

BEYOND THE ANNUAL ROUND

The Annual Planning Cycle and the Portfolio It Cannot Govern

Tracing the Structural Forces That Sustain a Rhythm the World Has Already Outgrown



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“The result is a portfolio that is formally planned but informally managed, where the gap between what was approved and what is actually happening widens steadily through the year until the next annual round resets the fiction.”

1. Executive Summary

The annual planning cycle — the twelve-month rhythm of strategy-setting, budgeting, and portfolio approval — remains the dominant model for investment governance in large organisations, despite widespread recognition that it cannot keep pace with the rate of strategic change. This essay examines why. The answer lies not in bureaucratic inertia but in a set of structural forces — financial governance architectures, the political economy of resource allocation, measurement and accountability systems, and a deep organisational need for predictability — that reinforce the annual cadence from multiple directions simultaneously. The result is a portfolio that is formally planned once a year but informally managed throughout it, with an ungoverned gap widening steadily between the approved portfolio and the actual one. The persistence of this pattern reveals something important about the nature of organisational change: that the planning cadence is not a neutral technical choice but a statement about where power sits, and that the gap between intent and reality in transformation is primarily a gap of design, not of knowledge.

2. The Disconnect That Hides in Plain Sight

The portfolio review is three months old and already archaeological. Fourteen initiatives were approved in the January investment round — each justified against a strategy paper that the board endorsed the previous November. By October, two of those initiatives address markets the organisation has quietly exited. Three more depend on a technology platform whose vendor was acquired in April, and whose roadmap is now uncertain. The remaining nine continue on their approved trajectories, burning budget against objectives that nobody has revisited since the business case was signed.

This is not dysfunction. This is the annual planning cycle working exactly as designed.

The question that interests me is not whether continuous portfolio management would be better — in principle, few would argue otherwise. The question is why the annual cycle persists with such tenacity, what structural forces sustain it, and what its persistence reveals about the deeper gap between how organisations talk about strategy and how they actually allocate resources.

3. The Architecture of the Annual Cycle

The annual planning cycle is not, as it is sometimes characterised, a legacy of bureaucratic inertia. It is a carefully constructed architecture that serves multiple masters simultaneously – and therein lies both its resilience and its limitation.

At its foundation, the annual cycle is a financial construct. The fiscal year provides the rhythm: budgets are set, approved, allocated, and reported against on a twelve-month cadence. The board requires annual accounts. Regulators expect annual submissions. Tax authorities work in years. The entire apparatus of corporate governance is built on the assumption that a year is the natural unit of organisational time.

Layered on top of this financial architecture sits the strategic planning process. Strategy reviews, in most organisations I have observed, follow the budget cycle rather than leading it – a sequence that already tells us something important about where real authority lies. The strategy is set in the autumn; the budget translates it into numbers through the winter; the investment committee approves the portfolio in January or February; and the organisation spends the remainder of the year executing what was decided before the year began.

This architecture has a compelling internal logic. It provides predictability: everyone knows when decisions will be made and when resources will be allocated. It provides accountability: spend can be tracked against approved budgets, and variance explained. It provides governance: the board can discharge its fiduciary duties through a structured cycle of approval and review. And it provides a forcing function: the annual round compels the organisation to make choices, to prioritise, to say no – at least once a year.

What it does not provide is responsiveness.

4. The Structural Forces That Sustain the Cycle

Understanding why the annual cycle persists requires looking beyond the obvious financial scaffolding to the less visible forces that reinforce it.

The first is the sunk cost of the planning process itself. In a large organisation, the annual planning round is a substantial undertaking. Business cases are written, challenged, revised. Financial models are built. Dependencies are mapped – or at least sketched. Resource plans are negotiated across divisions. The investment committee sits through days of presentations. By the time the portfolio is approved, the planning process alone may have consumed several hundred person-days across the organisation. The sheer weight of that investment creates resistance to reopening decisions mid-cycle. To revisit the portfolio in June is to implicitly acknowledge that the work done in December was incomplete – and few organisations are comfortable with that admission.

The second force is the budget as contract. Once a budget is set, it becomes a commitment – not merely a plan but a promise. Business unit leaders have made commitments to their teams based on approved funding. Programme managers have hired contractors against annual purchase orders. Procurement has locked in vendor agreements for the year. The budget line, once drawn, creates obligations that cannot be easily unwound. Continuous portfolio management, which implies the possibility of reallocating funds mid-year, threatens this contractual architecture. It introduces uncertainty into an environment that has been painstakingly engineered to minimise it.

The third, and perhaps most powerful, is the political economy of resource allocation. The annual planning round is not merely a rational process of matching investments to strategy. It is a negotiation — sometimes a protracted battle — for resources. Business units compete for capital. Sponsors lobby for their initiatives. Alliances form and dissolve around the investment table. The annual cycle contains this competition within a defined period: it channels political energy into a structured process, after which the decisions are treated as settled and the organisation can turn its attention to delivery. Continuous portfolio management, by contrast, keeps the competition permanently open. Every quarter becomes a potential redistribution. Every review is an opportunity to raid a neighbour's budget. The political cost of permanent openness is higher than most organisations are willing to bear.

The fourth force is measurement and accountability structures. Performance management systems — for individuals, for business units, for programmes — are calibrated to the annual cycle. Objectives are set at the start of the year. Progress is reviewed at mid-year. Performance is assessed at year-end. These rhythms are deeply embedded in human resources processes, in bonus structures, in the psychological contract between the organisation and its people. A shift to continuous portfolio management would require a corresponding shift in how performance is measured and rewarded — a change that reaches far beyond the portfolio office and into territory that most organisations treat as fixed.

5. The Fiction of the Frozen Strategy

The annual cycle rests on an assumption that is increasingly difficult to sustain: that the strategic context will remain sufficiently stable for twelve months to make a January decision still valid in October.

In some industries and some periods, this assumption holds well enough. A utility company operating in a stable regulatory environment, executing a well-understood capital programme, can reasonably plan on an annual cycle. The variables are known; the uncertainties are bounded; the year is a natural planning horizon.

But the organisations that most need portfolio management — those running complex transformation programmes across multiple business units, those operating in markets where competitive dynamics shift quarterly, those implementing technology platforms whose capabilities evolve faster than the business case anticipated — are precisely the ones where the twelve-month assumption fails most visibly.

The pattern I have observed repeatedly is this: the strategy is set in autumn, and by spring it has already moved on. Not formally — the strategy document remains unchanged, filed and approved. But informally, in the conversations that matter, priorities have shifted. A new competitive threat has emerged. A regulatory change has been signalled. A key market has underperformed expectations. The executive team knows that the world has moved, but the portfolio — locked into its January configuration — has not.

What follows is a familiar sequence of workarounds. Urgent initiatives are funded through discretionary budgets that sit outside the formal portfolio. Approved programmes are quietly descope to free up resources for emergent priorities. Business cases are retrospectively amended to align with the new reality. The annual portfolio, on paper, remains intact. In practice, it has been progressively hollowed out by a dozen informal decisions, none of which has been subjected to the governance that the formal process was designed to provide.

The annual cycle, designed to impose discipline on resource allocation, actually undermines it – because the discipline it imposes is the discipline of a world that no longer exists by the time it is applied.

This is the paradox at the heart of the model. The rigour is real, but it is rigour applied to the wrong moment.

6. What Continuous Really Means – and Why It Frightens

The alternative – continuous portfolio management – is often discussed as though it were simply a matter of frequency. Hold quarterly reviews instead of annual ones. Update the business cases every six months. Refresh the strategy at mid-year.

This misunderstands the nature of the shift. Continuous portfolio management is not the annual cycle run four times a year. It is a fundamentally different operating model – one in which the portfolio is treated as a living system rather than a fixed plan, where investment decisions are made as conditions change rather than at predetermined intervals, where resources flow toward demonstrated value rather than being locked into annual allocations.

The implications are profound, and it is worth being honest about why most organisations have not made this transition despite its apparent logic.

Continuous management requires continuous information. The annual cycle can function on the basis of a single intensive data-gathering exercise – the business case round. Continuous management demands a current view of portfolio performance, strategic alignment, resource utilisation, and value delivery. Most organisations do not have this information infrastructure. Their data arrives in monthly reports, compiled manually from project-level spreadsheets, reconciled across incompatible systems, with a lag of weeks between what is actually happening and the numbers on the page. One cannot manage continuously what one can only observe periodically.

Continuous management requires continuous authority. In the annual model, the investment committee convenes once or twice a year and makes binding decisions. In a continuous model, someone must have standing authority to reallocate resources between formal reviews – to pause an initiative that is no longer aligned, to accelerate one that has become urgent, to redirect funds from a programme delivering diminishing returns to one that has demonstrated unexpected value. This authority must be both formally granted and culturally accepted. The few organisations I have seen attempt this have struggled with both: the formal mandate is unclear, and the cultural norm remains that an approved budget is a settled matter.

*“The cadence of planning is not a neutral technical choice; it is
a statement about who decides and when.”*

Most fundamentally, continuous management requires a different relationship with uncertainty. The annual cycle offers the comfort of a decision made and settled. For twelve months, the organisation can operate as though it knows what it is doing and why.

Continuous management offers no such comfort. It asks the organisation to live with the permanent possibility that today's priorities may not be tomorrow's — that the programme approved last month may be redirected next month, not because it has failed but because something more important has emerged. This is psychologically demanding, and the annual cycle persists partly because it meets a deep organisational need for stability and predictability that continuous management cannot satisfy.

7. The Ungoverned Space Between

The honest assessment — and it is one I find myself returning to — is that neither model works cleanly in the organisations I observe.

The annual cycle cannot govern a portfolio that operates in a world that changes faster than once a year. Its rigidity creates the workarounds, the shadow portfolios, the informal reallocations that subvert the very governance it was designed to provide. But continuous portfolio management, in its full expression, demands capabilities that most organisations do not possess and a tolerance for ambiguity that most organisational cultures cannot sustain.

What we see in practice is neither the annual cycle nor continuous management but something that has emerged between them — rarely by design. The annual round sets the broad shape of the portfolio. Quarterly reviews provide checkpoints where adjustments can be made, though the scope of those adjustments is typically modest and politically constrained. And between reviews, the real decisions are made informally — in corridors, in executive committees, in one-to-one conversations between sponsors and the finance director — outside the portfolio governance that was supposed to contain them.

This space between the two models is where the real work of portfolio management happens, and it is almost entirely ungoverned. The annual process provides the formal architecture; the informal decisions provide the responsiveness the architecture lacks; but nobody has designed the mechanism that connects them. The result is a portfolio that is formally planned but informally managed, where the gap between what was approved and what is actually happening widens steadily through the year until the next annual round resets the fiction.

The portfolio office, caught between these two realities, ends up maintaining two views: the official portfolio — the one reported to the board, the one tracked against the annual plan — and the actual portfolio, understood informally but documented nowhere. The distance between them is the measure of how far the annual cycle has drifted from the world it was supposed to govern.

8. What the Persistence Tells Us

The endurance of the annual planning cycle, despite its well-understood limitations, tells us something important about the nature of organisational change — something that those of us who work in portfolio management and transformation would do well to take seriously.

It tells us that structural forces trump rational argument. Every portfolio manager understands that annual planning is insufficient. The case for greater responsiveness is intellectually unanswerable. Yet the annual cycle persists, because the forces that sustain it — financial governance, political economy, measurement systems, the need for

psychological stability — are structural, deeply embedded, and mutually reinforcing. They cannot be overcome by a better argument or a more compelling framework. They can only be overcome by redesigning the structures themselves, and that redesign touches every part of the organisation from the boardroom to the project team.

It tells us that the planning cadence reveals where power actually sits. In an organisation where the annual budget cycle drives portfolio decisions, power sits with finance — not with strategy, not with the portfolio office, not with the business units that must live with the consequences of decisions made nine months ago. Changing the cadence means changing the power structure, and power structures do not yield to good intentions.

And it tells us that the gap between intent and reality in transformation is not primarily a gap of knowledge but a gap of organisational design. Organisations know that their planning cycles are too slow. They know that their portfolios drift from strategy between annual rounds. They know that informal decisions fill the governance vacuum. What they lack is not the diagnosis but the organisational architecture — the information systems, the authority structures, the cultural norms, the performance frameworks — that would make a different approach workable in practice.

This is perhaps the most important lesson. The annual planning cycle is not a problem to be solved by portfolio management reform alone. It is a symptom of a deeper organisational design — one in which the rhythms of financial governance, the structures of political negotiation, and the human need for predictability have been optimised for a world that changes slowly. The challenge facing the profession is not to abolish the annual cycle but to build, alongside it and within its constraints, the mechanisms that allow the portfolio to respond to the world as it actually is — imperfect, uncertain, and changing faster than any annual plan can accommodate.

Whether we will develop those mechanisms — whether the discipline of portfolio management can mature from a planning exercise conducted once a year into a genuine, continuous management capability — remains open. But the first step is to stop treating the annual cycle as a sufficient answer and to examine, with some honesty, the distance between the portfolio we approved and the portfolio we are actually running.