



Capital allocation beyond the balance sheet

Board oversight in a new investment era

Board Leadership Center (India)



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Capital allocation has traditionally focused on deploying capital to opportunities expected to generate attractive returns while advancing strategic objectives. That premise still holds, but the investment landscape is changing. A growing share of investment is directed towards Artificial Intelligence (AI), data, software and other intangible capabilities, while geopolitical, technological, regulatory and customer shifts are shortening the life of many investment assumptions.

As a result, the board's challenge is evolving. It is no longer only about approving investments or selecting the right opportunities upfront. It is increasingly about determining whether the assumptions behind those investments remain valid, whether value is being realised, and whether capital should continue to earn its place as circumstances change.

USD500- 600 Billion¹

AI-led GDP
opportunity for
India by 2035

The board's capital allocation challenge is shifting from deciding where capital should go to determining whether capital continues to deserve to stay where it has been deployed.

Emerging trends reshaping capital allocation

The rise of intangible and AI-led investment:

- 1 Investment is increasingly moving towards intangible assets such as AI, data, software and digital capabilities, where value is less visible and often realized over time. Boards therefore need to look beyond spend to understand the capabilities being built, the evidence supporting continued investment, and their path to economic value

Investment assumptions are less durable:

- 2 Geopolitical, regulatory, technological and customer shifts can change an investment's economics well before its business case has run its course. The challenge isn't only forecasting accurately upfront, but recognising when those assumptions no longer hold

Capital allocation is becoming more dynamic:

- 3 The traditional annual budgeting cycle can create a natural bias towards continuity. In a less predictable environment, capital allocation increasingly resembles active portfolio management. Boards and management may need to rebalance investment priorities as new opportunities emerge, risks evolve or strategic priorities change

Value creation is harder to observe:

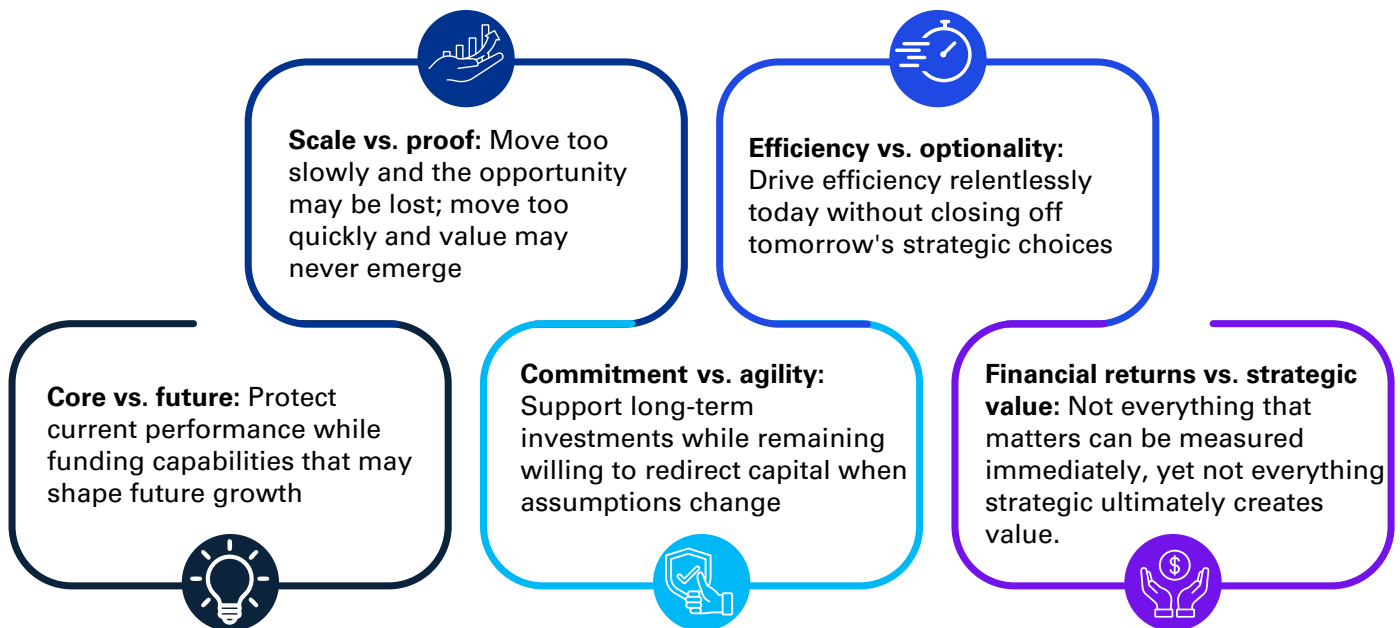
- 4 Financial returns still matter, but AI, data and digital investments often create value through productivity, innovation, customer experience, resilience and future strategic choices well before it shows up financially.

¹ AI for Viksit Bharat: The opportunity for Accelerated Economic Growth, NITI Aayog, September 2025

Traditional capital allocation relied heavily on lagging indicators such as returns, cash generation and realised benefits. These remain important, but they often tell boards whether value has been created only after strategic options have narrowed. As investment shifts toward AI, digital capabilities and other intangibles, boards increasingly need visibility into forward indicators that signal whether value is likely to emerge. Adoption levels, capability development, customer engagement, operational readiness and early evidence of commercial traction can provide earlier insight into whether investment assumptions remain valid. Effective oversight requires balancing both perspectives, not relying exclusively on historical outcomes.

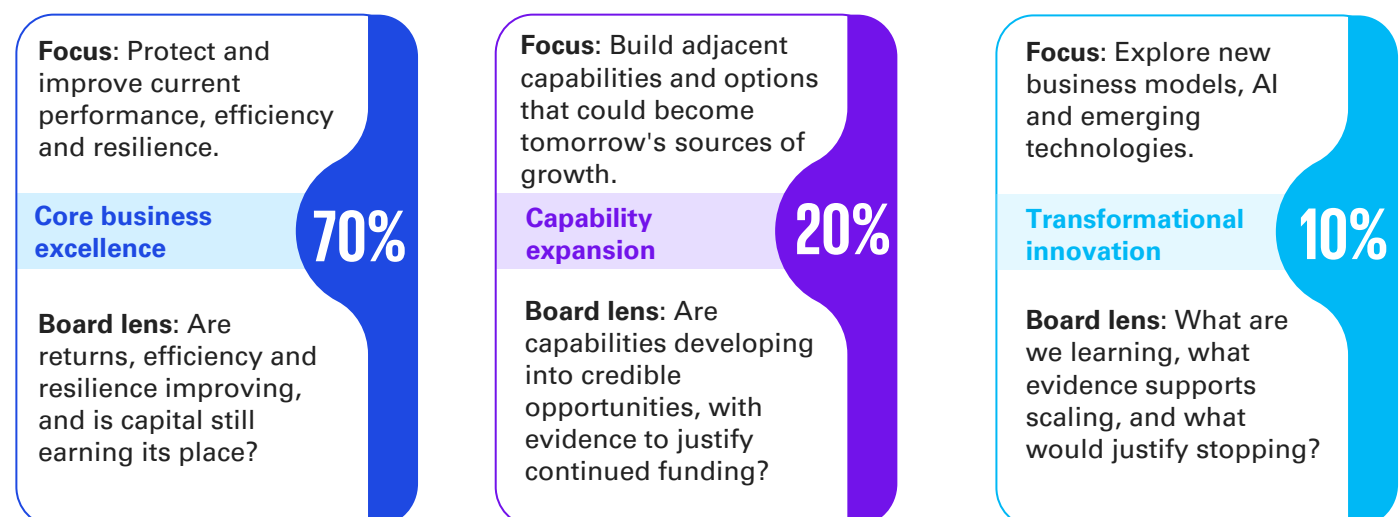
The tensions boards are navigating

As investment patterns evolve, capital allocation increasingly involves balancing competing priorities rather than optimising a single financial metric.



Balancing capital allocation priorities

In a more dynamic environment, portfolio composition becomes as important as individual investment decisions. Boards increasingly need to distinguish between investments aimed at long-term growth and steering the strategic direction of the company, and those intended to improve near-term performance and address operational opportunities or challenges. This distinction matters because the metrics, risks and governance approaches differ. While portfolio frameworks such as 70:20:10 are often better suited to strategic investments, tactical initiatives may benefit from pilots, sandboxes and fail-fast experimentation before broader capital commitments.



The balance matters, but so does the way each part of the portfolio is governed.

Aligning governance to investment uncertainty

Different investments carry different levels of predictability, complexity and uncertainty. In predictable environments, established governance processes work well. As uncertainty increases, boards require more adaptive oversight, shorter decision cycles and greater emphasis on learning before committing additional capital. Governance should therefore reflect the nature of the investment rather than applying a single oversight model to every decision.

The lens below aligns oversight with the nature of the investment.

Nature of investment	Governance posture	Evidence to track	Board oversight focus
Established capacity expansion, maintenance capex, proven programmes	Standard approval; delegated within approved thresholds	Returns, cost, cash generation and realised benefits	Challenge the business case; intervene when performance or assumptions move outside tolerance
Complicated ERP transformation, Merger and acquisition (M&A) integration, large infrastructure	Expert review with staged approval at major milestones	Milestone delivery, cost, scope, operational readiness and benefits realisation	Challenge delivery confidence and remaining exposure before further capital is committed
Emerging AI and GenAI deployment, new digital ventures	Capital allocated in stages, enabling periodic reassessment as evidence emerges	Evidence of adoption, feasibility, capability building, and early evidence of economic or commercial value	Determine whether evidence supports scaling, pausing or redirecting capital
Disruptive/chaotic cyber incident, regulatory shock, geopolitical disruption	Pre-authorised rapid response capital and delegated crisis authority, subject to subsequent review	Operational, liquidity, resilience and risk signals	Ensure authority and resources are available at speed; review deployment afterwards
Ambiguous volatile tariff regimes, signals not yet legible	Limit new commitments while uncertainty is assessed and critical signals become clearer	Emerging strategic, market, regulatory and operational signals	Challenge premature commitment until the situation becomes sufficiently clear.

Stay the course or change direction?

A board may approve a multi-year investment with funding linked to milestones. As conditions evolve, evidence may begin to challenge the assumptions that originally supported the investment. The dilemma is whether to continue committing capital in the hope of protecting past investment or to redirect resources elsewhere. The focus should not be on capital already spent, but on whether the next capital decision remains justified by current evidence and future value potential. Techniques such as scenario planning, sensitivity analysis, vulnerability assessment and stress testing can help boards test the investment thesis, challenge assumptions and determine whether continued investment remains warranted.



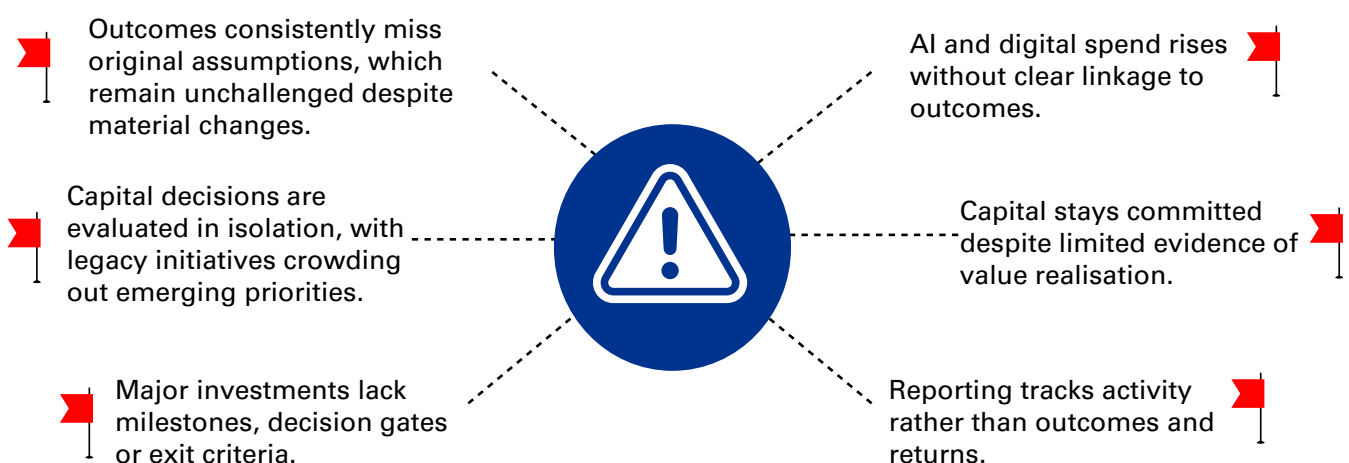
When the investment should be reassessed

Many investment is approved on the basis of assumptions about economics, strategy, delivery and value creation. As circumstances evolve, those assumptions may strengthen, weaken or become invalid altogether. Effective capital allocation therefore requires periodic reassessment, not simply monitoring whether a project remains on schedule. For material investments, the conditions that would justify continued funding, reassessment, redirection or exit should be defined from the outset.

What may change	What the board should consider	Potential capital response
Economics	Returns, cash generation, costs or other key assumptions move materially from the approved case.	Continue, reassess or reduce further commitment.
Strategic rationale	The investment becomes less relevant to strategy, or another opportunity offers greater strategic value.	Redirect capital where appropriate.
Delivery	Critical milestones, capability requirements or expected benefits are not being achieved.	Hold further commitment pending reassessment.
Evidence	New evidence materially strengthens or weakens the prospects of achieving the intended outcome.	Scale, continue, pause or redirect.
Investment thesis	The fundamental assumptions supporting the investment are no longer credible.	Exit.

These reassessment triggers should be established before capital is committed, not after performance has deteriorated. The objective is to ensure that future allocation decisions reflect the strength of the current investment thesis rather than the capital already invested. Capital should remain where value is expected to be created, not simply where capital has historically been deployed.

Red flags: Indicators that the capital allocation framework may require review



When the evidence meet judgement

Even the most robust investment framework, portfolio approach or reassessment process is only as effective as the information and dialogue that supports it. Effective capital allocation requires information symmetry between the board and management, enabling assumptions, risks and emerging evidence to be assessed objectively as circumstances evolve. It also requires an environment where concerns are raised early, assumptions are challenged constructively and difficult decisions can be taken when warranted by the evidence.

In an environment where investment assumptions are becoming less durable, transparency and constructive challenge may be as important as the investment analysis itself.

Key consideration for boards

- 01** If the assumptions supporting a major investment changed today, would we make the same investment again?
- 02** How quickly could we reallocate capital if market conditions or strategic priorities changed?
- 03** Are legacy commitments constraining our ability to fund emerging sources of long-term value?
- 04** Do our dashboards show whether investments are creating value, or primarily whether projects are being delivered?
- 05** Where are we continuing to invest because the thesis remains compelling, and where are we continuing because stopping is difficult?
- 06** Do we have sufficient portfolio-level visibility into overexposure to particular investments, interdependencies and competing uses of capital?



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