

Strategy Using – Strategy Mapping and Balanced Scorecard

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Introduction Slide Set

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- Strategy Map
- Strategy Map Examples, IT and Product.
- Prioritisation and Funding
- Outcomes not visible to Internal processes

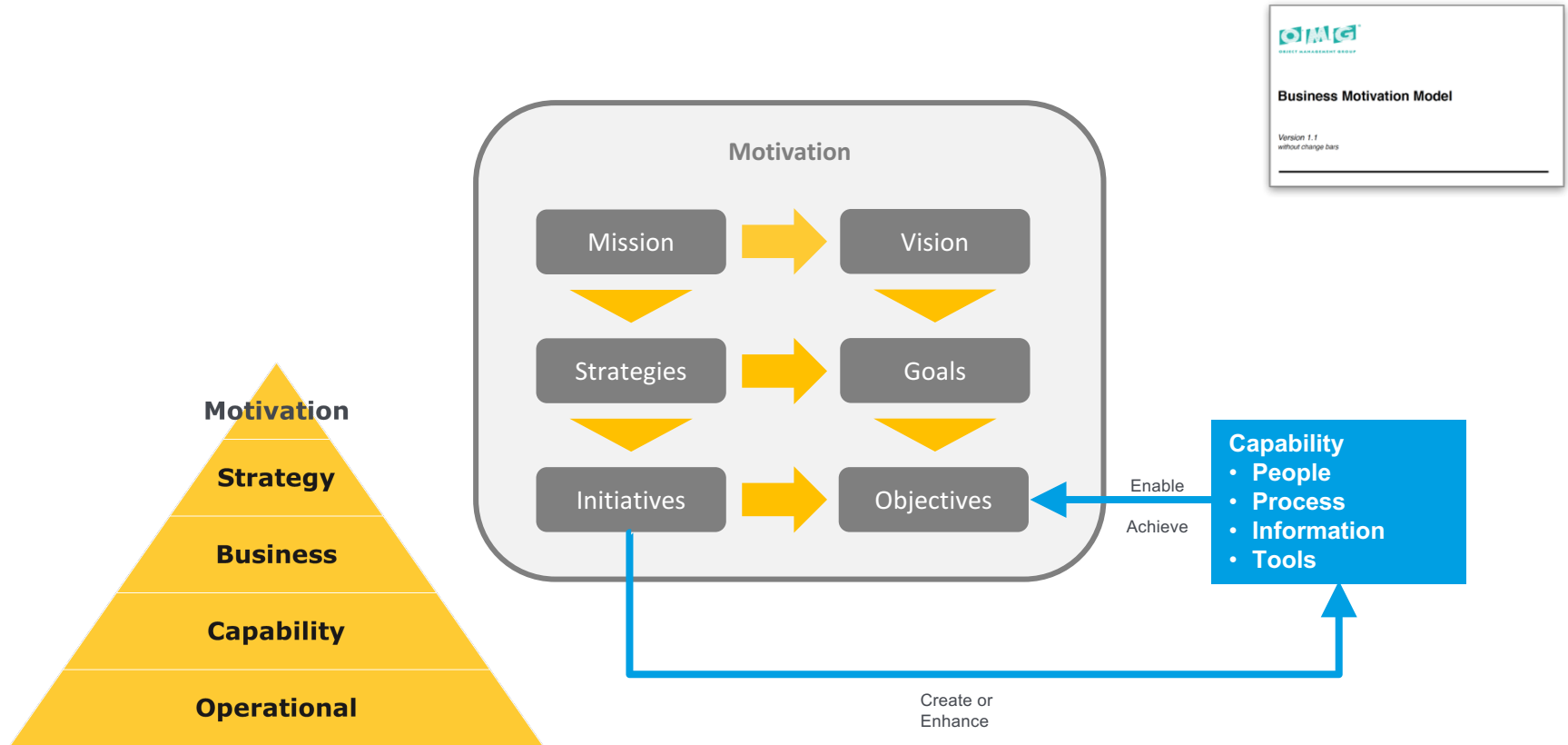
Details Slide Set:

- Business Outcome Map
- Strategy Map Template
- Strategy Map Template with Channels
- IT Strategy Map Template - definitive

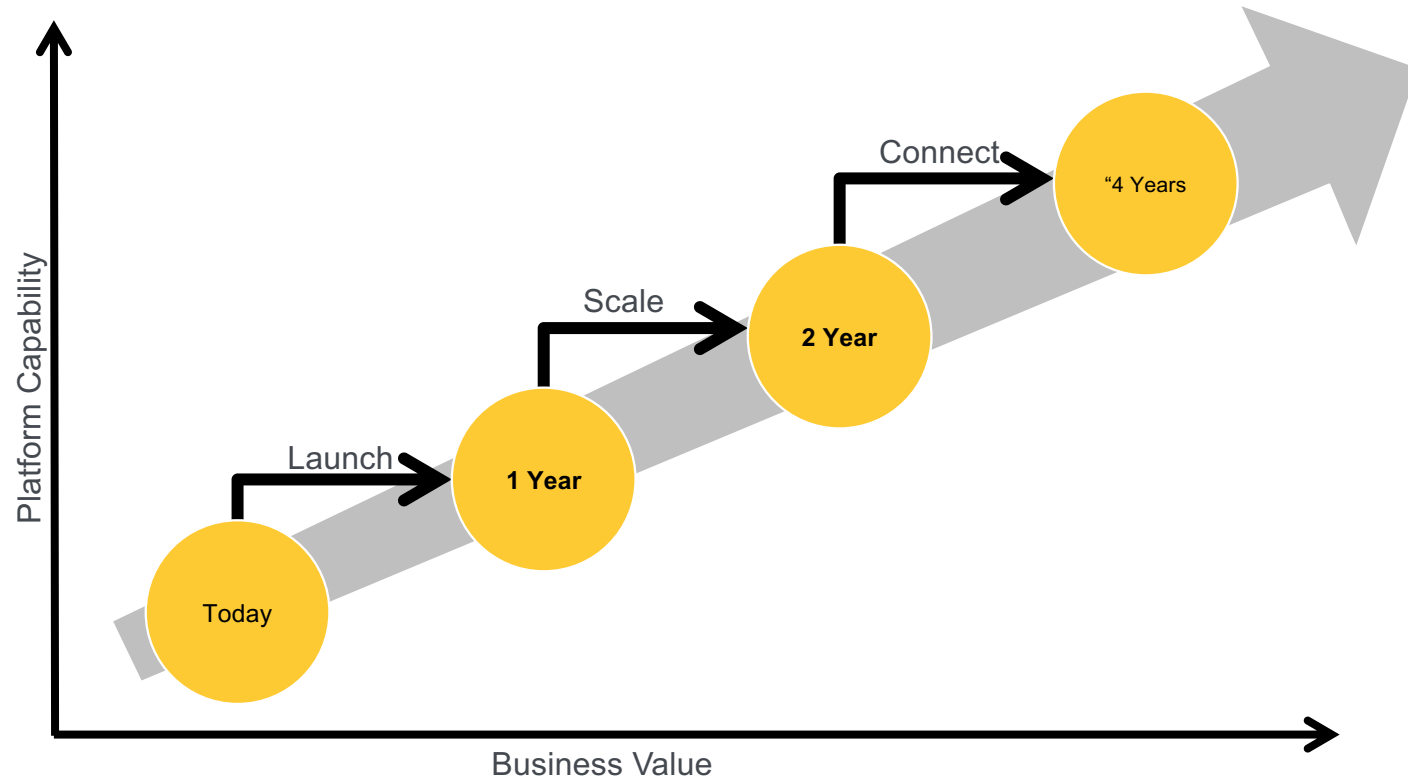


Together provide:

- The ability to cascade an organisation's vision, mission and core strategies into actionable behaviours that achieve critical objectives;
- A strategic planning and performance management system;
- A way to objectively and actively define, measure, monitor and communicate strategy;
- A way to demonstrate an organisation's performance in meeting its objectives relating to its stakeholders;
- A change initiative for holistically visualising and communicating an organisations strategic intent;
- A framework for informing strategic prioritisation, budgeting, and improvement via strategic feedback;
- Alignment of an organisation behind a shared vision of success;
- Linking of Intangible Assets to Tangible Outcomes;
- A way to improve understanding of how seemingly unrelated Initiates can provide the basis for the success of causally related objectives.



Roadmap - Provides a feasible path to achieve a target





- **Strategic Objectives** are desired outcomes that help make strategy actionable. Objectives are causally related and thus have dependencies.
- **Measures** are the indicators of how a business is performing relative to its strategic objectives. Measures, or metrics, are quantifiable performance statements.
- **Targets** are the specific values for the measures that are the organisation's goal. **Stretch targets** are ambitious targets for these goals.
- **Initiatives** are projects with a finite start and end date that turn strategy into action. They are the change process or activities designed to achieve one or more objectives, and move a measure toward its target value and close performance gaps. Initiatives improve or introduce new capability. They may be large or small in scope, and can be prioritised based on their performance gap.

| Objectives | Measures | Targets | Initiatives |
|------------|----------|---------|-------------|
| | | | |
| | | | |
| | | | |

Strategic initiatives “are the collections of finite-duration discretionary projects and programs, outside the organisation’s day-to-day activities, that are designed to help the organisation achieve its targeted performance.”
Kaplan & Norton



- **Perspectives** show how the different stakeholder's (e.g. users, customers, employees, business, shareholders, citizens) objectives are being met. Different stakeholders have different concerns and require different views. The perspectives are also causally related, e.g. Internal process are dependent on Learning & Growth.
- **Themes** are grouping of similar objectives and their measures across perspectives. Help make a complex strategy more understandable by organizing and categorizing objectives and measures. Themes are the organisation's **pillars of excellence**, for example:

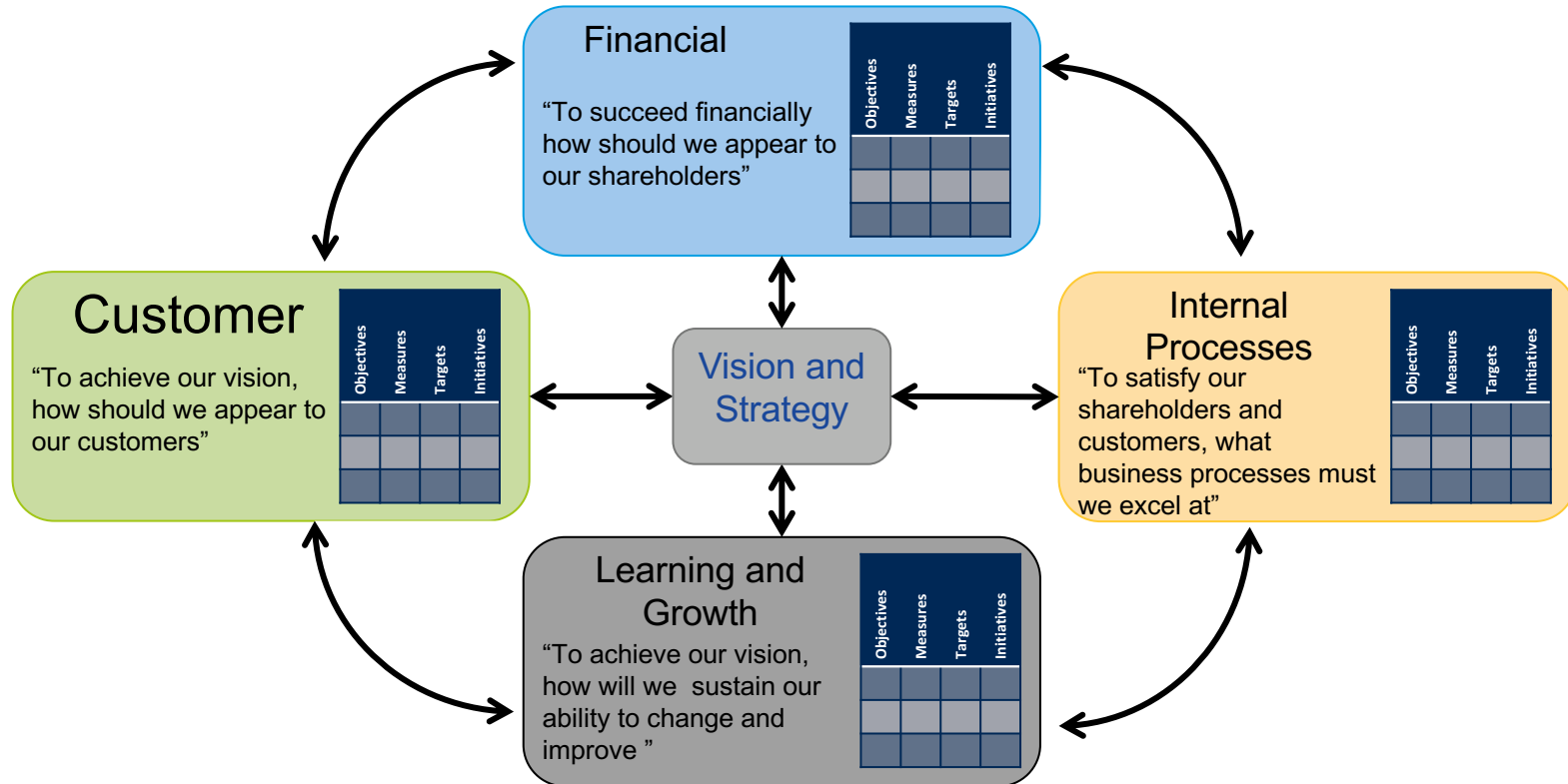


Where Strategy (Maps and Scorecards) Fit In

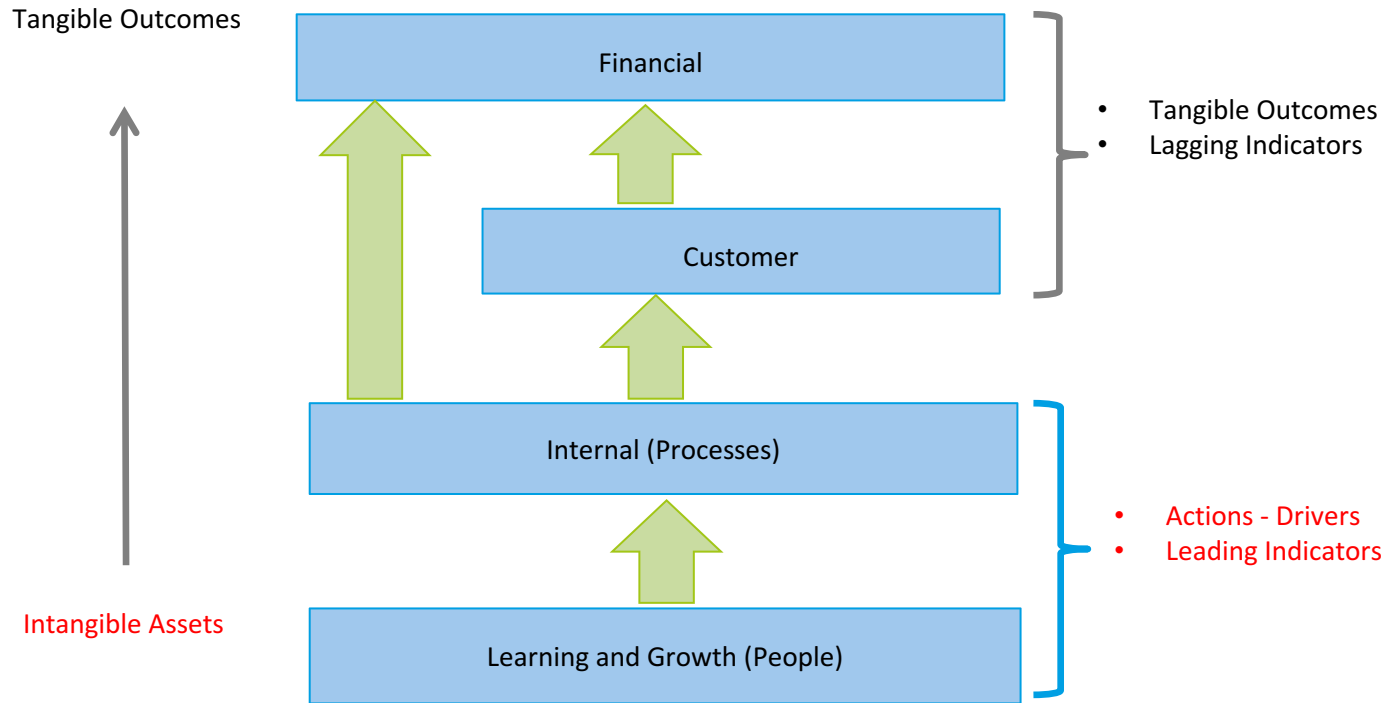




- **Learning and Growth:** Looks at the future and what 'intangible' capabilities and tools are required to maintain growth and achieve further improvement. Determines what provides the knowledge, skills and systems that your employees will need to perform the business processes.
- **Internal Processes:** Looks at the present and indicates which internal processes should be performed with excellence to innovate and build the right strategic capabilities and efficiencies for customer and financial satisfaction. Define the vehicle to deliver the value proposition.
- **Customer:** Looks at the present and indicates what should be done to deliver specific value to the market. Who are our customers and what is our value proposition ?
- **Financials:** Indicates what has happened in the past and measure what should be done to achieve the financial objectives and check the performance. Provides traditional and tangible outcomes. The prior perspectives provide the basis, for what has to be done to eventually lead to higher stakeholder (e.g. shareholder) value.

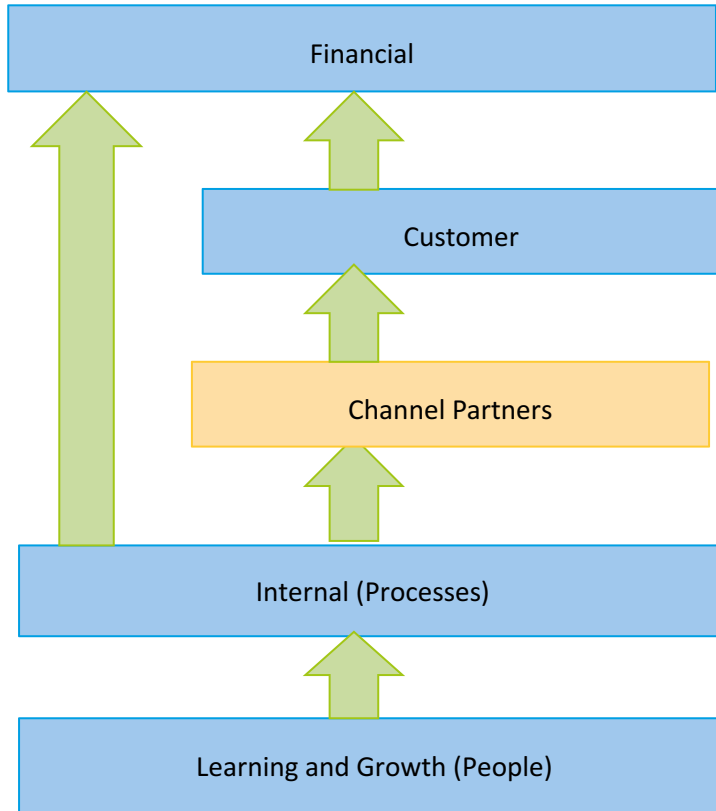


Perspectives are Causally Linked



The organizational capacity of Employees and Resources (***Learning and Growth***) impacts ***Financials*** through, Internal objectives (***Internal Business Processes***) and ***Customer***.

Add a Channel Partner Perspective

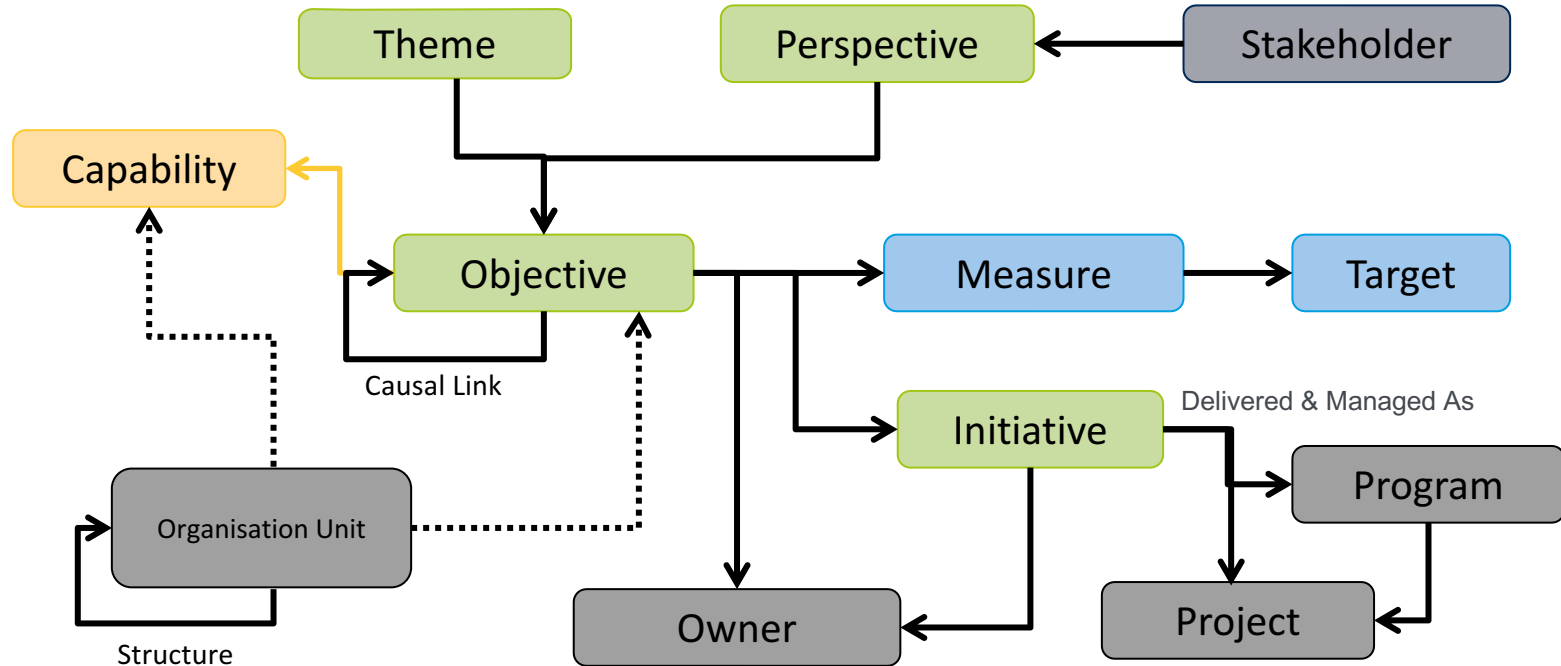


Perspectives are not fixed and should be tailored. The customer perspective includes partnerships but when it becomes a prime strategy add a Channel Perspective:

- Defines the Value Proposition for existing and potential channel partners and agents.
- These are customers but strategic goal is not patronage but partnership.
- Customers are external to the business and Partners are Internal Customers.



- **Business Growth** – drive revenue, new products, markets, new customers and increased wallet share
- **Operational Excellence** – reduce cost and price, improve quality, better utilise assets, efficiency, and provide ease of doing business.
- **Product Innovation** – leadership, be first to market.
- **Customer Service Excellence** - provide right products, services and experience, “the customer comes first”
- **Customer Intimacy** – build lasting bonds with customers, anticipate their needs with deep knowledge.
- **Manage Pipeline** – value chain.
- **Manage Platform** - bring together producers and consumers in high-value exchanges (alternative to value chain).
- **Strategic Partnering** – form alliances based on mutual gain.
- **Sustainability** - creates lasting value whilst also building public trust.



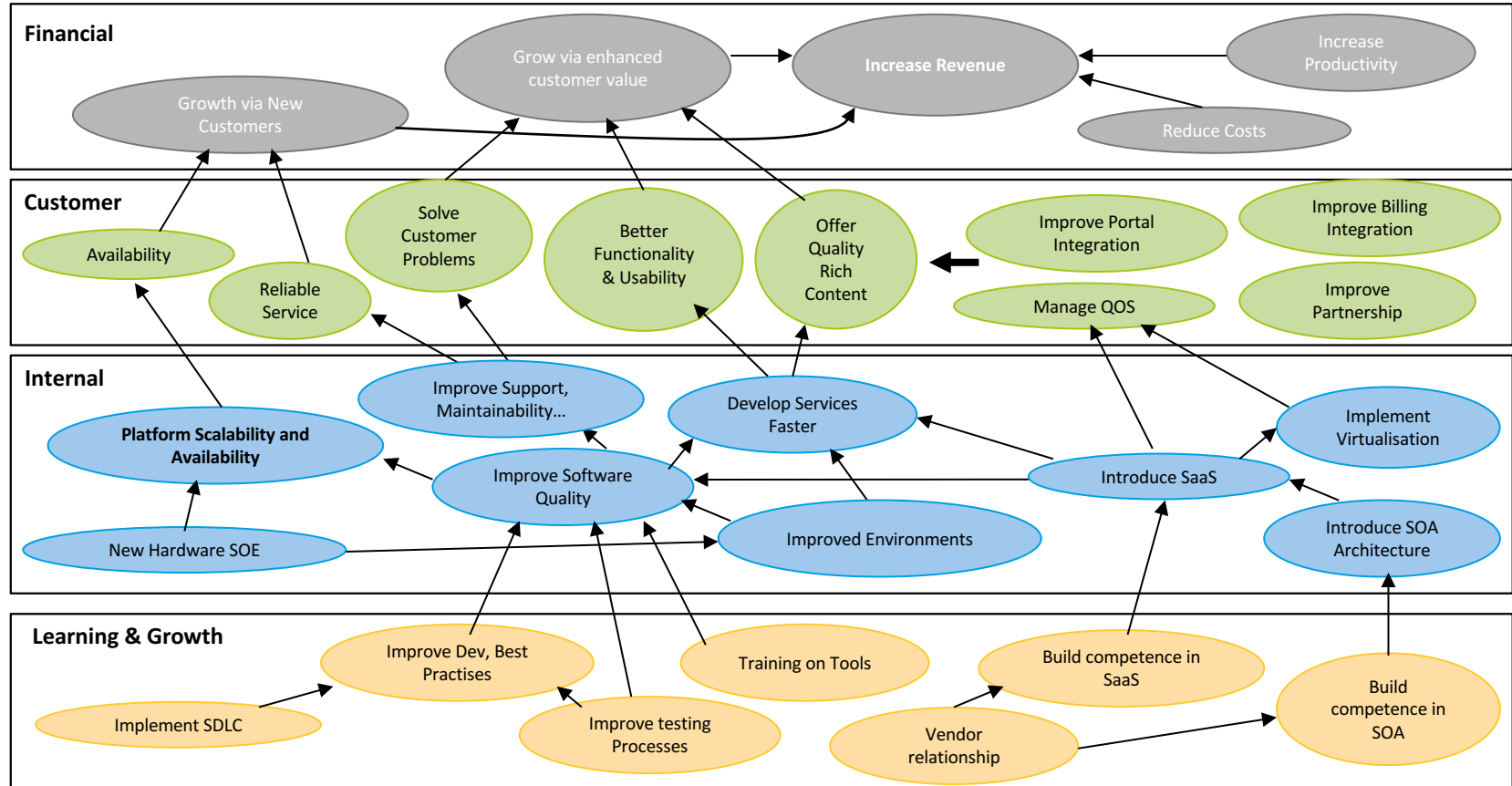
Objective are met by new or improved capability, implemented through initiatives. Capability is most often delivered incrementally.



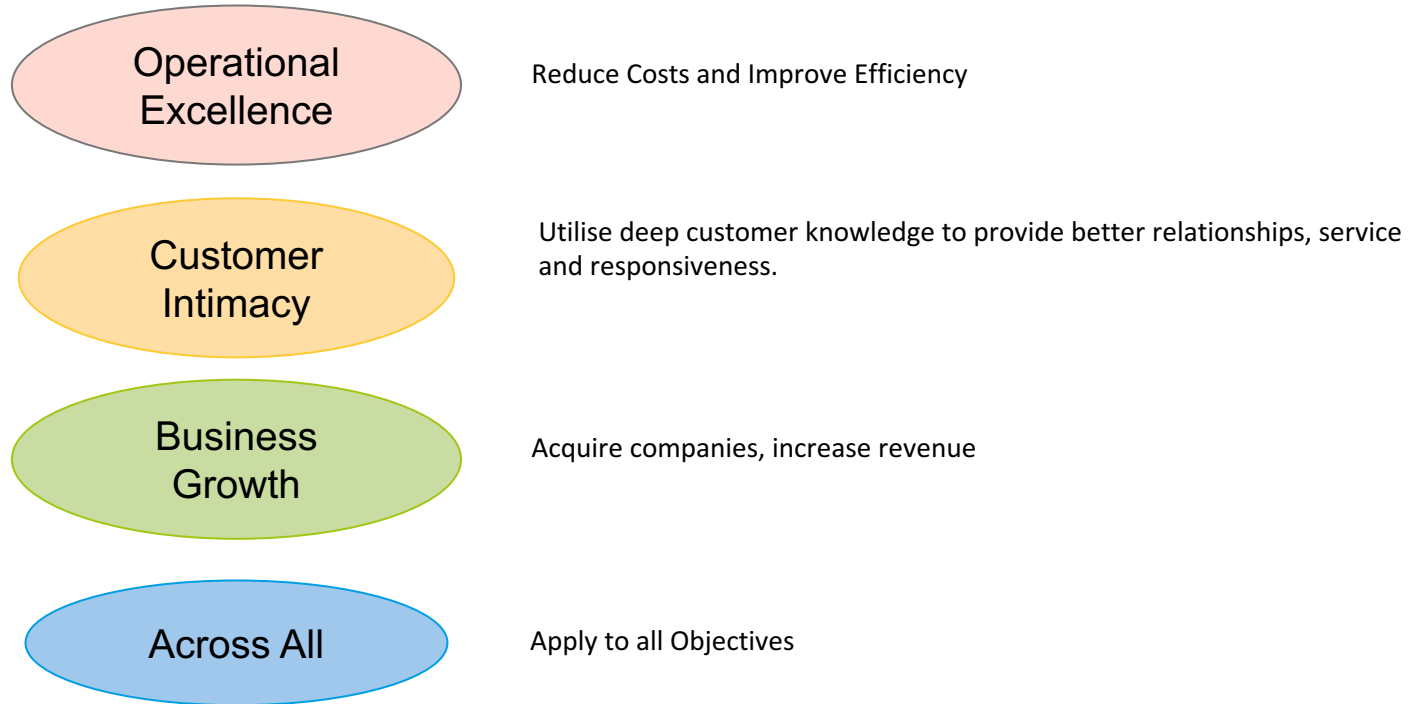
“a picture is worth a thousand words.”

- Visually show how strategic objectives are causally related, to tell a story;
- Show how the organization plans to achieve its mission and vision by means of a linked chain of continuous improvements;
- Shows how the perspectives are causally related;
- Help see the impacts of budgeting and prioritization across the causal chains of initiatives; broken chains will impact strategy;
- Show Objectives organised into Themes;
- Help understand the priority of Stakeholders concerns other than Objectives, and if aligned to the corporate themes, e.g.
 - A reduction in cost
 - Ability to handle change - agility
 - Consolidation of services
 - Minimise the number of tactical or interim solutions

Example: IT Strategy Map (colors relate to perspective)

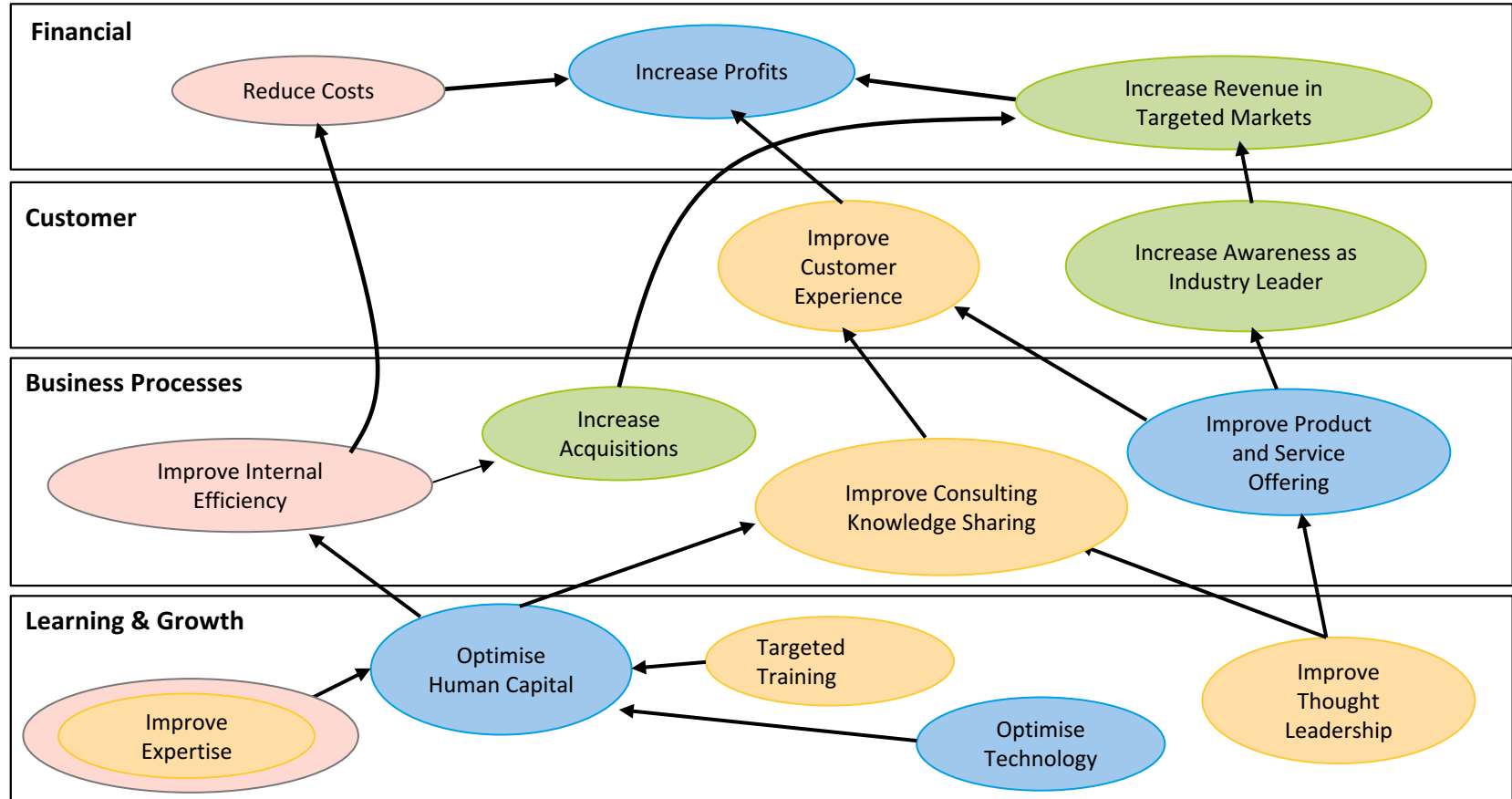


Example: Product Company has 4 Themes

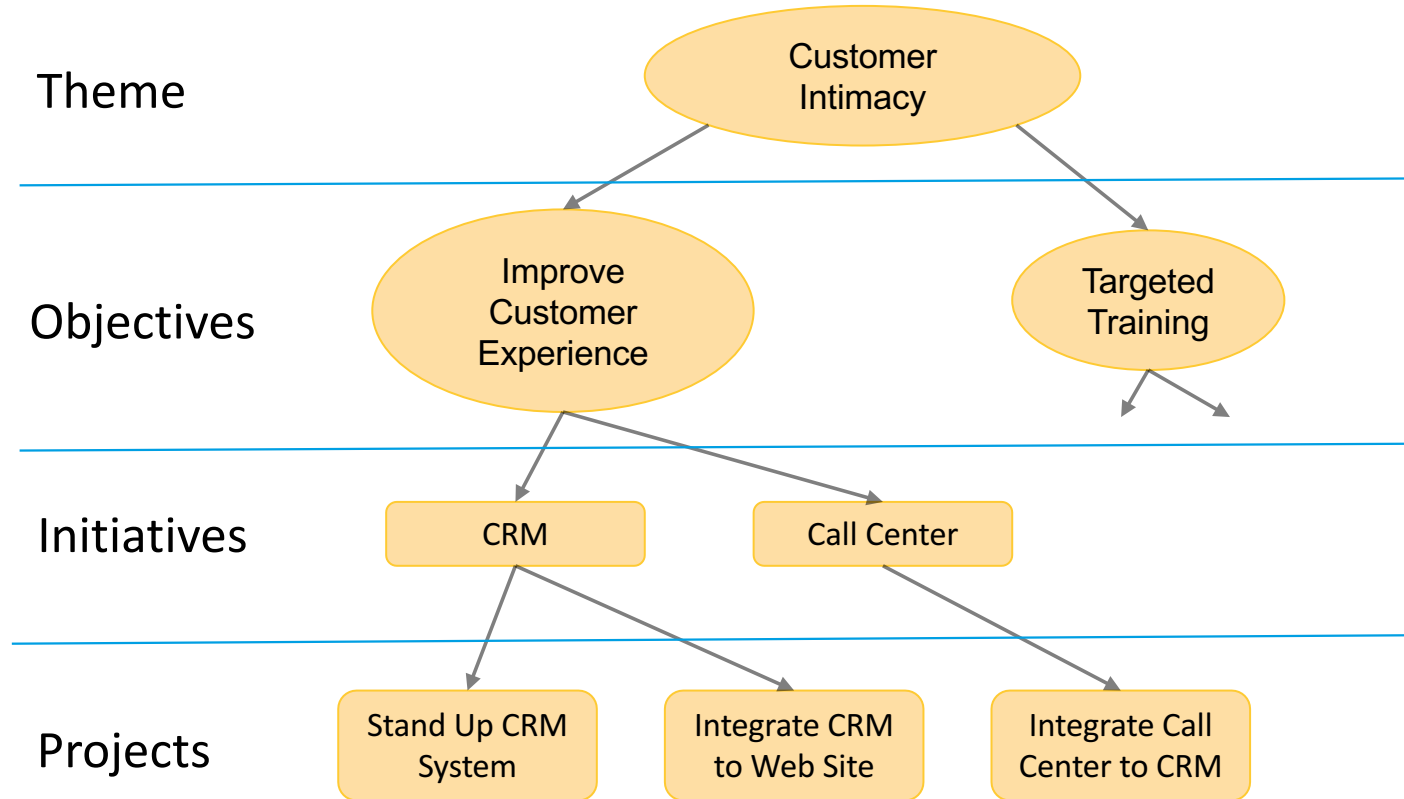


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Example: Product Company Strategy Map by Themes



Example: Themes Organise Objectives, Initiatives and Projects



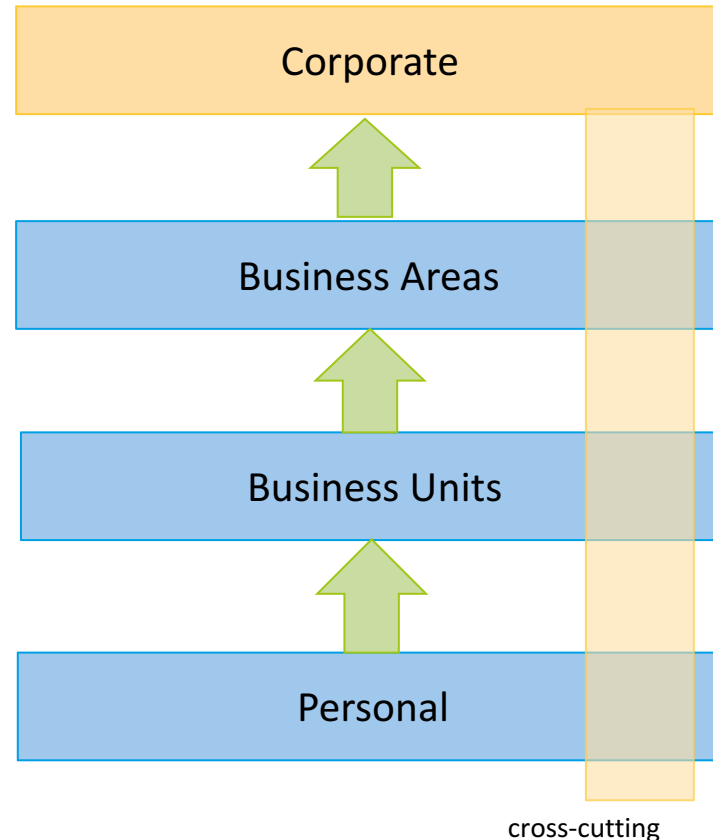
Cascading Maps down and across Organisation Structure



Most strategy mapping exercises use the corporate map as a starting point for developing lower level maps and scorecards.

Strategy Maps and Scorecards can be developed, at each level, up and down the organisation and cross-functionally. Corporate level strategy can be cross cutting.

- Alignment downwards;
- Metrics roll up;
- Contribution rolls up:
 - Each person can see how they contribute to corporate performance
- Align Prioritisation and Budgets.



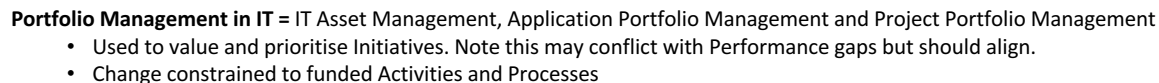
4 Main Internal Processes



In General, Corporate Strategy focuses on 4 Internal processes:

- 1) Customer Management Processes
- 2) Operational Management Processes
- 3) Innovation Processes
- 4) Regulatory and Social Processes

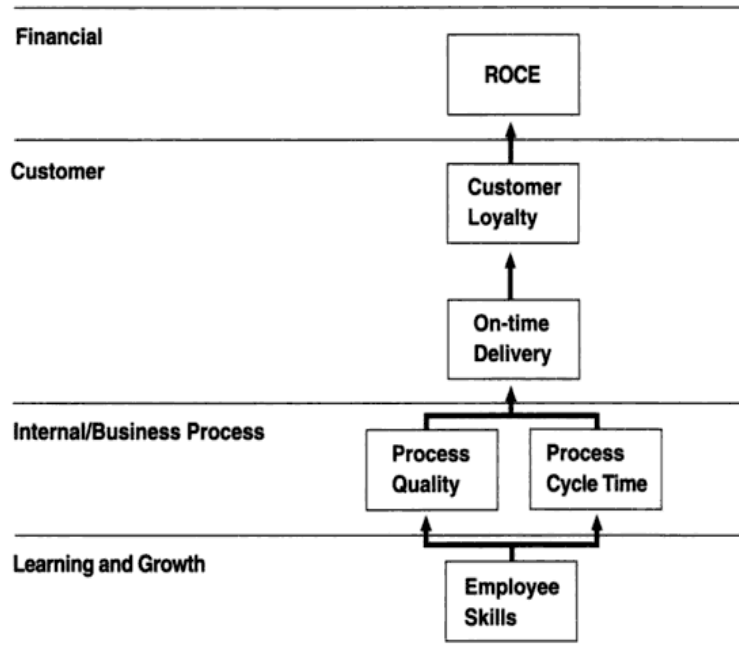
Where we spend our money, and focus resources to execute strategy





| Initiative Management Process | Objective | Barriers | Enablers |
|---|---|--|---|
| Step 1: Choose Strategic Initiatives. <i>What Programs are needed ?</i> | To define the portfolio of Initiatives needed to close each of the performance gaps. | Strategic Investments are justified on a stand-alone basis in different parts of the organisation. | Portfolios of Initiatives for each strategic theme. |
| Step2: Fund the Strategy <i>How do we fund initiatives ?</i> | To provide a source of funding for strategic initiatives that is separated from the operational budget. | Cross-business portfolio funding is contrary to hierarchical, departmental structure of the budgeting process. | <ul style="list-style-type: none"> • STRATEX • Prioritised Initiatives |
| Step3: Establish Accountability. <i>Who leads execution of the initiatives</i> | To establish accountability for execution of cross-business strategic themes. | Executive team members are generally responsible for managing within functional or business unit silos. | <ul style="list-style-type: none"> • Executive theme owners • Theme teams |

Using a Strategy Map to help describe Goals - Example



- An Issue with Goals is that the Outcome may not be relevant to immediate Stakeholders.
- Strategy Map can help resolve this by making explicit the sequence of hypotheses about cause and effect relationships between **outcome** measures and the **performance drivers** of the outcomes.
- The top are outcomes (effects) and the bottom shows drivers (causes).



- Return-on-capital-employed (ROCE) is a scorecard financial measure. The **driver** of this measure could be 'repeated and expanded sales from loyal customers'.
- The hypothesis is that Customer Loyalty has a strong influence on ROCE. The outcome is to improve loyalty. A target level is set as the desired outcome, e.g. 85%. Currently it may be 64%. The measures are retentions, advocacy, and re-purchasing. First two are measured via surveys, later by purchase history.
- It is hypothesised that on-time Delivery will lead to Loyalty. The outcome is measured by % of deliveries meeting the delivery time specified. The outcome target is set at 99% of all deliveries.
- To achieve this, Internal processes must be improved:
 - short cycle times
 - high-quality
- Improving quality means that more units produced can be immediately delivered. Failed units require waiting for a new unit to be produced or repaired, before they can be delivered. Reducing cycle times means units can be delivered faster after receiving an order.

Example - Initiatives to Improve Quality



A number of initiatives are investigated to reduce cycle times and improve quality.

- Training as an initiative to improve skills of staff.
- Improvements in IT scheduling systems.
 - These systems need to be more available and more reliable. In many cases they are down or the information is just not right.

Important to note that fixing the IT systems had no direct customer outcome, it's an internal system, not customer facing, but the Strategy Map showed the chain of causality ending up with customer.

Business Outcomes Mapping is another tool that helps understand these causal relationships.

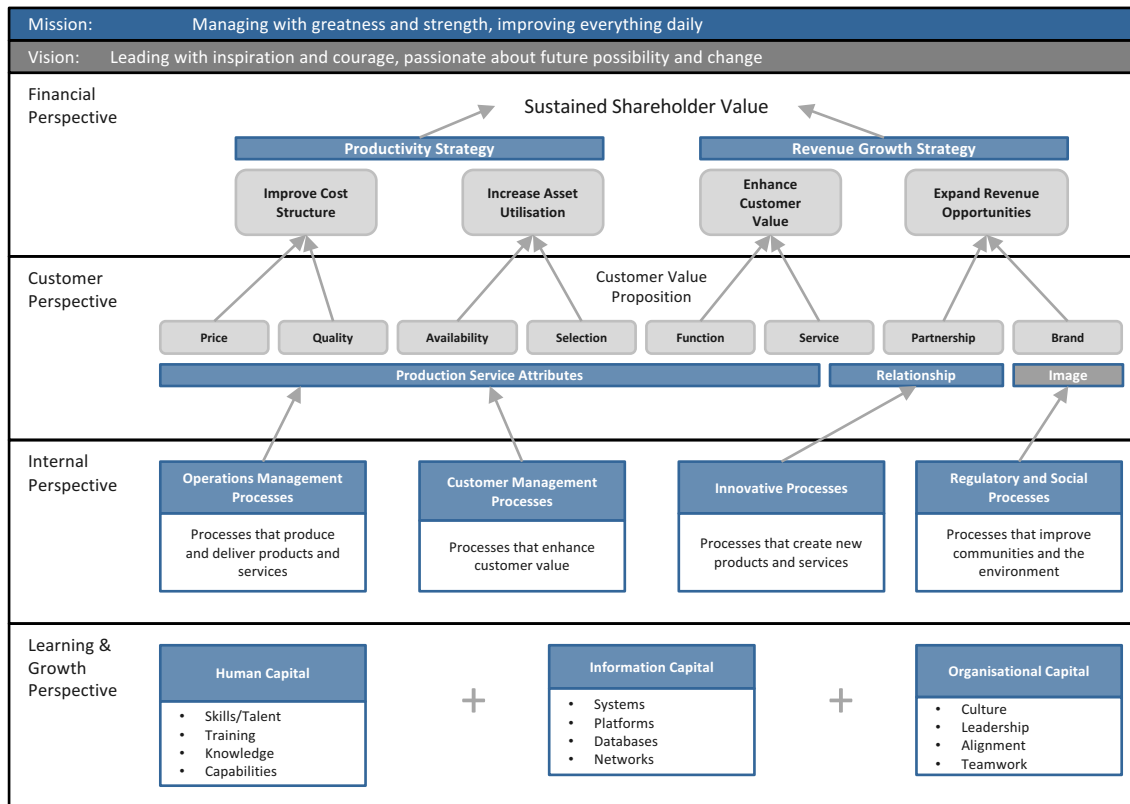


- **A good scorecard (map) will have a mix of outcome measures and performance drivers.** Outcome measures (lagging indicators) without performance drivers (leading indicators) do not communicate how the outcomes are to be achieved.
- **Performance drivers give early indication about whether the strategy is being implemented successfully.** For example although training is put in place now, the improvement on quality and cycle times will occur later. Even later in time, these affect the outcomes. It may be six months to a year later that customer loyalty is measurably improved.
- **Performance drivers** (e.g. cycle times & PPM defect rates) – without outcome measures may enable a business to achieve short-term operational improvements but will fail to reveal whether these have been translated into expanded business (new and existing customers) and to improved financial performance.
- **The 4 perspectives of the strategy map permit a balance** between short and long term objectives, between outcomes desired and the performance drivers of those outcomes.
- **The common core customer outcome measures** include: customer satisfaction, customer retention, new customer acquisition, customer profitability and market share in target segments. Specific market drivers include things that may impact loyalty such as short lead times or on-time delivery.
- The outcomes not only include the measures that the organisation wishes to improve but also the explicit and ambitious targets for these measures, stretch targets.

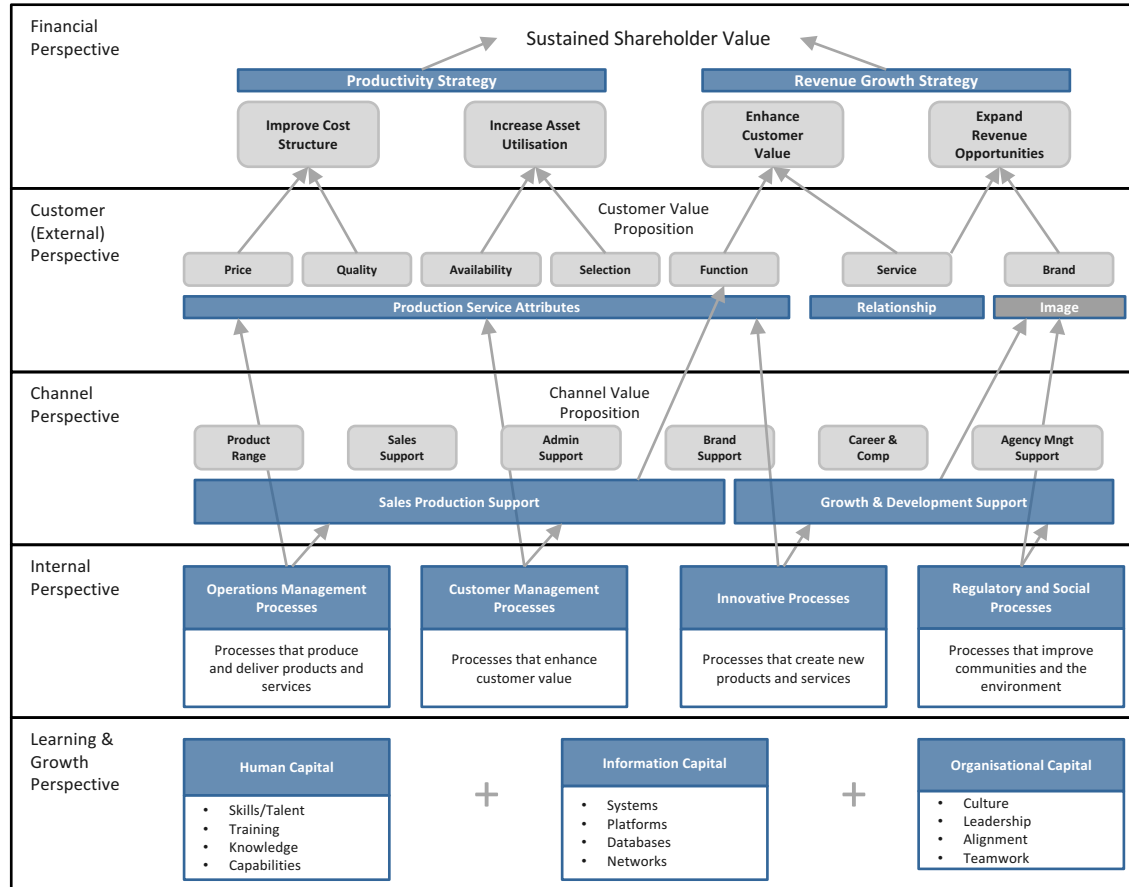


Detail Slides

Standard Kaplan and Norton Strategy Map Template



Strategy Map Template – with Channel Perspective



Partnership from Customer is expanded to its own perspective.



Summarises readily measurable economic consequences of actions already taken. Typically comprise two broad drivers:

- Productivity driver (Improve cost structure/Enhance asset yield)
- Revenue Growth driver (Expand revenue opportunities / Enhance customer value)

Two distinct categories of Measures

1. Productivity measures, e.g.
 - Total Assets
 - Return on net assets/ total assets
 - Gross margin/ NPAT
 - Profit as % of Sales
 - Profit/ Value added per employee
 - Return on Equity/ Return on investments
 - Market capitalization/ Share price/ Dividends
 - Credit Rating
2. Revenue growth measures, e.g.
 - Total/ New Business Premiums (existing/ new sources)
 - New Business Embedded Value (existing/ new sources)



Identifies the markets and customer segments that organization will serve and compete, and the differentiated Value Propositions that the organization will offer to target market segments.

Two distinct categories of Measures:

1. Measures of performance in markets and target customers, e.g.
 - Share in target Market and Customer segments
 - Market and Customer segment profitability
 - Sales Volume/ Sales Volume per channel
 - No. of Customers
 - Target customer acquisition, retention, conversion rates
 - Percentage of revenue from New Customers
 - Target customer segments complaints/ compliments
 - Brand recognition/ awareness in target customer segments
2. Measures of Value Propositions organization will offer to target customers, e.g.
 - Measures of elements of value propositions to be delivered



- Identifies the channel partners which organization can partner and work with
- Identifies the differentiated Value Propositions that the organization will offer to channel partners

Two distinct categories of Measures

- Measures of performance in target channels
- Measures of Value Propositions organization will offer to channel partners

Examples of Channel Partner Performance Measures

- Channel product volume/ product mix
- Channel productivity/ profitability
- Channel market share
- Channel customer acquisition/ retention rates
- Channel development/ growth
- Percentage of revenue from new channels
- Channel complaints/ compliments
- Channel scorecard/ survey feedback



Describes how organization will deliver its customer and channel partner value propositions. Identifies related process clusters that make up the organization. Broadly grouped into three process clusters:

- Operations Management cluster - Producing and delivering products to customer
- Customer Management cluster - Establishing and leveraging relationship with customers
- Innovation processes cluster - Developing new products, services, processes and relationships

Examples of Operations Management measures

- Cost of key operating processes
- Marketing, selling, administrative expense as % of total costs
- No. of processes with substantial improvements
- Cycle time

Examples of Customer Management measures

- No. of referrals/ Percentage of leads converted
- Customer response rate to campaigns
- No. of products per customer/ Depth of relationship
- Costs per new customer acquired

Examples of Innovation measures

- Time to Market/ Percentage of product launches on-time
- No. of new products first-to-market
- No. of new applications from platform products
- No. of joint collaborative new product projects



Defines organizations intangible asset and their role in strategy. Intangible assets classified into three categories:

- Human capital - Skills, talents and know how to perform activities, required by strategy
- Information capital - Information systems and infrastructure required to support the strategy
- Organization capital - Culture, Leadership, Alignment and Teamwork

Examples of Human Capital readiness measures

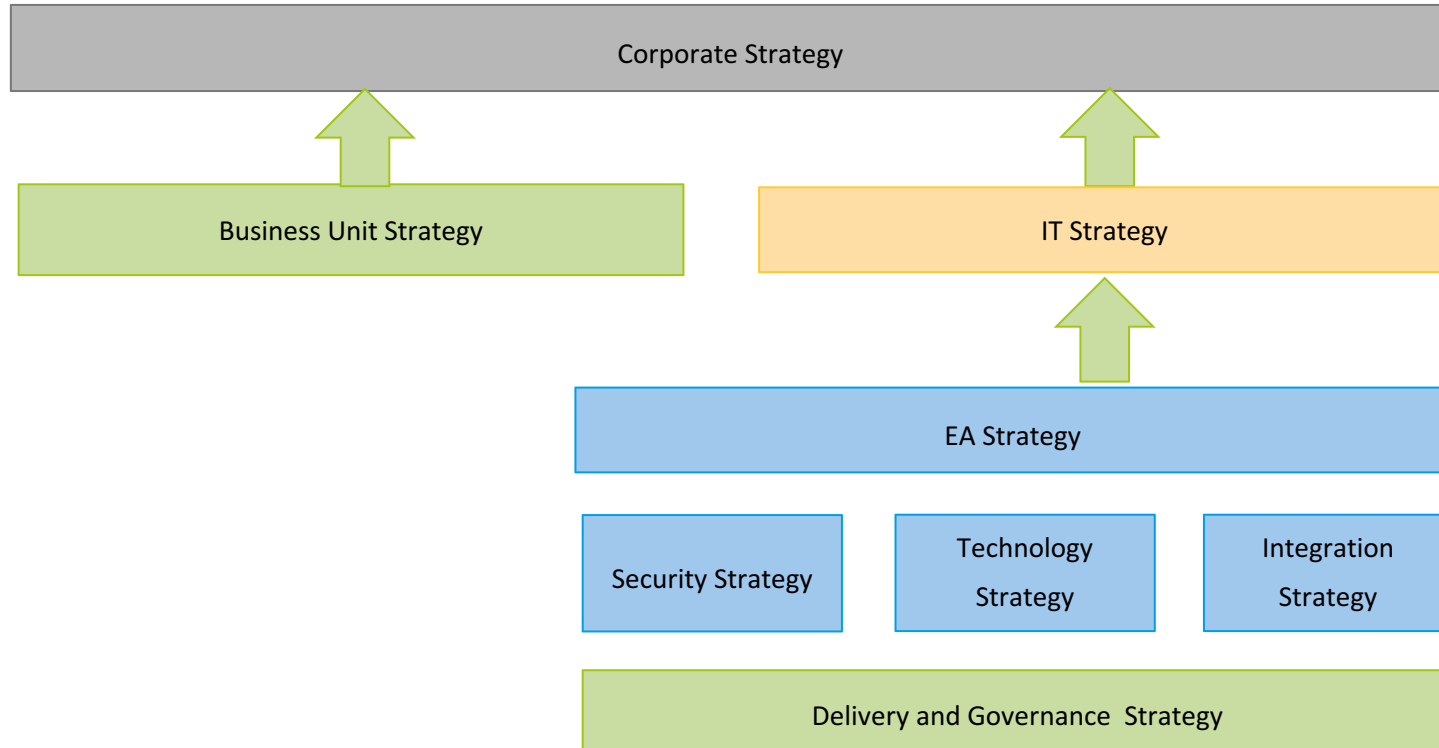
- Training investment per employee/ Training hours
- Competency coverage ratio
- % of employees with advanced degrees
- Number of cross-trained employees
- Best practice sharing

Examples of Information Capital readiness measures

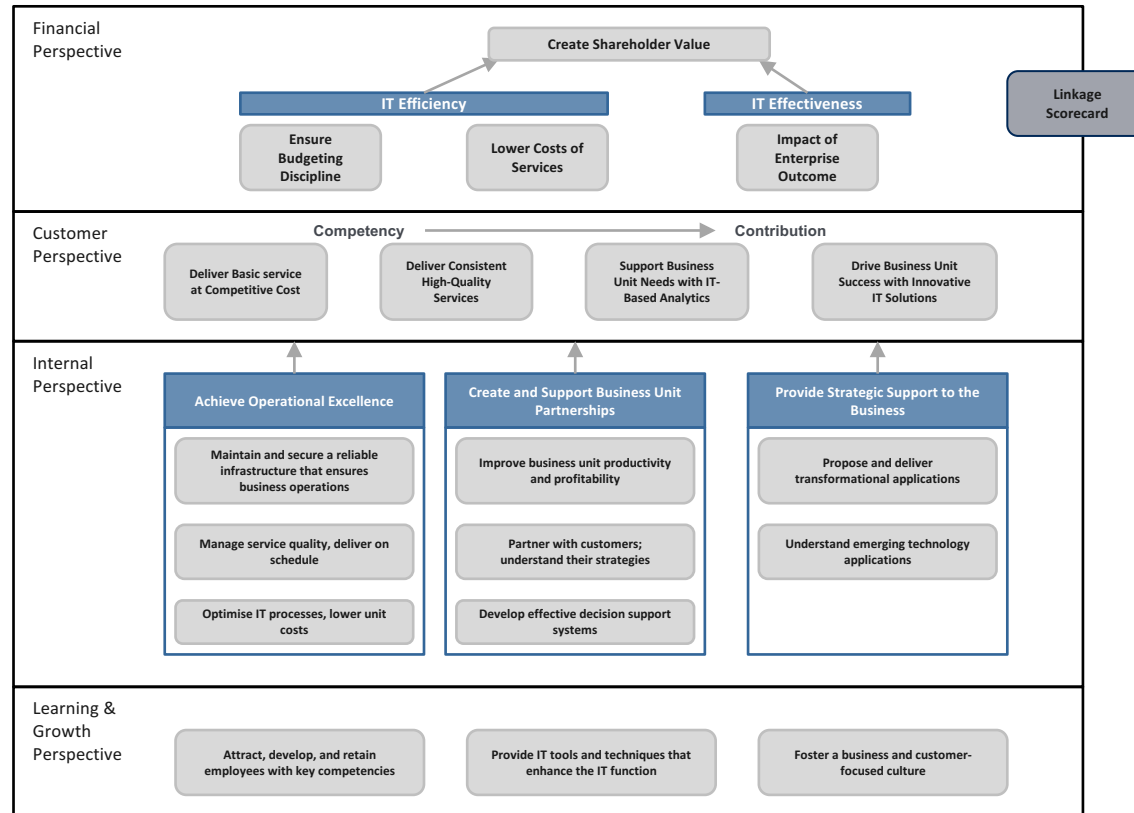
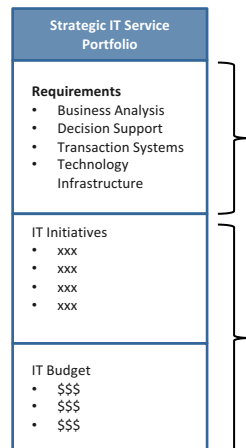
- Strategic information ratio
- Knowledge management index

Examples of Organizational Capital readiness measures

- Span of control per manager
- Quality of work environment
- Motivation index
- Turnover rate/ Absenteeism
- Strategic awareness



Kaplan and Norton - IT Template Model





BOMs are based on the concepts of the Results Chain*. The technique provides a causal model of relationships between initiatives (i.e. investments) and the business benefits desired.

A BOM presents the complete series of conditions that must be satisfied in order for the organization to achieve the benefits that it is expecting. As such, it is a very useful roadmap for the management of a strategic change in organizations.

A BOM is a highly effective visual technique for presenting complex and interrelated outcomes, initiatives and risks. Its value lies in:

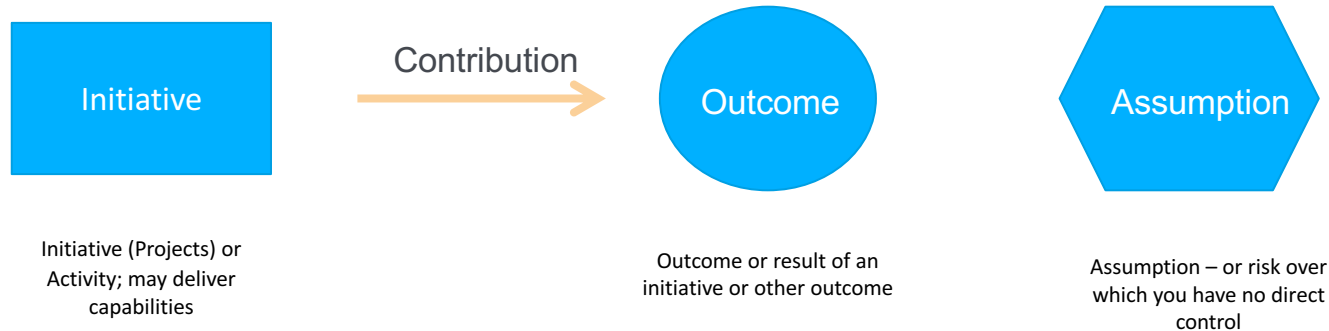
- Making implied ideas visible and recorded;
- Surfacing hidden assumptions;
- Facilitating communication amongst stakeholders;
- Enabling better decision-making by providing substance and rigor to business cases.
- Help stakeholders understand what a program is meant to achieve

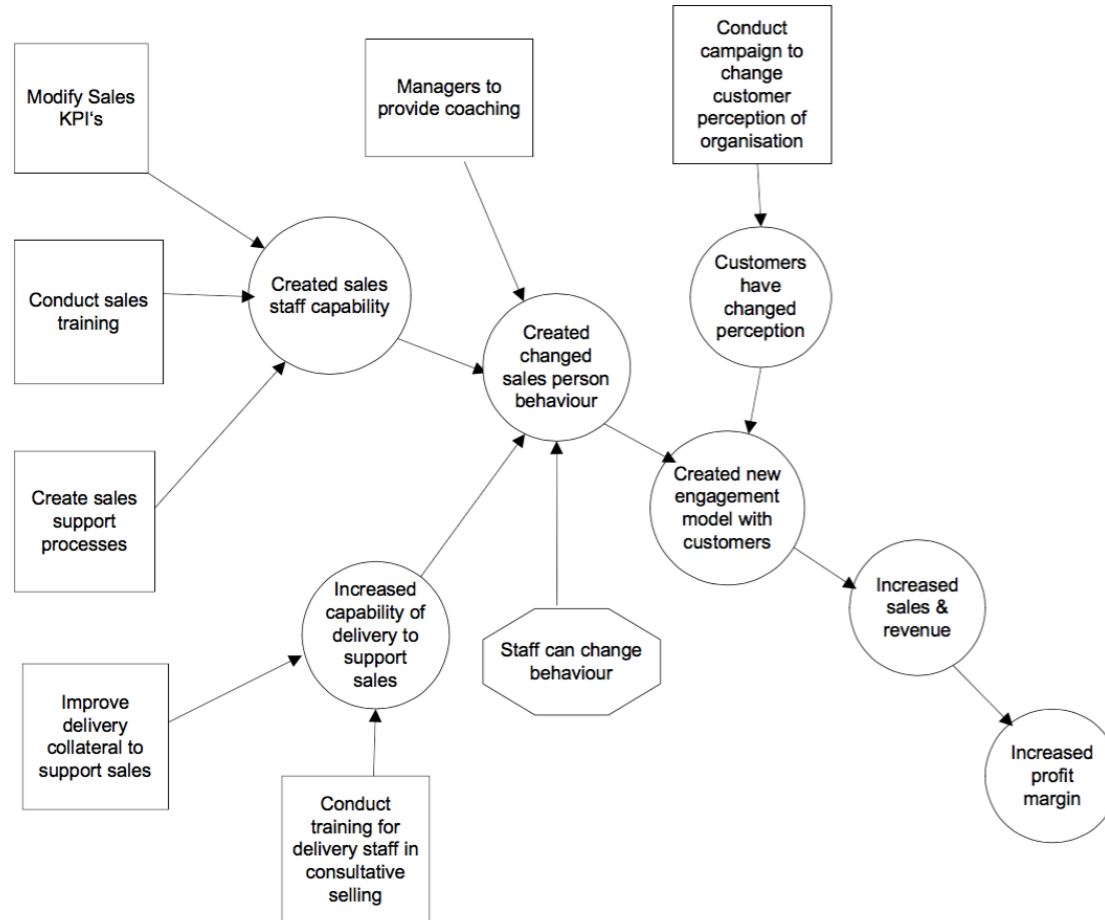
The final outcomes are outcomes that are important to the business, typically the achievement of an business objective or strategy. These outcomes map to those portrayed in a balanced scorecard strategy map.

* "The Information Paradox- Realizing the Business Benefits of Information Technology" by John Thorp 1998, 2003

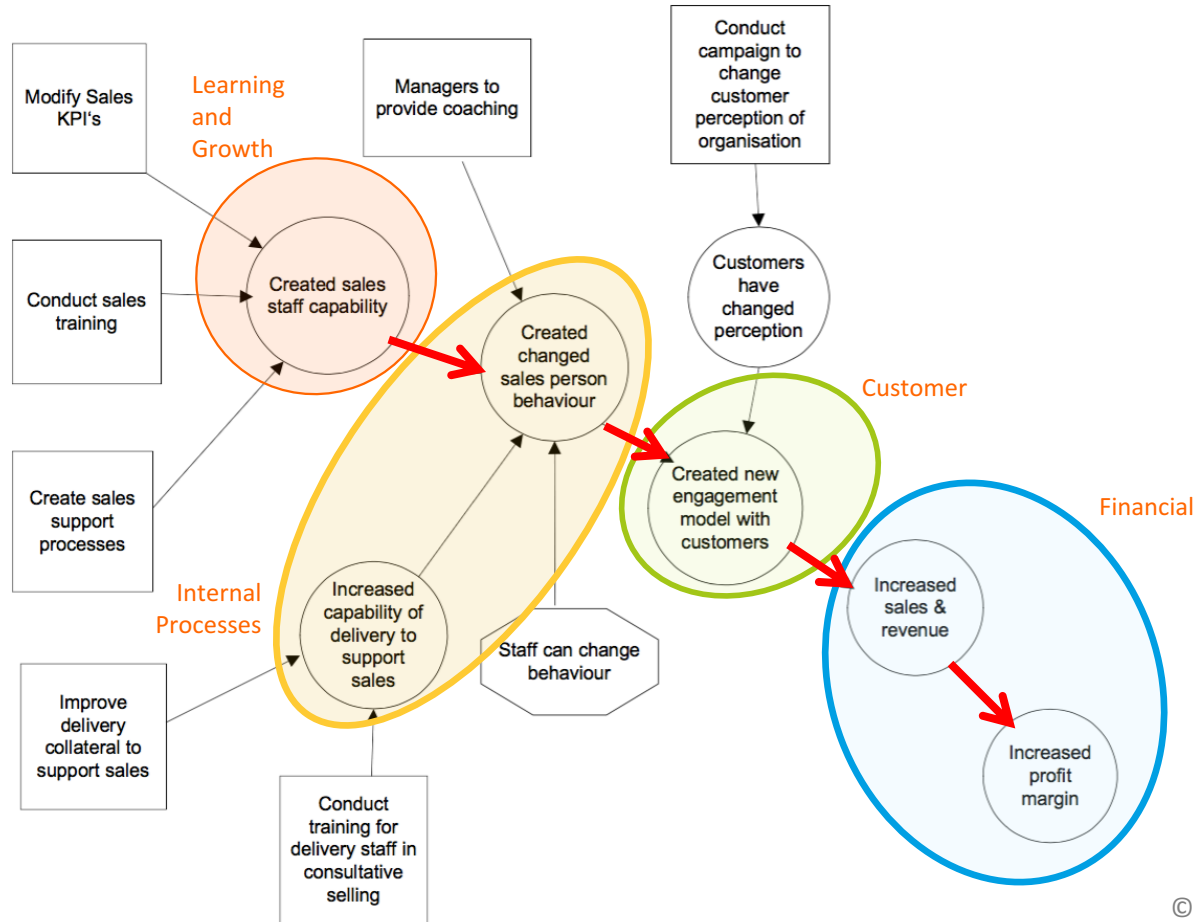


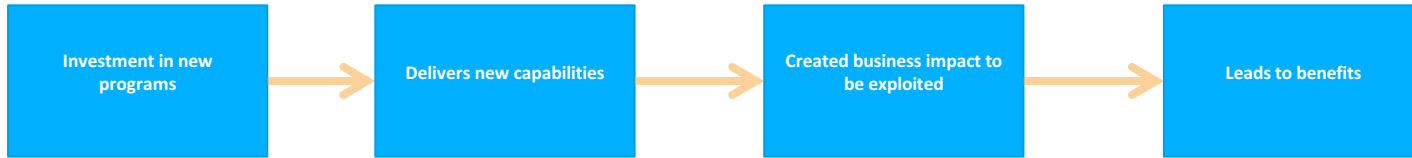
A Business Outcomes Map is composed of four distinct components and each component is represented by a distinctive shape, as shown below:





BOM – Example with Strategy Maps Perspectives





A great technique for helping all stakeholders come to a similar view of a programs outcomes;

- Helps to define what activities and initiatives are required.
- Enables measurable outcomes to be identified;
- Allocates outcomes to business managers who will be accountable for their achievement;
- Making assumptions explicit reduces waste, e.g. when project have an unfounded basis;
- Agreeing risks and how they should be managed;
- Help prioritise program (portfolio of projects) funding,
 - Help understand the business case.



Four Main Components:

1. **A destination statement.** This is a one or two page description of the organisation at a defined point in the future, typically three to five years away;
2. **A strategic linkage model.** This is a version of the traditional “strategy map” that typically contains 12-24 strategic objectives segmented into two perspectives,
 - Activities and
 - Outcomes;
3. **A set of definitions for each of the strategic objectives;**
4. **A set of definitions for each of the measures** selected to monitor each of the strategic objectives, including targets.



- Explain and help visually communicate the relationships between strategy, drivers, outcomes and initiatives;
- Provide critical INPUT to prioritise change and meet business goals.
- Help direct the budgeting and prioritisation process by visually showing :
 - the impacts of prioritisation; are the priorities causally ordered over time;
 - the impacts of budgeting; are causal chains broken ?
 - Placing the choices within an overall strategic context and themes.
- Provides OUTPUT initiatives that can be managed and measured via scorecard to determine if organisation is meeting business goals;
 - Leading measure provide a heads up of issues that will impact strategy.
- Strategy, used with Portfolio Valuation helps weigh the costs and risks and decide on what assets to keep, retire or further invest in;
- Provide a basis for
 - Business Principles;
 - Understanding Capability and help Capability Modelling;
 - Defining the goals of the Corporate Operating Model;



The END

