A strategy map - As a part of balanced scorecard method

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Abstract: The balanced scorecard is a strategic planning and management system (not only a measurement system) that helps organizations to clarify their vision and strategy and translate them into action. It is used in business and industry, government and non – profit organizations for financial & non-financial analysis. Balanced scorecard approach has developed in three generation and a strategy map is a part of its process. it is described in third generation. A strategy map is a visual representation of the strategy. It provides a single-page view of how objectives in the four perspectives of balanced scorecard combine to describe the strategy. Each company must customize the strategy map to its particular set of strategic objectives. The strategy map shows how the multiple measures of balanced scorecard provide the instrumentation for a single strategy.

This article reviews the theoretical concept of strategy map including its relation with four perspectives of balanced scorecard, advantages, disadvantages and a pictorial framework.

Introduction:

Balanced Scorecard is a strategic management system that helps managers to translate organization's strategy into operational objectives and implement it. A framework of balanced scorecard looks at the strategy from four different perspectives:

1. Financial perspective,
2. Customer perspective,
3. Internal business processes and
4. Learning and growth perspective.

Dr. Kaplan and Dr. Norton develop this approach in early 1990s. Since the development of the balanced scorecard, its concept has been verified from a number of different angles.[1] When the Balanced scorecard concept was developed, Professor Kaplan and his associates initially positioned it as a tool for performance measurement. Namely, the balanced scorecard was seen as a method to recognize and correctly measure the performance of an organization. The first generation is only a basic of the Balanced scorecard methodology have started to realize that the method demonstrates not only the effect of the framework but also includes additional functions to correctly evaluate the achievement of specific organizations, while continuing the PDCA (plan–do–check–act) cycle through the Balanced scorecard. Additional elements that are not found in the first and second generations include the strategic system. so, in the third generation the strategy is described as a map and its call the strategy map.

What is strategy map?

A strategy map is a one type of diagram that describes how an organization creates value by connecting strategic objectives in explicit cause and effect relationship with each other in the four balanced scorecard objectives (financial, customer, internal process and learning & growth.)[2]

A strategy map is used to review progress against the strategy. It supports the strategic management process. Strategy maps are not stable but they are tools of management that get refined and developed by management tearn from their strategy. When they use strategy maps in their meeting, there is less operational detail and more time spent reviewing whether the strategy is working or not, and why. This also raises the heads of people in the organization, who are also able to discuss, understand and contribute to the strategy, so that it is more likely to be delivered. A strategy map gives the perfect plan of the strategy. Employees, in their day-to-day actions and decisions should focus on the objectives and measures in the internal and learning and growth perspectives since these are where the strategy gets implemented and improved. Improvements in internal and learning and growth measures should soon translate into enhanced performance in the customer and financial outcome measures.

In short, a pictorial representation of four perspectives of BSC, with the connectors showing the cause and effect relationship between the objectives is known as strategy map.

A roll of Strategy map in the balanced scorecard

An organization's strategy describes how it is create value for its shareholders and customers. The key is to design a scorecard to focus on the critical parameters that represent a strategy for long-term value creation. The strategy map provides the specificity needed to translate general statements about high-level direction and strategy into specific objectives. It is more useful for all employees and those they can act on.

[1] http://balancedscorecard.org/Resources/About-the-Balanced-Scorecard

[2] http://www.valuebasedmanagement.net/methods_strategy_maps_strategic_communication.html

In first, the financial perspective of the balanced scorecard is described and then the customer, internal, and learning and growth perspectives are described below:

- **Financial perspective:**

The goal of financial perspective is to maximize the company's profit and its objectives are related to profitability measures like return on investment, operating income, cash flow etc. Financial strategies are simple: companies increase shareholder value by (1) selling more and (2) spending less in any measurement approch. Thus, a company's financial Performance improves through two basic approaches: revenue growth and productivity. Companies can generate profitable revenue growth by deepening relationships with their existing customers. This enables them to sell more of their current product or service or to cross-sell additional products and services. For example, banks can attempt to get their checking account customers to also use a credit card issued by the bank and to borrow from the bank to purchase a home or car.

Companies also generate revenue growth by selling entirely new products. For example, Amazon.com now sells electronic equipment as well as books and mobiles encourage its customers to buy from its stores in addition to filling their cars with gasoline. Moreover, companies can expand revenue by selling to customers in new segments. For example, Staples now sells to small businesses as well as to retail customers and in new markets, such as by expanding from domestic sales to international sales.

Productivity improvements, the second approach of a financial strategy, can also happen in two ways. First, a company can reduce costs by lowering direct and indirect expenses. Such cost reductions enable it to produce the same quantity of output while spending less on people, materials, energy, and supplies. Second, by using their financial and physical assets more efficiently, companies can reduce the working and fixed capital needed to support a given level of business. For example, through just in time approaches, companies can support a given level of sales with less inventory. By reducing unscheduled downtime on equipment, they can produce more without increasing their investments in plant and equipment.

Generally, revenue growth takes long time to create value than actions to improve the productivity because revenue growth depends on customers , which are externals and productivity depends on stakeholders and company's equipments, which are internals. Thus, the financial component of the strategy must have both long-term (growth) and short-term (productivity) dimensions. The simultaneous balancing of these two forces is the organizing framework for the remainder of the strategy map.

- **Customer perspective:**

The revenue growth strategy requires a particular value Proposition. Generally, all organizations try to improve the measures like customer satisfaction, retention, acquisition, profitability, market share, and account share. In the customer perspective, managers identify the targeted customer segments in which the business unit competes and the measures of the business unit's performance that the company is targeting for growth and profitability. For example, Airlines offers low prices to satisfy and retain price-sensitive customers.

Value Propositions:

Value proposition is an innovation, services or feature intended to make a company or product attractive to customers. In first, a company understands who its targeted customers are and on that base, it can identify the objectives and measures for the value proposition. The value proposition defines the company's customer strategy by describing the unique mix of product, price, service, relationship and image that a company offers its targeted customers. It should communicate what the company expects to do for its customers better or differently than its competitors. For example, companies like, Dell, Wal-Mart McDonald's, Toyota have been extremely successful by offering customers the best buy or lowest total cost in their categories. The objectives for a low-total-cost value proposition should emphasize attractive prices, excellent and consistent quality for the product.

Another value proposition, followed by companies such as Sony, Mercedes, and Intel, emphasizes product innovation and leadership. These companies command high prices, above the average in their category, because they offer products with superior functionality. The objectives for their value proposition would emphasize the features and functionalities of the products and customers are ready to pay more to receive. The objectives could be measured by speed, accuracy, size, power consumption.

A third type of value proposition stresses the provision of complete customer solutions. For this value proposition, customers should feel that the company understands them and is capable of providing them with customized products and services. Companies offering such a customer-solutions value proposition stress objectives relating to the completeness of the solution, service before and after the sale, and the quality of the relationship.

A company defines its strategy by the objectives and measures which chooses for its value proposition. By developing objectives and measures that are specific to its value proposition, the company translates its strategy into measures, which all employees can understand and work toward improving.

- **Internal business process Perspective**

The objectives in the financial perspective describe successful strategy through revenue growth and productivity and the objectives in the customer perspective describe the strategy through the targeted customers and value proposition. if an organization has a clear picture of these financial and customer objectives, it can develop objectives in the internal and learning and growth perspectives. It describes how the strategy will be a skillful. Excellent performance in these two perspectives drives the strategy and In Internal process; there are two important components of strategy: produce and deliver the value proposition for customers, and improve processes and reduce costs for the productivity in the financial perspective. Internal processes are divided into four clusters:

1. Operations management,
2. Customer management,
3. Innovation, and

4. Regulatory and social.

1. **Operations management**

Operations management processes are the basic, day-to-day processes by which companies produce their existing products and services and deliver them to customers. Some examples in manufacturing companies like, acquire raw materials from suppliers, Convert raw materials to finished goods, Distribute finished goods to customers, and Operating processes for service companies produce and deliver the services customers use.

2. **Customer Management Processes**

Customer management processes expand and deepen relationships with targeted customers. its four customer management processes are:

- Select-targeted customers: Customer selection involves identifying the targeted populations for which the company's value proposition is most desirable. This process defines a set of customer characteristics that describes an attractive customer division for the company. For consumer companies, divisions can be defined by income, wealth, age, family size, and lifestyle; some typical business customer segments are price-sensitive, early adopting, and technically sophisticated.
- Acquire the targeted customers: Customer acquisition relates to generating leads, communicating to potential customers, choosing the entry-level products, pricing the products, and closing the sale.
- Retain customers: Customer retention is a result of excellent service and very responsiveness towards customer's requests. Timely, knowledgeable service units are critical for maintaining customer loyalty and reducing the customer's defections.
- Grow business with customers: Growing with customers involves managing the relationship effectively, cross-selling multiple products and services (before and after sale), and becoming known as a trusted adviser and supplier.

3. **Innovation processes**

Innovation processes develop new products, processes and services for new markets and customer segments. Managing innovation includes the following processes:

- Identify the opportunities for new products and services,
- Manage the research and development portfolio,
- Design and develop the new products and services, and
- Bring the new products and services to market.

Product designers and managers generate new ideas by extending the capabilities of existing products and services, applying new discoveries and technologies, and learning from customers' suggestions. A successful design and development process in a product that has the desired functionality, is attractive to the targeted market and can be produced with steady quality and at a satisfactory profit margin. The innovation process for a project concludes that the company achieves targeted levels of sales and production at specified levels of product's functionality, quality and cost.

4. **Regulatory and Social Processes**

Regulatory and social processes help organizations continually earn the right to operate in the communities and countries in which they produce and sell. National and local regulations are on:

- Environment,
- Health and safety,
- Employment practices, and
- Community investment

However, many companies look for to go beyond complying with these minimum standards. They want to perform better than the regulations so that they can develop a reputation as an employer of choice in every population in which they operate. An excellent reputation for performance along regulatory and social proportions assists companies in attracting and retaining high-quality employees, thereby making human resource process more effective and efficient. In addition, reducing environmental incidents and improving employee safety and health improves productivity and lowers operating costs. So, companies can make a respective image with customers and with socially conscious investors.

All these linkages are for improve the human resource; operations, customer and financial processes can drive long-term shareholder value creation.

➢ **Learning and Growth perspective**

After above three perspectives, the fourth perspective is learning and growth. it describes the organization's intangible assets and their role in strategy. Intangible assets organize into three categories:

1. Human capital: The availability of skills, talent, and know, how required to support the strategy.

2. Information capital: The availability of information systems, networks, and infrastructure required to support the strategy.
3. Organization capital: The ability of the organization to activate and sustain the process of change required to execute the strategy.

Whereas all organizations attempt to develop their people, technology, and culture, most does not align these intangible assets with their strategies but it is very important for good performance of company. The pictorial form of strategy map created by Dr. Kaplan & Norton is as under[3]:

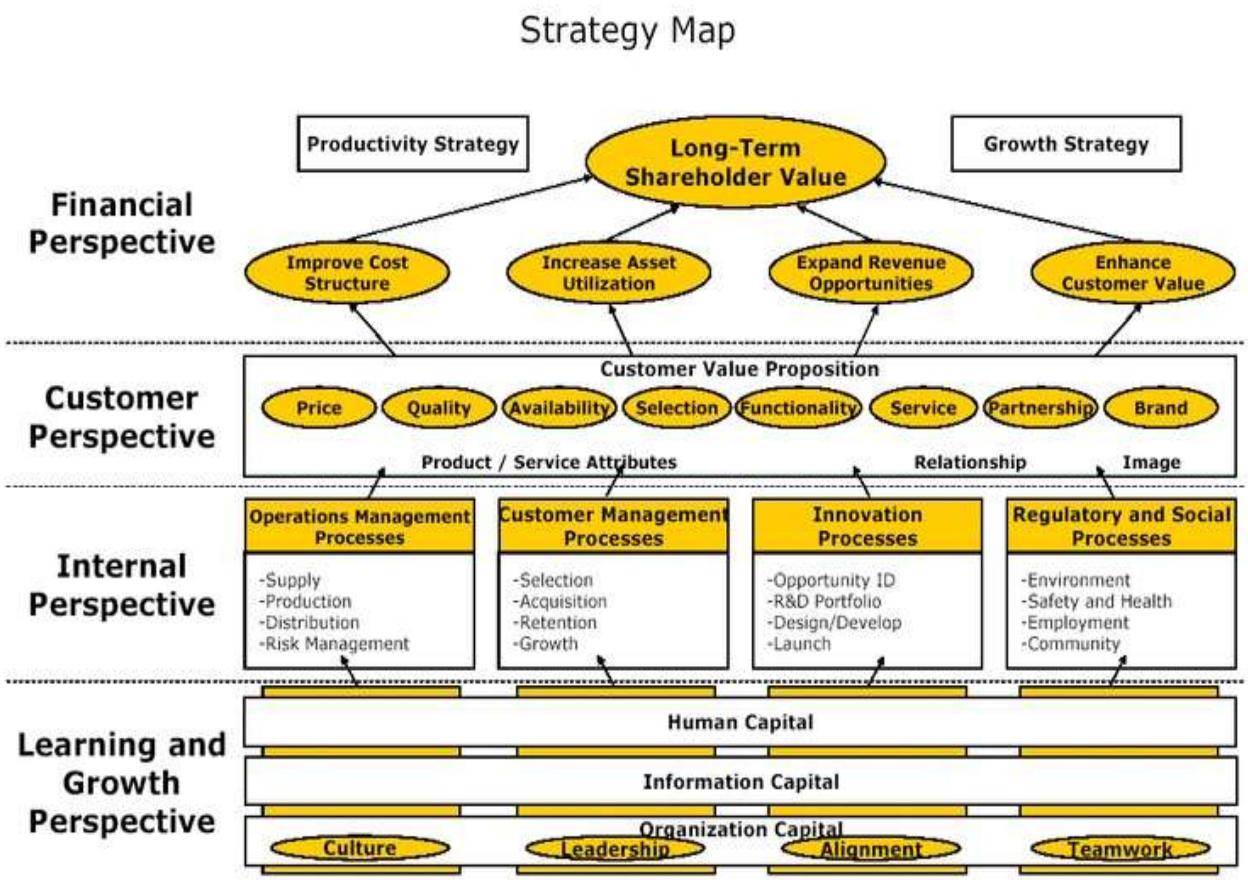

Figure 1: Strategy Map

Example for Better implementation of strategy mapping

Any organization wants how to find and better implement their strategies using a four-perspective approach. The example of an ice cream truck and apply these perspectives to the business:

1) Financial perspective: Financial perspective looks at how much ice-cream you are selling and how much it costs to purchase the ice-cream.
2) Customer perspective: Customer perspective looks at how ice-cream is delivered and the prices compared to other trucks and how its quality and other services.
3) Internal business process perspective: Internal business process perspective asks where the ice-cream business must excel in the intense of new flavors of ice cream.
4) Learning & Growth perspective: Learning & Growth perspective looks at how to improve the ice-cream business, such as finding less expensive ways to purchase or produce the ice cream in order to turn greater profit.

Benefits of strategy Maps

- Strategy Maps Capture and Communicate the Strategy:

Strategy Maps help to make sure the strategy will be more successful because they help to capture, communicate and manage the strategy better. Strategy Map captures the management team's thinking in a rich manner. So, it is easy to communicate. They explain how the strategy will bring about change.

- Strategy Maps helps to manage Performance better:

[3] HTTP://WWW.VALUEBASEDMANAGEMENT.NET/METHODS_STRATEGY_MAPS_STRATEGIC_COMMUNICATION.HTML

Strategy Maps help to manage the strategy and focus on change. They increase the level and quality of conversation between a management team. They can be used to encourage silo thinking and encourage joined up thinking and working.

- Strategy Maps help to create a strategic balanced scorecard:

If the balanced scorecard Method does not use a strategy Map, then do not have a proper Norton & Kaplan Balanced scorecard. Without a strategy Map, scorecard will remain an operational tool. Strategy Maps are fundamental the Norton & Kaplan approach, an approach to managing strategy and its execution successfully.

- Strategy Maps increase the discussion from operations to strategy:

Strategy Maps are fundamental of the balanced scorecard as a tool of strategic Management. They make the difference between an operational view and a Strategic perspective. They increase the level of conversation from operational detail to strategy and change.

- Strategy Maps help to systematically design measures and align investments:

Strategy Maps sit above the scorecard to provide a structured description of the strategy and what drives performance. Strategy maps contain objectives, which are developed before measures are chosen. Using the objectives in a strategy map means that choose the most appropriate measures and targets in your scorecards. The objectives in strategy maps also help to align projects. By introducing strategy maps organization has identified significant investments from the overall program and projects portfolio.

What problem with Balanced Scorecards did strategy maps solve?

- Avoid the cruciform model (figure 2)[4] for balanced scorecard design

Many of the organizations will be familiar with this diagram as below that represents the earliest balanced scorecard model in "The balanced scorecard" It was developed by Drs. Norton and Kaplan. It is an early balanced scorecard framework, which dated back to 1992 when balanced scorecard perspectives were first developed.

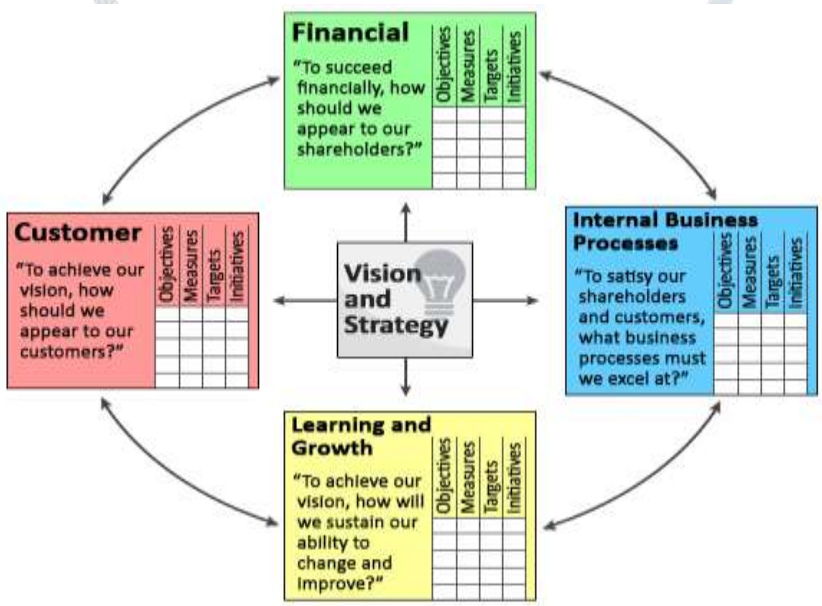

Figure 2: Balanced Scorecard

- It has always been about cause and effect in strategy Map

This old diagram is only a framework to show how they relate to strategy. What really meter is the cause and effect between perspectives relationship that forms the strategy map. This old cruciform framework was discarded as a model of balanced scorecards by Norton and Kaplan as early as 1995.The strategy map cause and effect framework, with the perspectives stacked on top of each other and clear relations between them.

- Solving these problems by discarding the old Model

The old model describes how the perspectives link to strategy. It serves no other purpose. It definitely is not the overall model. The arrows have no meaning. It has no cause and effect model that drives performance. It is difficult to cascade and leads to measure mania where many measures are collected and categorized without any real structure or purpose. It leads to operational balanced scorecards that contain potentially hundreds of measures. Ultimately, this approach creates a culture of measurement rather than performance.

[4] http://www.excitant.co.uk/resources/white-papers/strategy-maps-and-strategy-mapping/

The strategy Map model, which replaced this, solves all of these problems. Using the strategy map framework, instead of this cruciform model, will help to improve the effect of the balanced scorecard and make it much more useful as a tool of strategy, communication and change.

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