OCTANT ADVISORY

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WHITE PAPER

Before You Approve the 2027 AI Budget

What to require from every AI funding request before the budget is committed.

A funding review for CEOs, CFOs and boards: how to test the business result, the full cost and the executive commitments behind each AI proposal.

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EXECUTIVE SUMMARY

An AI proposal can promise a credible improvement and still depend on commitments no executive has secured

For leadership teams preparing 2027 budgets, an AI proposal may promise a credible operational improvement yet depend on commitments no executive has secured. The benefit may require changes to staffing, workflows, data or customer delivery across several functions. A budget review needs to establish whether the organization can make those changes and who has the authority to resolve competing priorities.

> OUR RECOMMENDATION
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> *We recommend that each material request identify the business result, the executive accountable for it, the full cost and the evidence required for further funding.*
>
> Ask affected leaders to confirm their commitments and examine any conflicting accounts of progress. Where uncertainty remains, fund a test only if resolving it could support a worthwhile investment.

THE EVIDENCE

What the evidence supports

A 2025 study in *The Quarterly Journal of Economics* found that an AI assistant increased customer-support productivity by 15% on average, measured by issues resolved per hour. Results from one tool, company and occupation should not be generalized across AI systems and jobs.[1]

The March 2026 revision of the NBER working paper *Firm Data on AI* covered nearly 6,000 executives across four countries. Across the surveys, 89% reported no productivity impact over the preceding three years; executives expected an average 1.4% increase over the next three, measured as volume of sales per employee.[2] These are reported effects and expectations, not audited financial returns.

These studies examine different outcomes and settings. Neither provides a return assumption for an individual investment.

In a fall 2025 survey of more than 300 CEOs conducted by Chief Executive on behalf of VirtuousAI, only 7% reported a coordinated, company-wide AI strategy with multiple initiatives in place. Fifty-two percent reported being in the pilot phase. Respondents identified barriers relevant to funding decisions: limited AI expertise (86%), integration with existing systems (81%), and data quality and accessibility (65%).[3] These findings support examining the people, systems and data required to deliver a proposal's expected benefits before approving its full budget.

In the budget review, require evidence that connects the proposed tool to a change in operations and then to the expected business result. Faster work may reduce purchased labor, absorb additional demand or improve service. Each outcome requires its own evidence and management decisions before it can support a financial forecast.

THE FUNDING REQUEST

What to require in each funding request

Ask each team for a one-page decision summary, supported by the underlying analysis. Finance should review the economics, and the business owner should confirm the changes needed to deliver the result. Explain why the proposal is preferable to existing tools, process changes without AI or no further investment.

REQUIREMENT	EVIDENCE NEEDED FOR THE DECISION
Business result and owner	The outcome, baseline, target and measurement date; the executive accountable for delivering it. State how the result appears in the function's operating plan.
Benefit and financial effect	The evidence behind the estimate and the action that converts an operational improvement into savings, additional margin or another agreed outcome. Identify benefits that remain unproven.
Full cost and timing	Implementation, integration, data preparation, licenses, usage, training, human review and support. Separate one-time and recurring costs; show internal resource requirements, cash timing and a downside case.
Organizational changes	The changes to roles, workflows, incentives and decision rights; who must approve them; and whether the affected teams have capacity to carry them out.
Dependencies and safeguards	The data, technology and shared services required, their owners and readiness. State the quality, security, legal and operational conditions that must be met before use expands.
Funding and review conditions	The amount requested now, the total expected commitment and the next decision date. Define the evidence for continuing, expanding, changing or stopping the work.
Results to date	For renewals, compare 2026 year-to-date cost and results with the original case and provide a full-year forecast. For new work, identify the test evidence and the assumptions still to be assessed.

Reconcile the benefit with the operating plan

If an initiative claims lower labor cost, the business owner and finance should identify the spending that will change and when. If it claims growth, the plan should explain the demand, delivery capacity and contribution margin that support the forecast. If the benefit is service quality or reduced exposure to risk, state the measure and how management will assess whether it justifies the cost.

Separate released staff capacity from reductions in spending. Record where the capacity will be used, and avoid counting the same hours both as cost savings and as the means to produce additional revenue. Shared platform costs should also be visible once at portfolio level and allocated consistently across the requests they support.

THE FUNDING DECISION

Match the funding decision to the evidence

An experiment, a shared data investment and a proven application require different approval conditions. Applying the same immediate profit test to all three can exclude worthwhile preparatory work. Funding all three on projected benefits leaves too much uncertainty unresolved.

TYPE OF INVESTMENT	BASIS FOR APPROVAL	CONDITION FOR FURTHER FUNDING
Limited experiment	A specific business question, a credible test, an accountable owner, a spending limit and a decision date.	Results meet the agreed performance and quality thresholds, and support an economic case for the next stage.
Shared foundations	Named initiatives that depend on the investment, an accountable owner, a delivery plan and a comparison with workable alternatives.	The foundation is usable by the intended teams, and the dependent initiatives still justify the remaining expenditure.
Deployment or renewal	Evidence from relevant operations, full costs, an agreed benefit plan, acceptable risks and the capacity to implement the required changes.	Results and the updated business case justify the remaining expenditure. Finance and the business owner agree whether to continue, change or stop the work.

For an experiment, agree what the team must learn before deciding whether to expand. For a shared foundation, explain which approved business priorities depend on it. For deployment, test whether results achieved in a limited setting are likely to hold at the proposed scale, including the cost of human review and exceptions.

Review the Change, Grow and Run allocation

Show how the portfolio supports new products or business models (Change), growth in the current business (Grow), and operating performance (Run). Use the allocation to examine whether spending reflects the company's strategy and whether it can support the proposed work.

There is no universal ranking of returns across these categories. A Run initiative may offer an attractive, measurable saving. A Grow initiative may depend on customer demand that has not been demonstrated. A Change initiative may need staged investment over several years. Compare expected benefits, cost, uncertainty and time to results within the company's financial priorities.

At portfolio level, check for duplicate benefits, competing demands on the same people and dependencies that affect several initiatives. A collection of individually plausible requests may exceed the organization's ability to deliver them. The budget should include the people and preparatory work needed, with sequencing that reflects those constraints.

WORKED EXAMPLE

How the review changes a funding decision

> ILLUSTRATIVE EXAMPLE
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> All figures and circumstances below are hypothetical.

A proposal team requests $90,000 for annual AI licenses. Its business case assumes that 20 employees will each save three hours a week for 46 weeks. At a loaded labor cost of $75 an hour, it presents $207,000 in annual savings and a $117,000 net benefit.

The calculation values 2,760 hours of staff capacity. Most of the employees remain on the payroll, so the effect on spending depends on how that capacity is used. The CFO asks the business owner to identify expenditures that can actually be reduced and to complete the cost estimate.

ITEM	REQUEST AS PRESENTED	AFTER REVIEW
Capacity estimate	2,760 hours, valued at $207,000	Estimate retained for testing; hours must be net of review and rework
Financial benefit	$207,000 treated as annual savings	$80,000 in potential annual reductions in overtime and external support
Cost	$90,000 in annual licenses	$100,000 one-time preparation; $110,000 annually for licenses and oversight
Net benefit	$117,000 annually	Negative $130,000 in year one; negative $30,000 annually thereafter
Proposed decision	Approve full deployment	Decline the current case; reconsider only if a credible redesign improves the economics

The revised estimate includes $100,000 for integration, data preparation and training, plus $90,000 in annual licenses and $20,000 in annual oversight. First-year cost is $210,000. Even if the full $80,000 benefit is achieved, it does not cover recurring costs. The investment has no payback under these assumptions.

The business owner would need to identify a lower-cost option or credible additional benefits before requesting a test. Unproven revenue from more proposals or contract wins stays outside the financial estimate. Any redesigned case should include the test cost, a realistic investment horizon and a downside scenario.

A limited test could then address a specific uncertainty that affects approval. Finance and the proposal leader would agree in advance on the required spending reduction, acceptable proposal quality and total cost. The test would measure hours including review and rework, and verify that overtime or external-support spending can fall without harming delivery.

These figures assume a full year of benefits and constant annual costs, without discounting. A later start would worsen the first-year result. Management should withhold deployment funding until a revised case meets the company's financial criteria and the business owner has secured the operational commitments needed to deliver it.

IN PRACTICE

Use the review before the budget is committed

Send the requirements before the budget meeting, allowing time for finance and operating teams to examine the evidence. Ask the CEO, CFO and CIO separately which outcomes the portfolio should support and what would justify further investment. Resolve material differences before evaluating requests.

Decide which requests to approve for deployment, which need a test or preparatory work, and which to decline. Record the amount, owner, conditions and next decision date. Name the person or committee authorized to release further funding under the company's approval rules.

Reserve funding for requests that need more evidence only with clear release conditions and a deadline. Consider competing uses for that money. If conditions are not met, decide whether to revise the work, reallocate the funds or stop.

Schedule reviews before renewals or expansion commitments. Finance and business owners should reconcile results with the approved case. Management can oversee individual initiatives; board reporting should focus on material commitments, significant variances and decisions requiring board attention.

Additional considerations for government contractors

A contractor's review should show how AI costs enter its accounting structure and affect the economics of the work. Costs may be charged directly or allocated indirectly depending on their purpose and the applicable requirements. FAR 31.203 addresses the grouping and allocation of indirect costs.[4] The effect on a rate depends on both the cost pool and the allocation base.

Ask finance to identify the relevant cost treatment and show the expected effect on indirect rates, pricing and margins over the investment period. The analysis should account for contract type and explain where any productivity benefit is retained, passed through or used to support additional work. Separate internal AI spending from customer-funded delivery, and keep forecast business wins distinct from contracted revenue.

When an independent assessment is useful

An independent assessment can help when finance and operating leaders give conflicting accounts of results, or a proposal depends on commitments across several functions. Reviewing documents alongside executive interviews can reveal unsupported assumptions, unclear authority and delivery constraints that a consolidated business case may obscure.

Octant Advisory's AIR-O℠ organizational diagnostic uses executive interviews and evidence review to assess these conditions, including data and technology arrangements. Its assessment and prioritized Transformation Plan identify constraints and executive decisions requiring attention before further funding. Scope and timing depend on the decision date and availability of evidence.

> TALK TO OCTANT
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> Octant is independent of software sales and implementation work. If your team needs an independent assessment before approving its 2027 AI investment, contact us to discuss the decision and whether AIR-O is appropriate.
>
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SOURCES AND RESEARCH NOTES

1. Erik Brynjolfsson, Danielle Li and Lindsey Raymond. Generative AI at Work. *The Quarterly Journal of Economics* 140(2), May 2025, pp. 889–942. The 15% figure is from the published article; earlier working-paper versions reported 14%. Published study

2. Ivan Yotzov and coauthors. Firm Data on AI. NBER Working Paper 34836, February 2026, revised March 2026. See section 4.4 and Figures 10–11. The survey reports executives' assessments and expectations; it does not calculate financial ROI. This is a working paper, not a peer-reviewed journal article. NBER working paper

3. Chief Executive and VirtuousAI. State of AI Adoption in the Mid-Market. Survey conducted in fall 2025 on behalf of VirtuousAI; see PDF pages 4–6 and 11. Findings are CEO self-reports. The report promotes VirtuousAI's platform and does not establish realized financial returns. Survey report

4. Federal Acquisition Regulation 31.203, Indirect costs. The contractor discussion identifies questions for the budget review; cost treatment depends on the applicable contract and accounting requirements. FAR 31.203

The approval framework and recommendations are Octant Advisory's proposed management approach. The research cited above informs the discussion; it does not test or validate this framework. The proposal-team example is illustrative and does not describe an Octant client or an observed outcome.

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