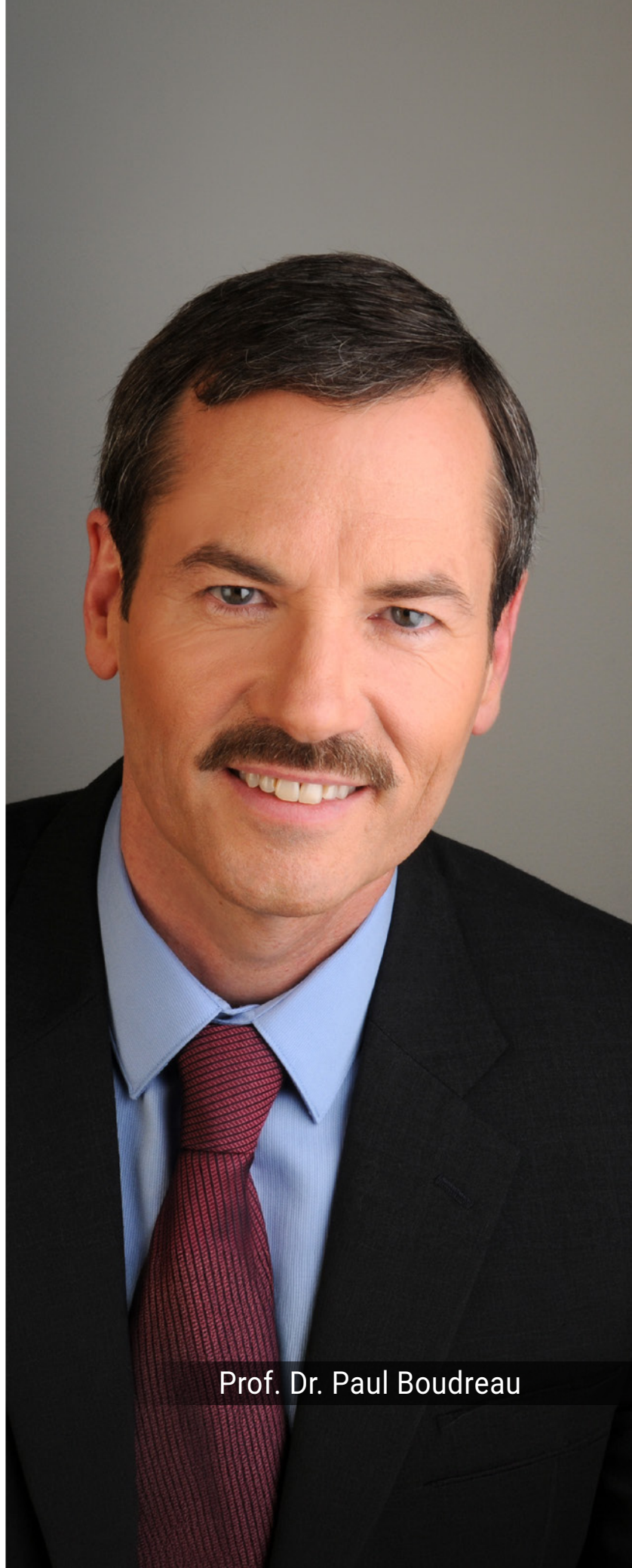




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EXECUTIVE OP-EDS

A NEW PARADIGM FOR IT BUDGETING

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Despite massive investments, many organizations remain frustrated with the performance of their Information Technology (IT) organization. Executives describe IT as slow, costly, and difficult to adapt, even as technology becomes more central to competitive advantage. The result is a persistent gap between what leaders expect from IT and what it delivers. This gap becomes most apparent during the annual budgeting cycle. Each year, organizations carefully plan and prioritize new IT initiatives. Yet when it comes to execution, the results fall short of expectations. The typical response is to intensify planning with even more rigorous frameworks. Paradoxically, the more rigorous the planning becomes, the less effective the outcomes are, creating a recurring cycle of increasing effort with decreasing impact.

Organizations often underestimate the risks of annual planning by overlooking the unintended consequences of seeking

plan accuracy. The drive for precision consumes time, creates inefficiency, and generates unrealistic expectations. Instead of improving IT performance, this obsession with accuracy further reduces contributions and is counterproductive for cash flow management, leaving IT even less capable of delivering on business needs.

To create real impact, organizations must pivot from measuring plan accuracy and output to prioritizing outcomes. This shift transforms IT from an overworked, underperforming service into a strategic partner that drives meaningful business value.

Why Annual IT Budgeting Undermines Value

The standard approach to managing multimillion-dollar IT investments is deceptively simple: determine the total budget, compile a list of proposed initiatives, assign price tags, and prioritize until a “red line” separates funded

projects from those that don’t make the cut. Although the process feels disciplined, it breaks down in three unexpected ways.

Misdirected effort. Determining the overall size of the IT budget is usually straightforward. The real work begins when organizations attempt to define, scope, and cost the upcoming year’s initiatives. This process often involves feasibility analyses, and internal negotiations, frequently engaging large parts of the organization. By the time proposals reach decision-makers, they resemble mini-business cases rather than high-level strategic options. Yet, much of this work is ultimately wasted. In many organizations, 20 to 40 percent of proposed initiatives never make it past the funding threshold, meaning a comparable share of preparation effort produces no value.

Pressure to deliver. The budgeting process also creates incentives that distort behavior. The stronger the pressure on IT to deliver projects on time and on budget, the more cautiously those projects are defined. When approval depends on being predictable, project teams present plans that look safe rather than realistic. To protect themselves against delivery risk, managers build contingencies into budget and duration estimates to avoid missing targets.

This drive for predictability has a detrimental effect. While padded estimates may improve the chances that individual projects hit their targets, they reduce the number of initiatives that can be funded in the first place. The result is a portfolio that appears well-controlled on paper but delivers less overall value. This becomes a portfolio optimized for plan adherence rather than business value.

Illusion of predictability. Annual planning is often justified as a way to create financial

stability, yet it routinely delivers the opposite. Early in the year, spending lags as teams wait for approvals and finalize plans. Delays then push costs into later periods, while unspent budgets trigger a rush to exhaust funds before year-end. Instead of smooth cash flow, organizations experience a spike as projects dramatically increase spending near the end of the year, anticipating the annual budgeting process. That complicates forecasting and undermines financial control.

More importantly, locking decisions into an annual cycle limits responsiveness. New opportunities must wait for the next planning window, regardless of their potential value. The organization gains a sense of certainty, but only by sacrificing flexibility, a capability IT is expected to provide.

The Hidden Costs of the Red Line

The structural flaws in annual IT budgeting do not remain abstract for long, as the consequences of red-line management ripple through the organization, consuming much more time than expected, shaping unrealistic expectations, and moving less impactful ideas forward. These effects are rarely attributed to the budgeting process itself. Instead, they are experienced as inefficiency, disappointment, or missed opportunity. Understanding these hidden costs is critical. They explain why organizations can invest heavily in IT year after year and still feel they deliver little value.

When planning turns into lost productivity. Analysis of proposals represents weeks of effort across project teams and analysts. In one large IT organization, the annual planning process consumed the equivalent of more than a month of productive capacity across project leaders



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and analysts, which is time that could otherwise have been spent delivering value. Instead of increasing clarity, the process absorbs energy that organizations can least afford to lose.

The waste does not stop there. Even initiatives that are prioritized and approved are frequently delayed or canceled later, particularly those authorized during peak planning periods. In fact, retrospective analysis shows that one organization canceled more than a fourth of its prioritized projects, those originally placed above the red line, underscoring how fragile these commitments can be. The result is a system that requires substantial upfront effort, only to reverse decisions once conditions inevitably change.

Unrealistic promises and broken trust.

In addition to allocating resources, the annual planning process creates expectations. Proposals above the red line are treated as commitments, building confidence that promised capabilities will be delivered as planned. These expectations are rarely met. Delays, scope changes, and budget overruns are common. When outcomes fall short of what was promised, the narrative is predictable: IT overcommitted and underdelivered. What is less visible is how the planning process itself encourages unrealistic promises by rewarding precision in estimates long before uncertainty can be resolved.

Defensible projects crowd out valuable ones. Red line prioritization creates a sense of rational choice, but it often favors the most defensible initiatives rather than the most valuable ones. Projects that are legally mandated, tied to infrastructure maintenance, or sponsored by influential stakeholders tend to crowd out more innovative or exploratory investments. Smaller initiatives with uncertain but potentially

high upside are easily displaced by more familiar programs. The prioritization dynamic favors large, defensively priced projects over smaller, faster ones. Promising ideas that could provide early learning or incremental value are pushed below the funding threshold, not because they lack merit, but because the system rewards certainty over impact.

Compounding the problem, annual planning constrains when ideas can be considered. Opportunities that emerge outside the planning



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window are forced to wait, regardless of urgency or potential impact. Over time, the portfolio becomes a reflection of timing and politics rather than strategic intent.

From Projects to Portfolios: Managing IT Through Envelopes

An alternative is to shift from managing individual projects to managing portfolios of related investments through bounded groupings known as envelopes. An envelope is a portion of

the IT budget aligned to a strategic objective such as improving customer experience, increasing operational efficiency, strengthening resilience, or enabling growth in a specific business unit. Instead of approving dozens of individual projects each year, leadership allocates funding to a small number of envelopes and assigns clear accountability for the value they are expected to deliver. Envelopes can be compared to value streams, offering greater agility, an inherent focus on value creation, rapid feedback through incremental steps, and built-in mechanisms for evaluating the impact of changes.

This shift changes the decision question. Rather than asking whether a specific project should be funded, leaders ask whether an envelope is delivering the outcomes it was created to achieve. Prioritization moves from defending individual initiatives to continuously choosing the best use of resources within a strategic domain.

Envelopes also reduce complexity. IT portfolios are difficult to manage not only because of budget constraints, but also because projects differ widely in purpose, risk, and interdependencies. By grouping related initiatives under a common objective, envelopes localize these trade-offs. Decisions that once required escalation to senior leadership can be made closer to the work by leaders who understand the operational realities and strategic intent behind the investments.

Importantly, envelopes do not eliminate financial discipline. They simplify it. Funding is still capped, spending is still tracked, and performance is still measured. What changes is that the unit of management becomes the value delivered by a portfolio. For organizations accustomed to annual project-level approvals,

this may sound like a loss of control. In practice, it produces the opposite. By clarifying where authority sits and what success looks like, envelopes make trade-offs explicit, accelerate decisions, and allow portfolios to evolve as conditions change without reopening the entire budgeting process.

Artificial intelligence (AI) can play a meaningful supporting role by reducing the cost and effort of early-stage planning. Large language models can help teams quickly explore ideas, clarify scope, and test rough assumptions, reducing the effort required to explore proposals that may never be funded. More advanced machine learning approaches can further support portfolio-level insight by identifying patterns across initiatives, highlighting cumulative impact, and improving comparisons among smaller investments. Used this way, AI can help organizations confidently fund more initiatives by increasing project efficiency and enabling faster, more informed prioritization. In organizations that redesign how decisions are made, AI can significantly increase the number of viable options leaders are willing to consider.

Research shows that organizations achieve better results by moving away from rigid, waterfall-style project management and breaking large initiatives into smaller, modular components that support more agile ways of working, faster feedback, closer alignment with business needs, and improved outcomes. Yet these benefits are difficult to realize when budgeting and prioritization remain locked into annual planning cycles. Envelopes bridge this gap. By funding strategic domains rather than fixed project plans, they allow priorities to shift as teams learn, making it possible to start, stop, or redirect initiatives throughout the year. As a

result, organizations become more responsive to shifting customer needs, competitive pressures, and technological change without waiting for the next annual planning cycle.

How Envelopes Change Behavior

Shifting from project-based approvals to envelope-based portfolios does more than simplify budgeting. It fundamentally changes how leaders think, decide, and act around IT investments. By redesigning accountability and incentives, envelopes address many of the predictable failure responses embedded in traditional planning.

Strategy becomes explicit. Creating envelopes forces leadership to make strategic choices visible. Deciding which envelopes exist and which do not is itself a strategic act. Each envelope represents a deliberate commitment to a set of outcomes, whether to improve the customer experience, accelerate growth, or strengthen operational resilience.

Unlike project lists that blur priorities, envelopes clarify them. They signal where decision authority sits and what trade-offs matter. When envelope owners are given clear outcome-oriented mandates, prioritization shifts from negotiating project approvals to actively steering investments toward strategic goals.

Value becomes the metric. Traditional IT governance emphasizes delivering the complete scope, on time, and within the budget. Envelopes replace this narrow focus with a broader question: Is the portfolio delivering the intended impact?

When envelope performance is assessed at the portfolio level, success is no longer tied to any single project. What matters is whether the combined investments achieve their

objectives. This perspective encourages faster learning, earlier course correction, and greater willingness to stop or reshape initiatives that no longer contribute to value.

Similar to financial portfolio management, the performance of the whole matters more than the fate of any individual asset. This shift reduces defensiveness, lowers the stakes of individual project decisions, and keeps attention focused on outcomes rather than sunk costs.

Leaders are developed, not just projects. Assigning envelope ownership creates a robust mechanism for leadership development. Envelope owners must balance competing demands, make difficult trade-offs, and influence stakeholders who depend on funding but do not report to them. Success requires not only analytical skill but judgment, communication, and the ability to say no constructively.

These roles expose leaders to enterprise-level thinking in a way that traditional day-to-day line management or project oversight rarely does. They learn to manage uncertainty within their assigned envelope, allocate scarce resources at the enterprise level, and take responsibility for outcomes rather than activities. Over time, organizations often find that envelope ownership becomes a proving ground for senior leadership, accelerating the development of future executives.

How Leaders Initiate the Change

Adopting envelope-based IT governance does not require a wholesale reorganization or a multi-year transformation. Most organizations can begin by changing a small number of decisions at the top and letting new behaviors cascade naturally.

1. Define a small number of envelopes

Identify five to ten strategic domains that collectively cover the majority of IT investment. These should reflect outcomes the organization genuinely cares about, such as customer experience, operational efficiency, resilience, or digital growth, rather than existing organizational charts.

2. Assign clear ownership and authority

Each envelope should have a single senior owner accountable for the value it delivers. This role must include fundamental decision rights, including the ability to prioritize, stop, or redirect initiatives within the envelope without constant escalation. Accountability without authority will simply recreate the bottlenecks of annual planning.

3. Allocate budgets top-down, not project by project

Instead of approving individual initiatives, allocate funding to envelopes based on

strategic priorities and past performance. Only exceptionally large investments need separate approval. This removes the incentive to over-specify projects early and preserves flexibility as conditions change.

4. Review performance on impact, not plan adherence

Envelope reviews should focus on outcomes achieved and learning generated, not on whether individual projects matched their original estimates. This encourages honest reassessment, faster course correction, and more disciplined and impactful use of resources over time.

5. Reallocate based on results

Envelopes that consistently deliver value should earn increased funding, while those that underperform should be reduced. Capital must not only precede impact but also follow it: reward success with greater investment and scale back where results fall short.



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Why This Approach is Effective

These steps work in both traditional and agile environments because they shift the unit of management from projects to outcomes. Rather than asking teams to predict the future with ever greater precision, leaders create structures that allow priorities to evolve as reality unfolds. Most importantly, this approach restores trust. IT is no longer judged by its ability to hit estimates set months in advance, but by its contribution to results that matter to the business.

Conclusion: Reclaiming IT's Strategic Role

For many organizations, dissatisfaction with IT is treated as a delivery problem. In reality, it is often a decision problem that is rooted in how investments are planned, prioritized, and governed. Annual budgeting creates the appearance of control, but at the cost of flexibility, realism, efficiency, and impact. Moving from project-level approvals to envelope-based portfolios does not require better forecasts or more disciplined execution. It requires a shift in perspective, from managing commitments to managing outcomes. By promoting strategic intent, placing authority closer to the work, and measuring success by value delivered rather than plans followed, leaders can transform IT from a constrained service function into a strategic partner.

Organizations that continue to rely on annual planning will keep asking IT to deliver agility through rigid processes. Those who redesign how decisions are made will discover that the constraint was never technology. It was governance. 🧐