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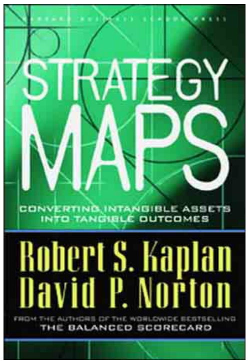

Strategy Maps

Converting Intangible Assets into Tangible Outcomes

by Robert S. Kaplan and David P. Norton
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Take-Aways

- The U.S. Army used "strategy maps" and the "Balanced Scorecard" method to transform its readiness in the wake of September 11, 2001.
- A "strategy map" is an invaluable tool that demonstrates how implementing one strategic theme has an impact on other themes.
- To maintain a balanced approach, the map views corporate strategy from four perspectives: "Financial," "Customer," "Internal" and "Learning and Growth."
- When long-term and short-term interests conflict, favor the long-term.
- Know who your future customers are and the value proposition you will offer them.
- External outcomes – profitability, share price and customer satisfaction – depend on internal business processes, such as learning initiatives and training.
- Stress the internal methods that support your "differentiating value proposition."
- Few companies operate with well-defined strategies that their leaders all share.
- Most organizations fail to align their HR and IT programs with their strategies.
- Prior to implementation, make sure your strategy adds sufficient value throughout the continuum of short, medium and long term.

Rating (10 is best)

Overall	Applicability	Innovation	Style
9	9	10	7

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Relevance

What You Will Learn

In this Abstract, you will learn: 1) How to balance various forces that affect your organization: tangibles, intangibles, current profit and future innovation; 2) How value-added strategies differentiate your firm and your products; 3) How to create and implement a "strategy map" and achieve its goals; 4) What the "Balanced Scorecard" method involves; and 5) How other companies have applied the strategy map concept.

Recommendation

If this book were a Hollywood film, it might be titled "Son of Balanced Scorecard" or even "Balanced Scorecard III." This book, however, is no mere spin-off or sequel. In two prior works, *The Balanced Scorecard* (which you may wish to read before reading this book) and *The Strategy-Focused Organization*, authors Robert S. Kaplan and David P. Norton introduced the powerful concept of measuring the elusive intangibles that affect organizations. This information-dense book was born when the authors observed that CEOs instinctively draw arrows to explain their goals. This led to a breakthrough realization: "Objectives should be linked in cause-and-effect relationships." The graphic display of these relationships is a "strategy map." This book breaks new ground by providing a template so executives can be sure that their strategic planning omits nothing. It expands the concepts of "strategic themes" and "value-creating processes," and explains a system for aligning your organization's strategy with its intangible assets. However, the real-world examples may be lost on CEOs who are unfamiliar with MBA-style case studies. If you're implementing a "Balanced Scorecard" initiative or planning your firm's future, *getAbstract.com* says this is a blockbuster you don't want to miss.

Abstract

About Face, Forward March

"This book is directed toward managers who will be leading Balanced Scorecard projects."

If an organization ever needed transformation, the U.S. Army did after terrorists dealt the U.S. a devastating blow on September 11, 2001. The Army's leaders suddenly faced a radically new type of conflict. A crucial part of their response was a "Balanced Scorecard" initiative, including a "strategy map." So what does an organizational strategy development system have to do with the armed forces? The same system that transformed some 300 other organizations helped change the Army forever.

"The focus on objectives led to a breakthrough: Objectives should be linked in cause-and-effect relationships."

The Army had to measure and balance its immediate readiness to fight versus its need to prepare for future conflicts. It could not focus too much on hardware and weaponry without weighing increasingly important "intangibles," like training, morale and readiness. Its first Balanced Scorecard step was developing a graphic depiction, a "strategy map," of its priorities and goals. This led to a new Strategic Readiness System (SRS). By March 18, 2003, the U.S. Army Vice Chief of Staff, General John M. Keane, could tell Congress, "For the first time, we have an Army enterprise management system that integrates readiness information… This reporting system markedly improves how we measure readiness by gathering timely information with precision and expands the scope of the data considered. We are further addressing issues that affect readiness before they become problems." These systems also can help your management focus your company for the short, medium and long range.

"At first glance, it seems daunting to measure assets – employees' capabilities and alignment, information technology, and organizational climate and culture – that are defined by their intangibility, but some measurement principles seem clear."

Keep Your Balance: Making the Strategy Map

Few companies have a well-defined, holistic view of their precise stratagem. The solution is the strategy map, a graphic depiction of strategic objectives and the factors linked to them. The map graphs a firm's strategy from four related perspectives: "financial," "customer," "internal" and "learning and growth." These four perspectives ensure that the strategy balances tangible versus intangible assets, and short-term needs versus long-range opportunities.

Physically, a strategy map is a single page split into four horizontal bands or rows – one for each perspective, plus information listing areas of alignment, such as strategic change. Each band displays its area's priorities with the names circled. These priorities range from long-term shareholder value on the financial band to the customer value proposition on the customer band. Arrows link related subjects, up and down, from one band to another. This "map" graphic can become complex, but its purpose remains clear: to align the priorities of different domains and to help balance the tangible and intangible elements in the overall strategic plan. The result is one page that describes the company's value proposition and growth strategy, plus the linkages that explain how those objectives will be achieved. The "strategy map template" acts as a checklist to assure that no element is inadvertently omitted. The map helps your organization align its strategic themes. The core assumptions about strategy and business that underlie the strategy map include:

"Without quantifying, a strategic objective is simply a passive statement of intent."

1. **"Strategy balances contradictory forces" –** Strategy should reflect balance. For example, the important role of intangible assets, such as teaching workers new skills, must not be overlooked for today's financial gain. Weigh the present goal of cutting costs and upping productivity versus the long-term goal of future revenue growth.
2. **"Strategy is based on a differentiated customer value proposition" –** To draft a clear strategy, articulate who your customers are and the unique value proposition that you plan to offer them. This may well be the most essential element of any strategy.
3. **"Value is created through internal business processes" –** Internal processes lead to external outcomes, such as customer satisfaction or increased sales. These processes include financial operations, learning initiatives, training, organizational systems and procedures. Key processes support your "differentiating value proposition."
4. **"Strategy consists of simultaneous, complementary themes" –** Pursue several themes simultaneously. Each strategy involves "at least one strategic theme from each of the four internal clusters" so that you push multiple themes forward simultaneously.
5. **"Strategic alignment determines the value of intangible assets" –** This perspective drives the growth of your company's intangible assets: the "human capital" of your skilled, talented, trained employees; the "information capital" vested in your data, systems and technology base; and the "organization capital" that resides in your leaders, teams, know-how, internal coordination and corporate culture.

"The strategic map of the enterprise provides the macroeconomic model for planning the overall campaign."

Strategy and Internal Operations

Every organization has four "internal operational clusters," each encompassing several internal systems. Internal operations ultimately will determine how you create and maintain value. Your strategy map will help you focus on a few internal processes – "strategic themes" – that are critical to your overall success and your distinct value proposition. The four internal business-process clusters are:

"A well-constructed strategy map should show the interrelationships among the organization's internal processes and intangible assets that create sustainable competitive advantage."

1. **"Operations management" –** These operating procedures and systems produce and deliver your goods and services. Many companies focus on this area, although by

itself, operational excellence is not a sufficient long-term strategy, especially in a changing marketplace. Operations management includes building and nurturing ties to your suppliers, turning out goods and offering services, getting your products and services to the consumer, and handling any risks involved.

2. **"Customer management"** – This involves identifying which customers to pursue, shaping your value proposition to them, marketing to acquire them, keeping them and enhancing your relationship with them over time to earn more profits.
3. **"Innovation"** – Innovate to remain competitive. Avoid the risk that a competitor will eventually imitate some aspect of your value proposition, at which point your product or service may become a commodity. Innovation involves four key processes: 1) "Identify opportunities for new products and services;" 2) "Manage the research and development portfolio;" 3) "Design and develop the new products and services;" and 4) "Bring the new products and services to market."
4. **"Regulatory and social"** – These activities encompass legal provisions and societal norms. Companies that fail to comply with such rules and customs face costly litigation and possible shutdowns. This cluster includes environmental and health concerns, safe practices, workforce policies, and social and civic responsibility.

"Strategy requires a clear articulation of targeted customer segments and the value proposition required to please them. Clarity of this value proposition is the single most important dimension of strategy."

Studies say that some 66% of organizations do not relate their strategies to their human resources and IT practices, so they probably are not realizing a full return on their investments in these areas. In contrast, organizations that align their human capital and growth maintain high readiness and flexibility. They can mobilize to respond to change.

"If an organization's intangible assets represent more than 75% of its value, then its strategy formulation and execution need to explicitly address the mobilization and alignment of intangible assets."

Unique Value in the Marketplace

To assure that your products have unique positions and extra value (and never become commodities), consider the following strategies. Make sure your strategy map depicts the themes that support whichever value-added approach your company selects from this list:

1. **"Low total cost strategy"** – The primary goal of such companies as Southwest Airlines, Dell Computer and Wal-Mart is to deliver "low total cost." This involves quality and price, since defects and returns increase the customer's expenses. These firms minimize costs by limiting their stock while offering enough products to satisfy most clients fully. A strategy map for this approach has several unique characteristics, including proven relationships with extremely dependable suppliers. These companies must offer short response times, ease of consumer access and simple ordering. This may mean online ordering (Dell, Amazon) or it may mean rapid check-in (airlines, car rentals). These firms must have a keen understanding of which products address the broadest range of consumer demand. Because they tend to be followers rather than leaders, they seek efficiency and invest relatively little in technological research and development.
2. **"Product leadership strategy"** – Sony, Intel and Analog Devices, for instance, emphasize product leadership and innovation, as do several biotech and pharmaceutical firms. These organizations' strategic maps stress being the first to bring significant innovations to market. These companies cater to early adopters or lock buyers into specific technical systems. Their "operations management processes" must be strong and nimble to accommodate new products. Profit margins from original products have to cover the increased costs of innovation. These companies learn from their best customers and educate consumers about using new products. Because their strategy depends on having technologically adept employees, these firms seek the best talent and nurture their people.

"In designing Balanced Scorecards, therefore, an organization must measure the critical few parameters that represent its strategy for long-term value creation."

"Short-term results can always be achieved by sacrificing long-term investments, frequently in an invisible way."

3. **"Complete customer solutions" –** Like IBM, Mobil and Goldman Sachs, these companies emphasize long-term customer relationships. They bond with their customers and can generate high profit margins. Their hallmarks are complete – not partial – solutions and superb service even after the sale. They strive for high customer retention and measure their customers' lifetime profitability. Their research focuses on understanding customers' future needs and their operations management encourages frequent customer interaction. Their IT departments create elaborate databases describing customers' buying patterns and product preferences.
4. **"Lock-in strategies"** – These companies fortify their consumer base by making it very costly for customers to switch to other networks. For example, Apple computer owners who switch to an IBM clone with a Windows system lose their ability to run much of their current software. "Lock-in strategies" require superb innovation. These companies draw new customers by reducing their switching costs, while keeping their current customers by raising theirs. Due to high revenues, these firms often experience less pressure to cut operational costs.

"Without innovation, a company's value proposition can eventually be imitated, leading to competition solely on price for its now commoditized products and services."

To implement a dynamic strategy, define three elements on your strategy map:

1. **"Quantify" your goals** – Set strategic targets. Verify your map's cause-effect links.
2. **"Define the time line"** – To be sure your value-added proposition is workable and sustainable over time, determine how it will generate value in short-, medium- and long-term periods.
3. **"Select initiatives"** – Prioritize your organization's actions, programs and initiatives, including investments in order to achieve its goals within the required time frames.

Because strategy maps provide a snapshot view of your organization's overall strategic posture, you can use them to develop action plans. Take these six steps:

"Companies' efforts to achieve operational excellence were largely successful. Many enjoyed dramatic improvements in the quality, cost, and responsiveness of manufacturing and service delivery processes."

1. **"Define the shareholder/stakeholder value gap"** – This gap is the difference between your current performance and your targeted future aspirations.
2. **"Reconcile the customer value proposition"** – Define your buyers and their wishes.
3. **"Establish the time line for sustained results"** – Show the phases and time periods during which the value gap will be narrowed and eventually eliminated.
4. **"Identify the strategic themes"** – What are the "critical processes" your strategy depends on?
5. **"Identify and align intangible assets"** – Define your degree of readiness, identifying the "readiness gap" you intend to bridge with new programs.
6. **"Identify and fund strategic initiatives to execute the strategy"** – Authorize the funding to support your plan.

Installing a Balanced Scorecard approach takes more than objectives arrayed on a strategy map. Allocate resources and set strategic initiatives in motion to accomplish those goals. If executing your overall strategy is tantamount to winning the war, each strategic theme represents a battle. Now, move from planning to implementation and onto success.

About the Authors

Robert S. Kaplan is a professor of leadership development at Harvard Business School, and chairman of the Balanced Scorecard Collaborative, where **David P. Norton** is co-founder and president. Kaplan and Norton also co-authored *The Balanced Scorecard* and *The Strategy-Focused Organization*.

