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WHITEPAPER

Lean Portfolio Management for the Enterprise

What Is It and How Is It Changing Value Delivery?

WHAT IS DRIVING THE NEED FOR LEAN?

Organizations today are submerged in a world of constant change. Whether it is competitors launching new product offerings, customers demanding different products and services, or the introduction of new industry paradigms, change is all around. How enterprises deal with these changes has an impact on their ability to survive and thrive today. Organizations that were historically built to last, now must transform into ones that are built to change.

Traditionally, large enterprises adopted annual, often linear, planning cycles to respond to the needs of customers, market pressures, and the latest competitor threat. However, in the age of digital disruption, these traditional planning cycles and methodologies can't keep pace with the rapidly changing and evolving digital economy.

As a result, many executives ask their business and departmental leaders to evolve from more traditional portfolio management practices to more Lean methodologies. Lean practices, when applied across a portfolio, enable organizations to validate and align on priorities to increase delivery, improve speed, produce higher quality products, and improve organizational health.

Adopting more Lean-oriented portfolio management techniques, allows organizations to work more effectively, reducing wasted time and effort while continuously prioritizing customer needs. The net impact: Enterprises pivot as needed, leveraging rolling planning cycles, more flexible governance and budget models, and creating more adaptive and dynamic strategic plans. These adaptive plans are able to better align to business outcomes, answering to the constant changes needed to meet customer demands.

WHAT IS LEAN PORTFOLIO MANAGEMENT?

Lean Portfolio Management is a modern approach that enables companies to deliver products and solutions faster, improve business outcomes, and support corporate strategic objectives.

Lean Portfolio Management helps organizations transform their business by rearchitecting planning and funding processes to align to the business outcomes desired. Leaders in the enterprise are taught to look at flow of value as a whole and focus on areas with the greatest opportunity for improvement and/or the highest potential for value delivery. As a result, funding models and planning cycles shift to become more continuous as business units or value streams are given leeway to make decisions on how value is produced or achieved. The result: Entire value streams and their respective teams gain more autonomy and self-organize to deliver the highest-value work first.

To do Lean Portfolio Management well, there are three main collaboration areas and principles to consider:

- Strategy and investment funding
- Agile portfolio operations
- Lean governance

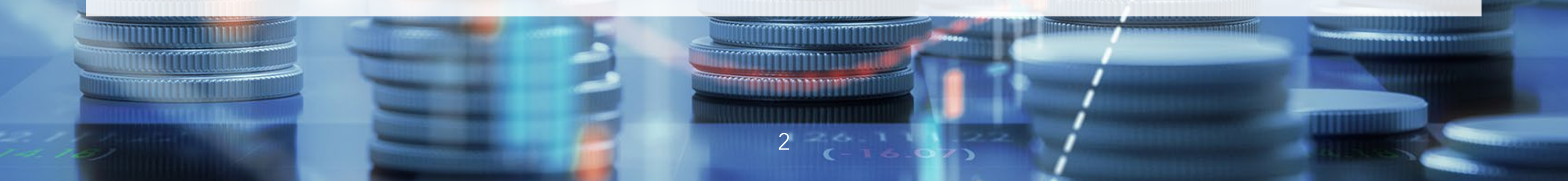
Strategy and Investment Funding

Breaking Lean Portfolio Management down to its most basic level: enterprises must organize funding and funding processes around key areas that will deliver the most customer value.

Organizations have to ensure they are investing in the right portfolio areas. A Lean business case is used to provide just enough information to identify priority candidates, determine which priorities are funded, and their potential business impact. Lean business cases help reduce administrative overhead and heavy requirements gathering so that organizations determine how important the proposed strategic item is to the overall business goal. These business cases provide just enough information to make a go, no-go decision on validity. Funding prioritization is based off the Lean business case validation, but is only accomplished when organizational politics are set aside, and business cases are reviewed objectively.

While executives set the direction of the enterprise through goals and objectives most important to the organization, it is the value stream that decides how funding is utilized. A value stream is defined as an end-to-end business process and the associated steps an organization takes to deliver customer value. Or it may refer to a line of business that delivers value, typically a product or solution, to a customer. As organizations evolve, the shape of their value streams often evolves too. For some companies, a value stream begins as a few teams organized to deliver a set or grouping of capabilities that satisfy a customer need. For others, it is truly the end-to-end value chain, from vision to value. Regardless of how an organization is currently defining a value stream, its purpose is generally the same: to deliver products and solutions beyond potentially disjointed project-based delivery. By aligning work and funding to product delivery, value is created and managed more effectively.

Once the organization understands the value streams in play, management grants dollars to them incrementally and without full line of sight into every requirement needed to deliver the desired value. As a result, the value stream leaders have the ultimate discretion on how best to align to the organization's goals and satisfy specific objectives within a particular delivery window. This is a significant shift from traditional portfolio management, as stakeholders are less concerned with the individual funding of specific projects and highly invested in the outcomes produced. Lean Portfolio Management also reduces some of the exposure associated with longer cycle funding models. By funding value streams in a more incremental fashion, the organization reduces potential financial risk.



Agile Portfolio Operations

As organizations evolve to include different types of portfolios, delivered through various work methods, the organization needs to ensure everyone stays aligned. Operational alignment and the standardization of processes is often a core focus of the PMO; however, in a Lean enterprise following Lean Portfolio Management practices, more processes are decentralized, and responsibilities are shifted to the value streams. While this may be a different type of management strategy, governance is still key to Lean principle adherence.

Lean organizations may elect to have a couple of different governance arms such as an Agile PMO or EPMO office, a Lean-Agile Center of Excellence (LACE as defined by Scaled Agile, Inc.) or a combination of these groups to ensure any new ways of working have support structures and defined cadences to ensure permanence.

As these operational functions start to take shape, these groups play a significant role in helping to drive alignment and governance throughout the value chain. One of the first operational shifts to occur is the move from long, annual planning cycles to more frequent planning and funding reviews throughout the year. Once portfolio initiatives and value streams are validated and accepted by leadership, incremental planning or program planning occurs.

The goal of this new way of planning is to refine or build a roadmap for the next quarter, and fund accordingly. Priorities with the greatest chance of realizing value in the short term are pulled forward in release cycles and given budget. As mentioned previously, this type of incremental funding substantially reduces the financial risk to the organization as a whole. These smaller chunks of budget enable an organization to test the value delivery waters as opposed to committing an entire budget to a product that might fail.

As plans are created and delivered, Lean Portfolio Management planning and steering meetings, at the leadership level, are utilized to provide the opportunity to realign on key priorities and change course when value streams and their releases are not yielding idyllic outcomes. Additionally, these meetings serve as a validation point for future Lean business cases and additional funding.

Lean Governance

With a **Lean approach**, gated processes are somewhat eliminated. Compared to the top-down control that was the norm years ago, Lean Portfolio Management loosens the reins on value streams and their associated teams. Lean Portfolio Management provides "just enough" guidance to achieve value-based delivery, while providing the flexibility to try new things and learn from both successes and failures.

Rather than getting stuck on the "perfect" plan and process, the focus is on continuous, iterative planning and improvement, delivering the highest-value product first, and then measuring the impact and perceived value. As a result, autonomy is encouraged across all parts of the organization. The people closest to the work have the biggest influence on what is delivered and how it is prioritized in relationship to desired strategic outcomes.

Lean guardrails are introduced to provide a structure for financial planning and future spending forecasts. Guardrails provide budgetary governance, spending policies and practices for values streams within a portfolio. Through continuous planning and feedback loops, value streams that are more effective and profitable receive more funding, while value streams that are providing less value receive less funding, both in dollars and capacity allocation. Often, as organizations build their incremental planning processes, budgeting is aligned with Program Increment (PI) planning cadences to ensure continuity and value delivery among the highest performing value streams and release trains.

WHAT IS TRADITIONAL PORTFOLIO MANAGEMENT?

Traditional portfolio management puts emphasis on extensive planning on the frontend to drive predictable results on the backend. Business units present their ideas and business cases to the PMO in an annual planning meeting. IT provides cost and time estimates and executives prioritize funding based on perceived value delivery in 12-18 months, or longer.

As a project begins, a temporary team, built with resources from various functional departments, assembles to work on the project until delivered in full. Resources follow a predictable, gated approach and likely share their time among several projects concurrently to maximize resource utilization.

In the event that a project delivers on time or under budget, the business unit is rewarded, but if a project is late and/or over budget, the onus is on IT. The lack of accountability in the traditional model inhibits value stream creation and innovation, keeping the potential for rapid returns locked behind gated processes and unnecessary administrative overhead.

In today's world, the traditional portfolio management approach is not fast enough to deliver on what the market needs or what the customers want, when they want it. By applying the Lean-Agile approaches below, organizations can make critical shifts in how they deliver customer value.

	Traditional Approach		Lean-Agile Approach
#1	Centralized control	→	Decentralized decision-making
#2	Project overload	→	Demand management; continuous value flow
#3	Detailed project plans	→	Lightweight, epic-only business cases
#4	Centralized annual planning	→	Decentralized, rolling-wave planning
#5	Work breakdown structure	→	Agile estimating and planning
#6	Project-based funding and control	→	Lean-Agile budgeting and self-managing Agile Release Trains
#7	Waterfall milestones	→	Objective, fact-based measures and milestones

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[1]*Figure 1. Evolving traditional mindsets to Lean-Agile thinking. © Scaled Agile, Inc.*

THE MIGRATION TO LEAN-AGILE

The migration from traditional portfolio management to Lean Portfolio Management principles doesn't happen overnight. It's a transformative process whereby organizations adapt at their own pace. Often the transformation starts with static annual planning exercises and eventually evolves into a dynamic continuous planning process. Annual budgeting cycles and linear, requirement-driven development methods are replaced by iterative processes. And, top-down control of work and resources give way to more autonomous product-centric value streams that are focused on outcomes.

SCALING LEAN AND AGILE

Regardless of where your organization is on its transformation journey, Lean principles do increase efficiencies regardless of work delivery method; however, for some organizations, adopting pockets of Lean-Agile is not enough.

Frameworks help enterprises at all phases of their transformation scale Agile more broadly across the organization. There are many different Agile frameworks to choose from, and they should be evaluated carefully to understand how they apply to your organization. For those interested in adopting Lean Portfolio Management, the Scaled Agile Framework (SAFe®) provides a solid guidepost.

At the enterprise level, SAFe provides guidance for organizations on how to implement Lean Portfolio Management and the types of leaders, management teams, and operational structure needed to transform. Beyond the enterprise level, SAFe provides direction on the roles, team structure, ceremonies, and planning cadences to drive the alignment and collaboration needed to achieve Agile at scale.

THRIVING IN A DYNAMIC WORLD

The Lean Portfolio Management approach is giving organizations the ability to adapt to new ways of working and start down a path toward transformation.

The shift from traditional portfolio management practices to a Lean-Agile mindset takes time and patience.

Organizations need to approach the transition from the Lean perspective: work to continuously improve so the value stream is always optimizing to build, test, and learn. Work how you work now, knowing that small changes toward a truly Lean Portfolio Management style will evolve with the organization. It is a journey, not a destination.

ABOUT PLANVIEW'S ENTERPRISE AGILE PLANNING SOLUTION

Planview's Enterprise Agile Planning solution provides a scalable enterprise-level Lean Portfolio Management, Agile Program Management and Agile delivery platform that supports organizations from strategy to delivery, no matter where they are on their transformation journey. Plan and fund both Lean-Agile and traditional portfolios in a single platform for strategically aligned, outcome driven plans. The Planview Enterprise Agile Planning solution empowers organizations to deliver the value that matters most while transforming on their terms and timeline.

For more information about how Planview support Lean Portfolio Management please watch the **Enterprise Agile Planning solution demo** or visit us at **Planview.com/lean-portfolio-management**

[1]Figure 1. Evolving traditional mindsets to Lean-Agile thinking

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