Whitepaper

Lean Portfolio Management for the PMO

Customers desire the best solution to their business problems – yesterday. Slow-moving organizations that cannot rapidly adapt or respond to this new pace of customer need will be left behind. To stay relevant amidst a sea of evolving demands and dynamic competitors, large enterprises must adopt and incorporate new ways of working. This is easier said than done. Mired in legacy technology and applications, lengthy requirement processes, and annual funding models, many find their organization without a rudder to steer toward transformation.

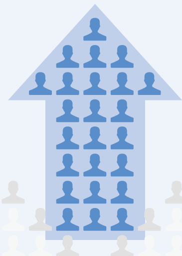
Enter Lean Portfolio Management. Lean Portfolio Management practices increase operational effectiveness and create new competencies for evaluating and delivering value across all parts of the organization.

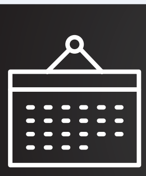
Where is your organization on the path toward Lean Portfolio Management? Does your business even know what this means? Perhaps your organization has adopted pockets of Lean and Agile ways of working both across and up the chain of command (such as in software development or within other IT departments). Or perhaps your organization adheres to more traditional work delivery and project portfolio management. Most likely, your business uses a variety of portfolio and work management styles and is searching for a way to adopt more fluid operational processes to improve time to market and deliver customer value more quickly.

Regardless of your organization's realities, the PMO is often at the crux of it all. Today's PMOs are more frequently asked to govern, roll up and report out on all work, projects, and portfolio initiatives regardless of the management type or methodology employed. They must use whatever practices and tools are available to show progress, with little insight into which tools, methods or practices they need to adopt to affect change and promote increased delivery.

Due to the incredible amount of responsibility and exposure, the PMO is in a unique position to shape how an enterprise functions, what management methods are utilized, and how the organization becomes more responsive to market demands.

The **number of enterprise PMOs across organizations is increasing**, with more emphasis on enterprise planning, delivery, and performance to respond to increased digital business demands.[1]





By 2021, 100% of IT PMOs that fail to shift focus toward speed of delivery will be relegated to legacy maintenance oversight or disbanded.[2]

DEFINING LEAN PORTFOLIO MANAGEMENT

In the last few years, the market has shifted emphasis away from Agile Portfolio Management to Lean Portfolio Management. Despite the slight market shift, the spirit and definition of the two terms remain largely similar. Lean Portfolio Management provides a modern approach for companies to effectively deliver innovative products faster and ensure their solutions positively impact and support corporate strategic objectives. Lean Portfolio Management helps organizations transform their businesses by rearchitecting planning and funding processes to align and encompass the modern enterprise's unique mix of portfolio initiatives. The typical enterprise has a hybrid of portfolio types and initiatives that range from the traditionally funded and planned, to the incrementally delivered, Agile variety. At its most basic level, Lean Portfolio Management allows leaders to align strategic objectives, funding, and capacity to deliver customer value in a much more effective way.

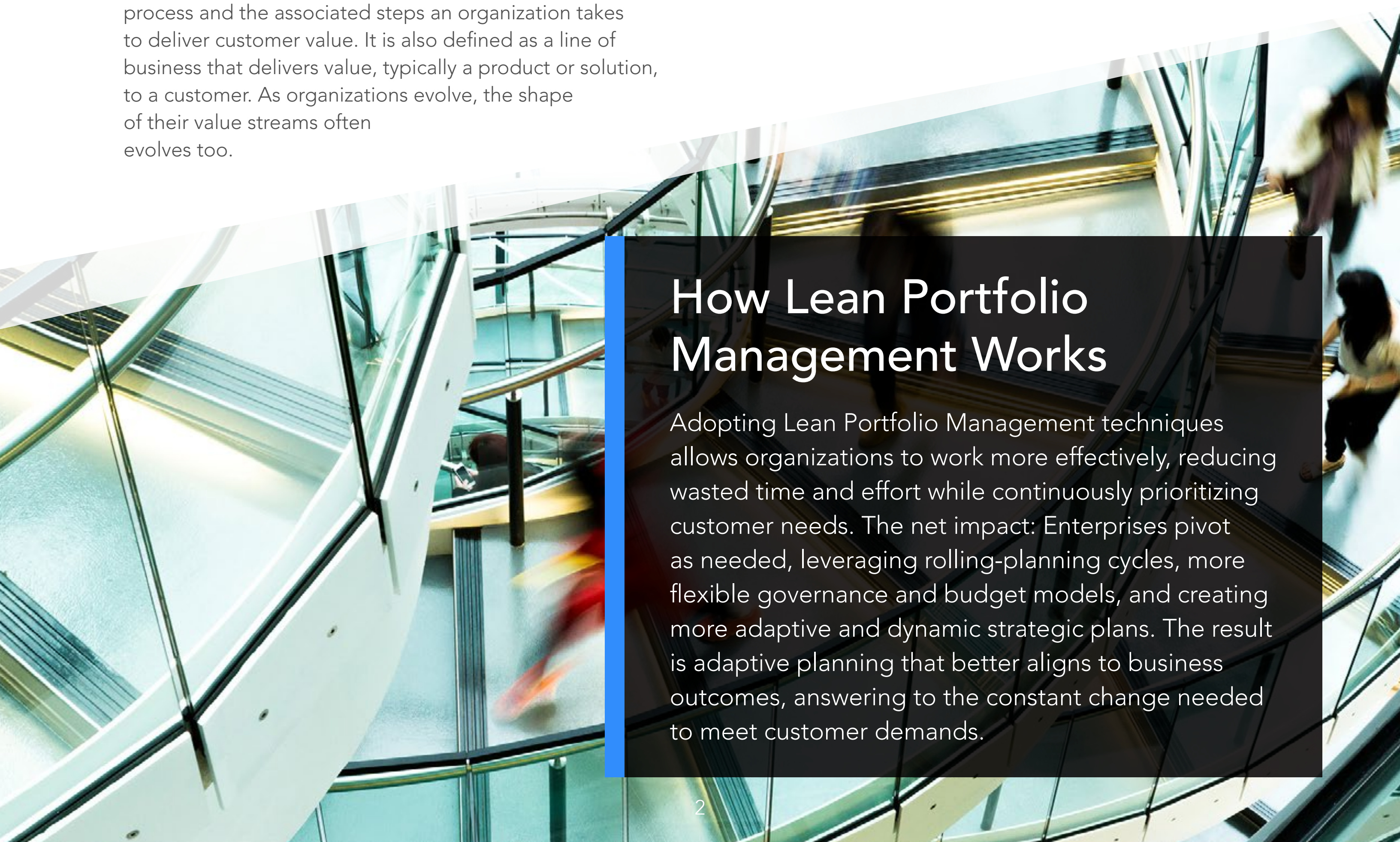
Lean Portfolio Management is unique in that it allows organizations to embrace new ways of working and apply a Lean and Agile lens to annual funding and planning processes. Lean Portfolio Management also helps organizations explore and contemplate a shift from project-based funding to more product-based or value stream funding.

A value stream is defined as an end-to-end business process and the associated steps an organization takes to deliver customer value. It is also defined as 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 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, ad hoc project-based delivery. By aligning work and funding to product-centric delivery, value is more effectively created, and managed.

Once value steams are determined, Lean budgeting guardrails are implemented. Guardrails keep funding within organizational spending parameters, but each value stream has the ultimate discretion on how to utilize its dollars and capacity to produce the greatest customer value. Funding value streams in this manner promotes innovation by returning more decision making to the parts of an enterprise responsible for value delivery.

Beyond changing how the entire business plans, funds, and delivers on strategic objectives, Lean Portfolio Management fosters new cultural and operational governance needed to respond quickly to changing market conditions. It also plays a significant role in adopting and scaling Agile more widely across a portfolio and an entire organization.



How Lean Portfolio Management Works

Adopting Lean 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. The result is adaptive planning that better aligns to business outcomes, answering to the constant change needed to meet customer demands.

HOW TRADITIONAL PORTFOLIO MANAGEMENT DIFFERS FROM LEAN 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, is assembled to work on the project until delivered in full. Resources 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. In the traditional model, the lack of accountability against the outcomes promised in the business case 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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[3]*Figure 1. Evolving traditional mindsets to Lean-Agile thinking. © Scaled Agile, Inc.*

THE EVOLUTION TO LEAN PORTFOLIO MANAGEMENT – WHAT REALLY CHANGES FOR THE PMO?

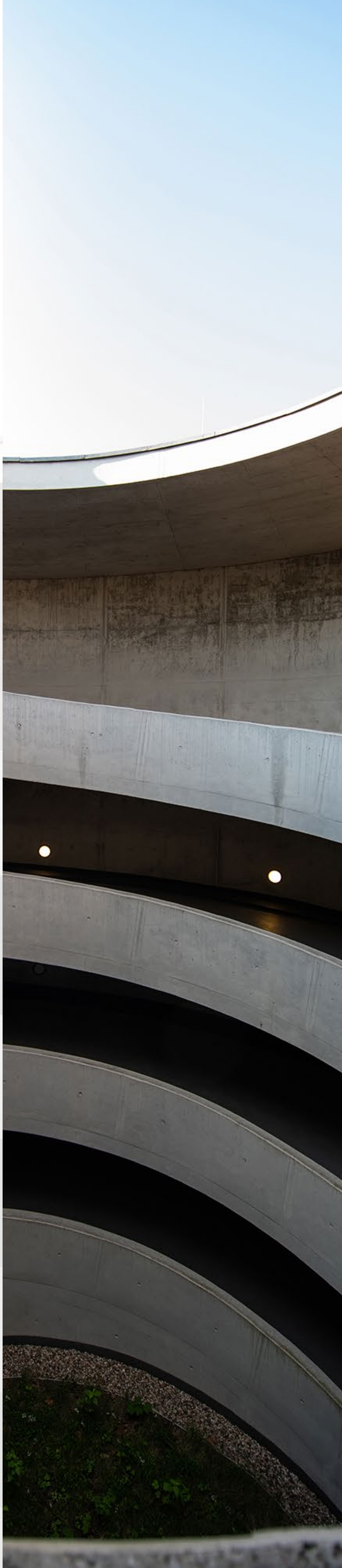
The evolution from traditional portfolio management to Lean Portfolio Management doesn't happen overnight. It's a transformative process whereby organizations adapt at their own pace.

To be successful, the introduction of Lean principles and management styles must be sponsored by the highest executive level within the enterprise, with the PMO shepherding the organization toward newer management methodologies. Understanding how to support hybrid portfolios (those that include Agile, waterfall, and gate or milestone-driven initiatives) helps a PMO evaluate priorities and provide guidance on investments, budgeting, and product release cadences.

The PMO still employs the same logic and processes used in traditional portfolio management to foster tight alignment between strategy, initiatives, and investments, but with less rigidity and more frequent planning reviews and cycles that create more transparency, visibility, responsiveness, and flexibility. With more continuous cycles, value is evaluated in an iterative, frequent fashion. The result is highly adaptive planning that addresses customer needs faster than annual plans.

By adhering to a few best practices, PMOs can help their organizations make the shift to Lean Portfolio Management methodologies.

LEAN PORTFOLIO MANAGEMENT BEST PRACTICES FOR THE PMO



Strategic Alignment

Lean Portfolio Management creates a structure for organizations to plan, fund, and map strategic objectives to value streams. Often, this initial alignment requires a shift in how organizations historically think about portfolio initiatives within a traditional project management model. Lean Portfolio Management planning and steering meetings are often created as a forum for determining where opportunities lie, and how all parts of the organization must work together to meet desired business outcomes in a more iterative, continuous planning fashion. These meetings are utilized to review Lean business cases and validate initiatives, giving direction on the priorities for the value streams. Once priorities are determined, value streams receive a portion of the resource capacity available – often based on historical spending patterns at first – and objectives and KPIs are identified to enable ongoing funding decisions. Each value stream and its associated teams are largely independent for day-to-day decision making; however the PMO is responsible for managing the cross-team dependencies and risks as well as providing insight and feedback throughout the organization and to the LPM steering teams.

Resource Management and Capacity Planning

Resource management is easier when capacity is aligned consistently to value streams, each with clear success metrics. Each value stream's contribution to enterprise value is re-evaluated at regular intervals and resource capacity is re-balanced as appropriate. The PMO provides the organization's leadership with the information needed to ensure the value streams have the right amount of resource capacity based on demonstrated and potential value delivery. Unlike traditional methods, Lean Portfolio Management funds the value streams not the projects, flowing work through stable teams rather than creating ad hoc groups for each new effort. The team and the team-of-teams become the fundamental units of capacity management rather than the individual.

Continuous Planning

Unlike heavy, annual planning in traditional portfolio management, Lean Portfolio Management enables continuous, iterative planning at all layers of the organization. Each value stream is empowered to invest its allocated capacity and budget to achieve agreed-upon outcomes. At the same time, executives also retain the ability to introduce business initiatives around key strategies that span, or perhaps create new, value streams. The PMO is aware of all current work as well as new work or value streams created. In all cases, the PMO tracks the progress of the work and identifies blockers, allowing for real-time adjustments to re-route work and avoid delays. The PMO rectifies dependencies between teams and models what-if scenarios to ensure continuity, alignment, and flow. This type of ongoing dialog and balance creates give-and-take among stakeholders, product owners, and delivery teams. These PMO-enabled feedback loops inform and foster the iterative planning cycles and ensure all value streams run smoothly.

Iterative Delivery or Releases

Continuous planning would be incomplete without release cadences to match the iterative planning cycles. Lean Portfolio Management leverages the power of iterative funding tied to these iterative releases. Rather than annual funding, Lean Portfolio Management creates guardrails for funding policies and processes, but internal and customer feedback loops are used constantly. Quarterly planning meetings are leveraged to ensure high-value priorities remain well funded to maximize value delivered with each release. These new, shorter cadences and iterative practices require significant stakeholder expectation management. The PMO facilitates collaboration throughout the process to maintain alignment regardless of work management or methodology.

Just Enough Governance

Compared to the top-down control that was the norm years ago, Lean Portfolio Management loosens the reins on value streams and associated teams, creating a culture of autonomy. Value stream leaders are trusted to use their capacity and budget to focus on prioritized features and deliverables. With the help of the PMO, prioritized items flow through the teams with more efficiency and speed. Lean governance provides "just enough" guidance to achieve value-based delivery, while providing the flexibility to try new things and learn from both successes and failures.

Lean-Agile Culture Shift

Instead of a command and control environment, Lean Portfolio Management requires those closest to the work to make the best decisions to achieve the desired outcomes. This means the PMO must evolve to servant leadership methods, fostering autonomy throughout the value chain. Relying on light-weight governance that directs the organization with "just enough" guidance, value-based delivery is achieved. For traditional PMOs, this new mindset is a shift and can be difficult to adapt but is required for new ways of working.

ENCOURAGING NEW WAYS OF WORKING

As the organization begins to adopt Lean Portfolio Management best practices and progresses to a more responsive enterprise, teams will often adhere to the work delivery method that makes the most sense to them. In some instances, this means that teams leverage new ways of working, while others leverage more traditional methods.

Because of where the PMO sits in the organization, it is often able to champion the shift to Lean Portfolio Management and drive process adoption. It's the PMO's responsibility to understand how all work is progressing to ensure the value streams and supporting teams are tracking to the organization's objectives. The PMO must understand how to articulate and evaluate progress, regardless of work methodology, to effectively communicate potential delivery risks, dependencies or funding issues to the enterprise. This is especially challenging when programs or specific projects are delivering on different or conflicting cadences. Leveraging appropriate solutions, tooling, and methodologies will make the management and tracking of different portfolios and delivery schedules more manageable. Lean Portfolio Management provides an effective approach for doing this and helps the organization, as a whole, look at value delivery in a more fluid way. Over time, with PMO support, traditional and disparate work methodologies will evolve to newer, more streamlined ways of working in support of a more adaptive and Lean enterprise.

ACHIEVE MAXIMUM VALUE WITH LEAN PORTFOLIO MANAGEMENT

The path to Lean Portfolio Management takes a mindset and organizational shift at the highest levels of the organization. While it does foster a mental and cultural change, it isn't a guardrail-to-guardrail approach. Lean Portfolio Management lets you stay in tune with what your organization needs as you revisit and evolve your planning and funding. It creates space for new ideas and organizational pivots that produce high-value, customer-centric products. It also helps the whole organization become champions of change and customer value. Lean Portfolio Management encourages the move away from the command-and-control management to servant leadership and empowers the organization to reprioritize and change based on iterative cycles and feedback.

With Lean Portfolio Management practices enabled, the organization has the flexibility to find the right mix of work-styles, funding, and planning cycles. To achieve maximum value from their portfolios, organizations need to be both flexible and predictable in their product or solution delivery. The PMO, with the help of Lean Portfolio Management practices, sits in the best spot in the organization to foster the shift.

WHY PLANVIEW FOR LEAN PORTFOLIO MANAGEMENT?

Planview offers a scalable, enterprise-level Enterprise Agile Planning solution that enables organizations to embrace new ways of working, unify and roll up financials across the business, and orchestrate transformation at the speed and style of work that is right for the enterprise. From digital transformations to Agile transformations, Planview's Enterprise Agile Planning solution helps organizations plan and deliver the value that matters most.

To learn more visit the Enterprise Agile Planning solutions page at **Planview.info/eap-solution-page** or watch the Enterprise Agile Planning demo at **Planview.info/eap-demo-on-demand**

1, 2 Gartner Inc, How PMO and PPM Disciplines Will Change in the Digital Business, July 2018, Joanne Kopcho, Michelle M. Coelho
3 Figure 1. Evolving traditional mindsets to Lean-Agile thinking, 2019, © Scaled Agile, Inc., https://www.scaledagileframework.com/lean-portfolio-management/

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