Agile portfolio management

A six-step approach to connect strategy to delivery

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Introduction

Are you working on Digital Transformation, but are you still asking yourself the following questions:

- How can we stop wasting time on lengthy annual project planning and budget cycles?
- How can we make sure that our people and resources are not double-booked for projects and prevent the continuous escalation mode?
- Why are we still not delivering more value and reducing time to market even though we have our Agile basics in place?

If so, this short guide might just be what you need! Based on our experience with more than 10 large scale Agile transformations at big companies operating in various industries, we developed a 6-step approach. This approach will help you solving these issues by setting up an Agile portfolio management (APFM) system.

Portfolio management in an Agile organization

Many organizations are already familiar with some form of what we call 'traditional portfolio management'. Traditional portfolio management is the art of organizing your projects and business initiatives in an efficient and effective way to improve financial performance[1]. It is about making centralised investment decisions, allocating people and resources and managing execution in order to achieve strategic objectives.

When an organization is transforming towards an Agile organization, traditional portfolio management starts to "run behind" on the promise of the short-cycled delivery system. The iterative nature of Agile provides an opportunity to steer on actual facts, where traditional portfolio management is aimed at using prediction to nail things down at the start.

APFM is a way to leverage work in an iterative and short cycled way, guided by objective decision making, MVP thinking[2], transparency and an exclusive relationship between capacity and the portfolio backlog. This APFM system provides purpose, ensures autonomy at the right level without sacrificing the organization's optimum and closes the gap between strategy and execution.

Table 1 shows the differences between traditional and Agile portfolio management.

| Traditional PFM	Agile PFM
Push system	Pull system
Project based staffing	Stable teams
Fund work and cost centre budgeting	Fund capacity and value streams
Go no go decision based on assumptions & stage gates	Go/no-go based on hypotheses validation and MVP & MMF deliveries
Monitoring progress through reports and output control	Evaluate progress on working solutions and outcomes
Annual planning	Strategy as a journey through monitoring a rolling plan & continuous prioritization.

Table 1: Moving from traditional to Agile PFM

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[1] Rigby, D. K., Sutherland, J., & Takeuchi, H. (2016). Master the Process That's Transforming Management. Harvard Business Review, 94(7-8), 16-16.
[2] Ries, E. (2011) The Lean Startup

A 6-step approach towards APFM

In our quest to connect your business portfolio management system to the Agile capability of development and delivery by implementing APFM, we have established 6 steps to follow as a framework to transform your portfolio. These six steps provide a set of guidelines based on best practices based on our experience from multiple Agile and Digital transformation.
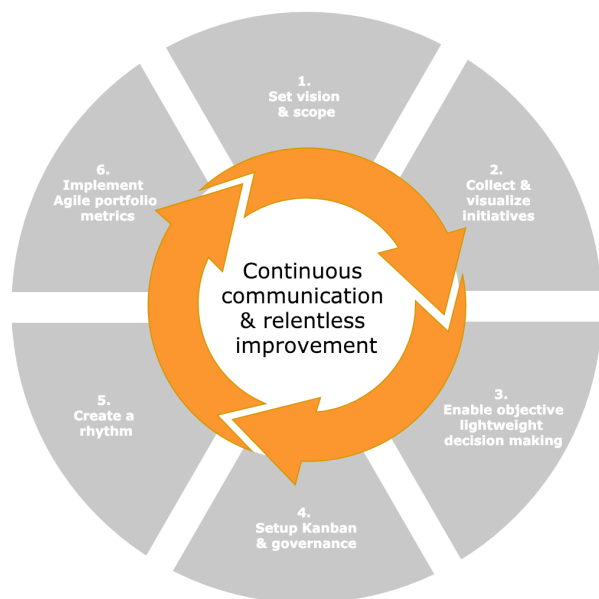
The core of APFM: Continuous communication, short feedback loops & relentless improvement

Agile is defined in its core as "discovering better ways of delivering value and helping others to do so"[3]. If you want to incorporate the Agile mindset in your portfolio management and throughout your organization, you require:

- **Continuous communication and close collaboration** Continuous communication of decisions, vision and impediments to all that matter (teams, stakeholders, clients, partners) creates transparency and trust which enables the APFM system to have decentralized decision making, for greater speed and quality of execution.
- Establish a cadence of **short feedback loops** with all relevant stakeholders. Embed recurring events within your portfolio process where feedback is given, gathered

and acted upon. Besides these events, coach the portfolio players to be faster than the rituals (reduce wait times).

- Be the example of **relentless improvement** in everything you do regarding content as well as the processes. This essential part of the Agile mindset can show the APFM process and players are in it for real.

Step 1: Set the vision and scope for APFM

As with any organizational change, start with asking yourself: why? This 'why' needs to create a sense of urgency and a clear understanding of what you are trying to solve by implementing an APFM. Start for example with setting objectives and key results (OKRs)[4].

To not get lost in the vastness and complexity of a corporate portfolio when you start, determine the scope of the portfolio and the strategic objectives you want to implement APFM first. You may find that the people contribution to the set scope of the portfolio, are not exclusively working for this. There may be people that you need to deliver the objectives who are also allocated to other (parts of the) portfolios. We recommend using a metric for this to show the 'fragmentation'. When starting, ensure to have stable teams that will work 80% or more on this portfolio. If it goes below, you are not changing anything.

Step 2: Collect & visualize current and new initiatives

A portfolio has many different stakeholders, which have a number of initiatives to guard. In order to improve collaboration and look at the portfolio more holistically, the first step is to make them see. Visualise all running initiatives, as well as upcoming initiatives and ideas. Define the hypothesis statement and the intended outcomes (OKR), the accompanying clients and teams involved and major dependencies

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[3] Beck, K., Beedle, M., van Bennekum, A., et al. (2001) The Agile Manifesto

[4] Doerr, J. (2018) Measure What Matters

between them. Instead of making large detailed project plans, approach each epic or business initiative as a set of hypotheses that indicate a pivot or persevere moment[5]. By visualizing all initiatives, you have a 'live' overview of the work in progress. Equally important, these two columns, the Backlog and Work in Progress, are the first part of your portfolio kanban and often provides a sense of urgency for step 3.

Often organization claim that everybody already knows what initiatives they are working on. However, after making everything transparent, people mention that this step is a great starting point in getting everybody on the same page. It is not about the knowledge, it is about sharing that knowledge.

Step 3: Strive for objective, lightweight decision making and start making choices

The goal of prioritization is to decide what the first thing is we need to do (and the second, and the third, and so on). However, "the problem with prioritization is that it is a decision to service one job and delaying another[6]". We want the initiatives that deliver the highest value in the shortest amount of time to be executed first.

When establishing a lightweight and objective decision-making process, determine a set of value-based and data-driven criteria and reflect on the expected versus actual results. Doing so, the organization will experience improvements and the new portfolio management process will be more easily adopted by the organization. Two key elements in the decision-making step are: incorporate the most important stakeholders in the decision-making discussion and prevent anti-patterns such as 'peanut buttering'. Peanut buttering is spreading all resources evenly over all initiatives which hampers performance improvements[7].

Criteria examples for prioritization

Value:
- Expected increase in revenue
- Expected cost reduction
- Number of employees affected
- Increased customer satisfaction
- Time criticality
- Technical and business risk

Effort:
- Estimated required time
- Development costs
- Uncertainty such as new skills

Step 4: Set up your portfolio kanban and accompanying governance

Now that the prioritization model and visualization is working, there is the straightforward step to "make it a habit", by implementing a lean flow process and clarity on who needs to run this.APFM has three main areas of responsibilities:

1. Strategy and funding: Provide the Agile teams with clear and inspiring strategic objectives to enable decentralized decision making. Moreover, arrange the funding of the people and resources belonging to the portfolio. Fund capacity instead of work and state clear objectives and hypotheses instead of assumptions and prefixed solutions or other details that inhibit flexibility.

2. Portfolio governance: This includes setting up clear roles and responsibilities. The people involved are senior management, business owners, product management and an Agile process coach/engineer. They should set compliancy guidelines, intake process of new initiatives, standards for performance tracking and being 'in control'.

3. Establish flow, facilitate the process: Establishing new habits requires coaching and facilitation, especially in the beginning. Therefore, establish the Portfolio Coach role (e.g.

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[5] Ries, E. (2011) The Lean Startup
[6] Reinertsen, D. (2009) The Principles of Product Development Flow

[7] Bradley, C,. et all. (2018) Strategy Beyond the Hockey Stick: People, Probabilities, and Big Moves to Beat the Odds

an RTE, Agile coach) who can facilitate setting up a portfolio kanban with clear exit criteria. This portfolio kanban will typically be a funnelled Kanban, where big items are sliced into smaller items and land on sub-kan bans. Slicing the maximum value minimum effort piece off ensures value optimization and flexibility. Operating this funnelled kanban properly is key to the portfolio's agility. Other tasks of the Portfolio coach include: setting up WIP limits, developing templates such as lightweight business cases for epic approval, training new roles (e.g. business & epic owners), coaching the APFM team and improving transparency.

Step 5: Create a rhythm for all parties involved

APFM should be seen as a plan-do-check-act cycle that contains tasks such as, prioritizing, planning, aligning, tracking progress, evaluate and act accordingly. Where cadence provides a heartbeat for the organization, synchronization allows different perspectives to be inspected, adapted and integrated at the same time. Applying cadence and synchronization reduces handovers and the number of meetings. In addition, it enables system thinking and breaks down silos, as you are generating mutual understanding by taking all the steps of the portfolio process collaboratively.

Step 6: Implement Agile portfolio metrics

"A successful Management by objectives system needs only to answer two questions: (1) where do I want to go? and (2) how will I pace myself to see if I'm getting there?"[8] In order to give answer to these questions, we need to start measuring. In APFM the focus is on outcome and impact, since this shows the real value delivered. This significantly differs from the traditional focus on output, which mainly shows us how hard we work. Try to derive your metrics from clear goals that you want to achieve with APFM, as formulated in step 1 of this approach. Examples of valuable portfolio metrics are: Average time to market, weighted average cost of capital,

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[8] Grove, A. S. (2015). High output management. Vintage.

customer satisfaction, employee satisfaction, increased revenue and cycle time.

You don't need to have it all perfectly figured out and have all 6 steps in place before you can start with APFM. Start with a Minimum Viable Product, gather feedback and **learn and adapt,** are among the core values of Agile. Make sure there is a sense of urgency as well as a clear vision and then: **just start!** Experience what works for your organization and improve along the way. The final table provides 9 success factors, acknowledged by our clients that we helped implementing APFM.

> **Success factors for your APFM**
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> 1. Business and key stakeholders' involvement
> 2. High level of transparency
> 3. APFM process coach
> 4. Exclusive relationship between the portfolio and capacity
> 5. Objective prioritization
> 6. Clear and well communicated vision
> 7. KPIs to measure the APFM's success
> 8. 'Dare to do' attitude
> 9. Stop initiatives that don't deliver value.

Conclusion

Successfully implementing Agile portfolio management requires investment in terms of time, effort and commitment. As we are implementing new habits, people will tend to fall back into their old ones, so inspect and adapt regularly. Incremental and long-term improvement require organizations to change their way of working significantly. Meaning you are up for an exciting challenge. However, if you are able to successfully go through the six steps while focusing on continuous, direct communication and relentless improvement, then APFM can make the difference in your digital transformation!

BlinkLane Consulting

BlinkLane Consulting is an advisory firm founded in 2007. In our 12-year lifespan, we have evolved together with our clients. We continuously innovate our services to keep delivering the value our clients need in order to deal with today's challenges. We help our clients increasing business value from IT investments, act more agile and innovative and transform their organizations for the future. For 2019, we focus on the following four themes:

- Strategic Sourcing
- Innovation & Growth
- Scaling Agile
- Digital Transformation

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