



BEYOND THE BUSINESS CASE

The Digital Portfolio Is Not a Factory

A Practitioner's Perspective on Investment Governance in the Age of Digital Disruption

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1. The Funding Model Nobody Questions

Most large organisations fund their change portfolios through a mechanism inherited from capital expenditure planning. A business unit identifies a need, quantifies the expected return, builds a case, and submits it to an investment board. The board evaluates a set of competing proposals, ranks them by projected net present value or internal rate of return, and allocates budget to those that clear the threshold. It is a process designed for predictability — and for decades, it worked well enough.

The problem is that digital investments do not behave like factory investments. A factory has a known construction cost, a calculable output rate, and a demand curve that can be modelled with reasonable confidence. A digital initiative — whether it is a new customer channel, a data platform, or an experiment in mobile commerce — operates under conditions of profound uncertainty. The cost of building it may be estimable, but the value it generates depends on adoption, on behaviour change, on competitive response, and on a dozen variables that no spreadsheet can credibly forecast at the point of commitment.

Yet the governance framework insists on the spreadsheet. And so organisations across every sector are asking digital teams to provide five-year discounted cash flow projections for initiatives whose entire value proposition may pivot within six months of launch.

2. Why the Traditional Model Persists

The durability of the traditional business case is not a mystery. It serves several purposes that have nothing to do with accuracy.

The business case is not a prediction tool. It is a political document — a mechanism for securing permission, distributing accountability, and creating the illusion of control over an inherently uncertain future.

First, it provides accountability cover. If an investment fails, the organisation can point to the business case and ask who signed off on the numbers. This is governance as retrospective blame allocation, not as forward-looking decision-making. But it is deeply embedded in how boards and audit committees operate, particularly in regulated industries where the Financial Conduct Authority or the Prudential Regulation Authority expects evidence of rigorous investment oversight.

Second, it creates comparability. When every proposal is expressed in the same financial language — NPV, IRR, payback period — the investment committee can rank them side by side. The fact that this comparability is largely fictional, because the confidence intervals around a digital initiative's returns are orders of magnitude wider than those around a property lease or a core banking system upgrade, is a truth the process is not designed to surface.

Third, it satisfies the annual planning cycle. Budgets are set in October, approved in December, and allocated in January. The business case is the ticket into that cycle. Initiatives that cannot produce one by the deadline do not get funded — regardless of their strategic importance. This creates a structural bias toward investments that are easy to quantify over those that are important but uncertain.

3. What Digital Investments Actually Require

The venture capital industry solved this problem decades ago. When Sequoia or Andreessen Horowitz evaluates an early-stage company, it does not ask for a five-year discounted cash flow model. It asks a different set of questions entirely: Is the market real? Is the team capable? Can we learn fast enough to find product-market fit before the money runs out? And crucially, it stages its investment — small amounts at first, with further tranches conditional on evidence of progress.

This is not reckless. It is disciplined. But it is a discipline built for uncertainty, not for predictability.

Large organisations are beginning to face the same conditions that venture investors have always operated in. The digitisation of customer channels, the emergence of big data as a competitive weapon, the shift toward platform-based business models — these are not incremental improvements to existing operations. They are bets on new capabilities whose returns cannot be known in advance.

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What digital investments require is a funding model that acknowledges this reality. The core principles are not complicated, but they run against the grain of how most portfolio governance operates today:

- Stage-gate funding rather than upfront commitment. Allocate a small amount to validate the hypothesis. If evidence supports continuation, release the next tranche. If not, stop — without the stigma of failure that currently attaches to any initiative that does not deliver its original business case.
- Outcome metrics rather than financial projections. Measure what matters at each stage — user adoption, engagement velocity, operational cost displacement — rather than demanding a P&L; forecast that everyone knows is fictional.
- Portfolio-level risk tolerance rather than project-level certainty. Accept that individual digital investments will fail. Design the portfolio so that the winners more than compensate for the losers. This is standard practice in venture portfolios and in pharmaceutical R&D; pipelines. It is almost unheard of in enterprise IT investment governance.
- Time horizons matched to learning cycles, not budget cycles. Digital initiatives operate in weeks and months, not fiscal years. A funding model that releases budget annually and reviews quarterly is too slow to support the pace of digital experimentation.

4. The Governance Gap

The difficulty is not intellectual. Most senior leaders, when the argument is put plainly, agree that digital investments are different and that the funding model should reflect that difference. The difficulty is structural.

4.1 The Board's Comfort Zone

Investment committees are composed of people who have spent their careers evaluating proposals in financial terms. Asking them to approve an initiative on the basis of a hypothesis, a set of learning objectives, and a stage-gate funding plan is asking them to operate outside their comfort zone. It requires a different vocabulary, a different risk framework, and a different definition of what constitutes a sound investment decision.

Some organisations are addressing this by creating separate governance tracks for digital initiatives — a fast-track approval process with lower thresholds, lighter documentation, and delegated authority. This helps at the margins, but it risks creating a two-tier system in which digital investments are seen as less rigorous, less scrutinised, and ultimately less legitimate than traditional ones.

4.2 The Finance Function's Role

Finance teams are the custodians of the business case process. They design the templates, set the hurdle rates, and validate the assumptions. In most organisations, the finance function has not yet adapted its tools to accommodate digital investment characteristics. The templates still demand five-year projections. The hurdle rates still assume predictable cash flows. The post-investment review process still judges success against the original case, rather than against what was learned.

This is not a criticism of finance professionals — it reflects the fact that the frameworks they were trained in, from management accounting to capital budgeting theory, were built for a world of tangible assets and forecastable returns. Adapting those frameworks for a world of intangible value creation, network effects, and option-value thinking is genuinely difficult work that most organisations have barely begun.

4.3 The Cultural Dimension

Perhaps the deepest barrier is cultural. The traditional business case embodies a worldview in which good management means eliminating uncertainty. The digital portfolio demands a worldview in which good management means navigating uncertainty — placing smart bets, learning fast, and reallocating resources as evidence accumulates.

These are fundamentally different orientations, and they create friction at every level of the organisation. Programme managers trained to deliver to plan resist the ambiguity of iterative delivery. Sponsors who committed to a specific return feel exposed when the goalposts move. Audit functions struggle to assess whether an initiative that delivered something other than what was originally proposed has succeeded or failed.

5. A Practical Starting Point

No organisation will move from traditional business case governance to venture-style portfolio management overnight. The shift is too large and the institutional resistance too deep. But there are practical steps that can begin to close the gap.

Traditional Approach	Digital Portfolio Approach
Full business case before funding	Hypothesis and learning plan before first tranche
Five-year NPV/IRR projection	Stage-gate milestones with evidence thresholds
Annual budget allocation	Rolling quarterly reallocation based on portfolio performance
Success = delivered to original case	Success = validated learning, whether positive or negative
Failure is stigmatised	Stopping early is celebrated as good capital discipline

The first step is to ring-fence a portion of the portfolio budget — perhaps ten to fifteen per cent — for digital investments governed under different rules. This creates space for experimentation without dismantling the existing governance framework. The ring-fenced budget operates with stage-gate funding, outcome-based metrics, and a portfolio-level success criterion rather than a project-level one.

The second step is to educate the investment committee. Not a one-off presentation, but a sustained programme of exposure to how venture-style investment decisions are made, how stage-gate governance works in practice, and how to read the leading indicators that replace financial projections in a digital context.

The third step is to reform the post-investment review process. Stop asking whether the initiative delivered the returns in the original business case. Start asking what was learned, what was validated, what was invalidated, and whether the portfolio is better positioned as a result. This single change — redefining what success looks like — does more to shift organisational behaviour than any amount of process redesign.

6. The Cost of Inaction

Organisations that continue to fund digital initiatives through traditional business case governance will not stop investing in digital. They will simply invest badly. They will over-fund initiatives that produce impressive spreadsheets and under-fund those that address genuine strategic uncertainty. They will penalise teams that discover their hypothesis was wrong — which is the most valuable outcome an experiment can produce — and reward teams that game the numbers to protect their funding.

The digital portfolio cannot be funded like a factory. The organisations that recognise this earliest will build the governance capability to invest intelligently under uncertainty. Those that do not will find themselves outpaced by competitors who learned to place better bets — not because they had better forecasts, but because they built better systems for learning.