STRATEGY MAPS

Converting Intangible Assets Into Tangible Outcomes

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MAIN IDEA

In business, you can't manage what you can't measure. Nor can you measure what you can't describe. This is a problem because for many enterprises, more than 75-percent of their market value is generated by intangible assets which traditional financial and accounting metrics simply don't capture at all.

To address this problem, thousands of companies worldwide have adopted the "Balanced Scorecard" approach which supplements financial measures (which summarize the results of actions taken previously) with nonfinancial measures (of customers, internal processes and learning and growth) to capture the lead indicators of future financial performance. In this way, direct links are formed between the strategy a company chooses and its results. The directness of this link enhances the company's ability to manage and ultimately execute its desired strategy.

In developing a Balanced Scorecard for each organization, a strategy map is also developed which links intangible and tangible assets with objectives in cause-and-effect relationships. Originally, strategy maps were considered a by-product but managers found these maps were very useful in articulating the strategy of the organization and how that strategy links to the objectives. Put differently, strategy maps help managers describe and manage strategy at an operational level because they show:
1. How value gets created from the organization's internal and learning and growth perspectives.
2. The dynamics of the corporation's strategy and the processes which are designed to create value.
3. How the company's intangible assets – human, information and organizational capital – are measured and aligned.

Thus, strategy maps may have started out with a minor role but they have now moved to center stage in describing how an organization creates value using both its tangible and intangible assets. They provide a framework by which important management decisions can be made. And as such, every manager needs to understand his or her own organization's strategy map. To try and manage without a strategy map in place is like working in the dark. At the very least, any organization which understands its own strategy map has a sustainable competitive advantage over those organizations which adopt a much more hit-and-miss approach.

"The strategy map has turned out to be as important an innovation as the original Balanced Scorecard itself. Executives find the visual representation of strategy both natural and powerful. As one executive speaker exclaimed at the start of her talk, 'I love strategy maps'. When we post organization's strategy maps on the walls of rooms where we hold conferences, delegates use their coffee breaks to study each diagram – even for organizations completely different from their own. Strategy maps provide increased granularity for executives to describe and manage strategy at an operational level of detail."

– Robert Kaplan and David Norton

1. The Basic Template of a Strategy Map . . . . Pages 2 - 3

A strategy map provides a visual framework for an organization's strategy – how it intends to create value. Specifically, a good strategy map will link together:
1. The desired productivity and growth outcomes.
2. The customer value proposition which will be needed.
3. Outstanding performance in internal processes.
4. The capabilities required from intangible assets.

In effect, a strategy map captures the organization's strategy in visual form so that managers can better execute their desired strategy.

2. Managing the Four Themes of the Internal Perspective . . . . Pages 4 - 5

A company or other organization creates value by producing goods and services that can be sold for a profit. At one time, it was suggested managing these processes is the most important duty of management. In today's competitive environment, however, operational excellence alone is not enough to provide a sustainable competitive edge. A strategy map helps ensure internal processes are well executed and properly aligned with intangible assets and the customer value proposition.

3. Aligning and Managing the Creation of Value From Intangible Assets . . . . Pages 5 - 6

In order for added value to be realized from the three intangible assets, two things need to happen:
1. Intangible assets must be aligned with the strategy the organization is attempting to execute.
2. An integrated program must be undertaken under which an attempt is made to enhance all of the organization's intangible assets in a coordinated fashion rather than in standalone programs.

The key to managing intangible assets is to measure their degree of "readiness" – which is defined as the extent to which the intangible asset meets the requirements of the enterprise's overall strategy.

4. Harmonizing Your Strategy Map and Your Business Strategy . . . . Page 7 - 8

A strategy map provides a concise yet comprehensive description of an organization's strategy. With this clarity, executives have an enhanced ability to describe, measure, manage and execute the desired strategy. To get the most from a strategy map, however, it should be combined with a Balanced Scorecard of measures, performance drivers, targets and initiatives. This combined strategy map and Balanced Scorecard allows the effectiveness of the strategy to be constantly monitored and initiatives to be managed with the goal of closing any gaps between target performance and actual results.

In short, when used in combination with a Balanced Scorecard, a strategy map helps organizations execute more effectively.

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In effect, a strategy map captures the organization's strategy in visual form so that managers can better execute their desired strategy.

Every organization has a strategy for how it plans on creating value for its customers, shareholders and stakeholders. Numerous approaches have been developed on how best to describe and fine-tune strategy to enhance the creation of value. The Balanced Scorecard approach suggests that an organization's ability to create value in the future will be driven by four key factors or perspectives:

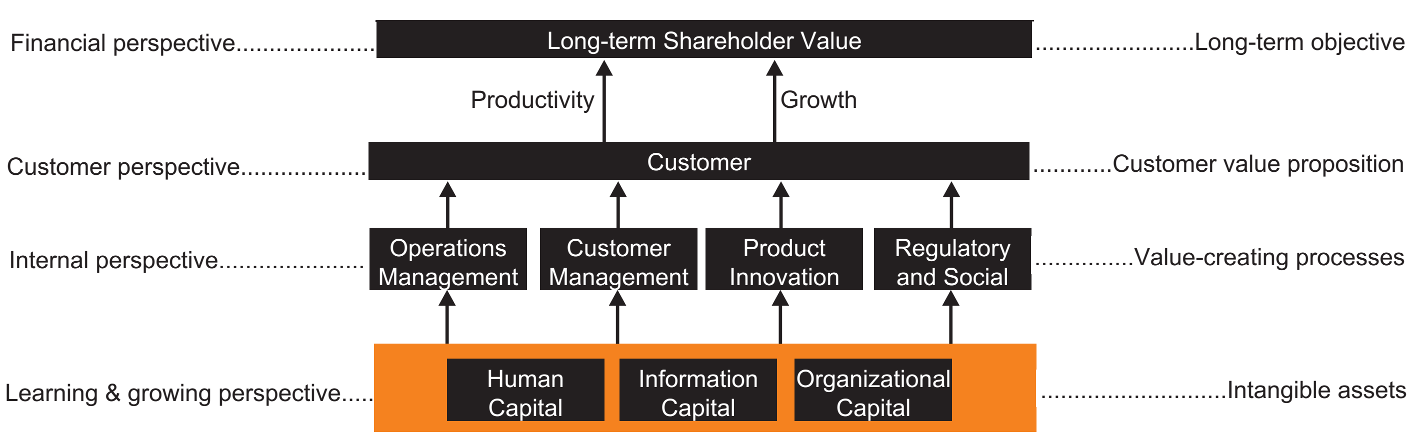
1. *The financial perspective* – what financial results will be required to appear to be successful to its shareholders. This will be a balance between investing for long-term growth or cutting costs for superior short-term results.
2. *The customer perspective* – what specific and differentiated value proposition the organization is providing its customers. In practice, there are four major value propositions:
   - Lowest total cost of ownership
   - Superior products or services
   - Offering complete customer solutions
   - System lock-in making switching difficult
3. *The internal perspective* – the various internal processes by which products and services are prepared and delivered to customers. These can be clustered into four groups:
   - Operations management – producing and delivering
   - Customer management – relationship building
   - Innovation – next generation products or services
   - Regulatory and social – complying with the law
4. *The learning and growth perspective* – how intangible assets (people, technology, culture) are being improved so as to enable more added value to be created in the future. Intangible assets can be divided into three categories:
   - Human capital – your people
   - Information capital – what you know
   - Organizational capital – how you operate

The Balanced Scorecard approach is that instead of simply setting financial targets, objectives must be established and progress measured in each of these four perspectives. That way, your organization will be leveraging its intangible assets in such a way that sustainable value creation will be occurring.

Strategy maps are built around the structure of these four perspectives. They ensure that the organization's objectives in each of these perspectives are consistent and internally aligned. That alignment, in turn, means the organization is focused and performing at an optimum level rather than having the actions of one part of the organization impact on the results achieved by another part. Strategy maps clarify all cause-and-effect relationships so that an effective strategy can be developed and then optimized over time. They are the interface between strategy and the Balanced Scorecard.

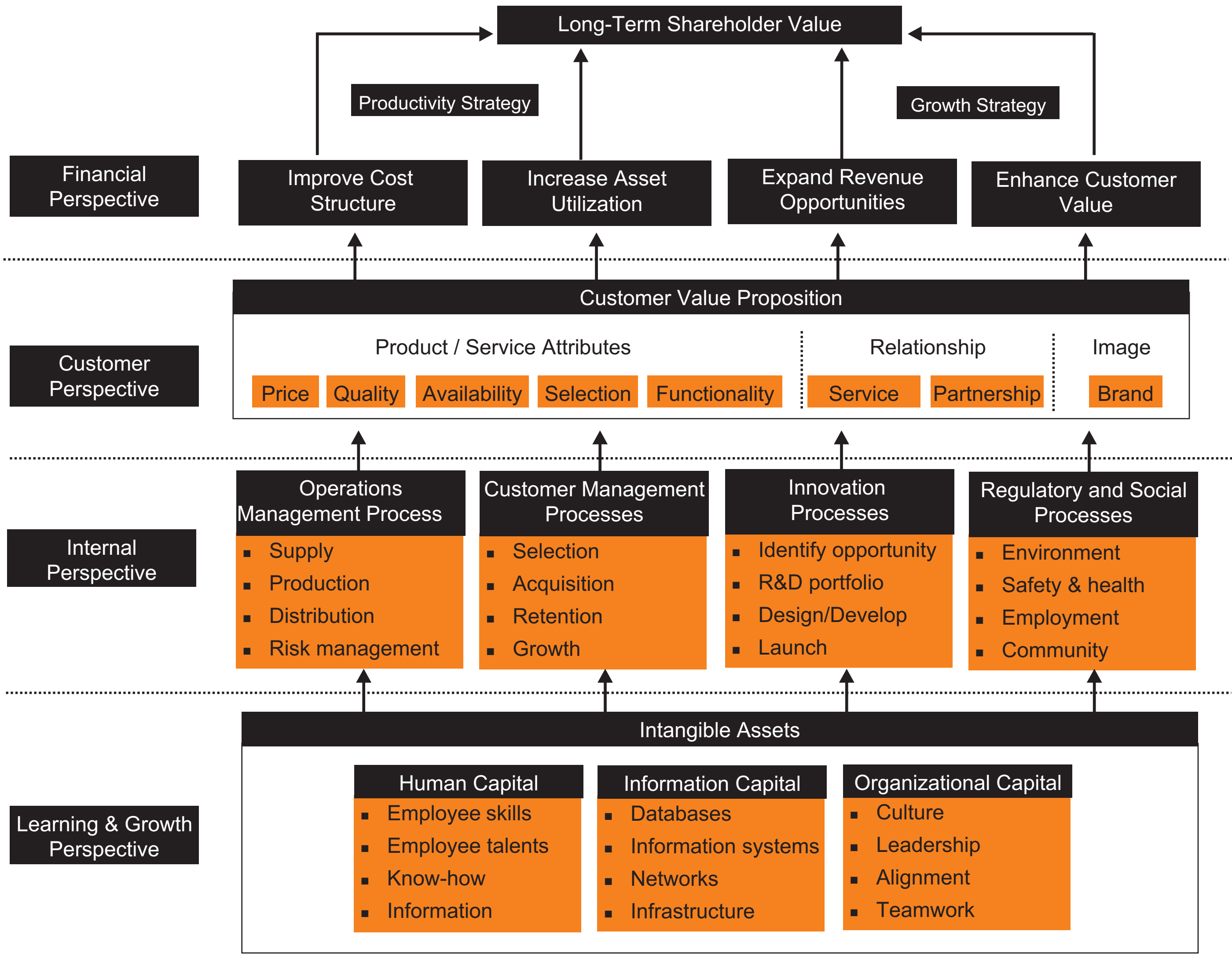
Conceptually, a strategy map links the high-level goals of the organization – its mission, values and vision – with meaningful and actionable steps each employee can take. Strategy maps also provide balance between the various competing dynamics every organization faces:

- Whether to invest in intangible assets that will generate strong long-term revenue growth or focus on cutting costs more aggressively so as to boost short-term results.
- How to differentiate your organization from your competitors by clarifying your value strategy – which usually involves one of the four different approaches already mentioned:
  1. Offering the lowest total cost to customers
  2. Product leadership – always offering superior products
  3. Making available complete customer solutions
  4. Locking-in customers so its hard to switch to other vendors
- Which internal processes to focus on and optimize and which to outsource.
- How to balance the allocation of resources between the various internal processes in such a way that different benefits are delivered at various points of time.
- How to align everything the organization does in such a way that the efforts of one part of the company don't have a negative impact on the results achieved elsewhere.
- How to make good management decisions about investments in intangible assets as the drivers of organizational growth in the future.



A simplified strategy map

Basic template for a strategy map



"An organization's strategy map and Balanced Scorecard should tell the story of its strategy, a story that differentiates the organization from competitors."

– Robert Kaplan and David Norton

"In summary, the strategy map template, customized to the organization's particular strategy, describes how intangible assets drive performance enhancements to the organization's internal processes that have the maximum leverage for delivering value to customers, shareholders and communities."

– Robert Kaplan and David Norton

"The strategy map template also provides a checklist for a strategy's components and interrelationships. If a strategy is missing an element on the strategy map template, the strategy is likely flawed. For example, we find that organizations frequently have no connection between internal process measures and a customer value proposition. Such omissions will generally lead to disappointing outcomes."

– Robert Kaplan and David Norton

"The strategy map, by providing a clear and comprehensive description of an organization's strategy, gives executives an enhanced ability to execute their strategies. People can't manage what they can't measure, and they can't measure what they can't describe. The strategy map solves this problem by providing a framework for a simple, one-page representation of the cause-and-effect linkages among the objectives for both the outcomes and the drivers of the strategy. The word statements of objectives in a strategy map are, in turn, converted into a Balanced Scorecard of measures, targets and initiatives. The strategy map and Balanced Scorecard enable everyone in the organization to have a common understanding of the strategy. The strategy map facilitates performance breakthroughs by allowing them to link their management processes to a clearly defined strategy."

– Robert Kaplan and David Norton

2. Managing the Four Themes of the Internal Perspective

A company or other organization creates value by producing goods and services that can be sold for a profit. At one time, it was suggested managing these processes is the most important duty of management. In today's competitive environment, however, operational excellence alone is not enough to provide a sustainable competitive edge. A strategy map helps ensure internal processes are well executed and properly aligned with intangible assets and the customer value proposition.

The four key internal processes by which organizations create value are:
1. Operations management processes
2. Customer management processes
3. Innovation processes
4. Regulatory and social processes

Operations Management

1. Develop supplier relationships
2. Produce products and services to sell
3. Distribute and deliver customer offerings
4. Manage risks

In the operations management area, organizations are:

1. Attempting to develop deeper relationships with suppliers with the goal of lowering the total cost of procuring all the materials needed to products the customer offerings. Generally, this involves simplifying ordering and accounting functions to lower administrative costs as far as possible.
2. Looking for new ways to actually produce the products and services as efficiently as possible through continuous improvement of processes and enhanced efficiency initiatives.
3. Attempting to lower the costs of distribution and delivery in any way possible.
4. Trying to get a better idea of the risks involved in doing business and then finding effective ways to offset and minimize those risks to better effect.

By focusing on operations management, organizations are attempting to inject key features into their value proposition:
1. Competitive prices
2. High levels of quality
3. Speedy delivery of goods purchased
4. A comprehensive solution to customer problems

A well thought out and integrated strategy map provides strategic focus to these key internal processes. Or, put differently, a strategy map helps link process improvement programs to important organizational outcomes. Strategy maps help organizations improve the right things, not just the more obvious things.

Strategy maps are also useful where organizations have embarked on quality management programs such as Total Quality Management (TQM), Six Sigma or Activity-based Management (ABM). The strategy map helps embed these quality management efforts within a strategic framework that will provide cause-and-effect accountability and measurement metrics.

Customer Management

1. Customer selection and targeting
2. Customer acquisition
3. Retention of quality customers
4. Building the customer relationship

Many organizations are weak in one or more of these areas. In customer management terms, organizations are:

1. Segmenting the broader market into niches or target segments which can then be offered a specific and customized value proposition.
2. Attempting to acquire new customers by communicating an attractive value proposition.
3. Working to retain the customers they now have rather than marketing to replace those who defect to competing products or services. Typically, this involves customer loyalty incentives and other programs.
4. Trying to get existing customers to buy more products and services in the future through cross-selling or other partnering relationships.

By focusing on customer management, organizations are attempting to inject into their value propositions:
1. A stronger, more vibrant brand image
2. A win-win expanding customer relationship
3. Increased levels of customer loyalty

Simply put, customer management is all about understanding customers and the value proposition they will find most appealing. Strategy maps help align intangible assets behind the organization's various customer relationship initiatives.

Innovation Processes

1. Identify opportunities for new products
2. Manage product development portfolio
3. Design and develop new offerings
4. Successfully bring new offerings to market

To sustain or build a competitive advantage, organizations must keep creating and bringing to market new products, services and processes. Innovation requires that organizations:

1. Anticipate the customer's future needs and develop entirely new or next-generation products that will meet those needs.
2. Have a portfolio of research and development projects underway. Ideally, these will run the full spectrum from projects that create new science and technology through to breakthrough products, next-generation products, derivative products and joint development products.
3. In addition to researching new products, companies also need to be designing the products, doing prototyping and testing, running pilot production tests and planning on how best to ramp-up the manufacture of new products in acceptable levels of volume. All of these activities need to be completed within an applicable time-frame and budget.
4. At the conclusion of the development cycle, new products and services then need to be made available in commercial quantities. In parallel, the marketing and sales units will also launch their efforts to sell the new products and services to customers. Customers will also be demanding that suitable levels of quality are achieved.

By focusing on innovation processes, organizations are attempting to inject into their customer value proposition:
1. Enhanced functionality or high-performance products
2. Being the first to market with new features and benefits
3. Extension of products into new, expanded markets

Regulatory and Social

1. Being environmentally conscious
2. Providing a safe and healthy workplace
3. Using non-exploitive employment practices
4. Investing in the broader community

Companies and organizations must continually win the right to operate in the communities and countries within which they produce and sell their offerings. They do this by complying with all the applicable laws and regulations, and by contributing to the communities within which they operate. Specifically:

1. Organizations have to use energy wisely, avoid contaminating the environment and minimize the impact on the environment of all products produced and sold.
2. Organizations have to provide a workplace which is safe and healthy for its employees, and to take active measures to reduce employee exposure to dangers wherever possible.
3. Companies need to pay workers appropriately and provide opportunities for employees to gain new skills and competencies.
4. Corporations need to be sensitive to the needs of the broader community and willing to make monetary contributions or allow employees to do volunteer work while still being paid.

At a minimum, these social and regulatory internal processes are intended to inject into the customer value proposition:
1. A sense of partnership with the community
2. An awareness of the need to be a good citizen

Regulatory and social processes also paves the way for companies to enter new markets in the future. Organizations with a strong track record in this area are welcomed into new regions. There is also the flow-on effect in internal morale when employees take pride in their organization's contribution to improving the communities where they live. This, in turn, makes it easier to attract and retain talent.

"There are literally hundreds of processes taking place simultaneously in an organization, each creating value in some way. The art of strategy is to identify and excel at the critical few processes that are the most important to the customer value proposition. All processes should be managed well, but the few strategic processes must receive special attention and focus since these processes create the differentiation of the strategy. The selected strategic processes should also be drawn from all four clusters. Each strategy should identify one or more processes within operations management, customer management, innovation, and regulatory and social. In this way, the value creation process is balanced between the short and the long term. This ensures that the growth in shareholder value will be sustained over time. The critical few strategic processes are often organized as strategic themes. Strategic themes allow an organization to focus and to provide a structure for accountability. Strategic themes are the building blocks around which the execution of strategy occurs."

– Robert Kaplan and David Norton

3. Aligning and Managing the Creation of Value From Intangible Assets

In order for added value to be realized from the three intangible assets, two things need to happen:

1. Those intangible assets must be adequately aligned with the strategy the organization is attempting to execute.
2. An integrated program must be undertaken under which an attempt is made to enhance all of the organization's intangible assets in a coordinated fashion rather than in standalone programs working against each other.

The key to managing intangible assets is to measure their degree of "readiness" – which is defined as the extent to which the intangible asset meets the requirements of the enterprise's overall strategy.

In practical terms, the best way to manage intangible assets effectively is by developing a strategic readiness report for your organization which:
1. Defines all the organization's intangible assets.
2. Aligns each asset to the strategy.
3. Measures the degree of readiness for each asset.

Conceptually, readiness can be described in this way:

Cash

↑ Liquidity

Tangible Assets

↑ Readiness

Intangible Assets

- Liquidity is the ease with which a tangible asset can be converted into cash.
- Readiness is the extent to which an intangible asset is aligned with the strategy of the business enterprise. The higher the state of readiness, the faster intangible assets start generating cash. Readiness only gets converted into cash when internal processes generate greater levels of revenue and profit.
- Intangible assets will only be converted into tangible outcomes (either revenue growth or cost reductions) when they support and align with the strategy.
- Organizations cannot (and should not) assign a meaningful monetary value to intangible assets because tangible value will only be derived in the context of executing a chosen strategy successfully.

In all, the strategic readiness of an intangible asset is a necessary condition for strategic success, but in and of itself does not guarantee that success will be achieved. The objective, with intangible assets, is to manage them in such a way that their degree of readiness is enhanced and increased over time rather than being lost or dissipated. And to achieve that consistently, you must be able to define, measure and manage the readiness of each intangible asset individually.

To define, measure and manage the readiness of each type of intangible asset, different approaches will be required for each:

Human Capital

1. *Identify your organizations "strategic job families"* – the key competencies which will be required in order for the organization's internal processes to function effectively.
2. *Build your "competency profiles"* – the knowledge, skills and values that a successful person will need to fill that position successfully. Many HR departments already build competency profiles to use when hiring people for positions or planning development training programs.
3. *Assess your organization's current state of readiness* – by comparing the current capabilities and competencies of employees to the requisite strategic job families. This assessment should provide an overall evaluation of where the organization is strong and where competencies are lacking.
4. *Develop more human capital* – by putting in place appropriate recruiting, training and career development programs. Note this will be focused on the relatively few employees in strategic jobs rather than the needs of rank-and-file employees.

In the human capital area, there will typically be gaps between the skills and competencies required and your current workforce capabilities. These gaps effectively set the agenda for your human capital enhancement and development programs. By closing the gaps, you increase your organization's human capital.

Information Capital

1. *Accurately describe your current information capital portfolio* – which will basically have two key components:
   - Technology infrastructure – your hardware, software, communications networks and management expertise in delivering and applying this infrastructure.
   - Applications which use information technology like transaction processing, management analytic tools, manufacturing planning and supply-chain management packages.
2. *Align your information capital with your business strategy* – because information capital has value only in the context of the strategy being pursued. For example, a company executing a product leadership strategy will benefit from tools that enhance the design and development processes. Another company pursuing a customer solutions strategy would benefit most from information systems that provide knowledge about customer preferences and behavior. To capture the full benefit of investments in information technology, the context is very important.
3. *Measure your information capital readiness* – as the degree of preparedness your organization's information capital has to support your enterprise's preferred strategy. In this case, readiness may be measured qualitatively (where managers evaluate the readiness on a predetermined scale) or quantitatively (using formal surveys or technical audits). Either approach can work well, and it will be a matter of determining which type of measure makes the most sense for your organization.

Historically, most information capital investments have tended to be evaluated by cost and reliability metrics. Strategy maps makes it feasible to measure on the basis of strategic alignment – how the information capital contributes to the achievement of the enterprise's objectives. This is a more viable and interesting approach.

Organizational Capital

1. *Build organizational leadership* – especially the type of leadership skills which come to the fore during times of great transition and change. The more effective leaders you have, the better. To build leadership depth, some organizations undertake a formal development process where leaders are given progressively more demanding assignments in a well structured succession program. Another approach is to establish a leadership competency model which describes the traits leaders should exhibit, and then encourage people to seek assignments that will lead to the development of those specific traits.
2. *Strengthen your corporate culture* – the predominant behaviors and attitudes which people in the organization consider to be appropriate. Different strategies and different value propositions will require different cultures to be in place before they can be effective. Most organizations watch their culture closely to ensure it becomes an enabler of growth rather than an impediment.
3. *Find better ways to align your organization with your preferred strategy* – because alignment will encourage risk taking, innovation and empowerment at the individual employee level. To increase alignment, leaders can create awareness (by individualizing the overall objectives) and establish incentives which link objectives and compensation.
4. *Encourage greater teamwork and sharing of knowledge* – by putting into effect a knowledge sharing framework. This will allow what is already known in one part of the organization to be applied elsewhere with flow-on benefits and synergies.

As for human capital and information capital, an organizational capital readiness report can be developed which tracks actual-versus-target results in these key areas.

Note that intangibles are the ultimate lead indicators of future organizational performance. These assets will create value only when suitably aligned with the chosen strategy. Human capital is enhanced only when it is focused on skills which are integral to the key internal processes. Information capital adds the most value when it facilitates exceptional performance of the key strategic internal processes. Organizational capital increases when harnessed for successful strategy implementation. Measuring these intangible assets is never accomplished using subjective metrics. Instead, a Balanced Scorecard approach is required.

"Organizations that can mobilize and sustain their intangible assets for the value-creating internal processes will be their industries' leaders."

– Robert Kaplan and David Norton

"Templates, strategic themes, and intangible assets are the building blocks for understanding and executing strategy. The strategy map provides the missing link between strategy formulation and strategy execution."

– Robert Kaplan and David Norton

4. Harmonizing Your Strategy Map and Your Business Strategy

A strategy map provides a concise yet comprehensive description of an organization's strategy. With this clarity, executives have an enhanced ability to describe, measure, manage and execute the desired strategy. To get the most from a strategy map, however, it should be combined with a Balanced Scorecard of measures, performance drivers, targets and initiatives. This combined strategy map and Balanced Scorecard allows the effectiveness of the strategy to be constantly monitored and initiatives to be managed with the goal of closing any gaps between target performance and actual results.

In short, when used in combination with a Balanced Scorecard, a strategy map helps organizations execute more effectively.

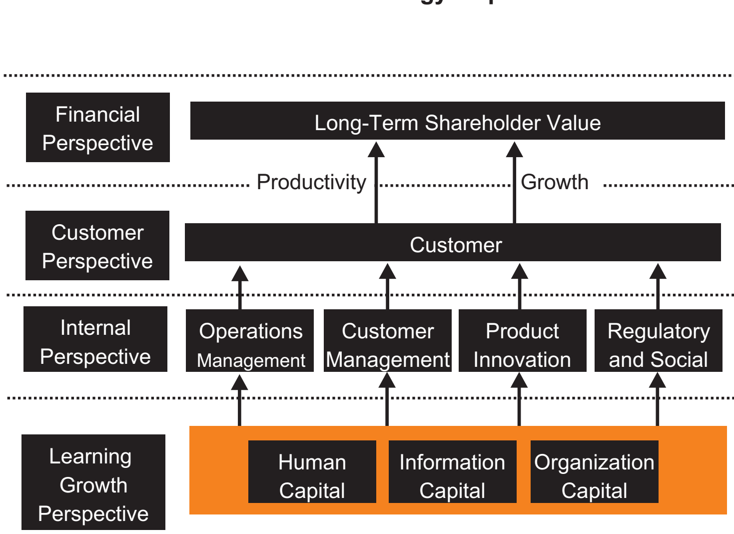
Strategy maps can be used dynamically to create an action plan rather than passively as snapshots of corporate intent. To use a strategy map and Balanced Scorecard together effectively in this way is a six step process:

1. *Establish and define what the current value gap is for shareholders* – or in other words, set the financial objectives, measures and targets. Determine how much long-term revenue growth and short-term productivity improvements you will work towards achieving. These should be stretch targets that will challenge the organization.
2. *Reconcile your current value proposition* – by identifying your current target customer segments, clarifying the value proposition you now use, selecting your measures and reconciling your customer objectives to financial growth goals. You might also decide on a new customer proposition that will generate the growth you desire.
3. *Establish your projected time line* – how quickly you anticipate your new internal processes and themes can begin to generate the kinds of financial results required. This should indicate which goals are achievable and which goals may need further adjustment.
4. *Identify your key strategic themes* – those critical few internal processes which will have the greatest impact on the customer value proposition. For each theme, you then establish quantitative measures and targets. You also highlight which internal processes are the drivers for those targets and create some linked objectives, measures and targets.
5. *Identify and align your intangible assets* – by assessing the level of strategic readiness of each intangible asset. You then set targets on how to increase each asset's level of readiness individually.
6. *Specify and fund the strategic initiatives required to execute the strategy* – so there is clarity about the level and sourcing of funding required. The cause-and-effect linkage of the strategy map, Balanced Scorecard and action plan should help visualize the logic involved.

These steps mean that passive statements of intent are given substance and relevancy. For example, a strategic objective to "Reduce the typical product development cycle" is appealing but also open to individual interpretation. When it is transformed into something like "Reduce the product development cycle from three years to nine months", everyone in the organization realizes this will require some breakthrough, outside-the-box thinking rather than minor enhancements. When the statement is given a time line for achievement ("Reduce the product development cycle from three years to nine months within the next three years"), people get a feel for whether this is a long-term or a short-term project. When this is supplemented by budgets for the action plans needed to realize the objective, people start getting serious about it rather than waiting for the next flavor-of-the-month to emerge.

The real strength of the linkages between the strategy map, Balanced Scorecard and action plan is consistency. Instead of a fragmented approach where one part of the organization pursues a different agenda from another part, everyone uses the same overall strategy. The vision is consistent along with the strategy for getting there. People can be inspired to action because they will see that it is feasible to get to where the management want to head.

Strategy Map



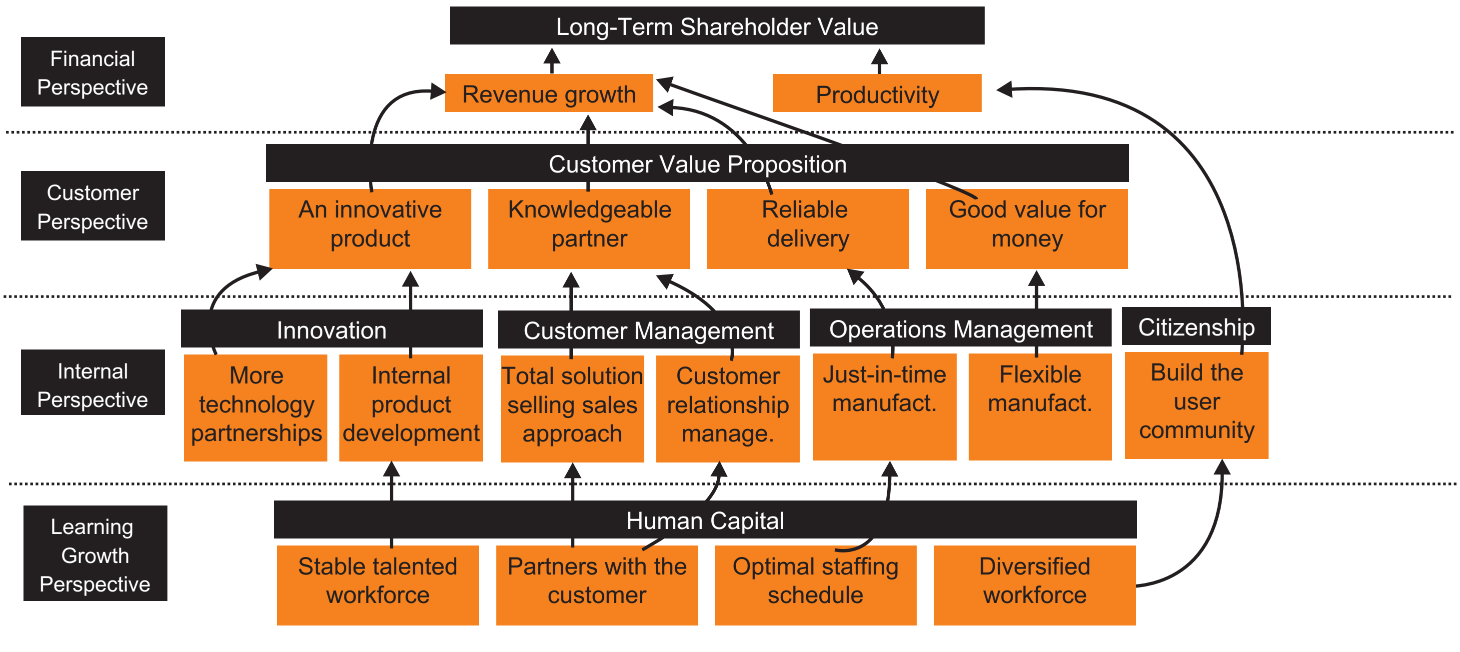
Balanced Scorecard

Objective	Measure	Target
•XXXXXX	•XXXXXX	+ XX%
	•XXXXXX	+ XX%
•XXXXXX	•XXXXXX	XX%
	•XXXXXX	XX%
•XXXXXX	•XXXXXX	XX%
	•XXXXXX	X months
•XXXXXX	•XXXXXX	XX%
	•XXXXXX	XX%
	•XXXXXX	XX%

Action Plan

Initiative	Budget
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
•XXXXXX	$XXX
Total	$XXX

Example: The strategy map for a high tech manufacturing company



This strategy map can then be broken down into a number of strategic themes, each of which can be linked to a Balanced Scorecard and action plan in this way:

Strategic Theme		Balanced Scorecard: Objective	Measure	Target	Action Plan: Initiative	Budget
Financial Perspective	Revenue growth	•Sell new products	•Annual revenue growth •New product revenue	+ 35% 40%		
Customer Perspective	Highly innovative products	•Provide state-of-art products	•Customer retention •Market share	75% 60%	•Build relationship •Gain share program	$135 $500
Internal Perspective	World-class product development	• Accelerate dev. teams work	•First mover advantage •Development time	80% 8 months	•Trade show releases •Dev. re-engineering	$250 $600
Learning Growth Perspective	Motivated skilled and stable workforce	•Acquire, enhance and retain skilled people	•Key staff retention •Recruitment drive •Annual bonus pool	80% Ongoing + 20%	•Benefits program •College promotion •Bonus Sharing	$1,650 $875 $5,675
					Total (000)	$9,685