



# INTRODUCTION TO AGILE PORTFOLIO MANAGEMENT.DOCX

## AUDIO TRANSCRIPT

Speaker 1:

Agile Amped is your go-to source for inspiring conversations on topics from empowering teams, to thriving in the digital age. This podcast gives you access to expert advice you can trust from the largest source of agile thought leaders. Agile Amped is brought to you by SolutionsIQ, an Accenture company.

Alalia Lundy:

Welcome to a very special episode of Agile Amped, a broad overview of portfolio management that uses lean and agile thinking and approaches. I'm your host, Alalia Lundy. Our guides are Evan Campbell and Kat Conner, both from Accenture's SolutionsIQ, who together have 50 years of experience in this field. This episode has five parts. Part One introduces what agile portfolio management is, and why it's so important today. This sets the stage for the remaining four parts, supply, demand, matching, and finally, funding and budgeting. I will provide context along the way to make this a pleasant, and hopefully, educational journey. Now I'll hand the reins over to Evan and Kat, take it away.

Evan Campbell:

With over 50 years of combined experience in portfolio and investment strategy, we are struck by the historical clarity of this moment in time, as an illustration of the existential necessity for

organizational adaptability. We witness organizations struggling to find effective timely responses to environmental challenges, as the pace of change is only accelerating.

Kat Conner:

I find the practices of agile portfolio management critical, maybe even a life raft in these times where there's so much disruption, where organizations are trying to adapt and thrive in the midst of huge environmental and cultural change. Being able to learn and bring in these portfolio practices more and more into our organization is pretty paramount in my mind.

Evan Campbell:

Right, Kat. We've been witnessing many organizations struggling to adjust their business models under duress. Their budgets are obsolete just a couple months into a fiscal year. Many of our clients at this point have just chucked their budgets altogether and they're managing investment based on cashflow on a weekly or monthly basis. The organizations that made an early investment in agile and adaptive funding models are in much better shape today, outperforming the less proactive competitors.

Kat Conner:

Yeah. And as agilist, I know that we have spent years creating delivery agility, product agility,



and those high performing teams we find are hitting a wall. It's almost like local optimization. And what portfolio practices do is they help us broaden our lens, our view, so that we can see the entire system. One of the biggest things that portfolio management offers is this alignment and visibility from strategic priority, all the way down to the work that's happening in your organization. And it offers clear mandates for investments. And that's a pretty critical thing to bring in when we want to unlock decision-making and we want to increase the speed of creating the right things for our organization and for our customers.

Evan Campbell:

You raise a good point. This tendency or anti-pattern to create a little agile-walled garden where the technology gets done, doesn't really yield strategic benefits for the larger enterprise, unless you address this whole customer value stream. Oftentimes, we see that they've really tuned up the dev, test, deploy lifecycle, but there might be 12 to 18 months of upstream approvals and funding. And if you're not streamlining all of the business processes in that customer value stream, you're not going to see significant benefits from agile.

Kat Conner:

And 12 to 18 months is way too long in our environment. So, how do we bring in agile or adaptive portfolio techniques and funding techniques to really shorten that cycle and bring the right people together so that we can collaborate together? I often find that when we own a budget, or when we are making decisions for our little piece of the pie of the organization, that's an inhibitor for understanding this bigger picture, this bigger value stream. And one of the things that I love, self-discovery, organizational discovery, and how we work, really bringing people together to have the right conversations and removing those barriers, those funding barriers as prioritization barriers, so that we can together make the right kind of decisions.

Evan Campbell:

Yep. Ruthless prioritization, the matching of capacity and demand, we witness in almost every setting, particularly in corporate IT, that the organization is working on many more projects, much, much more work in process than they actually have the capacity to process efficiently. And so, by breaking large initiatives down into smaller bets, and being more ruthless about prioritization, steering the prioritization and asset allocation continuously, and then just getting those huge performance and cycle time improvements from taking the excess whip out of the system, so that stuff gets done efficiently, quickly, at high productivity, those are big wins.

Kat Conner:

Yeah. And I'm often asked when I work with large organizations changing to this new way of working, what are the two things that are most important? And for me, it's collective shared decision making, but it's also data, having really good information so that when we have these small bets, we have a sense and respond mechanism, we have data coming back into this collective group, to make those right decisions.

Evan Campbell:

So, those firms that adopt these practices are better positioned, they're investing in the optimal products and services in the optimal way, to future success. They make faster and better pivot investments and terminate decisions with their funding models. And most importantly, while the pace of change and uncertainty continues to accelerate exponentially, these become organizations that are adaptive learning organizations that can change and adapt for environmental competitiveness almost in Darwinian sense, like an organism competing in an ecology. These organizations are going to be the winners of the future.

Kat Conner:



So, we're going to try to capture everything we just said, and we're going to start off looking at the supply side, the capacity side of the picture, and then we'll move into the demand side of the picture, and then we'll bring them together in matching. And matching is one of my most favorite places because that's where the tough stuff is. That's where the hard investment decisions are made.

Evan Campbell:

You'll get a good look at lean and agile portfolio constructs, accountabilities, governance, asset allocation, really the move towards a true digital organization, where technology investment is more an intrinsic part of the line of business producing its products and services. And then, after covering all of these key areas, we'll talk about funding and budgeting models. What are more adaptive funding models? What are models for a sliding window funding and forecasting that allow better quicker responsiveness and higher performance in the investment portfolio?

Kat Conner:

Yeah. And I just want to add to that. The reason we're bringing funding and finance into this is there are core critical things, basic things that have to be in place in order to support what I think our ultimate game is, is organizational adaptability. Portfolio management is the means, and the outcome is creating greater adaptability for the organization.

Alalia Lundy:

What Kat said just now was really powerful. Agile portfolio management is a means to your organization becoming adaptable and resilient. Next up in Part Two, we look into the supply side of the portfolio management equation. Key to organizational adaptability is understanding how much work you perform, and how much value that produces. Let's hear more from Kat and Evan.

Evan Campbell:

Kat, why is agile portfolio management so much better than the old style?

Kat Conner:

Agile portfolio management and its critical enabling functions of funding and budgeting allow organizational learning and adoption through many, many things. But what's most important for us is experimentation, conditional investment bets, constant, or as I like to say, ruthless prioritization, and all of this based on measurable business outcomes. The ultimate goal of bringing in portfolio management is really to create resiliency and adaptability of the enterprise.

Evan Campbell:

Our organization's approach to agile portfolio management really defines three sides to the portfolio equation. There's the capacity or the supply side, where the work gets done, there's the demand side, where the funding and the requests for initiatives for the work that the capacity side is doing comes from, and of course, inevitably, there's limited capacity, limited supply to do work, and there's unlimited opportunities, unlimited desire for more initiatives, more features, more work. So, the third side assigns limited capacity to unlimited demand. We call it the matching and governance function.

Kat Conner:

Now, today, we're going to be focusing on the supply side, the capacity side. Evan, if you walked into an organization and they are wanting to bring in agile portfolio management, and they're new to the practice, what will be the one first most foundational thing that you would share with them?

Evan Campbell:



Yeah, there are a number of foundational or crucial things on the capacity side that really have to come first as a foundation to effective portfolio management. And I'd say, if I had to pick one thing, Kat, it would be that the organization commit to creating stable, permanent, persistent high-performing teams. These teams have to stay together, these teams have to be invested in as a persistent corporate asset, and then you can start to scale teams of teams, value streams, release trains, whatever you want to call them, and have an effective delivery organization. And you can't scale lots of teams in big delivery organizations on a foundation of marshmallows. If the individual constituent teams aren't performing, the larger organization can't.

Kat Conner:

Yeah, right on. And I think that it would be my one thing as well. If I had to go the next layer down, it would be the next thing, is, I'm amazed because of the level of complexity that I'm seeing, unnecessary complexity. I mean, portfolio management, in its essence, is pretty simple. You have supply and demand, and you're making the best decisions based on information from your environment. And my belief is that it's challenging and it's complex because we're complex human beings, we have complex minds, we already have complex organizational structures, and we're taking these simple, beautiful agile practices and overlaying them, and creating yet another complex governance structure. If we could just allow ourselves to pause and make some of the hard decisions, to decouple, to simplify, to streamline, the flow of work through the organization would be so much better, and we have a much easier time at the portfolio level making those critical decisions.

Evan Campbell:

We often advise our clients not to start work on the demand side, redesigning the portfolio demand and initiative sequencing and funding mechanism, until the capacity side is stabilized

and predictable, because otherwise it creates just further trust and alignment problems. So, what are the typical issues that we see on the capacity side in traditionally managed technology delivery organizations? And I'll pick in particular on corporate IT departments, because these problems are so common in that environment. We see very poor predictability and transparency, we see low productivity, we see long cycle times, slow delays to delivering value. And these all come from a set of common kind of root problems. Historically, most of these organizations were optimizing for labor unit cost and utilization. You end up with very inexpensive, very busy people who don't deliver much value.

Evan Campbell:

And when you continue to optimize around this, you also tend to de-leverage the knowledge capital of what are very high potential knowledge workers in the form of the members of the development teams. So, when we're using traditional resource management models, we're sort of playing a Tetris game with tiny fractions of developers and testers' time. We're looking at the entire organization, maybe thousands of people, and we're time-slicing fractions of them a few hours a day, into multiple projects. And one of the fallacies of that model that typically wasn't captured, is you can't take a developer and put her on four projects at 25% each, because she's not 100% of a productive person anymore, because the context switching between those projects and the time-slicing destroys 40% of her productivity.

Evan Campbell:

When this becomes the paradigm for the entire organization, all of the projects are getting later all of the time, because they're always starting more projects than they're finishing, and what do we end up with? Inevitably, the technology organization is running about 200% of the work in process that it can efficiently work through the system. And because they never really had the clear ability to measure their own capacity, they



were never able to say no and push back and say, "We're full, we're full. We can't start another project." So, it becomes very political, when we have to pull this excess whip out of the system to get the delivery organization performing again. It starts with a conversation of, "We've got to stop or pause some of the things that are currently in flight." And sometimes that's a tough conversation.

Kat Conner:

I find it crazy that when we bring a team together and they become a high-performing team, and they understand the work that they're actually delivering and participating in that, I find it crazy that we blow them apart and put a whole new group of people together on another project. And that has such an impact on not only the efficiency of work getting done, but also just the lost knowledge capital in that transition period. So, one of the things that we really look at is, how do you want to create the right, I'll call it demand-shaping pattern? How do we want to shape the teams that are optimized? And we have to pick an optimization pattern, not all optimization patterns are equal, pick one, and work with that and continue to iterate off of that, based on the constraints that you have in your organization.

Kat Conner:

One of the biggest things that I love to say is, understand what you're optimizing for, and then re-optimize or mitigate other things, and continuously improve until you get to where you're really wanting to go in terms of the output of your capacity.

Evan Campbell:

Absolutely. There're some real challenges to getting the capacity side of the equation pulled into shape, but there are immense benefits. And the most important benefit from agile portfolio management, we want to reiterate again and again, is that along with funding and budgeting and organizational structures and business

models, it's a stepping stone to the larger organization, becoming a resilient and adaptable business that can sense and respond to change, that can deal with crises. Honestly, if the organization can't accept emergent initiatives and opportunities, can't terminate ones that are no longer relevant, can't pivot rapidly from one investment opportunity to another, the organization can't call itself an agile organization, and it's not responsive to dynamic environments.

Kat Conner:

I'm going to add to that by saying that not only do we need to take a look at stable, persistent teams, and how we want to shape these teams, it's how do these teams line up to whatever portfolio that we create? So, in my mind, we're also inviting a shift in thinking of ownership of that portfolio from a traditional IT-led portfolio to more of a business-led portfolio, right?

Evan Campbell:

Let's make technology investment, just like all the other kinds of investments that the line of business is making. Isn't that ultimately what digital transformation is all about?

Kat Conner:

Yeah. So, instead of having one silo group making these critical decisions, allow them, since they've got the product knowledge, to be able to understand and be able to make those decisions with the support of their IT partners, with their finance partners, it's a shared thing, but specific to capacity is, they own their capacity, they own their supply. The teams line up to this portfolio so that when they're making these investment decisions, they actually have a shot of producing it.

Evan Campbell:

It's an even better accountability mechanism because we're moving the metrics up to real business impacts that we're trying to get from the



technology, as opposed to some of these secondary output-based metrics on time, on budget utilization, that we used to use historically, that weren't really good leading indicators of business impacts.

Kat Conner:

Now, I find that when I've worked with organizations that will actually make this decision to create stable persistent teams, to line up their teams to a portfolio, and to really allow the shared governance model to make the right kind of decisions, these have some pretty significant bottom line implications to the organization. So, there's benefit to the hard decisions and the cost that's required in order to make these changes.

Evan Campbell:

Absolutely. What are some of the steps that organizations need to take? We have some simple rules in our approach to agile portfolio management, I'll introduce just a couple of them. One of the most important ones is moving from this project-based mentality and project-based funding models that are so destructive of value creation in the organization, to a more product-centric or customer value stream centric view of organizational structures. And we're funding teams, we're funding teams, teams of teams, delivery groups, in perpetuity. We're viewing these teams, this high performance delivery organization as a persistent corporate asset that we invest in, and we move the work to them through flow and a pull-based system. That's how we impose WIP limits and make sure that we're not exceeding capacity, and again, damaging the productivity of the organization. So, we introduce a metric called return on team, which is kind of like return on assets.

Kat Conner:

Yeah. If I were to say, any takeaway from the simple rules, it would be return on team, as being able to shift our thinking of how do we manage and protect these teams? So that you

can increase the throughput for those teams and get the business impact that you're looking for. And there are a lot of ways to look at the equation of return on teams, but for today, we're talking more philosophically, it's about, how do you protect them? How do you support those teams and the flow of their work?

Evan Campbell:

And we introduce concepts where we acknowledge that in large work items, excess precision in terms of estimating, or excess elaboration of design prematurely, or all forms of waste, we want to be accurate at the appropriate precision, but not overinvest in fake precision. And we have heuristics for all of these models, and use return on team and return on delivery group ultimately in the governance process to allocate that capacity to the portfolios for maximum return.

Alalia Lundy:

Hey, Alalia here again. Before we move on to Part Three, one key concept I want to highlight is return on team, creating and funding stable high performance teams that pull in work. Even that by itself is such a drastic change from the traditional way of viewing work and workers. Now we move on to demand. While supply is limited, demand is unlimited. Here's Evan and Kat again.

Kat Conner:

Supply, demand matching and funding. These are the topics that we've been talking about for agile portfolio management. And today, we're going to dive right into the demand side.

Evan Campbell:

A highly adaptive business is one that can detect and quickly exploit changes in the marketplace and the environment to achieve better competitive fitness in its ecosystem. Ultimately, an adaptive organization is always changing, based on learning, driven by their commitment to



continuous improvement.

Kat Conner:

Evan Campbell and I have been sharing ideas for bringing in key concepts of agile portfolio management that will get you and your organization beyond the limitations of installing a practice, and truly facing your core organizational constraints to leverage the best of agile portfolio management. My goal is to share some wisdom that we've learned along the way, and maybe offer a few challenge statements to propel us forward.

Evan Campbell:

So, let's dive right in and pick a couple of things that we think are really core to successfully implementing agile portfolio management in the three dimensions, the demand side, the supply side, and the matching function. I'm going to pick one, which is essentially decoupling those functions.

Kat Conner:

This is a huge challenge for organizations, right?

Evan Campbell:

It is. Traditional portfolio management has a tight binding between the capacity side and the demand side. Although they typically have very poor estimates of predictability and forecasting of what their actual capacity is, most of them continue to push work into the organization well past what they can efficiently process. And so, we're trying to separate the demand side from the capacity side. We're trying to create predictable factors of production, teams, delivery groups, work cells. And then, by allowing the demand side to ruthlessly prioritize small units of work that the capacity side pulls from as they finish other work. We don't have excess work in process, we maximize predictability of forecasting future outcomes, maximize productivity, and minimize cycle time so that we can get to value faster.

Kat Conner:

I often see decision-making conflating the two things together. Like, "I can only prioritize and get this out because this is a supply that I have." And if we can decouple the thinking about these, what is our demand? What is the priority? What is most important in terms of value? That gives us a greater shot in the matching piece, to understand what we can really do.

Evan Campbell:

Yeah. This flexibility that comes from the demand side, being able to reprioritize the work based on changes in the marketplace, environmental changes, shifts in market demand, macroeconomic disruptions, potentially economic shocks, they need to be able to reprioritize work, bring new initiatives in dynamically, without disrupting the work and the capacity and the function of the delivery side.

Kat Conner:

The other topic that I talk a lot about these days with organizations is this whole idea of developing a value system or a value capability. Most organizations have really clear top-line metrics, like, "I'm going to increase revenue by X, I'm going to reduce costs by Y. I'm going to extend into a certain marketplace." However, that doesn't often translate down in the organization to the work that's actually being performed. So, developing some sort of lightweight, simple capacity system to articulate what that means, so that the folks that are actually doing the delivery work have some idea of what they're producing, is really important.

Evan Campbell:

Strategy alignment.

Kat Conner:

And there are lots of techniques like OKRs, data enablement, but ultimately, you want to create some sort of mechanism that works for you, so



that you can pull the thread through from a top-line priority in metric, all the way down to the work that's happening.

Evan Campbell:

Excellent point. Leading indicators for key business drivers that aligned to the corporate strategy.

Kat Conner:

The challenge is, for organizations is, you've got to get the data. And if you don't have the data, it's really hard for portfolios to make the right kind of decisions. So, that's a big stumbling block. And I think the other stumbling block is around, how do I know that this thing that I am creating is actually going to make a difference? Another trend that you and I have talked about is this whole world of digital transformation, right? What I'm interested in is what you perceive as digital transformation, and how that is relevant to specifically agile portfolio management.

Evan Campbell:

Yeah. So, digital transformation to me, really means breaking down some of the silo walls between traditional technology delivery organizations that historically have their own governance and asset allocation processes separate from the other kinds of capital investments that business unit leaders are used to having a fair amount of autonomy for identifying and prioritizing initiatives around. So, just like DevOps, transformation fundamentally is breaking down the silo walls between development and production operations. I see digital transformation as breaking down silo walls between technology and business. Because technology and all of the digital assets that business unit leaders need to be successful in competing, well, this isn't a separate part of the business anymore, it's an intrinsic part of everything we do.

Kat Conner:

Yeah. So, having that mindset and bringing that

into how we look at demand and how we make decisions, becomes pretty important when we think about what demand means and how we shape those portfolios.

Evan Campbell:

Yeah. So, if we were in a more traditional organization that had made good progress stabilizing the capacity delivery side of the equation, what are some of the first steps you'd take?

Kat Conner:

This is pretty simple in my mind, and I know it's going to sound that way, but visualize the work. Visualize all of the work. Visualize it so the key stakeholders can truly understand what's out there, and can make the best decisions for the business.

Evan Campbell:

One of the things that I bet we both encountered is organizations have a tendency both in identifying the delivery groups on the capacity side, but also identifying the portfolios on the demand side. They struggle sometimes because they can't find a perfect design that has no flaws. And so, they end up in analysis paralysis. How do you advise them to move forward in that scenario?

Kat Conner:

Pick something that's highly valuable to you as your organization, something that really matters, it can move the needle against those top-line organizational metrics, and start from where you are. And know that you're in this as a journey, and you're going to be constantly iterating and changing. I also think about how to shape the pipeline of demand, the different horizon view, bringing in competitive information that may inform where we want to spend our money. So, this starts to get into the whole funding and investment sector piece. What's relevant here is, when I look at where they spend their money, large organizations are putting in 75 to 80% of





their funding into keep the lights on, run the business, and there's very little funding or focus on the extension or even innovation of products.

Kat Conner:

That's going to impact how you make decisions, and how you structure the demand side of the portfolio, if we're going to have a shot at having the money and focus to truly pivot our organization in the right direction.

Evan Campbell:

One thing that I encourage organizations to do as they're defining these portfolios is to start with the premise that we want to deconflict contention or competition and dependencies between the demand portfolios as much as possible. And that also means giving each primary demand portfolio a certain amount of delivery capacity, that they can have maximum autonomous control over, that they can prioritize the work, they can assign the work without having to put everything in the backlog through a committee or steering type process. And then, inevitably, there are also some crosscutting initiatives that are going to impact multiple portfolios.

Kat Conner:

We want to decouple the idea of capacity and demand, and once you decouple and understand them, you do have to give some autonomy to the portfolio.

Evan Campbell:

Right. So, we want to break these big initiatives down into smaller bets, these are conditional bets that we're assessing more like venture capitalists. We're being really dynamic about allocating that capacity to the highest use.

Kat Conner:

As we take a look at these investment sectors, you're right, Evan, that we really need to understand the right kind of metrics appropriate

to the body of work or the portfolio in each sector. And the challenge that I would offer in this space is, not everything has an ROI, particularly those in the horizon three innovation sector. So, be willing to have some flexibility, so that you can move the needle forward on what matters most when making these decisions.

Evan Campbell:

Yes, indeed.

Alalia Lundy:

Because supply is limited and demand is unlimited, prioritization of small contingent bets grants more flexibility and resilience to businesses in portfolio planning. Evan and Kat encourage us to invest like a venture capitalist. Up next in Part Four, we learn about matching the now independent processes of supply and demand, as well as consider the ways governance has to change as well. Kat and Evan invite us to take a step back and look at the bigger picture of agile portfolio management, to view it as a system.

Evan Campbell:

Portfolio management, the matching and governance function. This is the crucial area that balances limited capacity with unlimited demand, and this is thermonuclear in an organization sense. Actually, brokering this limited capacity, it can be extremely political, extremely difficult, and has big implications on overall organizational performance.

Kat Conner:

We're going to offer four different lenses to look at portfolio management as a system. So, Evan, I wish to pause for a moment and step back and offer a broader view of agile portfolio management as a system, a system that by nature, is highly flexible and adaptable to any organization. And I offer this view in service of the clients that are really wanting the benefits of agility in their investment decision-making



process, yet seem to struggle. We have witnessed how teams and leaders struggle to adopt these new practices. And I think the operative word here really is practices. If it's just the focus on these practices, looking for a set playbook, that really misses the point of what agile portfolio management is, really is a system, a system that includes new structures, new roles, new ways of interacting and decision-making, all supported by this fundamental set of principles and simple rules.

Kat Conner:

Now, what we're inviting here in this conversation is for leaders in organizations to be willing to step back and see the bigger picture of agile portfolio management, and consciously choose your first of many steps down that path.

Evan Campbell:

Right. So, why are we bringing up this bigger picture now? Why in the matching function? Well, if we had unlimited capacity and limited demand, we really wouldn't be dealing with contention for resources.

Kat Conner:

Yeah, this is really a new thing, isn't it?

Evan Campbell:

It is, and it's a new approach. And you're right to say that there are cultural impacts and mindset impacts, because a lot of the way that portfolio used to get done was kind of decibel-driven decision-making, or hippo decision-making, the highest paid person's opinion. Lots of pounding the table and leveraging political power, but this is a data-driven approach, with a lot more accountability, a lot more empowerment and delegation, a lot more transparency. And it requires a shift in the larger organization to be successful. So, to get the most out of the adaptive piece, we need to step back and see the big picture. We've defined four lenses to help provide kind of a structural view of some of the

mindset shifts and process shifts. Can you help introduce those four lenses, Kat?

Kat Conner:

Sure. I've simplified it in my mind, and I recognize that as I say these things, they may not be so simple to implement in an organization that is dealing with a lot of legacy practices and behaviors. So, I just wanted to acknowledge that. In my mind, the first lens is, what are the people practices in technology that are required for agile portfolio management? The second lens is, what are the structures? What are the levels of portfolio from enterprise or strategy portfolio, all the way down to product portfolio? The third lens that I look at is, how do we make decisions together? The fourth lens that I look through is, what are the underlying principles or tenets that we want to work with, and what's most important to us as an organization? And how do we introduce that into the practices of agile portfolio management?

Kat Conner:

Now, these lenses shape and color and are colored by our culture. So, culture is a huge piece of what we need to take a look at at this stage. What matters most in our journey for becoming an empowered, decentralized, knowledge-driven enterprise, is the component that we need to bring in. So, with this larger system in mind, we're going to dive right into the matching piece. Evan, I'm really interested in your perspective on where you would start.

Evan Campbell:

If this is the balancing function between supply and demand, all in service of maximizing the enterprise returns of the initiatives that are being funded in the portfolio, the first step is to have a really ruthless process for assigning value and prioritizing the work items on the demand side, making them visible and transparent. On the capacity side, we're moving towards a pull-based model. So, we want to have a stabilized predictable delivery capacity. We're not pushing



work into it. So, no, on the contrary, to do good scenario modeling and prioritization, we need to know what the throughput of the capacity organization is, as observed through historical metrics and statistics, so that we can draw a cut line on that demand side list of initiatives, and start to say, "You should expect to get everything above the line, you shouldn't expect to get anything below the line, here's our confidence."

Evan Campbell:

"Oh, and by the way, if you start to break down some of these very large aggregations of requirements or features to smaller groups, and then reprioritize intermixing some of these in the highest features from some of these initiatives, you'll actually get more of the crucial things above the line, and ultimately maximize the value of the portfolio as it's delivered."

Kat Conner:

To do that, we really need to be willing to create those small bets. And that really comes from the demand side. We need to be willing to have the right kind of value metrics and investment strategy to inform what's in, and what's out, right? You mentioned scenario development, that's a critical piece as well. It's not the modeling everything, it's the modeling the right things, so that when we have to make those stop-start pivot decisions, we have options.

Evan Campbell:

Absolutely. It's more like the venture capitalist invests, you make small bets that are contingent, you use transparent metrics so that everybody's in alignment with what gets funded, where you pivot, and where you terminate investments, and you have a good governance process that allows new high value work to be inserted into the backlog.

Kat Conner:

Right. Now, I want to step a little wider at this point, because we've gone in and look at the

matching practices, and we're now creating new teams that are having to work together in new ways at the portfolio level, new teams that bring in different functional areas like IT in business, and maybe even finance, maybe even risk and compliance, all starting to work together in a different way. I just recently worked with a client, and at the strategy level or the enterprise level, they care most about, "Am I making the right kind of investment decisions in order to meet my top-line organizational goals?" Align a business portfolio, we'll have the same kind of question, but they're more tasked with, "Am I executing against those goals? And do I have the right kind of decision-making and practices in place to work with other portfolios that depend upon me, or I depend upon?" So, understanding the kind of questions at the different portfolios, and establishing that decision model, is, again, another larger lens to bring into consideration for portfolio management.

Evan Campbell:

And organizations have to be willing to invest in continuous improvement and adapting the organization itself. Management innovation is a crucial part of this, because, if you're not abandoning some of the old inefficient layers of bureaucracy, and some of the potentially old misdesigned portfolios that you had in the legacy structure, you're not going to achieve efficiencies. Honestly, many of the organizations we work with have had such dysfunctional relationships between the capacity and the demand side, that they have translators or ambassadors that are layers between, they actually add very little value, so, it's an opportunity for de-bureaucratization and more efficient flow of information and work for greater vaster value delivery, moving towards, again, being very data-driven and objective about making good decisions.

Evan Campbell:

But one of the things that's very political about the matching and governance side, and one of the reasons why we don't like to start this part of



the organizational evolution until we've actually made some real progress on high-performance delivery on the capacity side, is the recognition that these organizations typically have vastly too much work in process, much too much for them to process efficiently and quickly and to be responsive. It is a very political set of decisions.

Kat Conner:

They have the performance targets in place that also reinforces that.

Evan Campbell:

Exactly. People's bonuses may depend on finishing some projects on time on budget, for projects that no longer has substantial value to the organization. So, when we're talking about terminating projects that are in flight, or pausing them, or breaking them down to only do the most valuable portions, it's an important leadership moment to step up and make sure that the organization can actually evolve to the promises we're making.

Kat Conner:

And I'm going to suggest that as we bring in portfolios, that we really challenge ourselves, "Do I need a portfolio here? Is this the right shaping of a portfolio? Am I just surrounding my current funding model, my current functional area with a portfolio so that I can stay in control, or is this really supporting the flow of work across the organization? Meaning, I need to change how and who I work with." That's a really big piece of the matching function as well. And that brings up all sorts of behaviors around, who has the authority, and where? I often get asked, what does it mean to have decision authority? Not only does it mean, understand the right questions that each portfolio cares about and wants to answer, if I truly want to make a data-driven decision, am I willing to actively stop or pivot investments where the data doesn't inform that it should go forward?

Kat Conner:

If I'm really willing to do collaborative decision-making with the team members, am I willing to accept and become accountable for that decision that the team makes, even if it's outside the interest of my functional area? That, so we start to get into the bigger lens of decision-making and those underlying principles that we talked about.

Evan Campbell:

So, let's slaughter some of those sacred cows, because the matching component of agile portfolio management is absolutely crucial to the organization moving quickly towards better portfolio outcomes, and more importantly, having the flexibility to shift on a dime, when the environment calls for change.

Alalia Lundy:

Bringing agility into any part of the organization requires scrutinizing how value is delivered. And that is no different in portfolio management. Matching limited supply to unlimited demand requires a rigorous, if relatively simple approach, which must be supported by governance that has implications that are highly political for any business. Much of it comes down to culture. In our final chapter of your introduction to agile portfolio management, we will see how culture affects funding and budgeting as well.

Kat Conner:

Even the most agile and best design portfolio processes will not produce or will not likely produce an adaptable competitive business, if the enterprise fails to look beyond and address the slow and inflexible traditional annual budgeting process. So, Evan, I'm curious why you believe the annual budgeting process is so challenging.

Evan Campbell:

Traditional budgeting processes support three core business functions or planning objectives. The first is asset allocation. What initiatives are



we funding? What resources are we allocating to each different function of the business? The second critical function is forecasting, both cash for operations, treasury functions, as well as setting guidance in public companies, guidance to investors in Wall Street. The last and final function is goal setting, setting targets for performance management, business goals and objectives. Now, when you look at it that way, it should be pretty self-evident that these three separate purposes aren't really identical functions, and therefore, would probably perform better if they each had their own numbers, and more importantly, is there any particular reason why the ideal planning cadence for all three of these functions is every 12 months, and that the planning horizon, in other words, the look-ahead window for the plan is typically 16 months?

Evan Campbell:

But then, as the year progresses, this accordion effect of annual budgeting means, in the beginning, we have a plan that looks way too far forward, at the end of the fiscal year, we don't have enough plan, we don't have enough look-ahead plan to manage the business. So, that accordion effect is one of the major defects of this approach.

Kat Conner:

What it sounds like you're inviting our audience to do is decouple the notion of supply and demand and look at the matching function. Each independently have their value, have their numbers, right?

Evan Campbell:

Yeah, they're each critical functions, but it is just bad to use the same number for a forecast which should be ruthless and accurate and checked often with a goal which should be ambitious, inspirational, and shouldn't need to be updated that often. So, why are we trying to use the same number for both? Let's optimize each of these. Some of the other major flaws with annual budgeting is that these budgets are really fragile,

and we put an enormous amount of effort into planning way too much detail way too far out in the budget preparation process. Haven't we all had the experience of, two months into the fiscal year, some fundamental change in the competitive or environmental landscape causing the entire budget to be useless? We all hate the process, even the CFOs that I talk to. We know that it's wasteful, it's inefficient, and it's not producing good yield.

Evan Campbell:

I mean, many companies have chucked their annual budgets, many of them are actually running the business based on bi-weekly or monthly assessments of actual cashflow. The other thing that I really am concerned about in terms of the asset allocation and performance management is that these kind of budgeting processes incense a lot of chicanery and gamesmanship within the leadership and the management of the organization. We're all incented to maximize our budgets, so, we inflate the needs that we declare for operating our business. There's performance targets we usually sandbag, to make sure that we can easily hit the targets and get our bonuses. So, the people that are really political and good at manipulating the organization and the leadership, tend to be rewarded with disproportional resources. It's not optimizing for organizational performance, and it's not good asset allocation.

Evan Campbell:

Who hasn't had the experience of having budget leftover at the end of the fiscal year? We throw the money at anything we can think of, no matter how wasteful, just because we know that if we don't spend all of our budget this year, we won't get as bigger budget next year. It incense unhealthy culture.

Kat Conner:

I actually wrote down something that I heard you say one time, and I just wanted to share that



because I think it's important. You said, "No business can be fast-moving and adaptable, if they wait months for an opportunity to fund a good initiative. And no business can sense and learn by planning once a year." That gets to the heart of agile portfolio management. We talk about this continuous planning model, our ability to use data to send some respond in the moment. It could be quarterly, it could be monthly, it could be weekly, it depends on the cadence of your business and the needs of your customers. Right? So, funding has to support that. So, having these elongated planning cycles and funding once a year is just not creating adaptability within our decision-making process.

Evan Campbell:

Yep. You can't be a responsive organization if you plan once a year. One of the areas that organizations tend to divorce first from the annual planning process, in my experience, and I think yours, we usually see organizations divorce the forecasting process from the annual cycle.

Kat Conner:

Yeah, you're right. What we also see and when that happens is, the forecasting becomes different at different horizons for different levels of granularity. Right?

Evan Campbell:

Right. They have a regular cadence of sliding windows or rolling waves. A lot of organizations have actually two, one that's a little further out and less granular, and then one that's really used for cash management, that is closer in and very granular. And they're re-evaluating these forecasts or updating these forecasts on a regular cadence, that way, we're getting much more accurate forecasts that aren't biased by some plan that we generated 14 months ago, that has no bearing on reality any longer.

Kat Conner:

Yeah. This, again, decouples the true forecast

versus an aspirational forecast. Both are critically needed. Now, one of the things that I think about when it comes to, what do I advise clients? Goes back to the demand side of the equation. If we can understand the flow of work and develop the right value stream, and then the team and team of teams in relationship to that value stream, you fund that value stream directly, and you allow the owners of the business, the owners of the product to make the best decisions in the moment as to what work should be brought to that value stream, what works should be brought to that team of teams. So, it shifts our thinking from a project-based kind of mentality to flowing money to a value stream that we know that we're going to produce the highest, most valuable pieces of work.

Evan Campbell:

Yeah. In the asset allocation, I also see a shift where organizations are behaving more like venture capitalists, in that, they want to make smaller bets on things that have measurable business benefits, and they want to fund these things more conditionally. We're constantly evaluating, should we pivot the direction of this initiative to get higher returns? Should we terminate and reallocate that capacity or those resources to some other initiative that has a higher return? Or should we double down because we're really getting disproportional benefit from the investment we've made? And doing that on a regular cadence and having that flexibility, also allows for new initiatives and new ideas to be prioritized in the mix with things that are in flight.

Kat Conner:

Another thing that I think about while I'm on this train of decoupling, it is goal setting and target setting that tends to create the political gamesmanship that you mentioned a moment ago, if we can have realistic goals and aspirational goals that allows us to be able to step away from some of the political or personality or performance type of measures that are driving us and look at what's truly possible in the moment and give us this



inspiration to move forward.

Evan Campbell:

And we start with making sure that we've got good alignment to strategy, and then use tools like OKRs to ensure, not cascading objectives, but aligned objectives, where every person in the organization understands how their work contributes, in some way, to a departmental objective, a corporate objective, and that we are using key metrics that are ideally leading indicators for the business drivers that produce those organizational outcomes, performance management and goal setting, they're relative to industry or competitive trends, to financial metrics, as opposed to absolute. A person should not make their bonus because some commodity price beyond their control shifted, even though they did a tremendous job of running their business the best way possible under those circumstances.

Kat Conner:

Yeah. So, I think what you're suggesting is like a range or the trend lines, and having it compared to something truly comparable within the industry.

Evan Campbell:

Absolutely.

Kat Conner:

Now, you and I have been watching some very large publicly-traded companies starting to abandon these inefficient and ineffective budgeting processes. And again, this is kind of a new territory for our industry. So, there is no playbook for agile funding and budgeting, but we're seeing the patterns emerge and organizations bringing in the things that you and I just talked about.

Evan Campbell:

Yeah. And to move away from these industrial

age traditions that in many ways are no longer in modern digital organizations, in the spirit of challenging our listeners, it takes real leadership vision and courage to challenge these orthodoxies and think about better paradigms, new ways of working, that allow the organization to experiment, and learn, and adapt, and really embrace knowledge, which is competitive advantage today.

Alalia Lundy:

Agile portfolio management helps organizations, as Evan put it just now, move away from these industrial age traditions that are no longer fit for purpose in modern digital organizations. And we just heard Kat say that this is new terrain, there is no playbook. However, for businesses looking to thrive in today's uncertain world, agile portfolio management is one critical element to building up that organizational resilience. Thank you for listening to this intro to agile portfolio management, with our guides, Kat Conner and Evan Campbell. To learn more about agile portfolio management and business agility in general, please check out [solutionsiq.com](https://solutionsiq.com). And if you're new to this podcast, don't forget to subscribe to Agile Amped wherever you get your podcasts. Happy listening.

Speaker 1:

Thanks for listening to Agile Amped. Find more inspiring conversations at [agileamped.com](https://agileamped.com), iTunes, and your favorite podcast app. If you have an idea for a topic or feedback on an episode, reach out to us on Twitter, Facebook, and Instagram, or send an email to [agileamped@accenture.com](mailto:agileamped@accenture.com).

Copyright © 2020 Accenture  
All rights reserved.

Accenture and its logo  
are registered trademarks  
of Accenture.