Sengi Business Concepts

Pocket book

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1. Strategic Overview

1.1 Mission

The mission, also known as the mission statement, articulates the organization's purpose by outlining the key activities it performs and the benefits it seeks to provide for its customers.

The mission can change over time, but such changes typically imply a significant shift in an organization's actions and target audience. This often requires substantial pivoting and transformation.

Examples:

- Improve tech employees' effectiveness through high-quality online training.
- Deliver high-quality organic food to customers' doorsteps.

1.2 Vision

The vision, also referred to as a vision statement or destination statement, outlines the goal of the organization. It should depict the desired end state of the organization and the operating environment. In essence, the vision statement describes the organization's definition of success.

While the vision can evolve over time, often becoming more ambitious, the organization should always maintain a clear vision to aspire towards.

Examples:

- Become the biggest player in the online software training space in Europe.
- Become the go-to food ordering service in London.

Sometimes the vision may be an exit through an acquisition; in such cases, this must be clearly stated to facilitate the definition of an appropriate strategy.

1.3 Strategic Approach

The strategic approach is the highest-level description of the organization's strategy, outlining how it aims to fulfil its vision.

Typically, this involves defining the organization's desired market positioning relative to competitors and customers. In cases where the vision involves an exit through an acquisition, the strategic approach should articulate how the organization intends to enhance its market position to increase the likelihood of a successful acquisition.

Examples:

- Differentiate through lowest price and best customer support.
- Differentiate through the best product and superior features.
- Focus on core and differentiating capabilities to increase the acquisition potential by a larger provider of complementary capabilities.

2. Strategic Pillars

A strategic pillar is a fundamental component of a company's overall strategy, providing structure, support, and direction to the organization. It defines a specific area of focus or priority, aligning the efforts of different departments and teams toward a common vision.

Strategic pillars are particularly useful in large organizations, breaking down a complex, holistic strategy into smaller, more manageable parts. Each pillar represents a different aspect of the organization's strategy and is designed to contribute to the achievement of the organization's long-term goals. Examples of strategic pillars might include growth, customer experience, innovation, and efficiency.

Essentially, strategic pillars provide a framework for executing a company's strategy, ensuring that all departments and teams work toward the same goals. By establishing clear priorities and areas of focus, strategic pillars simplify complex strategies, making them more actionable for employees at all levels of the organization.

In summary, to mitigate the risk of defining sub-optimal or irrelevant goals, it is advisable to identify the organization's key strategic pillars and drivers, using them as a framework to classify related goals.

Examples:

If the differentiation strategy is based on delivering superior value to customers, it may translate into providing a superior product and better customer support compared to competitors. Consequently, Product Quality and Customer Support Quality become pillars for the organization's differentiation strategy. For instance, the Product Quality pillar can be utilized to categorize related goals such as:

- Provide superior reporting features,
- Increase product performance to ensure a seamless user experience,
- Provide best-in-class user interface and user experience, and so forth.

Typically, organizations define approximately 4-5 strategic pillars to articulate their strategy. While it is possible, it is uncommon to have more than 5 strategic pillars. Doing so might be a warning sign that the organization lacks focus and is attempting to pursue too many different directions, instead of prioritizing the most strategically relevant concerns.

Examples:

Assuming the differentiation strategy is based on the lowest subscription cost, these are some example strategic pillars with their explanation:

- **Limited offer**: It is unlikely that an organization can maintain a low cost while still offering a large set of features at high quality; differentiation through value and differentiation through price are often mutually exclusive.
- **Operational excellence**: To sustain a low cost for customers, optimizing internal operations and reducing waste become key considerations.
- **Economies of scale**: Generally, if an organization aims to differentiate through price, it should leverage economies of scale where a significant part of production/ operational costs are shared for a large volume of customers.
- **Standardization**: Standardizing as much as possible (internal processes, customer interactions, etc.) allows the organization to scale more efficiently.
- **Automation**: For a cost differentiation strategy, automation makes a lot of sense.

Note: Strategic pillars are not goals. Goals are described with verbs, such as 'Increase profit' or 'Improve product features to exceed the competition,' while Strategic Pillars, on the other hand, are described as nouns, like 'Operational Excellence,' 'Superior Product,' 'Lowest Cost,' etc. Once you identify the strategic pillars supporting your strategy, setting relevant goals becomes straightforward.

3. Drivers

Drivers describe internal and external forces that influence the organization and drive its behaviour.

In the context of strategic planning, drivers, along with strategic pillars, are key factors that shape an organization's direction and decision-making. These drivers, whether internal or external, often arise from stakeholder demands or changes in the market or regulatory environment. Drivers help organizations in identifying critical issues, enabling them to prioritize their strategic initiatives.

Drivers are closely connected to stakeholders, strategic pillars, and goals in the following ways:

- **Stakeholders**: Drivers often originate from the needs and expectations of the organization's stakeholders, including customers, employees, shareholders, and regulators. Understanding the most important drivers helps organizations prioritize their initiatives and allocate resources effectively.
- **Strategic pillars**: Strategic pillars are the core areas of focus that drive the organization's strategy and guide its decision-making. Like strategic pillars, drivers also help determine the areas the organization should focus on to achieve its goals based on the stakeholder expectations, market conditions and regulatory considerations.

- **Goals:** Like strategic pillars, drivers assist organizations in setting specific and achievable goals. For instance, if a key driver is profit, an organization might set a goal to achieve a certain level of profit within a specific timeframe.

Drivers are like strategic pillars in that they both describe key areas of focus and serve as containers for related goals. The primary distinction lies in the origin: strategic pillars derive directly from the organization's strategy (i.e., the differentiation strategy), while drivers are not specific to the organization's strategy. Instead, drivers are specific to the type of organization (e.g., for-profit, non-profit) and its primary industry (e.g., healthcare, transportation, financial services, etc.)

For instance, many for-profit organizations operating in the same industry would be subject to identical market conditions and regulations, resulting in a similar set of drivers (e.g., Profit, Regulatory Compliance). However, these organizations may adopt vastly different strategies - some emphasizing better value, while others prioritize offering a lower price - leading to distinct sets of strategic pillars.

Since drivers are derived from internal or external stakeholder concerns, in contrast to strategic pillars that originate from the organization's strategy, drivers might introduce additional areas of focus such as regulatory compliance, profit, revenue, and market share.

In summary, drivers play a crucial role in shaping an organization's strategy and ensuring that its goals and initiatives align with its overall mission and vision. By carefully considering the drivers that are most important to the organization and its stakeholders, organizations can make informed decisions that support their long-term success.

Examples:

Internal drivers	External drivers
Profit	GDPR compliance
Market share	ISO27001 compliance
Stock price	Legal financial compliance

4. Key Performance Indicators

Key Performance Indicators, or KPIs, are values that measure the performance of key business areas.

While they reside within the operational domain, KPIs are closely associated with strategic elements such as Strategic Pillars and Drivers, offering quantitative measures to assess performance in these critical areas.

Examples:

A company providing an online software service aims to differentiate itself through the quality of its product, having this as differentiating strategic approach. To

numerically define and measure product quality, the company should establish 3-5 KPIs.

If the company identifies areas of underperformance based on these KPIs, they can set goals for improvement. Actionable initiatives, with concrete objectives supporting these goals, can then be planned. Successful completion of these initiatives and achievement of objectives should lead to an improvement in the associated KPI values, serving as a concrete business outcome.

A KPI is defined by a suggestive name, a purpose-explaining description, a formula for calculation, an optional unit of measure (e.g., percent - %), and an optional range with minimum and maximum values.

In our platform, the company can set a target indicating the desired performance level for the KPI. Calculated using the provided formula, the KPI value is updated monthly, ideally meeting or exceeding the set target.

Examples:

KPIs for pillars e.g., Excellent Customer Service	KPIs for drivers e.g., Profit or Valuation
NPS	EBITDA
CSAT	Earnings
	Share price

5. Goals

Goals represent high-level directions for the organization. They are aspirational and stable, expressed qualitatively rather than quantitatively.

For instance, ‘Increase profit’ is a good organizational goal. The organization can continuously strive to increase its profit, but it may never reach a point where it no longer wishes to increase it further. However, it is possible for the organization to increase profits sufficiently to the extent that further increases, while desirable, are no longer a top priority. In essence, goals are aspirational, primarily used to set focus and direction, and cannot truly be considered accomplished.

In contrast, ‘Increase profit by 10% by Q4 2024’ is not a correct goal; it is more likely an objective. A statement like this is quantitatively defined and has a clear timeline. It defines an objective, which, in contrast, to a goal, can be considered achieved.

A goal is a general statement of aspiration, while an objective is a specific, measurable, and time-bound target towards a particular goal.

Goals are typically broader, more long-term and less specific than objectives. For example, a goal might be to ‘become financially secure’ or ‘improve customer satisfaction’. Goals are important because they provide a sense of direction and

purpose, helping align the efforts of individuals and organizations toward a common vision.

Objectives, on the other hand, are specific, quantifiable, and time-bound targets toward a particular goal. For instance, an objective to achieve the goal of ‘financial security’ might be to ‘save $10,000 in the next 12 months’. Objectives break down a goal into smaller, more manageable steps, and offer a clear basis for measuring progress towards the goal.

In summary, goals are general statements of aspiration, while objectives are specific, measurable, and time-bound targets towards those aspirations.

Goals should align with either a Strategic Pillar (to support the realization of the organization's strategy) or a Driver (to address key concerns independent of the strategy).

Because goals support Strategic Pillars or Drivers, they are inherently stable, reflecting the stability of these foundational elements. When goals change it doesn't render the old goals irrelevant; instead, it signifies the shift in the relative priority among goals. In other words, goals express the current focus of the organization.

5.1 Strategic Horizon

The time window within which a specific set of goals captures an organization’s focus is known as the strategic horizon. Since an organization cannot predict when its priorities might change, the strategic horizon does not have a clearly defined end date.

All that an organization can do is describe its current priorities expressed as the current set of goals it wishes to focus on. If, at some point in the future, the organization's priorities change - perhaps because it achieved its current goals satisfactorily - it might choose to focus on a different set of goals, thus starting a new strategic horizon.

The length of a strategic horizon, if defined correctly, typically depends on the nature of the organization, the industry in which it operates, and the type of strategy being pursued, ranging from 3 to 10 years or even more.

Examples:

- Reduce operational costs.
- Increase Netherlands market share.
- Increase profits.
- Establish a foothold in the UK.

6. Business Model Canvas

The Business Model Canvas is a well-known tool for describing the business model of an organization at a high-level, considering multiple perspectives. It provides a comprehensive framework that allows businesses to articulate and visualize key components of their business model, covering aspects such as:

- Key Partners
- Key Activities
- Key Resources
- Value Propositions
- Customer Relationships
- Channels
- Customer Segments
- Cost Structure
- Revenue Streams

The business model should align with the organization's strategic approach and incorporate concrete details based on the components described above. Together, the Strategic Approach, Strategic Pillars and Business Model Canvas provide a comprehensive one-page description of the organization's strategy that can easily be shared and understood by all parties.

6.1 Key Partners

Key Partners represent the external third-party external entities that play a crucial role in an organization's value delivery. These entities can be very diverse, ranging from individuals to organizations and government bodies.

Key Partners may offer various benefits to the organization. For instance, they can contribute to outsourcing certain aspects of the value proposition, provide customer relationships that the organization plans to maintain, or offer channels through which value is delivered. Formally, key partners support or provide different business capabilities necessary for the organization's operations.

When considering partners, it's essential to distinguish them from customers and vendors. The key criteria are that an organization and its partners share a common vision, goals and a definition of success. Additionally, they should have invested stakes in the shared success.

Examples:

If Company A provides a CMS (Content Management System) SaaS (Software as a Service) application to Company B for a monthly payment, then Company A is a vendor for Company B and Company B is a customer of Company A.

However, if Company A and Company B enter into an agreement to offer a shared service to a common customer segment, where Company A provides the CMS solution and Company B offers complimentary services, with profits being shared,

this represents a partnership relationship, rather than a vendor-customer relationship.

To summarize:

- If the 3rd party entity provides you with services against cost, then they are likely a vendor, not a partner.
- If you provide the 3rd party entity with services against cost, then they are likely a customer, not a partner.
- However, if you and the 3rd party entity have an agreement through which you deliver shared services to common customers, then you and the 3rd party entity are likely partners.

6.2 Key Activities

Key Activities represent the core processes that an organization performs on a routine basis according to its strategy, such as Software Delivery, Marketing, etc.

These activities must align with the organization's mission. For instance, if the mission is to provide high-quality organic food to customers' doorsteps, key activities would involve sourcing food ingredients, cooking, and food delivery. Some of these activities are handled directly by the organization, some are outsourced to 3rd parties against payment, and others are provided by partners.

6.3 Value Propositions

Value propositions represent the types of value that the organization plans to deliver to its customers. Some of these value propositions are industry standards which must be provided as basic conditions to operate in the industry, while others serve as differentiators, setting an organization apart from its competitors.

6.4 Customer Relationships

Customer relationships represent the types of relationships that an organization plans to maintain with its customers, including Customer Support, Technical Support, Collaboration, Surveys, etc.

Different customer relationships are often tailored to various customer segments. These relationships may be provided by partners, outsourced to 3rd parties against payment, or managed directly by the organization.

6.5 Key Resources

Key Resources represent the strategic assets necessary for an organization's strategy and business operations. These assets could take diverse forms, including

Intellectual Property, Patents, Know-how, Skills, Funds, Infrastructure, Technology, etc.

Key resources may be internal to the organization, or they may be provided by partners (e.g., specific domain know-how).

6.6 Channels

Channels represent the means through which customers receive the value provided by the organization. In the case of an online business, their online platform serves as a channel. Other companies may have physical goods delivery channels, such as through a partner providing deliveries via trucks. Some organizations might offer in-person business consultancy, making 'In person' another channel.

Different elements of the value proposition might be delivered through various channels to different customer segments. For example, an online business would primarily deliver its value through its online platform (a channel), but it might also provide in-person consultancy (another channel) for larger customers.

6.7 Customer Segments

Customer segments represent the distinct types of customers that the organization aims to service. For instance, an organization may choose to focus on small and medium enterprises (SMEs), as well as large enterprises, resulting in two customer segments.

The definition of customer segments is entirely at the discretion of the organization. Often, a combination of attributes is needed for segmentation, such as size, maturity, industry, etc. It is crucial to have a well-defined structure for customer segments, ensuring that they do not overlap.

6.8 Cost Structure

The cost structure represents the key types of costs incurred by the organization during its business operations. An example of a cost type is salaries. The specific cost type may vary depending on the nature of the business. For instance, for a tech-based organization, infrastructure costs (e.g., for a cloud provider such as AWS) would be another cost type.

6.9 Revenue Streams

Revenue streams represent the means by which the organization generates revenue. For example, in a subscription-based online service, paid subscriptions constitute one revenue stream. If the same organization generates revenue through other avenues, such as offering paid consultancy, then consultancy fees would represent another revenue stream.

These revenue streams can be recurrent, as seen in subscriptions, or one-off, as with onboarding fees.

7. Market Competing Landscape

7.1 Competitive Landscape

The competitive landscape represents the environment in which an organization competes. It includes the organization's key competitors and the specific factors on which they compete, such as product variety, product quality, price, etc.

7.2 Competitors

Competitors are other organizations that offer similar service to the same customer segments. This means that the intended customer segments have choices between the organization and its competitors.

7.3 Competitive Analysis

Competitive Analysis is the practice of assessing the strengths, weaknesses, relative offering types and offering levels of an organization's competitors, with the goal of understanding how the organization ranks against them.

An essential concept in Competitive Analysis is the Competing Factor, a specific attribute potentially influencing a customer's choice between one organization and a competitor. For instance, 'Price' is a competitive factor because potential customers often consider it when choosing between organizations offering the same service.

Identifying competing factors, along with assessing the relative offering levels provided by an organization and its competitors, is a crucial strategic planning exercise for determining how an organization wishes to position itself in the market relative to the competition.

Based on the Value Propositions defined in the Business Model Canvas, some of these Value Propositions can be considered competing factors. Beyond Value Propositions, other elements such as price or services not included in the organization's offerings (not part of its Value Propositions) but provided by competitors can also be viewed as Competing Factors.

For instance, an online SaaS organization might intentionally choose not to provide a mobile app as a channel for accessing its services, opting only for a web-based channel. In this case 'Mobile app' is not a Value Proposition for the organization. However, it can still be a competing factor if competitors offer it, as potential customers might make choices based on the availability of a mobile app when deciding between the organization and its competitors.

Examples: (of competing factors)

- **Mobile app:** The organization and its competitors may or may not offer a mobile app. Those that do may emphasize it differently; for instance, one may choose not to invest as much in mobile app features relative to others.
- **Price**: The organization and its competitors might provide their services at different prices.
- **3rd party integrations:** The organization and its competitors might choose to invest differently in the number of 3rd party integrations they support and into how seamless these integrations are from the customer's perspective.

In our platform, the offering level for individual competing factors is ranked on a scale from 0 to 5 for both the organization and each of its competitors. A ranking of 0 indicates that the specific player does not prioritize this factor at all, while a score of 5 signifies that it's a strategic differentiator, and the player actively invests in it. In essence, 0 means no focus, and 5 means maximum focus on a specific competitive factor.

Competing factors are assessed from the perspective of the potential customer. For example, in the case of price, a score of 0 means the organization is putting less emphasis on keeping the price low (accepting being more expensive than the competition), while a score of 5 indicates that the organization is prioritizing and striving to keep the price as low as possible (aiming to be cheaper than the competition).

Competitive Analysis can be conducted based on the current state of the organization, showcasing how it ranks on various competing factors relative to its competitors. However, from a strategic perspective, competitive analysis should be based on the intended future state of the organization.

For instance, if the strategic approach is 'price differentiation', then 'price' should receive a high ranking as a competing factor, even if the organization currently doesn't offer the lowest price. In other words, if the organization strategically decides to pursue lower prices and focuses on that, then price should receive a high ranking relative to its competitors, even if they prioritize a more sophisticated service offering.

All competitive factors are ranked relative to the competitors rather than in absolute terms.

It's crucial for the organization's strategy to maintain consistency, ensuring that drivers, strategic pillars, and intended offering levels across all competing factors are aligned and in total agreement. For example, if an organization chooses to differentiate through product quality, the number of features, and 3rd party integrations, this focus should be reflected in the emphasis placed on the relevant competing factors. Consequently, it should not be surprising if the organization is positioned as more expensive, thereby ranking lower on the price competing factor.

7.4 Strategic Profile

The Strategic Profile is a chart which visually shows the relative strategic focus placed across the set of competing factors by the organization and its competitors. It is a visual depiction of the competitive landscape.

The Strategic Profile has two views:

- **Competitors**: This view presents all players, including the organization and its competitors, on the same chart with their relative strategic focus across different competing factors. It facilitates discrete comparison between individual competitors in the market.
- **Industry**: This view averages all the competitor offering levels grouped by competing factors and separately displays the organization from its competitors. This allows the organization to promptly assess how its strategic profile differs from the industry average.

The Strategic Profile serves the purpose of enabling the organization to observe how it differentiates from competitors in the industry. It provides the Management Team with the means to verify if the company's market positioning relative to competitors aligns with its strategy. For instance, if the Management Team has adopted a differentiation through price strategy, they would expect the organization's Strategic Profile to closely match the industry in all aspects except price, where the organization should rank significantly higher.

In highly commoditized markets, where services or products are standardized, competitors often differentiate through price, leading to decreased profit margins across the industry. In such cases, innovative approaches to providing additional or unique value can help break away from the standardization, potentially yielding better profit margins. The Strategic Profile can reveal this - if the organization closely resembles its competitors and the industry in all aspects except price, it may prompt the company to explore value-differentiating strategies.

8. Initiatives

A strategic initiative is a focused effort or project aligned with a company's overall strategy, intended to achieve specific goals and objectives. It serves to execute a particular aspect of a company's strategy, and often involves a dedicated team or department responsible for its implementation.

The execution of a strategic initiative typically requires collaboration across multiple departments or business units, working together towards common objectives. This process may involve a significant investment of time, resources and change management.

Strategic initiatives differ from day-to-day operations, as they concentrate on long-term, high-impact objectives, demanding substantial resources and attention. These initiatives are usually directed towards critical areas for the company's success, such as innovation, growth, or efficiency.

Examples of strategic initiatives include launching a new product line, entering a new market, improving customer experience, or implementing a new technology platform. Successful strategic initiatives require careful planning, strong leadership, and effective execution.

In summary, a strategic initiative is a focused effort aligned with a company's overall strategy, designed to achieve specific, high-impact goals and objectives. It serves a means to execute a particular aspect of the company's strategy, requiring dedicated resources and attention.

When proposing an initiative, treat it like a business case, ensuring it clearly describes:

- The goals it intends to progress.
- The participating departments and the milestones each department must execute.
- Timelines for each department to complete their milestones, leading to the projected end date for the initiative.
- Concrete objectives the initiative aims to achieve, and how these align with specific goals.
- Preconditions required for the initiative's success (e.g., resources, budget, skills, people, etc.)
- Potential risks that could compromise the initiative.
- The urgency of the initiative, and if applicable, its deadline.

Initiatives should be adopted by the Management Team after a comprehensive review, considering potential conflicts between multiple initiatives. It's crucial to ensure that all departments involved have been identified and committed to concrete milestones. Since many initiatives require collaboration across multiple departments, failure to recognize this can result in conflicts and the potential failure of some or all initiatives.

Examples:

- Hire customer support representatives.
- Move on-premises technical services to AWS.
- Decentralize customer support across countries.
- Implement customer support quality management.

8.1 Cross-departmental Initiatives

Strategic initiatives often require the collaboration of multiple departments, each responsible for executing department-specific milestones to achieve the initiative's objectives.

When defining an initiative, it's crucial to identify the involved departments and include them in the initiative definition.

In our platform, adding a new participating department automatically creates a ‘Planning’ milestone for that department. This milestone ensures that, once the initiative begins, the department can plan future milestones.

Employees in the department have the flexibility to rename, reschedule, or delete this milestone and add new ones as needed.

Collaboration with the department manager during the initiative definition is essential to plan the expected work. If, at any point, a department realizes they need to be involved, they can add their milestones to the initiative. However, removing all milestones for a specific initiative will result in the department no longer appearing in the list of participating departments for that initiative.

9. Objectives

Objectives are specific and quantitative business outcomes that must be achieved. Effective objectives adhere to the **SMART** criteria:

- **S**pecific: The objective is precise and expressed quantitatively for an easy evaluation of its completion.
- **M**easurable: Progress and completion of the objective can be quantifiably measured.
- **A**chievable: The organization can execute the objective within its resources, budget and current context.
- **R**elevant: The objective aligns with the strategy by supporting a strategic goal.
- **T**ime-bound: The objective has a defined due date.

Objectives serve as business outcomes for initiatives. Upon completion of the initiative, a review of objectives ensures that the intended business outcomes were delivered.

Examples:

- Hire 10 new customer support representatives in the Netherlands.
- Reduce operational costs by 2 FTEs.

Some individuals prefer using the simple past tense when describing objectives, placing emphasis on the desired outcome. It’s important to note that this is a stylistic choice and does not impact the adherence to the **SMART** criteria for the objective. For instance, the preceding example can also be phrased as follows:

- 10 new customer support representatives hired in the Netherlands.

- Operational costs reduced by 2 FTEs.

Note: In our platform, an initiative may have multiple objectives and the due date for all objectives aligns with the expected completion date of the initiative. In cases where certain objectives are deemed urgent, marking the entire initiative as urgent, with a strict deadline is advisable.

9.1 Primary Objectives

Primary objectives are imperative considering the initiative. Upon completion, a thorough review of the objectives is necessary to ascertain whether the intended business outcomes were achieved. If, for instance, a primary objective is not met in terms of delivering the intended business outcomes, the initiative cannot be deemed a success.

Examples:

Let's consider an initiative aimed at supporting the goal of reducing operational costs by implementing certain technical capabilities that cost 100,000 EUR/annum. Since these capabilities end up adding 100,000 EUR/annum to operational costs, then a primary objective should have been to reduce operational cost by at least 100,000 EUR/annum, essentially ensuring that the initiative pays for itself. If the initiative falls short, reducing costs by only 70,000 EUR/annum, the net effect is an increase in total operational costs by 30,000 EUR/annum.

In such a scenario, it is accurate to conclude that the initiative failed to achieve the business goal of reducing operational costs as intended.

Another way of expressing a primary objective could have been to reduce the costs by at least 120,000 EUR/annum, ensuring the initiative pays for itself and reduces the costs by at least some amount – in this case 20,000 EUR/annum. If such an objective was accomplished, the initiative could be considered a success.

9.2 Secondary Objectives

Secondary objectives are considered optional for the initiative to be considered successful. Upon completion, a thorough review of the objectives is necessary to determine if the intended business outcomes were achieved. Importantly, if all the primary objectives are accomplished, the initiative is deemed successful, regardless of how many secondary objectives are met.

Examples:

In the scenario above, if a primary objective were for the initiative to reduce operational cost by at least 100,000 EUR/annum, ensuring that it pays for itself or that it reduces costs by 120,000 EUR/annum, achieving a certain level of net cost

reduction, a secondary objective might aim to reduce costs up to 200,000 EUR/annum.

If the initiative achieves a cost reduction of 150,000 EUR/annum it successfully fulfills its primary objective of reducing cost by at least 120,000 EUR/annum, thereby covering its own expenses. Although it doesn't entirely meet its secondary objective of reducing costs by up to 200,000 EUR/annum, everyone will still consider this initiative a success.

The above examples are intentionally simplified. In practice, achieving the primary objective of merely breaking even might not suffice to consider an initiative successful. This is because the concept of cost of opportunity must be considered. Investing 100,000 EUR in an initiative just to break even may not be the optimal outcome, considering that the same investment in an alternative initiative might have yielded more substantial gains.

The perceived gains depend on the goals the initiative aims to support through its proposed objectives. Even if the initiative doesn't target financial goals, the cost of opportunity between different initiatives should be evaluated comprehensively. It is crucial not to analyze initiatives in isolation but to assess the entire set collectively. This way, the proposed objectives of all initiatives can be reviewed and re-assessed, ensuring that only the most beneficial initiatives, considering cost, risks, and benefits, are approved.

10. Preconditions

Preconditions are the initial conditions or requirements that must be met for an initiative to succeed. Preconditions often belong to the following classes:

- **Resources:** Ensure the necessary resources, such as e.g., hardware, office space, etc. are available for executing the initiative.
- **People**: Confirm that individuals with the required skills are available in sufficient numbers to execute the initiative.
- **Budget**: Allocate a sufficient financial budget to execute the initiative.
- **Time budget**: Ensure the organization can afford to wait for the necessary time until the initiative completes.
- **Prioritization**: Assign the initiative sufficient priority to prevent suspension or abandonment in favour of other initiatives.
- **Stakeholder concurrence:** Identify relevant stakeholders and ensure consensus on outcomes, risks and implications of the initiative.
- **Mandate**: Obtain sufficient approval and authority from relevant individuals for the successful execution of the initiative within the organization.

When specifying preconditions, be specific. Instead of generalizing with terms like 'resources', clearly define the specific resources required for the initiative's success. For instance, detail the exact hardware, office space, or any other resources essential for the initiative.

Examples:

- 2 medium-level backend .NET developers.
- Commitment from the organization to allocate the above personnel and resources for a minimum duration of 6 months.
- Assignment of appropriate priority to ensure non-preemption, except for critical situations.
- Approval of the shared Product Vision by the Product Department.
- Approval of the solution architecture by the Architecture Board.

11. Risks

Risks are potential negative outcomes that may or may not occur in the future, distinguishing them from issues which are negative situations that have already happened.

Risk management is a crucial process that aims to identify, prevent, and develop plans for potential negative outcomes. Mature organizations often demonstrate effective risk management through the presence of disaster recovery plans, business continuity plans, and other such strategies. Risks are inherent to any high-level initiative or project, and effective risk management encompasses:

- **Risk identification**: The process of identifying potential risks.
- **Risk classification:** Ranking identified risks based on their likelihood and potential impact.
- **Risk mitigation:** Handling risks according to their classification, with a primary focus on those with the highest score.

11.1 Guidelines for Defining and Managing Risks

A risk comprises six essential elements:

- **Description**: A detailed account of the potential negative situation that could happen (e.g., the departure of a key person in the organization).
- **Initial Classification:** The risk's classification in terms of likelihood, impact and score before implementing any mitigation actions.
- **Mitigation**: A plan outlining preventative or mitigating actions to address the risk. Mitigation actions often reduce the risk's impact or likelihood but may not eliminate it entirely.
- **Residual Classification**: The risk's classification in terms of likelihood, impact and score after implementing preventative (mitigation) actions. This reflects the remaining risk even with mitigation efforts.
- **Status**: The current state of the risk, categorized as:
    - **Active**: The risk is not being handled, lacking a risk mitigation plan. It is addressed under the initial classification conditions - likelihood, impact and score.

- Handled: The risk is actively managed through a deliberate mitigation plan and its assessment reflects the residual classification conditions - likelihood, impact and score.
- **Score**: The numerical representation of the risk's impact, calculated differently based on its current status.
  - Risk is "Active", the Score = Initial Likelihood X Initial Impact;
  - Risk is "Handled" the Score = Residual Likelihood x Residual Impact.

Risk mitigation encompasses two components:

- **Treatment**: The treatment phase involves determining the course of action when handling identified risks. It encompasses the following options:
  - **Accept**: The risk is accepted as is, therefore the residual classification will be the same as the initial classification - so no risk reduction is attempted. This choice makes sense when the risk score is small or the actions to prevent the risk outweigh the risk's impact.
  - **Transfer**: The risk is not for the organization to handle and will be transferred to another party (e.g., an insurance company, etc.)
  - **Reduce**: The organization aims to reduce the risk by a set of preventative actions to decrease the risk's likelihood, impact or both. In this case the residual risk classification would have a smaller score than the initial risk classification.
- **Description**: This contains the detailed description of the actual approach to transfer or reduce the risk; or the reasons why the risk is accepted as is.

Initial and residual classifications are further described by three elements:

- **Likelihood** – **Probability of manifestation** – this parameter gauges the probability of the risk materializing. It is usually defined as one of the following values:
  - **Unlikely** - probability rated as 1
  - **Likely** - probability rated as 2
  - **Probable** - probability rated as 3
- **Impact** – **Severity assessment** – this parameter assesses the severity of the risk if it occurs. Categories include:
  - **Negligible** - Severity rated as 1
  - **Moderate** - Severity rated as 2
  - **Severe** - Severity rated as 3
  - **Critical** - Severity rated as 4
- **Score** – **Comprehensive risk evaluation** – this parameter is a numerical representation of the risk's overall gravity, calculated as **Score = Likelihood x Impact**. The resulting score spans from 1 to 12 meaning:
  - **1** - indicates the least severe risk
  - …
  - **12** - indicates the most severe risk

Examples:

Let’s consider a hypothetical risk associated with the initiative to ‘Transition the architecture from a shared-database model to a database-per-customer model, aiming to enhance scalability, security and business continuity’.

Description

The chief architect might leave after designing the architecture, leaving the team without a technical authority to govern its execution and provide support in case of difficulties.

The likelihood of the architect leaving is high due to the competitive salary market, so preparation is necessary. The impact, should the architect leave, would be severe, potentially causing a significant slowdown in delivery if the team runs into technical challenges.

- **Initial Classification**
  - **Likelihood**: Likely (2)
  - **Impact**: Severe (3)
  - **Score**: 6
- **Mitigation**
  - **Treatment**: Reduce
  - **Description**: The timely delivery of this architecture is important for the organization, so we decide to reduce this risk. We take a two-pronged approach:
    - 1) We immediately begin hiring a new architect to shadow the chief architect. On the one hand, this insures there is another person with the ability to support the team and on the other hand, we wanted to expand our architecture team anyway.
    - 2) We offload some of the chief architect’s tasks, the ones not strictly related to this project, so they can spend time improving the architecture documentation further and add more detailed execution guidelines to support the team. This supports the shadow architect, the team and overall improves the documentation level of our solution. Thus, we don’t directly try to reduce the chance that the chief architect leaves since now we cannot compete on the market salary, but we aim to reduce the impact if they do decide to leave.
- **Residual Classification**
  - **Likelihood**: Likely (2)
  - **Impact**: Moderate (2)
  - **Score**: 4
- **Status:** Handled
- **Score**: 4

12. Issues

Issues are problems that arise during the execution of an initiative, hindering, delaying or otherwise negatively impacting its progress. They are specifically tracked as part of the departmental milestones associated with the initiative.

While issues often stem from risks, effective risk management can help prevent many issues before they occur. However, when issues do arise, it remains crucial to track and resolve them.

Tracking issues serves two essential purposes:

- It allows anyone interested in the initiative to easily identify encountered issues and recognize the need for resolution.
- Maintaining a clear list of active issues facilitates efficient tracking and resolution.

Examples:

- John Smith, a key player in moving our CMS app to Azure, has submitted his resignation.
- Due to an unexpected surge in production incidents, we will exceed the deadline.
- Implementing the Identity Provider has proven more challenging for the team than initially anticipated, resulting in a 2-week delay for our second phase of development.

13. Milestones

Milestones are stages that must be reached during the execution of an initiative. When all milestones have been completed, the initiative is considered complete, unless new milestones are subsequently added. Think of milestones as tasks or projects that must be accomplished as part of a larger initiative.

Since most initiatives are cross-departmental, each participating department will have its own list of milestones. A department can be involved in an initiative from the start, but it's also possible that a department manager might realize later that their department should be involved in an existing initiative and decide to add their own department-specific milestones to it.

A milestone is described by:

- Name
- Description
- Start Date
- End Date
- Progress
- Dependencies

Note: In our platform, if a milestone has dependencies, its start date is pushed to the end of its latest dependency. If the dependency is removed, the milestone start date is pulled back to its originally intended time. When a milestone's start date or end date changes, all its dependencies' start dates are recalculated automatically.

Examples:

Let's consider a hypothetical initiative to implement a new CRM system in the organization, aiming to improve the efficiency of the Sales and Operations departments and support the 'Reduce costs' goal. Let's also assume the following departments exist in the organization:

- HR
- Finance
- Sales
- Operations
- Tech
- Product
- Legal

In this case, here are some examples of likely milestones for each department.

Department	**Milestones**
Finance	Approve budget for the acquisition of CRM licenses
Sales	Compile sales requirements for a new CRM Train employees to use the new CRM
Operations	Compile operations requirements for a new CRM Train employees to use the new CRM
Product	Collect sales & operations CRM requirements Select CRM
Tech	Integrate the CRM into the existing technical landscape

As seen, many departments are involved in this initiative; however, not all of them are. In our hypothetical example, HR and Legal are neither interested nor involved in this initiative.

It can also be inferred that there are some dependencies between different departmental milestones. For example, Sales and Operations must first compile a list of requirements for the new CRM, Product must then select the appropriate CRM from the market, Finance must secure a licensing budget, and only then can Tech finally integrate the new CRM product into the overall technical landscape.

However, as soon as Product has selected the CRM and Finance has approved the budget, Sales and Operations can already begin training in using the new CRM while Tech is busy integrating it.