

Strategy Mapping and the Balanced Scorecard

Financial measures have been used by organizations of all types as a primary measure of performance for over 100 years. Within the last decade, organizations have learned the costly way, that financial measures do not tell the whole story of business performance. Strategies and performance measures of the past are not consistent with today's business realities.

The Brookings Institute conducted a study that showed 75% of value created by many organizations is intangibles, and that organizational measures of performance are not always relevant to many levels of the organization, this includes strategies that cannot be defined into operational terms. It was also found that **only one out of every 10 organizations effectively deploys strategy and that 80% of companies spend less than one hour a month discussing strategy.** The reason determined for this weakness is that organizations do not possess a methodology for effective strategy identification, interpretation, measurement, and deployment.

Strategy Mapping is the process of determining objectives and means of getting there. The Balanced Scorecard (BSC) (Kaplan and Norton) is one framework that can be used for strategy mapping. The balanced scorecard has four common perspectives: financial, customer, internal business, and learning and growth. Each perspective commonly has from four to seven goals and corresponding measures. The scorecard is balanced in that it contains elements that are short-term and long-term, financial and non-financial, and leading and lagging. A critical characteristic of a balance scorecard is that it should represent a translation of strategy.

Example: Balanced Scorecard Perspectives

Learning and Growth	Internal Processes	Customer
How do we attract and retain skilled people?	Key processes we must excel at to drive value for customer?	Who are our customers?
How do we promote and empower our employees to be creative and innovative?	Key processes we must focus on customer value proposition?	What is our value proposition in serving them? How do we add value?
How do we align and link company and employee goals and rewards?	Key processes we must improve to understand, anticipate, and prioritize customer needs	What is our value proposition with product leadership?
<u>Common Measures:</u> Employee satisfaction, internal communication strategic job coverage	<u>Common Measures:</u> Product cycle time, on-time delivery	<u>Common Measures:</u> market share, customer retention

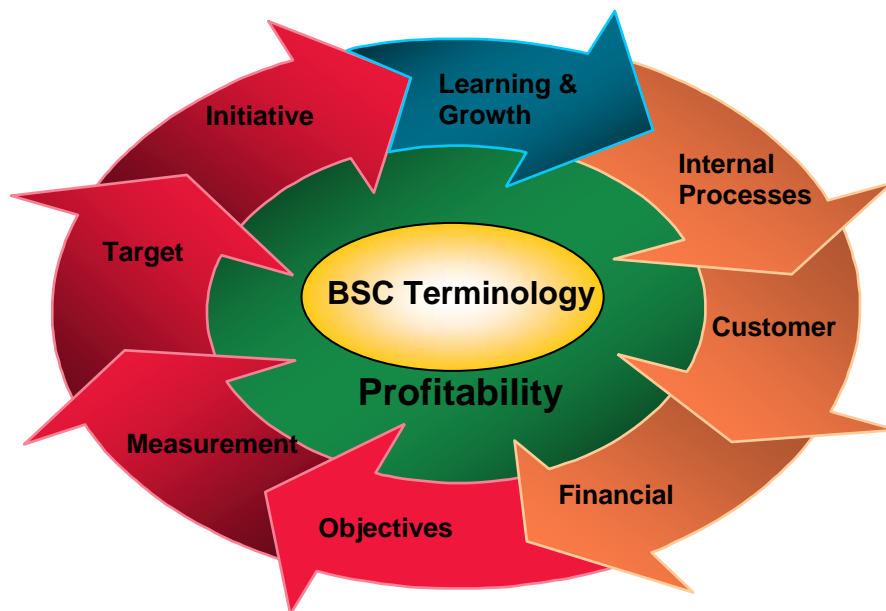


Components of strategy mapping include (1) financial strategies, (2) strategic themes, (3) value propositions, and (4) critical internal processes. For financial strategies, an example of an overriding strategy may be to maximize shareholder wealth, which may be attained by other financial strategies, such as maximizing revenues, productivity and asset utilization. In setting strategic themes, the overall strategy must be decomposed from an internal viewpoint. The focus is on determining what must be done to achieve desired strategic outcomes.

Strategy mapping and the balanced scorecard have many uses, for example: determining target market, communicating and understanding strategy, and detecting errors and improving strategic planning. When determining target market, the chosen value proposition dictates the focus of the organization while the related critical internal processes chosen dictate, which customers will come calling. Using strategy mapping to refine the customer base is an iterative process.

Common Barriers to Strategy Execution

Two common barriers to strategy execution are strategy and people. Strategy barriers include (1) problems and errors not being identified soon enough, (2) ineffective coordination of activities, and (3) goals that are too vague. People barriers include (1) insufficient employee capabilities, (2) insufficient training and development, (3) inadequate leadership and direction, and (4) poorly prepared line managers. Strategy mapping is part of the solution to these barriers to strategy execution.





Expectations of Strategy Mapping and the Balanced Scorecard

- Knowledge and understanding of strategy
- Focus on strategic activities
- Alignment throughout the organization
- Improved resource allocation decisions

This methodology alone will not transform the organization. Clear objectives are critical to define and asking, “why are we doing this objective” needs to be answered. A solid cross-functional team implementation will also influence the results; people only support what they help create. Studies have also shown that approximately 30% or more of the necessary information will be missing; don’t wait until 100% of data is determined to utilize your system. Like any other strategic change process, verification and validation of the process must be taken, along with making necessary improvements.

Cascading the Balanced Scorecard

- Allow everyone to demonstrate how they contribute to overall goals
- Create a consistent language through measurement
- Initiatives on the balanced scorecard provide a natural link to the budgeting process.
- Using the balanced scorecard, budgets are based on strategy
- Don’t think of the balanced scorecard as a project to be “checked off.”
- A successful program starts with the recognition that it is not a metrics project; it’s a change project.
- Update the scorecards core elements regularly. Strategy is not a static process; it’s a continual process.

If you would like more information or assistance on what the process of Strategy Mapping and the Balanced Scorecard can do for your business, please contact us.

www.sustainingedge.com

Toll Free 888-572-9642