

# Capital Governance Diagnostic



## A Decision-Architecture Tool for Executives

*Related to: The Architecture of Value: From Accounting to Finance Governance*

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### Purpose of This Diagnostic

The Capital Governance Diagnostic is designed to help executive teams surface **structural risks, capital velocity constraints, and governance blind spots** that do not appear in standard financial reporting.

This is **not** a maturity scorecard and **not** an accounting review.

It is a **systems-level diagnostic** that evaluates how effectively capital is governed across time, incentives, and operational reality.

### Use this diagnostic when:

- Profitability looks strong, but liquidity feels tight
  - Growth is consuming cash faster than expected
  - EBITDA and Operating Cash Flow are diverging
  - Capital decisions feel reactive rather than deliberate
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### How to Use This Diagnostic

- Complete collaboratively with Finance, Operations, and Executive Leadership
- Answer based on **actual behavior**, not policy intent
- Flag items that are uncertain or inconsistently applied
- Patterns matter more than individual answers

### Scoring Guidance

- **0** = Not present / unmanaged
  - **1** = Informal / inconsistent
  - **2** = Defined but not enforced
  - **3** = Governed and consistently applied
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## I. Capital Velocity & Liquidity Governance

**Objective:** Assess whether cash moves through the system at a speed sufficient to sustain operations and growth.

1. EBITDA and Operating Cash Flow are reviewed together in executive discussions  
Score: \_\_\_ Notes: \_\_\_\_\_
2. Material changes in DSO, DIO, or DPO trigger leadership action  
Score: \_\_\_ Notes: \_\_\_\_\_
3. The Cash Conversion Cycle is actively managed, not merely reported  
Score: \_\_\_ Notes: \_\_\_\_\_
4. Working capital risks are forecast at least 2–3 quarters ahead  
Score: \_\_\_ Notes: \_\_\_\_\_
5. Liquidity stress is identified *before* payroll or vendor pressure emerges  
Score: \_\_\_ Notes: \_\_\_\_\_

**Velocity Insight**

Where is cash most often trapped inside the system?

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**II. Capital Allocation Discipline (CAPEX vs. OPEX)**

**Objective:** Determine whether capital deployment decisions are governed by return logic rather than reporting optics.

6. Clear criteria exist for CAPEX vs. OPEX classification beyond EBITDA impact  
Score: \_\_\_ Notes: \_\_\_\_\_
7. Capitalized investments are tracked against post-deployment returns  
Score: \_\_\_ Notes: \_\_\_\_\_
8. ROIC or payback horizon informs major investment decisions  
Score: \_\_\_ Notes: \_\_\_\_\_
9. Short-term earnings pressure does not override long-term capital efficiency  
Score: \_\_\_ Notes: \_\_\_\_\_
10. Incentives discourage cosmetic capitalization practices  
Score: \_\_\_ Notes: \_\_\_\_\_

**Allocation Insight**

Which investments are consuming capital without producing velocity?

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**III. Forecasting, Telemetry & Financial Signal Integrity**

**Objective:** Evaluate whether leadership receives timely, decision-grade financial signals.

- 11. Financial close consistently supports timely decision-making  
Score: \_\_\_ Notes: \_\_\_\_\_
- 12. Forecasts are updated dynamically as conditions change  
Score: \_\_\_ Notes: \_\_\_\_\_
- 13. Variance analysis explains *why* outcomes occurred, not just *what* occurred  
Score: \_\_\_ Notes: \_\_\_\_\_
- 14. Cash-flow scenarios are modeled under stress conditions  
Score: \_\_\_ Notes: \_\_\_\_\_
- 15. Financial data is translated into clear operational implications  
Score: \_\_\_ Notes: \_\_\_\_\_

**Signal Insight**

Where does leadership experience delay, noise, or ambiguity?

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**IV. Governance, Incentives & Decision Architecture**

**Objective:** Assess whether governance mechanisms reinforce durable value creation.

- 16. Capital decisions follow a consistent trade-off framework  
Score: \_\_\_ Notes: \_\_\_\_\_
- 17. Incentives align with cash flow, not just revenue or EBITDA  
Score: \_\_\_ Notes: \_\_\_\_\_
- 18. Risk exposure is explicitly discussed before capital commitments  
Score: \_\_\_ Notes: \_\_\_\_\_
- 19. External stakeholders are engaged *before* capital constraints surface  
Score: \_\_\_ Notes: \_\_\_\_\_
- 20. Capital events (funding, windfalls, restructures) trigger governance review  
Score: \_\_\_ Notes: \_\_\_\_\_

**Governance Insight**

Where do incentives unintentionally reward fragility?

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**V. Structural Risk Pattern Recognition**

**Liquidity Lag Zone — Conceptual Model**

Capital is earned at the point of sale, but liquidity is only realized once receivables are collected, inventory turns, and payables are optimally timed.

The gap between these moments is the **Liquidity Lag Zone**—where profitable organizations can still experience cash strain.

### Revenue Earned → [ Liquidity Lag Zone ] → Cash Available

This diagnostic is designed to identify whether capital is becoming trapped inside this zone due to velocity, governance, or incentive failures.

**Objective:** Identify whether the organization is operating inside the Liquidity Lag Zone.

- Budget exists without a multi-year capital model
- Cash pressure emerges without early warning
- Leadership operates in urgency rather than anticipation
- Capital decisions repeat despite suboptimal outcomes
- Risk profile feels restrictive but unclear

### Pattern Insight

Which of these patterns feels most persistent — and why?

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## Interpreting Your Results

### Threshold Guidance (Critical)

If you scored **0 or 1 on more than three items**, your organization is likely operating within the **Liquidity Lag Zone** and is highly susceptible to **structural capital fragility**.

This condition often exists **before** visible distress appears in earnings, covenant pressure, or workforce decisions.

### Common Signal Patterns

- High scores with weak liquidity indicate **incentive misalignment**
- Strong profitability with low velocity scores signals **trapped capital**
- Inconsistent scores across sections suggest **governance fragmentation**

Capital fragility is rarely accidental.

**It is almost always structural.**

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## Next Step: Governance Review

### Digital & Interactive Use (Recommended)

This diagnostic is most effective when completed digitally using a fillable PDF or web-based format that auto-calculates scores and highlights Liquidity Lag Zone exposure in real time.

This diagnostic is most powerful when paired with an executive debrief.

A Governance Review translates these signals into:

- Capital velocity interventions
- Forecasting and telemetry improvements
- Incentive realignment
- Decision-architecture design

**The Diehl Group** works with leadership teams to move beyond reporting and into deliberate capital governance.

→ [Schedule a Governance Review](#)

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