api

Advanced Performance Institute

Management White Paper

How to Design a Strategy Map

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By

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Abstract:

This management white paper explains that creating a Strategy Map is the most important step in building a Corporate Performance Management system or a Balanced Scorecard. It describes the importance of an expert external facilitator working closely with the senior management team to establish only the 'critical few' objectives that represent the critical factors of future success. Finally, it discusses the emerging use of strategic themes and why ownership must be assigned to each theme and objective.

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Marr, B. (2010) How to Design a Strategy Map, Management Case Study, The Advanced Performance Institute (www.ap-institute.com).

How to Design a Strategy Map

Introduction

Andrea Smith, Head of Strategy for the renowned education provider International Baccalaureate (IB), neatly describes the value of creating a Strategy Map. "Without question the main benefit…is that it has got everyone thinking about and talking about the IB strategy," she says. "It has giving us something useful to work with and has provided a framework through which we can reflect on the strategy and make sure that people in the organization understand what we are trying to achieve," she says. Prior to building the map in 2009 with facilitation from the Advanced Performance Institute (API), "There wasn't clarity around what our strategic plan was or what we were trying to achieve," Smith says, adding that that it was also difficult to accurately gage how well the organization was performing against the strategy. A case study on IB can be found within the Resource Library section of the API website: www.ap-institute.com

Originally described by Balanced Scorecard co-creators Drs Robert Kaplan and David Norton, a Strategy Map is the most important of two interrelated components of a Balanced Scorecard framework.

1. A Strategy Map which describes the key objectives that, if delivered to, will mean the successful implementation of the strategy. A core function of the map is a causal depiction of how objectives work together in the implementation of strategy.

2. A 'scorecard' describing the metrics used to monitor progress toward the objectives; the targets for the metrics, the strategic initiatives chosen to drive performance toward the targets and so ultimately the delivery of the strategic objectives.

Figure 1 shows an example of the Kaplan/Norton Strategy Map alongside the value creation map desig. Both map versions are used extensively and successfully by organizations throughout the world.

Strategy mapping is simply one of the most powerful management tools in use today. Amongst its many benefits is that it enables a one-page description of the key value drivers the organization must master if it is to deliver to its strategic goals. Client observations tell us that it is by getting the map right that it becomes possible to select the appropriate mission-critical key performance questions (KPQs), key performance indicators (KPIs) and supporting action programmes that together complete the corporate performance management or scorecard framework. Get the map wrong and the supporting scorecard will also be wrong. As Peter Ryan, Planning and Performance Manager at Christchurch City Council (a case study
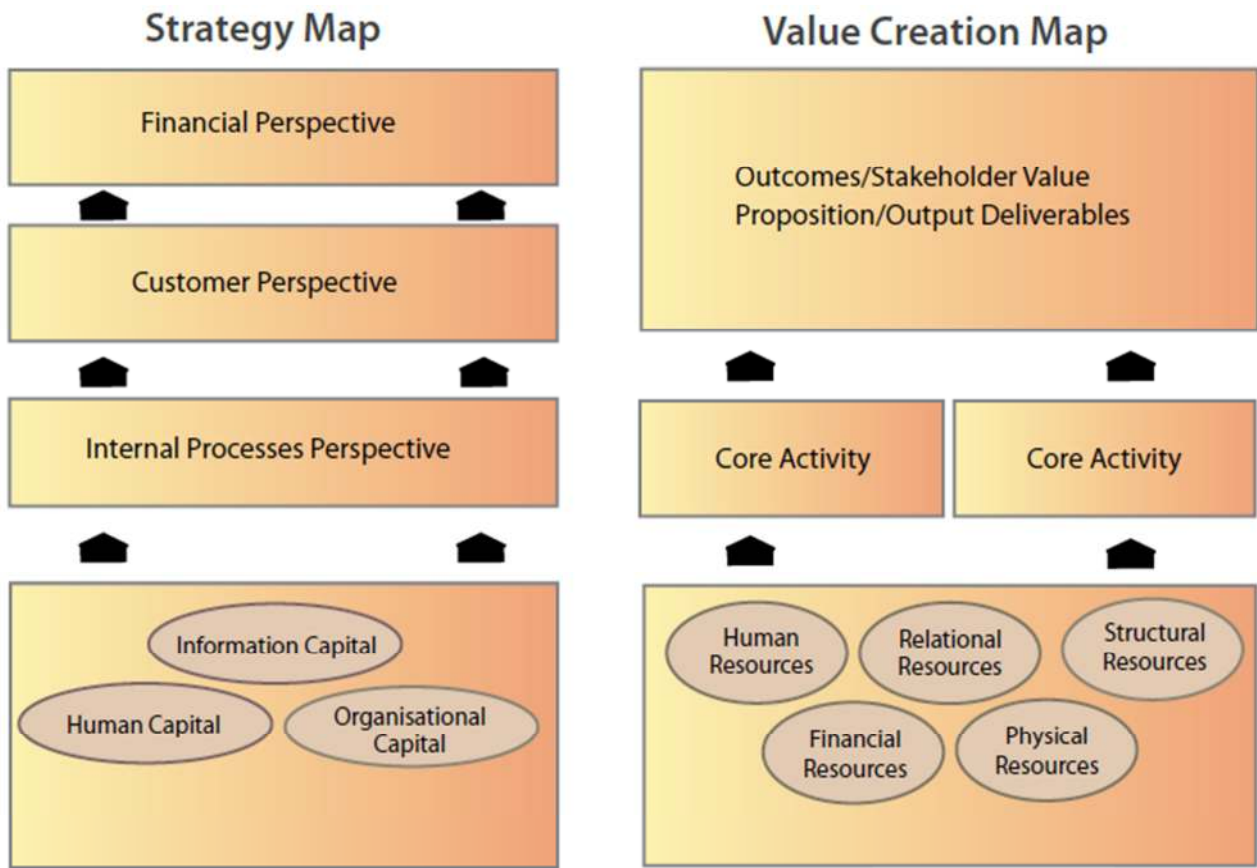
Strategy Map

Financial Perspective

Customer Perspective

Internal Processes Perspective

Information Capital

Human Capital   Organisational Capital

Value Creation Map

Outcomes/Stakeholder Value Proposition/Output Deliverables

Core Activity	Core Activity

Human Resources   Relational Resources   Structural Resources

Financial Resources   Physical Resources

Figure 1: Strategy Map Templates

available on the API website) rightly comments: "Once the Strategy Map is built and tested then the selection of measures, etc., is relatively easy. The need for each measure should have been defined precisely, which makes their identification straightforward."

Empirical evidence supports such anecdotal views. The importance of creating a Strategy Map was clearly illustrated in the 2008 API research study (which can be found on the API website). The research found that of 10 principles of good performance management none was more critical than 'create clarity and agreement about the strategic aims'. The most powerful way to achieve this, the study noted, is through the senior team working together to create a Strategy Map. Such a map immediately provides focus and direction, showing at a glance what the intended outcomes are, as well as the core activities and underpinning enablers that will lead to their achievement.

A further study showed that those organizations that visually map their strategy into meaningful cause-and-effect maps tend to have a significantly better understanding of strategy, are able to extract more value from their performance management system and, more importantly, perform better. Note too that

research with 157 companies conducted by the US-based Wharton School found that only 23% of companies consistently built, analyzed, and tested causal models. However, the study also finds that those organizations which used Strategy Maps had a 2.95% higher Return on Assets and 5.14% higher Return on Equity than companies that didn't use cause-and-effect models.

Despite the compelling benefits, organizations routinely make fundamental errors when building a Strategy Map.   A Strategy Map is seductively simple, yet masks a raft of complexities in construction, as shall be explained.

A useful launch point for creating a Strategy Map are meaningful vision and mission statements or an overarching statement of purpose, as it is these that encapsulate the ultimate goal or goals of the organization. Unfortunately, most statements are typically generic and uninspiring, such as being the No 1 supplier to our customers.   As a sharp contrast, consider the purpose statement that Saatchi & Saatchi Worldwide crafted at the start of its hugely successful scorecarding journey: 'To be revered as the hothouse for world-changing creative ideas that transform our clients businesses and reputations'.   Similarly, consider IB's vision which is to 'create a better and more peaceful world through education', and the mission 'The International Baccalaureate aims to develop a growing number of inquiring, knowledgeable and caring young people who help to create a better and more peaceful world through intercultural understanding and respect'. The statements of both Saatchi & Saatchi and IB

deliver a value proposition to customer groups as well inspiring present and prospective employees. API always ensures that a well thought-out statement of intent sits atop the Strategy Map.

Usually guided by an expert external facilitator (whom amongst other skills should contribute expertise, insights and knowledge from other successful implementations, be politically neutral and have the authority to challenge the views of senior managers) an important step in the strategy map creation process is the conducting of one-to-one interviews with the senior executive team. And it is absolutely important that the senior management team is proactively involved in creating the Strategy Map.   A common – and invariably fatal – mistake in strategy mapping is to devolve the design to a middle management team or external consultant and just ask 'busy' senior executives to 'sign off' on the map. Just as the senior team has primary ownership for the strategy, they must own the Strategy Map and be actively involved in debating and agreeing its content.

As an important part of its Strategy Mapping methodology, API conducts one-to-one interviews with key members of the senior executive management team (and oftentimes including non-executive board members and external stakeholders) and, crucially, just reports the findings in an aggregated, anonymous format.   Anonymity is important as Ann Farrar, Chief Operating Office of API client Northumbria Healthcare comments: "These one-to-one meetings were exceptionally valuable to us," she says "We have quite a large

number of senior executives, including 20 members of the non-executive board and it was important that they all had a chance to express their views as to what they perceived as the critical components of the strategy." Farrar points out that that being one to one delivers a clear benefit. "In a group setting some people are very vocal while others are not." she says. "Therefore the one-to-one sessions ensured that we captured the valuable opinions and insights of all our senior management and clinicians. It was a great opportunity for them to 'get things off their chest' in a safe environment and setting." A case study of Northumbria Healthcare can also be found on the API website.

Typical API questions include:

- Why does this organisation exist? What is its main purpose? What do you do, and for whom? What is your value proposition?

- What do you have to be really good at? What do you have to excel at in order to deliver your value proposition? What are your core competencies and core activities as an organization?

- What are the underpinning enablers and drivers of performance? What key resources do you possess or need as an organization? What about people and their skills and knowledge? What about your infrastructure (e.g. IT, etc)? What key relationships do you need? What about your brand, your image, patents, organisational culture, your processes and practices, etc?

As well as collecting the views of key stakeholders and identifying key objectives, it is also important to take into account any existing strategy documents, plans, analyses, etc: This is to double check the strategic alignment and to identify any mismatches. The external facilitator should do this at the same time as, or before, the interview process.

Based on the interview data and insights gleaned from strategy documents, the external facilitator should then build a draft Strategy Map and present to the senior management team for active discussion and refinement, with the goal being to reach a final 'consensus,' as to the key strategic outcomes and their drivers. Note that it is critical that the full senior management team is involved in this workshop. It is a powerful session for senior managers to agree on strategic priorities without seeing the world through the blinkers of their own functional disciplines. The Deputy Commissioner of celebrated scorecard users The Royal Canadian Mounted Police (RCMP) says that their building of a Strategy Map at the turn of this decade engendered powerful teamworking at the top. "One of the greatest benefits of the scorecard process is that you witness your executive managers coming together as a team and agreeing on what's important, why it mattes and how to make it work," she says.

The skills of the facilitator cannot be under-estimated at this stage. Although they must ensure that the data from the original interviews remains the core material for creating the map, it is also a mistake to force the 'facilitator-designed' map onto

the senior team. Consider the observations of Richard Ryder, Head of Performance and Planning at the Information Management Services (IMS) unit of the UK's HM Revenue & Customs, another API client. He says that although the final Strategy Map that appeared in the business plan wasn't that dissimilar to the first draft. " I cannot emphasize enough how the process of reviewing it, discussing it with colleagues, changing it, putting in more links and changing it back again was extremely useful for the management team to collectively agree on and understanding our objectives and KPIs," he says.

Depending on the level of buy-in and changes made, it often makes sense to schedule another workshop to sign off the final map. The second workshop should be about two weeks after the first strategy mapping workshop. This allows the changes to be made and the new map to be circulated so people can discuss it with their teams and 'compare the map with reality'. In a number of cases API will conduct a series of scheduled staff and stakeholder focus groups to collect further feedback on the draft map from a wider group of employees and stakeholders. In the second workshop any feedback and proposed changes can be discussed before the final map is agreed.

In addition to the design structure, careful consideration must be paid to the content of the Strategy Map. A common fault is that organizations pack the map full of objectives that describe everything the organization does. Thirty, forty or even fifty objectives are sadly not uncommon.

Those overcrowded maps are more representative of an organization or operational map than one that is strategic. Moreover, overtime it becomes far too cumbersome to manage and so eventually the map and performance management process dies or is relegated to a role of little importance.

A basic rule is that a Strategy Map should comprise the critical few financial and non-financial objectives that will together deliver the success of a company. And 'critical few' is an important term. As IB's Smith comments: Creating the map provides an ideal opportunity to clarify and agree on what's important to the organization," she says. "And this opportunity should not be wasted."

Looking at some of the case studies that appear on the API website and other clients, we can see how these organizations have clearly focused on ensuring that they kept the number of objectives to the 'critical few'. The corporate maps for retailer Tesco contain 20 objectives, Swiss Re and the MoW, Bahrain have 19 objectives on their map, the International Baccalaureate has 16, Northumbria Healthcare 15, Barclays has 12, Saachi & Saachi 12, and Audit Scotland has just 11.

As cited, one of the great strengths of a Strategy Map is that in enables the visualization of causality – the value creation chain is clear and understandable. Typically, of course, causality is described from the base of the Strategy Map to the top. But this is not always the case. It's important to note that casual links or arrows can go into any direction. For example, just think of operational

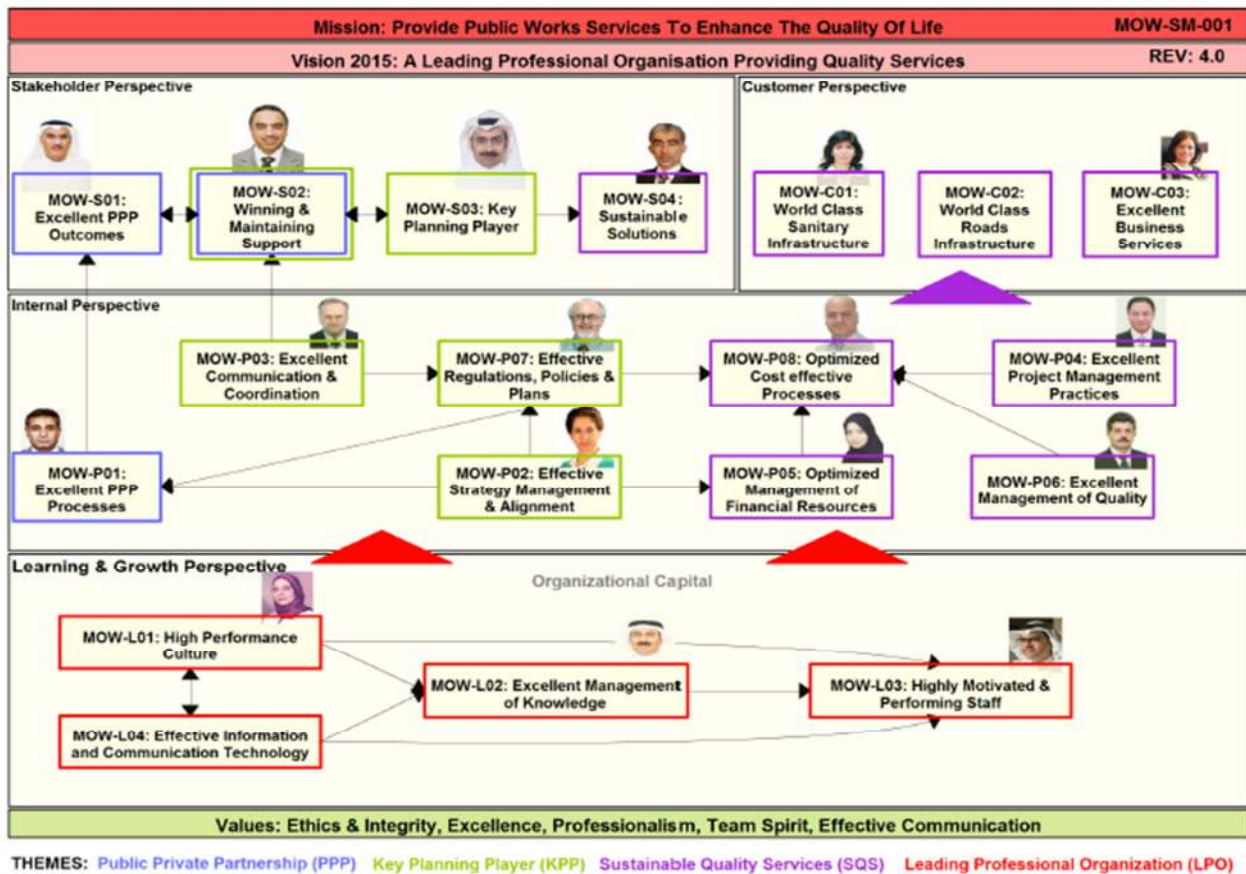
Mission: Provide Public Works Services To Enhance The Quality Of Life
MOW-SM-001
Vision 2015: A Leading Professional Organisation Providing Quality Services
REV: 4.0
Stakeholder Perspective
MOW-S01: Excellent PPP Outcomes
MOW-S02: Winning & Maintaining Support
MOW-S03: Key Planning Player
MOW-S04: Sustainable Solutions
Customer Perspective
MOW-C01: World Class Sanitary Infrastructure
MOW-C02: World Class Roads Infrastructure
MOW-C03: Excellent Business Services
Internal Perspective
MOW-P03: Excellent Communication & Coordination
MOW-P07: Effective Regulations, Policies & Plans
MOW-P08: Optimized Cost effective Processes
MOW-P04: Excellent Project Management Practices
MOW-P01: Excellent PPP Processes
MOW-P02: Effective Strategy Management & Alignment
MOW-P05: Optimized Management of Financial Resources
MOW-P06: Excellent Management of Quality
Learning & Growth Perspective
Organizational Capital
MOW-L01: High Performance Culture
MOW-L02: Excellent Management of Knowledge
MOW-L03: Highly Motivated & Performing Staff
MOW-L04: Effective Information and Communication Technology
Values: Ethics & Integrity, Excellence, Professionalism, Team Spirit, Effective Communication
THEMES: Public Private Partnership (PPP) Key Planning Player (KPP) Sustainable Quality Services (SQS) Leading Professional Organization (LPO)

Figure 2: MoW 2010 Corporate Strategy Map

objectives that depend on each other and both sit in the internal processes perspectives. A double sided horizontal arrow between them would highlight interdependence. On the MoW map, for instance we can see several interdependencies, as well as arrows going across and down (Figure 2).

When creating the Strategy Map it is also worth ensuring that the layout most accurately describes and communicates the importance of the objectives on the map. Some organisations represent the objectives in different size ‘bubbles’ or ‘boxes’ on the Strategy Map to indicate relative importance. For example, if an organisation spends 80% of its time and budget on delivering one objective (e.g. in the police force this will be catching criminals) and only 20% on another (e.g. administrative work to comply with regulation), it might make sense to make the first objective bigger on the Strategy Map to not send out the message they are equally important and deserve equal budgets. The aim is to create a picture of the strategic objectives that captures everything that matters but at the same time keeps it simple, compact and meaningful. Making objective bigger or smaller might make the Strategy Map more meaningful, as employees will know that although delivering the strategy requires the balancing of all objectives, that, and stealing a

phrase from George Orwell, given the nature of the organization some objectives 'are more equal than others.'

It is also important that objectives are subjected to a fuller description than appears on the map itself, which for simplicity will only include a short statement. For example, an objective on the Strategy Map of the UK's North West Collaborative Commercial Agency (another case study on the API Website) is to: 'Develop Close Collaboration and Good Stakeholder Management'." Drilling down from the high level description, we find a much broader narrative statement. 'We need to develop close relationships with our customers and ensure that we manage the relationships with other key stakeholders. Beyond our customers we need to influence wider politics and be a voice for collaborative procurement. This includes using the NHS Procurement Alliance to get our voice heard. For this good proactive communication with our customers and stakeholders is vital.'
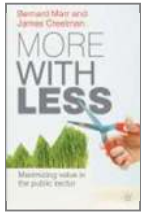
Another quite recent Strategy Map development to consider is the use of strategic themes. It is now common for organizations to cluster related objectives according to perhaps four or five strategic themes. This makes it easier for managers to separately plan and manage each of the key components of the strategy but still have them operate coherently. The Mow, Bahrain, for instance has created four themes: public-private partnership; a key planning player; quality services; and a leading professional organization (represented by the different colors in Figure 2).

Importantly, a senior manager within the MoW is given ownership of that theme. Each objective within the theme is also owned by another, lower-level manager who reports to the owner. Such widespread ownership ensures that each objective on the map is closely managed. However, organization should ensure that themes do not develop into siloed operations. It is crucial therefore that delivery teams are cross-functional and that the senior team takes a helicopter view of how the themes work together in the delivery of the strategy.

With the Strategy Map created (and only then) the organization can progress to the next stages of the Balanced Scorecard design: creating KPQs (see the API management white paper 'What are Key Performance questions) and KPIs (see the API management white paper 'Designing Key Performance Indicators). Both papers are available on the API website.

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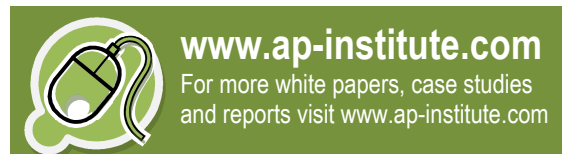
## *Endnotes, References & Further Reading*

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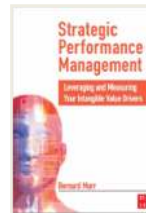
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