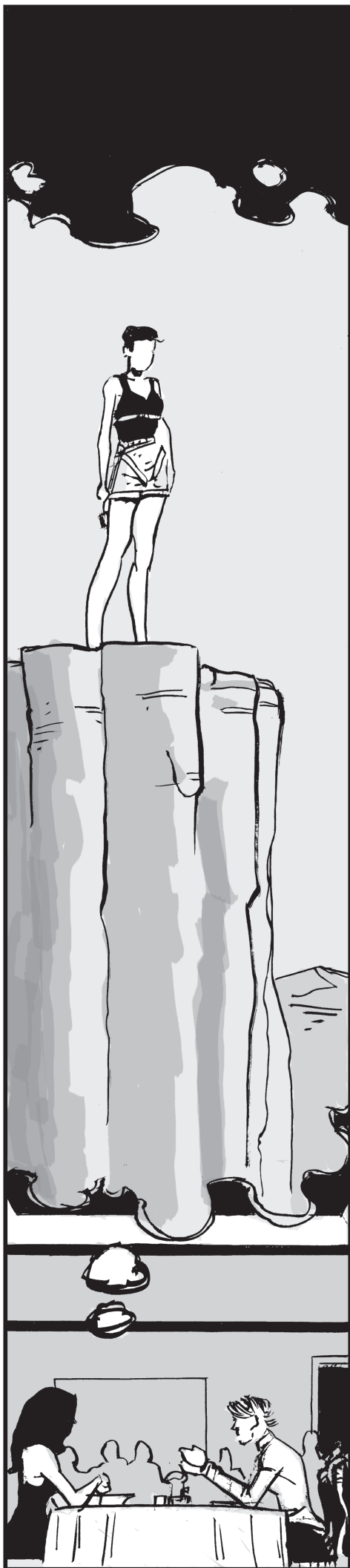
RESOURCE
SAM_
SOURCE
SOURCE
SOURCE

UTILISED
400%
87%
91%
98%

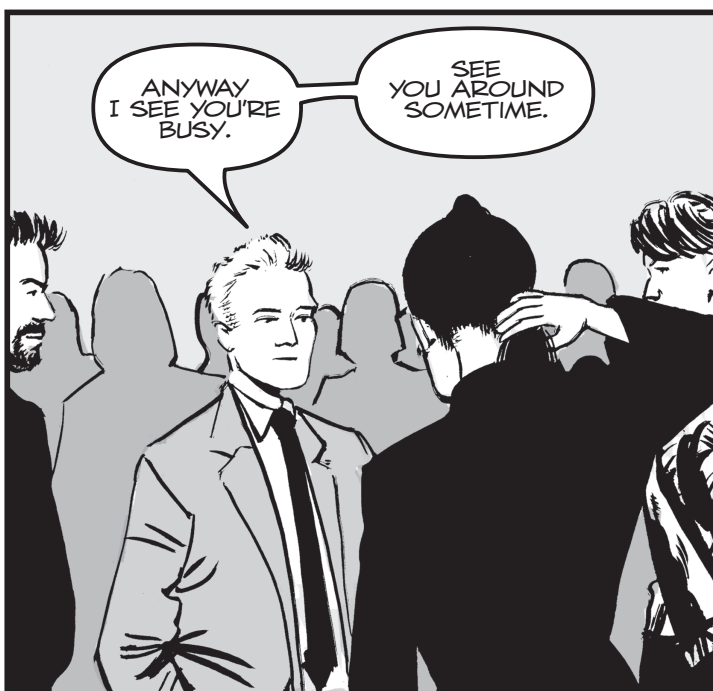




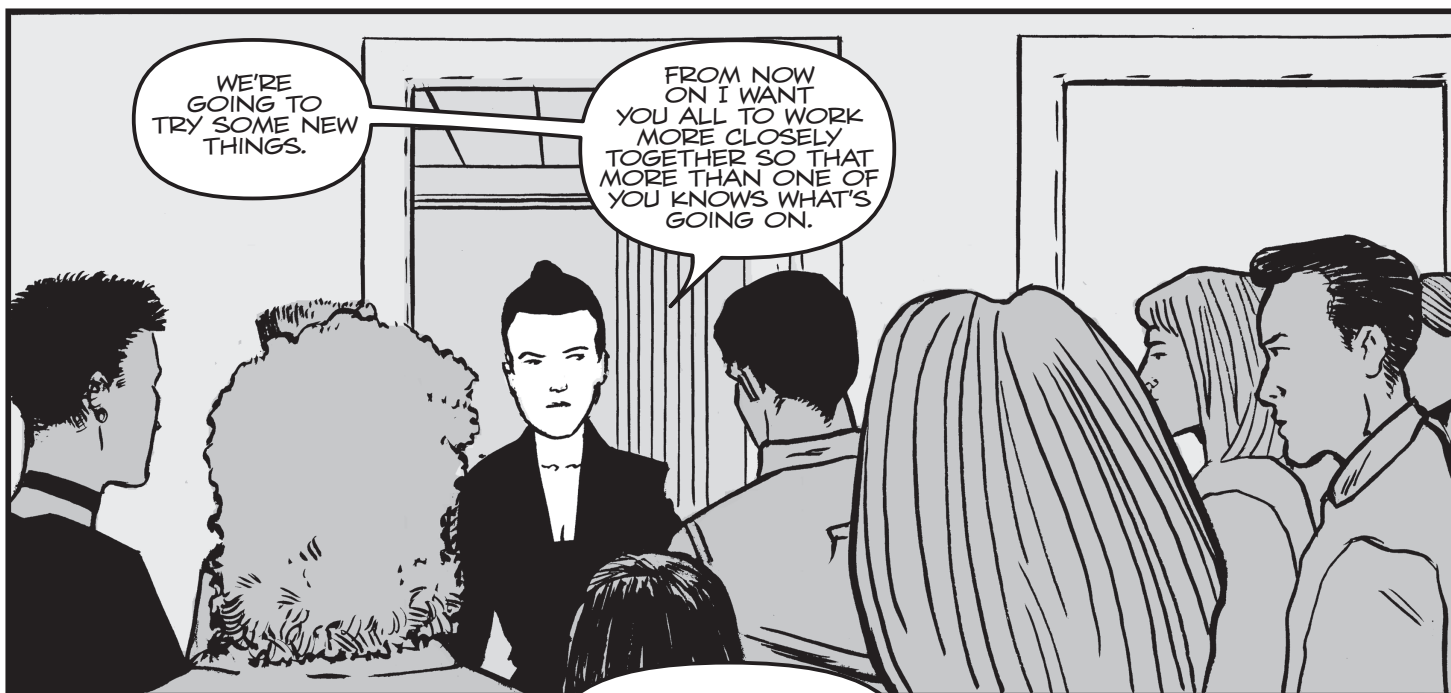






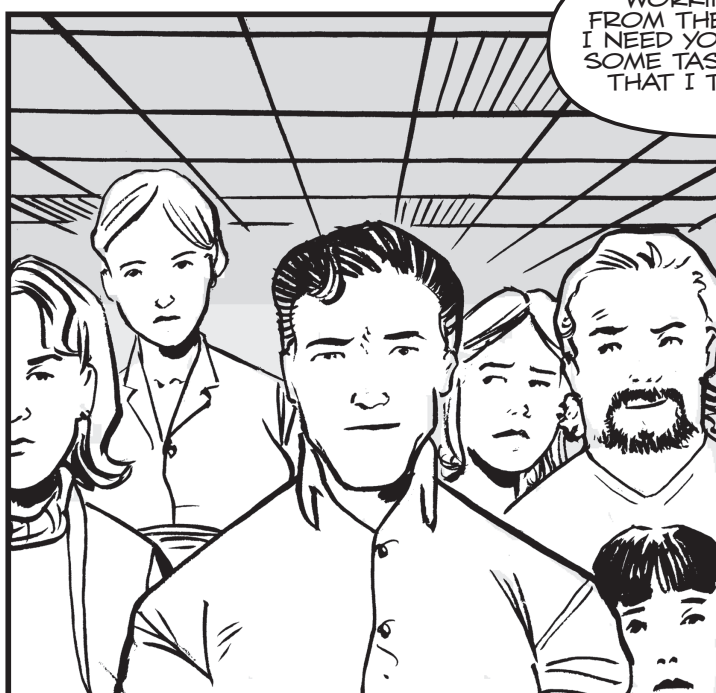






WE'RE GOING TO TRY SOME NEW THINGS.

FROM NOW ON I WANT YOU ALL TO WORK MORE CLOSELY TOGETHER SO THAT MORE THAN ONE OF YOU KNOWS WHAT'S GOING ON.



WORKING BACK FROM THE DEADLINE, I NEED YOU TO START SOME TASKS EARLIER THAN I THOUGHT...



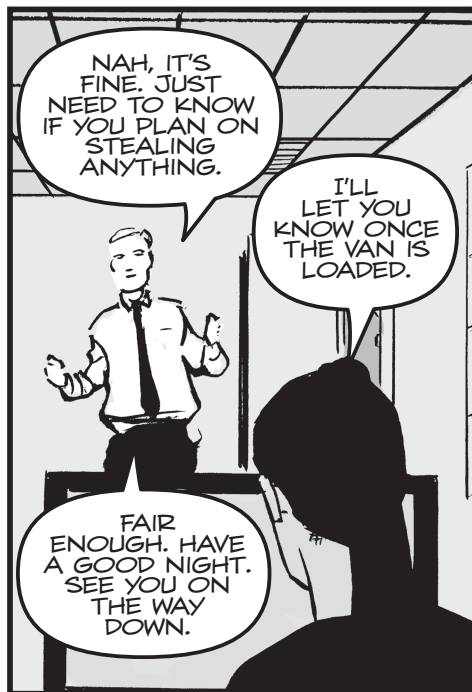
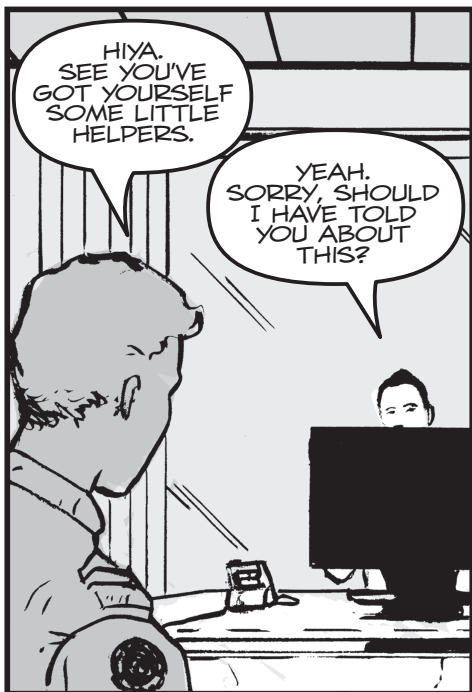
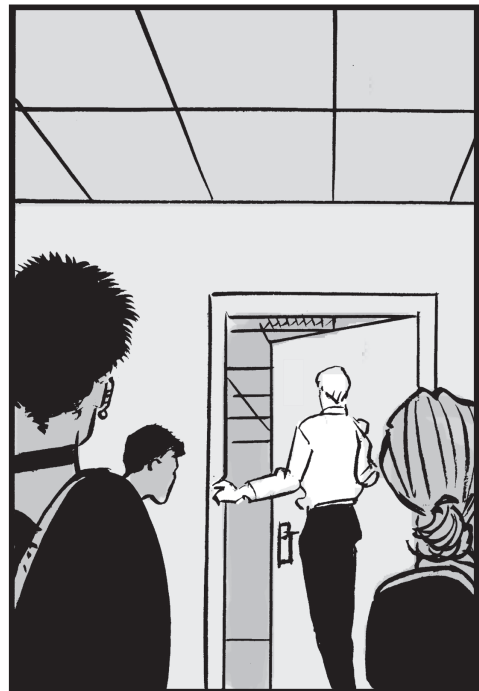
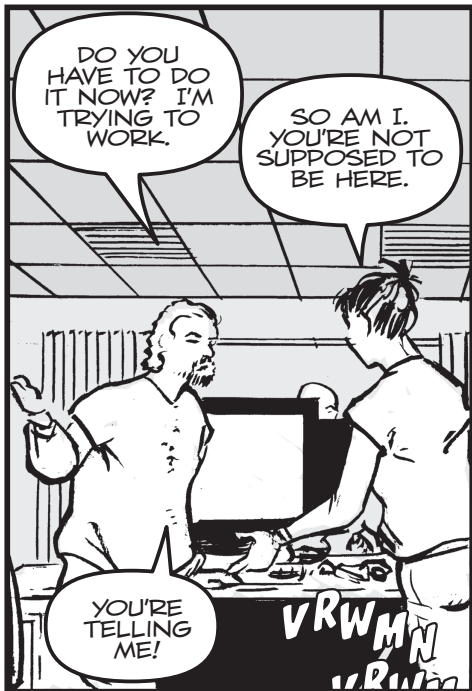
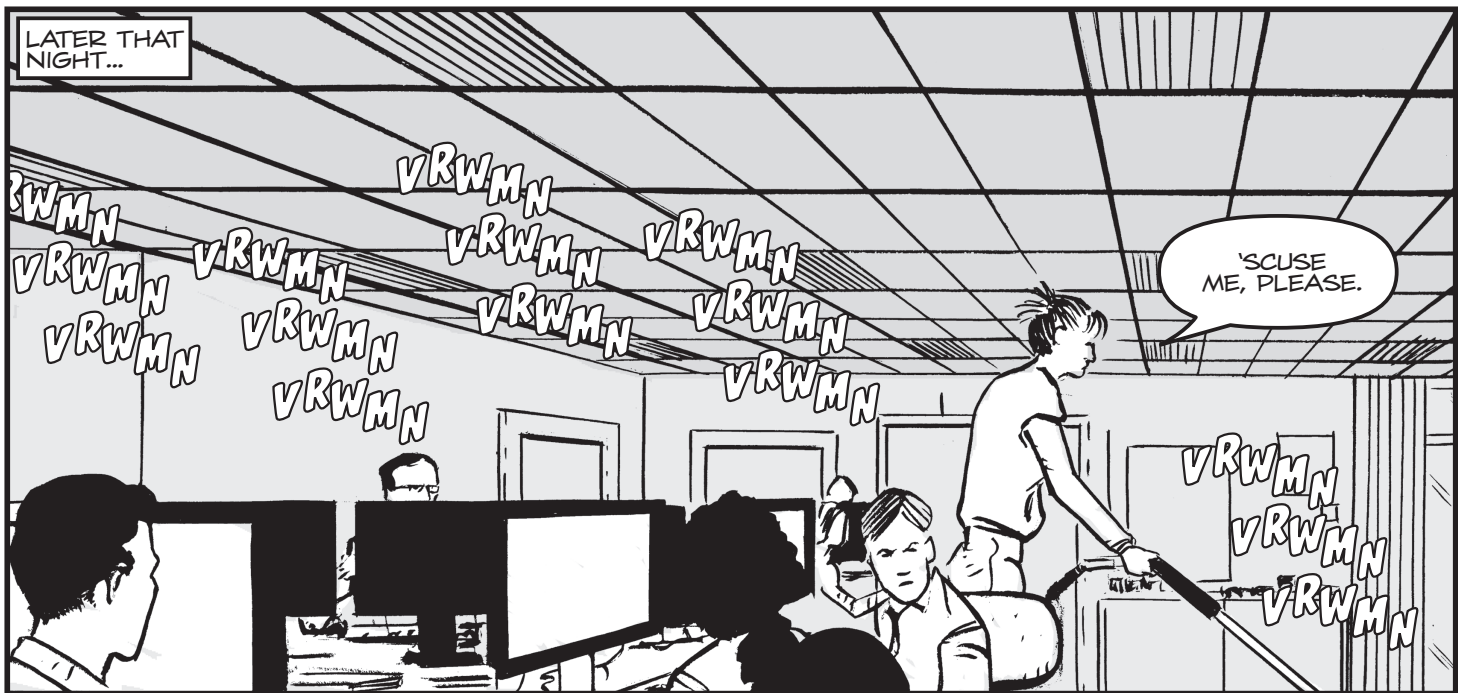
WE NEED TO STOP WORKING ON THE TECHNICAL DEBT STUFF --

-- AND IN ORDER TO MAKE UP THE TIME, I NEED MOST OF YOU TO WORK A FEW LATE NIGHTS --

-- AND THE WEEKEND.



I'M NOT HAPPY ABOUT THIS EITHER. I'M GOING TO HAVE TO WORK AT THE WEEKEND AS WELL.



EVEN LATER  
THAT NIGHT...



27th September

Thursday

Dear Susan,

I had a really great lunch with Lilly yesterday. She was telling me about real options again. I've ignored her in the past but currently I feel in the need of some options... pun intended.

Lilly said that the most important thing is to understand the difference between options and commitments, and when an option is not an option. She said that climbing down a rock face was a commitment. However we can turn that commitment into an option by taking a rope with us. She said that the option needs to be properly tested. Climbing down a rock face with a rope that's not secured was the same as climbing down without one. In order for the commitment to be reversible you need to tie the rope to something at the top and then you can climb back up again. In effect, although the rope provides an option, it is not an option if we start to climb down without the rope tied to the top.

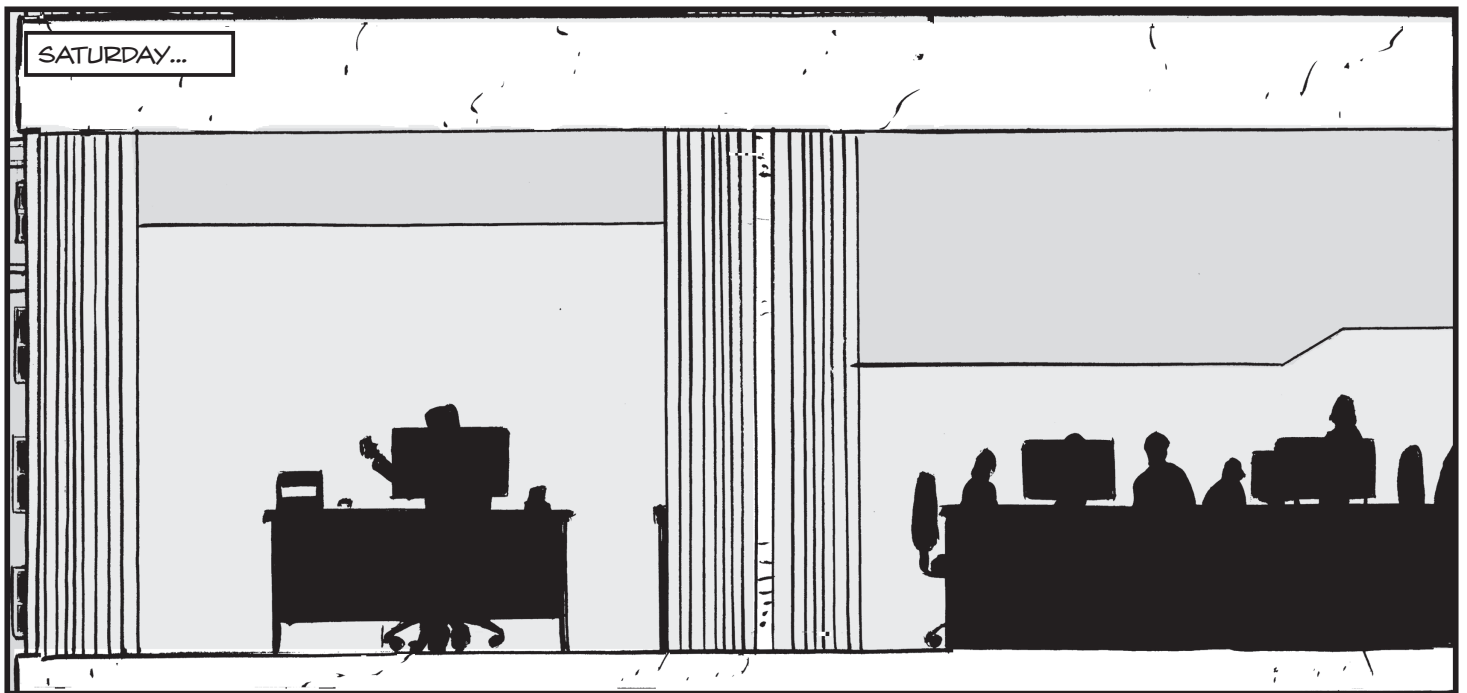
We discussed all sorts of things that were really options rather than commitments. For example tickets (plane, concert and sporting events). Commitments were things like tax, children and dying... no offence. Funnily enough plane tickets are a commitment on the part of the airline. They are committed to transporting you, you have the option to go.

I explained how I was working out the critical path of our project. Effectively the duration of those dependent tasks that specify the earliest date we can finish the project. Lilly seemed bored.

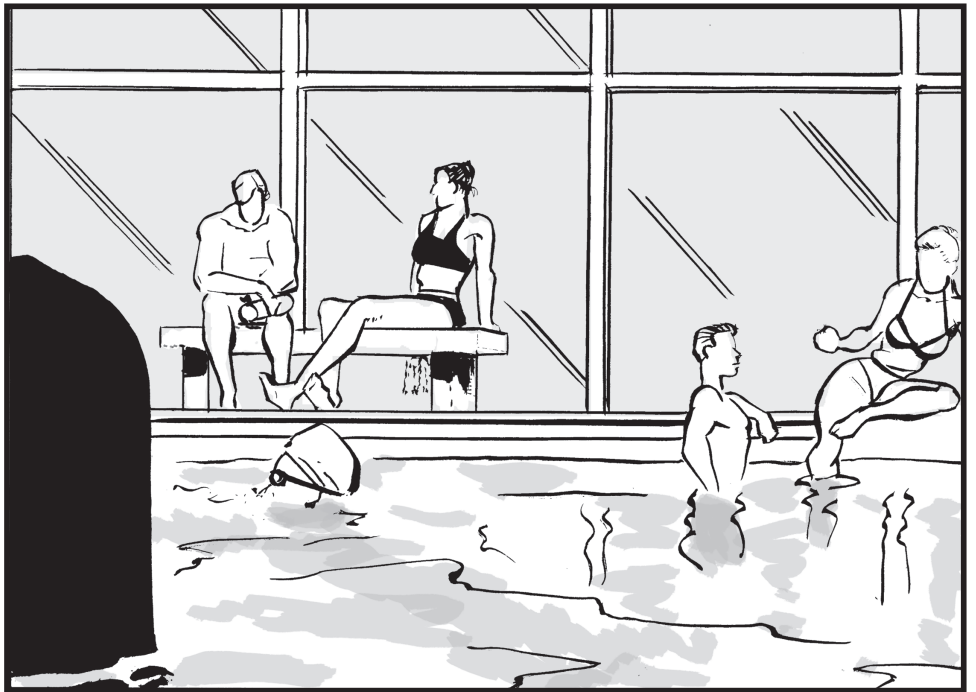
I finally get "Technical Debt". The guys at work go on and on about it as if it's this all-important thing. Anyway my head was spinning from all the talk about "Options", "Expiry Conditions", and "Commitments", and Lilly was talking about "technical debt". I did not hear all she said but she said it's really motivating for a team to feel they are doing quality work. So that's it. The purpose of technical debt is to motivate the team. Important in many cases but perhaps not in our case when we have really important deadlines.

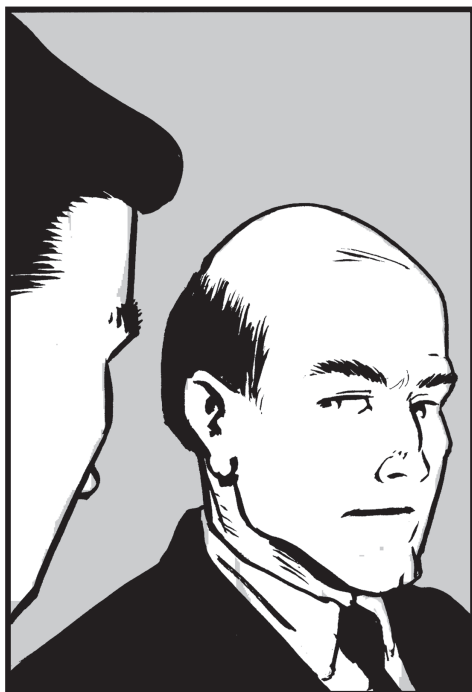
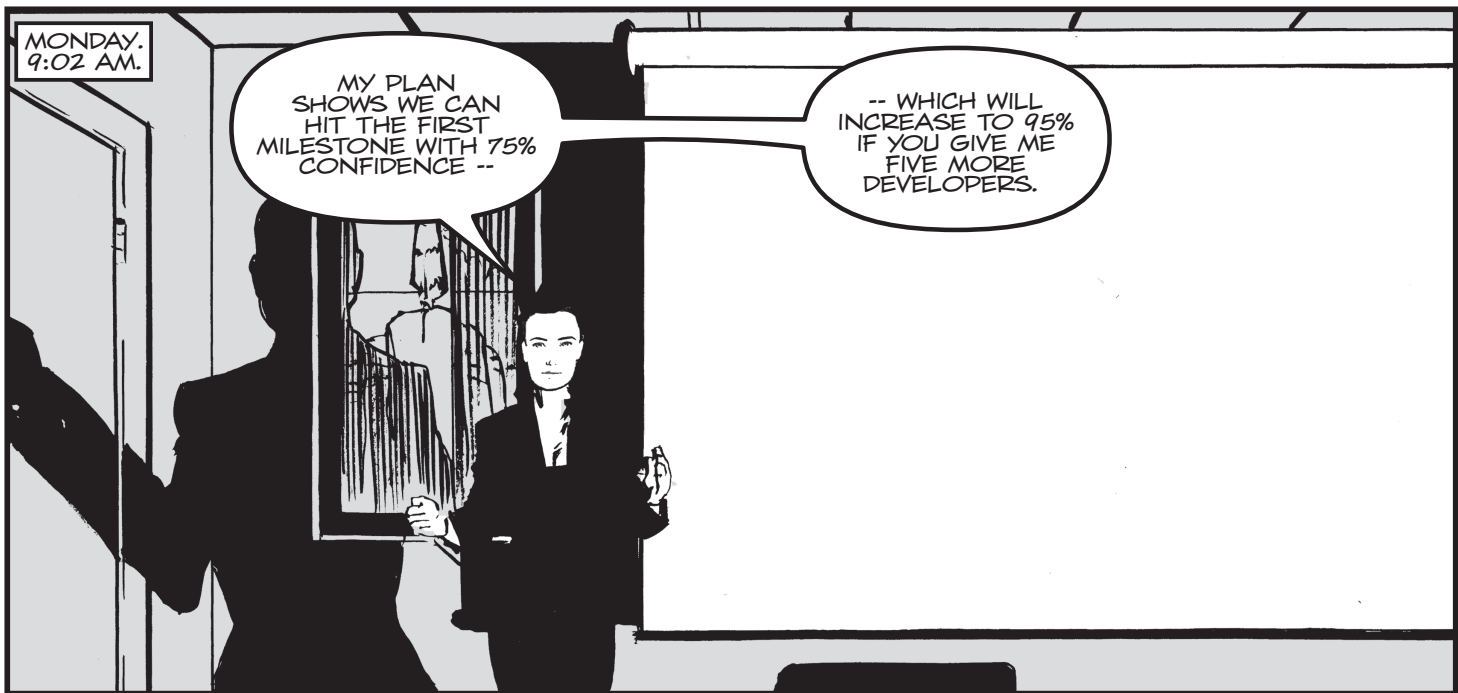
Good night Susan. I'm tired so going to keep it short.



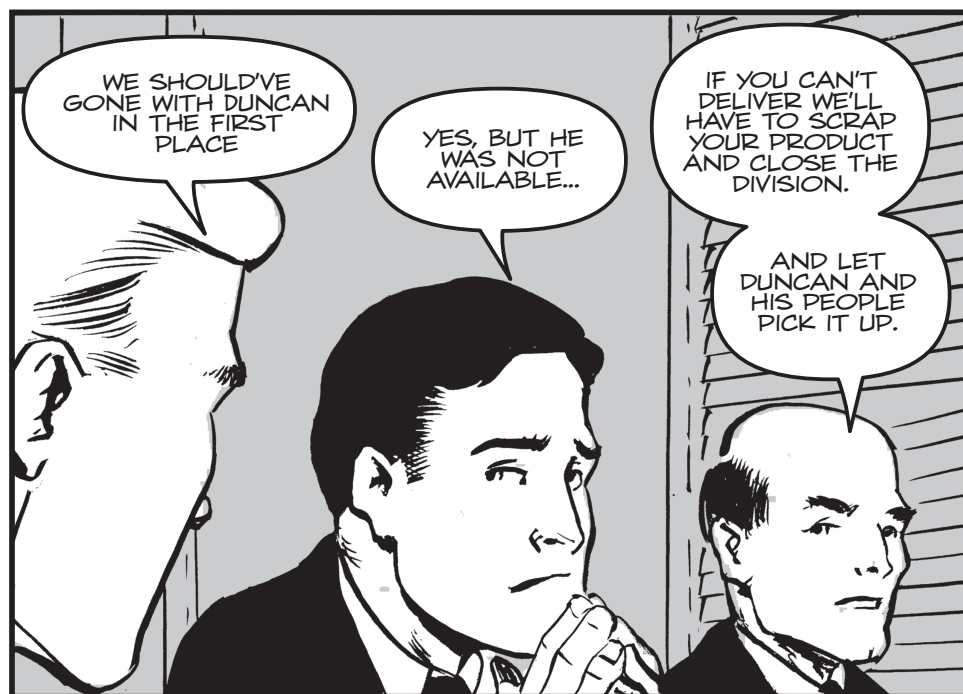












# BLOBS

RANDOM MUSINGS - LILLY RANDALL



## Types of Options

### Earliest use of options

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(63)

Options are not new and Mother Nature is one of the biggest users. The earliest documented usage of real options is the fossils from the Cambrian Era. During the Cambrian Era there was a huge amount of biodiversity. Gradually many of these diverse organisms died out. The diversity was so huge that it is known as the Cambrian Explosion. Quite literally, the conditions on Earth resulted in life creating lots and lots of options.

In our world there are roughly three kinds of options:

- Financial options
- Embedded options
- Real options

### Financial Options

When people think of options, they normally think of financial options. Financial Options famously contributed to the "Tulip" bubble in Amsterdam many centuries ago. In the 17th century tulips were very popular in the Netherlands and the demand rose so high that traders wanted to secure the tulips in order for them to be able to sell them. So they bought the right to buy tulips at a later date for a specified amount. This led to a perceived higher demand and a highly speculative market that ultimately crashed.



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Financial options have been around for many years but they only really came to the fore when Fischer Black, Myron Scholes and Robert Merton published their famous formula for determining the value of an option in 1973. Since then, the markets for options have grown and grown. The invention of the Black-Scholes equation spawned an entire industry. The key thing about a financial option is that the two parties entering into the option (the buyer of the option, and the seller of the option who takes on a commitment) do so in the understanding that they are entering into an option. The buyer willingly pays a premium for the option, and the maturity / expiry of the option is specified in the options contract.

## Embedded Options

A second class of option is the embedded option. An embedded option is an option that occurs in a legal contract, which was NOT specifically intended to be an option. This is a clause in a contract that allows the buyer some flexibility as a kind of service. The seller and the buyer are often unaware that this structure is an embedded option. The seller does not know they have given away an option for free just because it does not look like an option.

The option can be very valuable and the maturity of the option may or may not be specified. It is quite likely the option buyer does NOT pay a premium for the option.

Examples of embedded options include:

- **Operational Tolerance in Oil Contracts.** Contracts for physical delivery of oil contain an operational tolerance which is a fancy way of saying that both parties do not know which oil tanker (which vary in size) will be used to pick up the oil. To accommodate this variance oil contracts allow for a variable amount to be picked up, for example the contract would be for 100,000 barrels plus or minus 5%. If you read this same contract from an options perspective, the plus or minus 5% means the contract is really for 95,000 barrels plus an option to buy a further 10,000 barrels.



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If the price of oil has gone up above the price in the contract by the time the tanker picks the oil up, the buyer can buy the extra 10,000 barrels cheaper than the current market price. And if the price has gone below the contract price, the tanker takes only the minimum 95,000 barrels.

- **Phased contracts.** Contracts that contain a specified price for which subsequent goods and services can be bought for are called phased contracts. For example, an IT contract with a specified phase 2 allowing the buyer to buy the second phase at a set price. The buyer can see how much phase 1 costs and potentially change suppliers for phase 2 if he thinks he can get it cheaper. Alternatively if the cost is more than he thought, the buyer can use the offered price for the second phase.

The Black-Scholes equation or one of its many children can be applied to the valuation of an embedded option, but may not always be appropriate. This can happen when the underlying assumptions of the Black-Scholes formula are not all valid, for instance when there is not a single correct price of an underlying asset of the option.

When an expert trader of options identifies an option embedded in a contract, he will price the option separate from the rest of the contract. Understanding this difference between the "market price" and the "market price adjusted for optionality" can be used to create a (market) risk free profit known as an arbitrage. The trick is spotting these options as they are rarely called options.

## Real Options

Real options are options that exist outside of legal frameworks. They are the choices we have in the real world. Black-Scholes and its derivative cannot be used to value real options. However, some of the things we know from financial mathematics mean that we can say three things about real options....





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April (4)

March (5)

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Previous Year -  
(63)

### Options have value

Not just the value of the benefit received (intrinsic value), but also the fact that you still have an option has value above the intrinsic value. Being able to choose later is valuable. This value is higher when there is more uncertainty.

### Options expire

At some point the option is no longer available. It expires either based on time passing or that other events have happened making it no longer possible to use a particular option. The most important thing to keep track of with real options is the expiry condition(s). Under what condition is an option no longer available.

### Never commit early unless you know why

Committing to an option is when you decide to do something and it is no longer optional, but an obligation / commitment. Making a commitment destroys options to realize some value / benefit. With real options it is important to understand why you destroy one thing to create another. It is not about committing as late as possible as that might expose one to higher and unnecessary risks. It is about gathering as much information in the time available and trying to push to expiry conditions to a later date or knowing why you commit earlier than the expiry.

Real options are literally everywhere. Anything you can do without the obligation to do it is a real option: phoning a friend, buying a house, finding a new job, walking up to a stranger, travelling to Cuba.

As soon as you understand this, you'll see them everywhere. No worries, relax. You don't have to manage them all, just the ones that are most important to you.

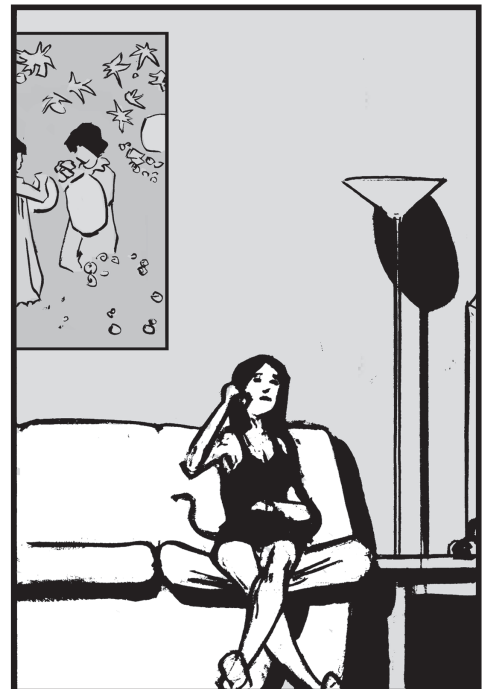
Seeya next  
time - L



# CHAPTER THREE















# BLOBS

RANDOM MUSINGS - LILLY RANDALL



## About relationships and knowledge options

### Recent Posts

October (1)

September (5)

August (3)

July (4)

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Just a quick post before meeting the Cantina guys with Rose. It reminded me that relationships are some of the most valuable options. The ability to ring someone and have them reach out and help you is very special. This is especially true when learning new things. People have different learning styles; I have trouble learning things straight from a book or blog post. Having someone you can ask questions to when you're at the point you don't understand something speeds up your learning process several-fold. At least it did for me.

### Knowledge options

This ability to learn things quickly lead me to something I call knowledge options. Knowledge options are those pieces of information I know just enough of. What I do differently compared to others is that I learn enough about a subject to understand what can be done with the tools, and how long it will take me to learn the tools to the point that I can apply them.

Some subjects take a long while to become competent in so I start to apply them before I need them so that I'm competent with them in case I ever need them. Other subjects I leave until later. In both cases it is useful to know someone who can help me learn.

Another way of creating these knowledge options is to go through the contents pages of books and look for terms and subjects you do not know. A more general approach is to constantly look out for subjects you do not know about.



## Finding a mentor

### Recent Posts

October (1)

September (5)

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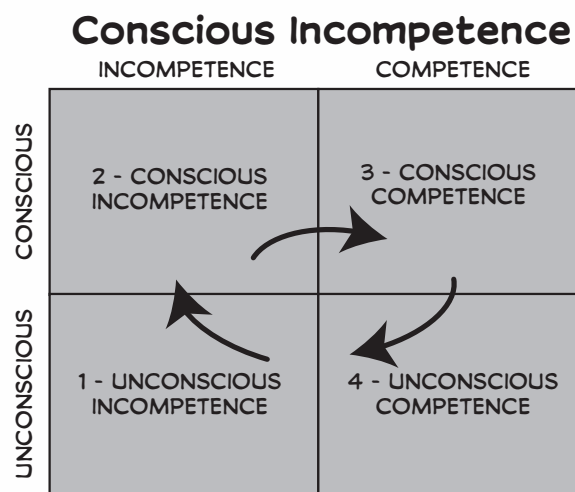
February (3)

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(63)

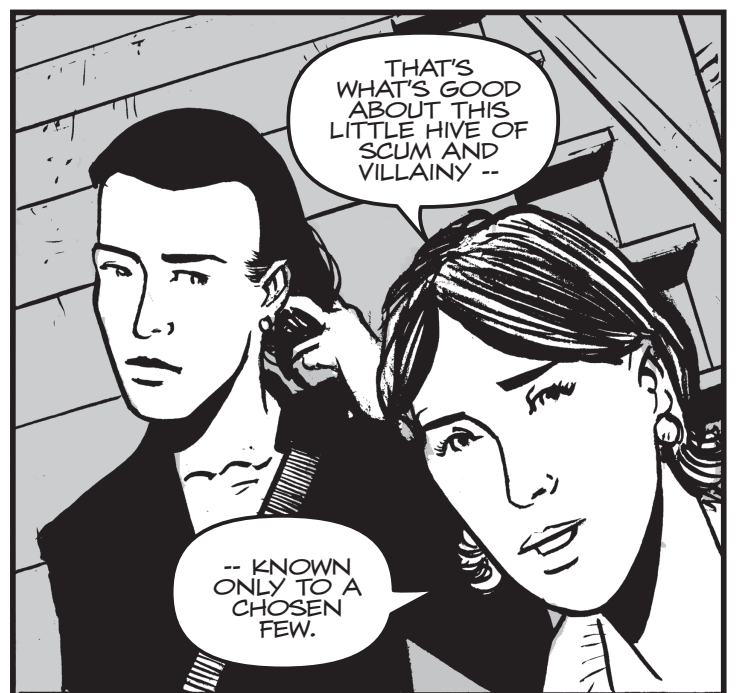
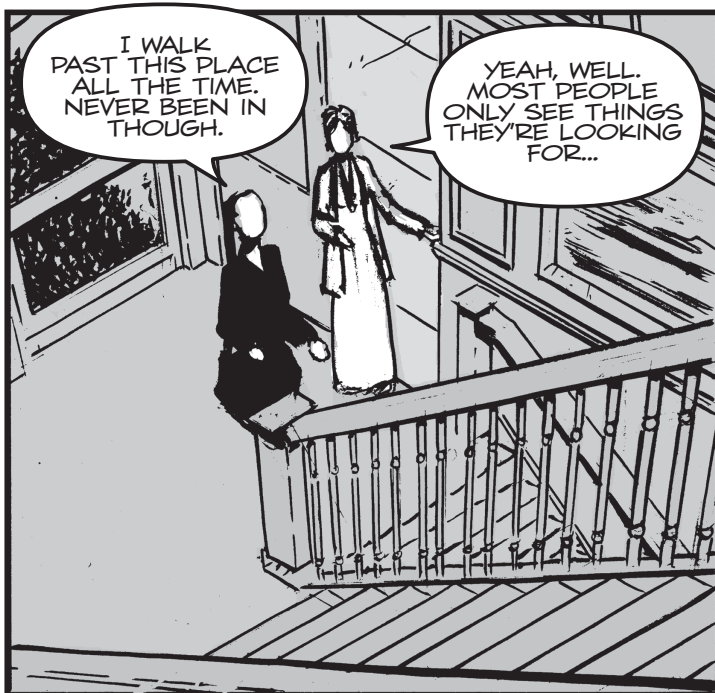
Finding the right mentor for a subject that is available as well can be a challenge. My experience is that practitioners, the people who do this stuff in their daily work, are the best mentors. The practitioners normally can tell you which are the important bits. They have gone through all the material, tried it out, and tossed out the things that didn't work for them. Finding these practitioners is a lot easier nowadays than before.

To find a mentor for a subject, I start with searching for the authors who have published a good book on the subject. I then look for the community of practitioners who gather around the author. Besides the fact that the practitioners have lived through the experience, they normally have more time to spend explaining things to you than a busy author. These days most subjects have a community who meet in an on-line forum (e-mail / Facebook / LinkedIn groups) to discuss the material. The groups are normally very supportive of people asking questions about the subject and provide a very valuable resource.

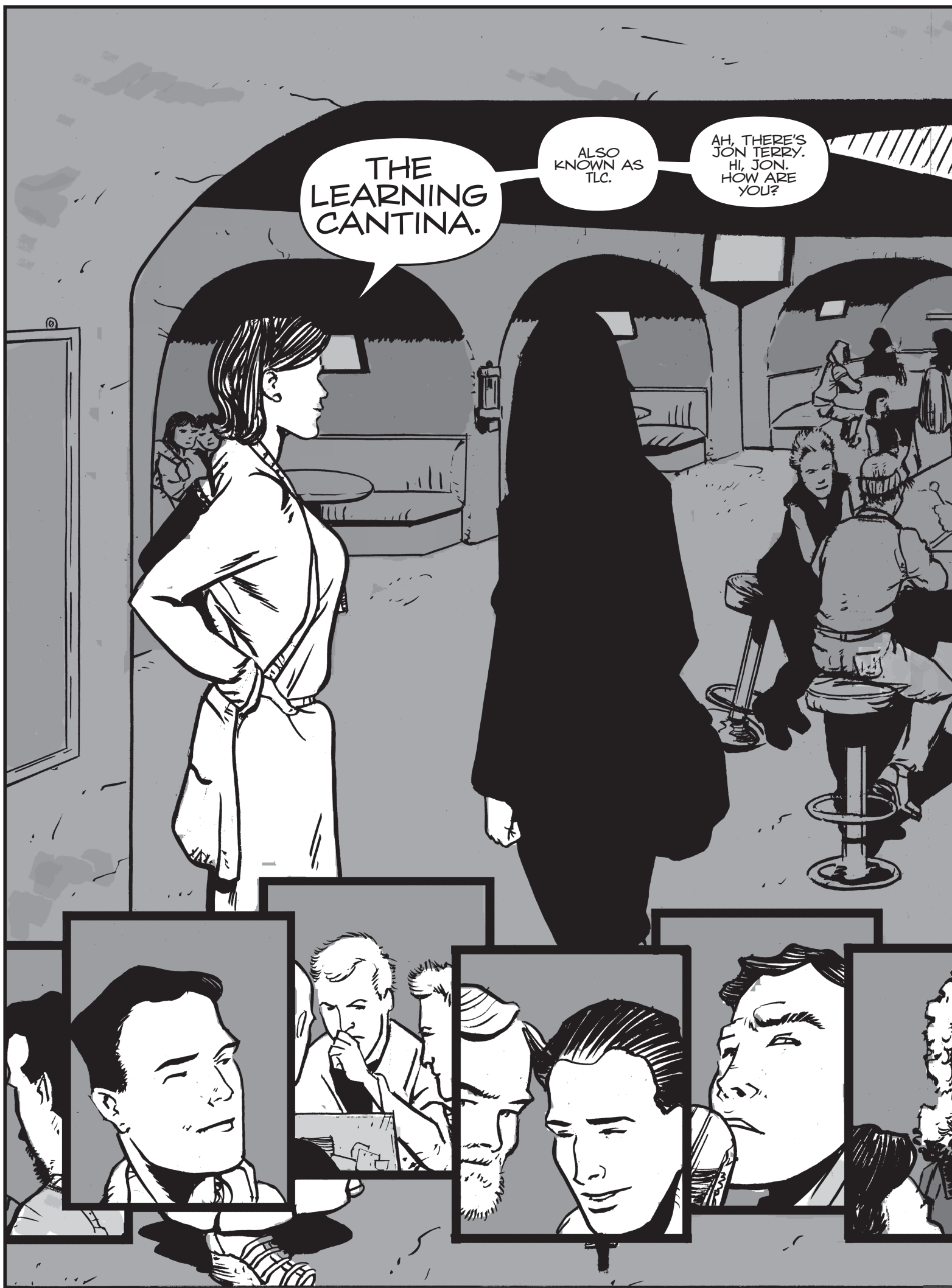


Knowledge options explicitly acknowledge the value of being consciously incompetent about a subject with one extra criteria: how long it takes to become consciously competent in the subject. If a subject takes a long time to learn and it is likely to be useful, then learn the subject early. If it takes a short time, the learning commitment can be deferred.

The conscious competence model was invented by Noel Burch in 1970, though some incorrectly attribute it to Abraham Maslow.











GREAT,  
LILLY.  
GOOD TO  
SEE YOU.

HI, THERE.  
YOU MUST BE  
ROSE. WE SPOKE  
ON THE  
PHONE.

I HAVE  
A TABLE OVER  
HERE. DO YOU  
WANT TO JOIN  
ME?



RIGHT. SO THERE ARE THREE THINGS YOU NEED TO KNOW ON YOUR PROJECT.

OKAY.

WHERE YOU ARE GOING --

-- AND HOW TO GET BETWEEN THE TWO AS QUICKLY AS POSSIBLE.

SOUNDS SIMPLE ENOUGH.

-- WHERE YOU ARE --



I CAN GIVE YOU SOME POINTERS ABOUT THE LAST TWO: WHERE YOU ARE AND HOW TO GO QUICKLY.

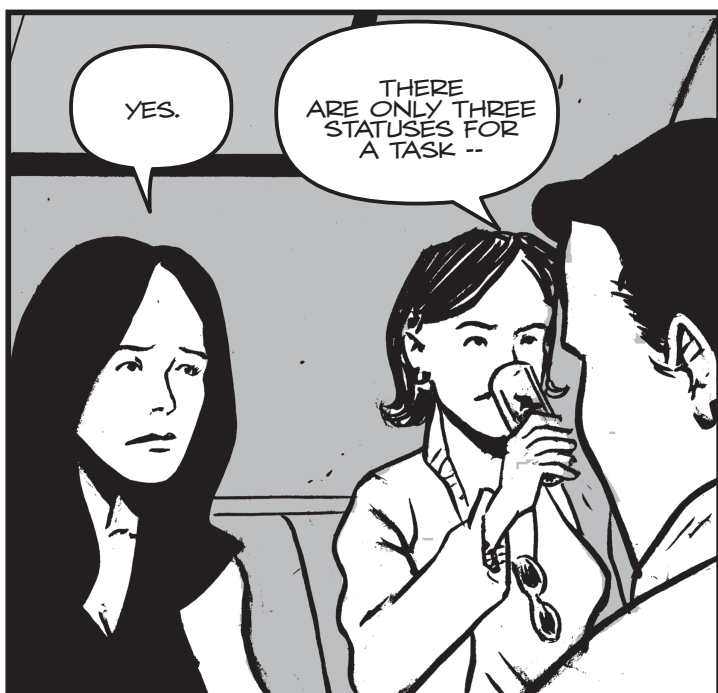
YOU'RE BEST SPEAKING TO LIZ KEOGH TO WORK OUT WHERE YOU WANT TO GO --

I HAVE ASKED LIZ TO JOIN US LATER.



LET'S START WITH WHERE YOU ARE NOW.

ON THE PHONE YOU SAID THAT YOU'RE SPENDING A LOT OF TIME ON GATHERING STATUS, BUT YOU STILL DO NOT KNOW WHERE YOU ARE.



YES.

THERE ARE ONLY THREE STATUSES FOR A TASK --



-- NOT STARTED --

-- WORK IN PROGRESS --

-- AND DONE.



PERCENTAGES ARE JUST NONSENSE. EVEN 99%.

THAT REMAINING PERCENT COULD TAKE WEEKS.

STILL A LOT OF UNCERTAINTY THERE.



FOR EACH STEP IN THE PROCESS OF WHAT YOU'RE DOING YOU NEED A QUEUE OR A BUFFER IN FRONT OF THEM FOR THE TASKS NOT STARTED YET.

BUT THAT SOUNDS LIKE EVEN MORE THAN I'M DOING NOW.



THEN GET THE TEAM TO DO IT FOR THEMSELVES.

THEY NEED TO KNOW WHAT'S GOING ON AFTER ALL.



BUT IT'S NOT FOR THEM. I NEED THE STATUS FOR MANAGEMENT.

HIYA...

IT'S MORE IMPORTANT THAT THE TEAM KNOWS THE STATUS THAN THAT MANAGEMENT DOES.



WHAT! ARE YOU CRAZY? WHY?!



SO THEY CAN CO-ORDINATE THEIR ACTIVITY.

BUT I DO THAT.



AND HOW IS THAT WORKING FOR YOU?

LET THE TEAM DO IT INSTEAD, SO YOU CAN FOCUS ON THE IMPORTANT STUFF.



I HAVE TO GO. I ASSUME YOU'LL BE OKAY HERE NOW.

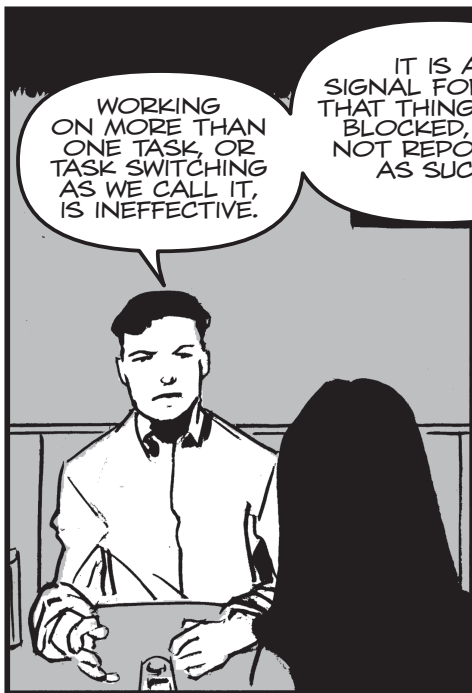
YEAH. NO PROBLEM.

I'LL CALL TOMORROW.









WORKING ON MORE THAN ONE TASK, OR TASK SWITCHING AS WE CALL IT, IS INEFFECTIVE.

IT IS A SIGNAL FOR YOU THAT THINGS ARE BLOCKED, BUT NOT REPORTED AS SUCH.



YOU COULD ALWAYS PAY DOWN SOME TECHNICAL DEBT --

-- WHICH SPEEDS UP DEVELOPMENT AS WELL.



OH DEAR...



I ALMOST FORGOT ONE OF THE MOST IMPORTANT THINGS --

-- YOU SHOULD IDENTIFY DEPENDENCIES ON YOUR PROJECT.



I USE A GANTT CHART.

THAT'S NOT ENOUGH.

YOU NEED TO FIND A WAY TO BREAK THE DEPENDENCIES BETWEEN TASKS.



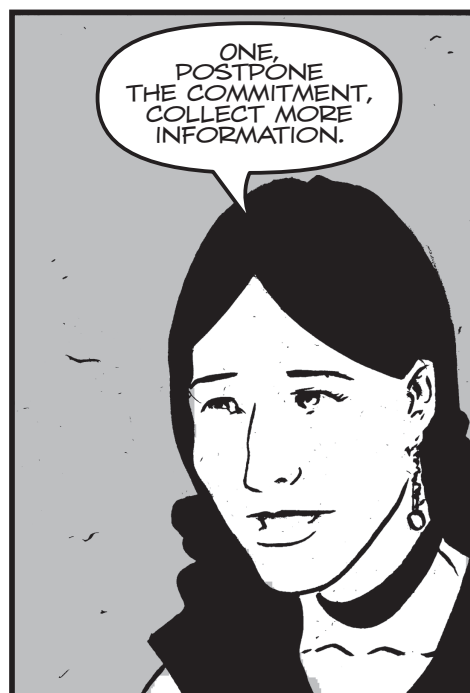
THAT COVERS THE BASICS.

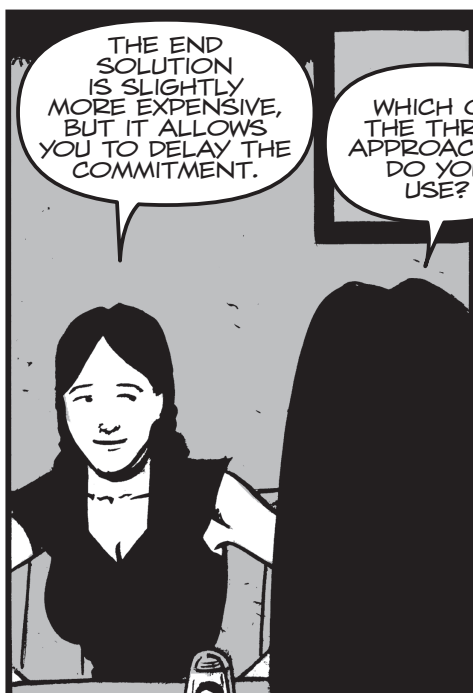
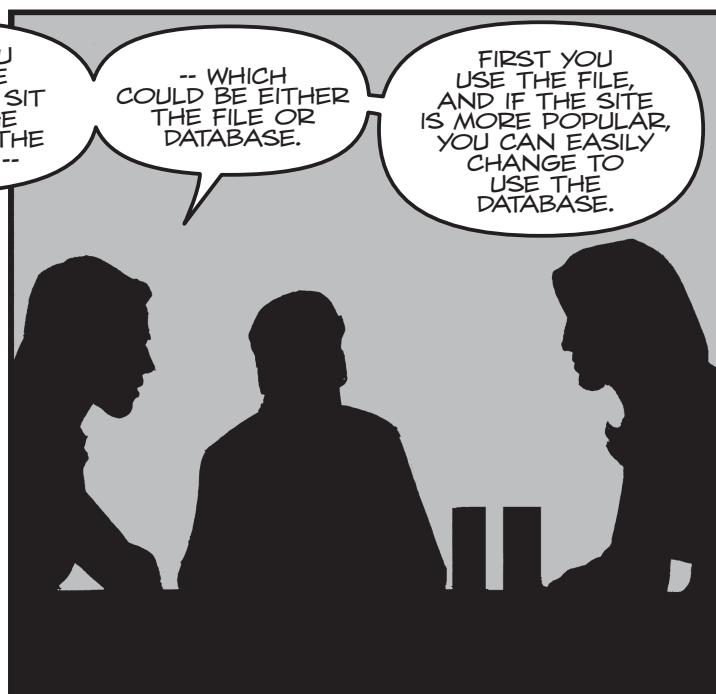
WE NOW NEED TO THINK HOW WE USE REAL OPTIONS TO HANDLE UNCERTAINTY.



OH-- HERE'S LIZ KEOGH. PERFECT TIMING.

SHE CAN HELP US WITH THIS.









2nd October

Tuesday

Dear Susan,

At University most of my friends lived together in one of two big houses. They were on the same street side by side and they were owned by the same landlord. The landlord had a lot of properties that he rented out to students. All of them were the same. Same kitchen, same bathroom. I suspected the landlord had a warehouse full of spares that he bought at the same time he bought the kitchens.

I ate dinner at one of the houses quite a few times. I would come in and the kitchen would be spotless. Two of the guys in the house were really fussy and insisted on everyone cleaning up the kitchen after a meal. They were also pretty disciplined at replacing things that ran out. They had a schedule and everything. The others went along with it but I think they liked the place being tidy as well. Whenever I was there around dinner time they would offer something to eat. Within ten to fifteen minutes we would have something on our plates to eat. These were student days so it was normally pretty basic.

Next door were the gym guys. They had moved the kitchen table to one side and installed a weights bench. One thing I remember vividly was that there were never, ever, ever clean cups. The kitchen sink was normally full of dirty pots but a cup of tea required a trawl of the living room and residents bedrooms. Whenever I had a cup of tea there I normally had to go to the shops at the corner to get milk, tea bags and even washing up liquid on one occasion. It did not worry me too much as it took just as long to find a couple of cups in the rubbish tip that they called a living room. One time one of the guys invited a new girlfriend around for dinner. It took him so long to prepare it that she dumped him.

I've come to realise that technical debt is like a dirty kitchen. You cannot find anything and you have to clean up before you start to do any real work. While a little is still manageable on a daily basis, if it gets too big the act of cleaning up and hunting for things is a real gumption trap (from Zen and the Art of Motorcycle maintenance).

At some point the mess is too big to find things and it becomes easier to give up. This builds up to a series of failed attempts to clean up and the initiative to start becomes smaller and smaller.

2nd October

Tuesday

Paying down technical debt or "Refactoring" as some of the developers call it is the equivalent of cleaning the kitchen and putting stuff in the right place. This means that the next person who comes along is able to find what they need where they expect it to be.

Options helped me realise that technical debt is not debt. It is not a fixed cost.

Rather it is a sold option. The more valuable and urgent the requirement, the more the "sold option" ( Technical Debt ) costs you. As the guy who lost the girlfriend knows all too well. Sadly people never learn, he lost the next two girlfriends after me as well though we all became good friends.

I now realise that paying down technical debt is like keeping the kitchen clean. It helps me respond quicker and deliver faster with less effort. This gives me more options which is a good thing. Sometimes the most valuable investment for the business is a pair of technology cleaning gloves.

One last thing, tonight Lilly took me to The Learning Cantina. Amazing how she always finds these extraordinary places. She introduced me to Jon Terry and Liz Keogh and we had a great conversation about project management and Real Options. Sounds interesting, this options thinking. Made sense to me, but I'm not sure how this is going to help me. I'll first start with the project management ideas.

When I googled Liz I came across a blog post of hers describing a real life situation where she applied options thinking.

Good night, Susan. Time to get some sleep.

# Liz Keogh's Blog

Software, Training, Coaching, Writing.

July

01

## Clients value changing their minds too

A few years back, I met Chris Parsons when he gave a talk about a topic I was hugely interested in. Chris was the CEO of Eden Development, a little software house down in Winchester. Meeting him resulted in us both appreciating offering options in real life.

After the talk Chris and I exchanged ideas about some questions he'd had difficulty answering. He seemed impressed and suggested I should come and coach his team for a day or two. I like small companies; they're usually fun and easy to coach. So, I offered him a fairly low rate and Chris replied promptly and said, "Come down on Monday."

"Hmmm, you said, 'A day or two,'" I reminded him. "You see, Winchester's two and a half hours by train, each way, and I don't really feel like travelling for five hours only to do it again the next day, so I have a proposal."

I offered Chris the option for my help on the second day, at the same low rate. Chris could buy this option for the price of a hotel and a meal. If he paid for my hotel, I'd stay there regardless. This way I would have a nice relaxed time instead of trying to travel there and back in one day, and if Chris wanted me back for the second day all he needed to do was let me know before I left on the first day.

Chris loved the idea. I booked the hotel, went there for my first day and started helping the team at Eden Development.

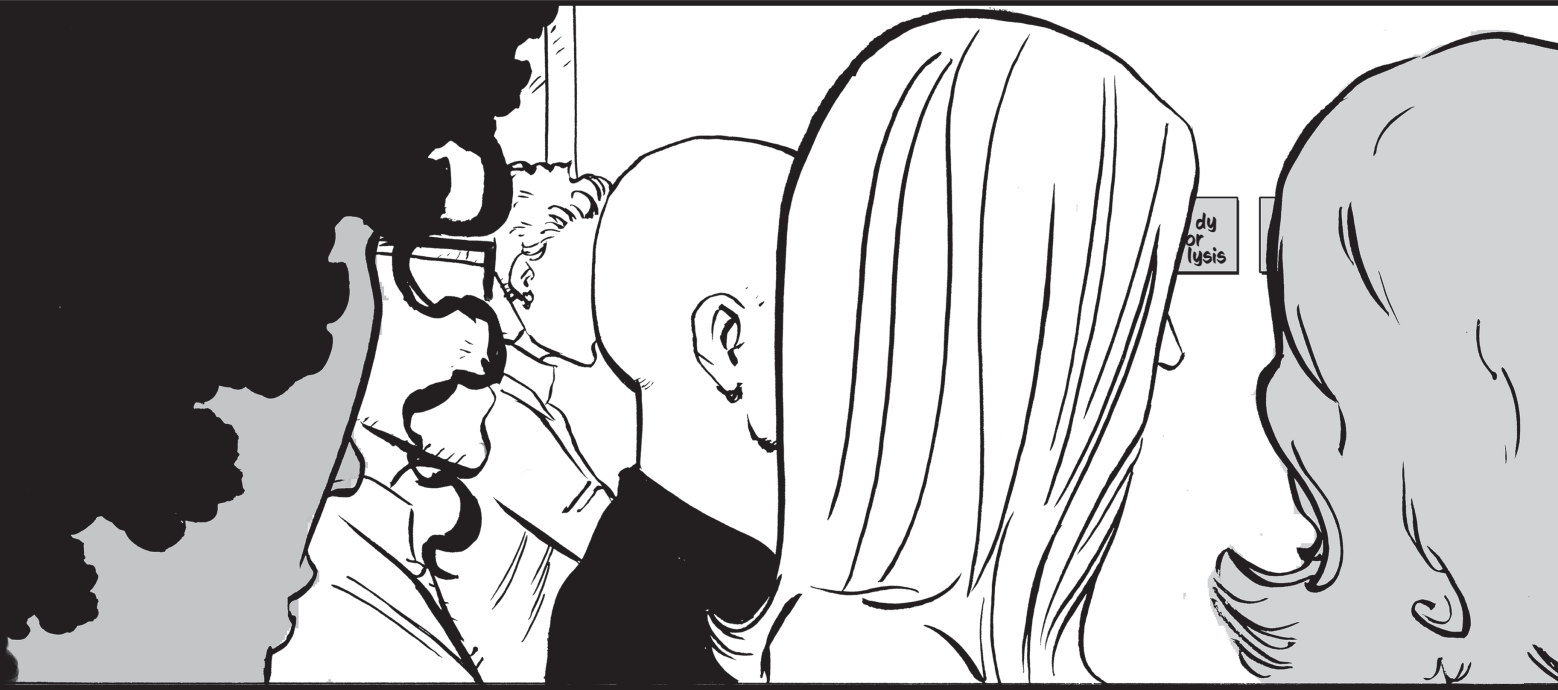
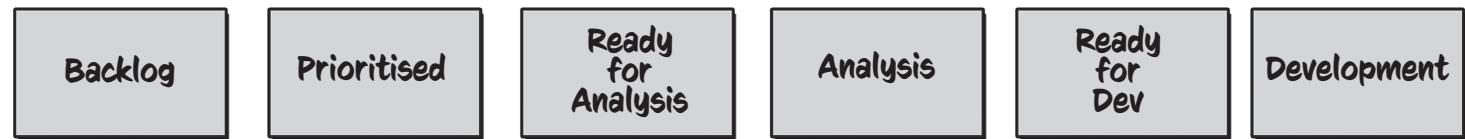
Chris Parsons was so pleased with the results on the first day that he asked me to come back on the second day - he used the option. When I came back in, Chris said, "I've spoken to our client and asked him to keep a prioritized list of the things he wants. We only need to know the top six things he wants us to work on. This allows us to help him focus on the stakeholder goals more effectively. We'll chat with him once a week to get more. Now... how do we make this work?"

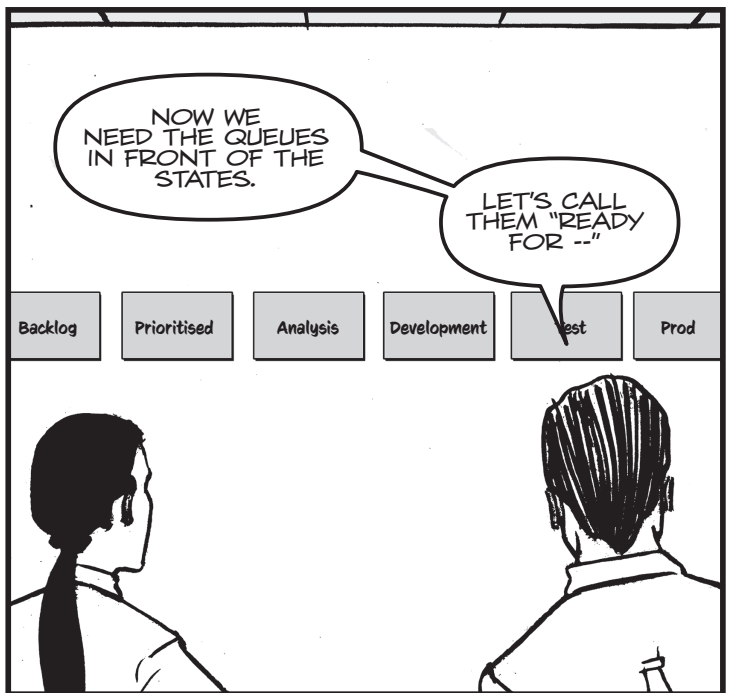
When I called back a few months later to see how things were going, they had reduced the limit to three items, talking to their client twice a week. It turned out their client loved having the option to change his mind too!

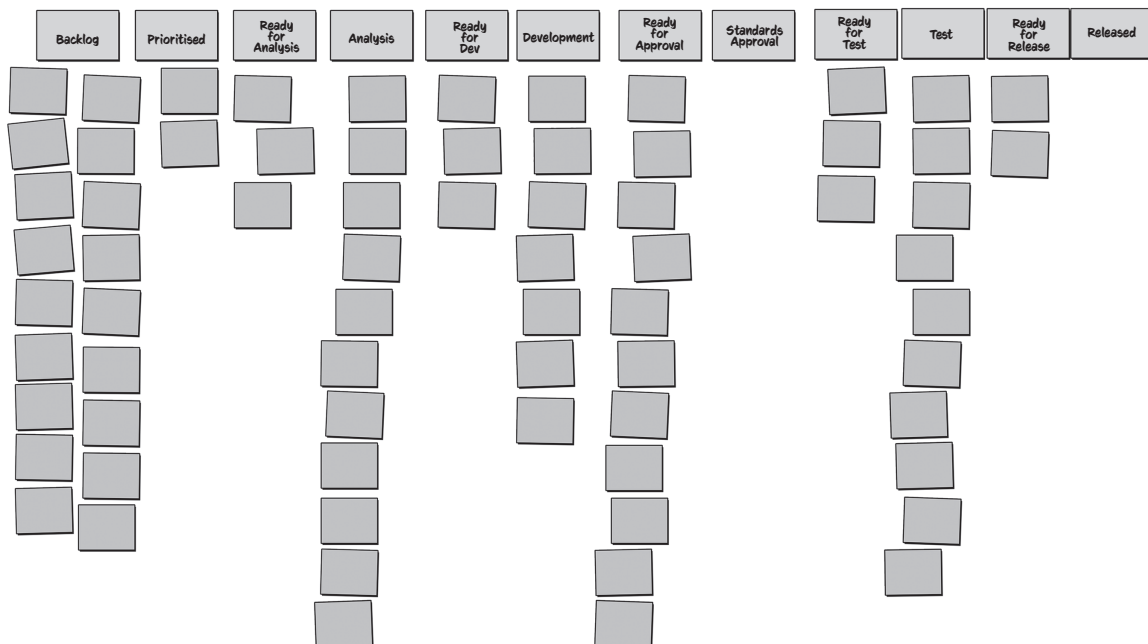
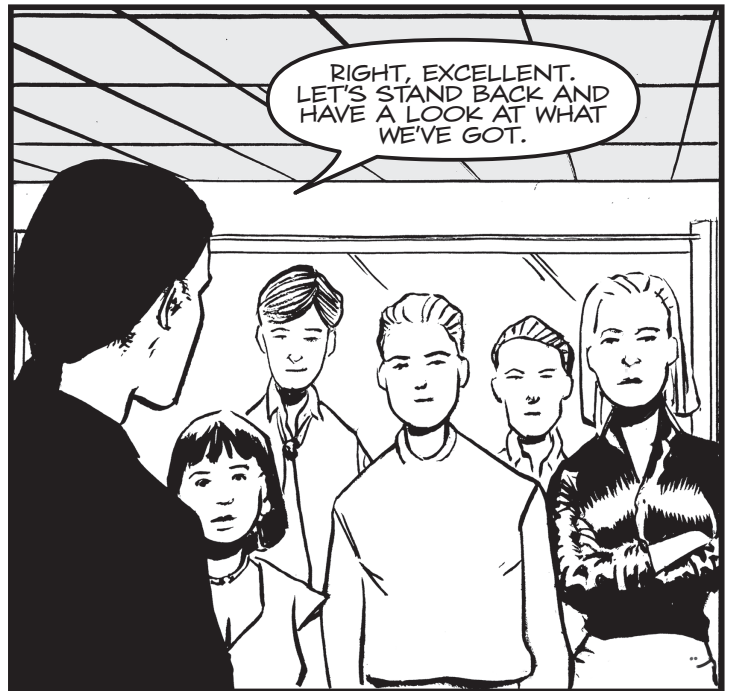
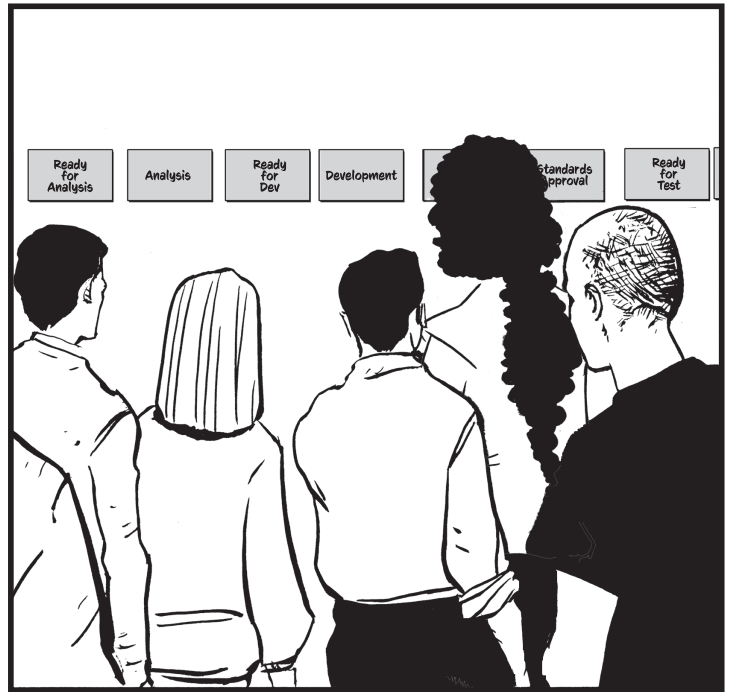




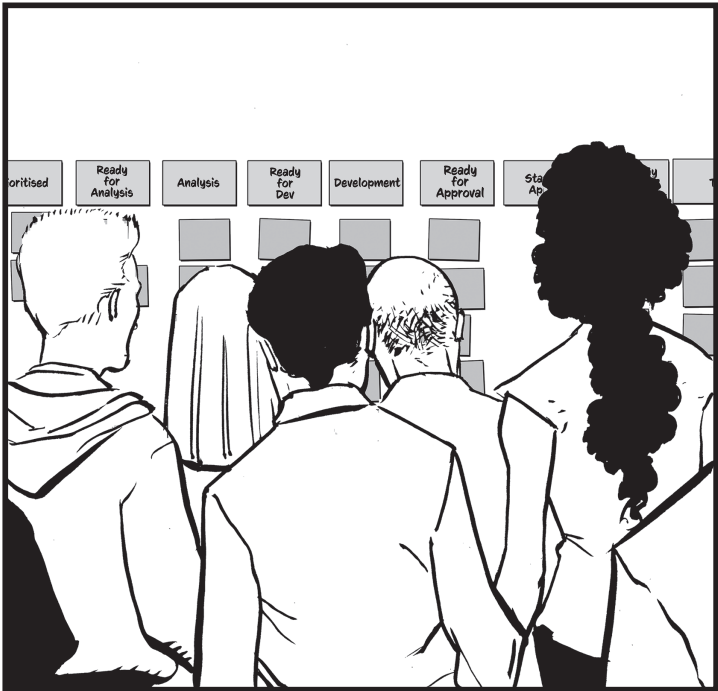
# CHAPTER FOUR

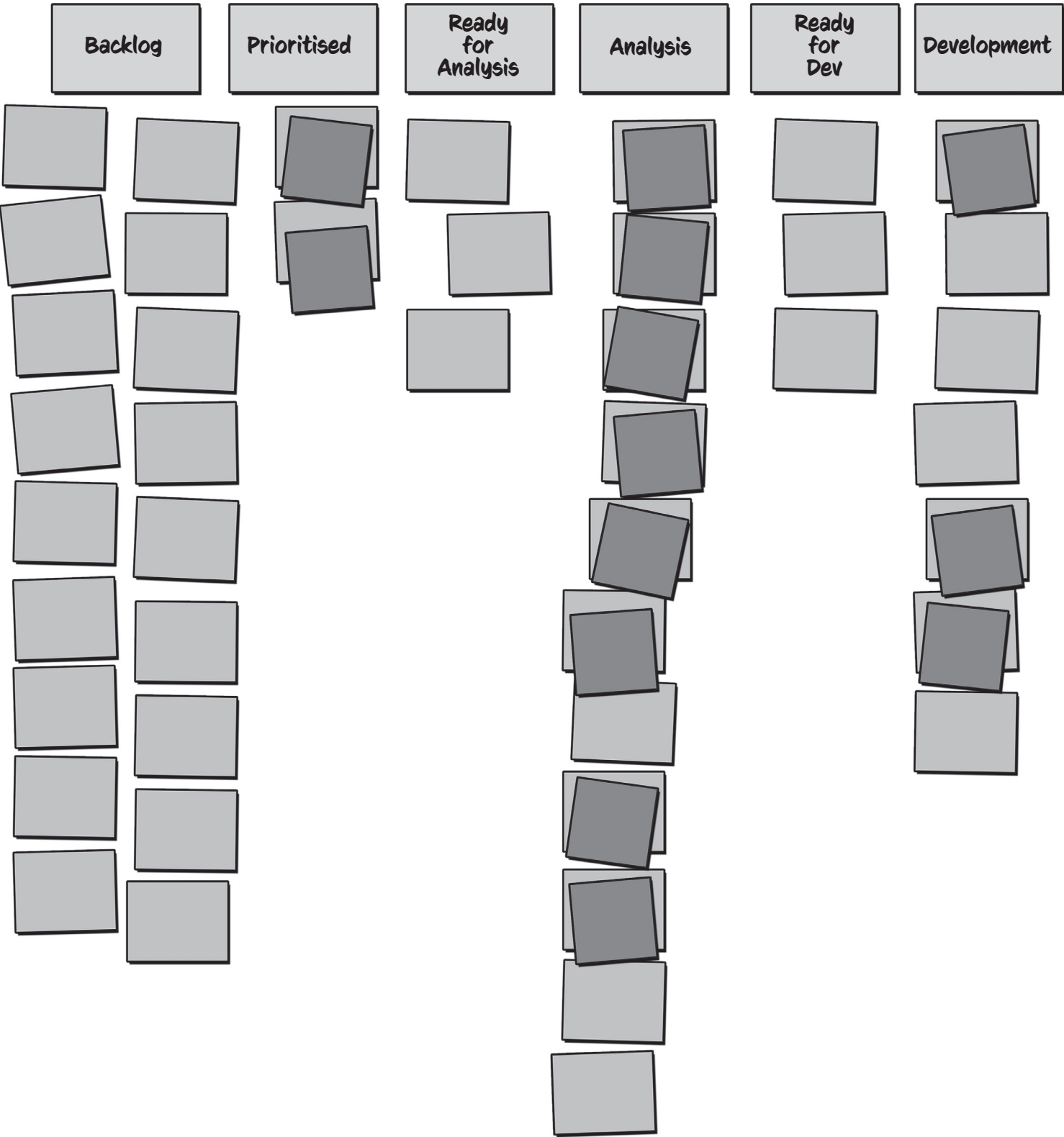


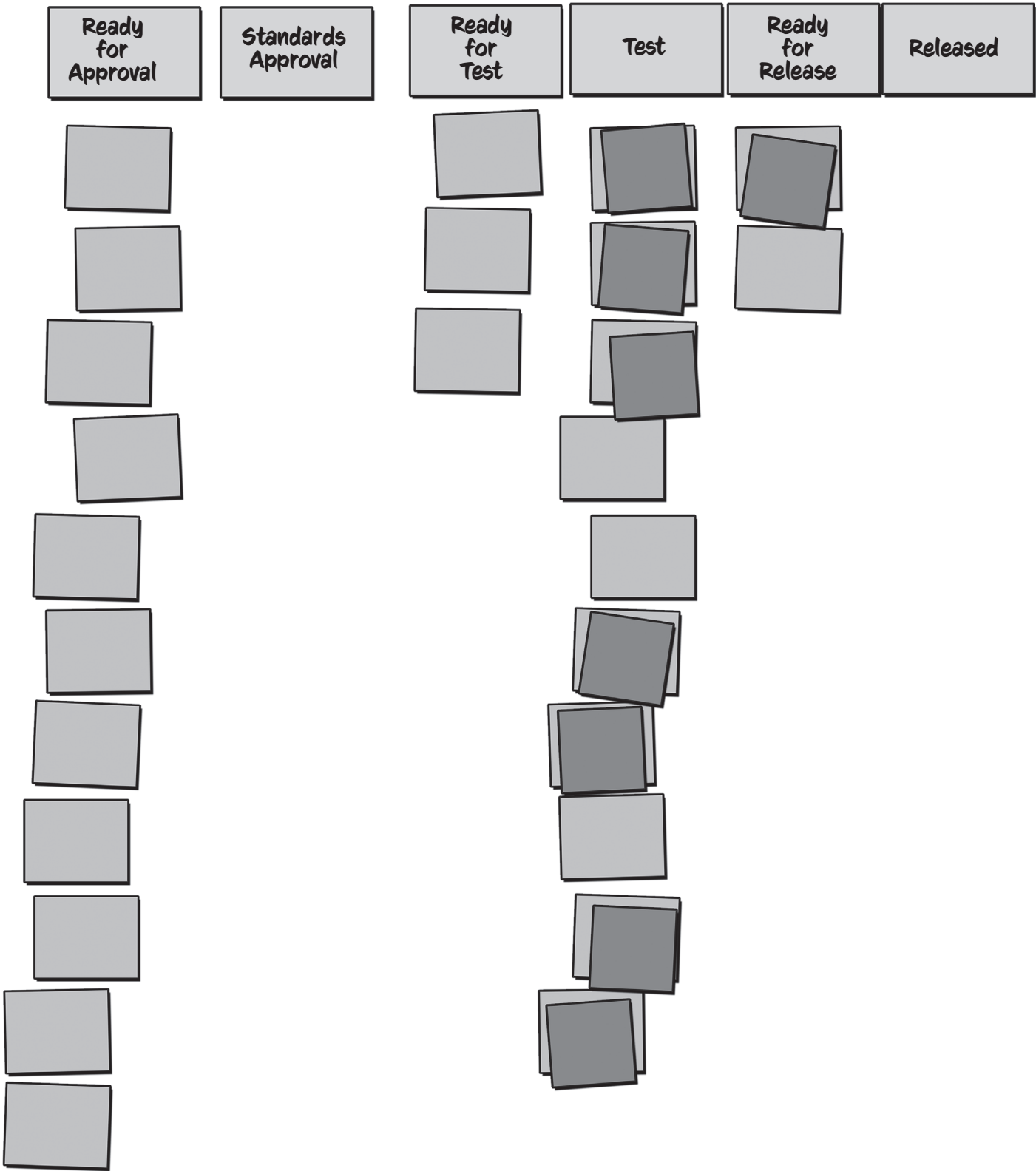












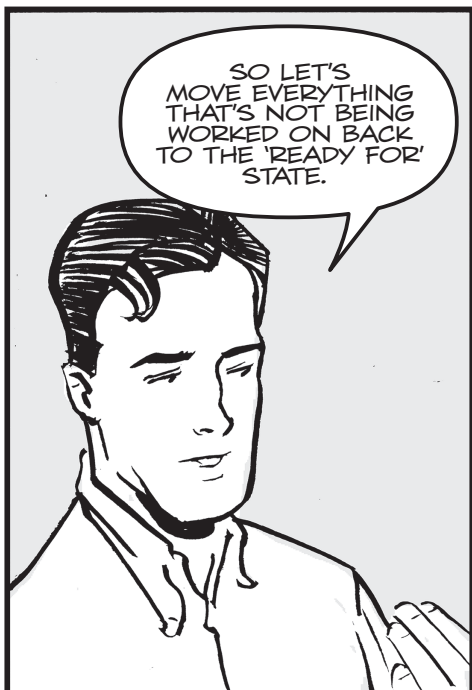


I CAN NOW SEE THAT WE CANNOT DELIVER THIS PLAN.

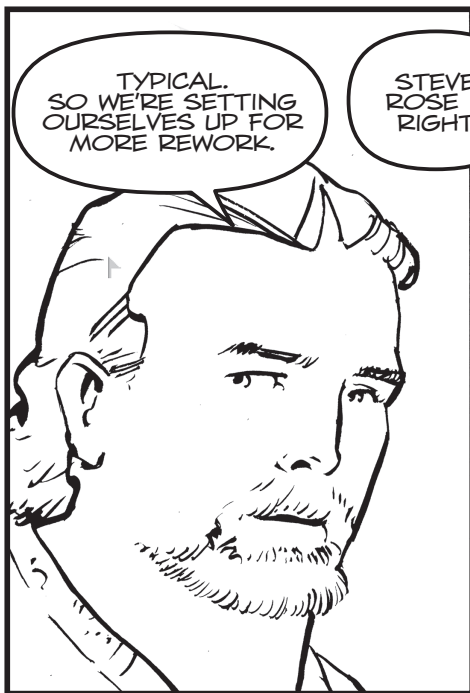
I CAN TELL THAT I HAVE BEEN FOCUSED ON GETTING YOU GUYS TO START THINGS --

-- AND WE'RE NOT GETTING THINGS FINISHED.

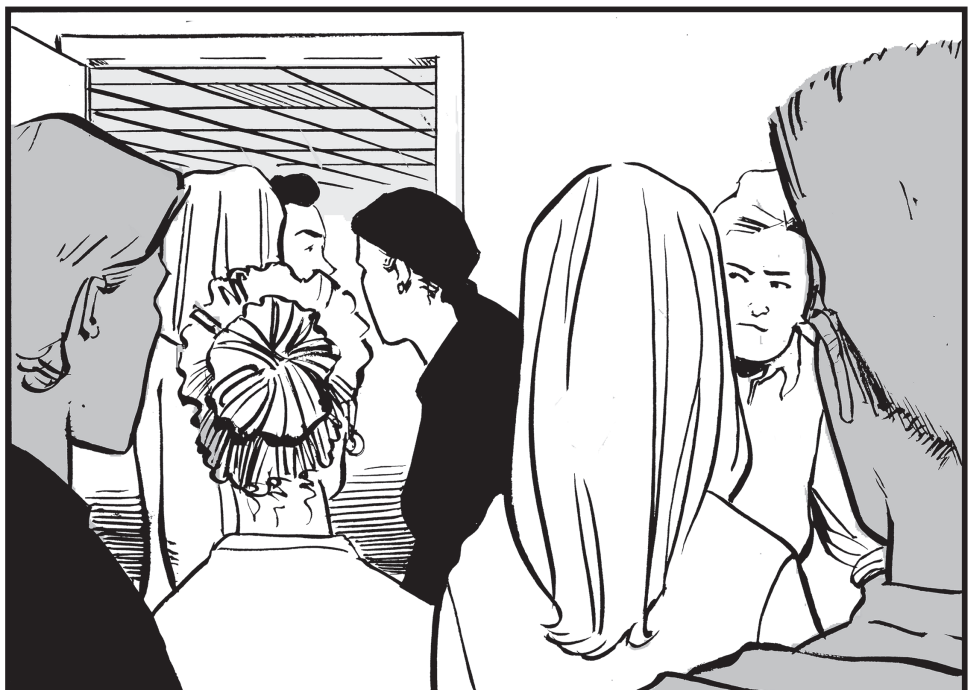
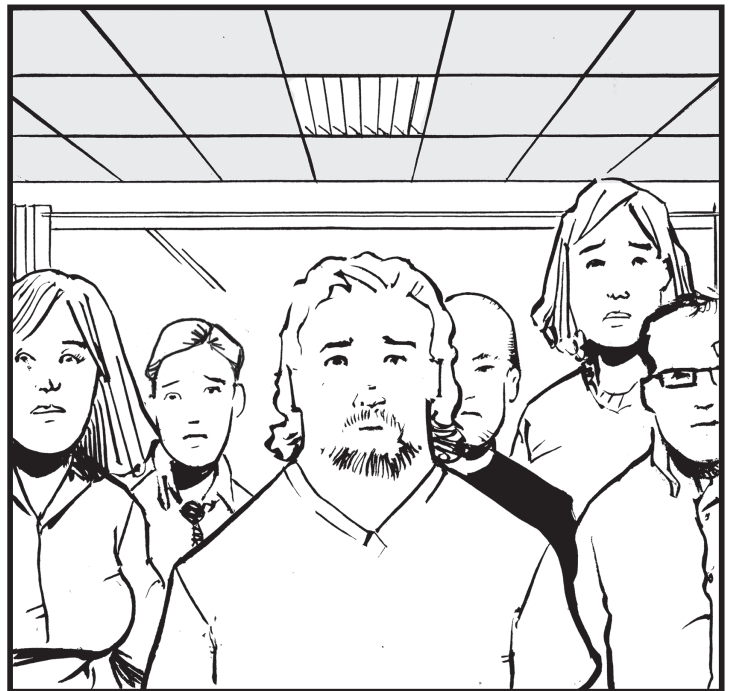
LET'S CHANGE THAT FOCUS TOWARDS FINISHING THINGS.

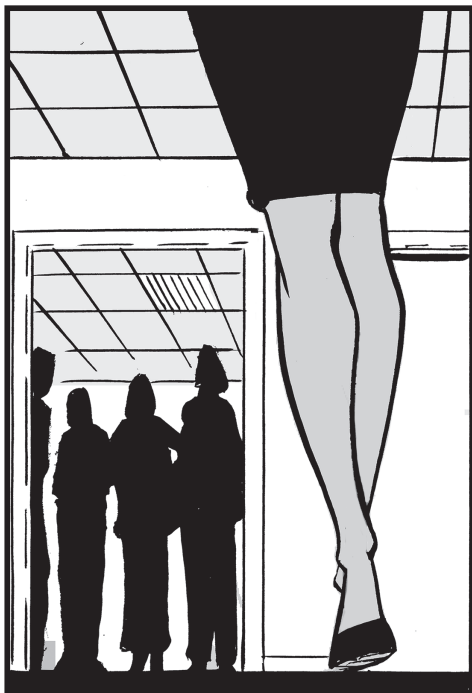


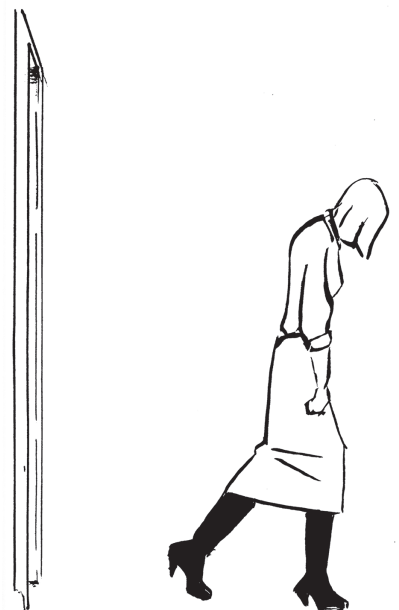




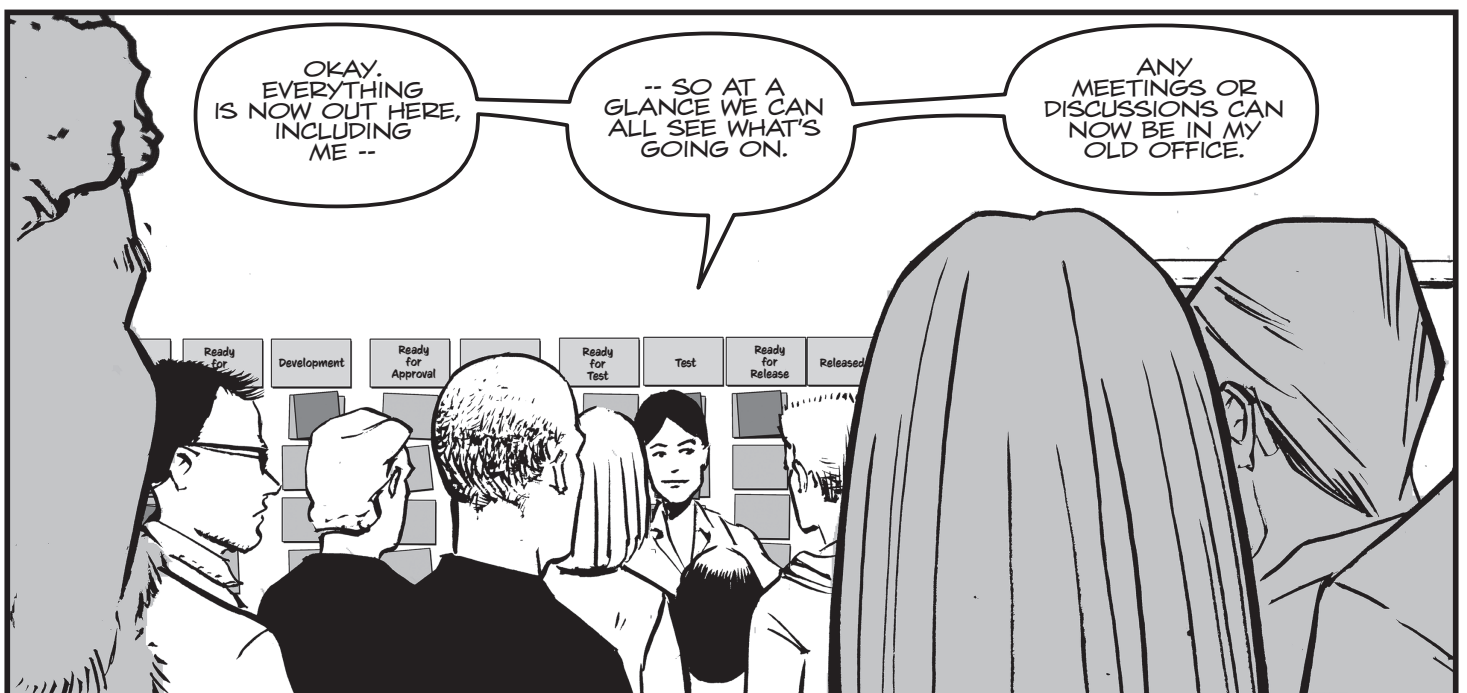
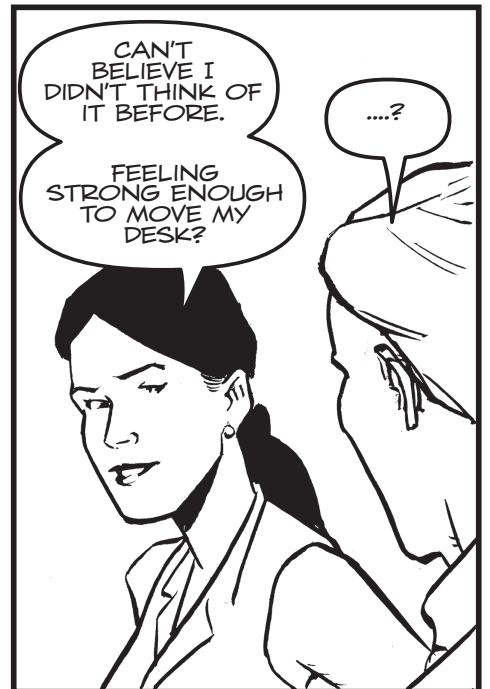
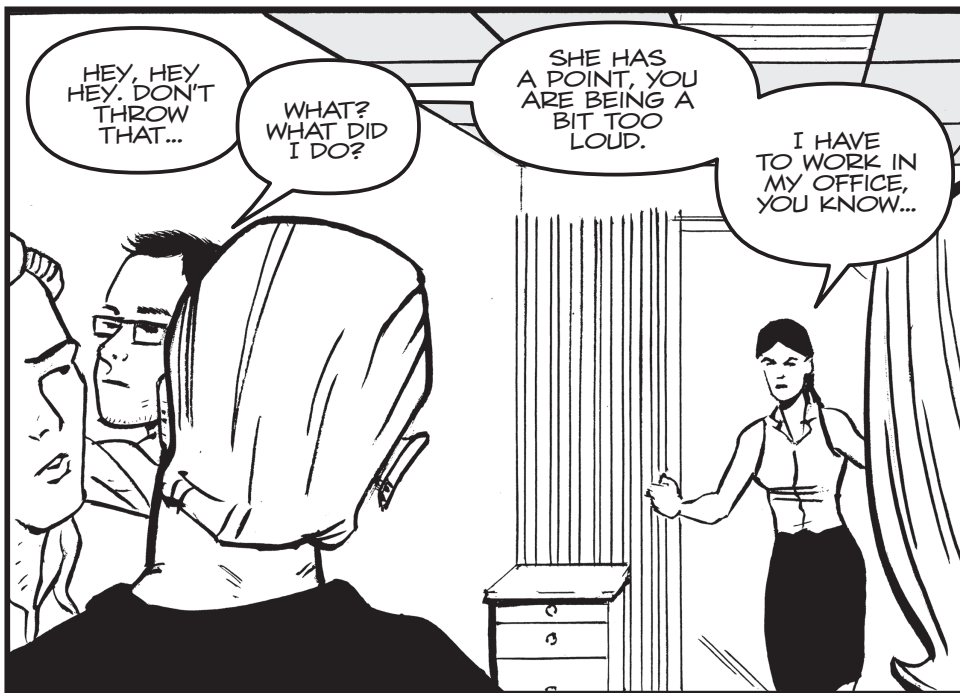
STEVE,  
ROSE IS  
RIGHT.















## Visualisation Boards

3<sup>rd</sup> Oct

Today I worked with Gary on creating a visualisation board for my team. By visualising our process and making the process steps more explicit it becomes easier for us to see how we are doing and where the problems are.

### **What is a visualisation board?**

A visualisation board is a tool to help you improve your process. It is literally a board where you visualise both the process and its steps and the current status of work within that process.

### **Origins of a visualisation board**

The origins for a visualisation board is at Toyota. Toyota identified that storing, trucking, shipping and a number of other process steps in their manufacturing process are non value adding. By mapping out the steps that create value and the steps in-between that do not add value you map the 'value stream'.

Taiichi Ohno's Toyota Production System focuses on the delivery of value and the creation of knowledge. In Lean Thinking (written by Womack and Jones) the process is explained by going through the description of the value stream of a can of cola. The value of a can of cola is realised when the can is consumed.

The value stream of a can of cola starts with the extraction of Bauxite from a mine in Australia. The resources and half-products are stored, trucked and shipped all over the world. In Iceland the ore is used to produce ingots of aluminium. In Finland the ingots are used to produce rolls of aluminium. In Spain these aluminium rolls are stamped into circles that are formed into cans. The cans are filled with cola, sent to the warehouse and from there to supermarkets where we buy them and finally drink the cola. The whole process takes 365 days however there are only 24 hours of value adding activities.

### **Archives**

[October \(1\)](#)

[September \(1\)](#)

[August \(0\)](#)

[July \(0\)](#)

[June \(0\)](#)

[May \(1\)](#)

[April \(0\)](#)

[March \(0\)](#)

[February \(0\)](#)

[January \(1\)](#)

[Previous Year \(5\)](#)



By mapping the process out it becomes easier to get an overview of what is happening. We wanted to create something similar for our project. What are all the steps we take to realise our goal and how do they all relate?

**How to create a visualisation board?**

With our project the steps are less explicit and less visual. So we need to draw them out. The important visualisation of our board is both the states of our work where we add value as well as the waiting states or queues before and after them.

The ideal visualisation board has only three states. "Waiting" (work is waiting to be done), "Work in Progress" (where we do the actual work) and "Done" (when the work is done, duh). However in the real world, systems are often more complicated. The whole process consists of multiple specialisms resulting in multi-step processes. We model each of these specialisms as a column in our visualisation board. In order to create a little buffer between these steps the visualisation board is extended by having a "Waiting" and "Done" for each process step. As the "Done" from one process is the "Waiting" of the next process, these queues are often named after the process they feed, e.g. "Ready for Development".

**Column modelling**

Steps to create a visualisation board turned out to be reasonably simple. We modelled each step in our process as a column and added buffers between all these steps. We took extra care to ensure that all process steps done by different individuals or groups are included, even though they may only take a few seconds.

An example of a step that could be done quickly but we have still modelled is the "Standards Approval" where our system administrators check if everything is done according to the standards. Getting the approval may sometimes take a long time as the admin guys are generally very busy. This causes us significant delays. By having this on the board it's clearly visible when this is delaying us.

Hopefully when this happens too often we can have a conversation on how to remove this step and keep everybody happy and satisfied. Removing this step is not a priority just yet, we will look into it when we have some time to spare. First we need to create trust in each other and increase the visibility of the approval problem.

**Archives**

- October (1)
- September (1)
- August (0)
- July (0)
- June (0)
- May (1)
- April (0)
- March (0)
- February (0)
- January (1)
  
- Previous Year (5)



## Hidden queues

Process steps and waiting for them is one type of queue. There are two other types we should look out for: waiting and multitasking.

When we can't continue to work on something because we have to wait on something or someone, the items we can't work on at that time are considered blocked.

To visualise these we agreed to write what's causing the delay on a brightly coloured sticky note. If the board is full of those brightly coloured stickies we know we have a problem.

Multitasking is when someone works on more than one item at a time. When you are working on more than one work item, you have created a hidden queue formed by the items you are currently not actively working on. The solution is simple. For starters we decided on a one item per person policy. We'll see how this works out and can change it later.

## Bottleneck / capacity management

Eli Goldratt created a theory based on identifying the constraints to optimise throughput in a system. In other words how much a factory (or any other process) produces is determined by its slowest step. Assume producing a car takes ten steps. At each of these steps the team working there is able to handle producing 20 cars per hour, except for one step where they can only handle producing 12 cars per hour. Because all of the steps have to be done to produce the car, the total productivity can never be higher than 12 cars per hour.

The step that is creating the fewest cars in this example is called the constraint. It constraints or limits the total productivity. Adding additional capacity to anywhere in the system other than at the constraint will have no beneficial impact. It is only possible to improve the whole capacity by adding capacity at the constraint.

## Board patterns

Gary used this Theory of Constraints by Eli Goldratt to explain some common patterns to look for when using a visualisation board. When you have a constraint in your system (board) work will queue up in front of a constraint. Also the steps after the constraint will have less work ready to work on as they are waiting for work to come through the constraint.

## Archives

[October \(1\)](#)

[September \(1\)](#)

[August \(0\)](#)

[July \(0\)](#)

[June \(0\)](#)

[May \(1\)](#)

[April \(0\)](#)

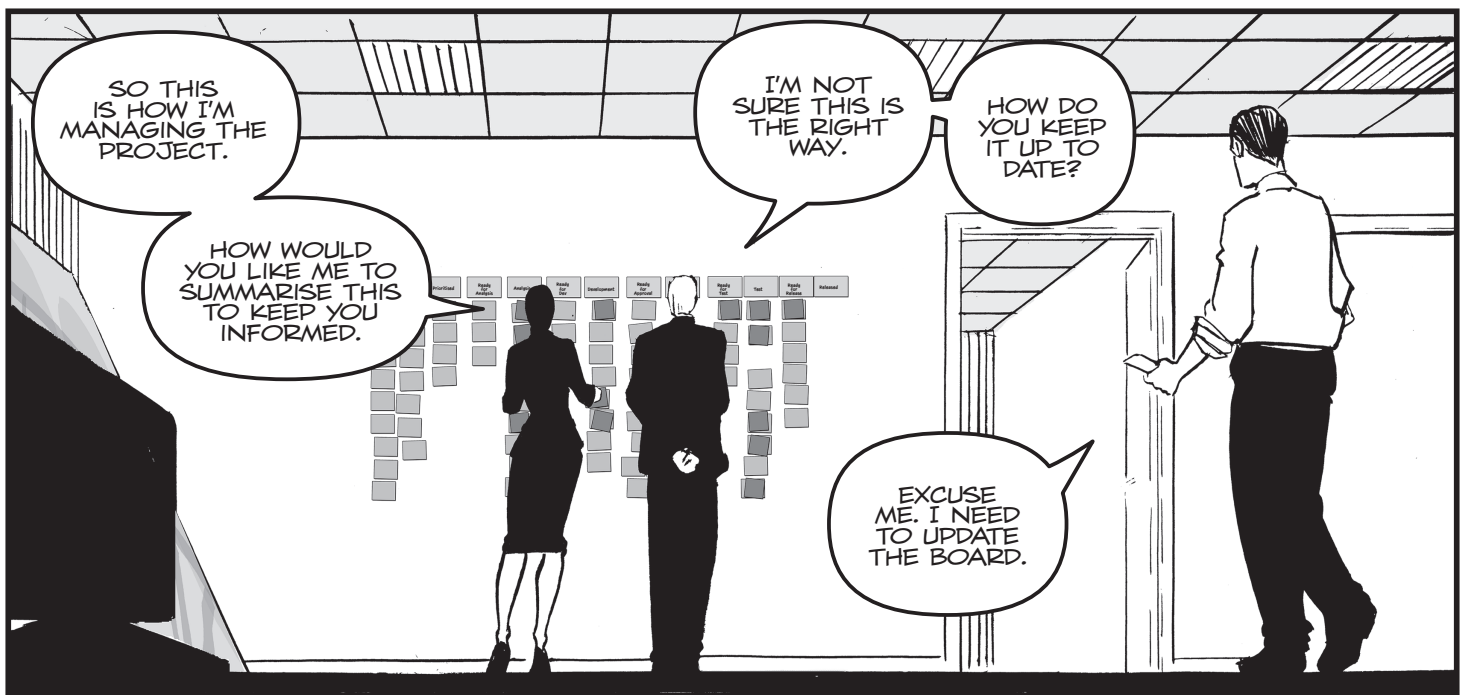
[March \(0\)](#)

[February \(0\)](#)

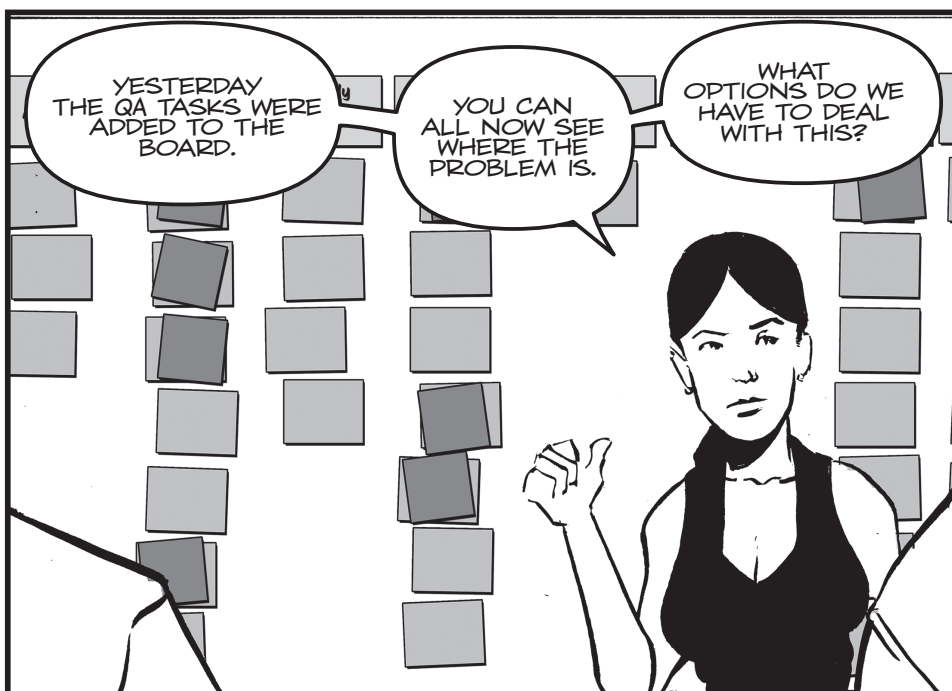
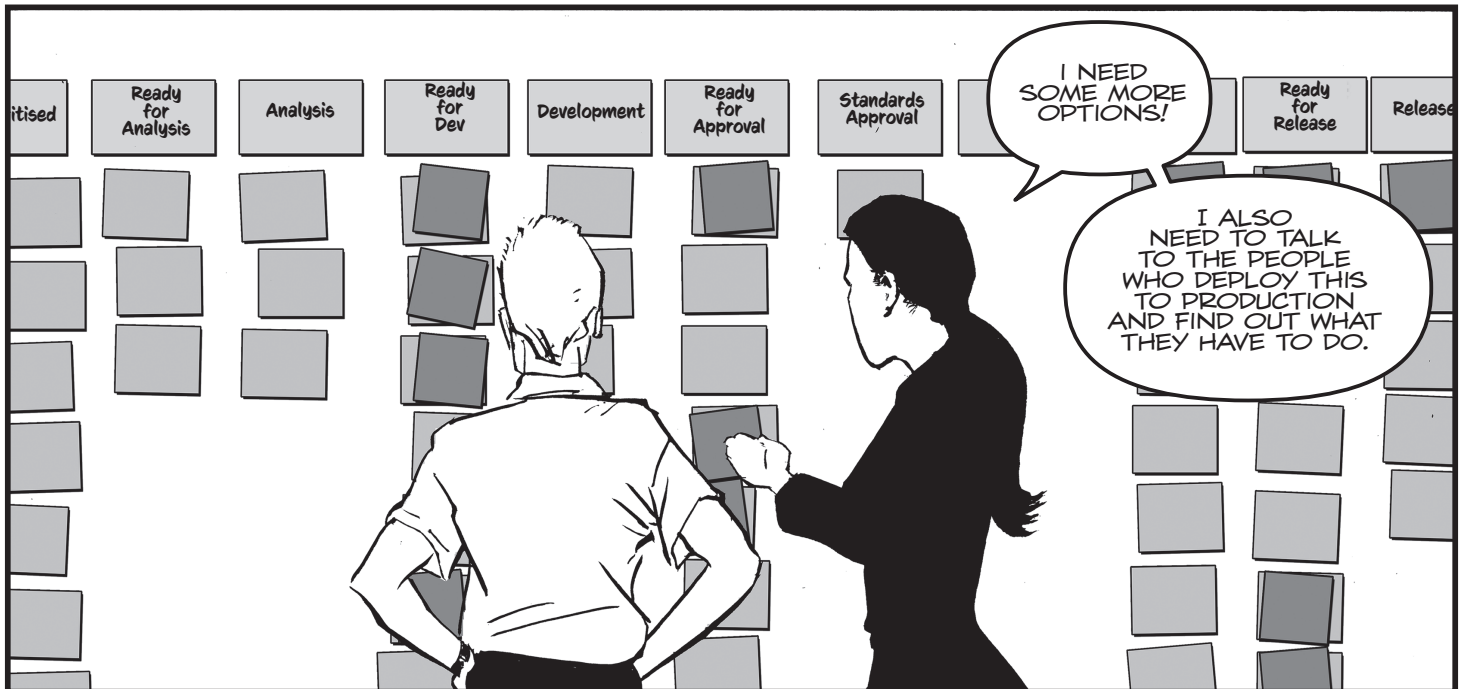
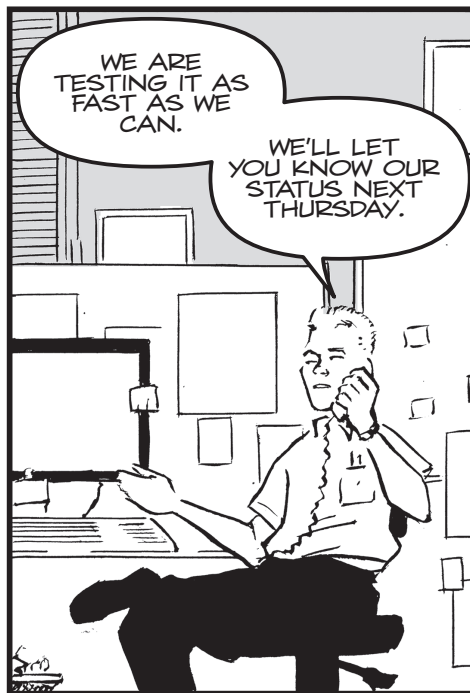
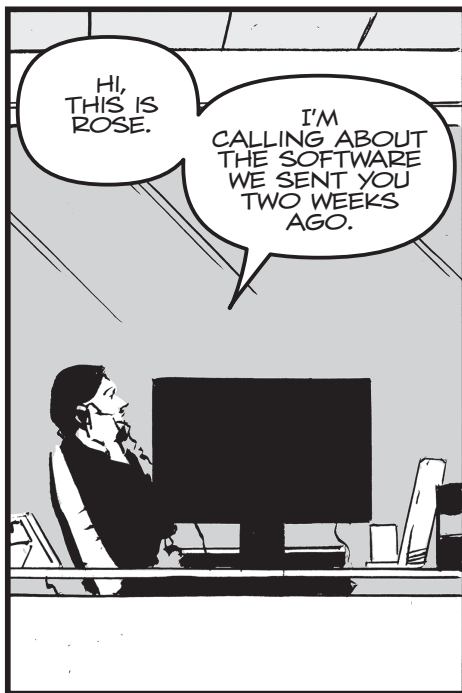
[January \(1\)](#)

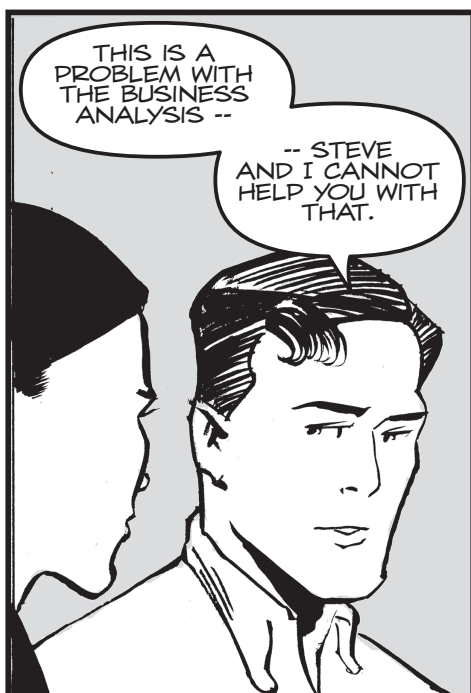
[Previous Year \(5\)](#)





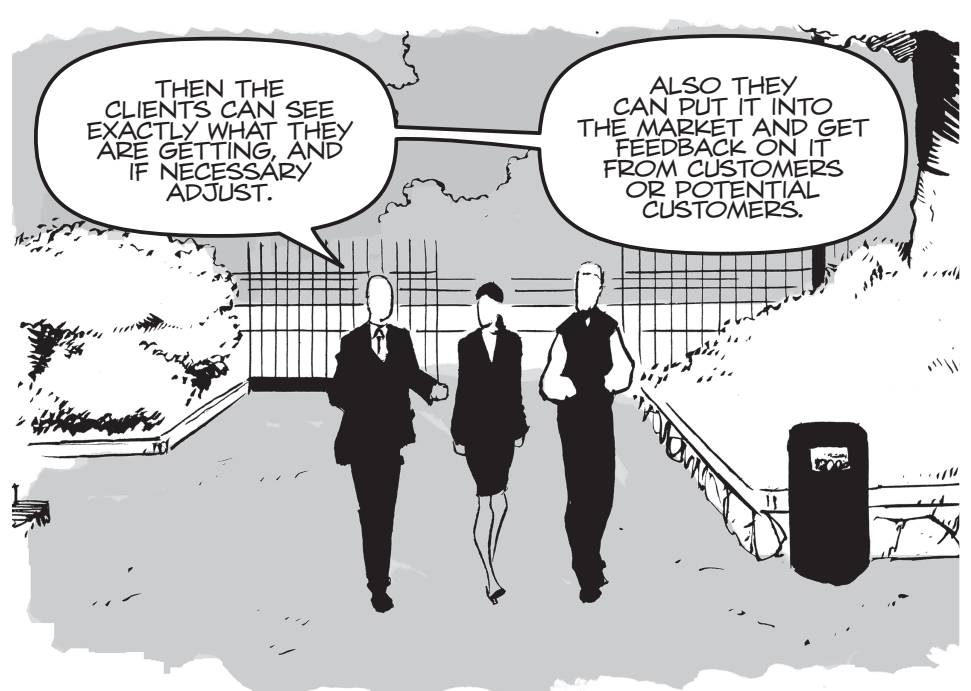
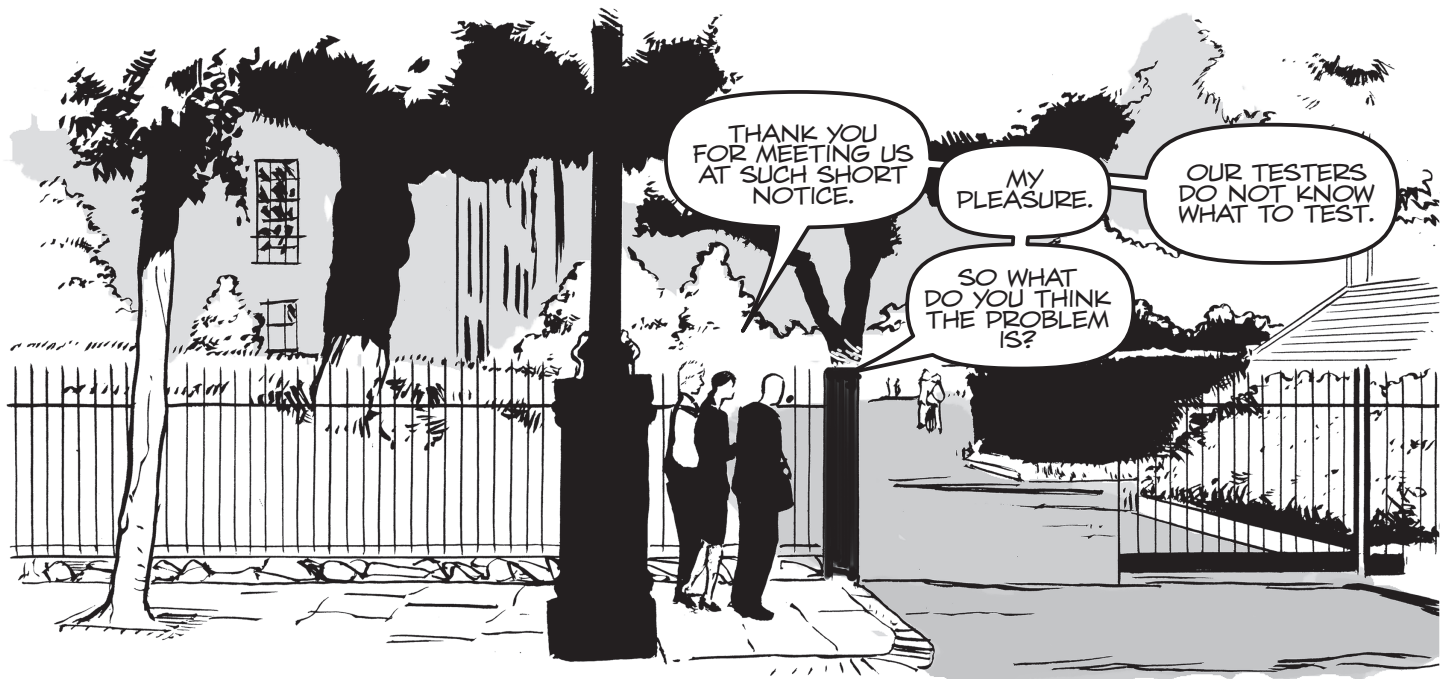




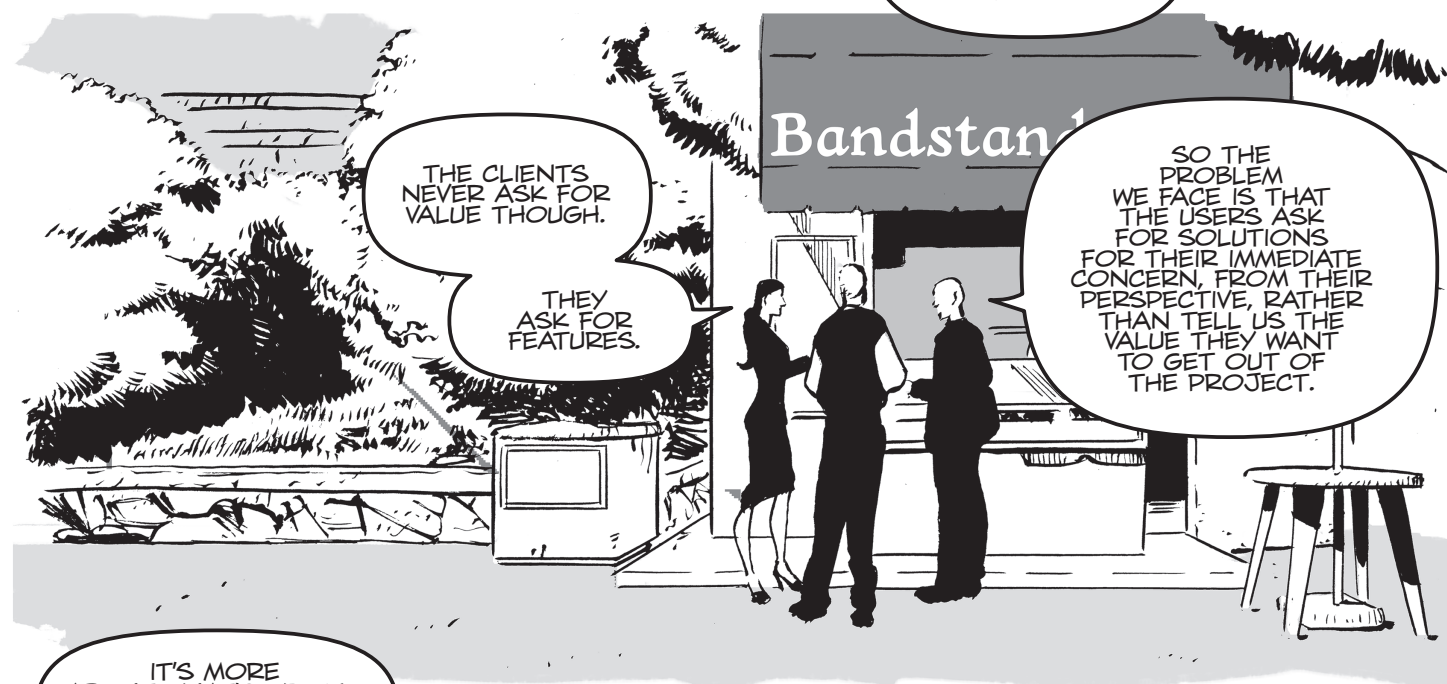
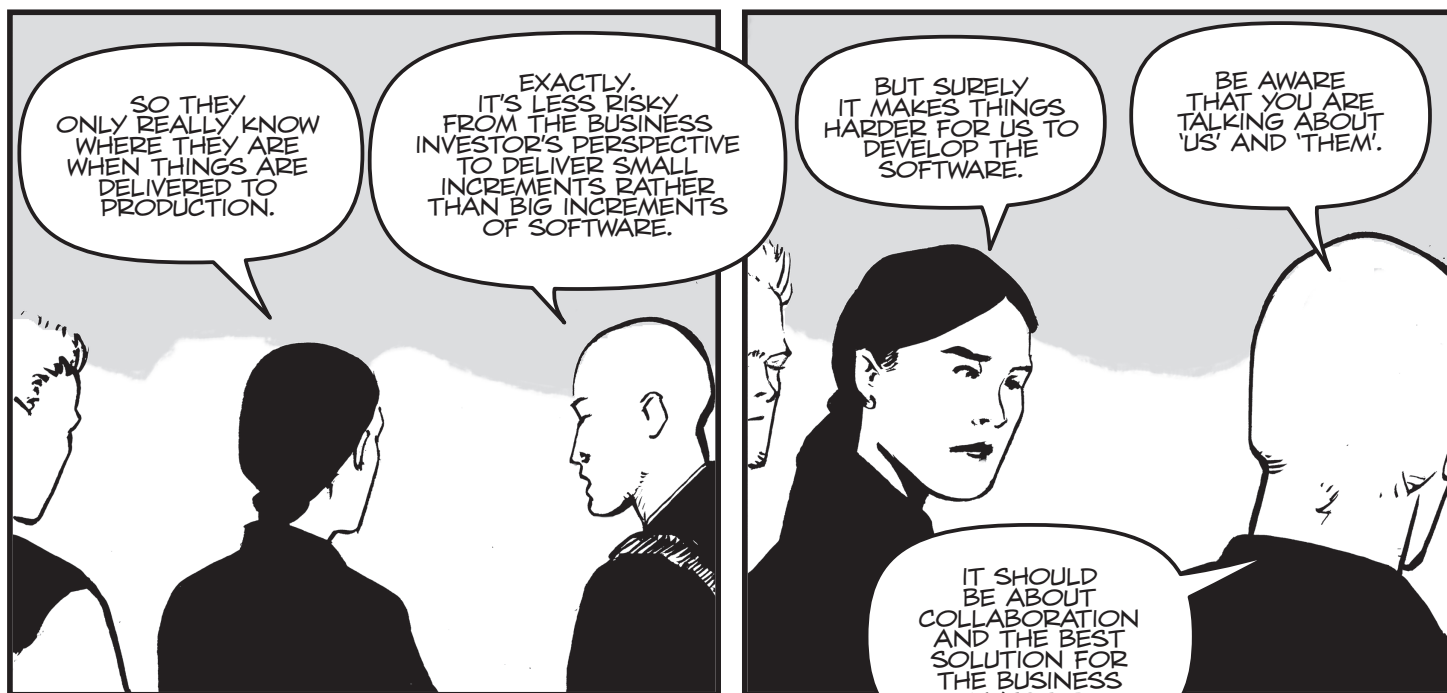


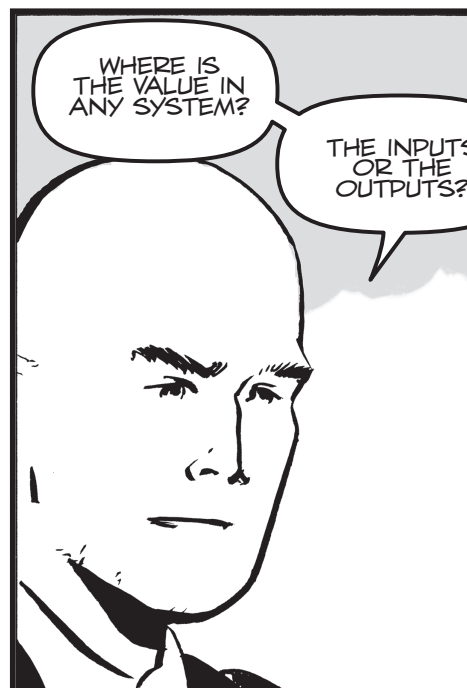
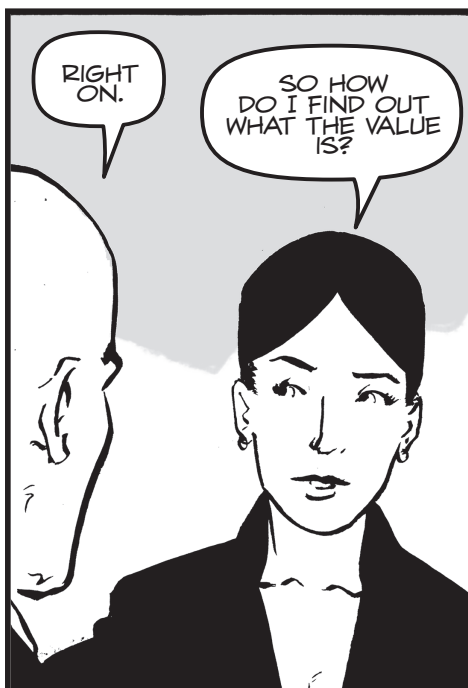
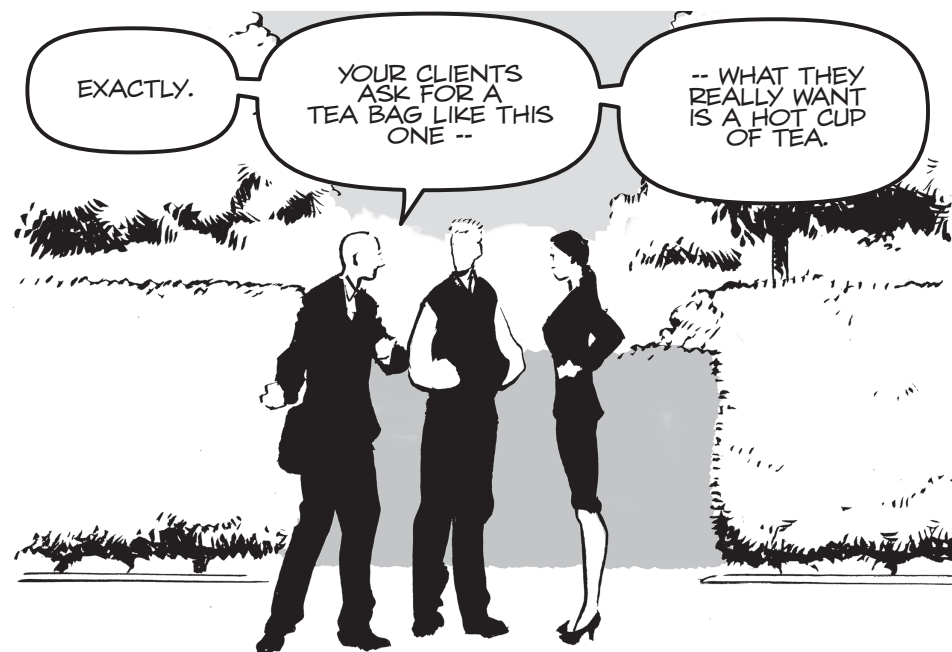


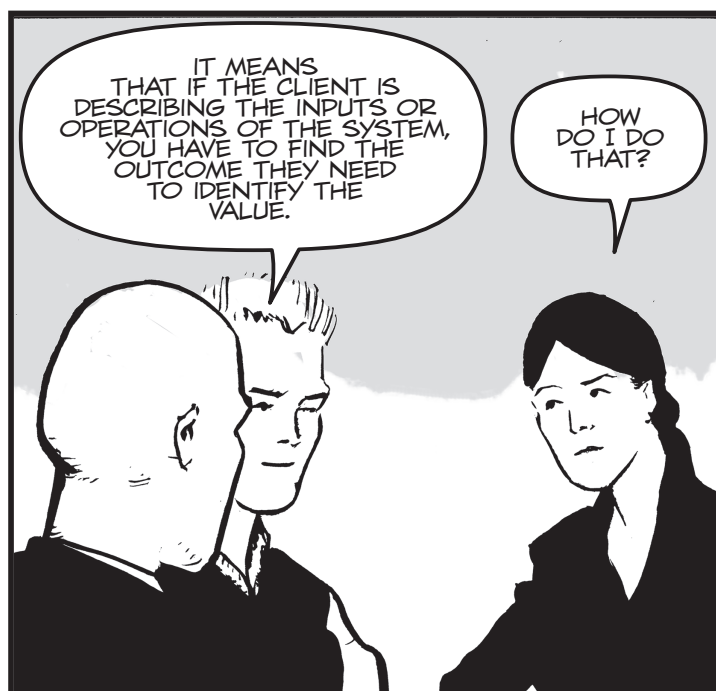


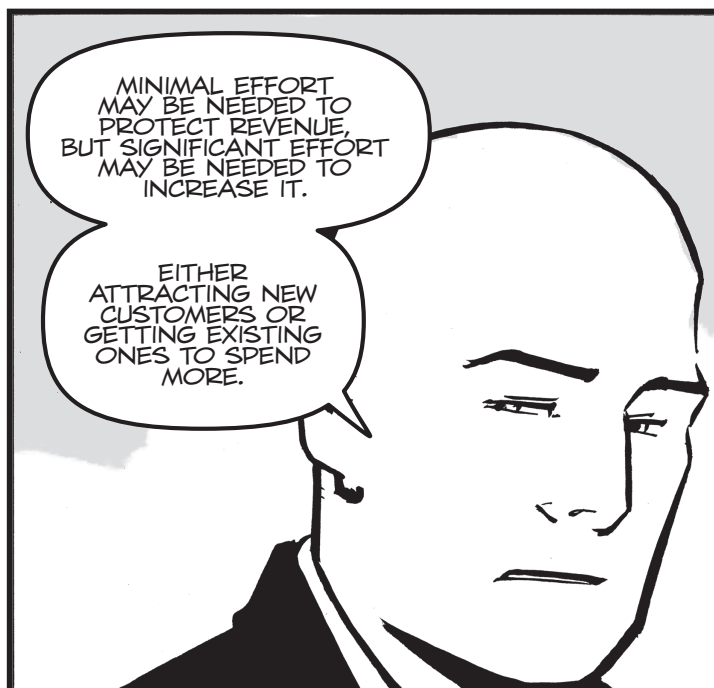
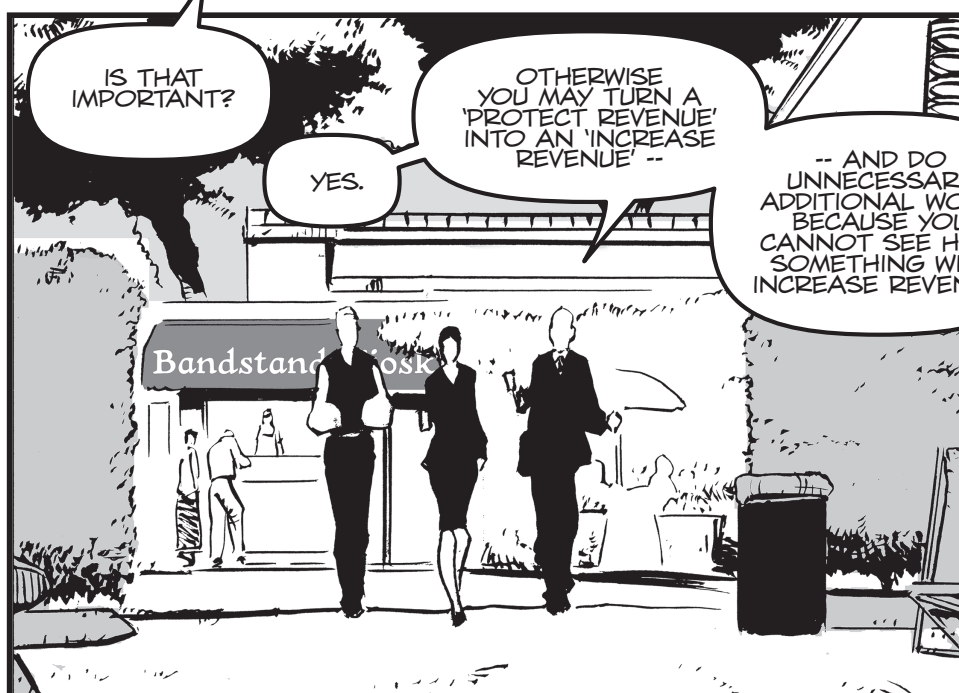




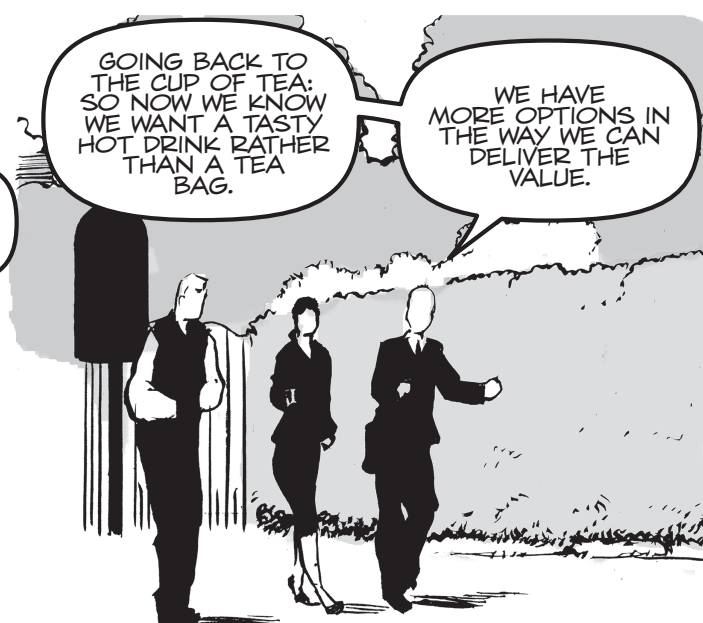
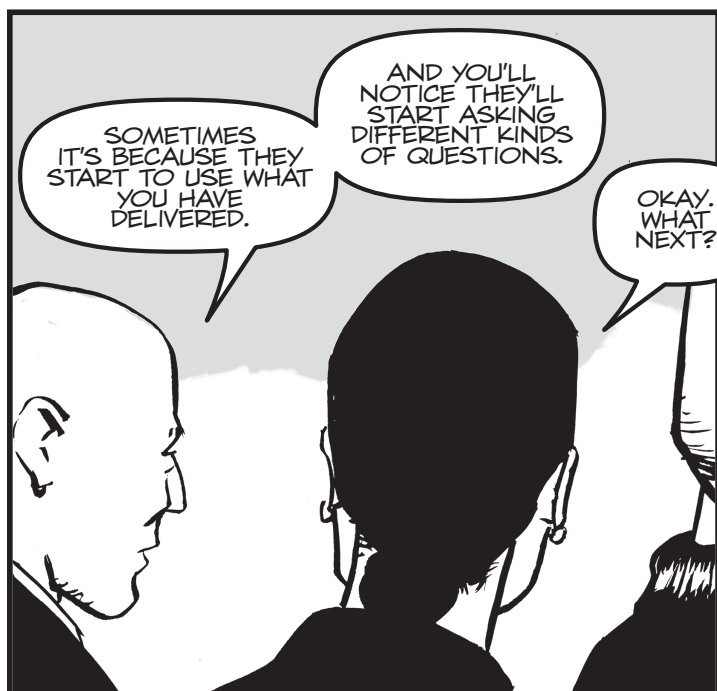
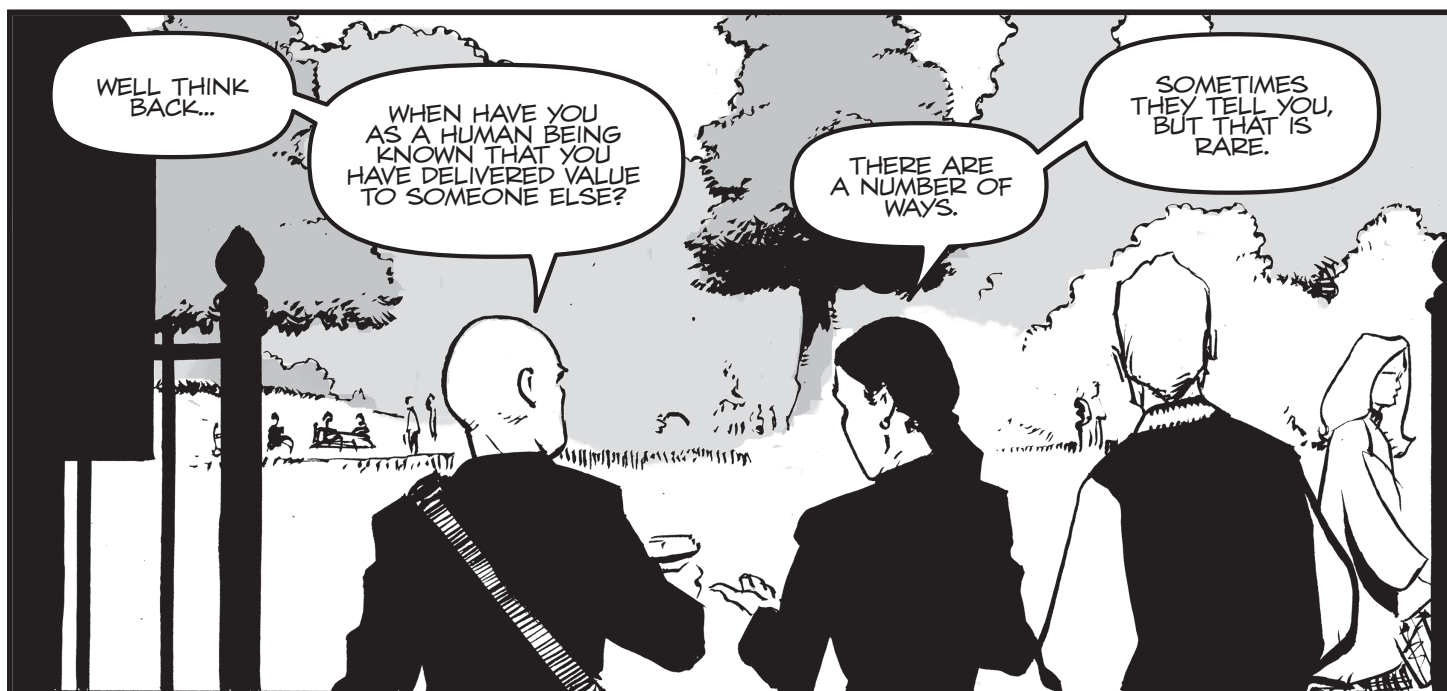


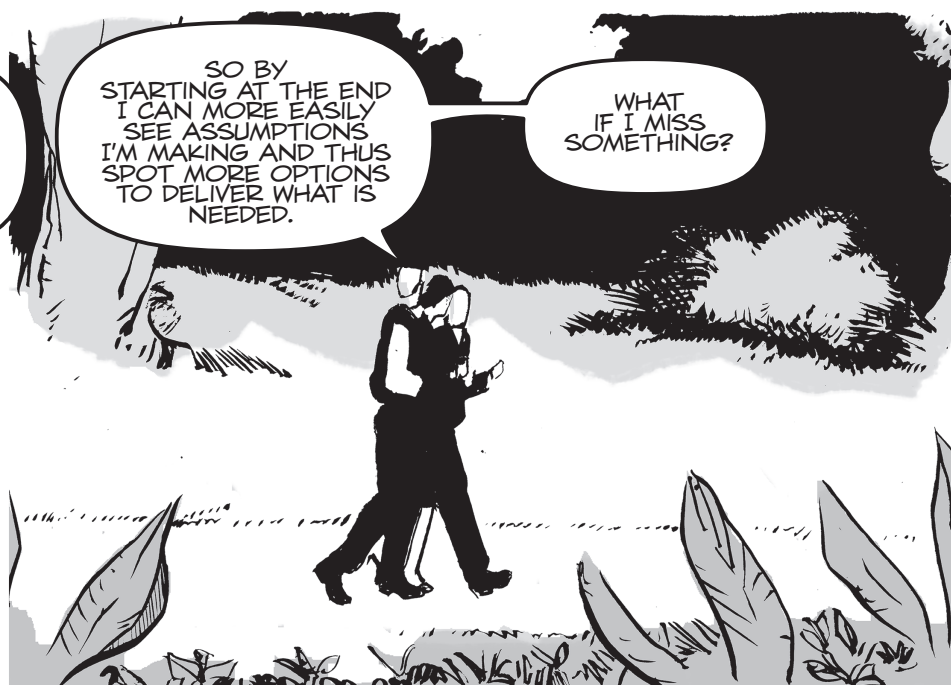
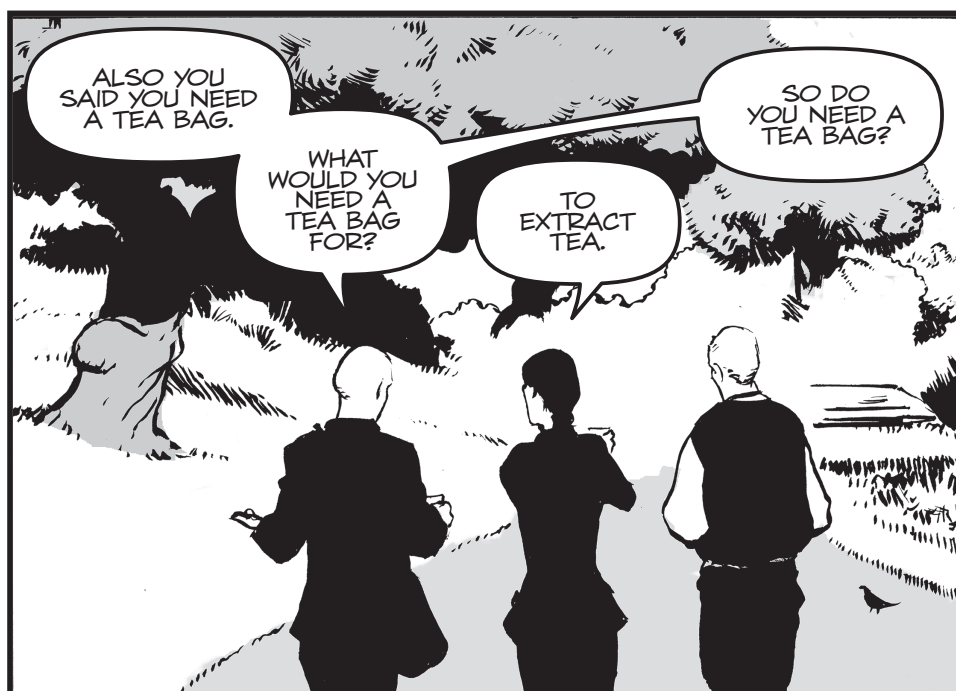


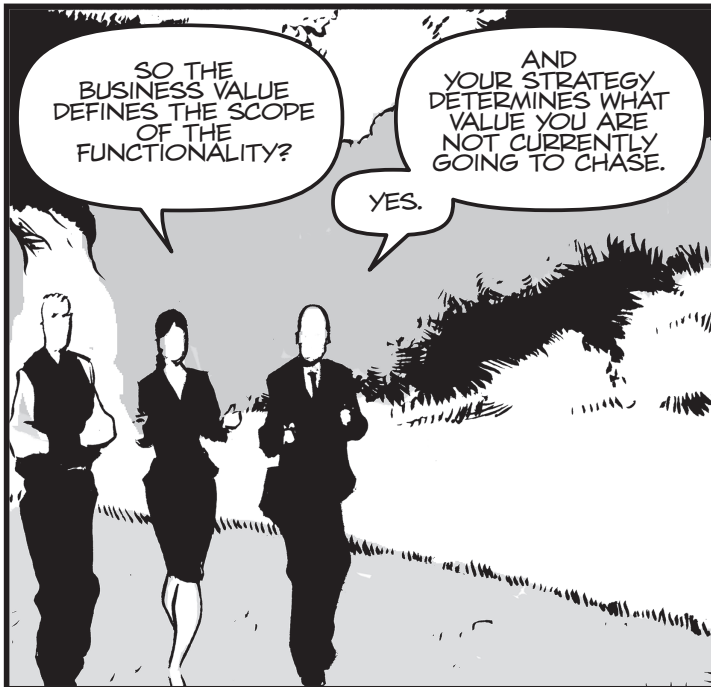


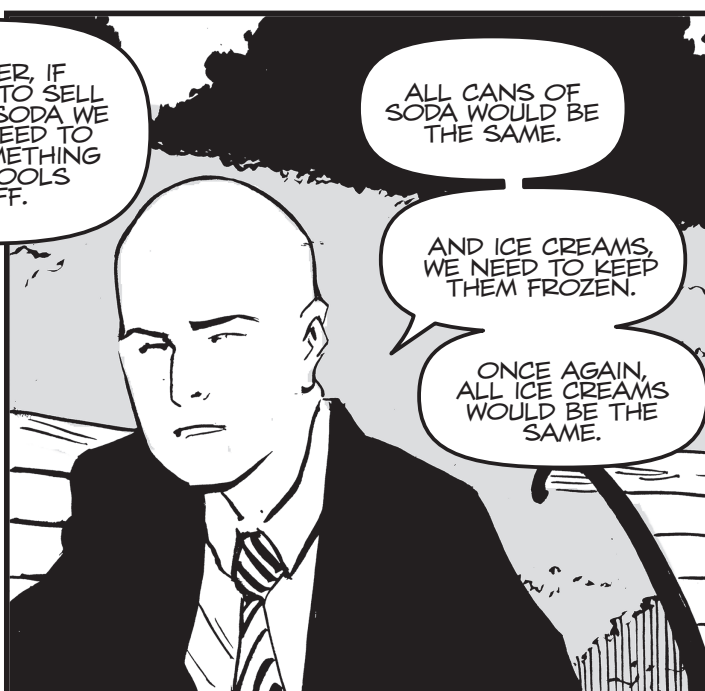
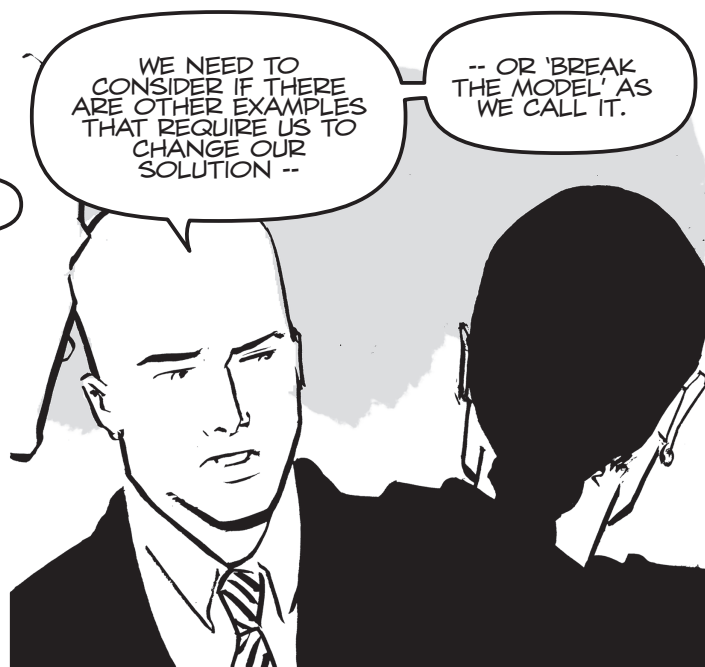
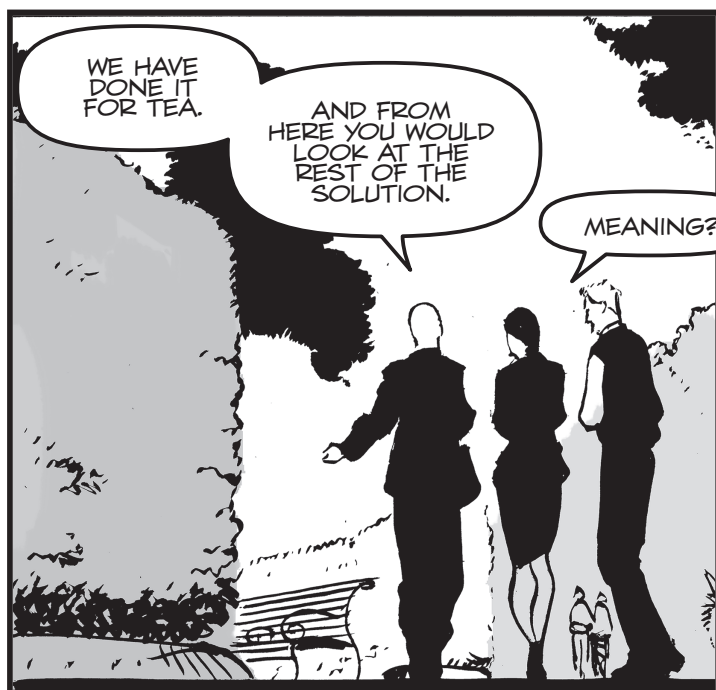















WHAT IS THIS?

A BLACK SQUARE.

RIGHT. THIS IS OUR MODEL.




AND NOW?

A BLACK SQUARE AND A WHITE SQUARE.

ARE THEY THE SAME?

SHAPE, YES COLOUR, NO..



RIGHT.

IF WE INCORPORATE THEM BOTH --


-- THE MODEL IS NOW 'A BLACK OR WHITE SQUARE'.

WHAT ABOUT THIS?

ALL SQUARE.

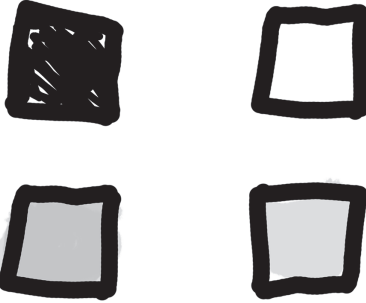
SO I SUPPOSE THAT WE CAN ADD RED TO THE MODEL.

PRETTY MUCH.



AND?

MODEL IS NOW, BLACK, WHITE, RED AND GREEN SQUARES?



COULD BE, BUT AS WE WENT RED WITH THE LAST ONE, WE COULD JUST SAY 'COLOURED'.

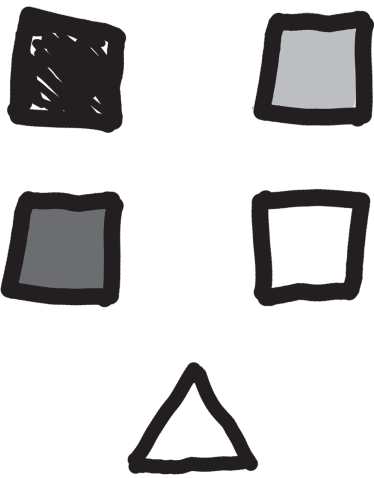
SO THE MODEL IS NOW 'COLOURED SQUARES'.

YES.

WHAT ABOUT THIS?

WELL, ALL THE SQUARES ARE THE SAME.

SO WE NOW INCLUDE TRIANGLES?



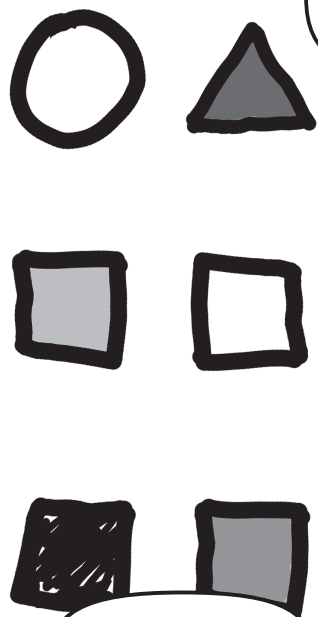
POSSIBLY.

BUT THEY ALL HAVE STRAIGHT SIDES.

SO THE MODEL BECOMES 'COLOURED STRAIGHT SIDED SHAPES'.

SO YOU'RE ADJUSTING, EVOLVING, THE MODEL AS EACH NEW EXAMPLE IS INTRODUCED.

THIS WOULD NOW BE 'STRAIGHT AND CURVED SIDED SHAPES'.

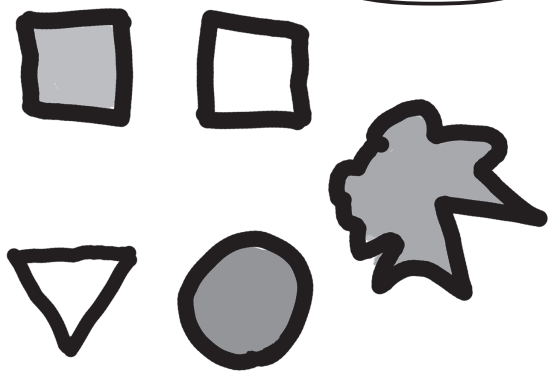


'SMOOTH SIDED' WOULD BE MORE ELEGANT.

OKAY...

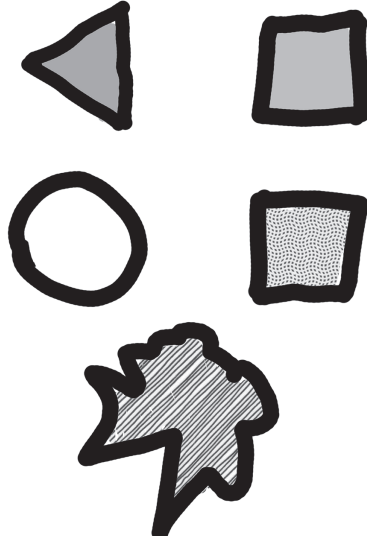
BY CREATING THE MODEL, WE CAN USE IT TO IDENTIFY AN EXAMPLE THAT IS DIFFERENT --

-- OR WHETHER THE EXAMPLE ALREADY FITS IN THE MODEL.



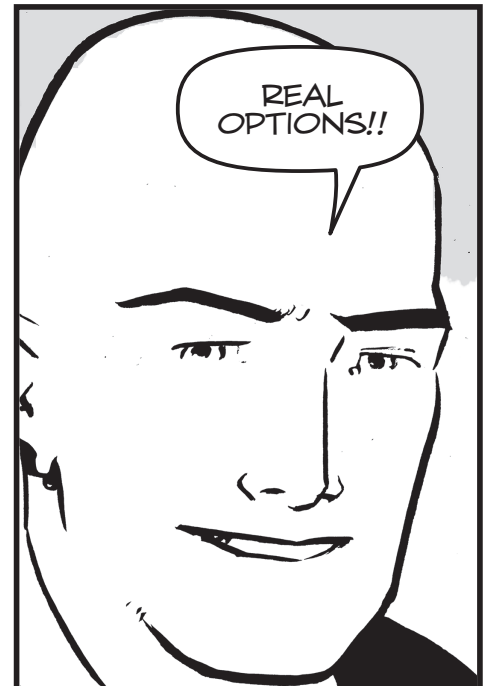
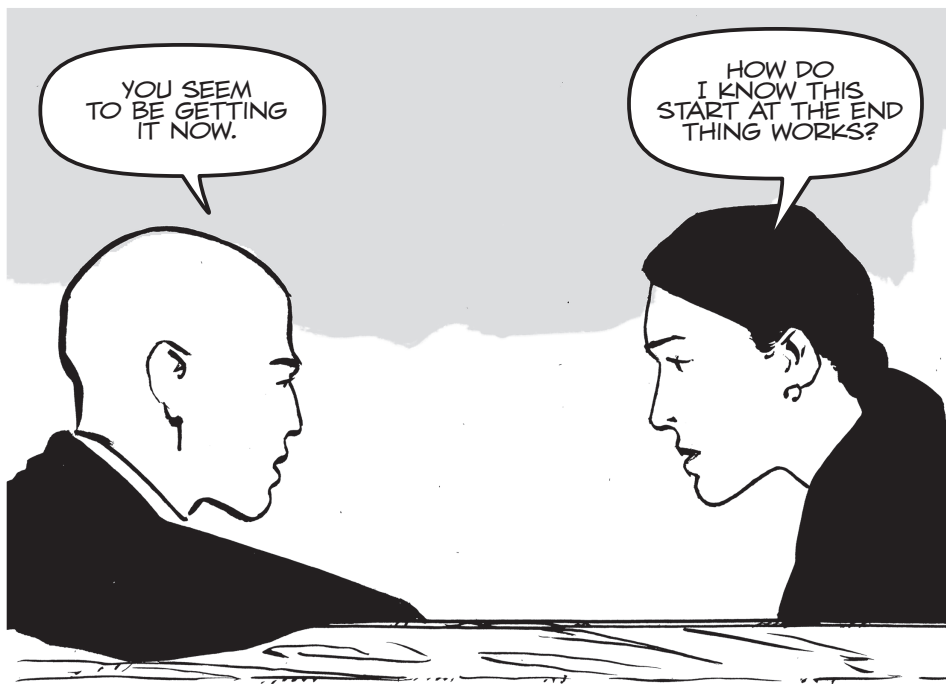
REGULAR AND IRREGULAR.

OKAY, ONE MORE.



'PLAIN AND PATTERNED'?

YES. NOW YOU'VE GOT IT.







# BLOBS

RANDOM MUSINGS - LILLY RANDALL



## Hunt the value

### Recent Posts

October (4)

September (5)

August (3)

July (4)

June (5)

May (5)

April (4)

March (5)

February (3)

January (6)

Previous Year -  
(63)

Always looking for ways of analysing problems to come up with solutions I came across a website that described Feature Injection. Feature Injection has three steps that you continuously loop through:

- 1) Hunt the value.
- 2) Inject the features.
- 3) Break the model.

### What value to hunt?

Feature Injection tells us to move toward the outcome until we encounter value. That sounds nice, but is more difficult when you try to apply this. Value is created when a benefit is created for either the consumer or the producer of a product or service that they are willing to pay for.

There are four ways of generating value: increasing or protecting revenue, or reducing or avoiding costs in alignment with the strategy of the organisation.

If that is the case then why are Twitter and Instagram worth so much? Facebook bought Instagram for a cool billion dollars even though it does not generate a cent in revenue. Twitter was worth gazzillions even when it wasn't generating any revenue either. The value model is well and truly broken!

A number of modern companies do not build revenue models. Instead they build options to generate revenue. These options have two important aspects.... Network and Usage.



## Network

### Recent Posts

October (4)

September (5)

August (3)

July (4)

June (5)

May (5)

April (4)

March (5)

February (3)

January (6)

Previous Year -  
(63)

Social Networks are more valuable to their users if they have more users or a bigger network. How much is the first telephone worth if no one else in the world has one? Only Alexander Graham Bell really got to think about that and came up with a clever solution. He understood the importance of a network and gave away phones for free to hotels and other places where many people would get to use them.

## Usage

Usage is another important aspect. If people do not use your service, there is no way you generate revenue from them. The more they use your service, the more likely they are to generate a revenue for you. This revenue can be from your users paying for your service or can be generated indirectly by placing ads in front of your customers.

## There's value in numbers

In order to get the most value out of the network and usage it is important to accurately measure EVERYTHING! Thinking you have a big network is not the same as knowing you have exactly 501,217 users and seeing a graph of the trend. Thinking people use your product is not the same as knowing that they use it on average for 27 minutes per day. Numbers are key!

Hunting the value requires you to think about your context and where the value could be. It is no longer just reducing cost and increasing revenue. Understand where your value is coming from.

Seeya next time -  
L

4th November

Sunday

Dear Susan,

Really excited about some stuff at work. Last week we met with Magnus (a friend of Lilly) who explained "Feature Injection" to Kent and me. This week we started applying it together with the team.

What we discovered was that much of the work we were doing so far was building Tea Bags when in fact we wanted to deliver cups of tea. We needed to become more focused on the end result, not just doing the steps.

For each task (or tea bag as we now call them) we identified the value it delivers. It turned out that a lot of the items we were working on were related to the same outcome and that we should be doing them together to deliver value rather than simply deliver unrelated chunks of functionality.

We called a meeting with our customers and asked them to tell us what they wanted. Rather than discuss the individual Tea Bags, we discussed the value items or cups of tea. It was a really hard discussion but we managed to defer a number of items. Even more amazing was that for two value items the customers decided the value did not justify the effort required and so we scrapped them altogether.

We have agreed a regular meeting every two weeks to prioritise the next thing we want to start. So it would appear that one of the key benefits of Feature Injection is not just to identify the things needed but to identify the things we should start building.

You know what Susan, I may just start to like running a project (but don't tell any one).

Good night,

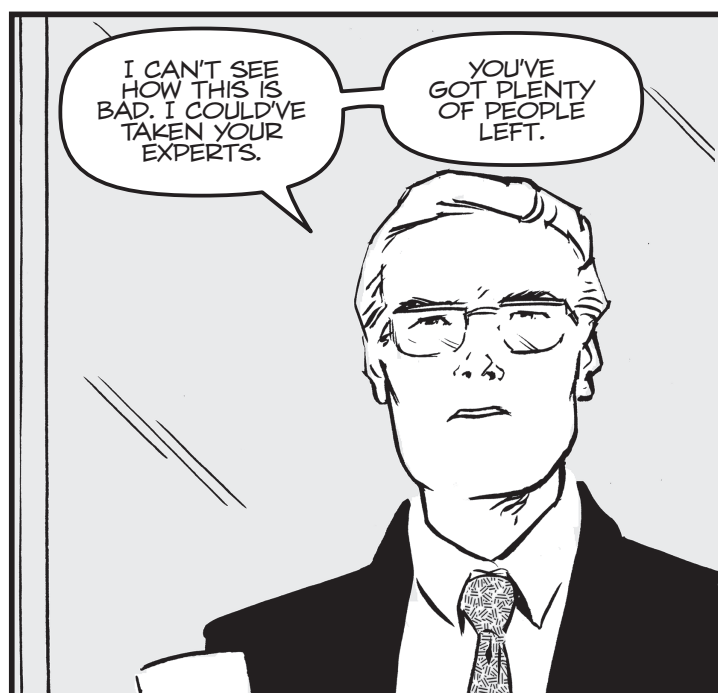
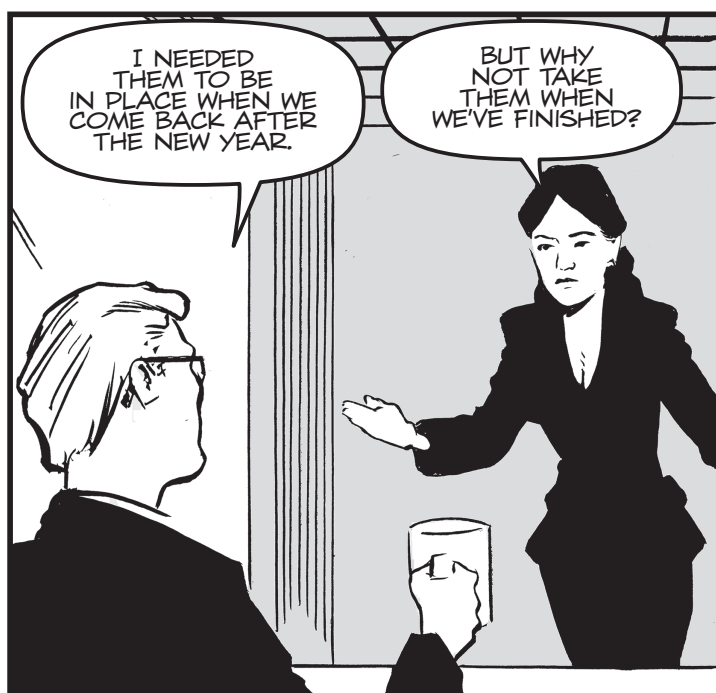
Rose

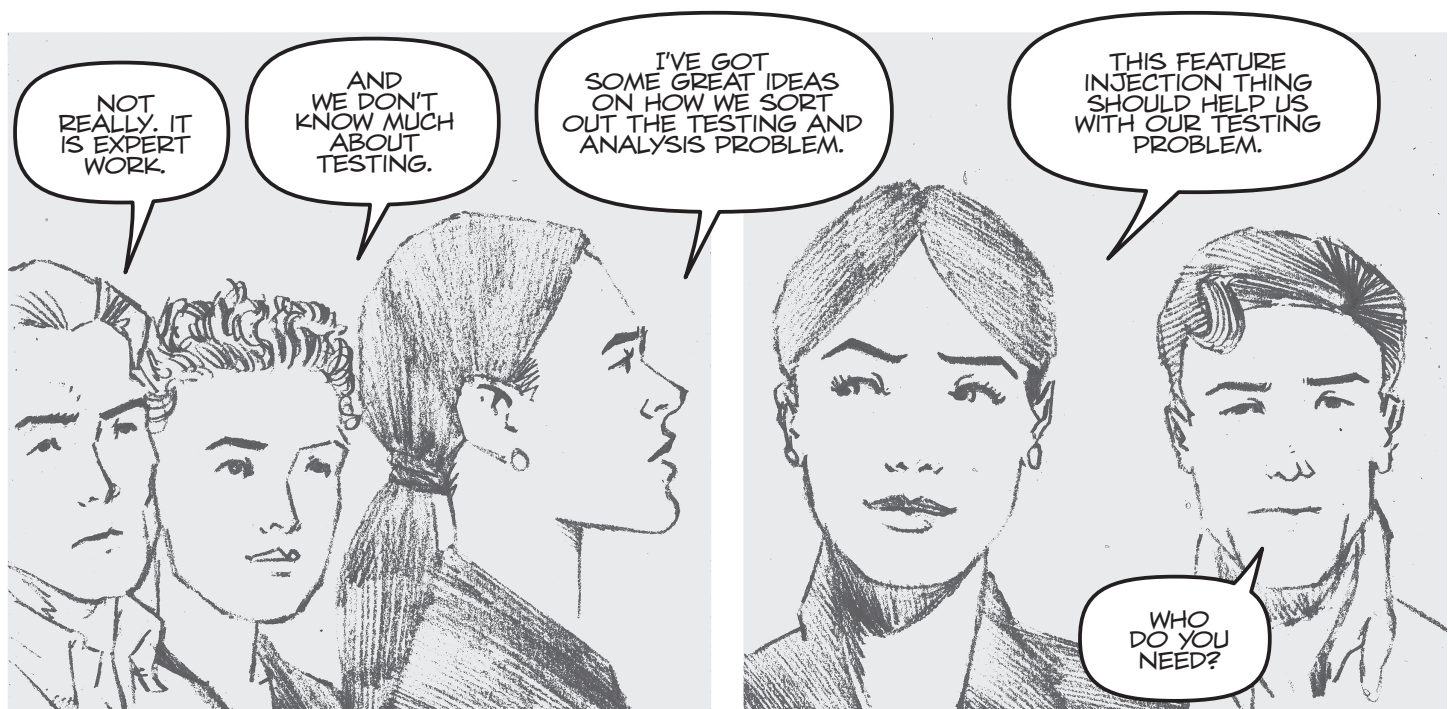




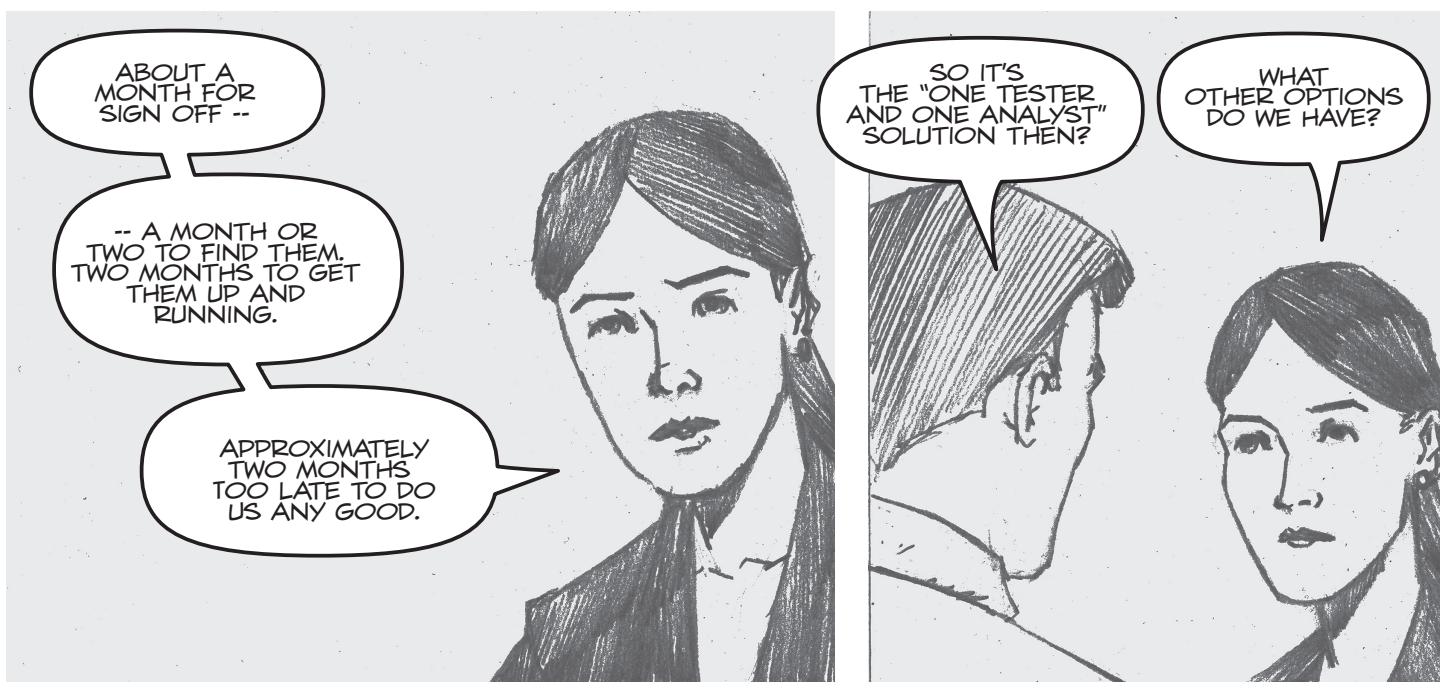
# CHAPTER FIVE

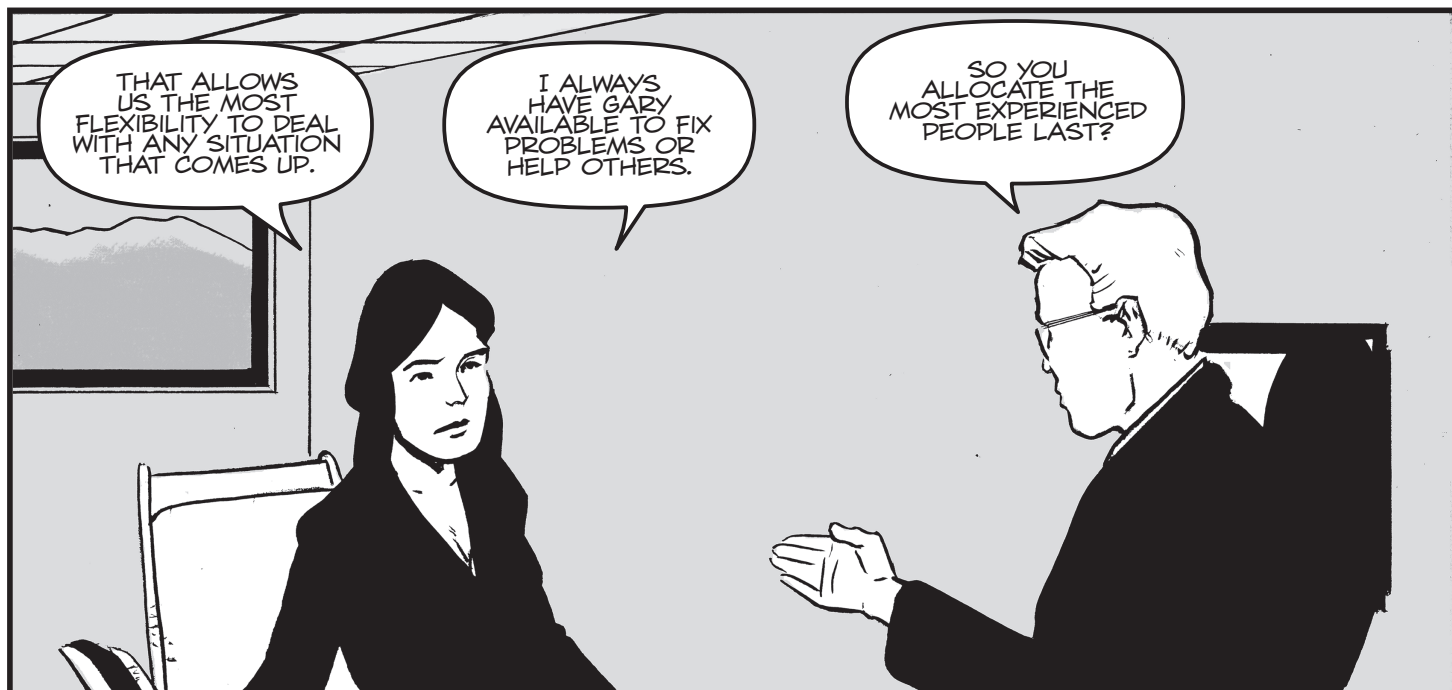
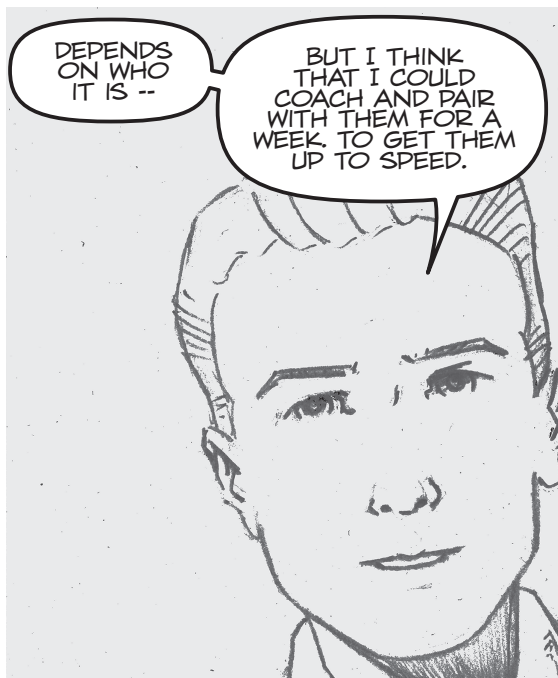




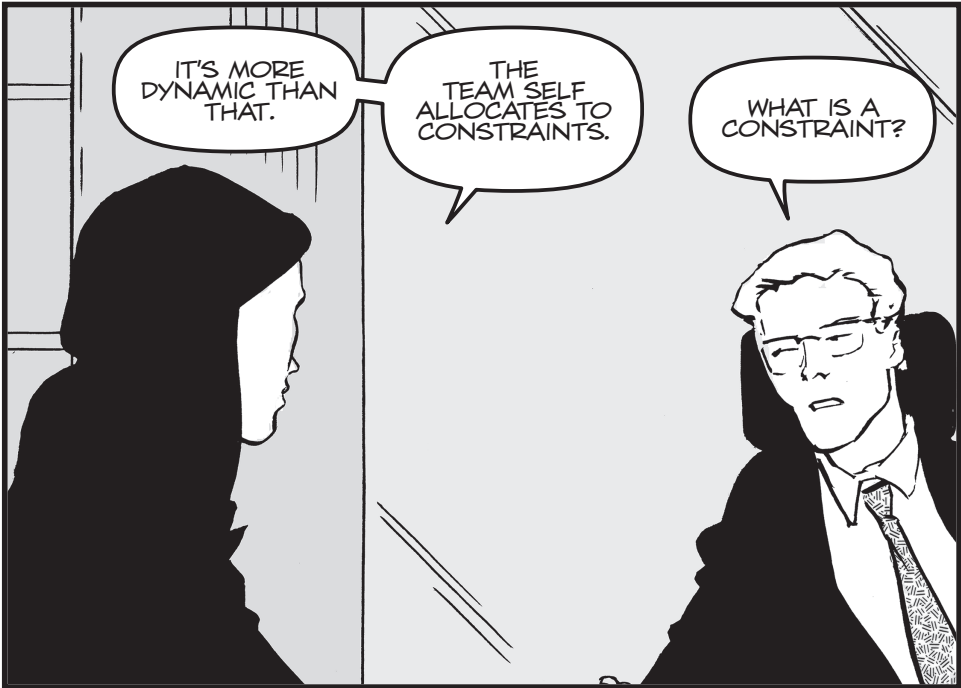
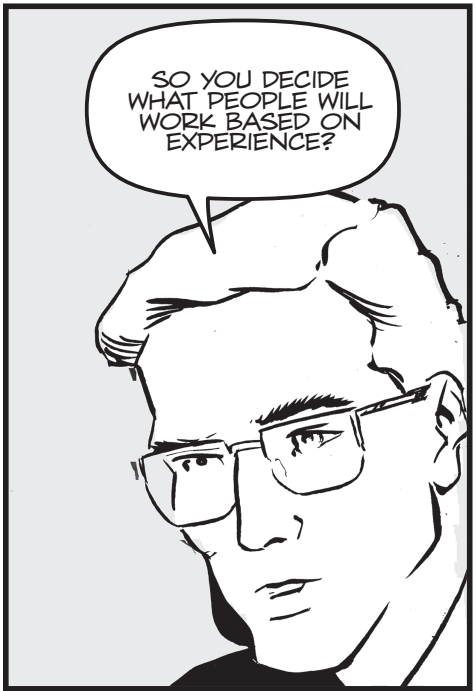


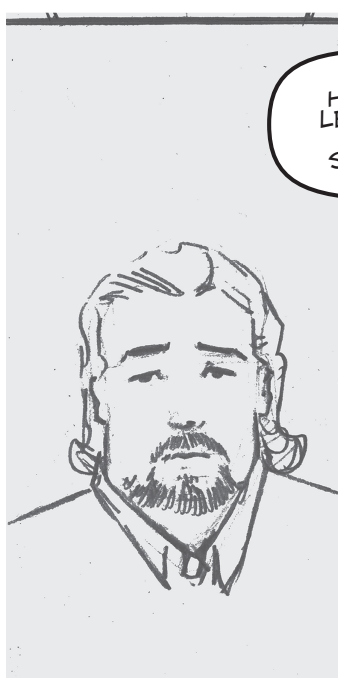
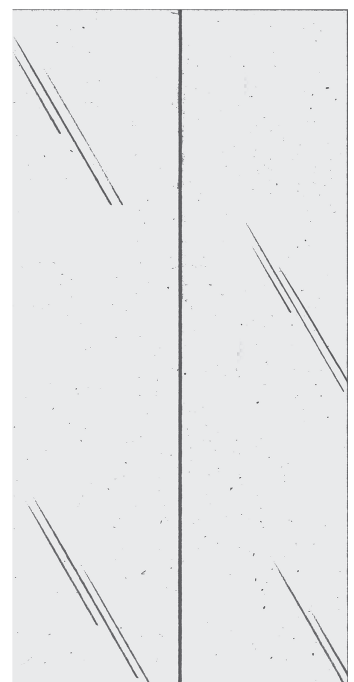








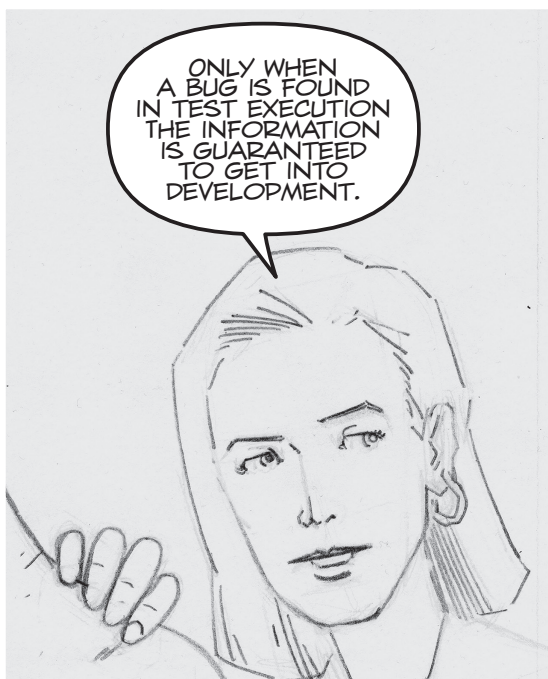
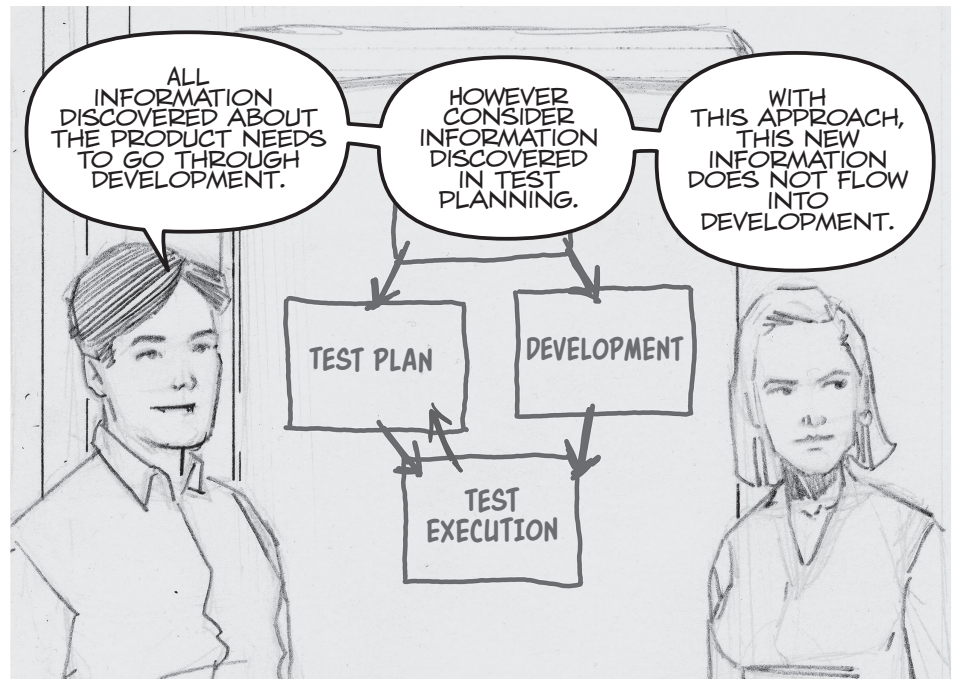




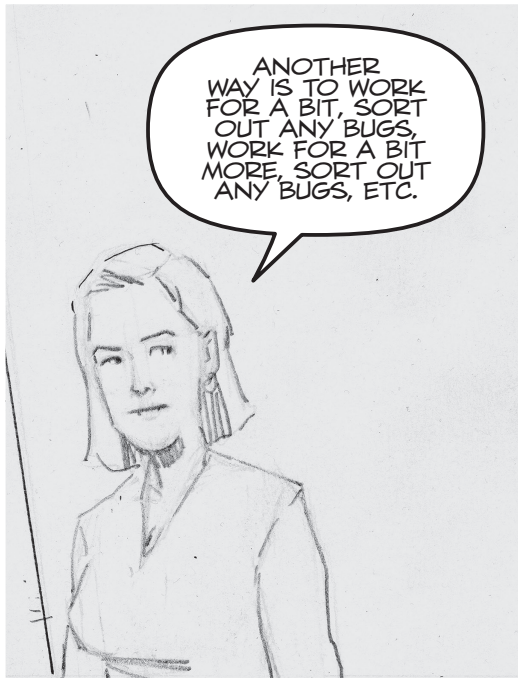
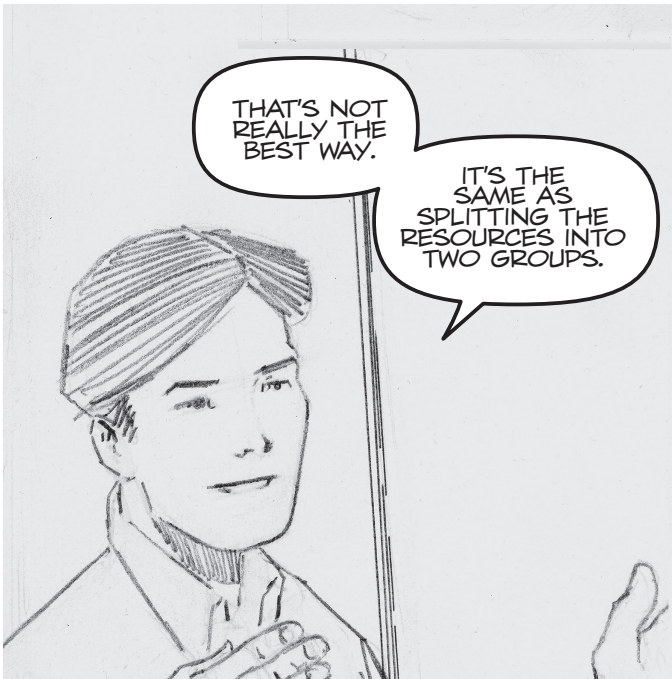
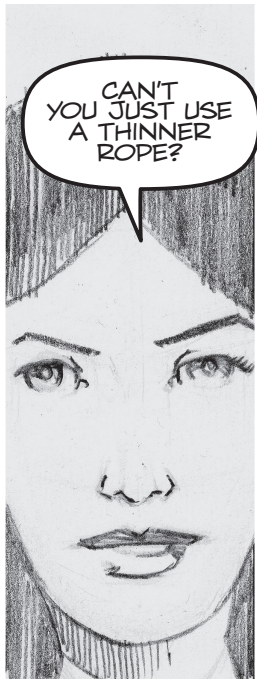
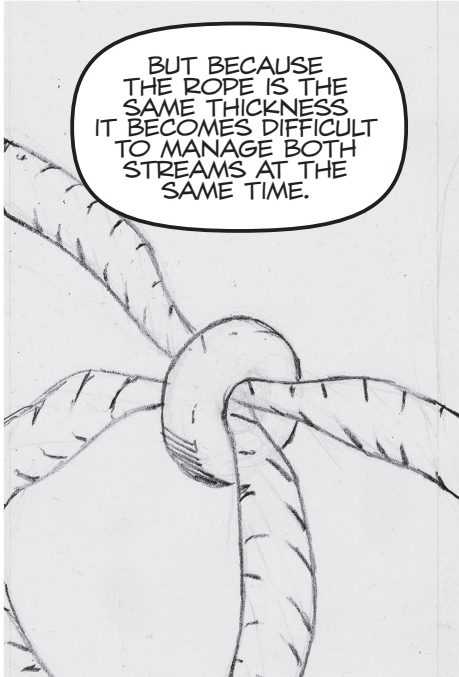
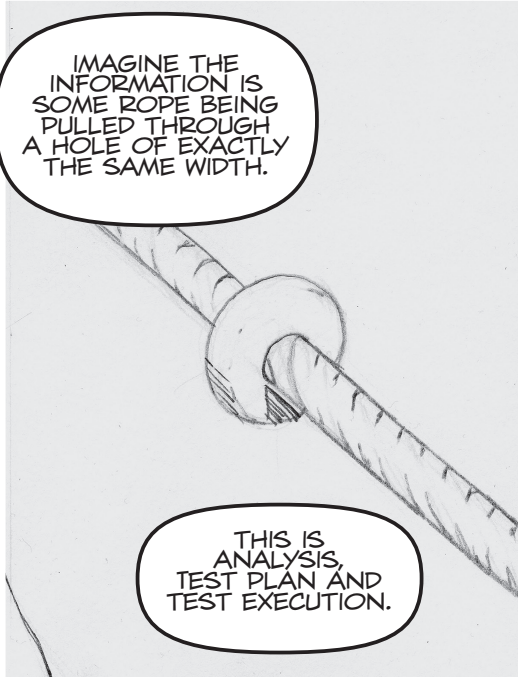




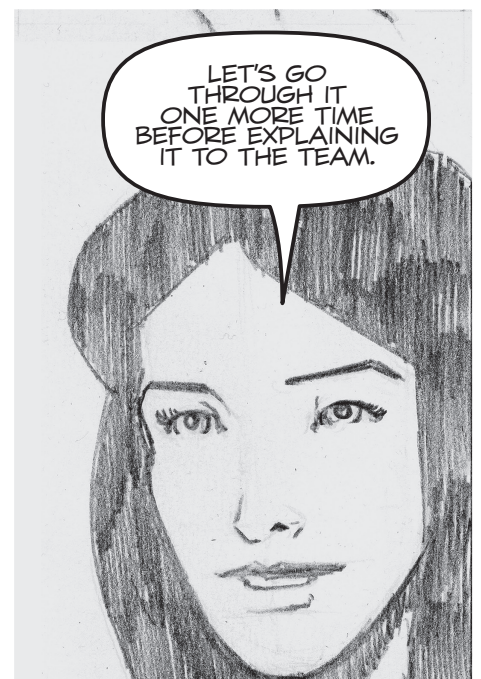
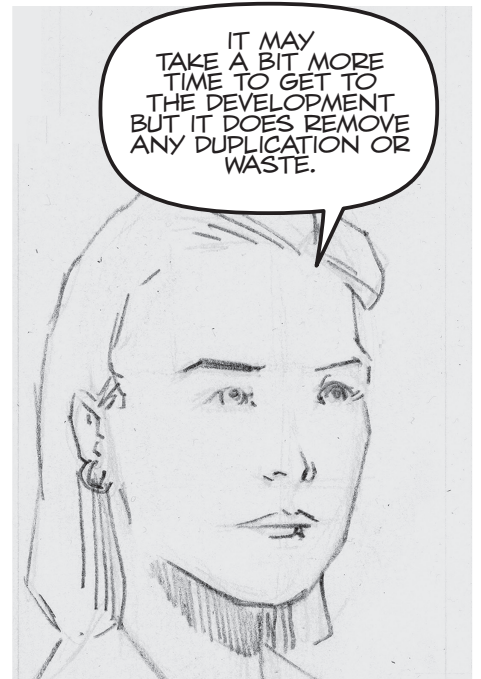
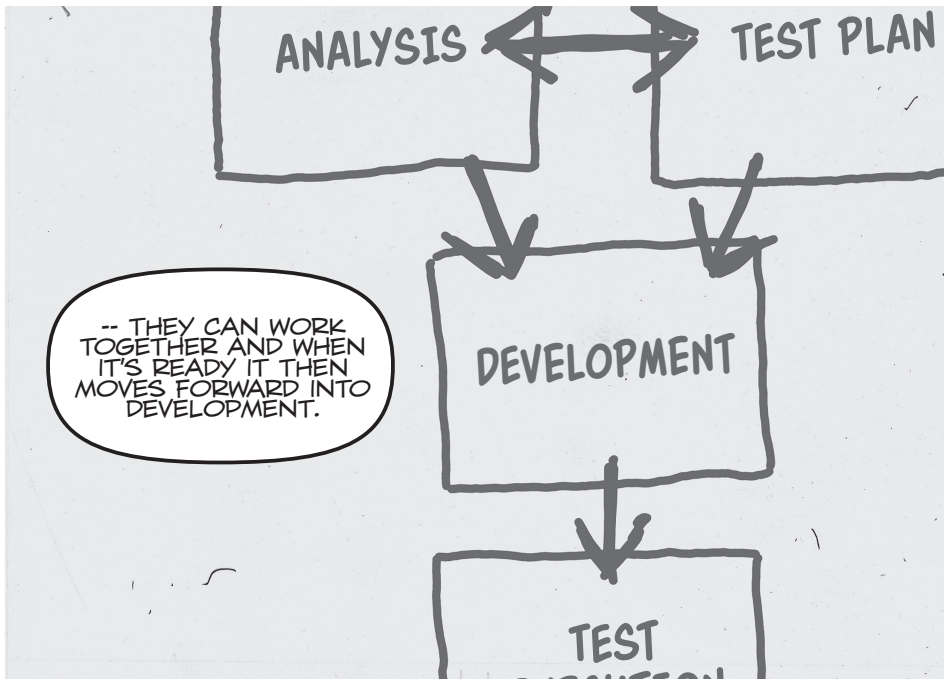
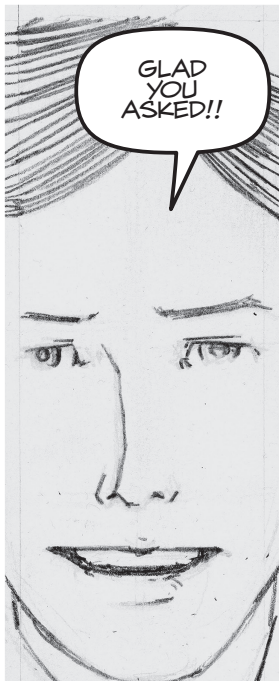






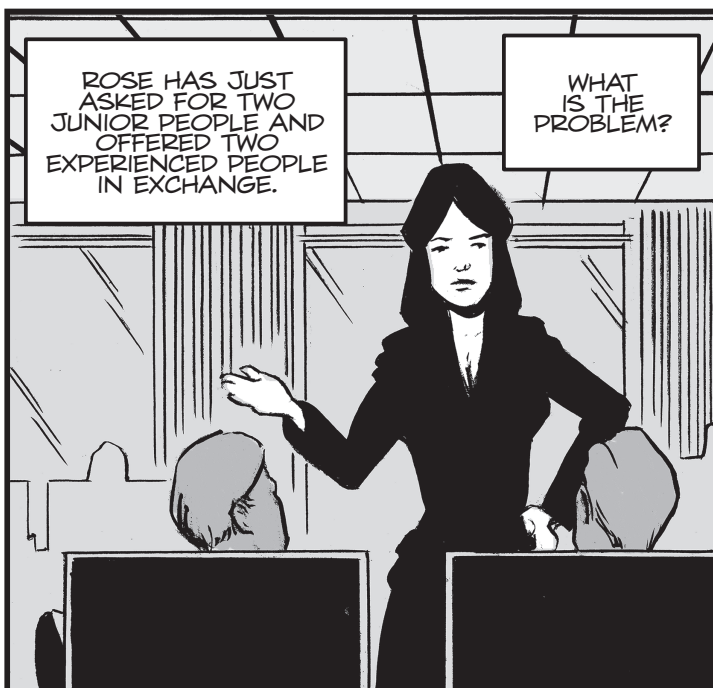
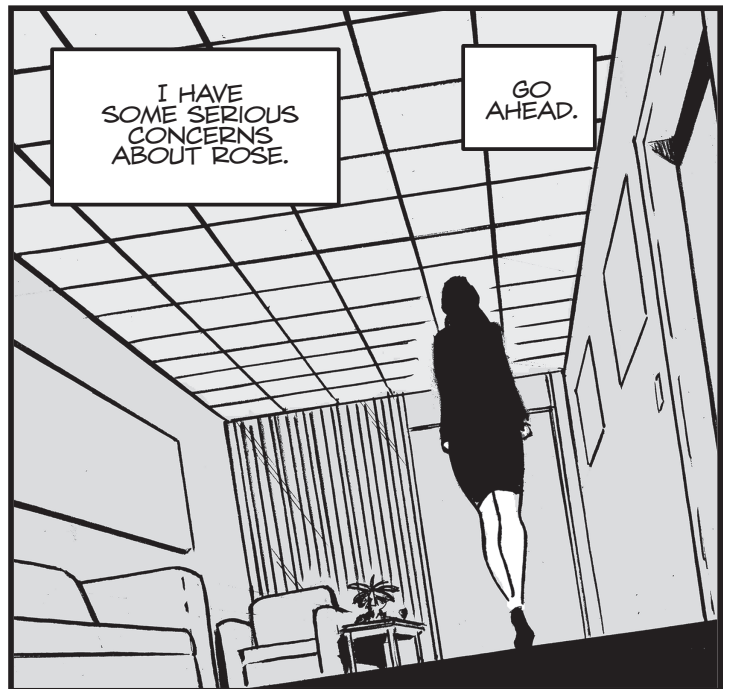


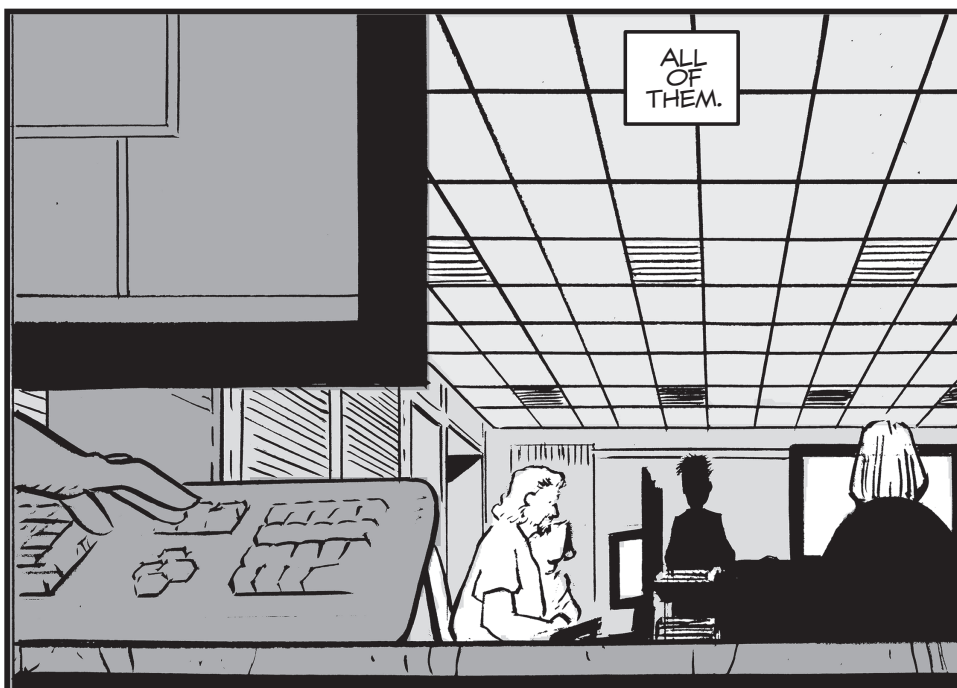
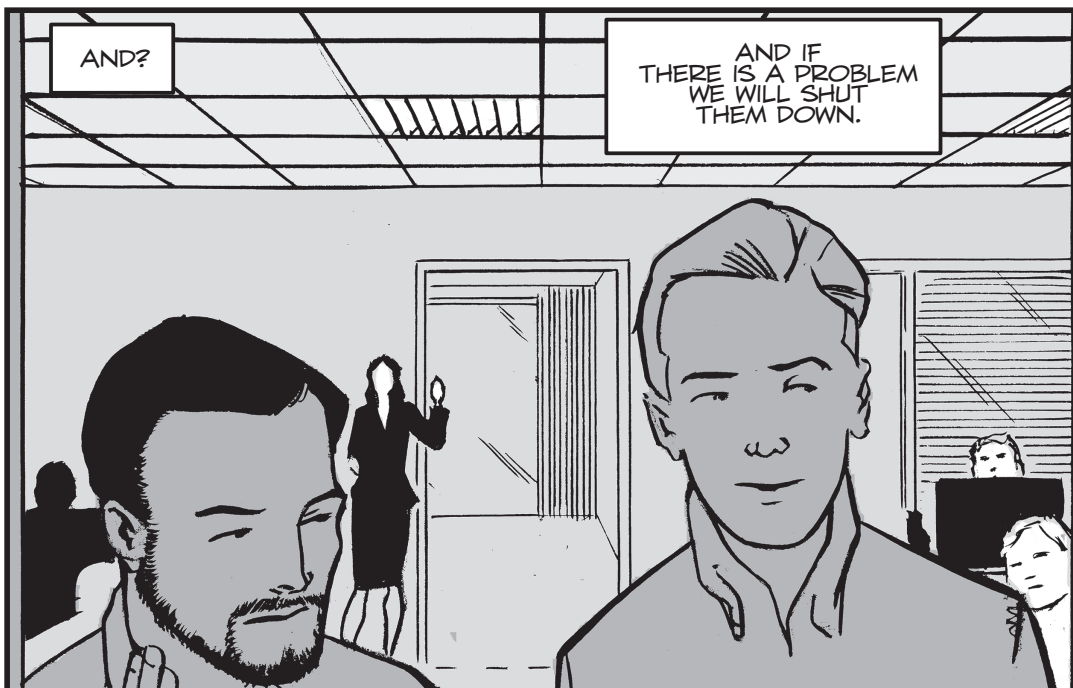












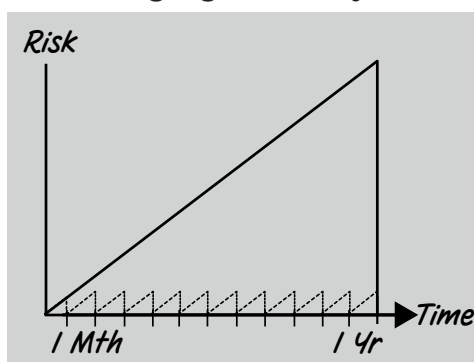
## Staff Liquidity

15<sup>th</sup> Dec

There is value in shorter iterations of development. Longer iterations are riskier to the business investor who is funding the project, because shorter iterations provide the investor with more options. And more options means more ways to control the project and manage the risks. This blog post explains how to achieve a high staff liquidity to enable this business flexibility.

Imagine a project where the investor is prepared to fund a year of development of the project. At the extreme the project could either do one iteration and attempt to deliver the perfect product or service after a year. Alternatively, they could create a new working version of the product every month, meaning twelve iterations.

### Managing Delivery Risk



In this diagram the solid line represents the delivery risk for the situation where there is one iteration. As the investor keeps investing money and gets nothing in return his risk continuously goes up. When the project delivers the risk goes down.

The dotted line represents the twelve iterations approach. The investor still invests continuously, but at each delivery his risk goes down as he sees the results and has the opportunity to change direction.\*\*

For the one iteration project, the investor continues to invest and only finds out where they truly are when the project delivers after one year.

### Archives

[December \(2\)](#)

[November \(1\)](#)

[October \(1\)](#)

[September \(1\)](#)

[August \(0\)](#)

[July \(0\)](#)

[June \(0\)](#)

[May \(1\)](#)

[April \(0\)](#)

[March \(0\)](#)

[February \(0\)](#)

[January \(1\)](#)

[Previous Year \(5\)](#)





For the twelve iteration project, the investor finds out where they are at eleven points prior to the "final" delivery.

Which project would you rather invest in?

**Flexible projects**

The project with twelve iterations is significantly less risky because the investor has the following options.

- 1. Stop investing if the project is not making the expected progress.
- 2. Stop investing if the project delivers the value early.
- 3. Increase investment if the project is more successful than originally thought.
- 4. Change direction of the project as they collect feedback from their users / market.

In order to take advantage of these options, the investor needs to be able to change direction quickly. One of the hardest aspects in this is the staffing. Depending on whether the funding is increased or decreased staff needs to be either added to the project or removed. In many organizations it can take several months to effectively scale a project up or down. In this period the opportunity for this project may have been lost or a competitor has already filled the spot.

We measure this timing gap as staff liquidity. Staff liquidity is measured as the time it takes from when the initial investment is approved to having a fully gelled and fully up to speed team working on the project. A low liquidity means it is hard to move staff around on projects, whereas a high liquidity means it is easy to ramp projects up and down and do so quickly. This applies to the initial investment as well as any incremental investments.

In other words staff liquidity is the time needed to:

- 1. Approve and hire staff.
- 2. Gel the team.
- 3. Train the team.

**Archives**

December (2)

November (1)

October (1)

September (1)

August (0)

July (0)

June (0)

May (1)

April (0)

March (0)

February (0)

January (1)

Previous Year  
(5)



## How to achieve high staff liquidity

Achieving high staff liquidity requires deliberate management. It does not happen by accident. We create high staff liquidity as follows:

- 1) No key man dependencies on a project.
- 2) Allocate staff with the fewest options first, staff with most options last.
- 3) Let staff with most options coach and help the staff with the least options.

Staff liquidity is another name for having options about how you deploy your staff.

**1. Key man dependencies.** Key man dependency is a measurement of how dependent an organization is on specific people. These people have specific knowledge that is not shared with others. If they quit or if something bad happens to them the organization is in serious trouble.

The risk manager for the organization should ensure that all departments and groups are aware of their key man dependencies and manage them. Managing the dependencies properly ensures the organization has real options, that the organization has more than one or two people who can perform each function within the organization or group. Managing this is simple.

Each organization or group creates a grid with staff names across the top and functions down the side. Each person grades himself for each function.

- "1" means they can perform the basics of the function.
- "2" means they can perform the function adequately.
- "3" means the function has no secrets to them.

Any function with three or more people at level "3" is "Green" or "Safe". Any function with two people at level "3" is "Yellow" or "At Risk". Any function with one or no people at level "3" is "Risk". Here is an example matrix:

	Status	Tom	Dick	Harriot	Jones
Sales	Green	3	3	3	2
Payroll	Red	3	2	1	0
Delivery	Yellow	3	3	2	2

### Archives

- December (2)
- November (1)
- October (1)
- September (1)
- August (0)
- July (0)
- June (0)
- May (1)
- April (0)
- March (0)
- February (0)
- January (1)
- Previous Year (5)



The risk manager asks the departments to assess the risk on a regular basis (e.g. bi-monthly) and track the changes. One other important factor is how long it takes to train a person in a function. Functions that take longer to train are riskier than those that can be taught quickly.

**2. Allocate staff.** Allocate staff with the fewest options first. In the above department Jones would be allocated first. He has the least experience. Placing him in one of the areas he has some experience in allows him to improve his knowledge and become level "3" over time. Harriot would be allocated next. She would probably be allocated to "Delivery" to stretch her. Dick would be allocated next. He would be on "Payroll".

**3. Let most experienced staff coach.** Tom would not be allocated any responsibilities. He should assist the others either by training, coaching or otherwise helping them. If any issue arises, he is instantly available to address the issue. In order to protect our liquidity, Tom addresses the issue with Dick, Harriot or Jones so that once the solution is identified they take the responsibility for it, and they free Tom up to be instantly available to address the next high priority issue.

The role of management is to manage the liquidity of their area of responsibility. Ideally the team self manages their liquidity but in the event that they do not responsibility lies with the manager. This is particularly the case as some team members may make it hard for others to learn what they know as they may actually prefer to remain the key man in order to improve their job security.

**How liquid do you need to be?**

Like financial markets liquidity does not mean the entire organization needs the ability to move to a different project immediately. Instead a small fraction (5 - 10%) should be liquid. This is sufficient to respond quickly and get the rest up to speed later.

However the act of staffing a new project or increasing investment in an existing one reduces the liquidity of the organization at that time. Action needs to be taken to free up this liquidity as soon as possible in order to be able to respond to the next situation just as quickly.

\*\* Thank you to Kevin Tate for sharing this diagram.

**Archives**

December (2)

November (1)

October (1)

September (1)

August (0)

July (0)

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May (1)

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January (1)

Previous Year  
(5)

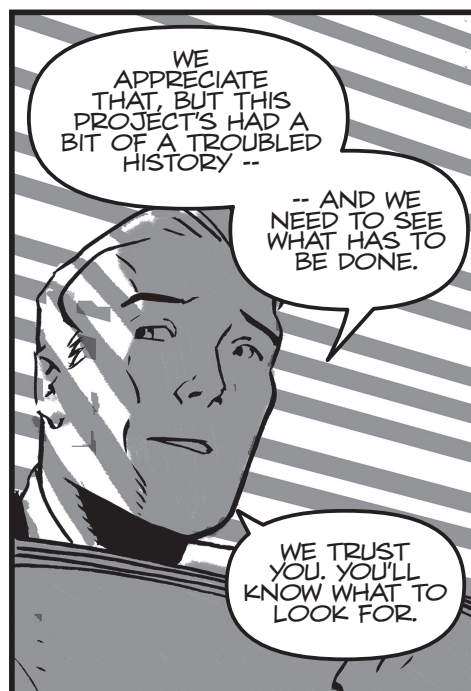
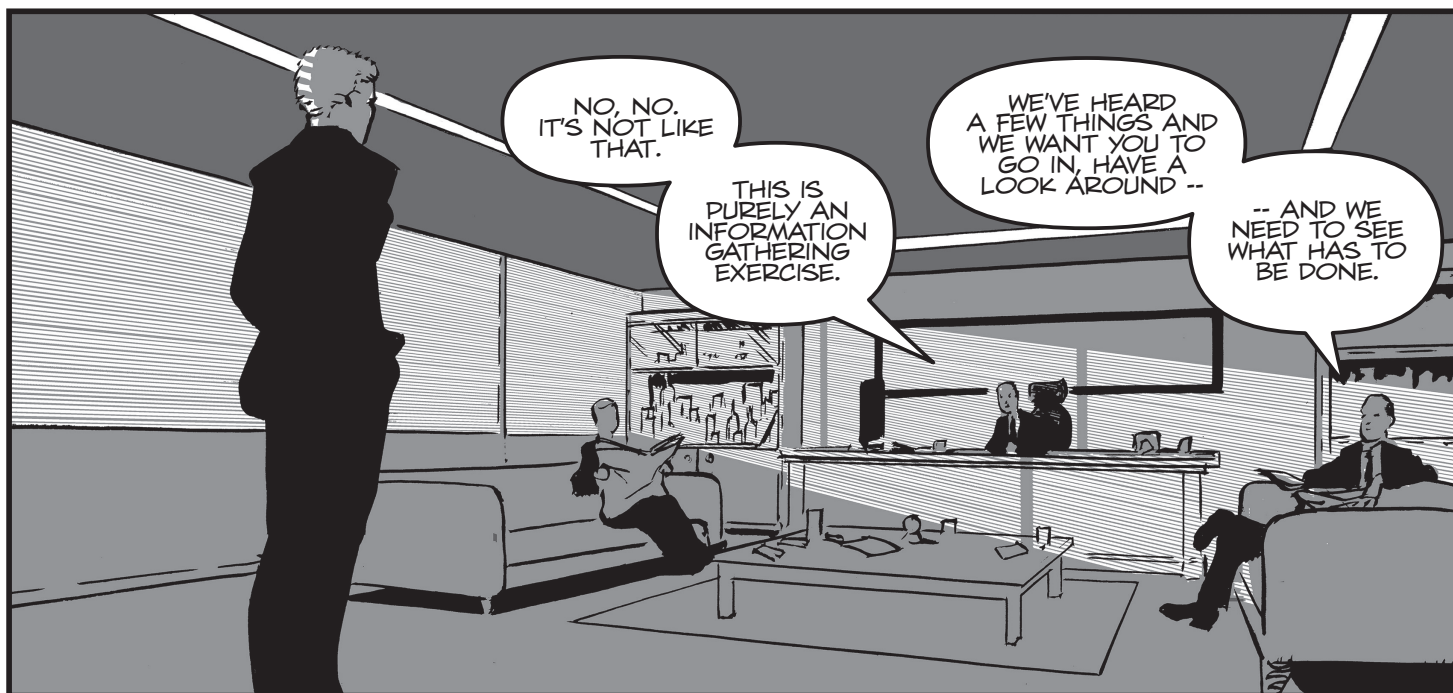


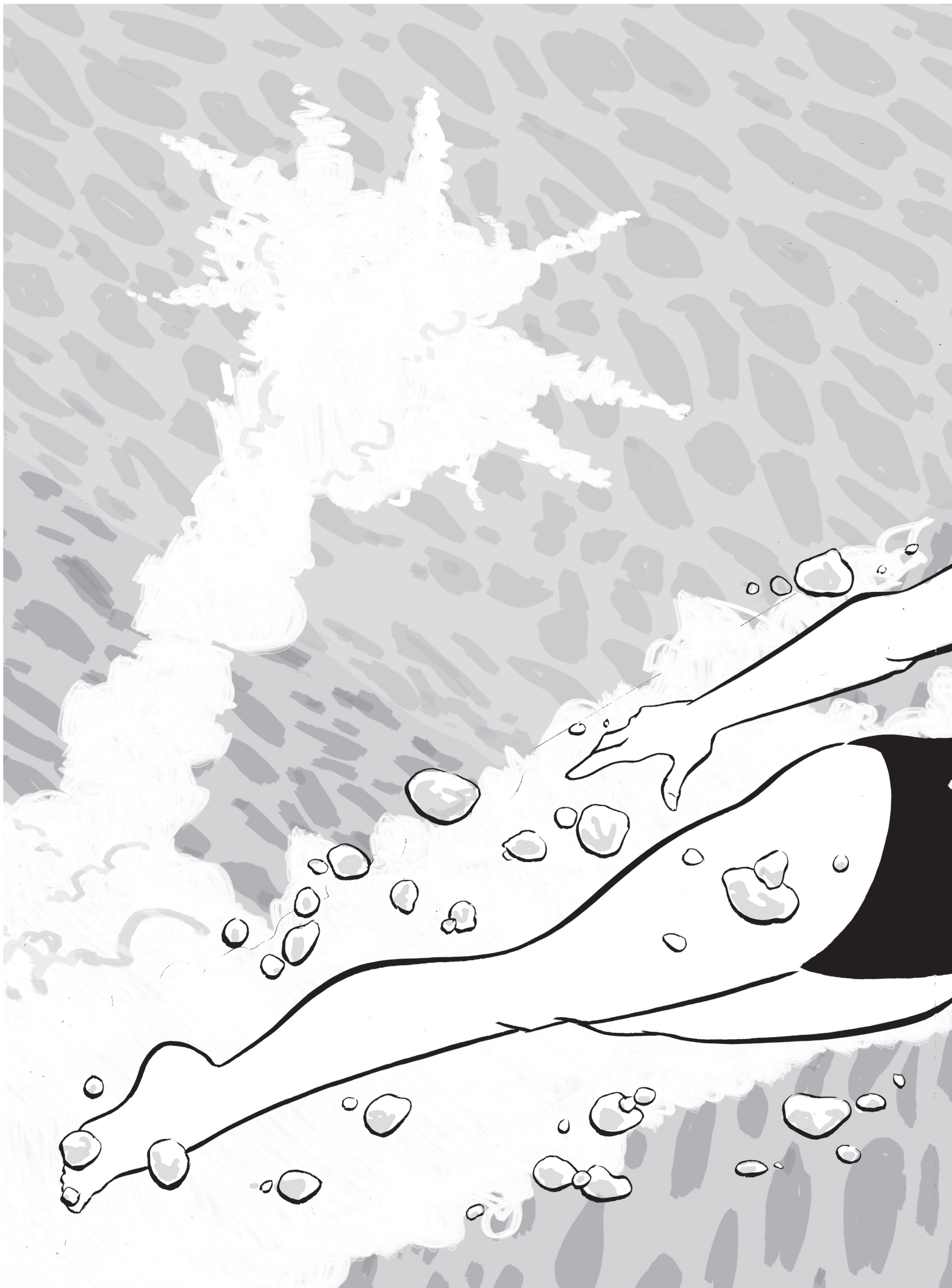




# CHAPTER SIX

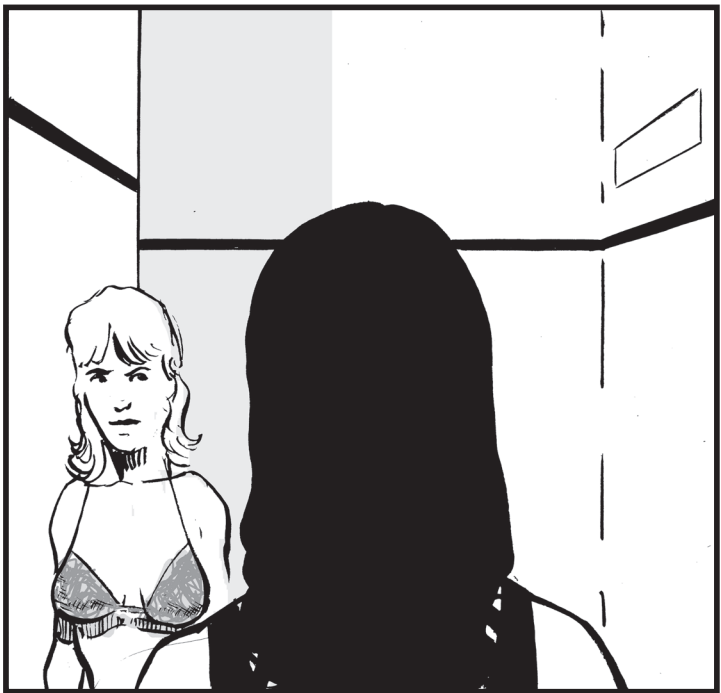
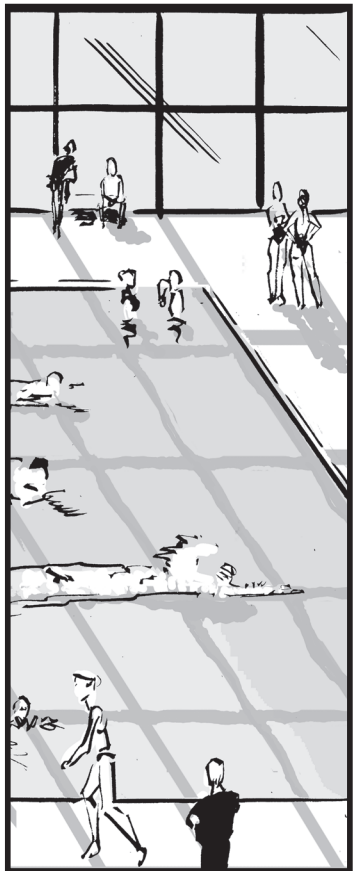
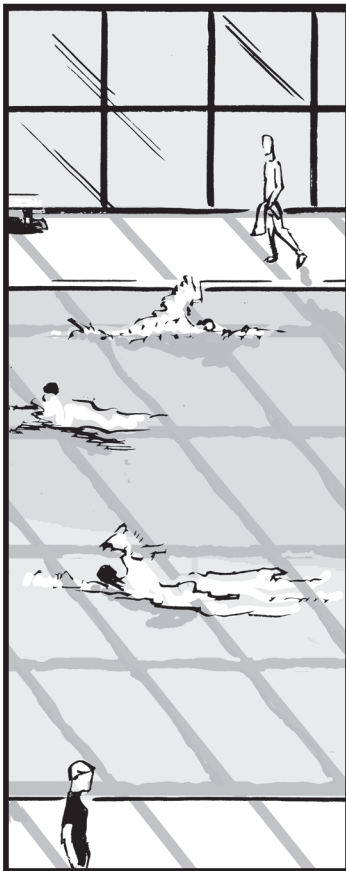
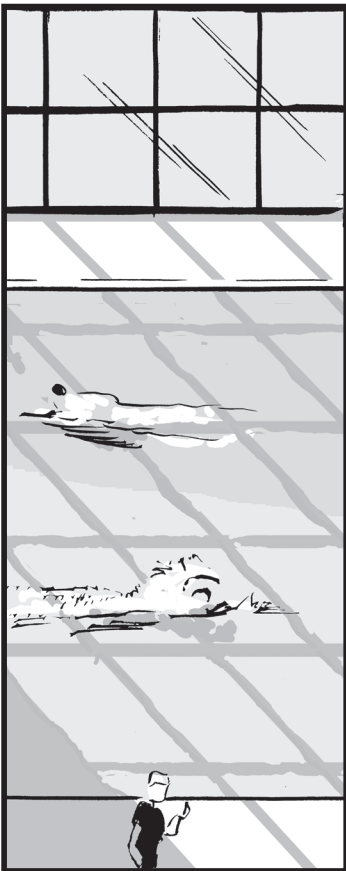
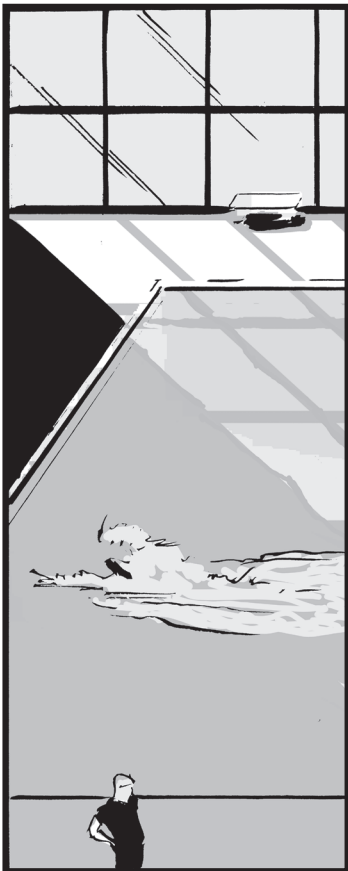
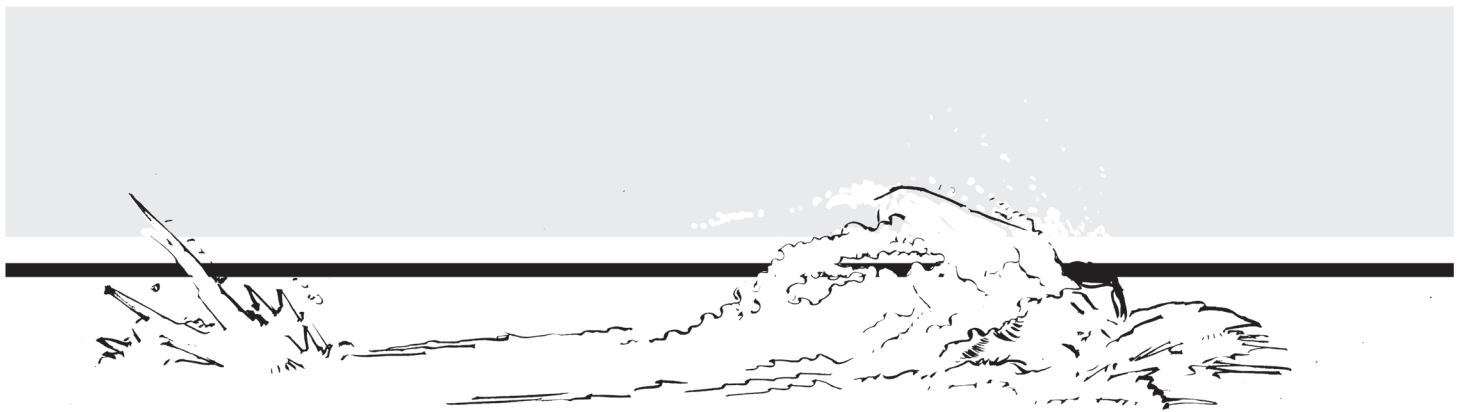












24th February

Sunday

Dear Susan,

I always thought Game Theory was something for the geeks in the maths and computing department. I never realised that it applied to real life and that it was useful to understand how groups work.

The Prisoner's Dilemma is the most popular game to explain Game Theory. In the Prisoner's Dilemma, two men are arrested for the same crime. The sentence they receive depends on whether they testify against the other person and whether the other person testifies against them. The sentences are:

Neither prisoner testifies: One year for each prisoner.

Both prisoners testify: Two years for each prisoner.

One testifies and the other does not: the prisoner who testifies gets no sentence and the other gets three years.

Obviously the best outcome is to testify against the other prisoner in the hope he does not testify. If the game is played over and over again in an "infinite" game this can lead to both players testifying each go. As a result the system has failed as both players get two years each go.

In the 1960s, the American Department of Defence commissioned Thomas Schelling to come up with a Game Theory Strategy to defeat the Soviet Union. He developed the Strategy of Conflict. The main aspect of the Strategy of Conflict is to withhold information and not allow the competition to negotiate directly with the decision maker. The Strategy of Conflict is the best strategy to optimise an individual's performance before the system fails.

After the system fails, the participants start to collaborate. The main aspect of collaboration is information sharing.

Let's consider a group's dynamics in the context of Game Theory. As a group comes together, each member of the group withholds information and tries to win, or to put it another way, they adopt the Strategy of Conflict. As this behaviour continues, conflict starts to occur as members in the group start to fail. Eventually a member fails catastrophically which causes the group to fail. After the group failure, members start to share information with each other.

24th February

Sunday

Eventually the group becomes effective at making sure each member has the information they need to make the best decision. Another way of looking at this is that the group goes through the stages of forming, storming, (failure), norming, performing. I consider this sequence, known as the Tuckman Model of Group Performance, as inevitable for group development.

From Real Options, we know that people's behaviour shows that their preference is "Being Right", "Being Wrong" and then "Being Uncertain". This means that if we can insert enough uncertainty, the group will perceive the situation as failing and tip into collaboration. On a cautionary note, a group that is collaborating will tip into conflict if there is too much uncertainty for a sustained period. Managers engaging in reorganisations may be advised to take heed of this point. A reorganisation done slowly is more damaging than one done quickly as it will damage collaboration.

Another important lesson from this model is that anyone who bans or suppresses conflict prevents healthy group development. In fact, accelerating conflict and making it occur earlier will mean that the group progresses earlier and engages in smaller conflicts rather than bigger conflicts that are caused by suppressed feelings. The team develops conflict resolution skills rather than conflict avoidance. I find that humor and making fun of people are powerful tools for this. Done with care it creates small conflicts and it allows the team to practice their collaboration and conflict resolution skills as a team.

A final thought before I hit the sack. The opposite of a good relationship is not a bad relationship, it is no relationship. The thing I now look for on the team are those people who do not communicate with each other. Once I've spotted a lack of communication, there are a million strategies for getting someone to communicate. This non-communication is often the direct result of a culture of conflict avoidance where people are not allowed to engage in an argument. People who hide things under the table are only doing themselves a favor and at the same time they are in direct (yet covert) conflict with the health of the group.

Good night, Susan

P.S. You know what, I may just turn this into a blog post at some point.

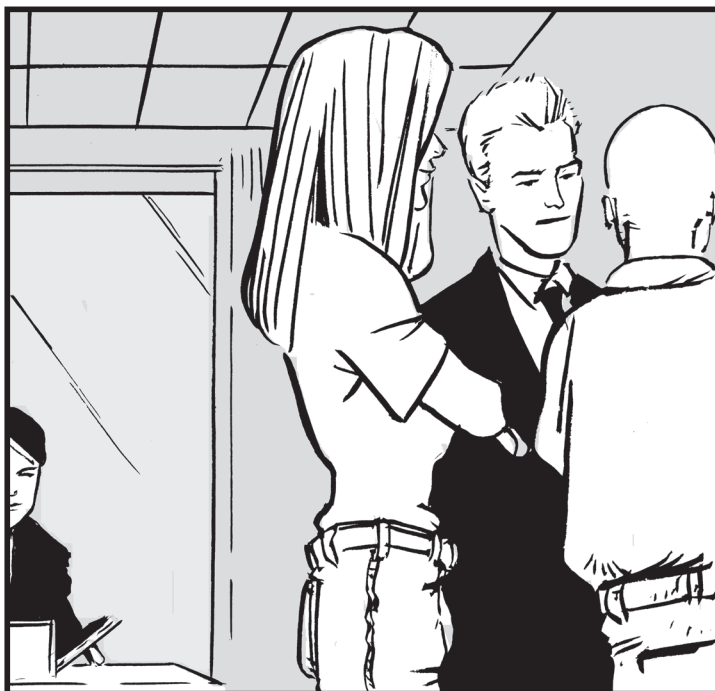




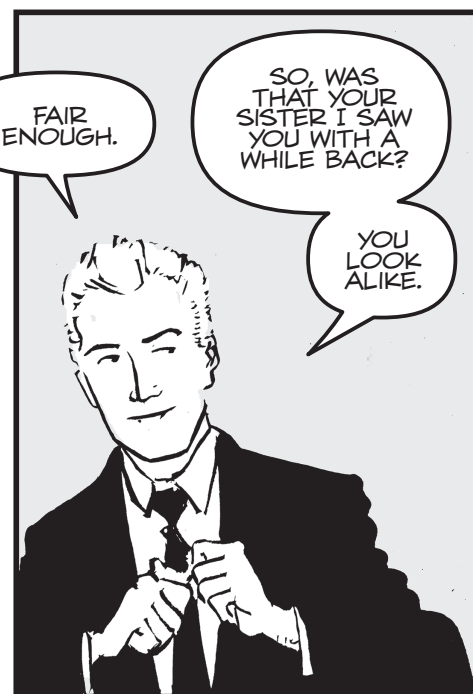












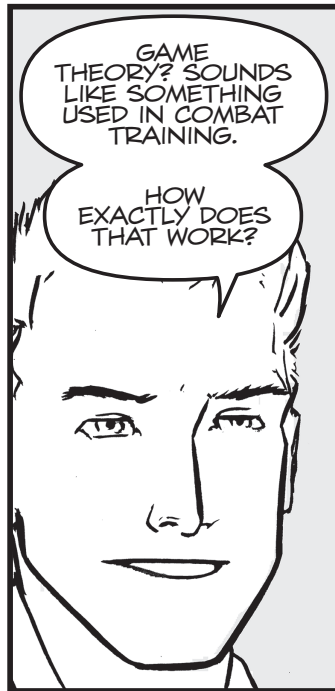
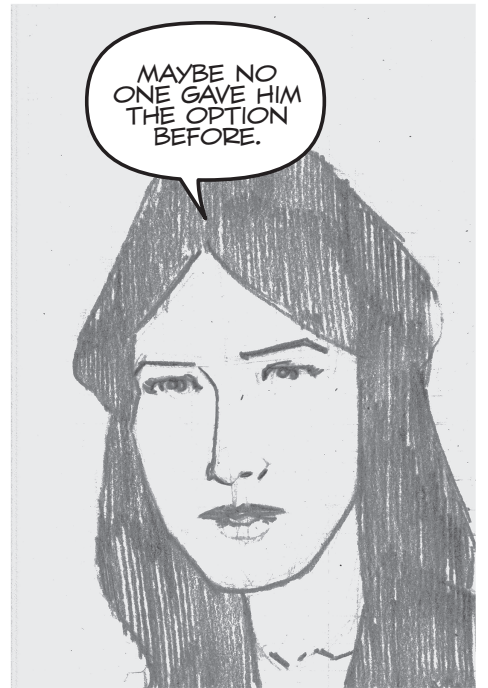
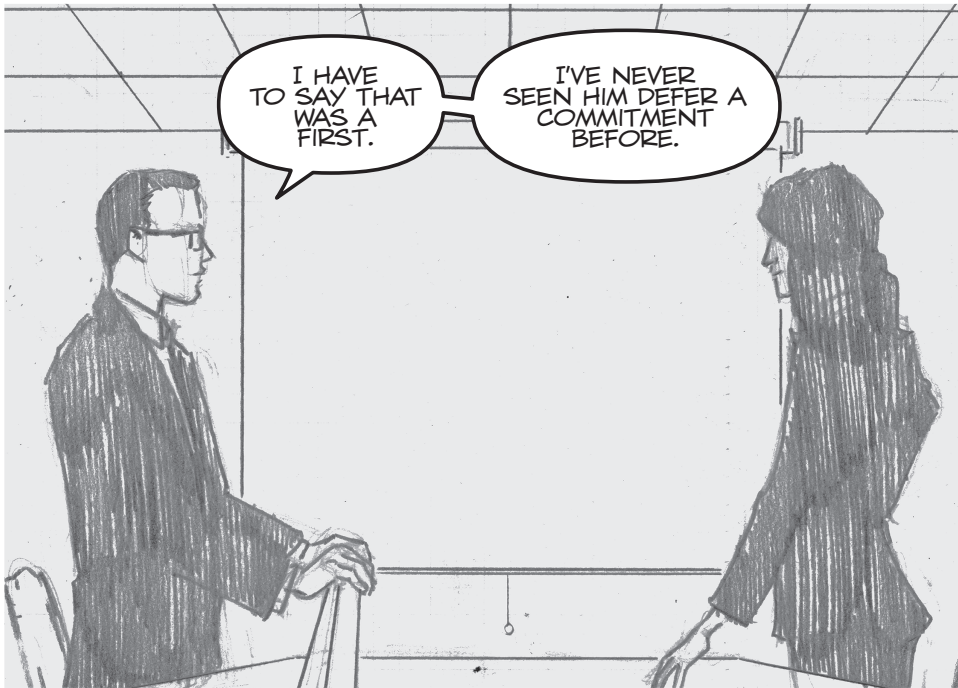












3rd March

Sunday

Dear Susan,

Ever since Lilly explained real options to me my world view has been changing. I'm seeing options everywhere. It's like when you focus on the colour red all elements around you with that colour stand out more. You're adjusting your filter of perception. The same with options, when you know about them they seem to be everywhere. And what's worse is that I cannot unsee them anymore.

Everything seems to be optional when you start thinking about it. It just becomes a matter of what price are you willing to pay for a choice to be an option instead of a commitment. That price appears in many forms. If you treat a meeting with your friends as an option over and over again at some point they won't count on you as a friend being there. I need to be deliberate and open about what I do and why, otherwise people start seeing me as unreliable. When they know, they may just understand.

This abundance of available options is overwhelming. So much, that just last week I felt like I couldn't handle all the information. If everything is an option and I want to treat them as options I need to keep track of a lot of information. What I noticed myself doing, was not deciding at all. Almost like a decision paralysis, there is so much to choose from I can't decide and therefore I just don't.

And that was a very interesting realisation: I would rather not decide than choose something that wasn't the absolute best. That way I can't blame myself, but someone or something else. I would rather lose the benefit of choosing anything than taking responsibility for the chance of making the "wrong" call. Is it that I'm afraid of the wrong call or am I just not comfortable with the uncertainty that I would rather choose avoiding the whole situation?

I came across a TED video on the web. Sheena Iyengar talked about some very interesting experiments she and her colleagues ran. They figured out that too much choice was a bad thing. Due to choice overload (or as I called it decision paralysis) people make worse choices even if making the choice is in their own best interest. Choice overload reduces engagement, decision quality and satisfaction. Also contrary to what I expected, more information doesn't help to make better choices. Visualisations however do help.

3rd March

Sunday

Turns out Barry Schwartz has similar ideas about decision making. He wrote the book "Paradox of Choice, why less is more". Read through it in one night. We are suffering from an overabundance of choice. While a little choice is better than having no choice, having too much choice puts the burden of choosing on the chooser. The chooser needs to invest time and energy into choosing only to expose the chooser to regret, escalation of expectations and self blame.

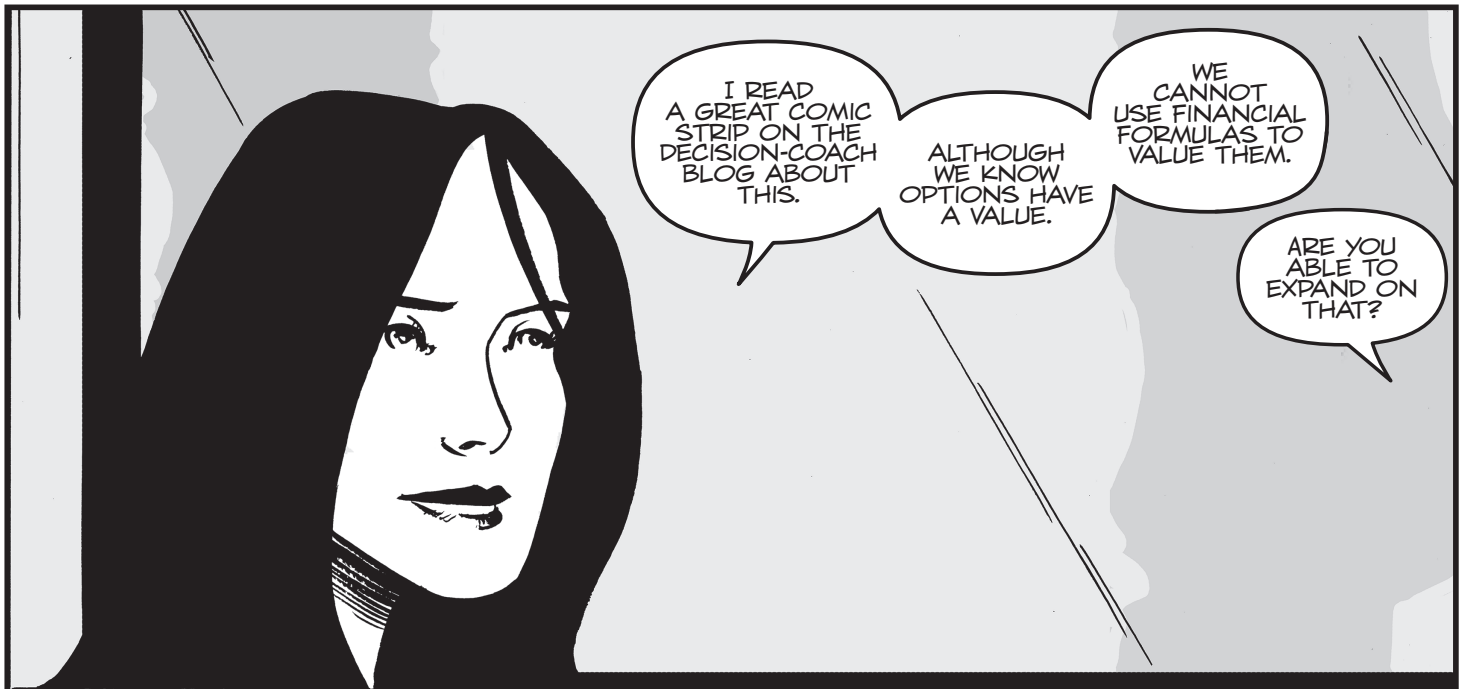
Both Barry Schwartz and Sheena Iyengar make similar recommendations. I have turned them into my own list:

- \* Be deliberate about what to treat as an option. Not everything that is optional needs to be treated as such.
- \* Be deliberate about making commitments. Making commitments nonreversible helps set my mind at ease.
- \* Don't expect too much.
- \* Allow myself to gradually get accustomed to options thinking.

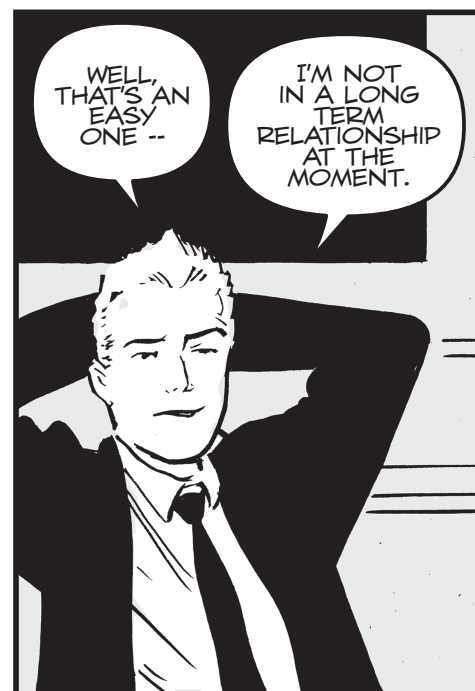
While I like options thinking I need to learn how to pace my own learning in this.

Use option thinking for the important choices. Accept satisficing for many of the other choices. Just settle for an acceptable choice instead of trying to find the most optimal one.

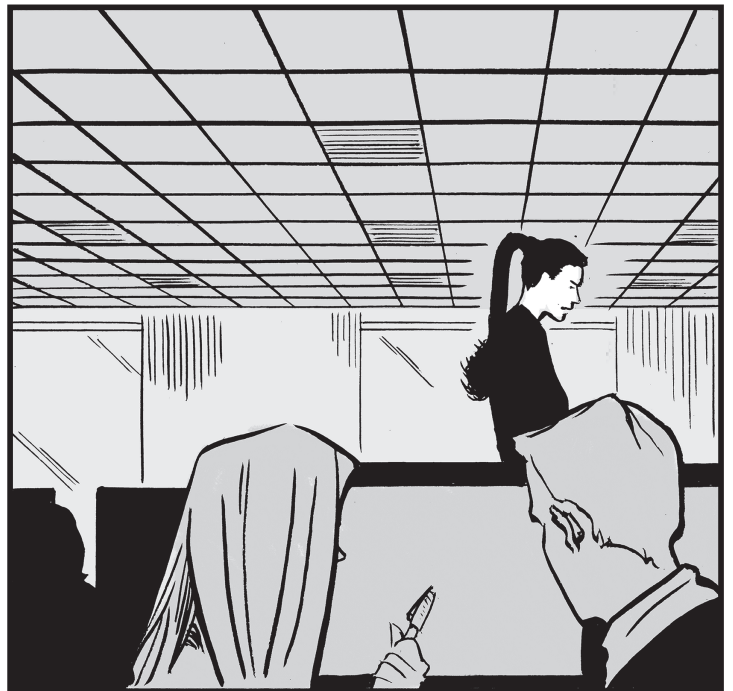
Good night, Susan. Speak soon.



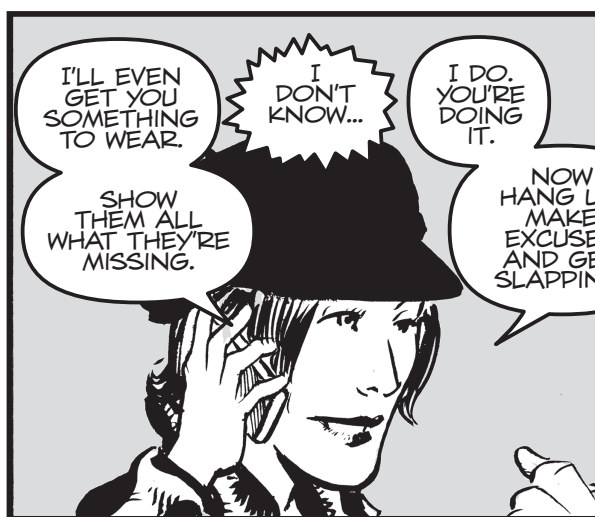
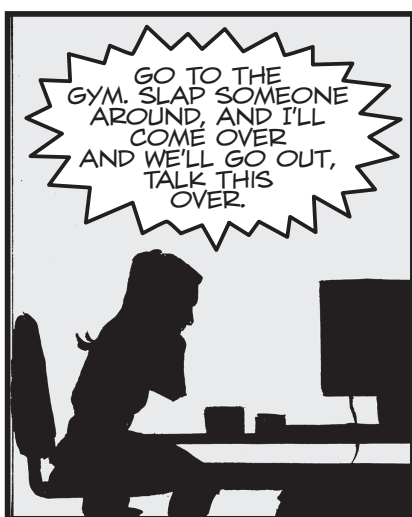
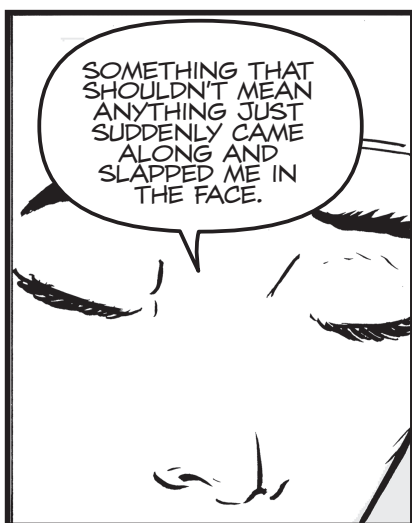
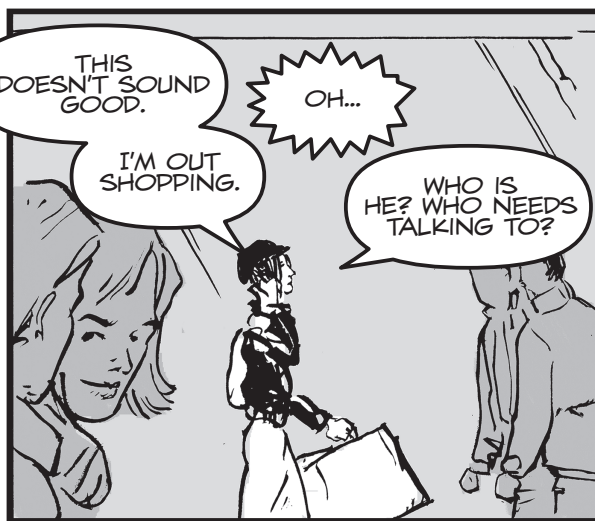




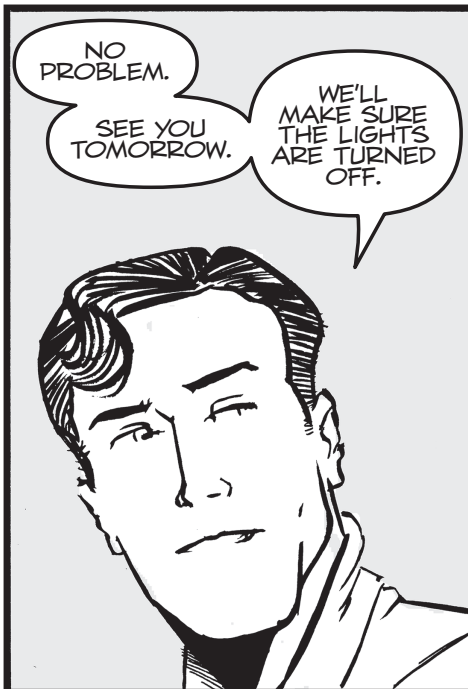


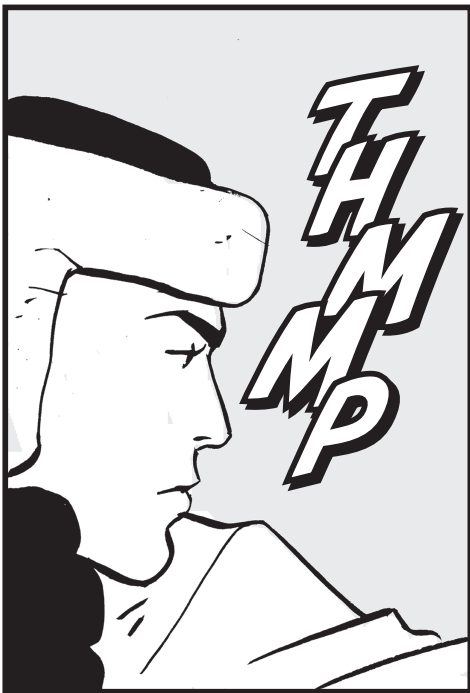


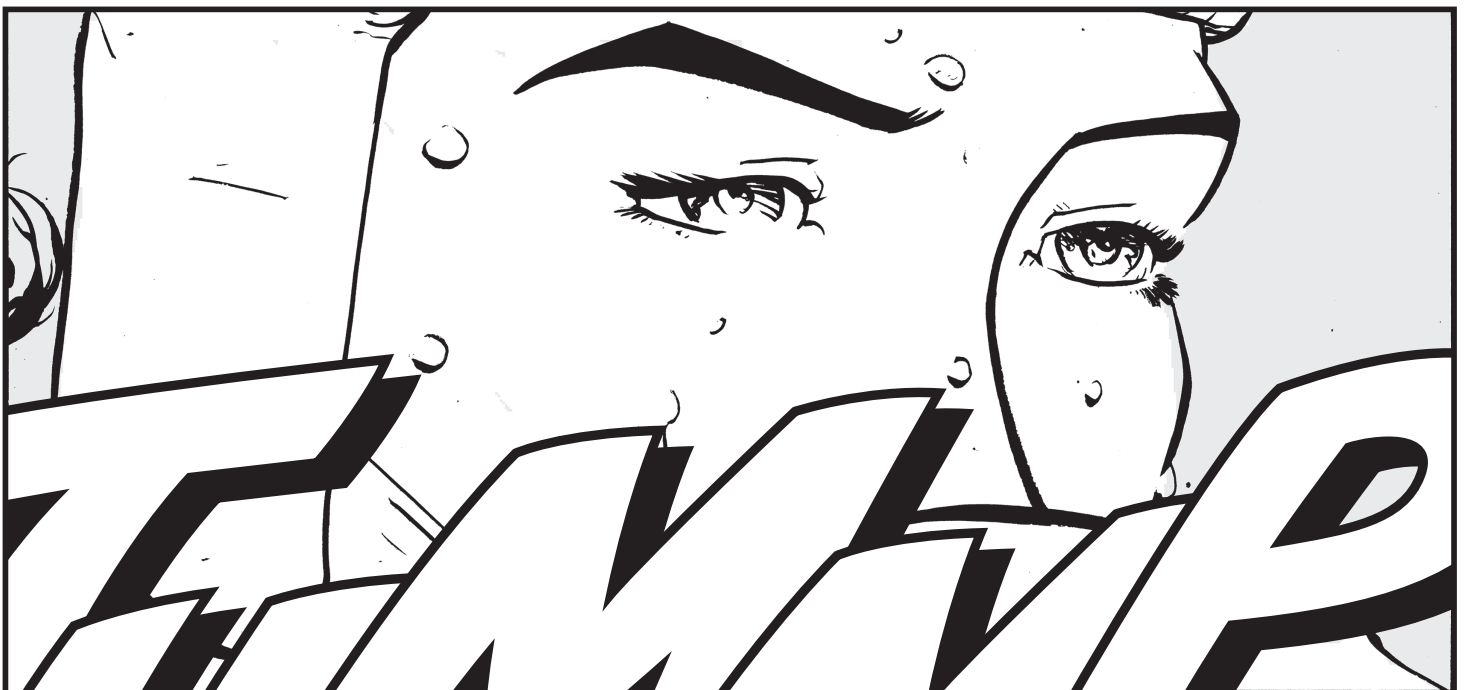
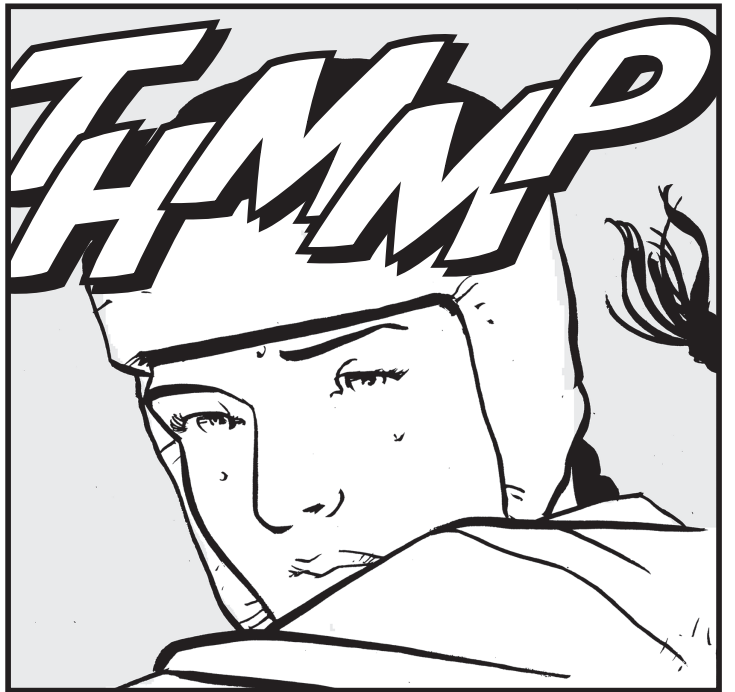


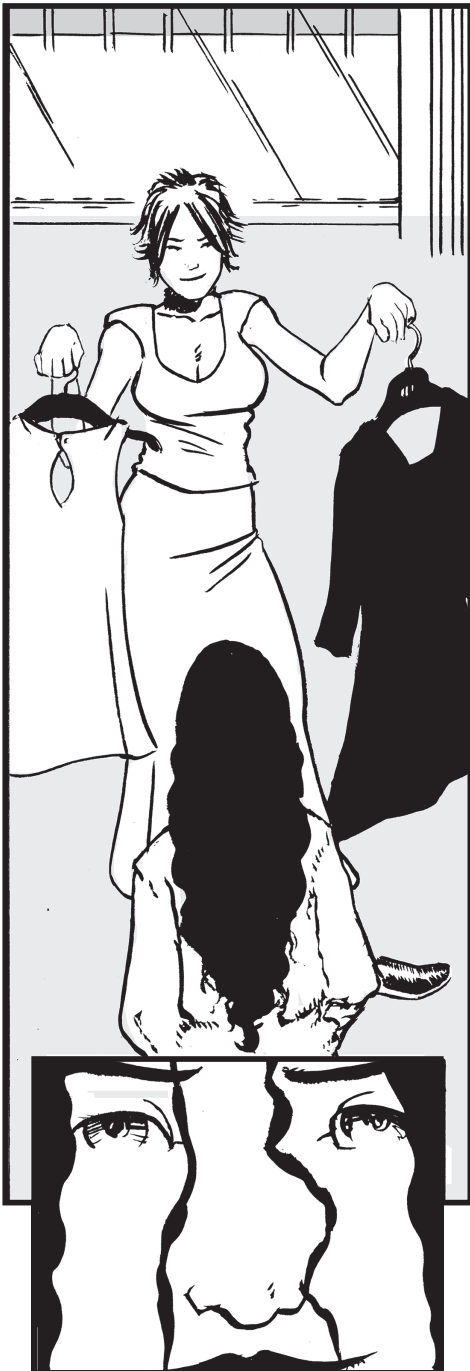
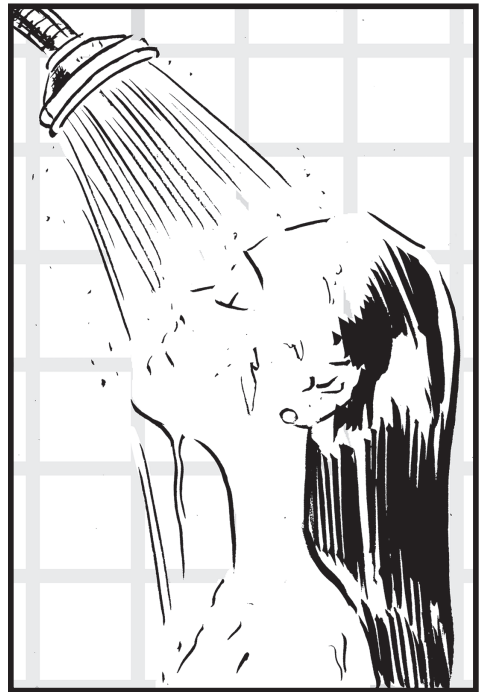


















## How to value Real Options? 6<sup>th</sup> Mar

For the past few days I have been looking into the origins of Real Options, namely financial mathematics and in particular the Black-Scholes Equation. I found numerous articles and blogs where the authors explained how to plug the numbers into the "Black-Scholes Option Price Calculator" to help people value their Real Options. I stumbled on a comic strip of all things on the blog of [www.decision-coach.com](http://www.decision-coach.com). The two authors had written a blog post explaining why Black-Scholes is wrong for valuing Real Options.

Fundamentally the Black-Scholes Equation is quite simple in concept. Suppose you can buy an option. You have the right to do something but not the obligation. The option expires in one year from now. You have already determined that the deal has three possible results: one resulting in a return of nothing, one resulting in \$26 and the last possibility is a return of \$100. Now how much is having that option worth?

What you need to do, is work out the range of possible results and assign the probability to each result of them occurring. Let's put these in the table below. We know we have three possible outcomes: A, B, and C. And we also know the financial result of each of these. With some research we can figure out the probabilities of each of the outcomes. Multiply the value of each result by the probability of it occurring and add them up. The result of that sum is the future value, in this case \$33.

Option Outcome	Result	Result Probability	Value
A	\$0	0.3	\$0
B	\$26	0.5	\$13
C	\$100	0.2	\$20
Sum	N/A	N/A	\$33

### Archives

- March (1)
- February (1)
- January (2)

Previous Year  
(7)



We're not done just yet. The option is worth \$33 in the future one year from now. How much is it worth now? For this calculation let's assume the interest rate is 10%, meaning for \$100 you put in your bank account you'll receive \$10 in interest, so you then have \$110.

How much money would you need to put in your bank account today to get \$33 in a year if the interest rate is 10%?

It's \$30. So having the option today is worth \$30.

This doesn't sound complicated. Can you believe the guys who came up with the Black-Scholes formula received a Nobel Prize for it? Where's the catch? The answer is in calculating the probabilities that are used. While in the example we said you came up with the probabilities, calculation of the probabilities is a lot harder than it sounds and involves some fairly advanced concepts like Markov chains, Ito's Lemma, Girsanov's theory and the concept of risk neutrality. Risk neutrality means using the probabilities that bookies use in horse racing rather than trying to find the real probabilities. Finding the real probabilities is impossible without a time machine.

In their comic strip, the real options authors point out that Black-Scholes works well in Financial Markets for some technical reasons. In the real world liquidity completely dominates the equation. In fact all of the assumptions in the Black-Scholes and all of the inputs to the equation are invalid when you move out of the Financial World and into the real world of real options. In an amusing video, the authors make the point by demonstrating that there is pretty much no way of valuing a bottle of water. A bottle of water could be worthless or worth a person's life depending on context. As a thought, how do you value the option to kiss someone?

The authors also make the point that Black-Scholes is dangerous because its complexity can deter people from challenging valuations.

## Archives

[March \(1\)](#)

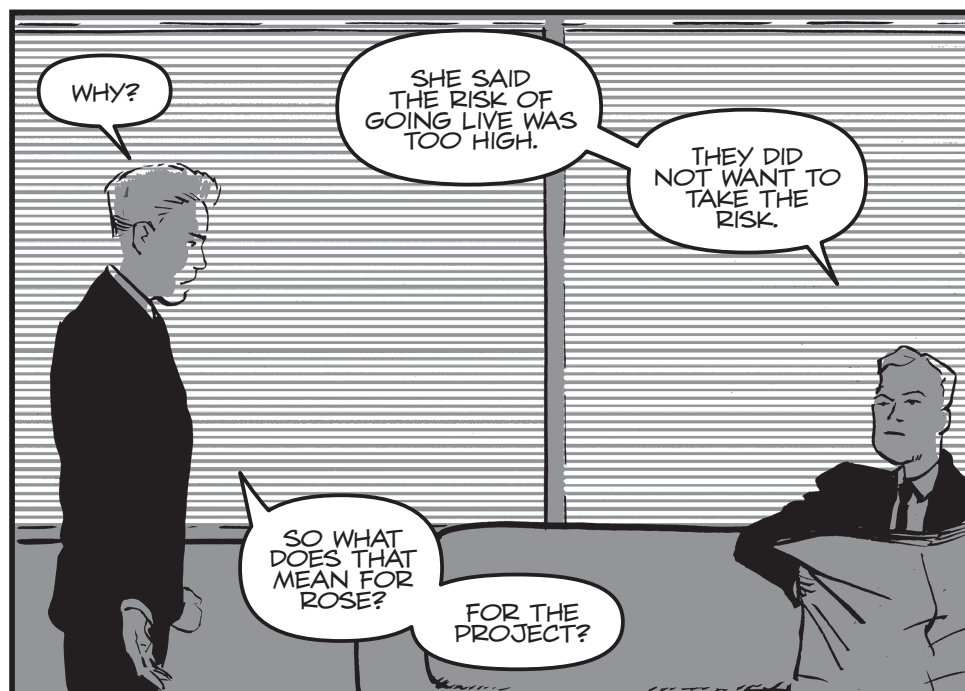
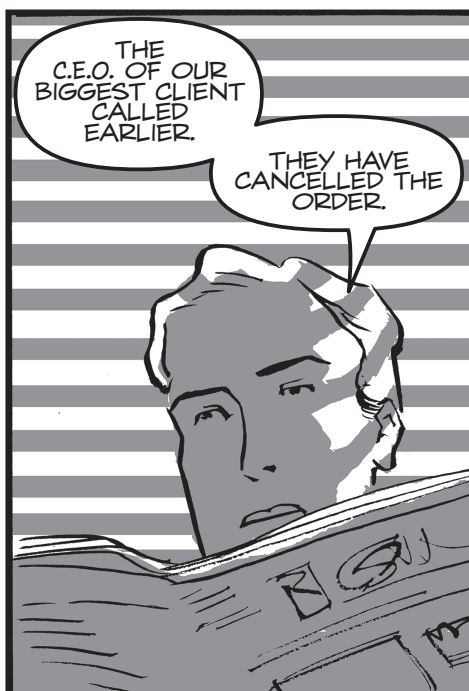
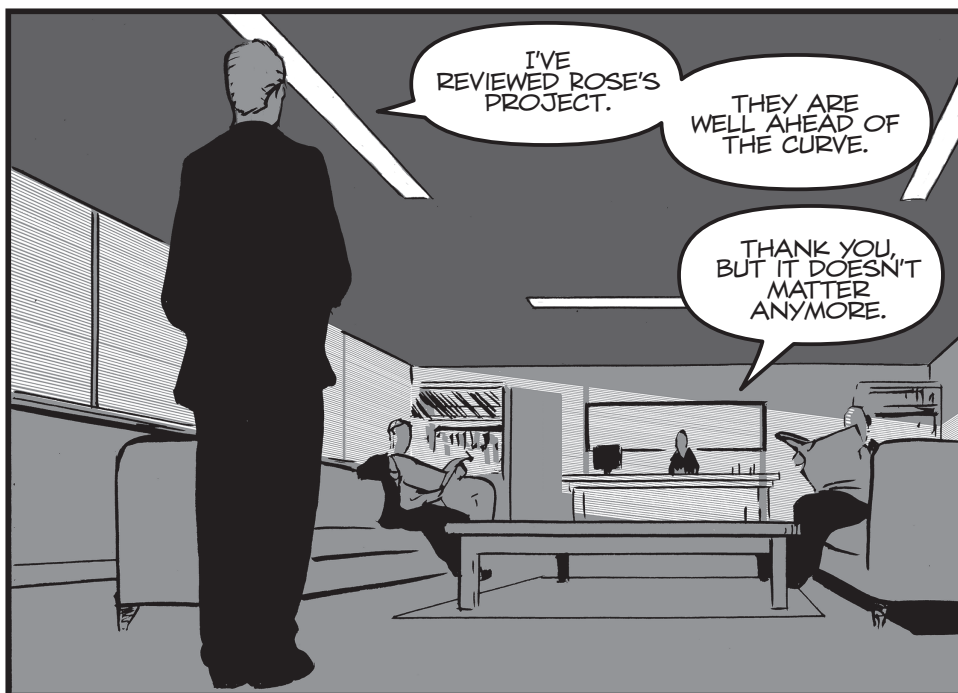
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[January \(2\)](#)

[Previous Year \(7\)](#)









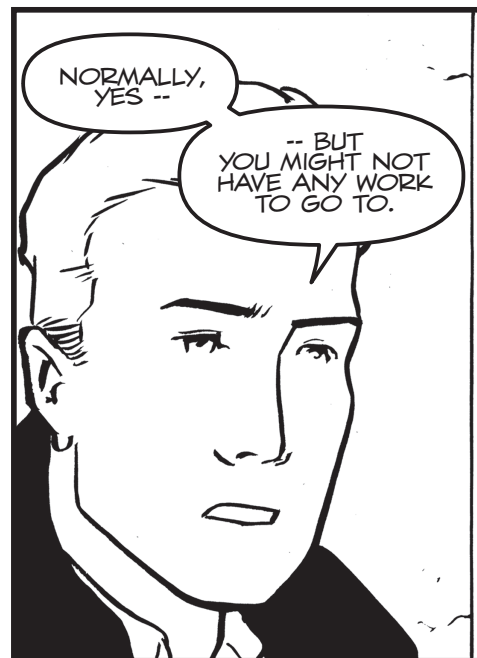
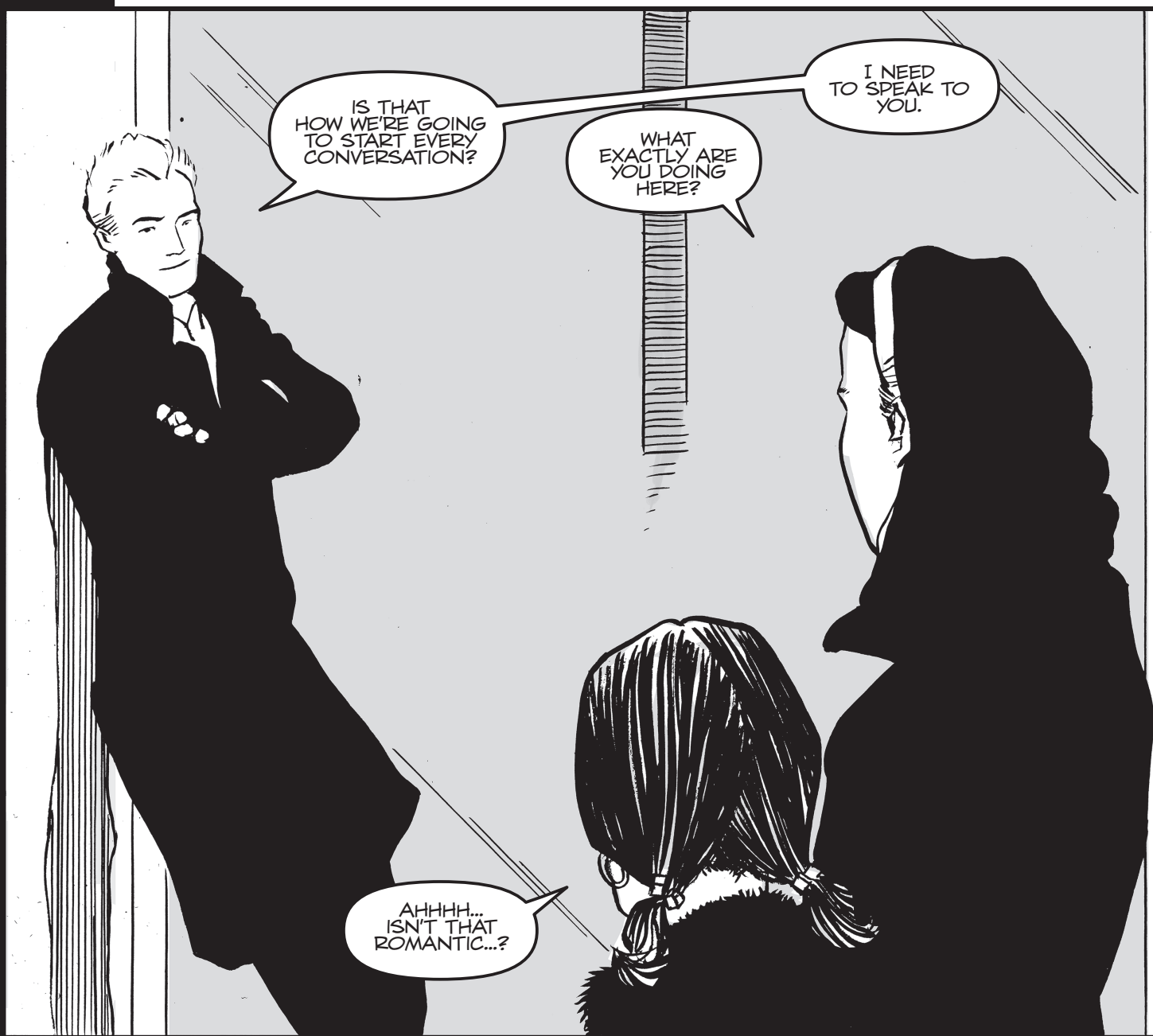


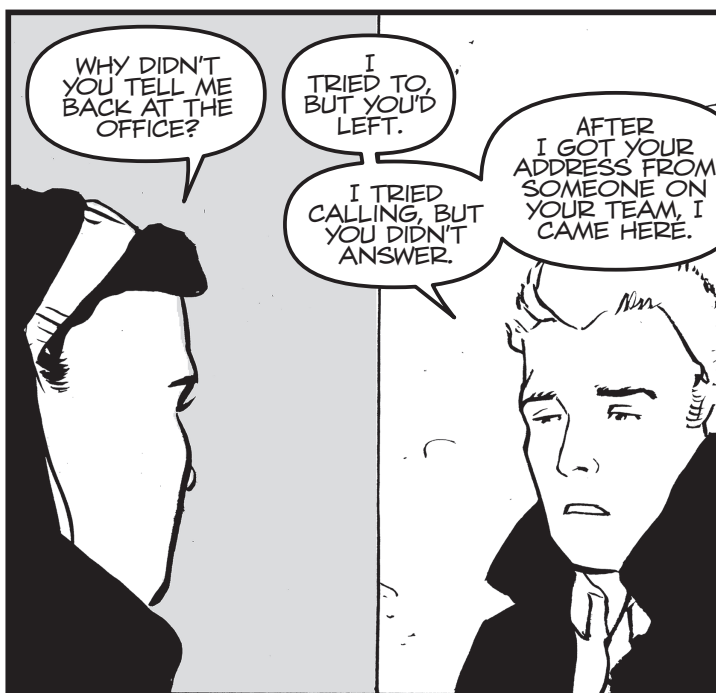
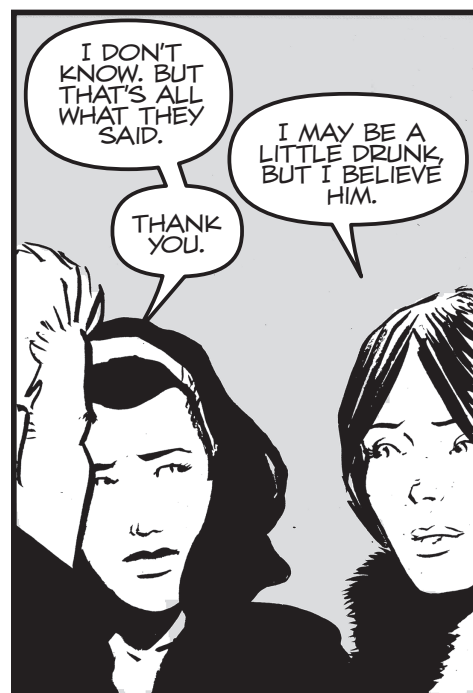
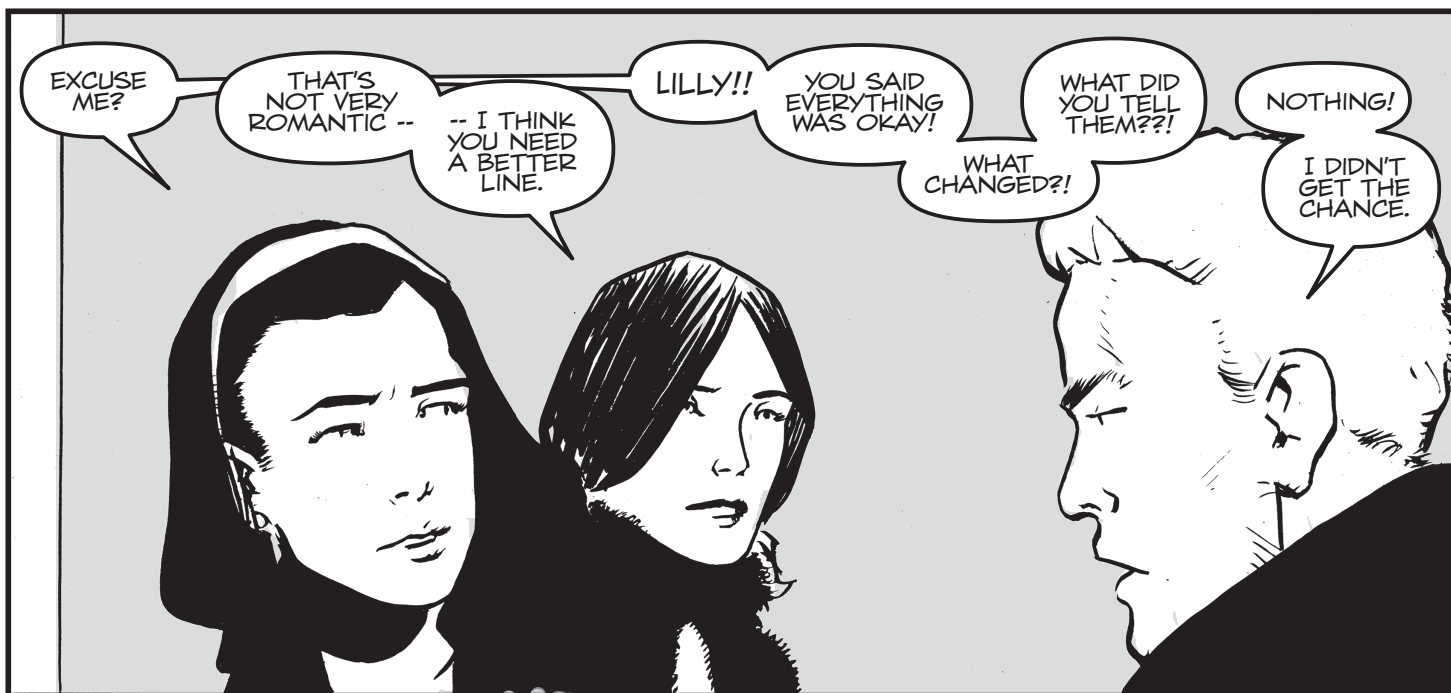


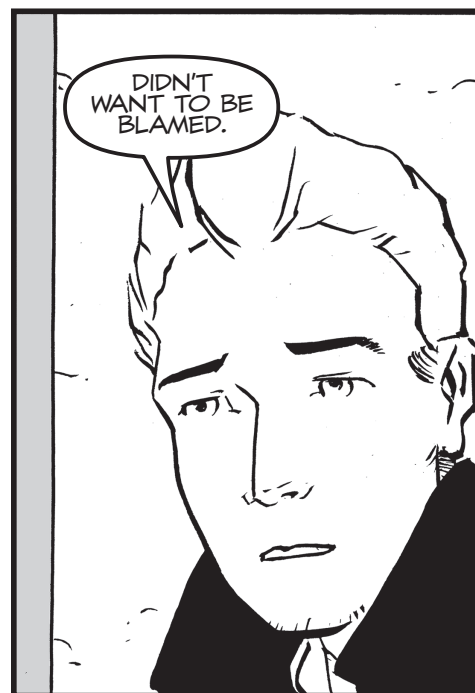
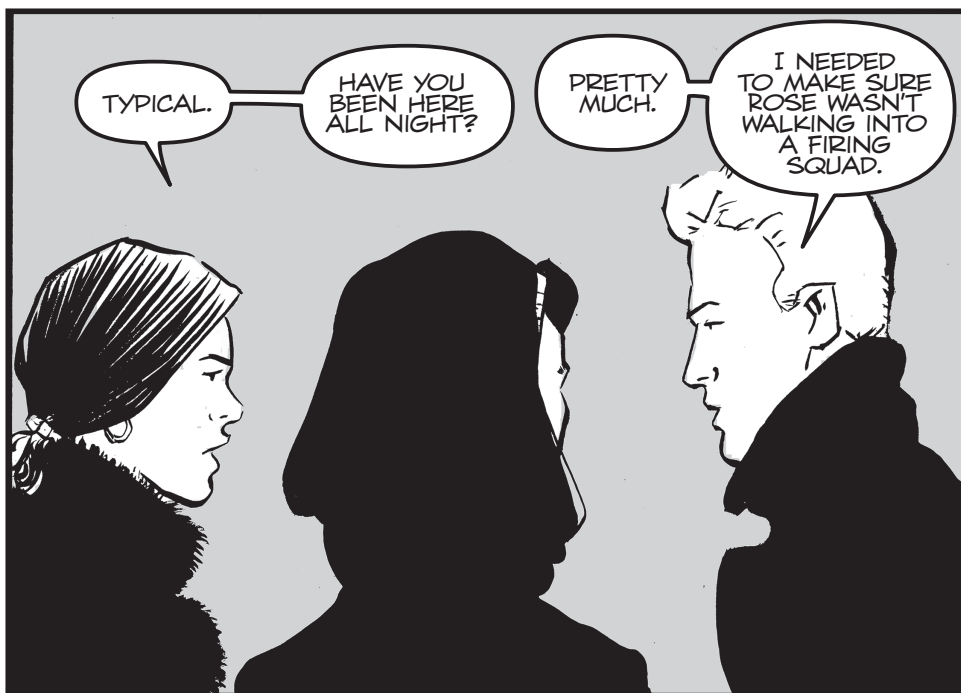
# CHAPTER SEVEN

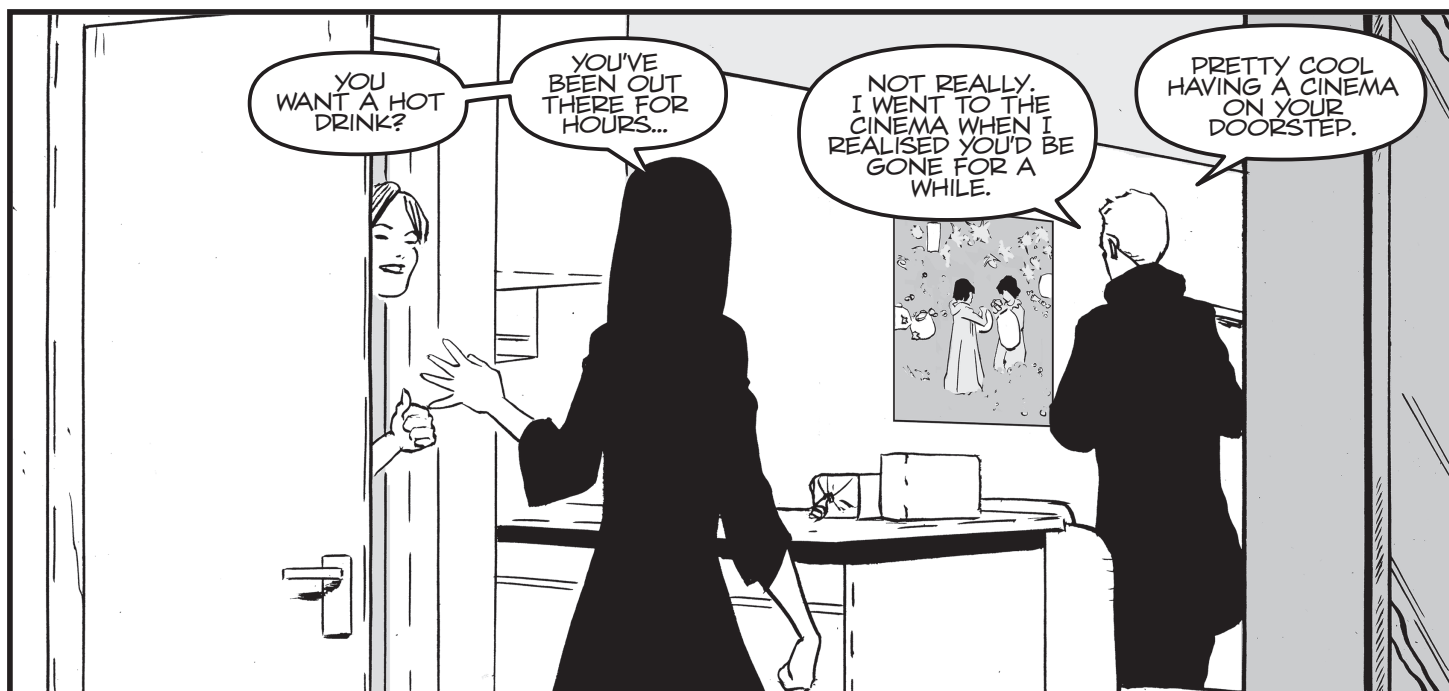
















DON'T SUPPOSE THERE'S ANY POINT GOING TO BED. PROBABLY WOULDN'T SLEEP.

MIGHT AS WELL GET READY TO GO IN AND SEE IF WE CAN SORT THIS MESS OUT.



MILK AND SUGAR?

HOWEVER IT COMES.

YOU GOING IN NOW?



THAT MEAN YOU'RE NOT USING YOUR BED?

WHERE ARE YOU GOING?

GREAT.



SLEEP. IT'S ALMOST THREE.

NO. YOU'RE COMING IN WITH ME.

YOU GOT ME INTO THIS MESS --

WHAT?! C'MON ROSIE...



NO "C'MON". I WAS READY TO LEAVE.

YOU CONVINCED ME TO STAY.

AAAANDD... IF YOU HADN'T SUGGESTED I LEAVE EARLY I COULD'VE DONE SOMETHING EARLIER.

YOU'RE GOING TO HELP ME.



.....'KAY.....

LET ME GET CHANGED...



DON'T SIT DOWN.

WE'VE GOT TO GET DRESSED.

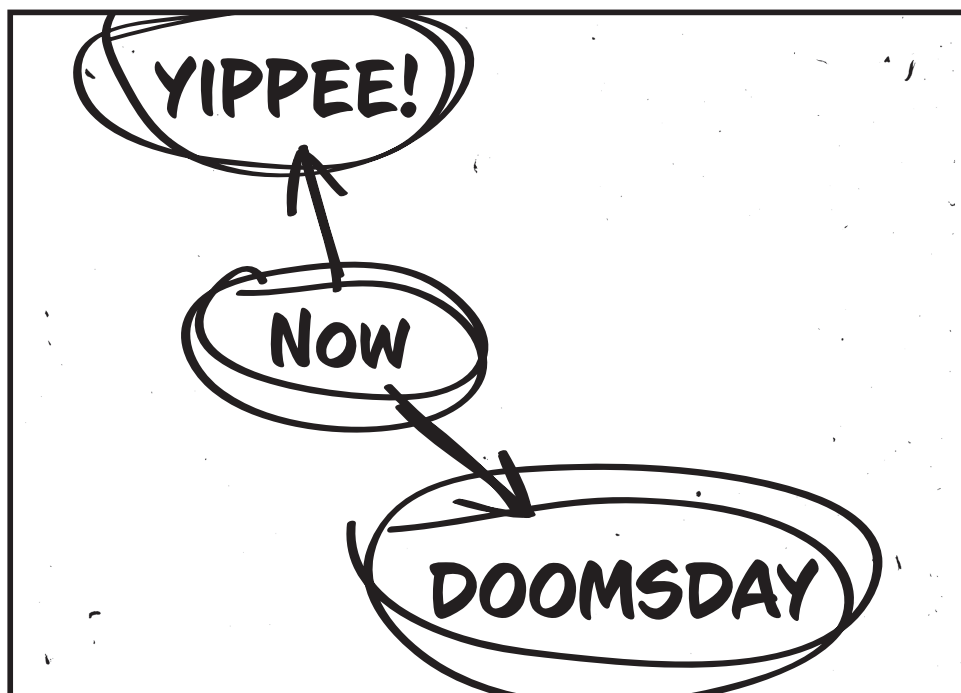
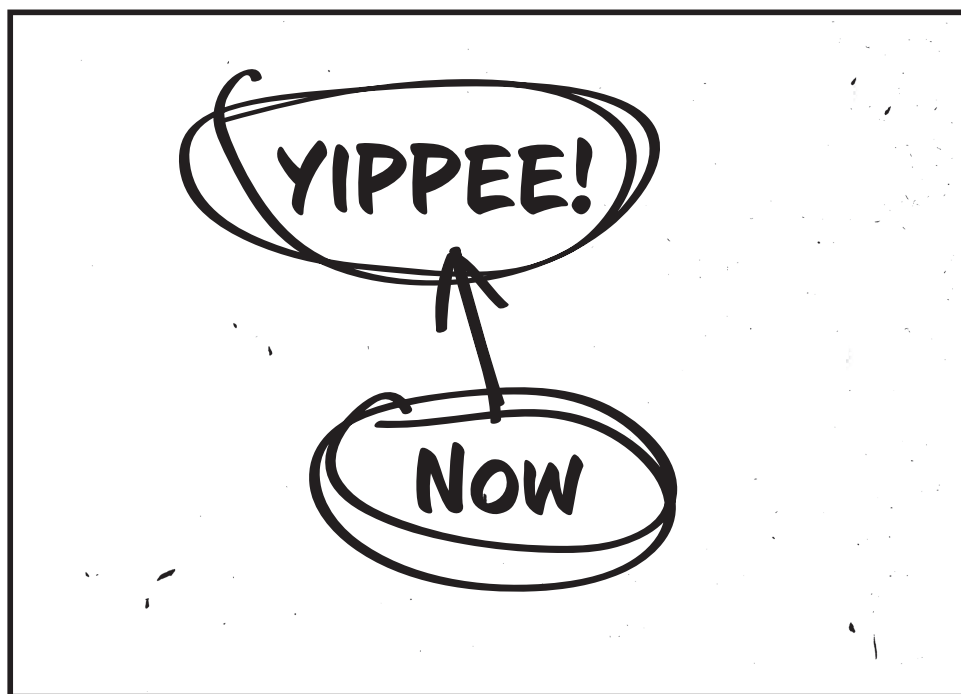
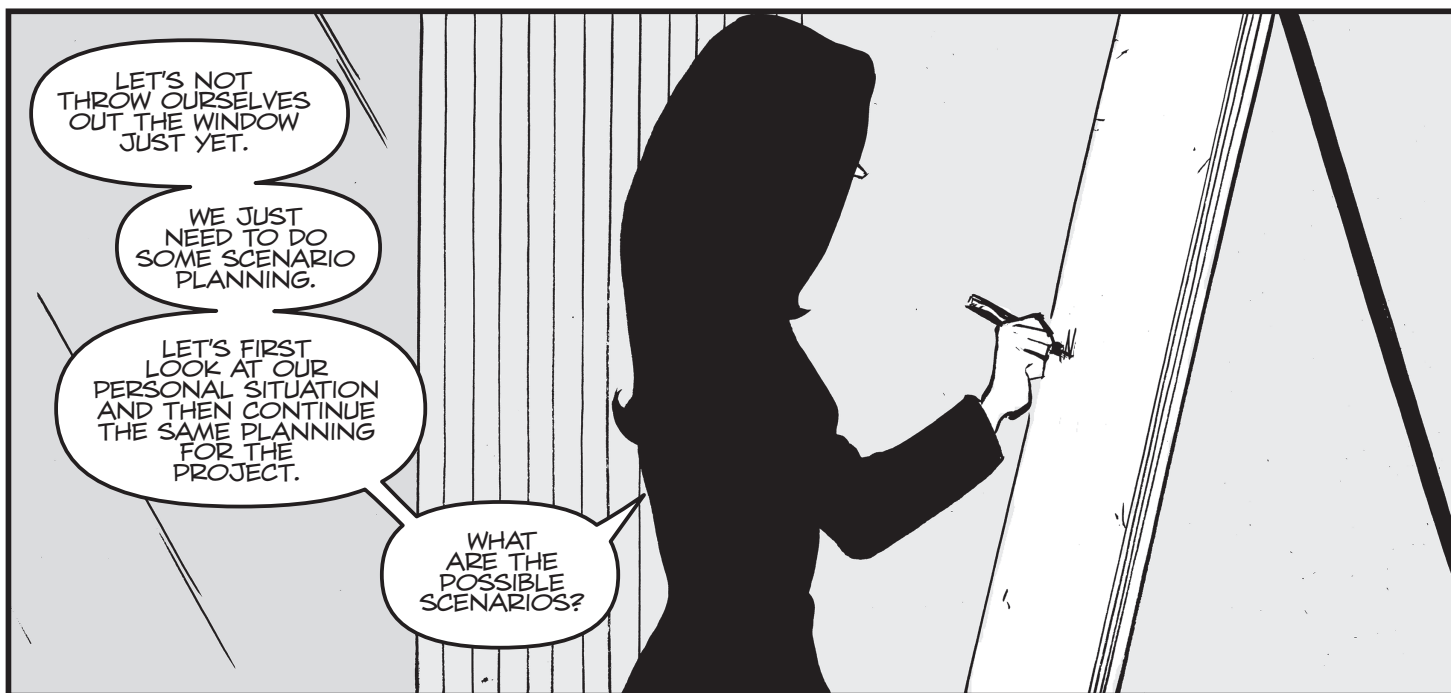
TAKE YOUR COFFEE AND WAIT ON THE BALCONY UNTIL WE'RE READY.

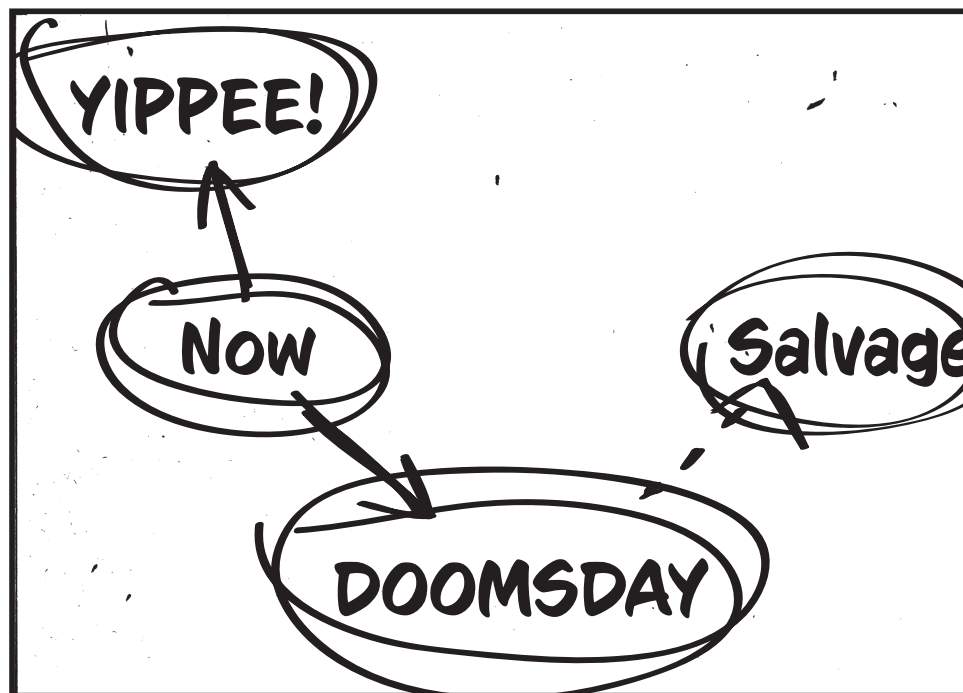


WE'VE COME THIS FAR --

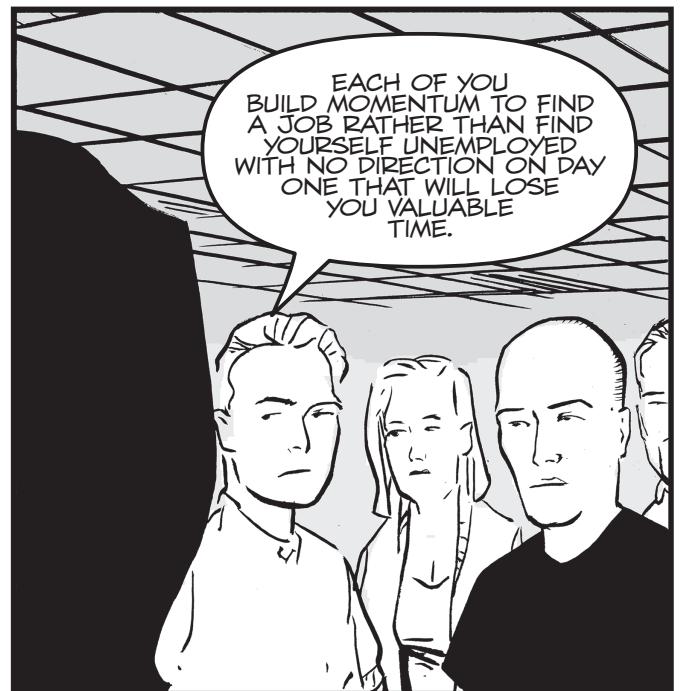
-- NOT GOING TO GIVE THIS UP NOW.













YEAH,  
BUT I'D RATHER  
THEY DID NOT  
CANCEL THE  
PROJECT.

WE ALL AGREE  
BUT IF REALITY ISN'T  
AS WE'D LIKE IT --

-- WE SHOULD  
PREPARE FOR EACH  
SCENARIO WE  
IDENTIFY.



SPLIT INTO  
GROUPS OF  
TWO OR THREE  
AND THEN WE'LL GET  
BACK TOGETHER  
IN AN HOUR.



I KNOW IT'S  
NOT GLAMOUROUS,  
BUT CAN YOU PLEASE  
HEAD OUT FOR SOME  
SUPPLIES?

I HAVEN'T  
GOT ENOUGH  
CASH FOR THE  
WHOLE CLASS.

JUST GRAB  
MY PURSE FROM  
MY BAG. SHOULD  
BE ENOUGH IN  
THERE.



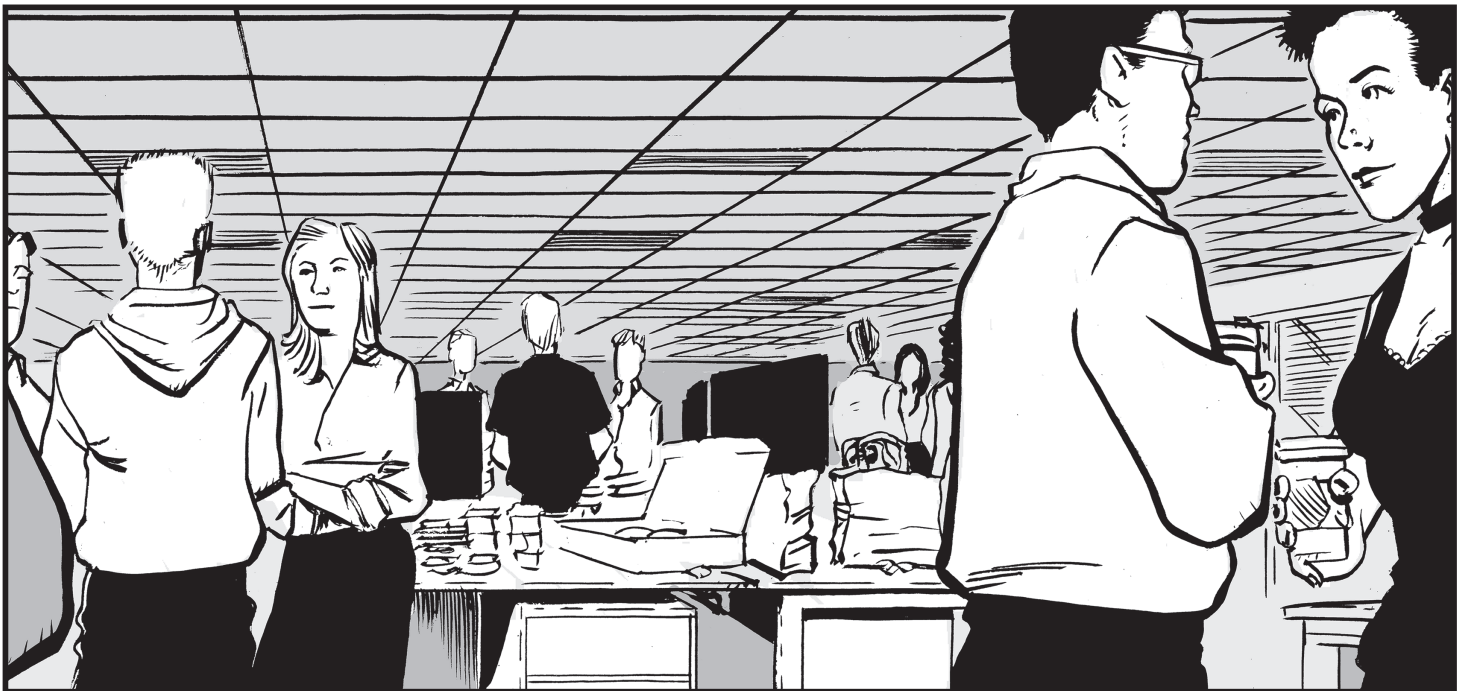
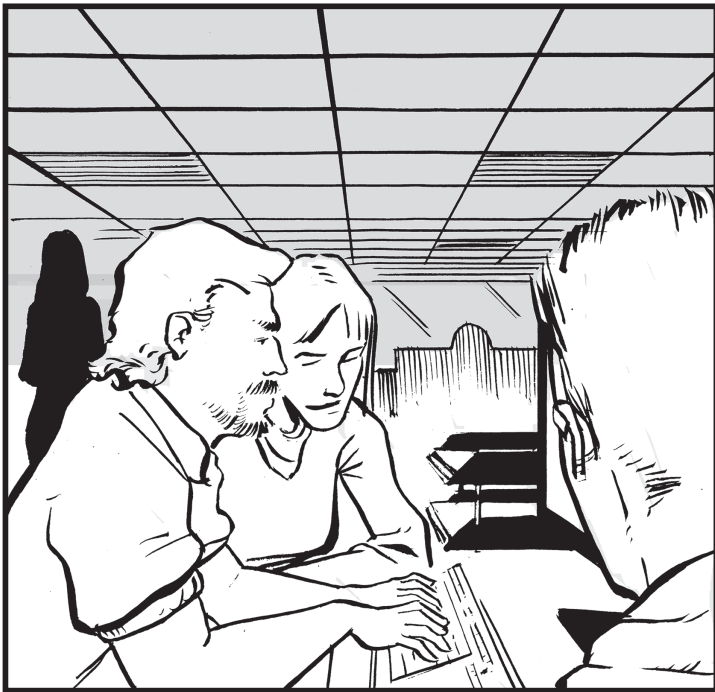
I'LL  
FIND OUT WHAT  
PEOPLE WANT THEN  
GIVE YOU A HAND.  
MIGHT AS WELL  
MAKE MYSELF  
USEFUL.

YOU  
WANT A  
TEA?

THANKS.



NO  
PROBLEM.  
SEE YOU IN  
A BIT.





# BLOBS

RANDOM MUSINGS - LILLY RANDALL



## Increasing your psychic odds with Scenario Planning

### Recent Posts

March (3)

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Do you consider yourself a psychic? Having the ability to predict the future means you don't have to guess what happens next. You can make predictions knowing that your imagination and reality always match up.

Most of us have had experiences where a situation we thought about carefully turned out to be completely different in reality than we had imagined. It happens multiple times a day. We have that experience over and over.

While we think, plan and imagine a lot, reality almost never aligns with our imagination. Sadly when this happens we are not prepared. Our pursuit of a perfect world leaves us unprepared for the world we did not want. How to avoid this painful situation... Scenario Planning.

### Scenario Planning

Scenario Planning is an another expression of real options. Like many set based design and other commitment deferment processes, it pre-dates real options by many, many years.

Scenario Planning was first popularised by Peter Senge's book "The Fifth Discipline". In the book, Peter describes how Royal Dutch Shell (spearheaded by Arie De Geus, head of the Strategic Planning Group) creates a number of scenarios which are then taught to the entire organisation. The whole organisation can then think about how they would respond to these scenarios.





## Recent Posts

March (3)

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All of these scenarios could become true. Having these scenarios allows Shell to prepare for worlds they like, and for worlds they will not like. As part of their preparation they may need to build options.

### Preparing for the possible

The scenarios are massive, earth moving events that could shake Shell to its core, and destroy it if they are not prepared. Scenarios like "A Third World War breaks out" or "Oil hits \$1000 a barrel" or "Oil runs out" have a tremendous effect on a large oil corporation.

These scenarios had the interesting effect that the organisation started communicating and collaborating in ways that it had not seen before. The creation of risk management scenarios has immediate positive benefits beyond just being better prepared for a possible future.

### Scaling Scenario Thinking

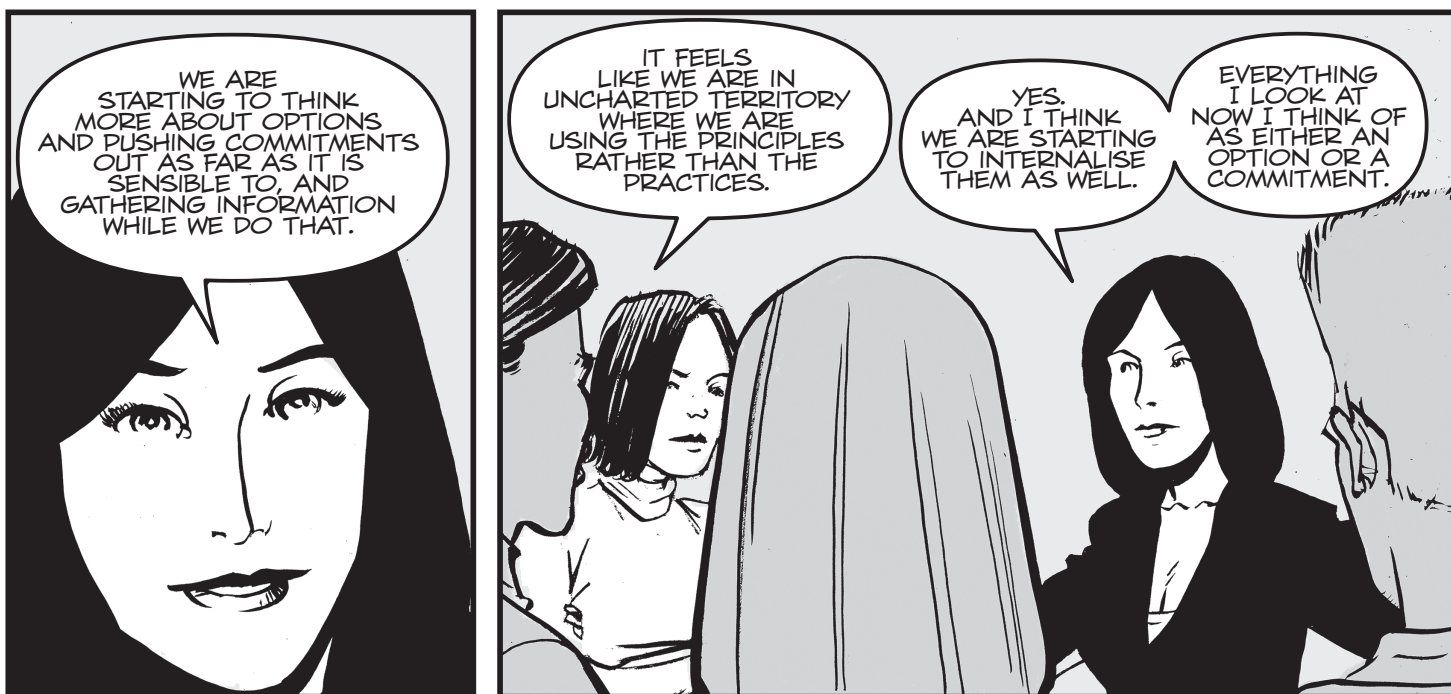
This kind of Scenario Analysis (or risk management) can be applied at any scale. From the individual, up to the corporation, and finally to the global scale. From "I want to be a footballer" to "The Currents in the Atlantic turn off and cause an Ice Age".

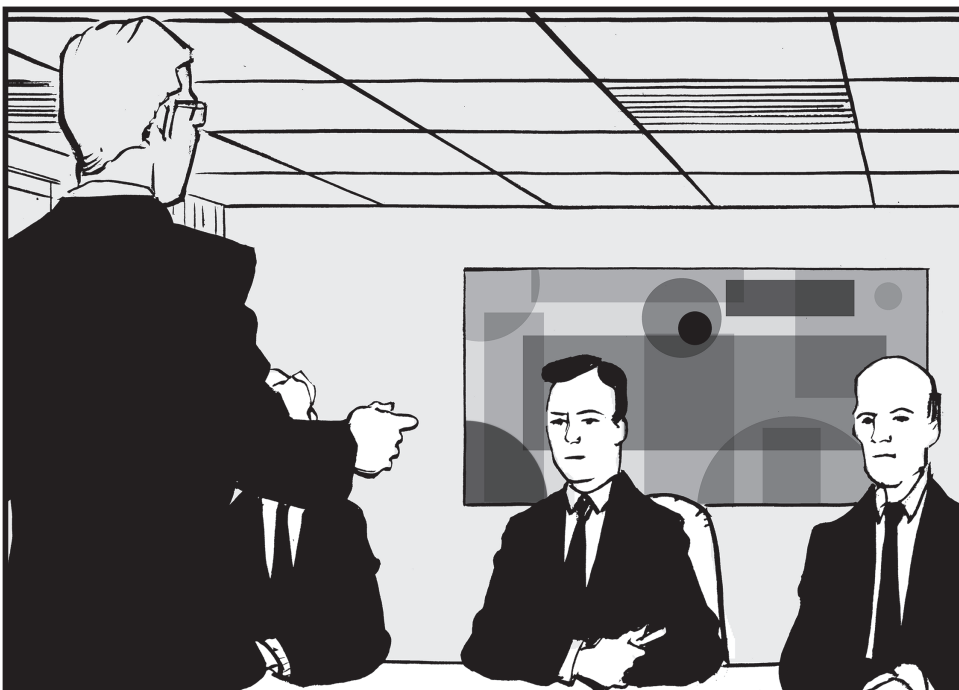
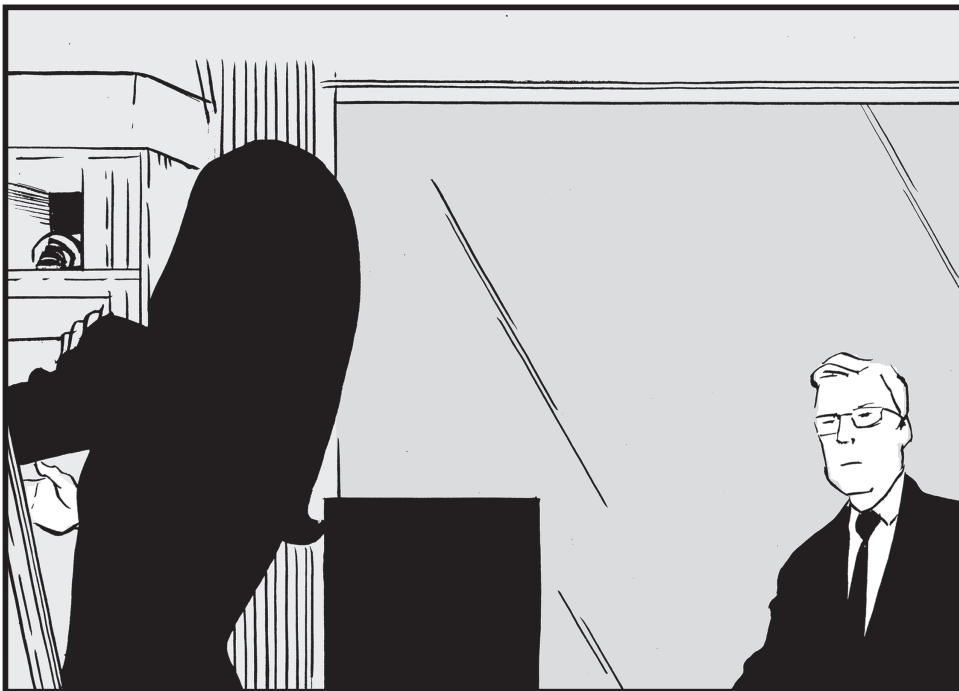
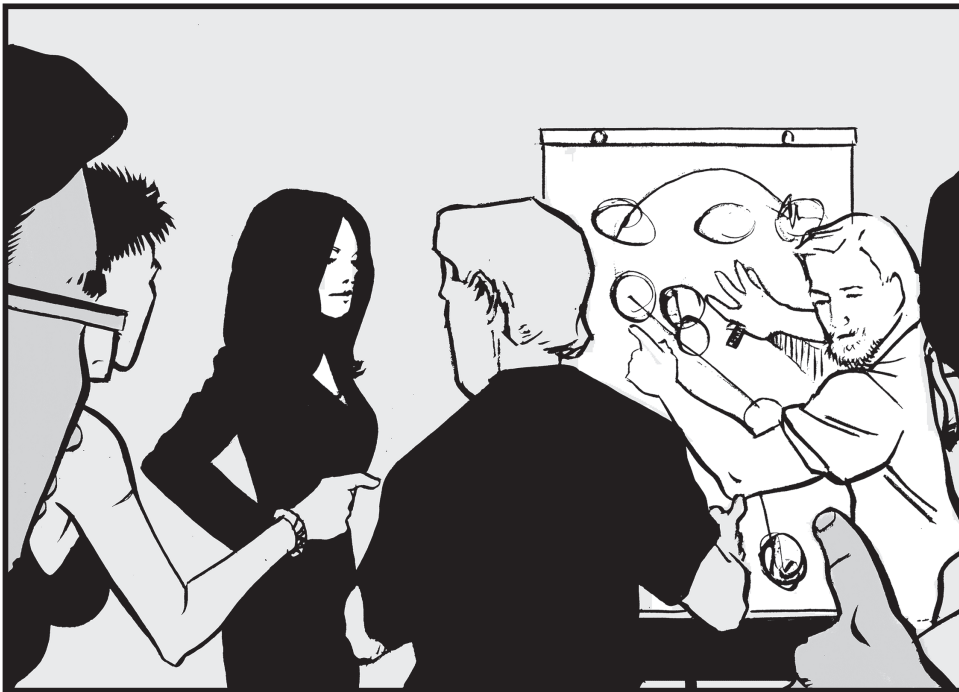
Wouldn't it be great if every school child in the world were to imagine a world where an Ice Age occurred. If everyone talked about a single thing. Imagine the collaboration it would bring.

### Increasing your odds in the future

Talking and reading about it makes sense. Let's be honest how often do you only prepare for a single future? Inspect plans and budgets of any company: how many futures are they prepared for?

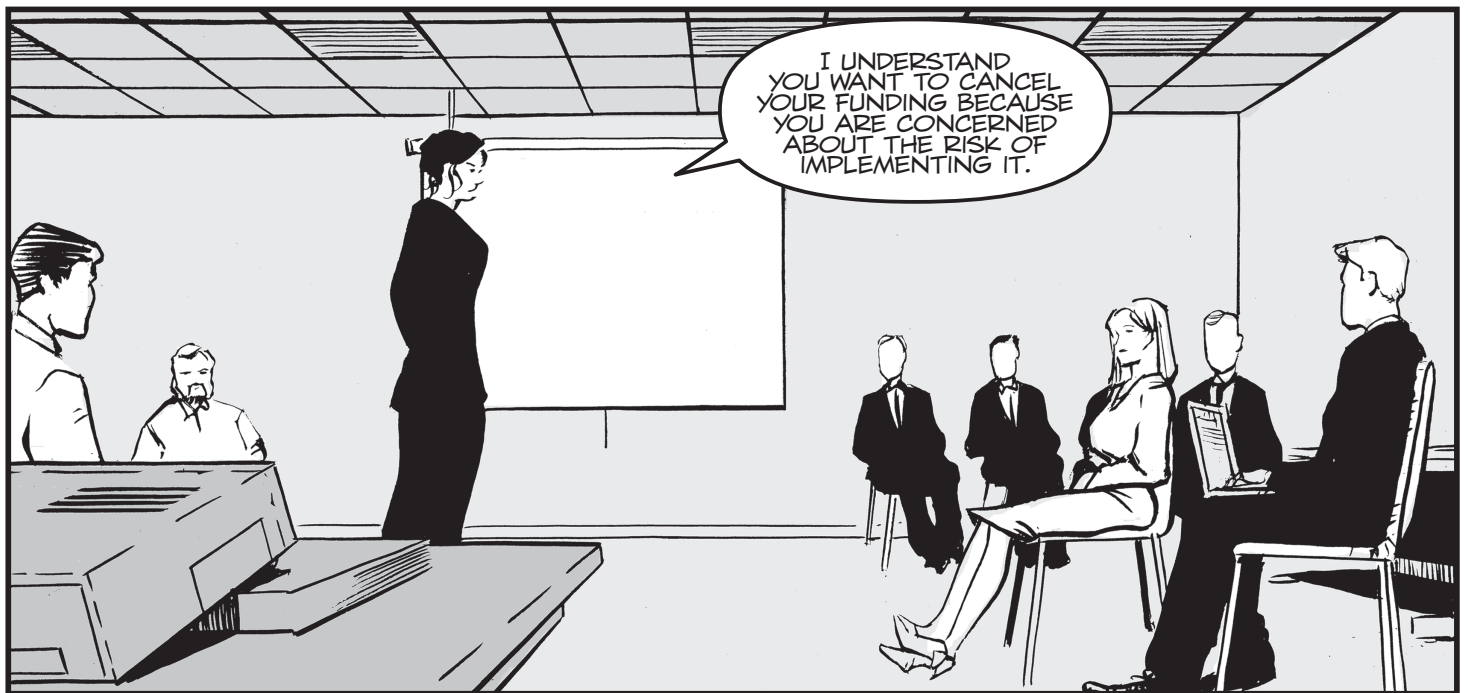
Don't bet on a single future. Prepare for multiple possible futures and have your options for each in place. You have just increased your chances of predicting the future!





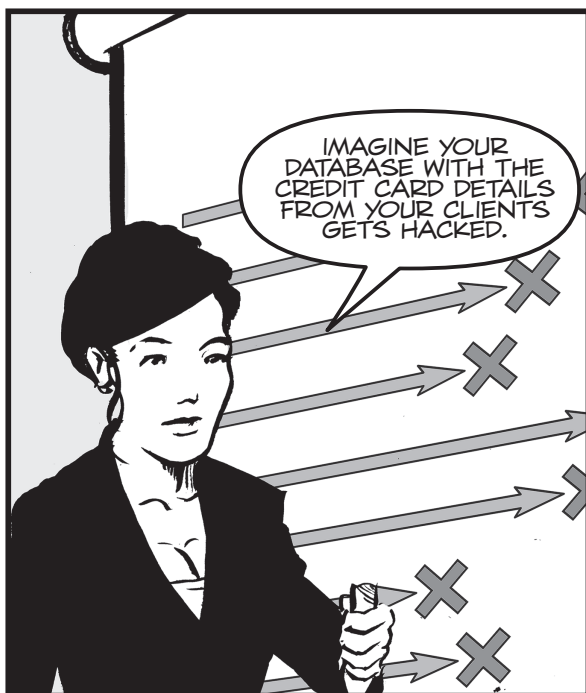












IMAGINE YOUR DATABASE WITH THE CREDIT CARD DETAILS FROM YOUR CLIENTS GETS HACKED.



THAT'S EASY. I EXPECT MY PEOPLE TO SHUT DOWN THE WHOLE SYSTEM IMMEDIATELY UNTIL WE SORT IT OUT.

HOW DOES THE OPERATOR OF THE DATABASE KNOW THAT THAT IS THE RULE?



IF IT GOES THROUGH THE CHAIN OF COMMAND TO THE TOP IMPORTANT TIME HAS BEEN LOST.

EVEN WORSE, SOMEBODY MIGHT MAKE A DIFFERENT DECISION ON HOW TO DEAL WITH THIS.

LIKE TRYING TO FIX IT WHILE KEEPING THE SYSTEM RUNNING TO ALLOW SERVICE TO THE CLIENTS TO CONTINUE BUT LEAVES THEM VULNERABLE AT THE SAME TIME.



OKAY. YOU'VE GOT TWO DAYS.

I WANT TO GO BACK AND STUDY THESE SCENARIOS.

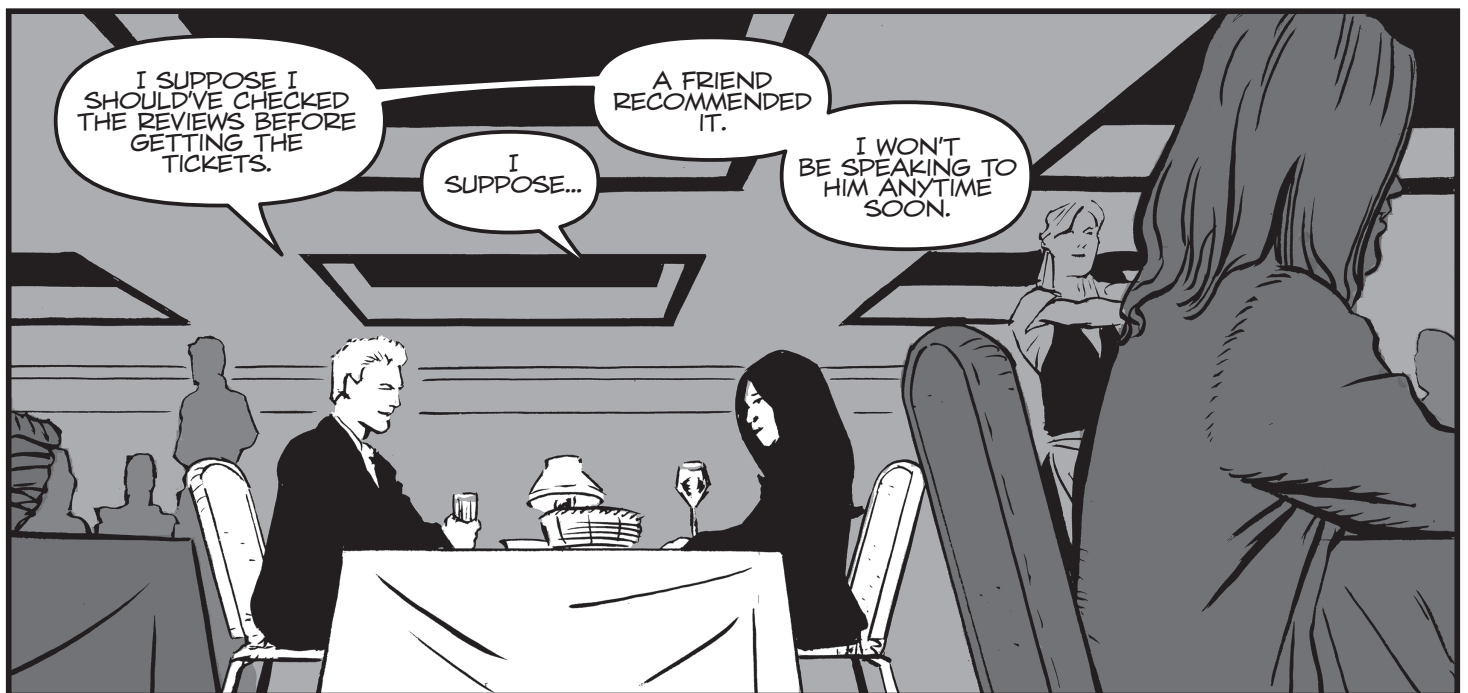
I BETTER TAKE YOUR NUMBER IN CASE WE HAVE ANY QUESTIONS.

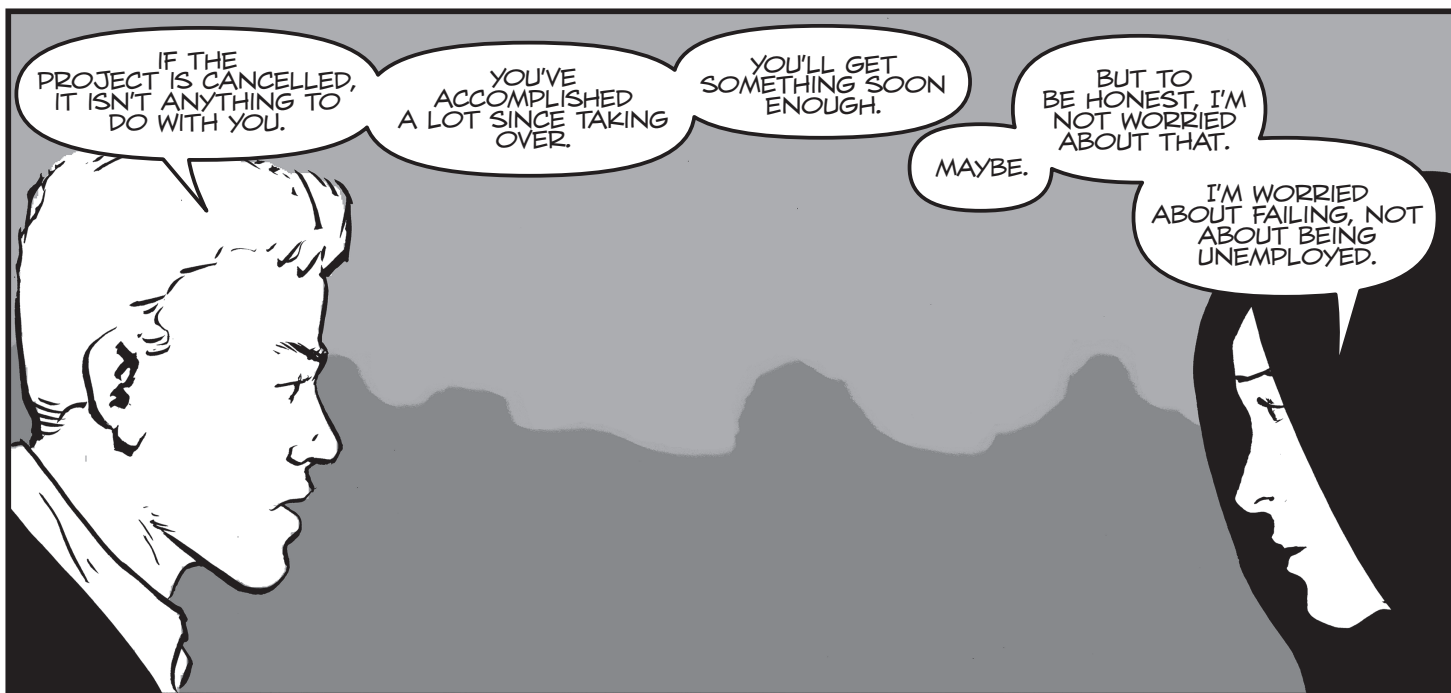


WE DON'T WANT TO DELAY THIS ANY LONGER THAN NECESSARY.









IF THE PROJECT IS CANCELLED, IT ISN'T ANYTHING TO DO WITH YOU.

YOU'VE ACCOMPLISHED A LOT SINCE TAKING OVER.

YOU'LL GET SOMETHING SOON ENOUGH.

MAYBE.

BUT TO BE HONEST, I'M NOT WORRIED ABOUT THAT.

I'M WORRIED ABOUT FAILING, NOT ABOUT BEING UNEMPLOYED.



I USED TO FREAK OUT AT THE THOUGHT OF NOT WORKING --

-- BUT SINCE DOING ALL THIS REAL OPTIONS STUFF TO THINGS --

-- I'VE BEEN A BIT MORE RELAXED ABOUT THINGS.



GOOD TO BE POSITIVE.

WELL, I'VE GOT SOME SAVINGS.

AND IF THINGS GET REALLY BAD, I CAN ALWAYS GO OUT BUSKING.

BUSKING? YOU SING?

NOT REALLY. I CAN PLAY THE PIANO.

USED TO DO IT A LOT AT UNI.



OH, THAT'S SOMETHING I'VE GOT TO HEAR.

NO, NO. I HAVEN'T PLAYED IN FRONT OF ANYONE FOR AGES.

THAT'S NO EXCUSE. BESIDES YOU MIGHT NEED THE PRACTICE.

NO, REALLY. I DON'T THINK IT'S A GOOD IDEA.



CAN I HAVE THE BILL PLEASE?

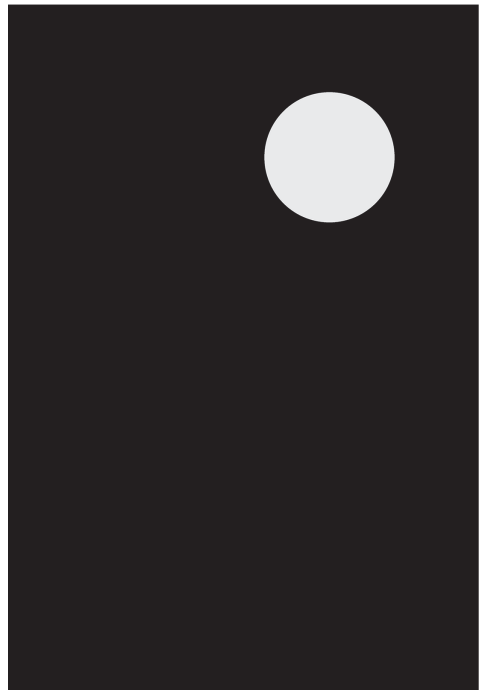
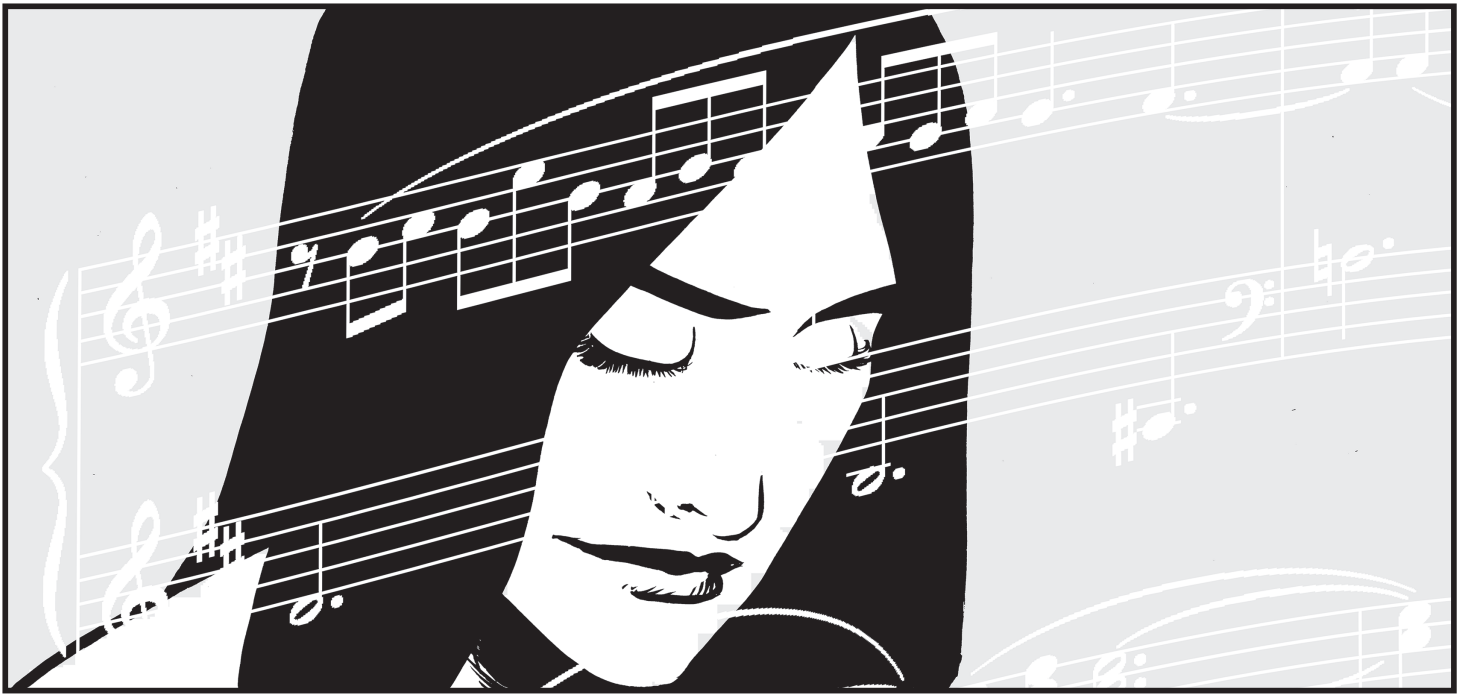


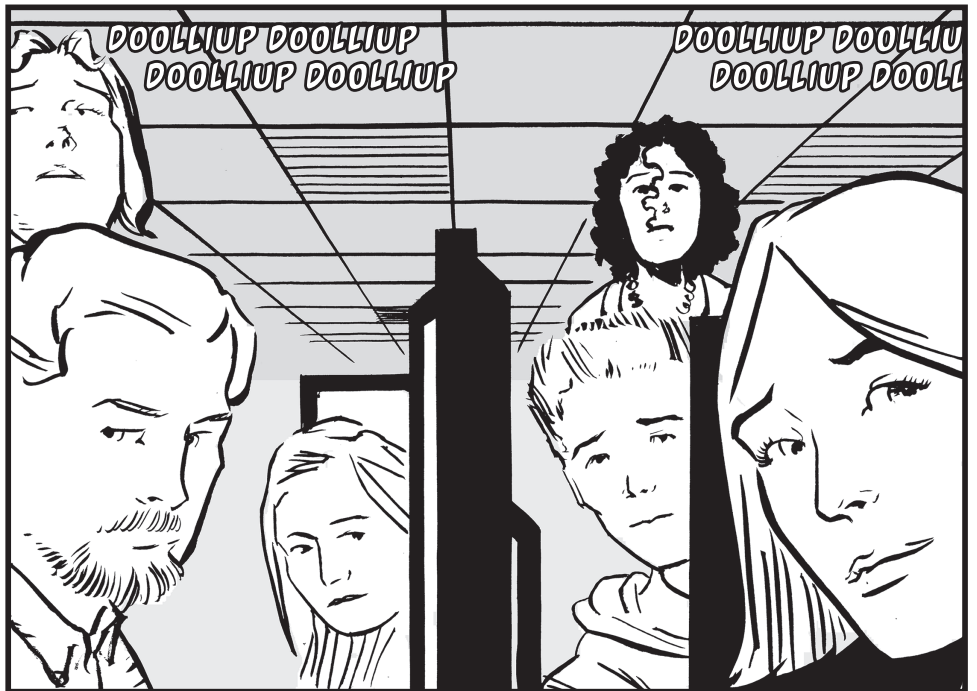
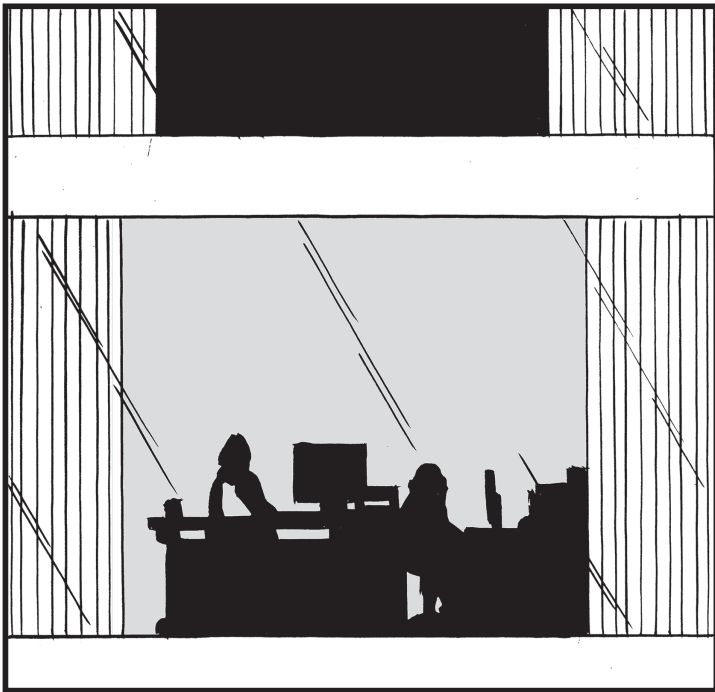
SONRP

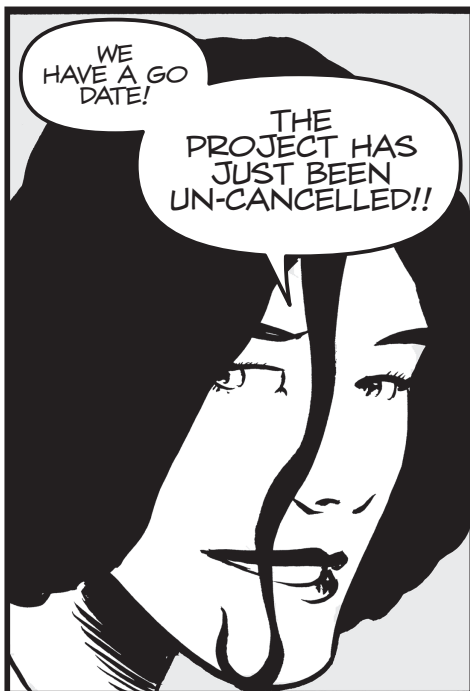






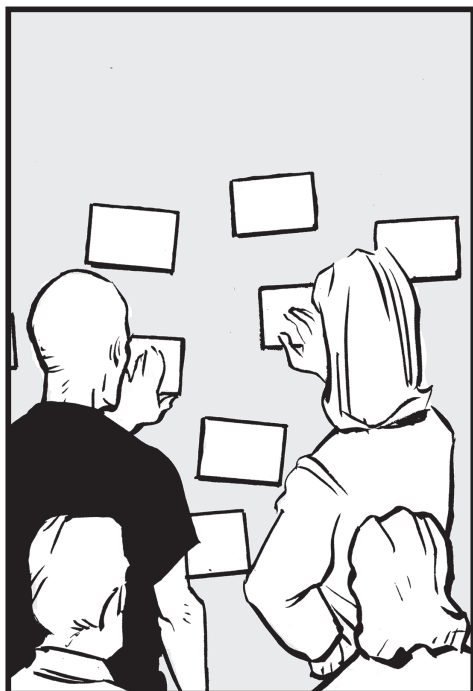








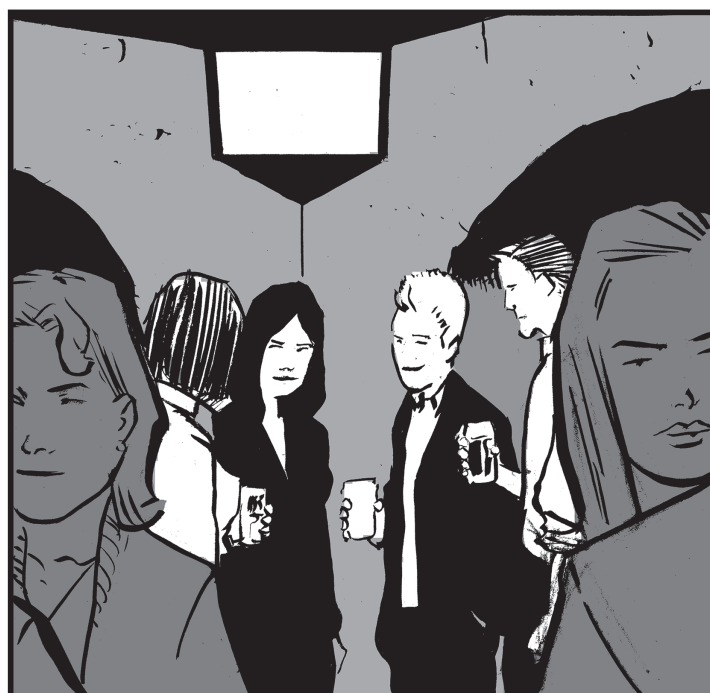
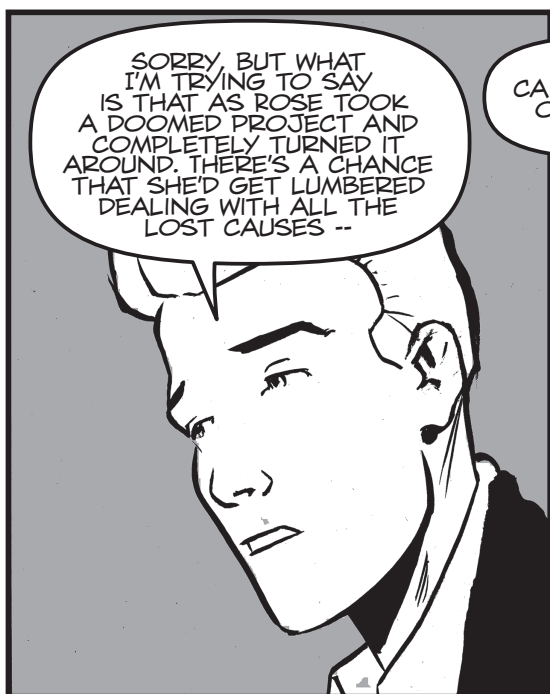






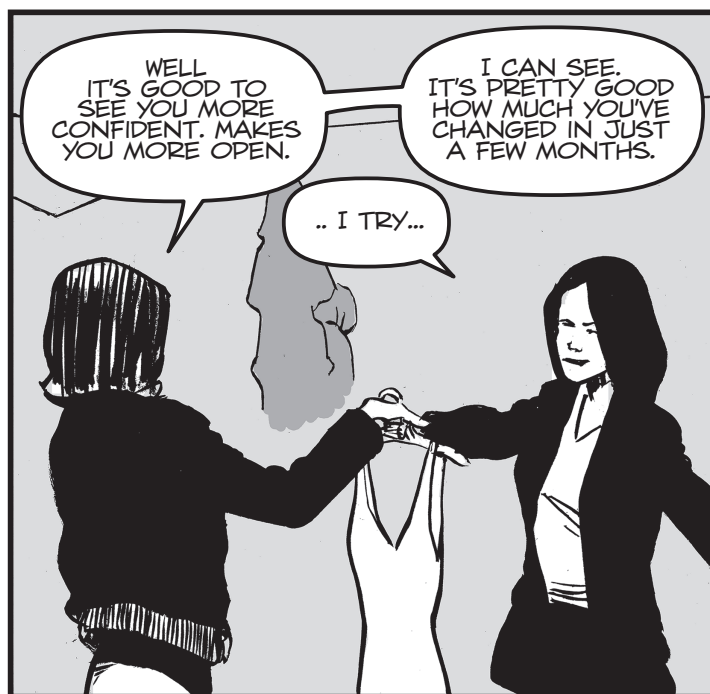
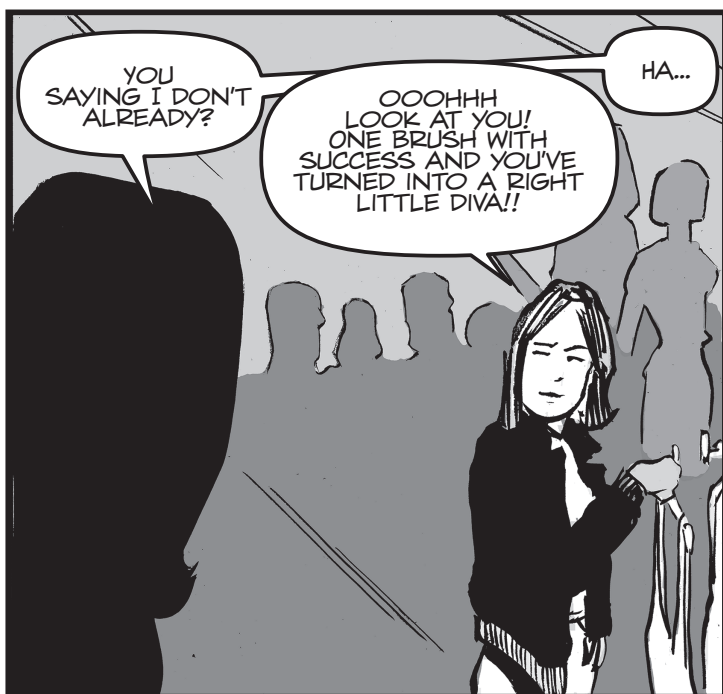
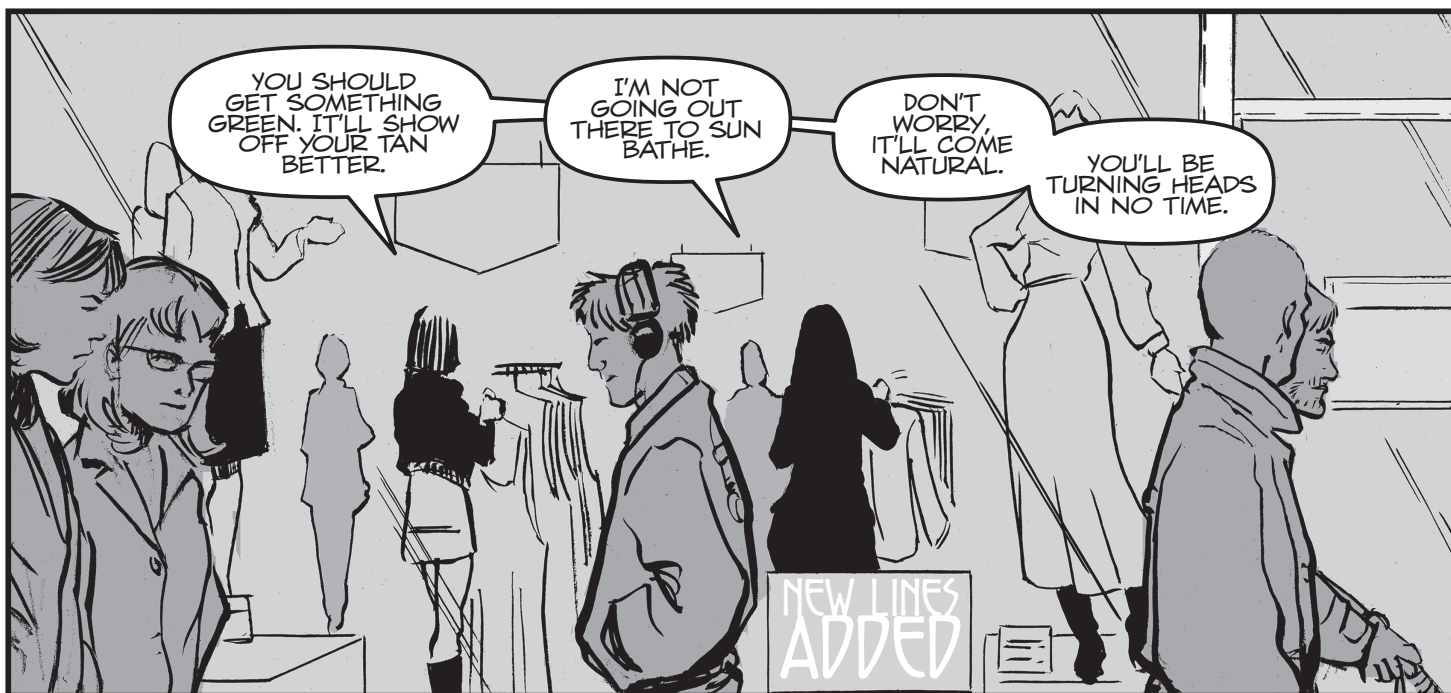








**EPILOGUE**



















**THE END**

**(FOR NOW)**







## Afterword

Wow! What a trip this has been. What started as a brief look at the library of a friend in August 2004 resulted in what you have just read almost nine years later. If you want to know what the chain of events is, ask us when you meet us.

You have made it to the end of the book. We hope you enjoyed it as much as we have creating it. If you have any questions or comments, we love to hear them, So please send them to [info@commitment-thebook.com](mailto:info@commitment-thebook.com)

For extra material please visit our support website at <http://commitment-thebook.com/support>

Each version of the book has a version number in the front of the book. Any changes or updates made in the future are listed at: <http://commitment-thebook.com/updates>

## About the Authors



Olav Maassen is an experienced consultant at Xebia in the Netherlands and has more than ten years of experience working mainly for financial institutions.

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Chris Geary is a London-based, experienced graphic artist. He attended the London Cartoon Centre, mainly under the tutorage of David Lloyd.

You can follow Chris on twitter at @ChrisAGeary

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