Chapter 6
Realizing Your Strategy through Portfolio Management

Portfolio management is an often-overlooked discipline for promoting efficiency in the innovation process. Portfolio management is a method for creating a framework that fosters focus and progress in the projects. However, portfolio management often becomes too advanced, and the good intentions drown in prioritization models, prioritization reports and unclear future plans. This does not alter the fact that good portfolio management is a prerequisite for creating the best possible project conditions. Using lean in portfolio management means being inspired by the lean principles to create simple and healthy conditions for project work.

Organizing Knowledge Work into Projects

A few years ago, we visited a company that had organized their innovation process as a flow of cases in a line organization comprising technical departments. For instance, a case might involve developing a new software module for a remote reading unit. The development organization had a staff of approx. 260 people, including 33 managers and seven organizational levels.

A central planning office was responsible for breaking down the assignments into cases, which were then sent to the respective departments to be processed under the management and control of the heads of the technical departments. Each case was solved locally and then sent back to the planning office where all the solutions were compiled and sent to production for further processing.

To many people, conducting innovation work in a line organization with centralized planning might seem bureaucratic and antiquated. And the company did have problems with lead times and quality, despite the hard work of line managers. The projects took a long time, and no one could anticipate when they would all be finished. The employees’ desks were piled high with files. Many of the problems with the quality of the solutions were caused by poor coordination. For example, one department might decide that their equipment should be mounted on a wall, while another department recommended that it be removed.
Most knowledge-based organizations choose to work in projects. It makes sense because the tasks require collaboration and coordination among a number of specialists. One person – the project manager (in conjunction with the project team) – is responsible for ensuring that the project delivers the promised results at the agreed time. But organizing innovation work more appropriately into projects does not eliminate the need for management.

An important job for the management is to prioritize which projects to implement and to establish healthy conditions for those projects. The management team is responsible for making the best possible use of the employees’ competencies. Management and coordination of the company’s potential, current projects and resources form the core of project portfolio management – or simply portfolio management.

The Management Must Be Committed to the Portfolio

Unfortunately, many companies do not give portfolio management the attention it deserves. Generally, the line management participates in the prioritization process, but their primary responsibility tends to be for their own focus areas. It is often unclear who is responsible for ensuring that the portfolio management process functions satisfactorily across the entire organization, and who, besides the managing director, is responsible for handling any problems that might result from improper portfolio management. This should be enough to motivate the managing director to ensure a clear and unambiguous distribution of responsibilities and to ensure that the portfolio is managed properly.

Employees in a knowledge-based organization spend most of their time on projects and are only back in the line functions for very short periods to ‘refuel’. The purpose of portfolio management is to:

• Realize the company’s strategy
• Allocate resources to the most important initiatives
• Create efficiency in projects
• Apply employee capabilities efficiently
• Ensure coordination between the projects and avoid duplicated effort

The quality of portfolio management affects the employees, the customers and the technical development. Poor portfolio management can result in all kinds of problems: projects may be delayed, employees may be shifted from project to project, resources end up going to whatever seems most urgent but not necessarily most important etc.