Strategic flow

An integral approach to effective strategy execution and portfolio management

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Organizations devise strategies to exploit the opportunities of the digital age and improve or sustain their competitive performance. Strategy can be defined as a high-level plan to achieve one or more goals under conditions of uncertainty, and with limited resources.

Within the execution of corporate strategies and the management of associated portfolios, common fallacies emerge. In this paper, we propose a proven, integral approach for strategy execution and portfolio management, which helps to overcome these fallacies and improve the 'flow' in the execution of organizational strategy.

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The challenge of effective strategy execution and portfolio management

Organizations devise strategies to exploit the opportunities of the digital age and improve or sustain their competitive performance. Strategy can be defined as a high-level plan to achieve one or more goals under conditions of uncertainty, and with limited resources. Such corporate strategies consist of a selection of operational initiatives (e.g. promotional actions or commercial campaigns) and development initiatives (e.g. new or enhanced products and services) the company hypothesizes will be most beneficial to achieving the objectives it has set. The process of selecting these initiatives and monitoring their impact as they are executed, is referred to as portfolio management.

Within the execution of corporate strategies and the management of associated portfolios, common fallacies emerge:

1. **The connection between the strategic objectives and investments in specific initiatives is often unclear.** In such cases, portfolio management decisions are rather arbitrary and strategic effectiveness tends to be suboptimal.
2. **Objective validation of the hypothesized benefits of initiatives or actions as they are executed is absent**. This leads to a high risk that scarce resources are wasted on initiatives that fail to contribute to the strategic objectives. Also, it hinders the organization in learning from earlier initiatives and limits the move towards delivering more value.
3. **Routines for systematically improving the strategy execution across the different involved levels of the enterprise is lacking**. This makes it impossible to overcome any of the other fallacies. If no 'learn and improve' rituals are in place, there is no space to reflect and define clear improvement initiatives.

In this paper, we propose a proven, integral approach for strategy execution and portfolio management, which helps to overcome the described fallacies.

AN INTEGRAL MODEL FOR STRATEGIC FLOW

Levels of strategic execution in the enterprise

There are many frameworks that structure the process for the formulation and execution of corporate strategies, such as OGSM, OKR, and the Hoshin Kanri X Matrix. These frameworks have common elements: (1) the formulation of strategic objectives, (2) the identification and selection of initiatives that are hypothesized to be beneficial to achieving these objectives, and (3) the measuring whether the strategic objectives are being achieved.

In most organizations, the structure described above is connected to a process that *flows* through three levels of the enterprise:

1. **The strategy level**, where executives set strategic objectives, determine how to measure progress on these objectives, and allocate resources to fund portfolios of initiatives and actions that help to achieve them;
2. **The portfolio management level**, where stakeholders compose and manage the operational and development portfolios to realize the strategic objectives;
3. **The delivery level**, where the initiatives and actions are executed, and outcomes allow validation of benefit hypotheses.

The initiatives defined on the portfolio management level are often large, with lead times ranging from a couple of months to more than a year. When these initiatives are moved towards delivery, the best practice is to break them down into smaller increments that can be completed in shorter cycles and allow validation of benefit hypotheses with minimum investment. An industry standard is to refer to these larger initiatives as 'Epics' and to the increments of such Epics as 'Features'.

> " *What is key to achieve effective strategy execution with maximum efficient use of resources, is to provide 'proof' on 'promises' as fast as possible and with minimum investment or costs.*

Comparing promise and proof

Setting strategic objectives and hypothesizing about associated benefits of specific (increments of) initiatives and actions, can be defined as the 'promise' domain of strategy execution. What is key to achieve effective strategy execution with maximum efficient use of resources, is to provide 'proof' on
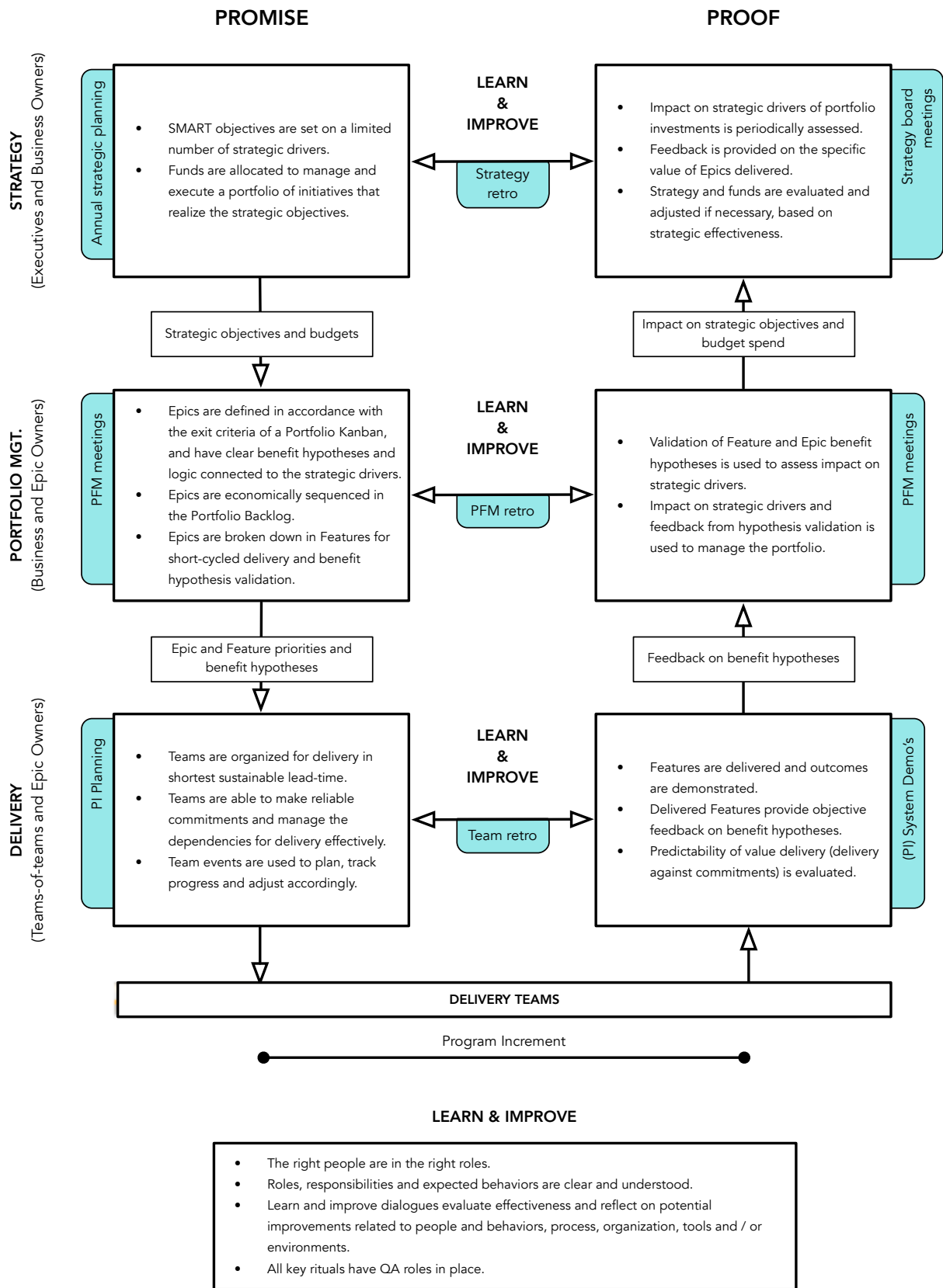
these promises as fast as possible and with minimum investment or costs. This logic constitutes that 'promise' flows down from the strategy level to the portfolio management level and then to the delivery level, and that 'proof' flows back up in the opposite direction. That is, strategic objectives are translated to Epics with specific benefit hypothesis and managed in portfolios, which are subsequently translated to Features with similar benefit hypotheses for execution. With the delivery of each Feature and the associated outcomes, Feature benefit hypotheses can be validated, which in turn provides incremental feedback on the benefit hypotheses of the overarching Epic and the true impact on strategic objectives. Also, the delivery of Features provides 'proof' on the actual funding required for the initiative.

> **For effective strategy execution, the flow of promise and proof, from strategy to delivery and back, should be a closed, continuous and iterative loop.**

The flow model of 'promise' and 'proof' through the defined three levels of the enterprise is visually depicted on the next page, including the associated roles, routines and capabilities. For effective strategy execution, the flow of promise and proof, from strategy to delivery and back, should be a closed, continuous and iterative loop.

PROMISE   **PROOF**

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STRATEGY
(Executives and Business Owners)

Annual strategic planning

- SMART objectives are set on a limited number of strategic drivers.
- Funds are allocated to manage and execute a portfolio of initiatives that realize the strategic objectives.

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Strategy retro

- Impact on strategic drivers of portfolio investments is periodically assessed.
- Feedback is provided on the specific value of Epics delivered.
- Strategy and funds are evaluated and adjusted if necessary, based on strategic effectiveness.

Strategy board meetings

Strategic objectives and budgets

Impact on strategic objectives and budget spend

PORTFOLIO MGT.
(Business and Epic Owners)

PFM meetings

- Epics are defined in accordance with the exit criteria of a Portfolio Kanban, and have clear benefit hypotheses and logic connected to the strategic drivers.
- Epics are economically sequenced in the Portfolio Backlog.
- Epics are broken down in Features for short-cycled delivery and benefit hypothesis validation.

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PFM retro

- Validation of Feature and Epic benefit hypotheses is used to assess impact on strategic drivers.
- Impact on strategic drivers and feedback from hypothesis validation is used to manage the portfolio.

PFM meetings

Epic and Feature priorities and benefit hypotheses

Feedback on benefit hypotheses

DELIVERY
(Teams-of-teams and Epic Owners)

PI Planning

- Teams are organized for delivery in shortest sustainable lead-time.
- Teams are able to make reliable commitments and manage the dependencies for delivery effectively.
- Team events are used to plan, track progress and adjust accordingly.

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Team retro

- Features are delivered and outcomes are demonstrated.
- Delivered Features provide objective feedback on benefit hypotheses.
- Predictability of value delivery (delivery against commitments) is evaluated.

(PI) System Demo's

DELIVERY TEAMS

Program Increment

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- The right people are in the right roles.
- Roles, responsibilities and expected behaviors are clear and understood.
- Learn and improve dialogues evaluate effectiveness and reflect on potential improvements related to people and behaviors, process, organization, tools and / or environments.
- All key rituals have QA roles in place.

ROLES, ROUTINES AND CAPABILITIES TO ACHIEVE STRATEGIC FLOW

Making promises

The 'promise' domain of the strategic flow starts at the executive level. The executives of the enterprise, together with senior management stakeholders referred to as 'Business Owners', translate the strategic vision of the enterprise into a limited set of specific, measurable, attainable, realistic and time-bound (SMART) objectives. Based on the objectives to be achieved they also allocate funds to manage and execute portfolios of operational and development initiatives that help to achieve the objectives. The associated routine for this is the annual strategic planning process that most enterprises already have in place. The objectives and funds for the different portfolios thus flow towards the portfolio level.

On the portfolio level initiatives are defined as 'Epics' and managed by a team of Business Owners with the use of a 'Portfolio Kanban[1]' which ensures optimal flow and quality of Epics from reviewing, to analysis, to implementation and completion. A key requirement for the definition of Epics is the formulation of benefit hypotheses and underlying logic; how is this initiative expected to contribute to which strategic objectives, what is the underlying logic? Each Epic is owned by an Epic Owner, responsible for the aforementioned elaboration in this stage. The Epic Owner also ensures that an incremental delivery strategy for the Epic is identified for the Epic, by breaking it down into Features that allow short-cycled delivery and fast validation of the benefit hypotheses with minimum investment. For each Feature, it is also made explicit how exactly the benefit hypothesis will be tested based on predefined indicators. This is essential in the validation process, if these hypotheses are vaguely described and no clear measurement system is in place, proving these hypotheses will become a difficult endeavor. The team of Business Owners manage this entire process by regular Portfolio Management meetings (PFM meetings).

Epics are not pushed towards delivery teams by the Business Owners. Rather, they sequence them in a Portfolio Backlog, based on the ratio between the size of the benefits as compared to the size of the development initiative. The Epics that are believed to have the largest contribution relative to the smallest investment are most economical to do first. As such, Epic and Feature priorities flow from the portfolio level to the delivery level, along with the associated benefit hypotheses.

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[1] https://www.scaledagileframework.com/portfolio-kanban/

Based on this sequence of the Portfolio Backlog, teams pull and plan the work on the delivery level. Such teams are organized to be able to deliver each Feature with minimum handovers or other delays. Also, the teams are stable and as such understand how much work they can do in each planning and delivery cycle, so that than can provide reliable commitments. In many organizations, such are quarterly cycles called 'Program Increments[2]' (PI). The event used by teams to pull in the work, plan and provide commitments is therefore often called PI Planning. The delivery is subsequently managed by the teams themselves, with associated roles and events (e.g. product owners, daily Scrums, Scrum of Scrums).

Providing proof

With each iteration of delivery, teams may complete a Feature and provide objective feedback of both the feasibility and true value of the solution. The teams also get feedback on the estimations they used to plan the work. They support this by demonstrating the outcome in an event referred to as a 'demo', in which the Epic Owner is the key stakeholder to consume this feedback.

The delivery feedback is used on the portfolio level by the Epic Owner to validate the benefit hypotheses of the Epic. This is brought back by the Epic Owner to the PFM meeting, to evaluate the investment in the Epic with the Business Owners. If the Epic is delivering on its promised strategic impact, they are likely to decide to continue investment. If not, they may have to redirect the portfolio. This promise does not only include the expected benefits, but also the expected use of funds to achieve the benefits. Hence, during the validation (proof) process assumptions about job size and presumed benefits will be evaluated in a transparent matter by using pre-defined criteria.

Finally, on the strategic level it is frequently assessed whether the enterprise is moving to achieve its strategic objectives. There may also be an interest on this level to understand how specific initiative did or did not contribute to this. Based on the progress towards realizing the strategic objectives, funding can also be reevaluated periodically. This is a routine that involves the Executives and Business Owners, in a routine that can be labeled the 'Strategy Board Meeting'.

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[2] https://www.scaledagileframework.com/program-increment/

Learning and improving

Implementing effective strategy execution is a not a one-off; it requires continuous evaluation and improvement. This starts with having the people with the right competences in the right roles, and all involved understanding what is expected of them in these roles. The second part of is this is that the comparison of promise and proof is used on each level to identify and plan improvement actions. Such improvement actions can be in many different domains like people and behaviors, processes, organizational structures, or tooling and technology. All these different aspects thus need to be regularly evaluated and actions to improve should be taken. To ensure this, the organization can put Quality Assurance (QA) roles in place for all key rituals. The QA roles are responsible for providing second opinions on results and performance and challenge the status quo to improve. One can think of an (Enterprise) Architect, Business Controller or Strategic Lead to staff such a role.

> **Implementing effective strategy execution is a not a one-off; it requires continuous evaluation and improvement.**

Most delivery teams have learning and improving rituals as part of their team process (e.g. retrospectives and / or Inspect and Adapt Workshops). On the portfolio and strategy levels, having learning and improving dialogues or routines is less common. For effective strategy execution this is nonetheless essential on these levels, too. Therefore, part of the strategic flow model is to have regular PFM and strategy retrospectives with the roles on that level.

CONCLUSION

This whitepaper describes a closed loop process model that helps organizations improve the 'flow' in the execution of strategy. There are a few indispensable conditions to enable the full value of the model.

> *In the end, it is about creating a system wherein strategy (execution) does not solely remain reserved for the executives, but it is something that we live and breathe throughout the organization.*

Firstly, executives should define a clear strategy. While many organizations have some sort of strategy process, this does not always result in a limited set of SMART objectives. Without extreme clarity of objectives, stakeholders on the Portfolio Management and Delivery layers will struggle in making effective decisions. Next to that, the strategy should help to bring focus and hence should not try to encompass a too wide array of things we want to achieve.

Secondly, it's imperative that a solid Quality Assurance role is in place. As part of the transformation, people are usually unfamiliar with newly requested capabilities. QA roles can help to support and transfer these capabilities. They can help to outline the benefits in the 'promise' phase and support with measuring the results in the 'proof' phase. This specific expertise can help grow a learning cycle in which all benefit. Also, if an upfront and validated measurement system is in place with hypothesized benefits per feature with support of a QA role at all levels, the conversation between Business Owners and Epic Owners on the realized benefits will become straightforward.

Thirdly, 'value delivery' should be a key focus area throughout all levels of the organization. Everyone in the enterprise needs to understand why we do the things we do. If teams start to understand their part in the bigger picture, it helps them grow purpose and autonomy in the execution of their work. If Epic Owners start understanding how the development initiatives contribute to the strategic objectives, and when Executives start seeing how the delivery of Epics leads to an impact on their strategic objectives, it becomes easier to overcome the earlier described fallacies.

In the end, it is about creating a system wherein strategy does not solely remain reserved for the executives, but it is something that we live and breathe throughout the organization. By creating a continuous and iterative loop whereby objective feedback is collected and shown in a transparent matter, all involved start to realize the true value of the Strategic Flow.

ABOUT 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, achieve higher enterprise agility and innovative and transform their organizations for the future. We currently focus on the following themes:

- Strategic Flow
- Scaling Agile
- Innovation and Growth

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