6 Practices for Effective Portfolio Management

By Anthony Henderson, Senior Director Analyst
6 Practices for Effective Portfolio Management

Published 3 September 2020 - ID G00725554 - 17 min read
By Analysts Anthony Henderson

Initiatives: PMO Evolution for Digital

Complacency with portfolio management increases the chances of failing to deliver expected outcomes. Program and portfolio management leaders should review Gartner’s best practices for effective portfolio management, assess how well they are applying them and devise an action plan to fill any gaps.

Additional Perspectives
- Summary Translation: 6 Practices for Effective Portfolio Management
  (15 October 2020)

Overview

Key Challenges
- Many organizations struggle to manage ever-increasing demand for initiatives limited by inflexible budgets and capacity, which causes them to overpromise and underdeliver.
- Organizations struggle to balance the demand for continuous delivery in today’s dynamic business environment, while keeping operations running smoothly and maintaining business performance.
- A lack of integrated portfolio management across a variety of digital business practices (i.e., projects, products and programs) causes limited visibility to interdependencies, risks and change impacts.

Recommendations
Program and portfolio management leaders and other IT leaders responsible for portfolio and resource management for products, programs and projects must:

- Evaluate their organizations’ internal capabilities by assessing how well they are applying Gartner’s six practices for effective portfolio management.
- Devise an action plan to increase their portfolio management effectiveness by engaging staff to review internal practices and by identifying practical steps for improvements.
Introduction

Like many project and portfolio management (PPM) leaders, you may find that your portfolios often fail to fully achieve the expected business outcomes within expected parameters. Gaps in your organization’s portfolio management practices may be the cause. Evolving digital business requires that you and your peers must learn to continually adapt to an accelerating pace of change. You need to manage a variety of portfolio activities that deliver the right initiatives, at the right time, for the expected outcomes. Integrated portfolio management and governance has an important role, because well-governed IT portfolios result in superior organization performance, with an increased return on assets of 30%. ¹

The push to digital business means that the traditional style of portfolio management (see Note 1) may now be inadequate. Siloed portfolios cannot work in isolation to provide the organization with a true picture of performance. You need to optimize the value of all major initiatives in the organization, which requires integrated portfolio management (see "How PMO and PPM Disciplines Will Change in the Digital Business").

Portfolio management across the enterprise continues to evolve as a function that balances investments, priorities and resources. You need integrated portfolio management more than ever to decide what to start, stop, continue, consolidate or change. More importantly, integrated portfolio management will prevent silos. Often, initiatives using agile methods are outside the scope of conventional portfolio management. This results in a lack of visibility to resource utilization and the work being delivered.

You must evolve portfolio management, making it flexible and adaptive for digital business. In particular, you must:

- Ensure that the intake process, prioritization and investment decisions align with customer and business objectives.
- Create an adaptive culture to ensure that resources can support changing customer needs.
- Track key performance indicators (KPIs), based on customer expectations.
- Put in place benefit realization, including continuous feedback to future prioritization decisions and business case assumptions.

By studying how high-performing organizations approach portfolio management and through discussions with clients, we have identified six practices for effective portfolio management (see Figure 1).
Figure 1: Practices for Effective Portfolio Management

Analysis

Assess Your Portfolio Management Practices

First, you must understand what is meant by each of the effective portfolio management practices outlined in this research. Then you must determine the best way to use these for your processes. Engage your team and stakeholders early in this evaluation by providing them with the research and conducting brainstorming sessions to determine specific changes for improvement. Identify challenges and associated root causes with delivering expected portfolio results. Team behaviors may need to change to adopt the new ways of working. Following each practice, we provide a simple set of questions to help you identify gaps. If you answer “No” to any of the assessment questions, you’ve identified a gap that requires further action and improvement.
No. 1: Visibility to Work and Constraints

If you can't see the work, you can't make decisions on what should be done and when. There is a reason we're using the term "work" instead of "projects." In today's digital business, work may be projects, products, services, programs or other activities that require resource support. When portfolio practices are nonexistent or, even worse, take too long to make decisions, the natural tendency is for people to go around the portfolio process to get work done. Resources are probably busy with operational and project work, incorrectly prioritized by stakeholders who have circumnavigated the process. When product teams operate in silos, the organization loses sight of who is doing what, and can't determine interdependencies and risks (see "Optimize Outcomes With Program Management Across Product Lines"). This results in significant delays and unhappy customers. Every organization needs to know what business capabilities are being delivered and when, as well as the constraints hindering the ability to deliver the work.

Establish an intake process for stakeholders to submit ideas. Initially, this may include all types of work, from low- to high-complexity, to establish a comprehensive view of demand. You can set up a service desk to triage smaller requests. As maturity increases, the portfolio governance process may be for higher investments that need funding (for example, set by a specific financial threshold), or smaller investments that affect a large number of users. Either way, the organization should agree and understand this criterion. When possible, apply adaptive approaches to evaluating work (see "Use Adaptive Governance Styles for Portfolio Management"). This will:

- Make you evaluate opportunities more efficiently
- Enable you to support customers' changing needs
- Make you more likely to execute strategic objectives

As work is approved, the portfolio maintains visibility through execution and benefit realization. The portfolio provides comprehensive insights into what is being delivered when, constraints and interdependencies, risks to the portfolio, and, ultimately, whether the expected benefits were delivered. Executives can use this information to inform strategic decision making and gain an understanding of the impacts on performance. Essentially, all strategic change happens through projects, programs and products. Each silo of the organization may have its own list of initiatives; however, if a portfolio practice doesn't exist, it's an enormous administrative task to pull it together for senior stakeholders. When work (i.e., projects, programs and products) are siloed, cross-planning coordination is critical for managing interdependencies.

You need to understand the constraints on the portfolio upfront, during initiation or work, and during execution activities. Constraints may include:

- Resources
- Compliance with regulations or security
- Operational continuity planning
- Technology limitations
- Funding
- Physical space
You need a clear understanding of the portfolio and cross-portfolio interdependencies (see “3 Steps to Managing Distributed Portfolios in an Increasingly Digital World”). Continuous and proactive mitigation of risks is necessary to remove constraints before causing negative impacts to the portfolio.

Assessment:

- Do you have an intake process in place? Do you use it consistently?
- Do you have visibility of work being done? And of its status?
- Can you determine the constraints associated with this work (such as interdependencies, risks and issues)?

No. 2: Customer-Driven Prioritization

Ideas and requests for new initiatives probably swamp your organization. It’s equally likely that your budget is not increasing fast enough to keep up with this growing demand. Focusing on a few initiatives usually brings more benefits than spreading resources across a greater number of initiatives.

“Prioritization at a strategic and operational level is often the difference between success and failure. But many organizations do it badly.”

Prioritization is never easy. Customers’ expectations are constantly increasing in response to digitalization. First, you must define who your customers are — both internally and externally. There may be multiple customers with competing goals across various lines of business. Because satisfying customers is vital to success, it makes sense to prioritize according to customer demand, while also aligning requests with your organization’s vision and priorities. To satisfy customers and deliver business objectives, focus on the initiatives that matter most to customers — prioritizing initiatives with the highest chance of meeting customers’ biggest needs. If a disciplined, agreed-on portfolio prioritization approach isn’t in place, resources end up being pulled between stakeholders’ individual agendas, and they may not necessarily be the most valuable ones.

An effective way to prioritize is for the enterprise program management office or (EPMO) portfolio office to establish an investment committee to prioritize the most valuable ideas in which to invest. The committee should include key cross-functional stakeholders, such as heads of the business, finance, enterprise architecture, product and operations, to curate the decision input relevant to support organization investment decisions. A quantitative decision model removes some of the emotion surrounding decision making. The prioritization model should inform initial and ongoing decisions about what work to advance and how to make trade-offs with resource constraints. Alignment to strategic goals should be a factor in your decision criteria, further aligning with the performance aspirations of the organization (see “Use Our Decision Model to Optimize Risk, Value and Cost in Governing Portfolios”).
You need a flexible funding model to accommodate multiple methodologies, levels of portfolios and types of investments within single portfolios, and also across various portfolios for the organization. For example, product-centric operating models also require the prioritization of work. The portfolio level determines block funding for product teams and guides quarterly prioritization of high-level objectives, whereas product managers and product owners drive the more tactical feature prioritization at the team level. Although terminology shifts to products, instead of projects; strategic epics, instead of requirements; and product managers, instead of project requesters, the foundational practice is the same— prioritizing investments, based on customer needs.

Assessment:

- Do you have a clear definition of customers, both internal and external?
- Do you have an investment committee?
- Is your funding model flexible enough to adapt to varying types and levels of portfolios?
- Are you using a quantitative decision model to prioritize work?
  - Do you prioritize based on customer goals?
  - Is your model aligned to strategic objectives?

**No. 3: Adaptive Resource Management**

Resource management is probably a major challenge for your organization, as it is for most others. The use of agile methods is compounding this problem. As work dynamics shift as a result of the evolving digital business and its requirements for greater productivity, you need to devote more attention to resource management.

One solution is adaptive resource management. You must continually identify and assign the right level of resources. This involves monitoring initiatives and changing resources as necessary. It means going beyond applying resources to individual initiatives. Create an environment that optimizes dedicated product teams with a cross-digital product and product lines, programs, and project initiatives. To create an environment in which resources on multiple teams can be successful, you must:

- Manage the interdependent risks
- Articulate and navigate groups’ competing priorities
- Remove obstacles to strategic coordination across groups (including physical barriers between teams)

As the number of methodologies grows, so does the complexity of managing resources. In addition to balancing resources across programs and projects, you also need to deal with agile product teams. In theory, resources should be dedicated to a product team. In reality, resources move between initiatives. You must balance the priorities and needs of all customers. The portfolio is in the unique position to analyze across interdependencies (see “How PPM Leaders Can Help Resource Management in Product Teams”).
Being adaptive in resource allocation is entirely different from using spreadsheets to plan resource allocation for upcoming projects. It’s about welcoming change. Embracing the introduction of new information from a market shift or changing customer needs when seeing a demo of the proposed solution will almost certainly result in a better business outcome. To be flexible in digital business, you must move away from rigid planning practices, and evolve practices and tools for the needed resilience (see “Effectively Manage People Who Have Operational and Project, Program or Product Delivery Responsibilities”).

Assessment:

- Do you have an approach for allocating resources for all methodologies used in the organization?
- Can you shift resources easily, based on changing priorities?

**No. 4: Continuous Execution of Value**

Your portfolio's business sponsor should assess whether value is being delivered. The relationship is critical to keeping the portfolio relevant and valuable to the organization. Without this recognition of value, portfolio offices become irrelevant and administrative. Effective project sponsors use their influence in an organization to overcome challenges, with 26% reporting that inadequate sponsor support is the main cause of failed projects. The initial determination of value starts with the intake request form, often followed by the business case and charter. In an agile environment, the product manager justifies the value of a new or enhanced business capability. This business value hypothesis may be validated (or disproved) by a proof of concept (POC), a pilot or an iterative approach.

As work progresses, continuous (daily or at least weekly) validation with sponsors is needed. People are often too busy to commit to this level of communication, but an ongoing interaction to confirm and challenge value must become a part of the portfolio practice to be effective in a dynamic digital business. Hold a portfolio weekly "stand-up meeting" to discuss what was delivered last week, what is being worked on this week and the roadblocks (See “Optimize Portfolios Amid Change Using Gartner’s Risk, Value, Cost Model”). Any disconnections will become clear immediately, and you can realign the portfolio with value. Without this regular interaction, resources are wasted, further delaying the realization of value.

Tracking leading indicators on portfolio health is essential to manage the portfolio effectively. Measures often include (see Figure 2):

- **Value Capture**: Tracking estimated versus actual funding, and realized versus expected value
- **Status**: Project, program and product status of delivering expected business capabilities
- **Strategic Alignment**: Percentage of funding allocation aligned to strategic business goals
- **Resource**: Visibility of resource availability
- **Risk Profile**: Risks and impact to the portfolio
Assessment:

- Is your portfolio roadmap aligned with the expectations of business sponsors (e.g., strategic goals and business objectives)?

- Do you check in at least weekly with business sponsors?

No. 5: Change-Enabled Culture

Balancing delivery with organization change management is vital to the success of digital transformation programs. The number of digital transformation initiatives is greatly increasing the number of changes in business and technology processes. These changes can have unintended consequences, so you must think ahead to avoid or minimize them. Consider how initiatives will affect the experience of customers and employees.
Cultural change is often a prerequisite for successful transformation. Planning and managing initiatives can lead to quicker uptake and an increased appetite for further change. Create a change-enabled culture by:

- Establishing feedback and communication channels with the business’s leaders, managers and end users
- Engaging multiple levels of change champions in the business
- Developing an agreed-on roadmap or plan for change with business leaders (see “Start Organizational Change With a From/To/Because Model”)

Selecting a change management methodology isn't enough for the continuous change often experienced as part of managing a portfolio. Starting at the portfolio level, where strategic investment decisions are made that affect resources, agendas and organizational performance, there are multiple layers of change. There are further layers of change for program, product and project managers accountable for delivering new or enhanced capabilities and ensuring the adoption of the new process or technology. When a shift in direction happens top down, a rippling effect cascades to portfolio managers, business sponsors, executives and their teams. You need to know when too much change is affecting critical roles. To help, analyze the “heat map of change” in “Assess How Much Change Your Organization Can Absorb.”

Assessment:

- Do you have an approach to change management?
- Are the roles and responsibilities clear for affecting change?
- Can you determine when there is too much change (by role and process)?

No. 6: Continuous Value Realization

Only one in three organizations report high maturity in the discipline of benefit realization. As digital business evolves, it will drive greater value and consume greater resources. This will make effective portfolio management and measuring results more important than ever. The increasing pace of change means that your organization will expect faster results. You must view benefits or results as incremental units of value delivered in a steady stream, focused on customer expectations. Ensure that it’s clear who owns and tracks the actual benefits. Although the portfolio office may report the findings, the business sponsor or finance/budget office often needs to own and provide the benefit data.

A critical part of effective portfolio management is learning from mistakes and allowing them to inform future decisions. If your organization doesn’t realize the expected benefits, revisit the initial business assumptions to understand why.
Ask the following questions:

- Did we understand customer needs?
- Have market conditions changed?
- Did we overestimate value?
- Were there more risks or complexities?

Only by doing this will the organization learn to make better assumptions, and improve future investment and prioritization decisions.

You can't accomplish everything in 90 days, but you should be able to realize some benefits. Start tracking initial incremental value and feedback immediately, even if only anecdotal comments. If you assess the portfolio every 90 days and discover changes in direction, you'll be able to change the initiatives you fund with as little disruption as possible. Not every initiative will be equally successful. Being able to rank the initiative list based on performance every 90 days will enable effective decision making. You can decide to declare success and move funding elsewhere, or decide that additional effort and resources are necessary to realize success. You'll have the necessary information to end failing projects and to extend others that are doing well.

Assessment:

- Do you have a way to measure value?
- Are metrics focused on customer needs?
- Have you identified accountable owners for tracking benefit realization?
- Is there a feedback loop to validate (or disprove) original business case assumptions? And, if so, what is the best way to learn from mistakes?

Devise an Action Plan to Increase Your Portfolio Management Effectiveness

Engage your team and customers to create an action plan for increasing your portfolio management effectiveness (see Table 1). Revisit your assessment within four to six months to confirm progress, reassess opportunities and enhance your action plan, as needed, to strengthen your portfolio management effectiveness. Evaluate your organization's PPM maturity level in more depth by using “IT Score for Program & Portfolio Management.”
### Table 1: Action Plan to Improve Your Portfolio Management Practices

**Enlarged table in Appendix**

<table>
<thead>
<tr>
<th>Category</th>
<th>Action</th>
</tr>
</thead>
</table>
| 1. Visibility to Work and Constraints | - Establish a customer-centric intake process that manages expectations well and provides visibility of demand.  
- Put controls in place to ensure that the process (e.g., funding approvals) is followed.  
- Provide an organizational review to enable the re-prioritization of initiatives.  
- Ensure the visibility of work status through a supporting tool or surfacing issues with owners.  
- Identify constraints and interdependencies in getting work done through resources, risk and issue management. |
| 2. Customer-Driven Prioritization     | - Identify customer groups.  
- Establish a steering committee to make investment decisions.  
- Create a quantitative prioritization model, ensuring alignment to strategic goals and customer needs. |
| 3. Adaptive Resource Management       | - Establish a process for allocating resources for all types of work in the portfolio, such as projects, programs and products.  
- Make the process adaptive to easily adjust to changing priorities and needs.  
- Enable dynamic resource reallocation to teams when strategy changes. |
| 4. Continuous Execution of Value      | - Include business capabilities and outcomes in your roadmap, not projects.  
- Track performance and customer value metrics to evaluate portfolio health.  
- Set up an ongoing cadence for collaboration with business stakeholders to curb the delivery of expected value. |
| 5. Change-enabled Culture             | - Establish an approach to change management. You may base this on a new adaptive culture, not just a methodology.  
- Articulate roles and responsibilities for all levels of change. |
| 6. Continuous Value Realization       | - Implement a way to measure value—customer, financial and strategic. Start with minimal data if needed, then iterate.  
- Identify accountable owners for tracking benefits.  
- Establish a feedback loop from actual benefits to learn from incorrect business cases and prioritization assumptions and inform future decisions. |

Source: Gartner (September 2020)

### Evidence


3. “Success in Disruptive Times: Expanding the Value Delivery Landscape to Address the High Cost of Low Performance,” Project Management Institute.
Note 1: Portfolio Management

The PMI defines portfolio management as “centralized management of one or more portfolios that enable executive management to meet organizational goals and objectives through efficient decision making on portfolios, projects, programs and operations.”

Document Revision History

6 Practices for Effective Portfolio Management - 18 April 2019

Recommended by the Author

How PMO and PPM Disciplines Will Change in the Digital Business
Optimize Outcomes With Program Management Across Product Lines
Use Adaptive Governance Styles for Portfolio Management
3 Steps to Managing Distributed Portfolios in an Increasingly Digital World
Use Our Decision Model to Optimize Risk, Value and Cost in Governing Portfolios
How PPM Leaders Can Help Resource Management in Product Teams
Optimize Portfolios Amid Change Using Gartner’s Risk, Value, Cost Model
The PPM Market Now Supports Strategic Portfolio Management and Adaptive Project Management
IT Score for Program & Portfolio Management
Tackle the Program Management Execution Gaps for Strategic Delivery Success
<table>
<thead>
<tr>
<th>Category</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Visibility to Work and Constraints</td>
<td>Establish a customer-centric intake process that manages expectations well and provides visibility of demand.</td>
</tr>
<tr>
<td></td>
<td>Put controls in place to ensure that the process (e.g., funding approvals) is followed.</td>
</tr>
<tr>
<td></td>
<td>Provide an organizationwide view to enable the (re)prioritization of initiatives.</td>
</tr>
<tr>
<td></td>
<td>Ensure the visibility of work status through a supporting tool or ongoing cadence with owners.</td>
</tr>
<tr>
<td></td>
<td>Identify constraints and interdependencies in getting work done through resource, risk and issue.</td>
</tr>
<tr>
<td>2. Customer-Driven Prioritization</td>
<td>Identify customer groups.</td>
</tr>
<tr>
<td></td>
<td>Establish a steering committee to make investment decisions.</td>
</tr>
<tr>
<td></td>
<td>Create a quantitative prioritization model, ensuring alignment to strategic goals and customer needs.</td>
</tr>
<tr>
<td>3. Adaptive Resource Management</td>
<td>Establish a process for allocating resources for all types of work in the portfolio, such as projects, programs and products.</td>
</tr>
<tr>
<td></td>
<td>Make the process adaptive to easily adjust to changing priorities and needs.</td>
</tr>
<tr>
<td></td>
<td>Enable dynamic resource reallocation to teams when strategy changes.</td>
</tr>
<tr>
<td>4. Continuous Execution of Value</td>
<td>Include business capabilities and outcomes in your roadmap, not projects.</td>
</tr>
<tr>
<td></td>
<td>Track performance and customer value metrics to evaluate portfolio health.</td>
</tr>
<tr>
<td></td>
<td>Set up an ongoing cadence for collaboration with business stakeholders to confirm and challenge the delivery of expected value.</td>
</tr>
</tbody>
</table>
## Table 1: Action Plan to Improve Your Portfolio Management Practices

<table>
<thead>
<tr>
<th>Category</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Change-Enabled Culture</td>
<td>- Establish an approach to change management. You may base this on a new adaptive culture, not just a methodology.</td>
</tr>
<tr>
<td></td>
<td>- Articulate roles and responsibilities for all levels of change.</td>
</tr>
<tr>
<td></td>
<td>- Implement a way to measure value — customer, financial and strategic. Start with manual data if needed, then automate.</td>
</tr>
<tr>
<td></td>
<td>- Identify accountable owners for tracking benefits.</td>
</tr>
<tr>
<td></td>
<td>- Establish a feedback loop from actual benefits to learn from incorrect business cases and prioritization assumptions and inform future decisions.</td>
</tr>
</tbody>
</table>

Source: Gartner (September 2020)
Position your organization for success. Explore these additional complimentary resources and tools for the PPM role:

**Research**
Shift PMO Priorities to Support a Digital Enterprise
Learn how PMOs can build strategy-related PPM capabilities.

**Webinar**
Leverage Strategic Portfolio Management to Enable Business Agility
Discover how CIOs and IT leaders can use three key SPM attributes to scale and harvest digital business investments.

**Article**
3 Steps to Start Lean Portfolio Management
Organizations are increasingly looking to agile frameworks to manage costs while delivering value and agility effectively. Learn the three steps to get started.

**Tool**
Gartner BuySmart™
Reduce costs, avoid pitfalls and buy technology with confidence.

Already a client?
Get access to even more resources in your client portal. Log In
Get More.

Get actionable, objective insight to deliver on your most critical priorities. Our expert guidance and tools enable faster, smarter decisions and stronger performance. Contact us to become a client:

**U.S.:** +1 800 213 4848

**International:** +44 (0) 3331 306 809

Become A Client

Learn more about Gartner for IT Leaders
gartner.com/en/information-technology

Stay connected to the latest insights