BEYOND THE PLANNING SEASON

The Plan That Expires on Contact — Why the Annual Cycle Cannot Govern a Living Portfolio

How the budget calendar quietly became the portfolio's decision engine — and what it would take to manage investment at the speed the business actually moves

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1. Executive Summary

Most organisations do not decide their portfolio. They schedule it. Once a year, in a season everyone recognises and few enjoy, the coming twelve months of discretionary investment are argued over, packed into a plan, and signed off — and for the rest of the year that plan is defended rather than revisited. The calendar, not the strategy, has quietly become the governing mechanism of the portfolio.

This essay is an attempt to understand how that came to pass, and why it endures even among organisations that know better. The annual cycle is an inheritance from financial budgeting and capital planning, where it does honest and necessary work. It was borrowed, almost without anyone deciding to borrow it, to govern something it was never designed for: a portfolio of change initiatives whose facts move faster than the calendar turns. The consequences are a familiar catalogue — plans obsolete within a quarter, initiatives funded once and then protected regardless of merit, capacity that is never reconciled with the demand the plan creates, and a governance body that waits for next year's round to correct a course everyone can already see is wrong.

I want to take the opposing case seriously, because it is stronger than its critics usually allow. Annual planning imposes discipline, aligns to the rhythm of the board and the capital markets, forces a genuine act of choosing, and makes initiatives comparable on a single page. These are real virtues, and any argument that waves them away has not earned its conclusion. The claim here is narrower and, I hope, harder to dismiss: that we have confused the annual budget with annual portfolio governance, and that the second cannot be conducted at the cadence of the first. Continuous portfolio management is not the abolition of the plan. It is the presence of a standing decision where today there is only an annual event and eleven months of drift.

2. The Season

It is autumn, and the planning season has begun. Anyone who has worked inside a large organisation knows its choreography without being told. The templates go out from finance with a return date attached. Across the business, sponsors assemble their cases —

a page of strategic rationale, a benefits line that has been rounded up to clear the hurdle rate, a cost estimate that has been rounded down for the same reason. The numbers are submitted, challenged, top-sliced, restored after a quiet word, and eventually consolidated into a single document that represents, on paper, the organisation's considered view of what it will build next year. The plan is approved at a board meeting in December. By February, at least one of its central assumptions is already wrong.

I have watched this ritual in more organisations than I can now separate in memory, and the striking thing is how seriously it is taken and how little it governs. The effort is enormous and largely sincere. Sponsors genuinely believe their cases; the challenge process is genuinely rigorous within its own terms. And yet the output is not a set of live decisions but a snapshot — a photograph of the organisation's intentions taken on a particular day in autumn, framed, and hung on the wall for a year, where it fades a little more with each month that the world fails to match it.

The word we use for this document is "the plan", and the word does a great deal of quiet damage. It implies that what follows is execution — that the thinking is done and the year is now a matter of delivery against a settled intent. But a portfolio is not a project. A project can reasonably be planned and then delivered, because its scope is bounded and its logic is largely internal. A portfolio is a claim about the outside world: about which opportunities are worth pursuing, which threats demand a response, where the scarce money and scarcer people should go given everything we currently know. And what we currently know does not hold still for twelve months to suit the budget calendar.

3. An Inheritance from the Ledger

To understand why the calendar governs, it helps to remember where the calendar came from. The annual cycle is not native to portfolio management. It is borrowed, almost in its entirety, from the annual financial budget — and the budget has its own good reasons for being annual that have nothing to do with the management of change.

The budget is annual because the accounts are annual. The financial year is the unit in which performance is reported to shareholders, assessed by analysts, and rewarded or punished by the market. Capital is allocated in an annual envelope because that is the horizon over which the board makes its commitments to the outside world. Tax is annual. The audit is annual. The whole apparatus of external financial accountability turns once a year, and the internal budget turns with it because it must reconcile to it. None of this is foolish; it is the machinery by which a company keeps faith with the people who have lent it money and bought its shares.

The trouble began when this machinery was asked to do a second job. As discretionary investment in change grew — as more of the corporate purse went not to keeping the lights on but to building new capability — the organisation needed some way to decide which changes to fund. The annual budget was already there, already trusted, already the moment when money was allocated. So the portfolio decision was folded into it. The projects competed for their slice of the same annual envelope, on the same annual template, approved in the same annual meeting. It was efficient, and it was a category error, and the two have been difficult to separate ever since.

> *The annual budget is an instrument of financial accountability. It was conscripted into a second role — governing the portfolio of change — for which it has no natural aptitude, and the conscription was so quiet that most organisations have never noticed it happened.*

The reason the error is so durable is that it is invisible. Nobody ever proposed that portfolio decisions should be made once a year and then frozen. That outcome was never chosen; it was inherited, as a side-effect of running the two processes on the same clock. And because it was never chosen, it is never quite examined. The planning season arrives each autumn with the force of a natural event, and the question of whether an annual cadence is the right cadence for governing a living portfolio simply never reaches the agenda.

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4. What the Calendar Does to the Portfolio

Fold portfolio governance into the annual budget and a set of consequences follows with something close to inevitability. They are worth naming individually, because each is usually diagnosed as a local failing — a weak sponsor, a poor estimate, an indecisive committee — when in truth they are the symptoms of a single structural cause.

- The plan expires on contact. The plan is built on the best available view in autumn and is asked to govern until the following autumn. But the facts move. A competitor makes a move in March; a supplier fails in May; the regulatory ground shifts in June; the credit markets turn nervous, as they have this autumn, and the assumptions behind half the business cases quietly cease to hold. The plan cannot absorb any of this. It has no mechanism to. So the organisation either ignores the new facts and executes a plan it knows to be stale, or it works around the plan through off-cycle exceptions that accumulate until the plan and the reality have almost nothing to do with one another.

- Funding once, protecting forever. In an annual model, the decision that matters is the decision to get into the plan. Once an initiative is funded, it is largely safe until the next round — and often beyond it, because stopping something that was approved is an admission that the approval was wrong. The result is the zombie project: the initiative that everyone privately knows should be killed, running on to the year-end because there is no occasion on which to kill it and no appetite to convene one. I have seen a programme continue for seven months after its sponsor had left and its rationale had evaporated, purely because the only body that could stop it was not due to meet on the matter until the next planning cycle.

• Demand without capacity. The annual plan is a list of what the organisation would like to do. It is almost never a reconciliation of that list against what the organisation can actually staff. The scarce specialists — the ones who can integrate the systems, the ones who understand the data — are committed on paper to more initiatives than they can possibly serve, because the plan counts money and forgets people. The overload is discovered in delivery, one missed date at a time, long after the planning season that created it has closed.

• The gaming of the round. When funding is annual and getting in is everything, the planning process stops being an honest exchange of information and becomes a negotiation. Benefits are inflated to clear the hurdle. Costs are shaded down to fit the envelope. Initiatives are bundled so that a weak one travels in the slipstream of a strong one. None of this is fraud; it is the rational behaviour of sponsors who understand that this is their one shot for a year. But it means the very information on which the portfolio is decided is systematically distorted by the annual structure of the decision.

Beneath all four lies a single mismatch, and it is the whole of the argument. The rate at which the portfolio needs to change is not the rate at which the calendar turns. The business moves continuously; the governance moves annually; and the gap between the two is filled by staleness, by protected failure, by hidden overload, and by the quiet dishonesty of the round.

> *"The rate at which a portfolio needs to change is set by the world, not by the financial year. Govern it on an annual clock and you have chosen, in advance, to be wrong for most of the year."*

5. The Case for the Calendar

It would be too easy to leave the argument there, and dishonest, because the annual cycle is not merely an accident that has outstayed its welcome. It does real work, and the strongest version of its defence deserves to be met rather than caricatured.

Begin with discipline. An annual round is a forcing function. It compels the organisation, at least once a year, to look at the whole of its investment in one place, to compare initiatives against one another, and to make an explicit act of choice under a hard constraint. Remove that forcing function and the fear is not continuous governance but continuous avoidance — a portfolio that is never comprehensively examined because there is no moment at which examination is compulsory. The annual deadline, for all its crudeness, makes the organisation choose. That is not nothing; it may be the single most valuable thing the cycle does.

Then there is coherence with the outside world. The board commits to the market in annual terms. Capital is raised and returned on an annual rhythm. If the internal allocation of investment floated free of that rhythm, the organisation would risk losing the thread that connects what it builds to what it has promised its owners it will deliver. The annual cycle keeps the portfolio tethered to the capital plan, and in a climate — such as the one now arriving — where credit is tightening and boards are newly anxious about commitments, that tether is not a bureaucratic nicety. It is how the portfolio stays honest about the money.

And there is comparability. A single annual template, for all that it invites gaming, does put every initiative on the same page in the same terms at the same time. It allows a genuine portfolio view — this against that, all of it against the envelope — that a stream of individual, continuous decisions can easily lose. Decide each initiative on its own merits as it arises and you may fund a series of individually reasonable things that, taken together, exceed any sensible capacity or coherence. The annual round, whatever its faults, forces the total to be considered as a total.

These are serious arguments, and I do not think they can be answered by denying them. They can only be answered by observing what they actually establish. Each of them is an argument for a moment of comprehensive, disciplined, comparative choice tethered to the capital plan. None of them is an argument that this moment should be the only moment — that having chosen in December, the organisation should decline to choose again until the following December regardless of what the intervening year reveals. The defence of the calendar is really a defence of the annual anchor: the yearly reconciliation to the capital envelope, the yearly comprehensive view. It is not, when examined, a defence of annual governance. The error is not the annual budget. The error is the belief that the annual budget is enough.

6. What Continuous Actually Means

If the annual anchor is worth keeping and annual governance is not enough, the question becomes what to add — and here it is easy to reach for the wrong picture. Continuous portfolio management does not mean deciding everything all the time, a governance body in permanent session, a portfolio churned weekly on the strength of every passing rumour. That would be its own pathology: change without conviction, a portfolio with no spine. Continuous does not mean constant. It means responsive — a standing capacity to re-decide when the facts warrant, rather than a fixed appointment with re-decision twelve months away.

What it requires is less a new methodology than a change in where the real decisions live. A few things seem to me essential, and I offer them as a direction of travel rather than a template, because the specifics will differ with the organisation.

1. A standing decision, not a standing report. The organisation already has bodies that meet through the year — portfolio boards, investment committees, the monthly

review. Overwhelmingly they receive the portfolio: they are shown status, and they note it. The shift that matters is to give one such body a real mandate to reallocate — to stop an initiative, to move funding from one to another, to admit a new claim on the money — without waiting for the annual round. The cadence of the meeting matters far less than whether the meeting decides or merely watches.

1. Funding in tranches, not in years. The annual model funds an initiative once, for a year, and thereby removes it from scrutiny for a year. Releasing money in stages against evidence — an idea already familiar from stage-gate thinking, and close in spirit to treating each increment of funding as an option rather than a commitment — keeps every initiative permanently in question. The initiative that was right in December must still be right in March to draw its next tranche. Protection by funding is replaced by re-earning the funding.

1. A live reconciliation of demand and capacity. Continuous governance is impossible without a continuously maintained view of what the organisation can actually staff. This is the least glamorous of the requirements and the most consequential, because it is the one that turns "we would like to do all of this" into "we can do this much, so what shall it be". Without it, every other mechanism decides money it cannot deliver.

1. A rolling horizon. The plan need not be torn up; it needs to roll. A view that extends, say, four quarters ahead and is refreshed every quarter keeps the discipline of a comprehensive look while shedding the fiction that a single autumn snapshot can govern until the next. The annual anchor sets the envelope; the rolling horizon spends it in the light of what is now known rather than what was guessed a year ago.

> *The reform is not to meet more often. It is to make the meetings that already happen capable of deciding — to move the real authority off the annual event and into the standing governance of the year.*

Notice what this does and does not disturb. It keeps the annual anchor: the yearly reconciliation to the capital plan, the yearly comprehensive view, the discipline of the forcing function. It keeps the tether to the board and the market. What it removes is the freeze — the assumption that the choices made in autumn are settled until the following autumn. The calendar remains, but it is demoted from master to servant. It marks the moment the envelope is set; it no longer pretends to govern what happens inside the envelope for the eleven months that follow.

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7. The Cost of the Frozen Year

It is worth being concrete about what the frozen year costs, because the cost is real and it is largely hidden — it does not appear as a line in any report, which is precisely why it persists.

Consider a mid-sized change portfolio with, say, forty million pounds of discretionary investment for the year. Suppose — and this is a conservative figure against what I have observed — that a fifth of that money is committed to initiatives that, by the middle of the year, the organisation privately knows to be failing, mis-scoped, or overtaken by events. Under an annual model, most of that eight million continues to be spent, because the only body that could redirect it is not due to reconsider until the next planning round, and the effort of convening an off-cycle exception is greater than the discomfort of letting the money run. The waste is not dramatic. No one steals it; no single decision squanders it. It drains away quietly, a month at a time, into work that everyone involved has already stopped believing in — and it is invisible precisely because it was all properly approved, in autumn, on the plan.

That is the true price of governing a portfolio by the calendar: not the occasional visible disaster but the steady, sanctioned leakage of money and talent into commitments that the world has already invalidated and the process cannot revisit. Multiply the single portfolio by the number of portfolios in a large organisation, and the annual freeze becomes one of the most expensive habits in corporate life — expensive in a way that never shows up as a failure, because everything was done correctly, on time, according to the plan.

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8. Closing: The Calendar as Servant

There is a deeper reason the annual cycle survives, beneath all the structural ones, and it is the same reason status is easier than decision and reporting easier than choice. The annual plan is comfortable. It converts the unbearable openness of continuous judgement — the standing possibility that any commitment might need to be undone tomorrow — into a single, bounded, survivable ordeal each autumn, after which everyone may rest. To govern continuously is to give up that rest. It is to accept that the portfolio is never settled, that the choosing is never finished, that the question "is this still the right thing to be doing?" has no closing date. That is a genuinely harder way to live, and we should not pretend the resistance to it is merely inertia. Some of it is a reasonable human wish for the year to hold still.

But the world does not hold still, and a portfolio is a promise about the world. The organisations that will manage investment well in the years ahead — years that, if this autumn's tremors are any guide, may demand more agility of the balance sheet than the last few have — will not be the ones with the most elaborate planning templates. They will be the ones that have quietly moved the real decisions off the calendar and into the year: that keep the annual anchor for what it is good for, and refuse to let it govern what it was never built to govern. The plan will still be made each autumn. It will simply stop being mistaken for the management of the portfolio, which happens — or fails to happen — every week of the year in between.