

MANAGEMENT

STRATEGY

MEASUREMENT

MANAGEMENT ACCOUNTING GUIDELINE

Using Strategy Maps to Drive Performance

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USING STRATEGY MAPS TO DRIVE PERFORMANCE

INTRODUCTION

The business world today faces a crisis in strategy — but not because managers can't formulate a good strategy...most actually can. The core of the crisis lies within execution or, more accurately, its lack. In 1999, Fortune magazine claimed that "70% of strategic failures are due to poor execution — not a lack of vision or smarts". In 2003, it repeated this claim, saying that less than 10% of effectively formulated strategies are effectively executed.

Websites that focus on execution of strategy routinely mention similar implementation issues. One such website² cited these statistics in 2006:

- 95% of a typical workforce does not understand its organization's strategy;
- 90% of organizations fail to execute their strategies successfully;
- 86% of executive teams spend less than one hour per month discussing strategy;
- 70% of organizations do not link middle management incentives to strategy;
- 60% of organizations do not link strategy to budgeting.

This Management Accounting Guideline (MAG) is dedicated to helping organizations achieve their vision, mission

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Strategy mapping has revolutionized the way that strategy has been formulated and executed. A natural evolution that builds on the success of the Balanced Scorecard, Strategy Mapping has been the subject of recent books, articles and discussions. This discourse has greatly raised practitioner awareness and interest in the value of integrated strategic scorecard systems by focusing on **what** these tools are, **why** companies adopt them and by providing high level implementation frameworks and examples from practice.

However, when it comes to actual implementation detail, practitioners soon find there is currently no detailed document, or set of guidelines, that illustrate how to take advantage of the power of Strategy Mapping in a straightforward, easy-to-understand format.

The *Strategy Mapping* MAG fills this gap by providing a set of guidelines that describe how to implement Strategy Mapping in a practical, step-by-step format. The *Strategy Mapping* MAG serves as a reference for four principle interest groups. First, many organizations are looking for guidance and direction that will permit them to implement their own maps and scorecards. They will benefit from a resource that acts as a bridge between theory and implementation. Second, larger organizations that engage specific consultants will benefit from the framework provided by the guidelines. A third group that will benefit from the Strategy Mapping MAG will be consultants themselves. In addition, this MAG will be a resource for management accountants who often play a key role in developing strategy maps.

and strategies, and to achieve breakthrough results. Its focus is based on the following premise:

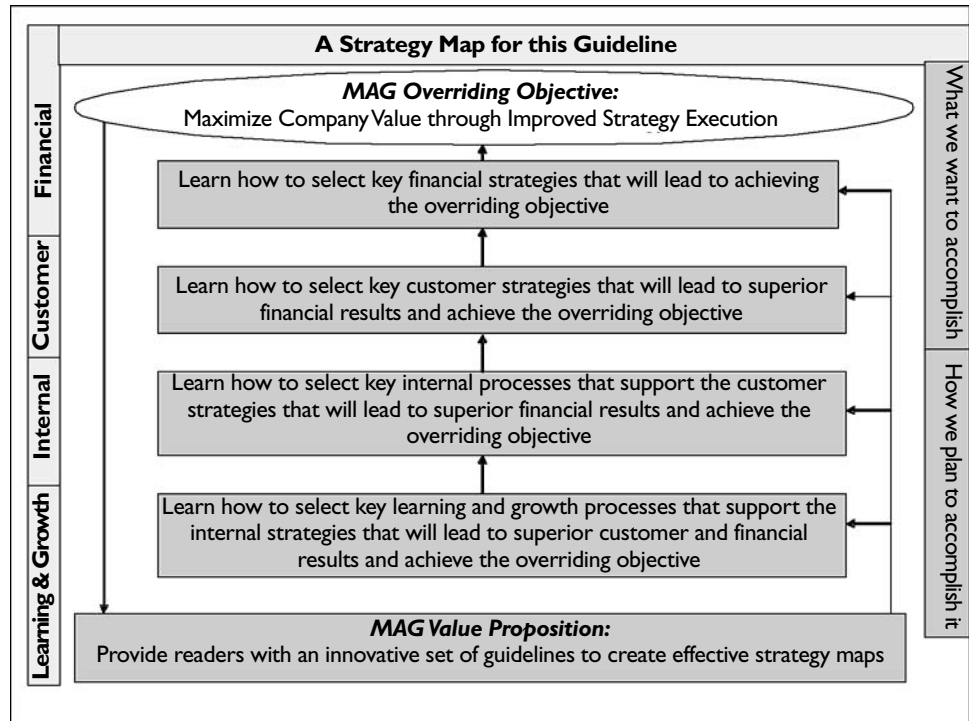
Although formulating robust and meaningful strategies is a fundamental part of a successful business process, it is at the implementation and execution phase of strategy — not at the planning or formulation phase, where major impediments to desired outcomes are found.

A recent approach to improving strategy implementation and execution is called strategy mapping. Pioneered by Robert Kaplan and David Norton (also the founders of the Balanced Scorecard movement), strategy mapping is a cutting-edge approach to the art of strategy

execution. The MAG describes the importance of (a) setting appropriate overriding objectives in a corporate setting, (b) establishing a dominant value proposition that will set the direction for achieving those objectives, and (c) using that proposition to guide the selection of critical financial, customer, internal process, and learning and growth strategies.

Those familiar with Balanced Scorecards (BSC for short) will note that strategy mapping is closely related to the BSC — in fact, it evolved from the experiences of early BSC adopters'. In many ways, however, strategy maps are more innovative than the BSC. While the BSC is best known for enhancing an organization's performance

Figure 1: A Strategy Map for this Guideline



execution. In that approach, an organization depicts its key objectives in a graphical and illustrative (i.e. "picture") format.

As the saying goes, "a picture is worth a thousand words." Well-conceived strategy maps assist organizations to tell their "strategy story" concisely and succinctly. Figure 1 illustrates the visual roadmap this MAG will follow. Its "overriding objective" is to assist organizations to improve the probability of successfully implementing their strategy(ies). Its "value proposition" is to provide a systematic process that will permit readers of this MAG to build effective strategy maps that lead to improved

measurement system, strategy maps are the instruments that tie BSC measures directly to strategic objectives and outcomes and, in the process, improve strategy implementation and corporate operating and financial results. Although the BSC was introduced several years before strategy mapping, strategy mapping actually precedes the BSC and in fact can provide much of its content.

Strategy maps allow organizations to **describe** and **communicate** their strategies. This guideline describes a model for strategy mapping that managers can use to effectively create and implement strategy maps step-by-step. While no

one suggests that strategy maps are the complete answer to strategy execution, they are a promising solution to the compelling need for better execution of strategy. Strong anecdotal evidence suggests that such maps assist organizations to achieve better results. In addition, well-crafted strategy maps improve the alignment of other corporate functions, such as strategy planning, budgeting, monitoring, operations, and compensation. By so doing, they can improve the probability of successful execution of strategy and superior operating and financial performance.

In the following sections, this MAG will describe (a) the scope of, and reasons for the MAG, (b) a six-step methodology for developing and implementing a corporate-level strategy map, (c) how to cascade the map to lower level business units and support groups, and (d) the importance of validating the map and its associated measures with ongoing strategic objectives.

SCOPE AND AUDIENCE

The MAG discusses the compelling need for better strategy execution, and provides a framework for implementing a strategy map systematically. Much excellent literature clearly articulates **what** strategy mapping is, and **why** a company should adopt it. This guideline focuses on **how** to implement a strategy mapping initiative.

Strategy maps have proven useful in public, not-for-profit and private sector organizations. Indeed, many principles underlying the construction, roll-out and communication of strategy maps are similar for a wide variety of entities. Sectors differ in several important ways. This MAG provides useful insight for a broad cross-section of readers. However, its primary audience is the private sector, and the construction of the map that follows assumes a private sector settingⁱⁱ.

Well-conceived strategy maps will pervade the organization. Consequently, the MAG will be of interest to several levels of organizational personnel, including the professional accountant in business. First, there are many mid- to senior level individuals who have read about strategy maps (or have been to conferences describing them), and have become strategy mapping **advocates**. Such advocates come from various corporate functions, including finance, accounting, marketing, manufacturing, and head office support. The MAG provides advocates with the reasons and a process for implementing a strategy map that can convince corporate **sponsors** to provide financial and moral support for the initiative. In turn,

sponsorship support at the senior level (CEO/president and board) leads to the creation of strategy mapping **champions** and **teams** that can use this process to begin developing and communicating their corporate and divisional maps.

The guideline should also be useful to consultants intending to implement strategy maps for clients.

In short, the guideline will assist strategy mapping advocates, sponsors, champions and implementation teams to:

- Understand the benefits of strategy mapping;
- Understand the steps in the strategy mapping process;
- Effectively participate in developing, validating, integrating and rolling out processes necessary for a successful strategy mapping initiative.

THE COMPELLING NEED FOR BETTER EXECUTION OF STRATEGY

The vast majority of organizations have well-defined procedures for developing strategic plans. Strategic planning concepts including (but not limited to) Porter's 5-Forces, STEEP (Social, Technological, Economic, Environmental and Political) analysis and SWOT (Strength, Weakness, Opportunity, Threat) analysis, PMI (Plus, Minus, Interesting), Red and Blue Ocean strategies³, together with liberal use of focus groups, market assessments and company retreats to revisit and refine strategy are common practices on the business landscape. While strategic planning exercises will always have room for improvement and new insight, it is clear that considerable resources, in the form of company personnel, consultants and research firms, are spent annually to develop and roll out strategies designed to give organizations a competitive edge. And for the most part, the result of these corporate retreats, research and planning exercises are good, solid, strategies designed to move the entity forward and provide sustainable, even superior, returns.

But there is also a major disconnect between the **formulation** and **execution** phases of strategy. The ability to cascade an organization's vision, mission and core strategies into actionable behaviors that achieve critical objectives is more difficult than much of our current strategy literature would suggest. Failure to execute strategy not only leads to shareholder and board frustration, but also accounts for high executive turnover.

Recently, this disconnect between plan and execution has become more evident. Larry Bossidy, Chairman and CEO of Honeywell International, and co-author of *Execution, the Discipline of Getting Things Done*, wrote:

Most often today, the difference between a company and its competitor is the ability to execute.Execution is the great unaddressed issue in the business world today. Its absence is the single biggest obstacle to success and the cause of most of the disappointments that are mistakenly attributed to other causes⁴.

This same sentiment was expressed by Michael Roach, CEO, CGI Group

The true value of leadership is actually in the execution. Can you actually implement that vision, that dream? Can you execute to the plan, can you deliver a positive outcome?⁵

While these sentiments reflect the frustrations of practitioners, academics have also observed the same phenomenon. In a well-known publication, *The Knowing-Doing Gap*, Pfeffer and Sutton⁶ document the extraordinary gap between knowledge obtained through books, articles, meetings, retreats, workshops, educational programs, and the deliverables organizational leaders hope for.

Analysts are equally concerned about this knowing-doing gap. A series of Ernst & Young studies⁷ in the USA and the UK asked analysts to rank the most important non-financial variables they look for in analyzing a firm's future prospects. They cited factors such as "ability to attract and retain talent", "management credibility", "innovativeness" and "quality of corporate strategy", but the single most important consideration for both USA and UK analysts in recommending an investment was the ability of the firm to **execute its corporate strategy**. The inference to be drawn is that, while analysts understand the importance of *creating* a value promise, the ability to *deliver* on the promise is what justifies premium ratings.

This, of course, leads to the question of why well-formulated strategies so often fail to be successfully implemented. Some conclusions are obvious to those close to the action. For example, senior managers often falsely conclude that others in the organization share their view of the corporate strategy. Organizational leaders also often misjudge the resistance to change and the impact of culture on strategic implementation. Change agents often underestimate the time it takes to create a successful change process.

However, experienced management teams usually know these things and attempt to take them into account. So why, in the face of all we know and all the money and time poured into planning retreats, executive education and consultants, do we have so little to show for in converting knowledge into successful outcomes?

David Norton, author and co-author of many articles and books in the area of strategy and scorecarding systems, pinpoints the key issues that impede strategy execution. In a popular website, he recently highlighted these issues⁸:

First, it is impossible to execute something that cannot be described. The point he is making here is that, while we have generally accepted tools, such as financial statements, to describe the economic health of a firm, we do not have similar taxonomies to effectively describe, agree on and communicate strategy. Executive opinions often differ substantially on whether the strategy should focus on product/service differentiation, customer intimacy, cost effectiveness, technical superiority, or some combination of several approaches. This type of confusion is widespreadⁱⁱⁱ and where such confusion exists, execution fails at the operating levels. Indeed, this explains why most managers and employees cannot articulate their company's strategy.

Second, this confusion exists because organizations do not effectively manage their implementation of strategy or make strategy a priority in the firm. For example, while vice presidential titles are common in finance, HR, marketing, logistics and manufacturing, it is much less common to encounter vice presidents of corporate strategy or Offices of Strategy Management that provide the central focus and resourcing for executing strategy.

Third, even when strategy implementation is given more focus, organizations have yet to devote adequate resources to communicating, monitoring, measuring and validating their strategic progress. It is one thing to track high-level, lagging, financial indicators of performance. It is quite another to develop, measure and monitor leading measures of performance that often foretell future success or failure, and relate them directly to strategy achievement.

First-generation balanced scorecards introduced in the mid- and late 90s attempted to address

these issues, but with only limited success. While strategy was portrayed as being at the heart of these early scorecards, in reality organizations primarily used their scorecards as improved performance measurement systems to overcome an overriding emphasis on financial numbers. However, building scorecards without first understanding core strategies turned out to be frustrating, unproductive, and largely disappointing. Many firms that adopted first-generation balanced scorecard systems abandoned their initiatives. Other organizations, however, persisted, soon recognizing the necessity of making *strategy* the starting point of a more complete management system, one that begins with describing and communicating strategy before attempting to develop specific performance measures.

The breakthrough in these second-generation scorecards was the use of a **strategy map**[™] — a visualization process designed to communicate and validate the “story” of a company’s strategy in a manner that company stakeholders can follow, understand and help realize.

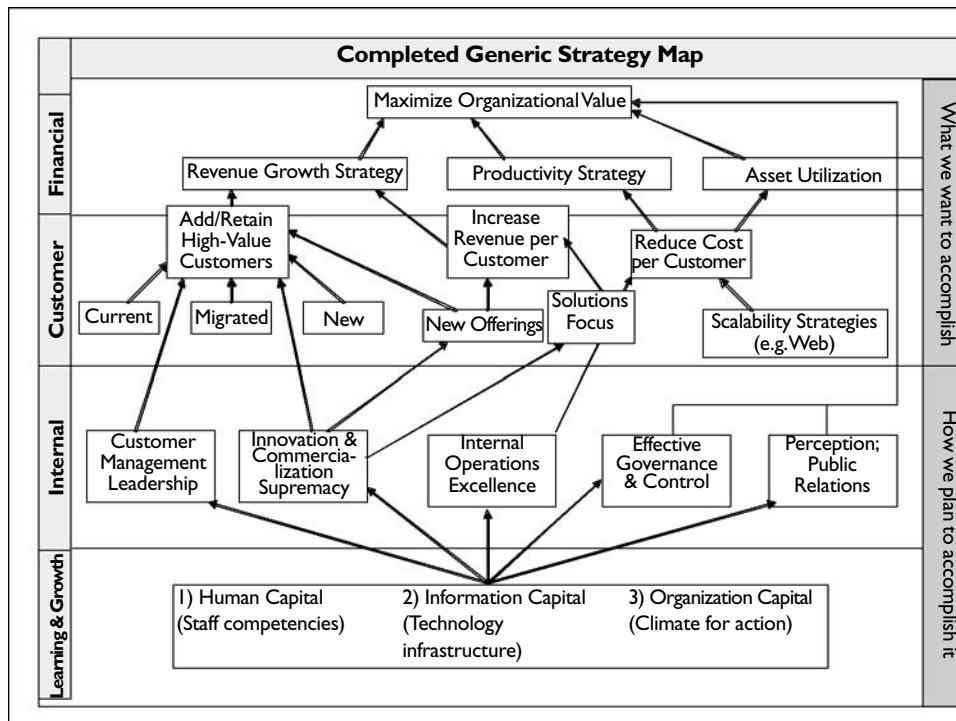
The underlying concept of strategy maps is based

has not been widely followed in business circles.

Strategy maps bring this visualization to life in a business context in a generalized but highly integrated manner. Every organization, no matter its size or sector, must meet customer requirements and financial obligations. In turn, customer and financial expectations can only be met with the right people/technologies and the right business processes. The strategy map, as depicted in generic form in Figure 2, incorporates these two outcome perspectives (customer and financial expectations) with the two input perspectives (people/technologies and processes) into a single representation that organizations can use to communicate their strategies and translate them into concrete actions.

Strategy maps describe how organizations create value by building on strategic themes such as “growth” or “productivity”. These themes determine what specific strategies organizations will adopt at their customer, process, and learning and growth levels. Well-constructed maps describe how the organization plans to meet its specific customer promises, through a combination of

Figure 2: A Generic Strategy Map



on a well-known premise — *a picture is worth a thousand words*. While psychologists tell us that most humans are better able to respond to visual rather than oral or textual forms of communication, until the past decade this axiom

employee, technology and business processes that satisfy customer expectations and meet shareholder demands. In short, they provide the conceptual framework that organizational leaders and their followers can use to better understand

and execute strategy.

Organizations adopting strategy maps can reduce the impediments to successful strategy implementation. First, the map provides a way to describe and communicate strategy systematically — companies use their maps to “tell the story” of their strategy to various corporate stakeholders, thereby achieving a much greater understanding and engagement in the strategic process. Second, maps force organizations to place the onus first on the strategy, and only secondarily on measuring implementation, thus removing the problem of numerous unfocused measures. Third, leading edge adopters use their maps to not only define and communicate strategic imperatives, but also to validate their actions. They use them to test the links described on the map. For example, “if we undertake this set of strategies/initiatives in perspective X, then are we seeing the results we expect to see in perspective Y”?

The timing for this MAG is appropriate. While the concept of the balanced scorecard has been widely accepted worldwide (estimates are that 40 - 50% of Fortune 500 companies have adopted some form of the BSC), many implementations are still at early stages. The strategy map, an integral part of advanced balanced scorecard systems, is much less recognized by practitioners, and the process of building robust strategy maps is still in its infancy. We observe that many maps are poorly conceived and poorly constructed. The proper “story” of the company’s strategy is not being told. Linkages between perspectives are not

well thought through. Value propositions are not explicitly expressed, and when they are, inappropriate business processes are often chosen to support them. Certainly, there are books, a few (fairly expensive) websites and consulting organizations that provide guidance. However, for the vast majority of firms that may want to develop their own strategy map, there is little guidance as to **how** to go about it. In short, to reach strategy maps’ full potential calls for a disciplined, systematic approach to their development and ongoing use within the organization.

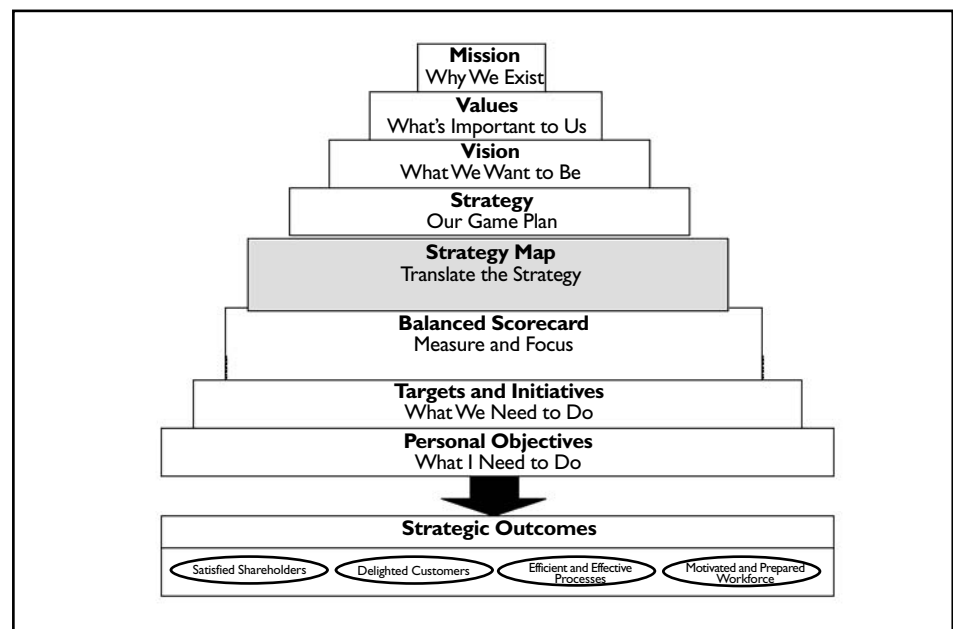
The next section provides a step-by-step approach to strategy mapping that will assist advocates, sponsors, strategy-mapping champions and teams in their endeavor to create and implement a proper strategy map.

CREATING STRATEGY MAPS — THE GUIDING SIX STEPS

Organizations increasingly recognize the strategy map as an integral component of successful strategy execution. In this and the next section, we spend considerable time discussing how to develop high level corporate, and secondary and tertiary level maps.

Strategy maps can be, and often are, used as stand-alone tools that organizations employ to develop, understand, and convey their strategic story. To maximize their value, however, they need to be seen, and used, as core building blocks in an aligned

Figure 3: The Strategy Pyramid



change management process. This means that the existence of a strategy map and balanced scorecard are necessary, but not sufficient, conditions to effectively execute strategy. To get the most from them, they need to be seen as part of a change management initiative. Figure 3⁹ highlights where the strategy map fits in the overall strategic management process.

The diagram indicates that strategic deployment begins with shaping or reaffirming the firm's mission, core values, and vision. These statements form the basis for the considerable (and often lengthy) discussion that leads to the development of a strategic plan. This part of the process, consisting of the use of well-known strategic planning tools, consultant input and executive knowledge, is generally robust.

The logic and visual quality of the strategy map has improved the ability to cascade the strategic objectives down to specific measures, targets, and personal initiatives. However, organizations are still uncertain about the actual steps they can take to create their own strategy maps.

We now discuss six steps that have proven very useful in developing a strategy map. To provide an integrated view of the map's development, each step will consist of both an explanation and exposition. The steps are:

1. Specify an overriding objective
2. Choose the value proposition
3. Choose the financial strategies
4. Choose the customer strategies
5. Execute through the internal perspective strategies
6. Plan the learning and growth strategies

To better communicate the transition from generic principles to their specific application, we will use The Glacier Inn^{vii} as an example.

The Glacier Inn

The Glacier Inn was established a few years ago in Northern Minnesota after a visit to Quebec's Ice Hotel convinced the owner and her partners that a similarly styled hotel would be popular with both adventurous Americans and Canadians.

As a result, the owner and partners invested their life savings and were able to secure a substantial 3-year loan from the state government. With these proceeds, they purchased a plot of land bordering a main river,

which provided the hotel's main construction material — ice. The stated vision of the Glacier Hotel was:

To be an ice hotel of global renown, where innovative and unique offerings provide an unmatched value, an unrivaled experience and total satisfaction for our guests.

The hotel opened January 1. Made entirely of ice, the opening and closing dates of the hotel were dictated mostly by Mother Nature. The hotel consisted of 28 rooms in its first year, and included an art gallery that visitors not staying at the hotel could visit for a fee. All rooms had one queen-size bed, which slept two. Everything in the hotel, including beds, had a frame made entirely of ice. Guests slept in a sleeping bag on a bed of deer pelts placed overtop a bed-shaped block of ice. The room temperature ranged from -3° C to -6° C (26° F to 21° F), but guests remained warm as long as they remained in the bed.

Expected occupancy was 98%. Actual occupancy was 91%. Financial and operating results barely met expectations, and the owner knew that changes had to be made. The owner also knew that the board and government would be looking for a strategy that would put the hotel in a position to be compared to the likes of the ones in Quebec and Sweden. She had learned of Strategy Mapping and the Balanced Scorecard and felt they would be helpful tools to develop, communicate and measure progress toward achieving strategic objectives.

Step 1: Specify an Overriding Objective

In the next few years, what will it take to succeed? This first step is critical, because it links the strategy map to the earlier steps of creating/reaffirming an organization's mission/core values/vision. This step must differentiate between what the organization truly understands as its overriding objective, and the strategies it plans to implement. There is considerable confusion on this point. Many mission and vision statements are often mistakenly portrayed as the ultimate objective to be achieved — satisfied customers, service excellence, best-in-field, market leader, low-cost provider, etc. Indeed, these are critical outcomes and are highly desired by all organizations. However, for profit-making organizations, the overriding objective must be

economic. Michael Porter, the well-known strategist, makes this point forcefully:

*“Start with the right goal: superior long term return on investment. Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it. When goals are defined in terms of volume or market share leadership, with profits assumed to follow, poor strategies often result”.*¹⁰

This is a fine point, but its importance should not be underestimated. There is no question that serving customers effectively, developing new and unique products and achieving market dominance are worthy objectives. And, as Tom Peters points out, business isn't some dry, dreary, boring, by-the-numbers enterprise. Business can be cool¹¹. But in a profit-making environment, these are all the ingredients for success. Success is achieved by significant revenues and/or cost containment that lead to superior economic returns — the *overriding objective*.

Those who have missed this lesson have paid a serious price. Take quality, for example. Few followers of organizational practice would dispute the importance of total quality management. Better processes, fewer defects and reduced variance have improved the fortune of companies and consumers alike. Indeed, many organizations believe that achieving higher and higher levels of quality is the primary goal that, if religiously pursued, will lead to

superior returns. However, shortly after winning the prestigious Malcolm Baldrige National Quality Award for their high quality performance, Wallace Corporation was forced to file for bankruptcy. Florida Power & Light, winner of the even more prestigious Deming Award, almost suffered the same fate. As management began to realize that the costs of quality exceeded the benefits, they were forced to cut back and downsize quality initiatives. Similarly, Federal Express backtracked on its quality operations once it learned the economic consequences^{viii}.

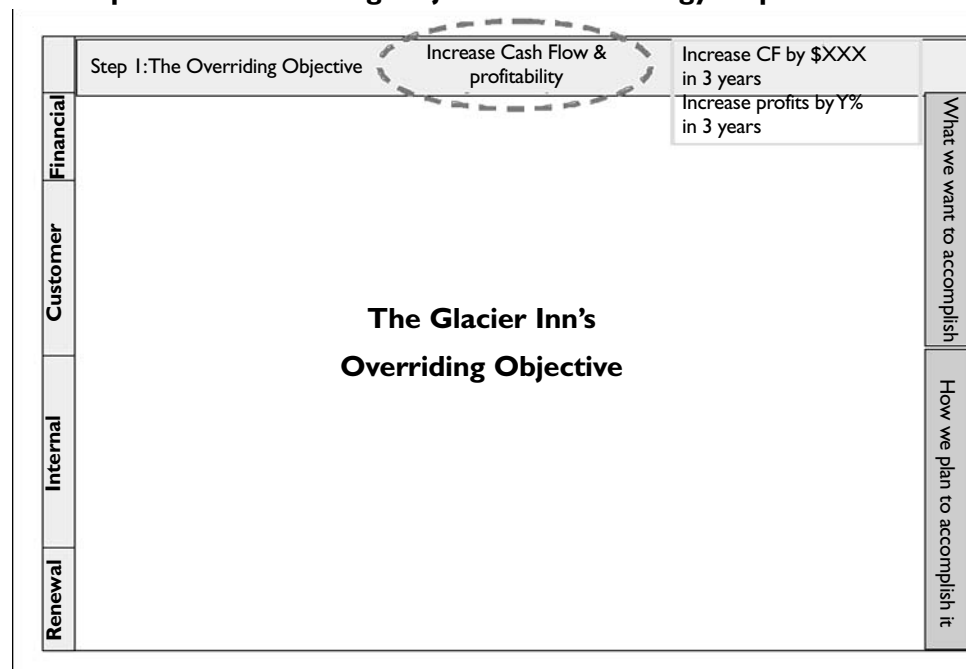
Similar anecdotes could be described for organizations pursuing other non-economic objectives as primary goals. The point is not to discourage these worthy and important initiatives. They are the differentiators that give rise to competitive advantage. The point simply is that they should not be seen as ends to themselves — the discipline provided by the correct overriding objective: superior, sustainable financial returns — is the indicator that permits management to determine if these underlying strategies and initiatives are working as intended.

The overriding objective should be the first element of the strategy map. It should contain a financial target and a time dimension.

Examples of an overriding objective could be:

- Increase return on capital employed by six percent within three years.
- Increase profit margin from 8 to 12% and net

Figure 4: Step I - The Overriding Objective on a Strategy Map





cash flow from \$500,000 to \$750,000 within five years.

- Increase target share price by 20% by next reporting date.
- Increase total shareholder return relative to benchmark by 10% within two years.

Overriding objectives are the first item to appear on a strategy map. Figure 4 excerpts the generic overriding objective “Maximize Organizational Value” from the generic map shown earlier in Figure 2.

Application of principle to the Glacier Inn: The generic map is a guide — it needs to be adjusted by each organization to reflect its particular circumstance. The owner of the Glacier Inn and her partners have a vision for the ice hotel. However, they accept that the vision can only be reached if there is an economic return sufficient to satisfy the initial investors, and an adequate cash flow sufficient to support operations and loan covenants. Based on investor and market expectations and their estimated revenue and cost model from operations as a privately held hotel, Glacier selected profitability and cash flow (rather than shareholder return, normally the case for larger or publicly listed firms) as their overriding objective. This was Step 1 on Glacier’s strategy map (shown later in Figure 10b).

Step 2: Choose the Value Proposition

The company that tries to do everything ultimately achieves nothing, or at best very little, and is destined to find mediocrity. That said, companies that deliver extraordinary levels of distinctive value to carefully selected customer groups can reap the rewards offered by market leadership. Sounds good, but how does an organization pull that off? How many market leaders can there really be? Generally

speaking, more than most people realize.

To lead the market, companies first need to segment the market in new and unconventional ways, based on current and expected customer perceptions of value. What do (or will) customers *really* (not *traditionally*) value? Armed with this information, companies can re-focus to provide the new value drivers better than competitors, and lead the field. The second step in strategy mapping is to choose the value proposition that will help the organization win the market.

The three^x value propositions put forth by Treacy and Wiersema provide an excellent framework for competing in today’s markets¹²:

1. Operational excellence (also referred to as best total cost)
2. Product leadership
3. Customer intimacy (also referred to as customer solutions)

The idea behind the value proposition approach is to choose one dominant value proposition, and provide breakthrough customer value in it. For the two propositions not chosen, it is imperative not to lead but to compete, at least, to some threshold level. Doing so can create an image that will keep customers coming back, as well as provide the company the luxury of being the name that new market entrants will know.

Image: How Does the Customer See The Organization?

For an organization to dominate, the market must deem it worthy of that honor. The organization must be seen as a standout in at least one major area that the market values. In addition, the organization must be able to compete in other areas to at least some threshold standard. Three images that can make an organization stand out

Table 1 - The Value Propositions

<i>Image Driver</i>	<i>Operational Excellence</i>	<i>Product Leadership</i>	<i>Customer Intimacy</i>
Price	Primary focus: very low prices Image: “Best deal”	High end of pricing	High end of pricing
Unique attributes	Low end of threshold standards	Primary focus: very unique attributes Image: “Best product/service”	Meets threshold standards
Relationship level	Low end of threshold standards	Meets threshold standards	Primary focus: very high customer intimacy Image: “Best friend”

are presented in Table I.

The “best deal” image is one driven by price, where price refers not only to the sticker price, but also the “intangible price” of an item, such as minimal wait time and a hassle-free return policy. As Table I indicates, companies focused on operational excellence will use price as the key driver of the “best deal” image. Be the best here, and that market segment will accept the low-end thresholds both in terms of unique attributes and relationship. Wal-Mart, Dell, IKEA, and ING have for many years been viewed as excellent examples of companies pursuing this value proposition.

The next image is the “best product or service”. Companies that decide to compete here are using the product leadership value proposition, and will use unique attributes and features in their products and services as their main image driver. The best companies here will find a market willing to accept a price at the higher end of the threshold standards. Gap provides an excellent example of a product leader — they brand themselves as introducing many of the latest fashions, and spend liberally to get celebrities to endorse their apparel. As a result, people are willing to pay large premiums to wear the Gap brand. Other well-known organizations that compete on product/service leadership include CNN, Apple and Cirque de Soleil.

The third and final image is that of the “best friend”. Companies that compete in this area follow the customer intimacy value proposition, providing solutions to their customers. The companies start with a product or service, and instead of leaving it to the customer to make the most of product or service, collaborate with the clients to make it work. The process may take a bit longer, and cost more, but to those in this market segment, the process is worth the time and cost. Moores Clothing For Men, a Canadian chain of men’s clothing, embodies the spirit of customer intimacy. Rather than just selling clothes, staff at Moores (who are called “image consultants”) ask the right questions and work with customers on the right look. Image consultants have even been known to phone clients to ask how a particular engagement went. Customer-intimate competing firms also include Williams Sonoma, Starbucks and UPS.

The Hotel Industry: It’s Not Just About Sleep

The hotel industry provides an excellent example of how three different hotels — Formule I,

Venetian Hotel — Las Vegas, and Ritz-Carlton — can all provide the same basic service of overnight accommodation, and can all be market leaders. How? By leading in the specific market segment where they have chosen to compete. Each hotel has chosen a value proposition, and in doing so has been able to hone customer value to a level of excellence that makes guests (and competitors) take notice.

Formule I: Operational Excellence

“A clever concept at an unbeatable price”: this catch-phrase from their website describes the platform upon which Formule I has gained a massive market share in Europe’s hotel industry. With prices as low as \$30 per night, one might wonder how a hotel can even make money. How do they do it? By relying on two crucial factors: volume, and absolute cost leadership.

With small, cheaply made prefabricated rooms and a self-check-in and check-out system, Formule I is the cost (and thus price) leader in Europe. Despite such low prices, the hotel chain’s huge market share, coupled with an occupancy rate well above the norm, allows them to realize a return on assets that puts other more swanky hotel chains to shame. And talk about convenience: their website allows prospective customers to see what is available at any given time at any of their hotels, and book rooms online with just a few mouse clicks. From the low prices to the hassle-free experience, Formule I typifies operational excellence in every way.

The Venetian Hotel — Las Vegas: Product Leadership

Hotels do not have to be just about sleep - they can be about an experience. At the Venetian Hotel, guests experience the romance of Italy in the heart of the Las Vegas Strip. Whether it is the entrance into the lobby, a stroll along a cobblestone walkway, or a relaxing ride in an authentic Italian gondola under a glorious painted sky, visitors are treated to a veritable Italian experience. Talented Italian opera singers serenade shoppers as they stroll along the Grand Canal, and costumed entertainers perform daily, taking guests and visitors back in time to Renaissance Venice.

The hotel, of course, offers other features that guests require. Restaurants, rooms, a casino and service are all acceptable but not remarkable (i.e. they meet threshold levels). However, the defining feature of the hotel is its Italian-style uniqueness. The Venetian is selling an Italian adventure, which makes it a “product leader” in the truest sense.

Ritz-Carlton: Customer Intimacy

“Welcome. How may we be of assistance?”

When you are asked this question the moment you log onto a website, the inquiring company is really answering your question about what you can expect from them. The award-winning Ritz-Carlton is just that — a hotel that caters to their guests’ needs...and charges for it. Indeed, they boast to investors that they are able to charge a 30% price premium.

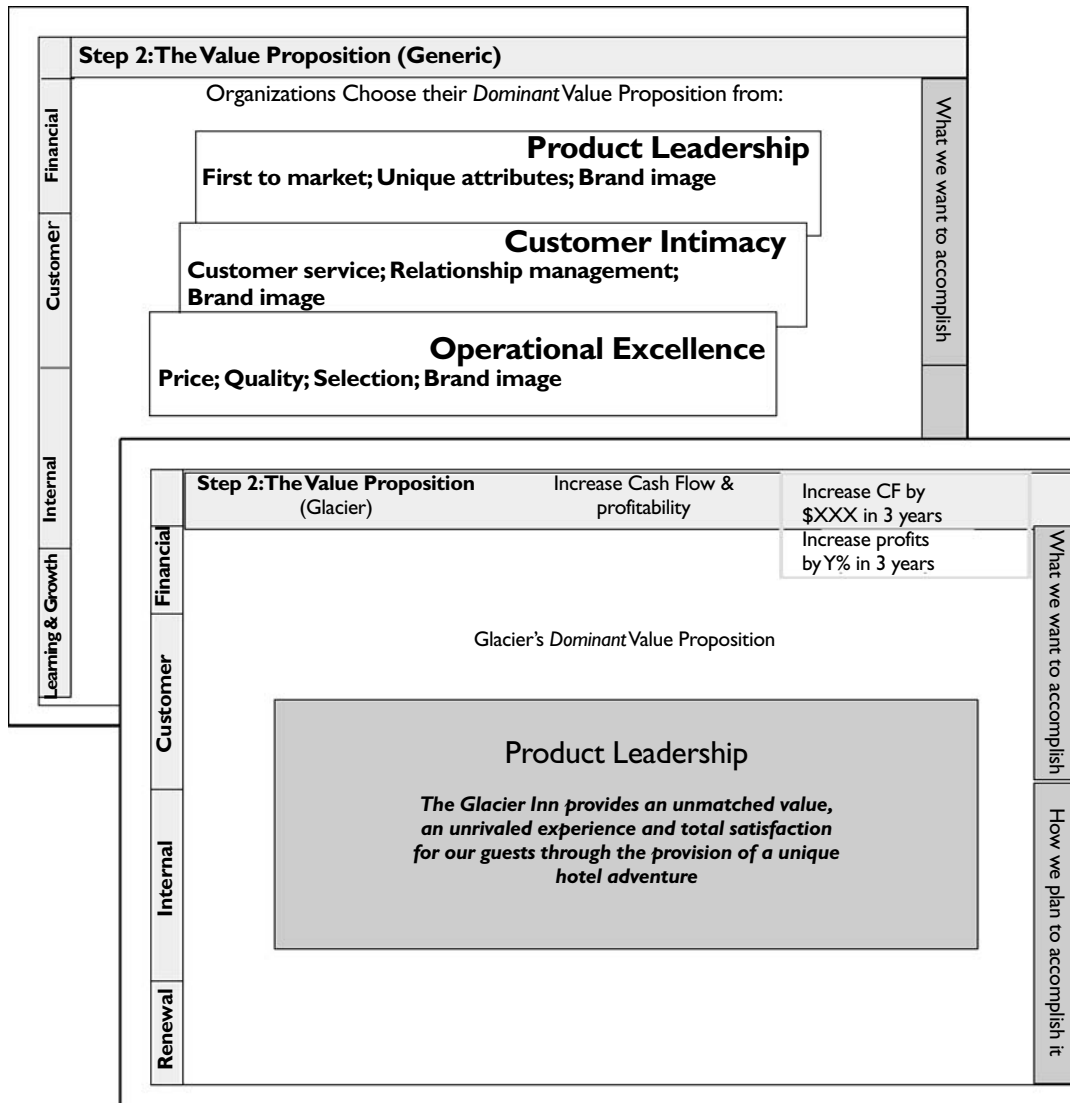
How do they do it? 120 hours of training per employee per year is a good start. Of course, much of the focus of this training is on the customer. To ensure that employees don’t forget, every employee is required to carry the hotel’s business plan in his or her pocket, which constantly reinforces that guest satisfaction is their highest mission. And talk about knowing the

customer! Example: when a room attendant sees an empty soft drink container in a guestroom, the type of beverage is noted. The next time a guest stays at ANY Ritz-Carlton that soft drink will be waiting on ice in his or her room. They do not just offer a hotel room — they offer a solution to guest comfort and gratification. This symbolizes the true meaning of customer intimacy.

Value Propositions: Mapping the Future

Sound strategy execution begins with a strong plan and an overriding objective. Choosing a value proposition can make execution much smoother, since it points and guides the organization down a chosen path. Value propositions offer direction on how the strategy should unfold. Formule 1, The Venetian and The Ritz-Carlton all know this. That each of these leaders has demonstrated the characteristics of a specific value proposition, and

Figure 5: Step 2 - The Value Proposition



has achieved remarkable results in doing so, seems far less likely to stem from simple good fortune than from market leadership resulting from sound choices of value proposition^x.

The Strategy Map

Understanding one’s value proposition is fundamental to the construction of the financial, customer, internal business processes and learning and growth perspectives on the map. Many organizations do not explicitly show the value proposition on their maps, believing that the choice of strategies in the four perspectives will be evident to readers. While this may be true, it is better practice to include the value proposition directly on the map.

Figure 5 illustrates this process. First is a generic look at the value propositions — a firm must choose a dominant proposition from the three alternatives. Second, it shows a map that highlights Glacier Inn’s choice. Glacier’s owner believes that the hotel is clearly designed to attract visitors whose primary reason for coming is neither cost, nor comfort. Rather, it is adventure — a unique experience in a unique hotel. This is clearly a product leadership value proposition.

Choosing a value proposition guides the organization toward the most appropriate financial strategies, which is the next step.

Step 3: Choose the Financial Strategies

Having established the value proposition, organizations next formalize their plans and

strategies around revenues and costs. Financial strategies can be categorized into three key areas:

1. Revenue growth;
2. Productivity; and,
3. Asset utilization.

All organizations must pay some level of attention to each of these strategies. However, the choice of value proposition in Step 2 helps dictate which of the three will dominate, and where to spend most of the effort and activity. Table 2 below indicates the types of financial strategies companies pursue based on the choice of value proposition.

Knowledge of the value proposition assists organizations to pinpoint which of the three financial strategies will dominate. Figure 6 illustrates that organizations pursuing operational efficiency propositions will focus on reaching their overriding objectives primarily through productivity and asset utilization strategies. Organizations following customer-intimate or product leadership propositions will put less focus on these efficiency strategies, instead attempting to grow revenue through unique product or customer features.

Revenue growth strategies

All organizations want to grow revenue. Growth is the oxygen of business — growing organizations thrive; shrinking companies fade. The value proposition chosen will dictate just how an organization goes about growing its revenues. Companies following operational excellence will try to grow revenue through

Table 2: Financial Strategy Chart

<i>Value Proposition</i> <i>Financial Strategy</i>	<i>Operational Excellence</i>	<i>Product Leadership</i>	<i>Customer Intimacy</i>
Revenue growth	Competitive prices Volume	Premium pricing New features	Bundling Cross-selling
Productivity	Tight variable and discretionary cost control	Control but also spend on R&D and marketing	Control but also spend on solution selling
Asset utilization	Maximize inventory turnover Utilize fixed assets to fullest	Utilize fixed assets as necessary in pursuit of product leadership	Utilize fixed assets as necessary in pursuit of customer intimacy

reducing prices and increasing volume and turnover. Companies that improve productivity and asset utilization can do this profitably. Walmart is an example of a company that promises lower and lower prices, yet does so profitably through focusing on cost reductions.

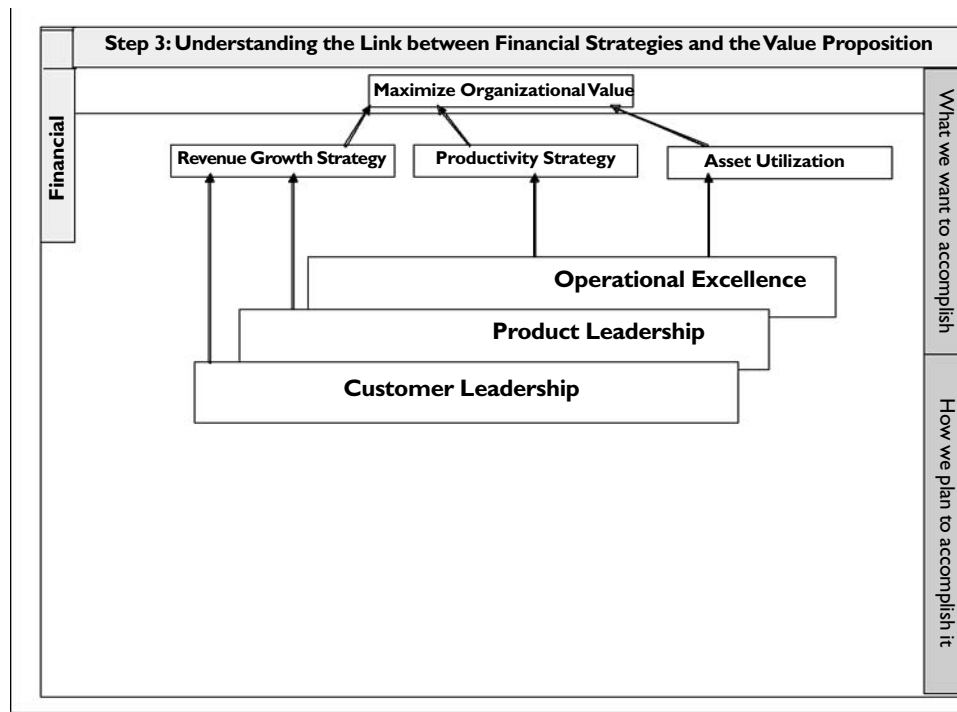
For those organizations pursuing product leadership, revenue growth tends to come through price premiums for their cutting-edge offerings. Take Apple for example: by being “first-in” with products like the iPod, Apple was and is able to capture that segment of the market willing to pay large premiums for the “latest and greatest” products. It is important to note that

such as pallet trading so that customers do not have to immediately remove shipments from their pallets. This provides Erb additional revenue through saving customers time, effort and cost. FedEx and UPS are also excellent examples of customer-intimate organizations. Their slogans, respectively, “Absolutely, Positively Overnight” and “Your World Synchronized” immediately tell clients that it is not just about delivering packages. It is about fast, reliable delivery and synchronizing global supply chains for any size of company — in short, solutions to customer problems^{xi}.

Productivity

In management accounting terms, a productivity

Figure 6: The Relationship between Financial Strategies and Value Proposition



companies focusing on revenue growth through price premiums do not ignore productivity and asset utilization. There is no “license to spend” for product leaders. Instead, these companies will spend more on areas such as research and development, expecting returns on these investments through higher revenues.

The customer-intimate organization tends to pursue revenue growth through bundling of products and services that provide solutions for clients. By offering a solution portfolio, organizations are able to sell more and at the same time please their customer base. An example of this is Erb Transport, a Canadian transport company, which offers ancillary services

strategy equates to optimizing the variable cost structure of the organization. It is important to emphasize ‘optimize’, not ‘minimize’, since minimizing costs often erodes quality. For those organizations pursuing operational excellence, concentrating on ‘optimizing’ is paramount in reducing cost and offering very competitive prices. A good example is Dell, which utilizes the Internet and extremely tight supply chain management to maximize the productivity of each employee.

Product leaders need to strike a balance with productivity, so as to be profitable (i.e. no “license to spend”), while not focusing on it to the point of violating the product leadership value

proposition. A good example of this is CNN: emphasizing cost control too much would conflict with CNN's widely renowned reputation for being where the breaking story is. By spending more, CNN is able to maintain its image as having the best coverage of any network.

Customer-intimate companies, like the Ontario Teachers Insurance Plan (OTIP), must also strike a similar balance. They wish to get as much return as possible from their assets, but not to the point of violating the customer-intimacy value proposition. Although they could cut costs in customer service staffing by outsourcing, OTIP had no intention of doing so, as outsourcing would go against their customer intimacy value proposition.

Asset Utilization

In management accounting terms, an asset utilization strategy equates to optimizing the fixed cost structure of the organization. It is imperative that companies who must invest heavily (or moderately) in large-ticket items such as buildings

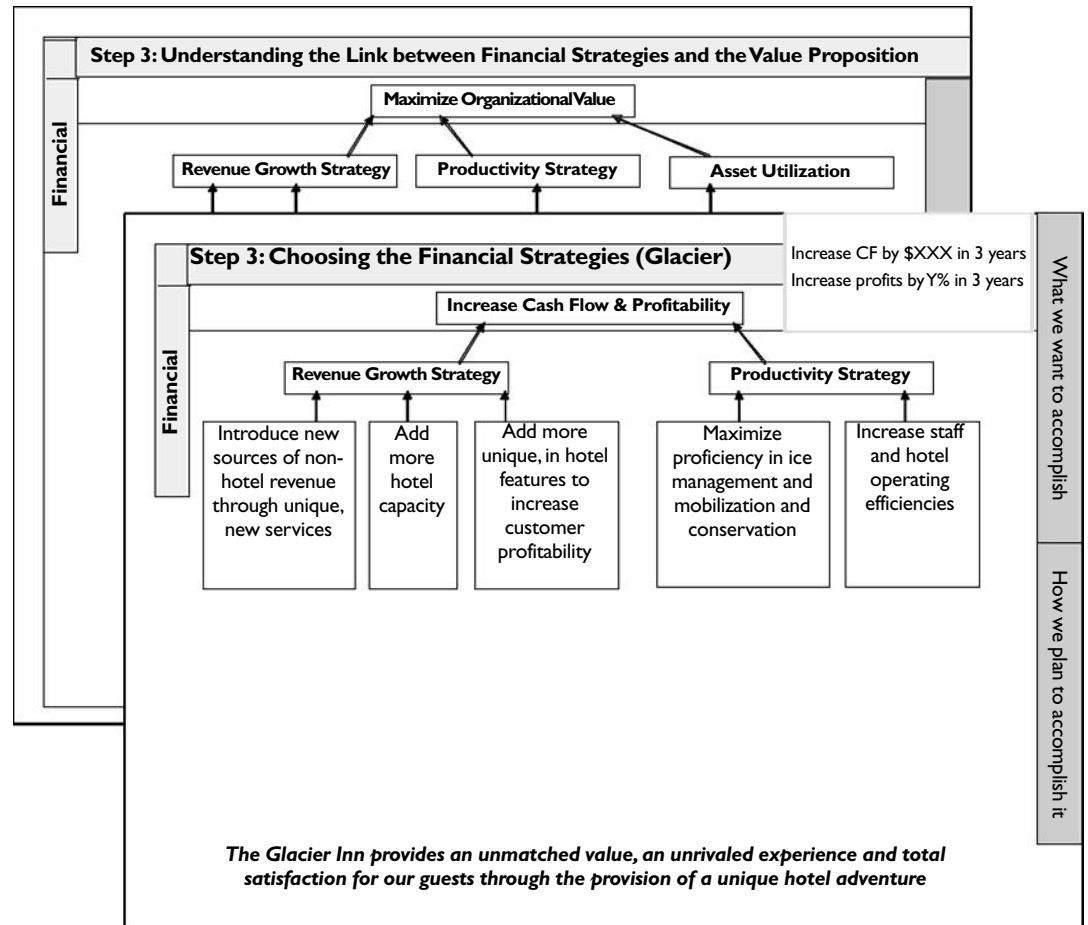
(e.g. hotels), or machinery (e.g. automotive) get the most return from these investments. This is particularly true for operationally excellent organizations that can only achieve success through impressive inventory and other asset turnovers.

In the same vein as the discussion on productivity, product leaders and customer-intimate organizations also need to improve their asset utilization without violating their primary value propositions. In conclusion, the choice of financial strategies is an important step in the strategy mapping process. By aligning financial strategies with the value proposition, companies can position themselves to properly decide what customers are willing to pay for.

The Glacier Strategy Map

The top portion of Figure 7 highlights the three generic financial strategies. The lower portion illustrates the specific financial strategies Glacier chose. Since Glacier is pursuing a product leadership proposition, the company must focus

Figure 7: Step 3 — Choosing the Financial Strategies



primarily on generating revenues from their unique offerings. This will involve a combination of financial strategies, including generating revenue from non-hotel room sources. Examples could include ice museums designed to attract day visitors, and outdoor activities and services that cater to an adventurous clientele. Building additional capacity in terms of hotel rooms and infrastructure will add to revenue, as will a strategy that calls for providing in-hotel guests with additional unique ice features, for example, drinks poured into all-ice glasses, for which guests will be willing to pay premium prices. Glacier must also search for and implement cost saving strategies that relate both to its physical and human assets, but which strategy to emphasize: revenue growth or productivity,^{xii} is clear. Both are needed, but without the “unique” revenue growth focus, all the productivity strategies in the world will not permit Glacier to succeed.

At this stage, Glacier’s strategy map consists of its overriding objectives, its product leadership value proposition, and its choice of high-level financial strategies it will pursue to achieve the overriding objective and the Glacier vision.

The next step is to select the customer-related strategies.

Step 4: Choosing the Customer Strategies

Having established financial strategies, organizations must formalize their plans and strategies to win the marketplace. In other words,

they must clearly establish and articulate their customer strategies. Customer strategies can be categorized into three key areas:

- Retaining and adding customers;
- Increasing revenue per customer; and,
- Reducing cost per customer.

Organizations must pay attention to each of these strategies. However, the choice of value proposition once again dictates where the firm should focus its effort and activity. Table 3 indicates the types of customer-focused strategies companies tend to pursue based on the value proposition chosen.

Those pursuing operational excellence will use competitive prices to retain and add customers, in addition to increasing revenue per customer. Tight process and supply chain management will assist in its ongoing efforts to reduce costs per customer.

Product leaders will offer the latest of technologies and features, including “add-on” products and services, to increase customer volume and revenue per customer. In pursuing premium pricing, product leaders cannot be given a “license to spend”. To be profitable, strategic planning must try to balance spending and profits.

To retain and add customers, customer-intimate companies will tend to use strategies such as promoting word-of-mouth marketing and loyalty programs. By offering complete solutions and bundling packages, these companies attempt to increase revenue per customer. Like product leaders, strategic planning must try to balance

Table 3: Customer Strategy Chart

<i>Value Proposition</i> <i>Customer Strategy</i>	<i>Operational Excellence</i>	<i>Product Leadership</i>	<i>Customer Intimacy</i>
Retain and add customers	Competitive prices	Latest technologies New features	Loyalty programs Word-of-mouth
Increase revenue per customer	Competitive prices	New features “Add-on” products and services	Solution selling Bundling
Reduce cost per customer	Tight process and supply chain management	Spending and cost control policies as necessary in pursuit of product leadership	Spending and cost control policies as necessary in pursuit of customer intimacy

spending and profits. The elements of the Customer Strategy Chart are portrayed in the generic strategy map shown in the top portion of Figure 8.

The bottom portion of Figure 8 indicates how Glacier has translated these concepts into customer strategies it needs to implement to achieve its financial goals, overriding objective, and vision. Glacier’s product leadership value proposition provides the necessary guidance here. Glacier must compete for hotel visitors through its uniqueness theme. Consequently, it must pursue customer strategies that include “adventure”, “uniqueness”, “different”, “rare”, “exclusive” — the hallmarks of a product/service leader. These core strategies are shown as shaded boxes in Figure 8. At the same time, Glacier must ensure threshold levels of other amenities. For example, the “adventure” theme is a great differentiator. But there must be a threshold level

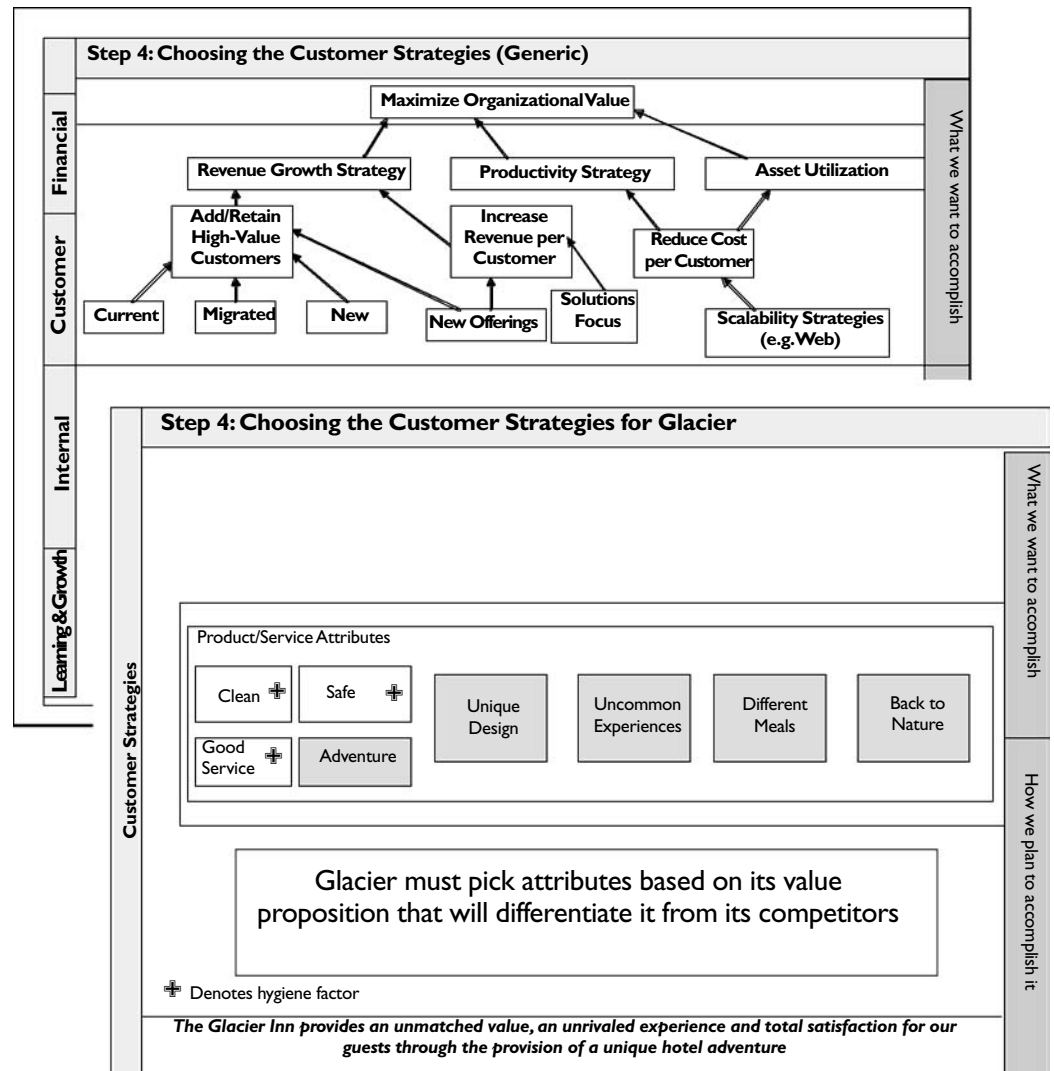
of safety, cleanliness, and service. These are highlighted on the map as “non-differentiable” factors. In other words, they must be present, but they are not the key differentiating strategies that will persuade people to visit the Glacier Inn.

Note how closely tied these customer strategies are to Glacier’s value proposition. It is a consistent story of developing critical strategies around the central value proposition — leading to revenue growth and achievement of the overriding objective.

Step 5: Execute through the Internal Perspective Strategies

Having established financial and customer strategies, organizations next establish those important actions that will realize the plans and strategies to win the marketplace. On the right hand side of the strategy map, the focus changes

Figure 8: Step 4 — Choosing the Customer Strategies





from “What do we want to accomplish” to “How we plan to accomplish it”. In other words, the firm must execute the story that has been developed and revealed in Steps 1- 4.

The internal perspective is all about choosing and executing the right business processes to achieve the desired customer and financial strategies the organization believes will lead to the accomplishment of the overriding objective. Consequently, organizations must consciously choose internal business processes that link directly to the earlier steps.

As an example of this linkage, one of the early strategy map adopters, Mobil, chose to compete on a customer-intimate value proposition. This led to a customer strategy of delivering “fast service”. To execute on this requirement, Mobil developed an innovative time-saving device for drivers called Speedpass, that allowed Mobil customers to pay for gas purchases directly at the pump. Today, such features are common, but Mobil was the first to develop this kind of customer aid — a direct result of linking a desired higher level customer strategy to an internal business development. After its inception, Speedpass users grew at the rate of 1 million per year, directly affecting their financial results and assisting them to achieve their stated overriding objective.

The example serves to illustrate that the choice of value proposition dictates where to spend the bulk of effort and activity in developing internal business processes. Table 4 below indicates how a company could focus its processes, given its value proposition. The figure will provide the basis of the discussion for Step 5.

Table 4: Key Process Chart

<i>Value Proposition</i> <i>Process to excel and lead at</i>	<i>Operational Excellence</i>	<i>Product Leadership</i>	<i>Customer Intimacy</i>
Internal operations	Primary focus – must excel	Meet/maintain threshold standards	Meet/maintain threshold standards
Innovation	Low end of threshold standards	Primary focus — must excel	Meet/maintain threshold standards
Customer management	Meet/maintain threshold standards	Meet/maintain threshold standards	Primary focus – must excel

Internal operations excellence

To endure, all organizations must have solid internal operations. However, companies following an operational excellence value proposition must make internal operations a very high priority, and “run a tight ship”. By doing so, they work at eliminating non-value-adding activities, reducing cost, and delivering low prices. Organizations competing here pay special attention to outstanding supplier relationships, risk management, and efficient and timely production and distribution. Common examples of outstanding operational excellence are, of course, Wal-Mart and Dell. For example, in a recent quarterly report, Wal-mart attributed its revenue growth and improved income to “reducing costs and improving inventory management”¹³. However, many other less well-known examples make it clear that it’s not just large organizations that can compete here. Gildan Activewear, Inc, a Montreal-based company, competes in the textile industry dominated by Chinese manufacturers¹⁴. By using advanced technologies to gain efficiencies and scale, it has taken much of the labor cost out of production and the firm is doing well in the face of the China threat.

Innovation and commercialization supremacy

Organizations pursuing product leadership must mainly focus on processes that motivate, identify, develop and launch commercial innovations, since the leadership proposition is to bring cutting-edge technologies, designs or services first to market. The need here is for internal processes that motivate a continuing pipeline of new ideas, minimizing time to market, while effectively

managing capital projects and budgets.

Organizations that succeed here recognize that customers are willing to pay a premium for leading-edge products and services, and will tolerate less than stellar customer service and cost. A good example is Nike. By focusing most of their efforts on fashion innovations and branding, those wanting to wear the Nike 'swoosh' are willing to pay steep price premiums. Microsoft, another organization that has never been credited with "outstanding" customer service, still dominates the market through its product leadership.

Customer management leadership

Customer-intimate organizations tend to focus on those processes most closely linked to customer management: selection, acquisition, preservation and growth. The focus here is on developing knowledge of customers and building strong relationships. It also includes the processes for providing convenient order handling, and offering solution portfolios to customers. Extra effort is made to identify with customers and make customer results happen. A good example is the Four Seasons hotel, where the focus of all employees is to provide a world-class experience, whatever it takes¹⁵. UPS is another example of a firm that goes to extraordinary efforts to develop solutions for customers. To do this, UPS must hone their internal processes to ensure support for their "best friend" image.

It is important to emphasize again that all organizations will develop strategies in all three areas. However, the value proposition assists in focusing and prioritizing what effort to emphasize.

In addition to the core strategies noted above, organizations may also wish to highlight the importance of developing other core processes for other stakeholders. For example, many (particularly publicly listed) organizations find it important to emphasize and communicate processes relating to governance and control. These processes may take several forms, including fiduciary, regulatory, and environmental. Similarly, some organizations have adopted processes consistent with corporate social responsibility objectives such as social justice and community obligations.

The strategy map

The top portion of Figure 9 shows what the generic strategy map looks like at this point. The bottom portion of Figure 9 indicates how Glacier has translated these concepts into internal business strategies it needs to implement to

achieve its financial and customer goals. Glacier's product leadership value proposition provides the necessary guidance here. Glacier must strongly market its uniqueness theme. At the same time, Glacier must also continuously develop (a) the unique features it prides itself upon, and (b) the hiring and training programs it needs to excel in this market space. These are the dominant internal processes. If they are not developed, the Glacier Inn will fail. Productivity processes are an important supporting theme. If the proposition is effective in attracting customers, every effort must be made to keep the hotel open as long as possible each year. This means achieving efficiencies through targeted project/staff management and exploiting existing ice technologies to preserve and extend its basic building component. The combination of these internal process themes will lead to customer and financial objective success.

This sets the stage for Step 6: planning the learning and growth perspective, where the plan to accomplish the strategy is finalized.

Step 6: Plan the Learning and Growth Strategies

Having established financial and customer strategies, and developed an execution plan, organizations will inevitably notice some gaps in knowledge, skills and abilities necessary to execute the chosen strategy. In this final strategy mapping step, companies develop the appropriate learning and growth strategies.

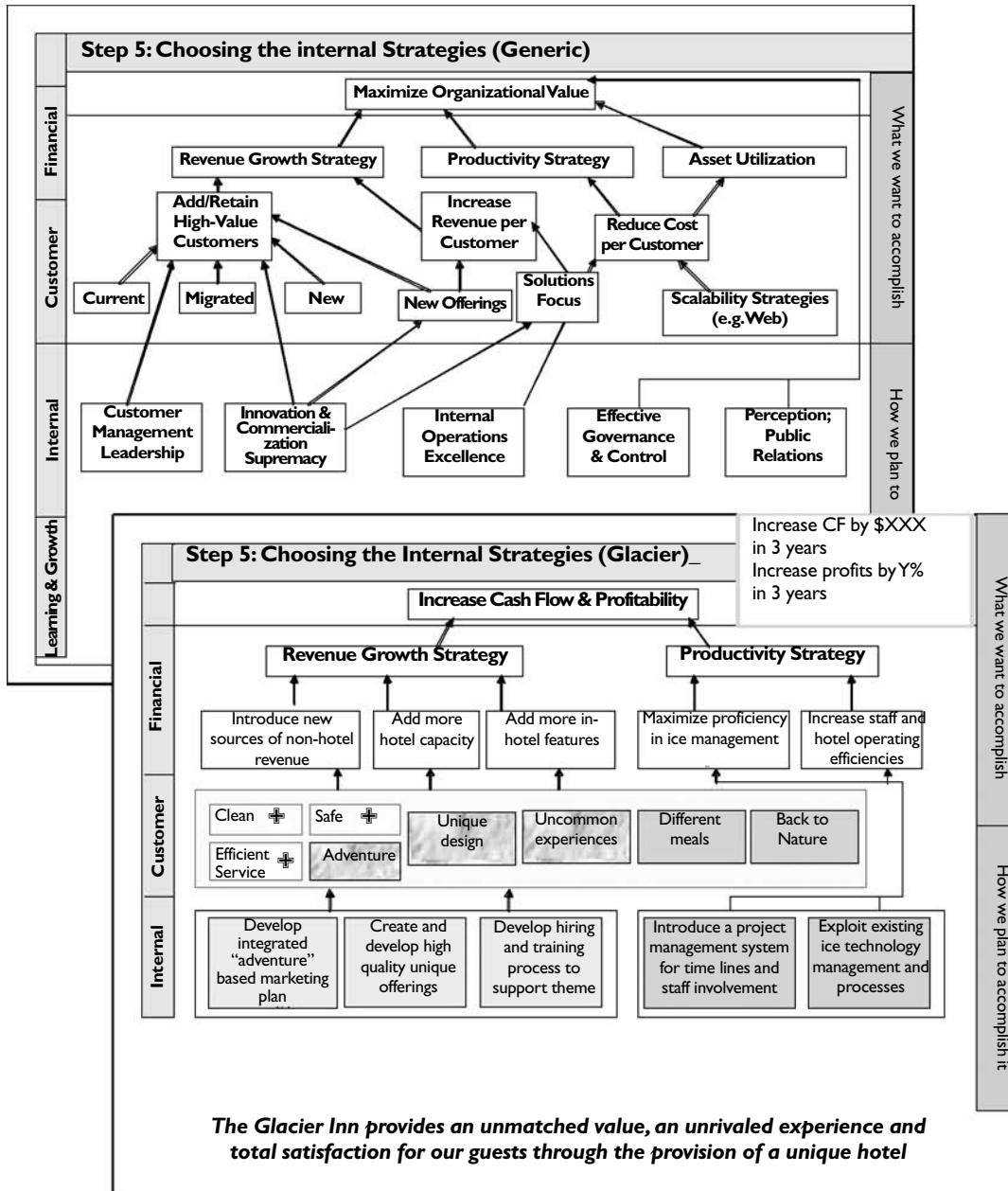
The learning and growth perspective is about identifying and bridging gaps that could limit the organization's ability to execute the key processes identified in the internal perspective. Learning and growth can be classified into three primary areas:

1. Human capital;
2. Information capital; and,
3. Organizational capital.

Human capital

Human capital is the economic value an organization derives from (a) application of knowledge, (b) collaboration, and (c) engaged individuals. Managed well, human capital is an enormous source of value that comes from committed individuals making informed decisions on service, quality, effectiveness, creativity, goal alignment, and productivity. Many argue that an organization's human capital is its single biggest competitive advantage. Organizations can go a

Figure 9: Step 5 — Choosing the Internal Strategies



long way to achieve their overriding objectives by aligning human capital skills to their dominant value propositions. This includes attracting and retaining the right types of skills, and providing appropriate coaching, mentoring and opportunities for developing the know-how necessary to execute specific strategies. While this may seem obvious, the high rate of employee turnover in some organizations and industries indicates all too common mismatches between desired outcomes and employee skills.

Information capital

Information capital relates to how organizations utilize their information systems, networks,

manuals, databases, files and infrastructure to gain competitive advantage and to execute strategy. Examples include the effective use of intranets and central document repositories, and the ability to list projects containing information on those whose particular expertise can assist in solving particular classes of problems. The type of information capital chosen depends on the firm's primary value proposition. For example, a customer relationship management (CRM) data base system will be far more critical to a customer-intimate organization than to an operationally efficient firm. Similarly, systems that report on statistical process control will be far more important to an operational efficient firm

than to a product leader.

Organizational capital

Organizational capital is the firm’s ability to connect employee goals to corporate goals. Companies with high levels of organizational capital are ones that exhibit complementary team memberships, open communication channels, shared visions, trust in leaders, and common bonds — usually leading to greater employee retention and superior performance. Leadership, teamwork and communication are important ingredients in organizational capital. Together, they provide the ability to adapt, and to make the changes required to execute on the strategy^{xiii}.

Companies need to take different approaches to learning and growth because of their specific circumstances, customer expectations, and internal business requirements. In short, the firm’s human, informational and organizational capital policies

The Glacier map in Figure 10b clearly highlights Glacier’s Learning & Growth strategies. As a firm in the guest “adventure” business, it needs to be sure that the employees delivering its unique style of programs and activities have the right competencies. Glacier will be more likely to successfully execute its strategies if it looks for young, energetic, nature-loving individuals with a genuine concern for clients. Where would that strategy lead them to find such individuals? Several locations are possible, but since the Inn is seasonal, and Glacier must also be cognizant of its cash flow and profitability objectives, a likely source would be university programs that (a) specialize in the environmental or kinesiology studies, and (b) include practicums or cooperative work terms in their academic requirements. As seen in the internal business process part of the map, Glacier’s success also depends on keeping the hotel open as long as possible, and through potential seasonal temperature thaws. Partnering with universities

Table 5: Capital Focus Chart

<i>Value Proposition</i> <i>Type of Capital</i>	<i>Operational Excellence</i>	<i>Product Leadership</i>	<i>Customer Intimacy</i>
Human	Status quo: abide by Risk: minimize Time horizon: shorter Flexibility: rigid	Status quo: challenge Risk: calculated Time horizon: longer Flexibility: versatile	Status quo: depends on customer Risk: calculated Time horizon: very long Flexibility: adaptable
Information	Focus: efficiency Sharing: external Main area: operations Customer response: N/A	Focus: innovation Sharing: internal Main area: R&D Customer response: N/A	Focus: customers Sharing: internal, external Main area: sales Customer response: rapid
Organizational	Pay-off: efficiency Expertise: functional Teamwork: low High concern: process	Pay-off: creativity Expertise: functional Teamwork: high High concern: outcomes	Pay-off: solutions Expertise: versatile Teamwork: high High concern: solutions

must be aligned to the chosen value proposition. Table 5 summarizes the thrust of each form of capital for each value proposition.

The strategy map

Figure 10a illustrates a completed generic strategy map. As the map indicates, all three types of capital must work together to help the company execute the elements of the internal business perspective. Aligned learning and growth and internal business processes (the “how we plan to accomplish it” part of the map) facilitate achievement of customer and financial strategies (the “what we want to accomplish” part of the map).

whose engineering departments specialize in ice technologies will help achieve higher productivity requirements. Finally, in terms of organizational capital, the importance Glacier places on developing an appropriate innovative culture and alignment of goals is highlighted on its map.

Reviewing the Glacier Inn Strategy Map

An earlier section emphasized the ability of a well-constructed map to tell an organization’s “story”. It is now useful to look at Glacier’s strategy map to see if the Glacier “story” is apparent from the picture that has been developed.

The map communicates Glacier’s need to achieve

its specific financial results (overriding objectives) within three years, if it is to survive. Management believes it can achieve these objectives through a strongly differentiated value proposition that

promises guests an unrivalled experience and total customer satisfaction by providing them with a unique hotel experience.

Figure 10a: Completed Generic Strategy Map

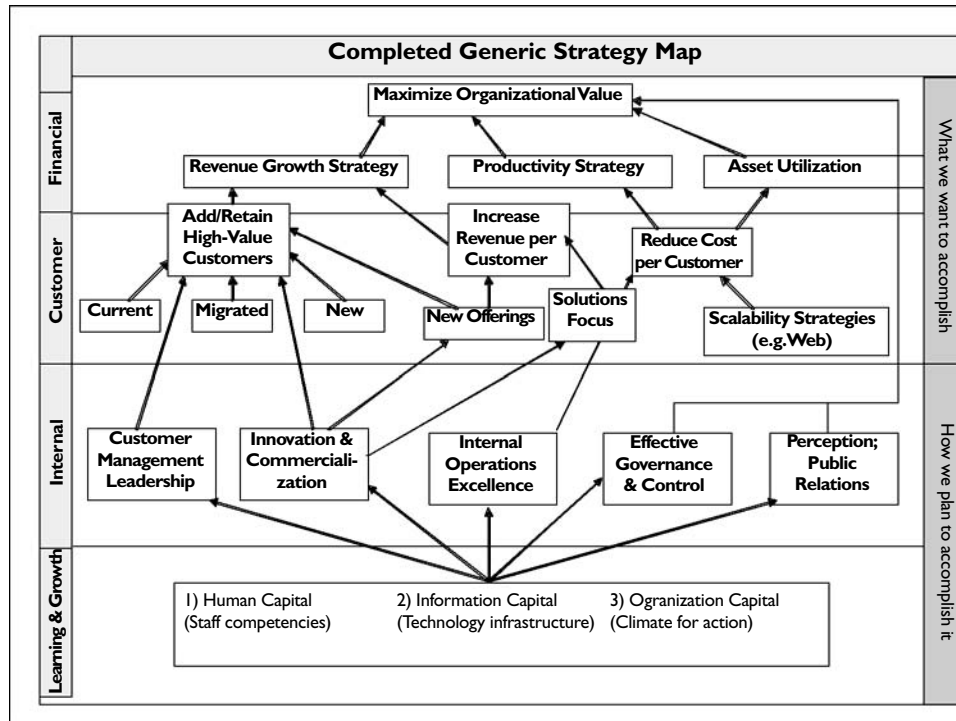
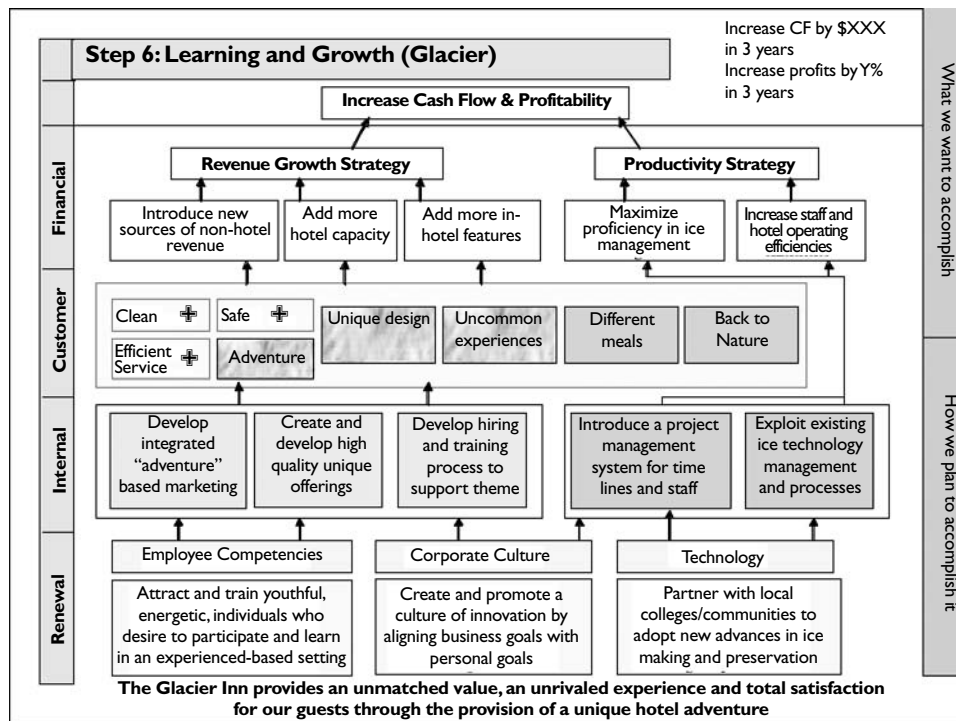


Figure 10b: The Completed Glacier Inn Map



Glacier will achieve its overriding objective by heavily relying on revenue growth through additional hotel capacity, unique in-hotel ice features, and expansion of its non-hotel sources of revenue (ice museums and ice-related attractions). At the same time, Glacier must manage its two major cost components — employee/hotel costs and ice construction and maintenance.

The customer-related strategies that will assist Glacier to meet its revenue projections are strongly based on the value proposition of product leadership. While meeting threshold levels on core customer expectations (safety, cleanliness, service), it will focus the bulk of its activities on its differentiated adventure theme — different meals, different experiences, and making the most out of the northern adventure.

To deliver on these themes, Glacier must be organized internally to identify, design and implement the key processes that will meet its customers' demands for uniqueness. On the revenue growth side, these internal processes consist of developing a highly compelling marketing story, and supporting it with exciting outdoor activities and indoor experiences delivered by enthusiastic and knowledgeable staff — all of which make Glacier an unforgettable experience. On the productivity side, processes that lead to operating efficiencies and ice preservation will assist Glacier to reach its financial targets.

Finally, Glacier recognizes the importance of the right human capital skills, the importance of seeking the latest ice technologies, and the role that organizational culture plays in putting the parts of the company together. As Glacier is a product leader in an annually changing environment, these elements are critical to ongoing success.

Communicating the strategy map: A sample walk-through

In addition to allowing the owner and her partners to clearly tell a strategic story to the board and the government, the map can be extremely useful in communicating the strategy to employees, facilitating a new understanding of how they can contribute to strategy execution. A specific (yet simplified) example of how the Glacier strategy map can be used in this manner is found in the two next paragraphs. Employees will generally understand the desire to increase cash flow and profitability, and the part revenue growth plays in

this. The example then will focus on the box **“Introduce new sources of non-hotel revenue.”**

The map can be used to visually communicate to employees exactly how introducing new sources of non-hotel revenue will support the revenue growth strategy. The more specifically the elements of the customer perspective can be drawn into a discussion, the more likely it is that employees will be able to visualize and understand how the pieces of the map fit together. For example, the creation of a grounds tour for day guests (not unlike the wine tours offered by wineries) can create a sense of adventure and uncommon experience, in large part due to the unique design of the facility. It may include lunch or dinner, making these meals a differentiating experience. This serves to create a new source of non-hotel revenue. Another example might be ice fishing or wilderness walks for day or overnight guests, promoting the back-to-nature theme, and again creating new non-hotel revenue. Using the strategy map to explain this can only add to employee clarity and understanding.

With employee clarity and understanding of what Glacier wants to accomplish, the stage is set to communicate how they can contribute. The importance of developing high quality unique offerings to support the customer perspective, and more specifically the need to generate non-hotel revenue, will be much clearer to employees. In addition, they will likely better understand the hiring and training processes that support the themes being promoted, as well as the culture and competencies plan on the strategy map. All of this, coupled with the fact that employees are usually a major source of idea generation if asked, can greatly assist Glacier in generating the high quality unique ideas necessary for strategy execution.

Strategy maps, like the Glacier map, are exceptionally helpful in communicating the intent of the organization to all its stakeholders. Strategy maps not only keep the organization focused at the executive level, they are also used for many other purposes, including overviews to bankers, board of directors, and prospective employees. They can also be extremely helpful in guiding the most appropriate content (especially measures) for a balanced scorecard. Strategy maps really stand out when used (a) to communicate with employees (who must, each day, perform the activities that lead to successful strategy implementation), and (b) as a guiding framework for developing strategy-critical measures.

CASCADING THE STRATEGY MAP

Corporate-level strategy maps help organizations effectively describe and communicate core strategies to their stakeholders. Executives report considerable satisfaction after completing this stage because, often for the first time, the senior management team finds itself agreeing on high-level objectives, value proposition, and key strategies. Some firms have the simple objective of clarifying strategic direction and communicating a clear picture to stakeholders. Many strategy mapping exercises stop at this “corporate strategy map” point.

However, most strategy mapping exercises use the corporate map as a starting point for developing lower level maps and scorecards. As Figure 11 illustrates, there is a continuum of possible drill-down maps. For example, Mobil developed a corporate-level map for its North American Manufacturing and Refining Group, then encouraged its 18 business units and 14 support groups to develop drill-down maps based on the corporate one. Interestingly, they did not insist that the specifics in each divisional map roll up or are made consistent with the corporate map. ATS Automation Tooling Systems, on the other hand, has encouraged lower level group, regions and divisions to develop maps and scorecards that articulate with the corporate map.

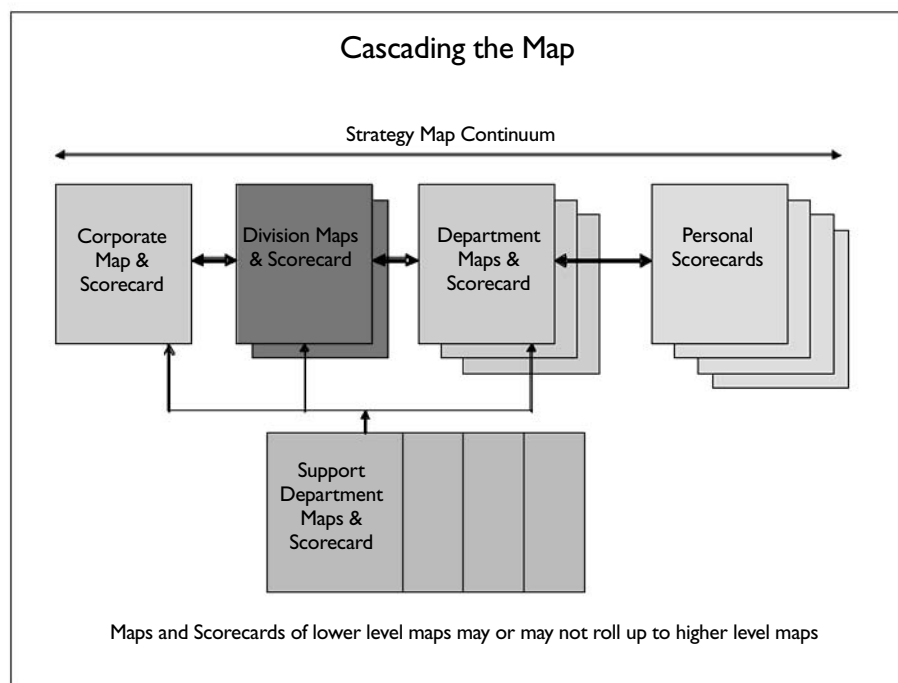
Organizations can employ different types of

cascading maps. First, there is the “within-organization” type shown in Figure 11. Here the corporate map is cascaded into a series of lower level maps, usually based on geographical, product, service or group distinctions.

Second, there is the “within-perspective” type of map. Figure 12 provides an example of this kind of decomposition, illustrating Glacier Inn’s value proposition broken down into specific perspective-level strategies. For example, a Glacier stakeholder might say that developing customer strategies around themes like adventure and uncommon experiences sounds good, but what does that really mean? “Within-perspective” drill-down maps convey this additional information.

This can point employees to specific actions and accountabilities that will help in executing strategy. For example, an employee in charge of the wilderness walks can spend more time than normal to create the most interesting and educational walks. She might do so by locating interesting landmarks, such as attractive rocks and trees. She might also research the various types and ages of trees seen in the walk. Another example is the employee taking guests ice fishing. He might do additional research on the types of fish usually caught, including tasting each, and commenting on this to guests. Certainly, the employee will need to understand any danger signs (thin ice for example). The list of examples is

Figure 11: Drill-Down Map Continuum



infinite — these are just two simple examples to give the reader a sense for how employees can take action using the drill-down map. Management can convey to employees that this is the type of action they are expected to take and will be held accountable for.

A third type of cascading is the “across-function” type. Figure 13 provides a simplified example of a drill down for this objective on the main strategy map: “Optimize capital employment” for three functions. The Inventory Control section illustrates how a subsequent drill down was conducted for “Super manage big dollar items”, because it is important to keep drilling until an actionable set of tasks results.

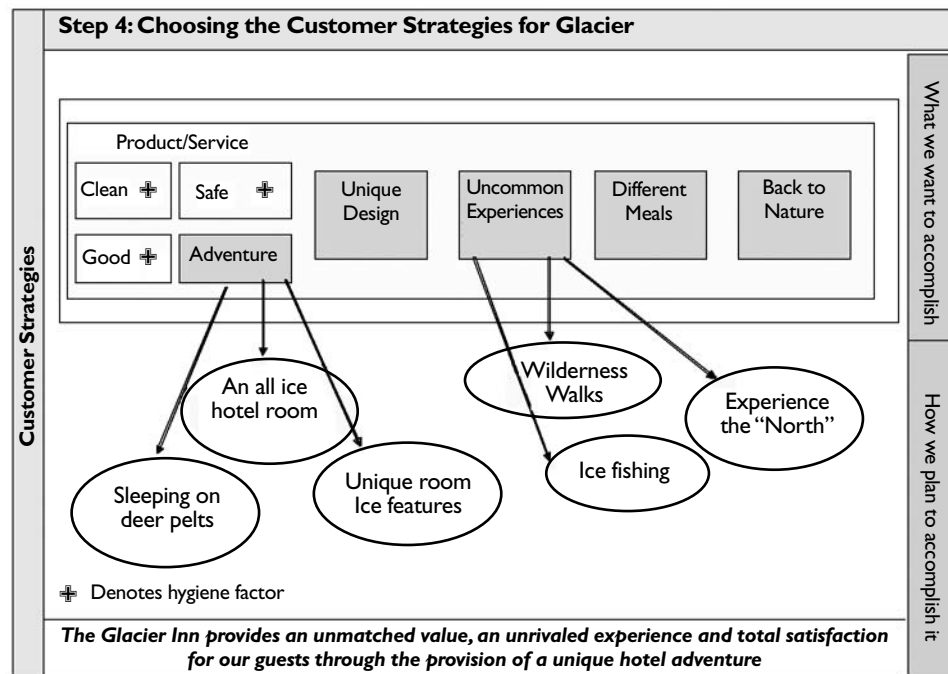
The most appropriate drill-down approach will vary from company to company, and from business unit to business unit even within a company. The important result is a set of actionable steps that

map as an important tool in helping the firm to implement its strategies.

The cases differ, in the sense that one is in financial services, one in global manufacturing, and one in education. Two of the cases are for-profit, and the third is an example of a cost-recovery organization. One is publicly listed; the other two are privately held. One is a large multinational, and two are smaller units within large and mid-size organizations. Each has developed/refined its own unique mission/vision/value statements.

Despite these differences, each has used a strategy map to communicate its strategic themes to stakeholders. Each has followed the six steps described earlier, and identified an *overriding objective* and *value proposition*, and strategic objectives for their *financial, stakeholder, internal business process* and *learning and growth* perspectives.

Figure 12: Value Proposition Drill Down for Glacier



employees understand and are equipped to act on. Two of the vignettes in the next section (MBET and ATS Automation Tooling Systems) show how these organizations cascaded their strategy maps.

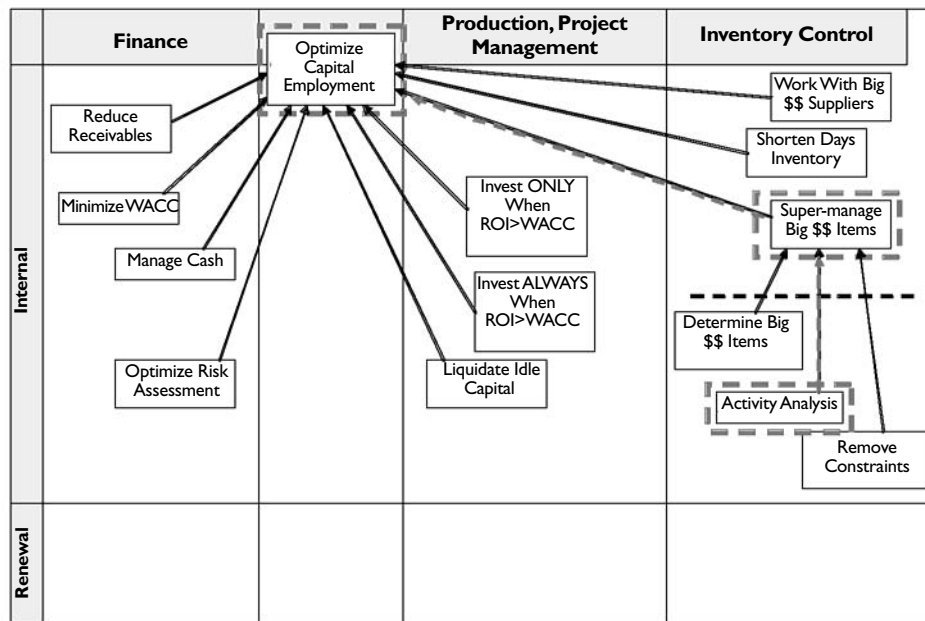
STRATEGY MAPPING CASE VIGNETTES

In this section, we present three cases of organizations that have successfully used the strategy

All have produced corporate-level maps. In two of the cases, we illustrate different types of secondary or “drill-down” maps to represent how organizations utilize strategy maps at (1) different business unit/geographical levels, and (2) within a particular perspective to provide more detail.

Each has subsequently utilized its map to develop strategy-based balanced scorecard measures to monitor the progress of, and eventually validate, their chosen strategies. Important management

Figure 13 — Drill-Down Functional Example



processes, such as the annual budget, monthly reviews, recruitment policies and continuous improvement initiative have been incorporated into the measurement system.

Spokespersons at these organizations believe strongly that the use of the strategy map has provided a number of positive results. Principal among these is the ability to describe, communicate, implement and monitor what must be accomplished, and how specific individuals throughout the organization can be engaged to achieve it. All are committed to continue working with strategy maps.

The three organizations are:

1. RBC Dominion Securities;
2. ATS Automation Tooling Systems; and,
3. Master of Business, Entrepreneurship and Technology (MBET) Program.

RBC Dominion Securities’ Life Wealth Planners



RBC Dominion Securities is one the oldest and pre-eminent providers of wealth management in Canada. Based in Toronto, Ontario, the company, with its subsidiaries and affiliates, offers insurance, investment products, and advisory services to

address the needs of policy owners and clients for financial protection, capital accumulation, estate preservation, and asset distribution. Life Wealth Planners (LWP) is a new group of advisors investment branches of RBC Dominion Securities, with offices in Kitchener and Cambridge, Ontario.

Background

In the investment management field, the opportunity to branch out and become an independent advisor under the corporate umbrella is usually available to those who have demonstrated excellence within the firm. Confident that they could achieve greater success this way, in 2005 Dilk Dhanapala and Teri Cook (both certified financial planners) decided to exploit this opportunity by co-founding Life Wealth Planners (LWP). The term LIFE is actually an acronym for the partners’ approach to clients:

1. Identifying a client’s Life goals and values;
2. Gathering Information on clients;
3. Finding solutions for clients; and,
4. Evaluating and modifying plans.

Many clients have joined this group of advisors because they feel they are obtaining objective and comprehensive advice on their specific goals and values. Both of the founding members believe it is their sincerity and execution of complete comprehensive solutions focused at providing value to their clients that truly sets them apart.

The new company's vision was to leverage its strengths and strong network "to become the pre-eminent wealth management team in the region." Its business model was to create wealth (its *overriding objective*) through a *customer-intimacy value proposition* that called for taking the necessary time to learn and understand client goals and develop, for each client, an individual plan that maximized the likelihood of achieving both financial and non-financial goals. The adopted strategy focused on enhancing LVP's core strengths in wealth management, and expanding its reach of expertise to cater to clients looking for complete solutions to their wealth management needs. By building a network of specialists, including a Will and Estate Consultant and an Insurance Consultant, LVP was able to identify solutions for clients with the most complex financial security needs.

LVP developed its strategy map to communicate and monitor the success of its strategy and aggressive growth plans. The co-founders also used the strategy map to assist in the training and engagement of new employees. Because of its strong client focus and its desire to use the strategy map to convey the importance of client requirements, LVP created a map that placed the financial and customer perspectives side-by-side (see Figure 14). The company's stated overarching objective is to create wealth for the partners by increasing their financial returns. However, placing an equally high value on service — the theme of the customer perspective being to exceed clients' wealth expectations — would help it to achieve the desired level of profit. Placing the customer perspective on an equal footing causes clients to (a) feel that the company fully understands their business and/or personal issues, and (b) trust the firm to develop customized solutions.

The LVP internal process perspective centers around two primary themes. The first theme, "Network", focuses on three needs:

1. To establish a cutting-edge information architecture that tracks key information on clients as the company continues to build the client base and follow the customer-intimate value proposition;
2. To optimize the management of what is referred to as the "Centres of Influence". The focus here is on building partnerships with a variety of key individuals and organizations that can assist LVP in providing clients with the best local professionals and the best relevant advice; and,

3. To enhance the productivity of representatives to maximize wealth generated for clients.

The choice of these internal strategies is entirely consistent with LVP's choice of a customer-intimate proposition. Successful implementation of this theme results in a robust, integrated planning approach to maximizing client wealth and increasing the capabilities and productivity of all employees.

The second theme, "Process", focuses on the "behind-the-scenes" activity that clients do not see directly, yet tends to affect their wealth-related goals immensely. The company expects employees to find new and more efficient ways of working to maximize benefits to clients and the company. Three key needs were identified for this theme:

1. Developing and maximizing efficiencies for all internal processes;
2. Supervising employees to ensure complete compliance and best practices; and,
3. Measuring service excellence in all areas by using the balanced scorecard.

The company fosters a culture of loyalty and commitment through strong hiring and orientation practices, and treating people as well-respected resources. To obtain the type of employees needed to satisfy a customer-intimate strategy, LVP recruited people using a three-step system referred to as **PIE** (getting the appropriate **pipeline** of candidates; undertaking a structured approach to **interviewing** for the right fit; and, enabling new employees to prosper quickly through **effective** orientation). Again, the choice of employee and learning and growth strategies is consistent with LVP's value proposition. The dominant theme is to build clientele. The PIE system is the learning and growth strategy that is a key driver in accomplishing it.

Results

The co-founders use the strategy map in several ways. First, the balanced scorecard measures that flow from the map to facilitate regular quarterly discussions about the execution of the company strategy.

Second, the company uses the strategy map to orient new staff to what the company is all about and what is expected of them, as well as to remind existing staff about their roles in executing company strategy. Through the map and the balanced scorecard, employees are educated about the tight connection to strategy and long-term results.

The company intends to cascade and link the balanced scorecard to employee bonuses, to reward employees for progress made toward strategy achievement. Traditionally, the industry links bonuses to short-term financial results and, since employees tend to act in a way that maximizes rewards, their behavior might not always be in the best interests of clients. To foster a culture of long-term client wealth maximization, LWP feels that use of the entire balanced scorecard is appropriate to measure and reward employees for helping to advance the company strategy.

Overall, the company feels that its return on the investment in the strategy mapping initiative has been great and continues to grow, and the co-founders agree that their strategy mapping initiative has played an integral role in its success. The company looks forward to many years of prosperity.

ATS AUTOMATION TOOLING SYSTEMS INC.

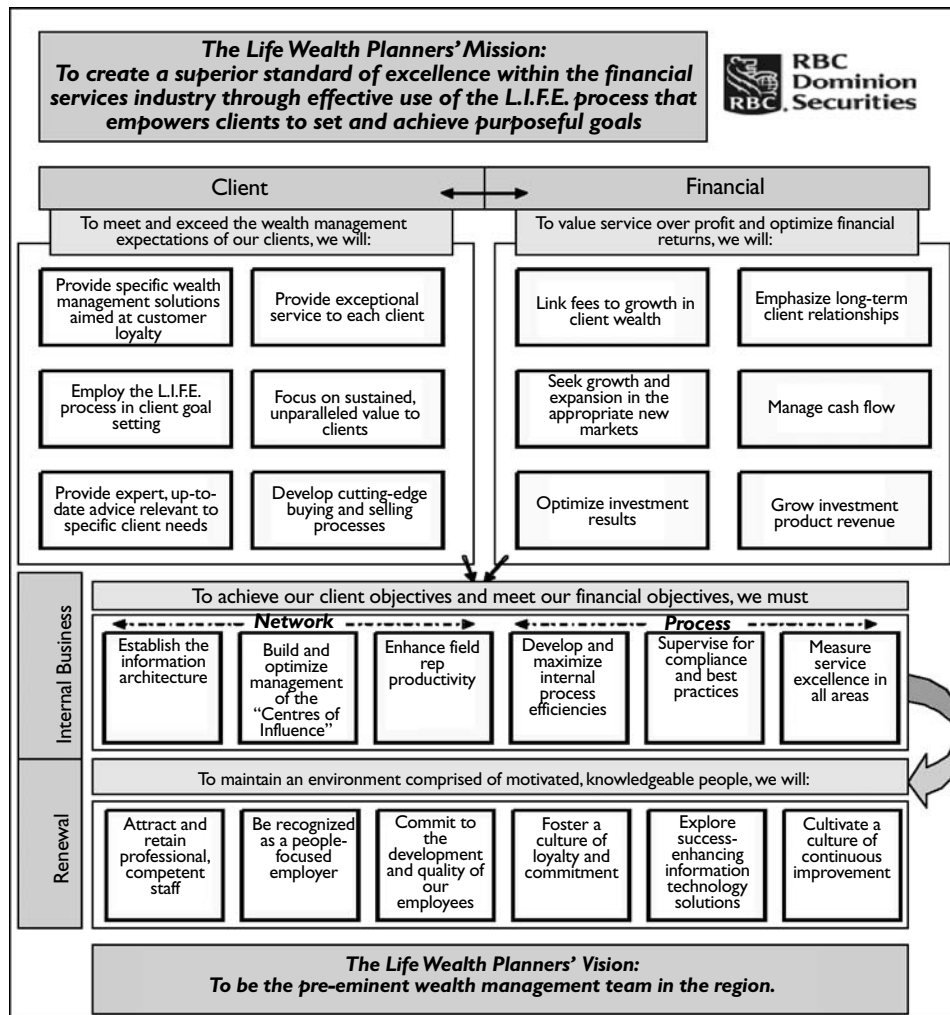


ATS Automation Tooling Systems Inc. (ATS — see www.atsautomation.com) is one of the world's leading designers and producers of turnkey automated manufacturing and test systems. Headquartered in Cambridge, Ontario and listed on the Toronto Stock Exchange (symbol ATA), ATS serves a variety of industries, including healthcare, computer/electronics, automotive, and consumer products. ATS is also an emerging leader within the solar industry with its energy cells and modules.

Background

ATS began in 1978 when Klaus Woerner began operations with a 2,800 sq. ft. special-purpose die shop and four employees. By the year 2000, under Klaus's drive and entrepreneurial leadership, the

Figure 14: RBC Dominions Securities' Life Wealth Planners' Strategy Map



company had grown to nearly 4,000 employees at 26 manufacturing facilities around the world, with annual revenues approaching Cdn\$700 million. As the new millennium unfolded, however, ATS's markets weakened and problems related to ATS' entrepreneurial way of developing and managing its business began to appear. Klaus became ill, and when he passed away in early 2004, it was clear that for many reasons, a new direction was required.

The problem was that the entrepreneurial culture that had so successfully helped ATS to grow was limiting future growth. Even though ATS was twice as big as its nearest competitor, customers began expressing frustrations at the lack of integration across the company, and the ATS management team started to realize that business opportunities were being missed. Customers would say *"we do business with your facilities in Canada and Singapore and it's like we're dealing with two totally different companies."* Comments from ATS sales people included such complaints as, *"our structure limits our ability to compete to a regional level when in reality ATS could be capturing and leveraging its much broader international presence and critical mass"*.

Strategy and the ATS Strategy Map

Following the death of the entrepreneurial founder, Ron Jutras, the former long-time CFO of ATS took over as CEO. Under pressure for improved shareholder results, he made strategic planning and execution within ATS a priority for the company. The time had come to evolve the entrepreneurial approach into a more disciplined and systematic approach to running the business. A decision was made in 2004 to leverage the skills already in place, and to reshape ATS into a structured, results-driven machine that would deliver increased value to its stakeholders.

In many ways, ATS exhibited similarities to organizations that benefit from a disciplined approach to strategy implementation. For example,

- The company had implemented a number of local initiatives, including a continuous improvement process, that were not generating expected results.
- The Board of Directors and senior managers all had different ideas about what should be the company's key strategic themes.
- The executive team knew it needed a roadmap to effectively develop, communicate and

implement a differentiated strategy.

- Results needed to be achieved quickly.

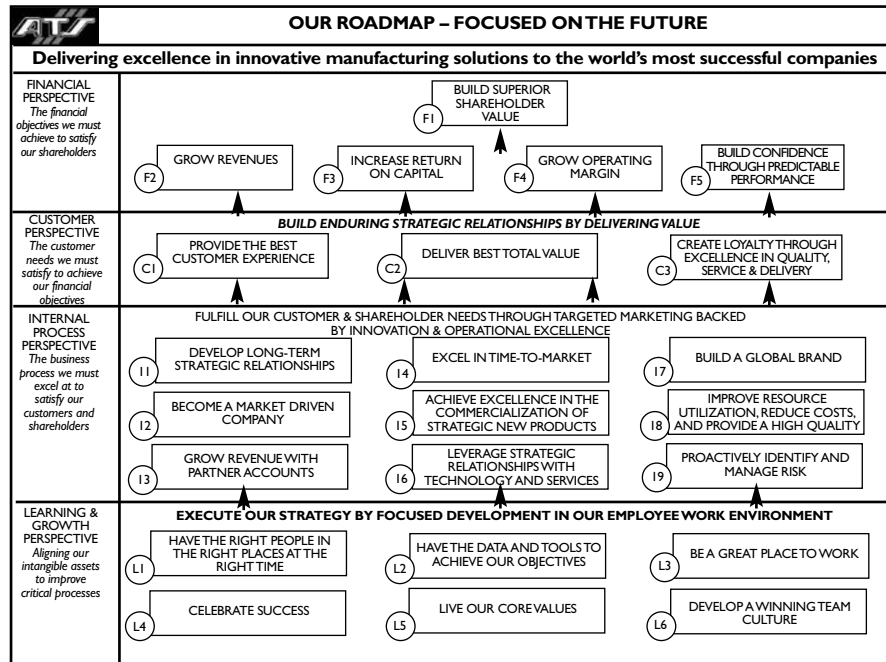
During 2005, Ron put into motion a number of directives and meetings designed to build on the significant strengths and reputation of ATS, by encouraging the executive team to revisit and refine the firm's core mission, vision, and values. These discussions led to explicit recognition of what the ATS *overriding objective* must be (this was framed in terms of (1) a desired share price within five years and (2) a financial benchmark against other competitors), and the *value proposition* that would permit ATS to reach its overriding objective. After considerable discussion and analysis, ATS selected a *customer-intimate* value proposition that revolved around the objective of becoming *"a total solutions provider"* to its customers.

Now the story of how ATS would implement its new strategy in terms of *financial, customer, internal business process and employee growth and development* had to be articulated and communicated throughout the organization. To accomplish this, ATS first developed the corporate strategy map shown as Figure 15.

Ron and his senior management team used this map as the basis for obtaining approval for the new strategy from the Board of Directors, and then developed tentative "drill-down" strategy maps for each of their three business groups. In the months that followed, they visited each ATS region and had the regional VP present the corporate mission, vision, values, and map. These presentations summarized the strategic planning process at ATS. Along with the presentation, a communication workshop was conducted with the managers, and an electronic "toolkit" was given to each business unit that included a soft copy of a video made by Ron Jutras reinforcing the importance of the company's new direction. This drill-down map is shown in Figure 16.

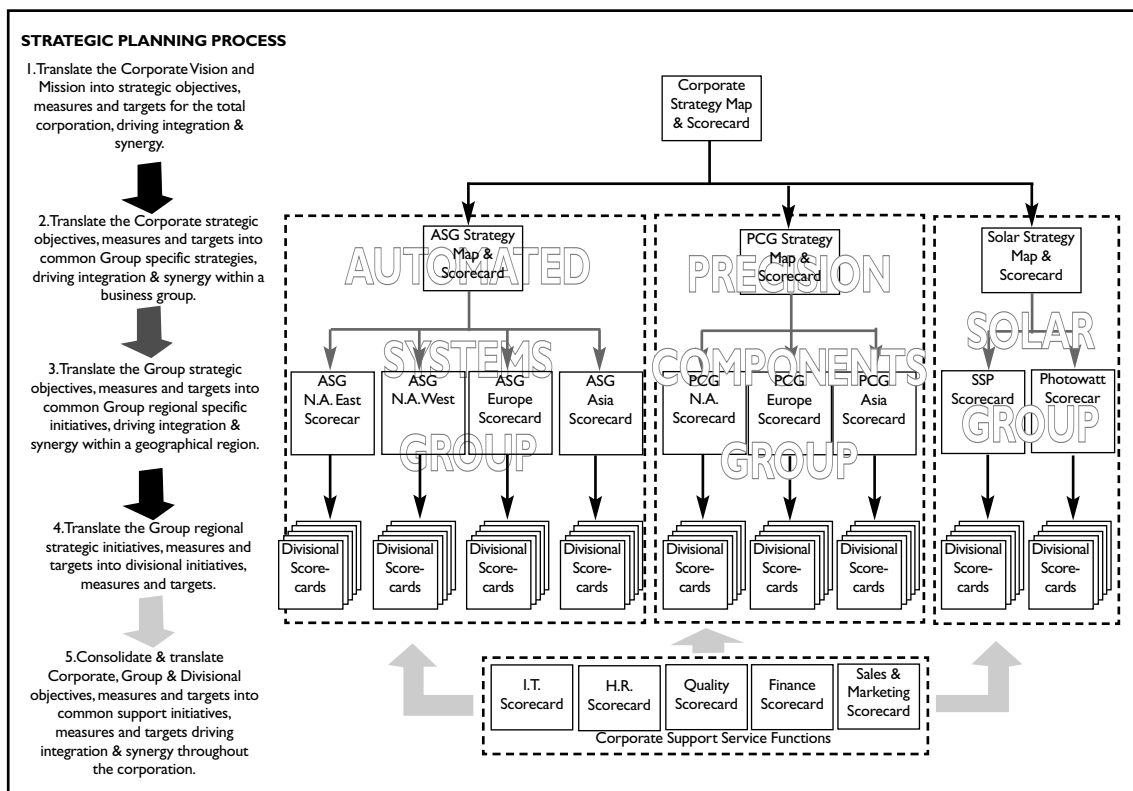
With strategy now in place and being communicated to increasingly lower levels, balanced scorecard measurement is well under way and being used to monitor the extent to which specific financial, customer, internal process and learning and growth objectives are being realized. Additionally, these measures have become part of the regular ATS quarterly, annual and long-range budget process, and newly instituted quarterly and annual operating plan processes.

Figure 15 — ATS Corporate Strategy Map



ATS Customer Value proposition: Providing **Complete Customer Solutions** by offering our customers: the ability to fulfill all the customers' solution needs by selling multiple, bundled products and services; exceptional service before and after the sale; and a long-term customer relationship built on trust.

Figure 16 — ATS Drill-Down Strategy Map



Results

In reflecting on ATS's experience with its strategy map, Ron Jutras pointed out that the challenge for ATS in meeting its customer needs will be met by its ability to convert an entrepreneurial, fire-fighting culture to a more planned and disciplined management style. The strategy map has assisted this transition in several ways. In talking about the process of developing and communicating the strategy throughout ATS via the strategy map, Ron explained:

It has brought our organization together more globally. There is no question in my mind that our regional people are now more closely integrated. The strategy map has encouraged the regions to be more closely joined at the hips, to consider the organization as a whole and to focus on strategy rather than just day-to-day events. As a result, we have more coordination, better alignment and better understanding. For example, we are beginning to see the early benefits of us doing a much better job at leveraging our global purchasing power.

We are also bubbling up issues such as how does this business unit/strategy/initiative fit within our overall organization — when we meet you can see “strategy” coming across in our meetings. We are getting a much clearer picture of where we will be going and why we are going there. When you talk to the operational people, they are beginning to outline where they see the future.

Without doubt, people still say that our desire to make strategy everyone's job increases what they have to do on top of their day-to-day business. However, I believe they will soon view it as an empowering tool to allow them to make better and faster decisions and allow us to free our time for more important matters like taking advantage of growth opportunities to accelerate our business.

The strategy map has played a significant role in helping us understand, communicate and execute our strategy. We are committed to it.

THE MASTER OF BUSINESS, ENTREPRENEURSHIP AND



TECHNOLOGY (MBET) PROGRAM

MBET is a distinctively different graduate business

program that has been carefully designed to (1) respond to Canada's pressing need for more innovation, (2) build on the University of Waterloo's distinctive energies in technology and entrepreneurship, and (3) attract entrepreneurially oriented individuals interested in changing Canada's business landscape.

Background

Despite the existence of numerous excellent business programs, Canada's record has been weak on managing and mobilizing entrepreneurial and technological opportunities into commercially viable products and businesses. Responding to this need, in early 2000 the University of Waterloo, well known for its distinct policies on intellectual capital and success at technological commercialization, created the Centre for Business, Entrepreneurship and Technology (CBET) (www.cbet.uwaterloo.ca). The objective of the Centre was to (a) improve the quality of future business leaders through focused programs that would attract more innovative students, (b) improve training, and (c) develop the managerial skills that would assist in converting opportunities into viable commercial businesses. MBET was the Centre's flagship program.

Strategy and the MBET Strategy Map

MBET represents a combination of private and public sector interests. It exists within a publicly funded university but, as is increasingly the case with new professional programs in Ontario universities, its funding comes almost entirely from student tuition and externally raised money. In other words, MBET must be financially viable or, like any private sector organization, it will cease to exist.

MBET designers believed they knew how to develop a first-class curriculum to attract entrepreneurs, and to provide the type of “knowing-doing” educational program that would help overcome Canada's innovation gap. However, they needed to be able to quickly tell the MBET story to prospective faculty, students, advisory council members, potential donors and mentors, and other educational and administrative units on campus. The strategy map proved to be an ideal way to communicate the university's chosen mission, vision, and strategies.

MBET's overriding objective was social in nature — the number of new ventures it planned to spin out of the program in the next few years. Recognizing that the graduate business education field was

already filled with literally thousands of MBA programs, the university consciously chose a different name, MBET, and adopted a *value proposition* clearly focused on *product or educational leadership*. Its corporate-level strategy map is shown in Figure 17.

Because of its joint public/private sector objectives, MBET's strategy map puts its financial and stakeholder perspectives on an equal footing, to denote that, not only must it satisfy its stakeholders, it had to do so in an economically sustainable way.

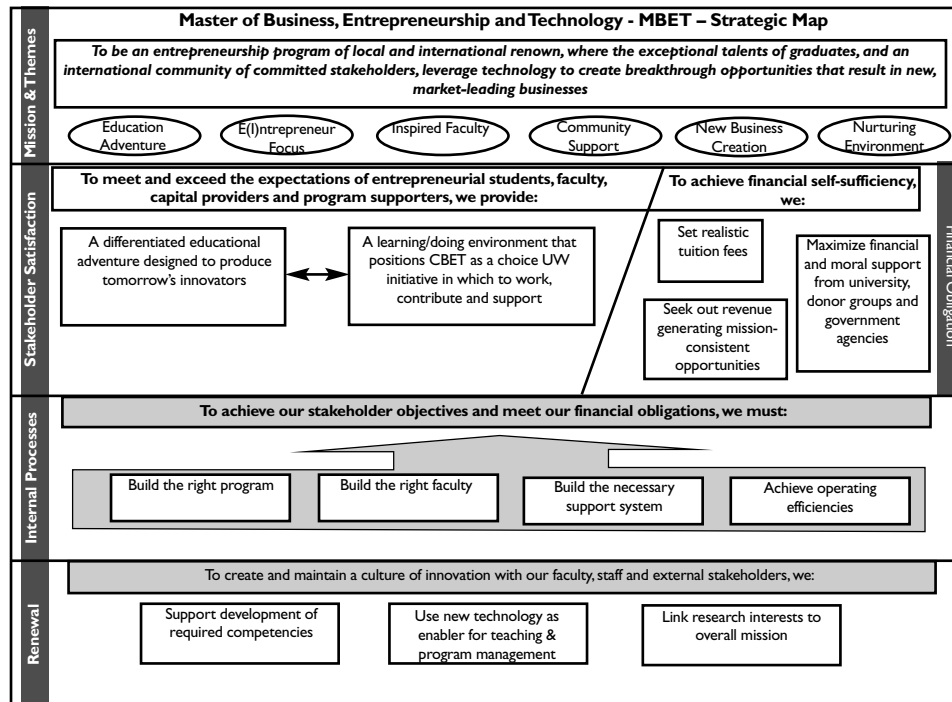
The educational *leadership value proposition* is in evidence in the stakeholder perspective. Here, the MBET strategy is to create an “educational

objective to create “a differentiated educational adventure designed to produce tomorrow's innovators”. Figure 18 portrays, in more detail, how the program would attract entrepreneurial students by promising and delivering on a number of key educational components. Note that only certain components are true differentiators. Things such as simple admission procedures were taken as necessary but not sufficient conditions for mounting the program. The real differentiators are those components not easily found in other programs.

Results

According to the program designers, the MBET

Figure 17 — The MBET Strategy Map



MBET Product Leadership Value proposition: Providing a differentiated educational adventure designed to help technical entrepreneurs create leading edge new businesses.

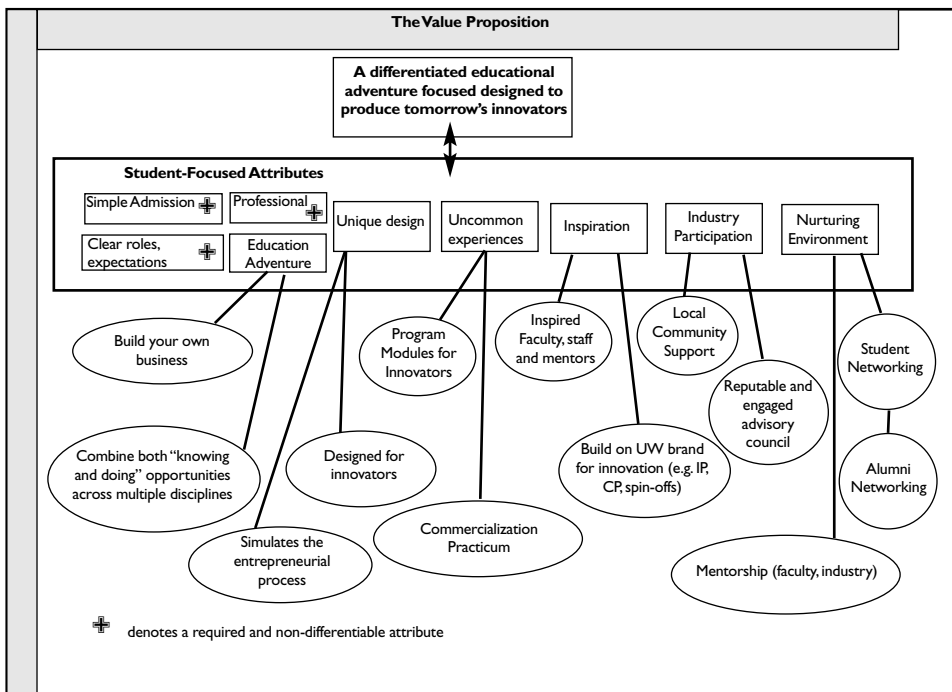
adventure” and a “choice” working environment for faculty and other stakeholders. The internal and learning and growth perspectives indicate how this, and meeting its financial obligations, are to be accomplished.

The corporate map provides a snapshot of the high-level strategies MBET selected to achieve its overriding objective and mission. However, similar to other strategy maps, each strategic objective on the map can be “drilled down” to provide additional information. This is illustrated by the stakeholder

strategy map has been extremely helpful in executing the strategy the university believed would result in a high quality, differentiated, program — a program that could leverage Waterloo's entrepreneurial and technological advantages and provide an alternative to Canada's existing landscape of graduate business programs.

First, the choice of the name on the map sends a signal that MBET is clearly a niche program. For those who are (E)ntrepreneurial and have a (T)echnological background, it promises to provide a set “knowing-doing” (B)usiness skills that will

Figure 18 — An MBET Drill Down



assist individuals to commercialize their ideas and create new ventures.

More importantly, the map was used to communicate the differentiators to stakeholders. As used in presentations to potential students, future donors, interested faculty and advisory council members, the map indicates how each stakeholder group fits into the MBET vision. For example, Figure 18 illustrates the MBET value proposition for the prospective student. Faculty also used this map to create a curriculum entirely consistent with these propositions. Similarly, the corporate MBET map shows strategy at the internal process perspective level, called “Build Support System”. A drill down of this objective shows a secondary map for the roles and responsibilities of the Advisory Council they are expected to implement to achieve the MBET vision.

After the map was created, balanced scorecard measures were developed and collected for each of the four perspectives. The map has been highly useful in determining what measures will determine if the strategy is working. For example, one strategic measure at the stakeholder level is the ratio of acceptances to offers. The designers pointed out that since many MBA programs are general in nature and not highly differentiated, many students apply to several programs to increase their probability of acceptance at one. Consequently, the actual ratio of acceptances to offers is often quite low in many university MBA programs. On the

other hand, if MBET is sufficiently differentiated from other graduate business programs, the acceptance to offers ratio should be much higher. To MBET staff, a ratio below 75% indicates that either (1) the differentiated message is not getting through and/or (2) other universities are beginning to compete in the same market by replicating the MBET program. Either situation is cause for reviewing its strategies.

To date, however, the niche strategy appears to be working. MBET has attracted an increasing number of entrepreneurially oriented students. Students actively participate in business competitions. New companies are being formed. Faculty with entrepreneurial interests are part of the program. Advisory council members actively assist young students to move forward on their business ideas. Donors are being attracted to the MBET vision.

These results have been made easier by the use of the strategy map, which has provided guidance for all those involved in implementing MBET’s differentiated educational strategy, and helping to achieve its goal of improving Canada’s innovative capacity.

THE BENEFITS OF STRATEGY MAPPING

From these three case vignettes, it is apparent that those responsible for developing, communicating and executing their strategy maps believe strongly

in their benefits. Beyond these case examples, however, how strong is the evidence that the use of strategy maps has had a positive operating and financial impact on organizations adopting them? Here are some observations from practice and from the performance measurement literature.

Little in the academic literature proves or disproves the hypothesis that adoption of balanced scorecard and strategy mapping systems is positively associated with superior financial returns. Hoque and James (2000)¹⁶ documented a positive association between BSC use and organizational performance. On the other hand, Ittner and Larcker (2003)¹⁷ showed that BSC use had no impact on performance *unless* organizations established causal linkages between their non-financial measures and financial outcomes. Those that did produced significantly higher returns on assets and equity than those that did not.

Perhaps these mixed results are not surprising. With all that is going on inside modern organizations, it is extremely difficult for academic studies to tease out the effects of a single initiative on the financial performance of an entity.

Despite this lack of general empirical evidence, it is noteworthy that a large number of organizations themselves claim significant financial or market share gains as a result of adopting strategy mapping/balanced scorecard initiatives. The best evidence of this comes from the approximately 70 “Hall of Fame” companies from around the world that claim to have achieved breakthrough results after implementing strategy maps and balanced scorecards. Readers can view these organizations and their testimonials by going to <http://www.bscol.com/bscol/hof/> and looking at current members. In addition, readers can peruse some additional sample strategy maps developed by these companies.

To become a “Hall of Fame” company, organizations must meet certain conditions, including (1) the adoption of the “principles of a Strategy-Focused Organizations” (which includes a strategy map), and (2) the achievement of significant financial or market share gains.¹⁸ Examples of well-known organizations that meet these criteria and have been selected for membership in the “Hall of Fame” include CIGNA P&C, UPS, Royal Canadian Mounted Police, Wells Fargo

Bank, Mobil USM&R, AT & T Canada, Hilton Hotels, Ricoh, BMW, Tata Motors and GTE. Many of these organizations claim impressive operating and financial improvements from the adoption of strategy maps and resultant scorecards.

VALIDATING THE MAP

The previous section highlights the critical importance of “validating” the strategy map. Once the map is developed, goals and measures that are consistent with and advance the chosen strategy must be specified. Validation refers to verifying the cause-and-effect linkages between the various perspectives on the strategy map. Validation only occurs when management can track how improving the measures at one level of the map create improvements in other perspectives and contribute to achieving the overriding objective.

For example, some years ago Sears¹⁹, claimed to be able to track the impact of a change in its Learning and Growth actions on the financial returns of the organization as a whole. Specifically, they claimed that a 5 point improvement in “employee attitudes” led to a 1.3 point improvement in “customer satisfaction”, which led to a 0.5% improvement in “revenue”.

Unfortunately, current experience strongly suggests that most organizations have not yet used their measures in a robust way that would verify that if they do action “X” in Perspective “A”, they will see result “Y” in Perspective “B”. Ittner and Larcker²⁰ claim that this is partially due to corporate laziness or thoughtlessness. To some extent, this may be the case, but in the dynamic world of business, it is very difficult to precisely determine the “if we do this here, then we should see that there” link. Ittner and Larcker’s study claimed that only 23% of the studied organizations seriously attempted to validate the linkages suggested by the strategy map. Interestingly, however, those 23% achieved 3% higher ROA’s and 5% higher ROE’s than organizations that did not attempt to validate their models. As difficult as validation may be, it appears there is a benefit to those who spend time evaluating the quality of their hypothesized map linkages. In general, then, organizations wishing to validate their maps tend to follow these steps:

1. Develop the model to be tested (this is the

- creation of an agreed-upon strategy map);
2. Add data to the model (this is the development of the balanced scorecard targets and measures for each perspective);
 3. Assess the results periodically (this involves comparing BSC actual results to targets and determining whether results in one perspective are statistically linked to results in others);
 4. Refine the model (this may mean revisiting the measure or the strategic objective to determine if the proposed linkage is correct, or to improve its predictability); and,
 5. Plan action based on verified results (this would result in resources being directed to actions leading to improved operating and financial performance).

The effort of validating the map brings huge benefits. In addition to the Ittner and Larcker findings, other researchers have found similar cause-and-effect outcomes. For example, in the area of customer-related strategies, Castellano (2006) found that a five percent increase in customer loyalty results in a staggering lifetime profit increase of 95 percent, and that a two percent increase in customer loyalty is the equivalent to a ten percent cost reduction ²¹.

INTEGRATING STRATEGY MAPPING, ACTION PLANS AND THE BUDGETING PROCESS

This section discusses how different types of management initiatives can be integrated with the strategy map. It first focuses on how the strategy map can assist in selecting the appropriate management tool from the wide spectrum of available tools. We then discuss the symbiosis between the strategy map, balanced scorecard, and one management tool used almost universally — the budget and annual review procedure.

Using the Strategy Map to Select Appropriate Management Initiatives

Over the past two decades, executives have witnessed an explosion of management initiatives, tools, and techniques. The term “management tool” now encompasses a broad spectrum of approaches to management — from simplistic to complex — that promise to improve organizational results. Many of these tools are extremely helpful, but many also offer conflicting advice.

All management tools have one thing in common:

they promise to make their users more successful. And beleaguered managers — struggling to demonstrate that they can adapt to rapid change in an increasingly competitive world — have turned to management tools in unprecedented numbers. Keeping up with these techniques and deciding which ones to use are important parts of a manager’s responsibilities. But there has been little guidance on assessing whether a tool is appropriate for a particular situation or organization, or if it will help truly differentiate a company from competitors. The reality is that most of these tools have failed to live up to their billing — not necessarily because they were poor tools but because they have been applied inappropriately. Estimates are that the average failure rate of these management initiatives exceeds 80%. Years ago, a seminal article²² argued that most organizations adopt new management initiatives, not on the basis of need, nor on the basis of a well thought through strategy, but for the following reasons.

- **Mimetic** — organizations adopt initiatives because they see others doing it and do not wish to be left behind. Such examples would include just-in-time manufacturing (JIT), activity-based costing (ABC), customer relationship management (CRM), etc. As has been demonstrated over time, many firms adopted such techniques only to find that they were not the magic bullet they were seeking, and ended up dropping them.
- **Regulatory** — organizations are forced to adopt new initiatives because of political or corporate pressure, regardless of the chosen strategy. An example of the former would be the recommendations of the Sarbanes-Oxley Act in the USA and Bill 198 in Canada. An example of the latter would be the pressure that organizations will often place on their suppliers to be ISO 9000 compliant. In these cases, initiatives are implemented not because the firm believes it is right for them, but because they have little choice in the matter.

There is little doubt that these same situations prevail today and, as new programs/tools/initiatives come to light, may even be getting worse. There are no “Consumer Reports” on management tools to help managers sort fact from fiction, nor to decide where to use a tool most effectively. In the absence of a selection framework, groundless hype surrounding the promotion of certain of these tools can make choosing and using management tools a dangerous game of chance.

Strategy map adopters gain a tremendous

advantage by gaining insight into the most appropriate initiative for them. The reason simply is that construction of the strategy map forces organizations to carefully consider their value proposition. In turn, the value proposition limits the type of strategies that will be implemented and pursued at the financial, customer, internal business process and learning and growth levels. Knowledge of the primary value proposition and of the targeted strategies leads naturally to the type of strategic management initiatives and tactics that should be selected to support the chosen strategies. For example, a firm that develops strategies to support a *product leadership* value proposition should be much less likely to adopt a CRM initiative than a *customer-intimate* firm, whose strategies are built on understanding and quickly responding to customer needs. An *operationally excellent* firm should be far more likely to consider JIT than a *customer-intimate* firm, because the strategy of the OE firm is far more dependent on creating the maximum possible efficiencies and cost savings in its internal business processes. A *product leadership* firm will be more disposed to initiatives that promote creativity and speed to market than ensuring 100% quality.

In short, to achieve the objectives on the strategy map and its related balanced scorecard targets, an organization must choose the *right* initiatives. The

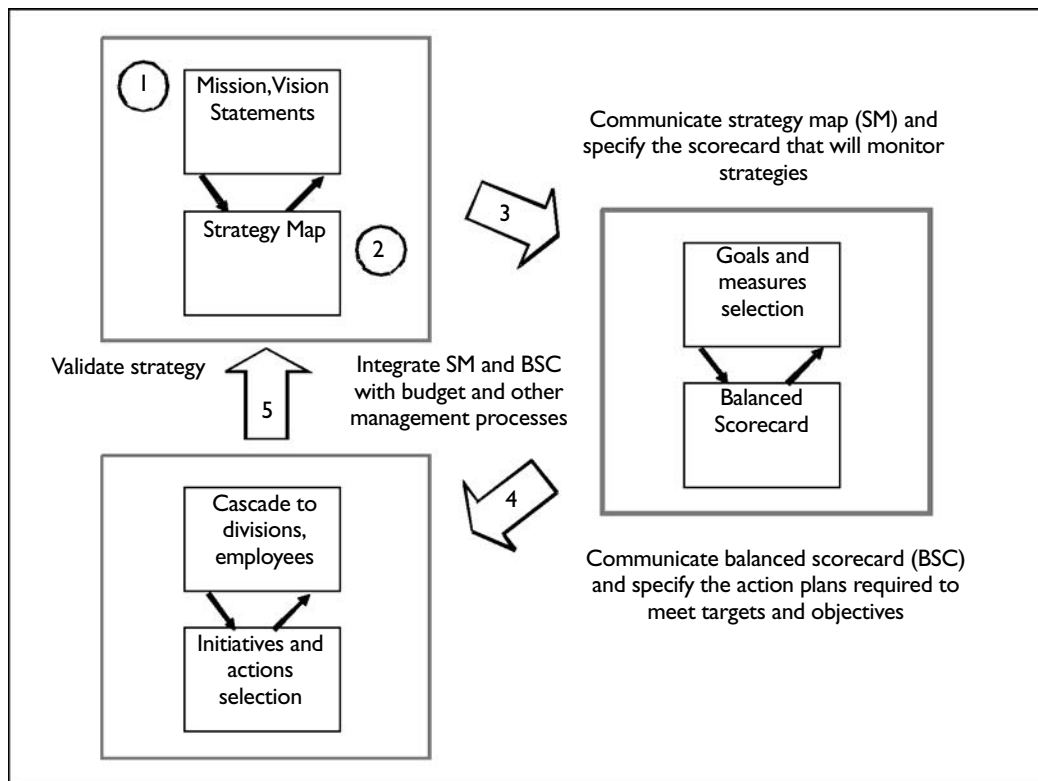
strategy map provides an important framework that (a) permits this choice to be systematically made and (b) in so doing, avoids many of the costly errors firms have traditionally made in selecting management initiatives/tools.

To illustrate this, Figure 19 first shows the progression of events that would take place in a well thought-through strategy process. *Event 1* — The management team arrives at a statement of its core mission/vision/values. *Event 2* — The strategy map builds on this using the steps outlined earlier in the MAG. Specifically, the executive team agrees on an overriding objective and selects a dominant value proposition.

This sets the stage for selecting strategies at each perspective that are designed to achieve the vision and mission. *Event 3* — Through the balanced scorecard, strategic goals, measures, targets and weights are then developed around the key strategies. *Event 4* — The new strategy and strategic goals are communicated throughout the organization, and local managers/employees are asked to consider what they must do to implement the core strategies.

At this point, a series of action plans and tactics are proposed and selected — and it is at this point where things can go badly wrong. Many of these action plans will call for the selection of specific

Figure 19 — Strategy and the Choice of Management Initiatives



management tools to assist in the required transformation. And while many management initiatives appear to claim that “one size fits all”, most do not — the success of the action plan will depend, largely, on the quality of choice and implementation of the right management initiative.

Since strategy maps and the balanced scorecard are integrating frameworks, they facilitate the choice and incorporation of management tools quite well. Table below indicates the most appropriate types of initiatives for each of the chosen value propositions.

The point of Table 6 is to show that the choice of the value proposition leads to choosing management initiatives that more naturally fit the type of business activities that *should* occur once the proposition is chosen. It also indicates the strategic perspective most consistent with the chosen initiatives. Simply stated, organizations that have chosen their value proposition well will not get distracted by management tools whose function is primarily to support other propositions.

This does not mean that a *customer-intimate* firm cannot benefit from benchmarking, or a *product leadership* firm from data mining. Nor does it mean that an *operationally excellent* firm is the only type of organization that will use BPR to improve its internal business processes. In all cases they probably can, but they are secondary to initiatives

team estimated it had over 70 initiatives under way. Not surprisingly, it turned out that many of these had no connection to the company’s newly developed core strategies or scorecard measures. Without the insight provided by the strategy map and related measures, the Bank had no framework for deciding on and prioritizing the most appropriate initiatives. Introducing the strategy map allowed Chemical Bank to dramatically reduce the number of existing initiatives, and to introduce new initiatives more aligned with the firm’s strategic objectives.

Strategy Mapping and the Budgetary Process

It may be noted that initiatives belonging to the financial perspective in Table 6 were listed under “all propositions”. The reason is that some initiatives are so pervasive that they exist in virtually all firms, irrespective of the chosen value proposition. Examples include financial measures and tools such as profit, return on investment, cash flow statements, and EVA™. These are found, in one form or another, in all for-profit organizations. In essence, these are the lagging, aggregate, financial measures that evidence how well individual initiatives within learning and growth, internal processes and customers have been executed.

To benefit most from the strategy map, organizations have learned that, in addition to

Table 6: Value Propositions and Management Initiatives

Dominant Value Proposition Chosen	Operational Excellence	Customer-Intimacy	Product Leadership	All Propositions
Management Initiatives	Just-in-time manufacturing (JIT), Activity-Based Cost Management (ABC/M), Business Process Reengineering (BPR)	Customer Relationship Management (CRM), Data Mining, Permission Marketing,	Computer-aided Design (CAD) Visioning, Idea Generation, Scenario Planning	Budgeting, Return on Investment (ROI), Employee Loyalty
Strategic Perspective Most Affected by Choice of Initiative	Internal	Customer	Learning & Growth	Financial

that support the dominant proposition.

Chemical Bank provides an interesting example of how this kind of logic was applied to the bank’s choice of initiatives²³. Just before creating the bank’s strategy map and scorecard, the project

tracking relevant financial measures, strategy must be linked to and made part of their everyday operations. This is Event 5 in Figure 19. Since strategy is defined in terms of desired actions implemented at each of the four perspectives, this

means that organizations need to (a) tie their balanced scorecard reporting system to their planning, budgeting, and review process — and (b) include in this process *both* the expected operating costs *and* strategic investments required for the activities that will take place in their customer, process management, human relations, information technology, and knowledge creation activities^{xiv}.

The key here is to recognize how the new strategy mapping and balanced scorecard system is linked to the existing budgeting system. The answer is that the budget, in addition to forecasting revenues and costs from ongoing activities, now explicitly recognizes new initiatives prompted from the strategic objectives and targets of the firm. While this may seem self evident, strategy-based budgets, informed by the strategy map and its measures, are seldom integrated into ongoing budgeting activities.

This integration offers several benefits. For example, Chemical Retail Bank screened investments for their potential impact on their balanced scorecard. Over 50% of investment requests were discarded as “non-strategic” (i.e. the impact on the balanced scorecard was simply not great enough)²⁴. This helped free resources for those initiatives deemed truly strategic.

The potential to use the strategy map for making budgeting decisions is immense. Each line item and investment can be considered in the context of its impact on achieving strategy map components. For this reason, we can expect to see more and more strategy maps and balanced scorecards as prominent parts of the annual planning cycle. For example, Northwestern Mutual, one of the oldest and most respected companies in the United States, links all new project-funding proposals to the company’s strategic objectives, with impressive results. Within one year of aligning projects to the balanced scorecard, the company saw a 21 percent improvement in the number of projects meeting scope, schedule, and budget goals²⁵.

Some companies, like IKEA, have gone one step further and eliminated the traditional budgeting process, replacing it with balanced scorecard-like approaches for target setting. While this step may be extreme and inappropriate for most companies, it does demonstrate the power of these tools to affect performance²⁶.

In terms of communication, linking strategy mapping to budgeting can very effectively indicate to employees where new initiatives can be most valuable. Since employees are an important source of new ideas and initiatives, the opportunity to link the strategy map to the budget to execute on the chosen strategy is immense. For example, companies like Saint Mary’s Duluth Clinic reviews and refreshes its strategy map each year at budget time. This helps reaffirm that it is measuring and communicating the right things²⁷.

CONCLUSION

Strategy mapping is an effective and powerful initiative that can help keep a company at its competitive peak. The tools, techniques and steps provided in this guideline enable organizations to effectively and efficiently conduct their own strategy mapping initiative and to successfully implement strategy where others have failed.

Companies struggling with strategy execution will find maps a compelling way to think about, agree upon, and communicate their strategic initiatives to various stakeholder communities. This can only promote better execution. In addition, strategy maps form the appropriate basis for (a) balanced scorecard performance measures, (b) linkages to appropriate management and validation techniques, and (c) allocating resources to initiatives and strategies that support its value propositions and overriding objectives. This has proven to lead to better performance for many organizations, including those in the “Hall of Fame”.

Realizing the full power of a strategy mapping initiative calls on top managers to commit to describing and communicating strategy in a way that will guide decision making away from a short-term focus on financial figures. As employees at all levels learn to use the strategy map to guide their actions, they will align themselves, and their company, to execute strategy in a manner never before experienced. In doing so, the company will position itself to generate the profitability and to demonstrate the accountability demanded by customers, shareholders, employees, and the communities around them.

ENDNOTES

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- ² Balanced Scorecard Collaborative — bscol.com, May 23, 2006.
- ³ Michael Porter, *Competitive Strategy: Techniques for Analysing Industries and Competitors*, The Free Press, 1980 (5-Forces); P. Selznick, (1957) *Leadership in Administration: A Sociological Interpretation*. Row, Peterson, Evanston Il. 1957 (SWOT) (PEST); E. de Bono, *de Bono's Thinking Course*, London, 1982, British Broadcasting Corporation, (PMI); W. Chan Kim and Renee Mauborgne, "Blue Ocean Strategy", *Harvard Business Review*, Oct. 2004.
- ⁴ Larry Bossidy, Ram Charan and Charles Burck, *Execution: The Discipline of Getting Things Done*, Crown Business, New York, 2002, p. 5.
- ⁵ Michael Roach, quoted in Corner Office, *Globe and Mail*, Aug 21, 2006, p. B10.
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- ⁷ J. Low and T. Siesfield, *Measures That Matter*, Boston: Ernst & Young, 1998 and *Measures That Matter: An outside-in perspective on shareholder value recognition*, UK: Ernst & Young, 2000.
- ⁸ David P. Norton, https://www.bscol.com/bsc_online/learning/sfo/
- ⁹ Adapted from R. S. Kaplan, and D. P. Norton. *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Harvard Business School Press, 2000, p. 73.
- ¹⁰ Michael Porter, "Strategy and the Internet", *Harvard Business Review*, March 2001, p. 71.
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- ¹⁷ Christopher Ittner and D. Larcker, "Coming Up Short on Non-Financial Performance Measurement", *Harvard Business Review*, November 2003, 88-95.
- ¹⁸ <http://www.bscol.com/bscol/hof/nomination/>
- ¹⁹ A.J. Rucci, S.P. Kirn and R.T. Quinn, "The Employee-Customer-Profit Chain at Sears", *Harvard Business Review*, January-February 1998.
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- ²¹ Richard J. Castellano, "Time for a Fresh Look at Your Loyalty Management Strategy." ICCM. Jul. 7, 2006, www.iccm.com.
- ²² Paul J. DiMaggio and Walter Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review*, Vol 48, April 1983.

²³ R.S. Kaplan and D.P. Norton, “Linking Strategy to Planning and Budgeting”, *Balanced Scorecard*, Article Reprint No. B0005A, Harvard Business School Publishing, 2000.

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ⁱ A good review of BSC principles is found in R. B. Kaplan and D. P. Norton. *The Balanced Scorecard: Translating Strategy into Action*. Harvard Business School Press, 1996.

ⁱⁱ A future MAG may address the specific concerns of developing strategy maps for not-for-profit and public sector organizations.

ⁱⁱⁱ It is not just a misunderstanding between top and lower levels of management. R. Charan and G. Colvin “Why CEOs Fail”, *Fortune*, June 21, 1999, pointed out that in one organization, the five top executives were asked to list the company’s ten highest priorities. Only two appeared on more than one list.

^{iv} The term “strategy map” is the most common term to describe cause and effect relationships among various balanced scorecard perspectives. However, other terms that have been used to express the same kind of visual phenomenon include, “knowledge maps”, “transformation maps”, “strategy cause and effect tree”, and “concept maps”.

^v While solid academic evidence has yet to fully justify the attention received by the balanced scorecard movement, there is no question about its popularity in practice. There are now literally hundreds of testimonials from organizations of all sizes and from all sectors that claim that the discipline and the understanding provided by the strategy map, the hypotheses that can be generated (and tested) and the measures that are used to monitor it, have lead to breakthrough results in implementation.

^{vi} Two recent webcasts shed some light on the extent to which Strategy Mapping is recognized and practiced by practitioners. In 2003, Armitage and Turney conducted a webcast on Strategy Mapping to over 600 participants. Participants were asked how many of their organizations had adopted (1) the BSC and (2) strategy mapping as part of their BSC. Over 50% had adopted some form of scorecarding but only 15% were aware of strategy maps. (H. Armitage and P. Turney, “Strategy Management”, *BetterManagement.com*, August 2003). In 2006, a similar webcast found that 51% of listeners had heard of strategy mapping but knew very little about it and 36% of the participants knew nothing about it. (G. Lawrie, “Balanced Scorecard Best Practices: How to Create and Use Strategy Maps”, *BetterManagement.com*, February 2006).

^{vii} The Glacier Inn is a hypothetical example of an ice hotel that has been designed to illustrate how strategy mapping can be applied. To keep the example simple and take emphasis off of financial figures, cash flow increase is referred to as “CF \$XXX” and profit increase is referred to as “Y%”.

^{viii} There are many organizations that have espoused quality and claim that it has lead to superior returns. This is true but successful firms in this category such as GE, Motorola, IBM, Kodak, and Westinghouse implemented TQM as a means to the end — economic sustainability, rather than as the end itself.

^{ix} A fourth value proposition, called the “system lock-in” strategy, has been put forward by Arnaldo Hax and Dean Wilde (The Delta Project: Discovering New Sources of Profitability in the New Business Environment. New York: Palgrave, 2001). With this strategy, firms deliver products and services that enhance the organization’s own product and service offerings. Microsoft is the best example of a company that is in the position to compel others to accept their standards. Kaplan and Norton refer to this as “system platform” in their new book, *Alignment*.

^x We have chosen to describe value propositions in terms of product, customer or operational leadership. Another approach to thinking about value propositions comes from David Thomson in *Blueprint to a Billion*, John Wiley, 2006. Thomson describes three types of propositions: *Shapers of a New World* (eBay, Yahoo), *Niche Shapers* (Starbucks, Veritas), and *Category Killers* (Wal-mart, Home Depot). While the classifications differ, the sources of competition are very similar to the propositions described above.

^{xi} UPS has taken customer service to new levels including reducing the time for computer repairs by designing, with Toshiba, an improved logistics system and acting as the dispatcher for companies that range from Nike to Papa John’s Pizza. See, T. Friedman, *The World is Flat*, Farrar, Straus and Giroux, New York, NY, 2005, p.p. 141-143.

^{xii} Readers will note that the Glacier map does not contain an “asset utilization” strategy. Since an ice hotel is forced by Mother Nature to rebuild every year, it does not have the same “long-term” asset investment as would exist in typical organizations.

^{xiii} Each year *Fortune* produces a list of the “100 Best Companies to Work For”. These are organizations that excel in creating an environment where human and organizational capital are highly developed. It is no surprise that, in general, firms that make it to the top 100 are also firms that have demonstrated superior financial returns.

^{xiv} There are several references that describe the organizations that have earned the BSC Hall of Fame Award (see bscol.com). Virtually all of these organizations have integrated strategy into their regular operating procedures.

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ONLINE RECOMMENDATIONS

The Balanced Scorecard Collaborative www.bscol.com is one of the world's foremost authorities on strategy mapping and the balanced scorecard. It provides a host of offerings, including free reports and online events.

BetterManagement.com www.bettermanagement.com offers general management advice by offering online seminars. It has a diverse range of topics, including strategy mapping and the balanced scorecard



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