CGMA TOOL

How to Develop
a Strategy Map

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Two of the world's most prestigious accounting bodies, the AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant (CGMA) designation to elevate the profession of management accounting. The designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance.
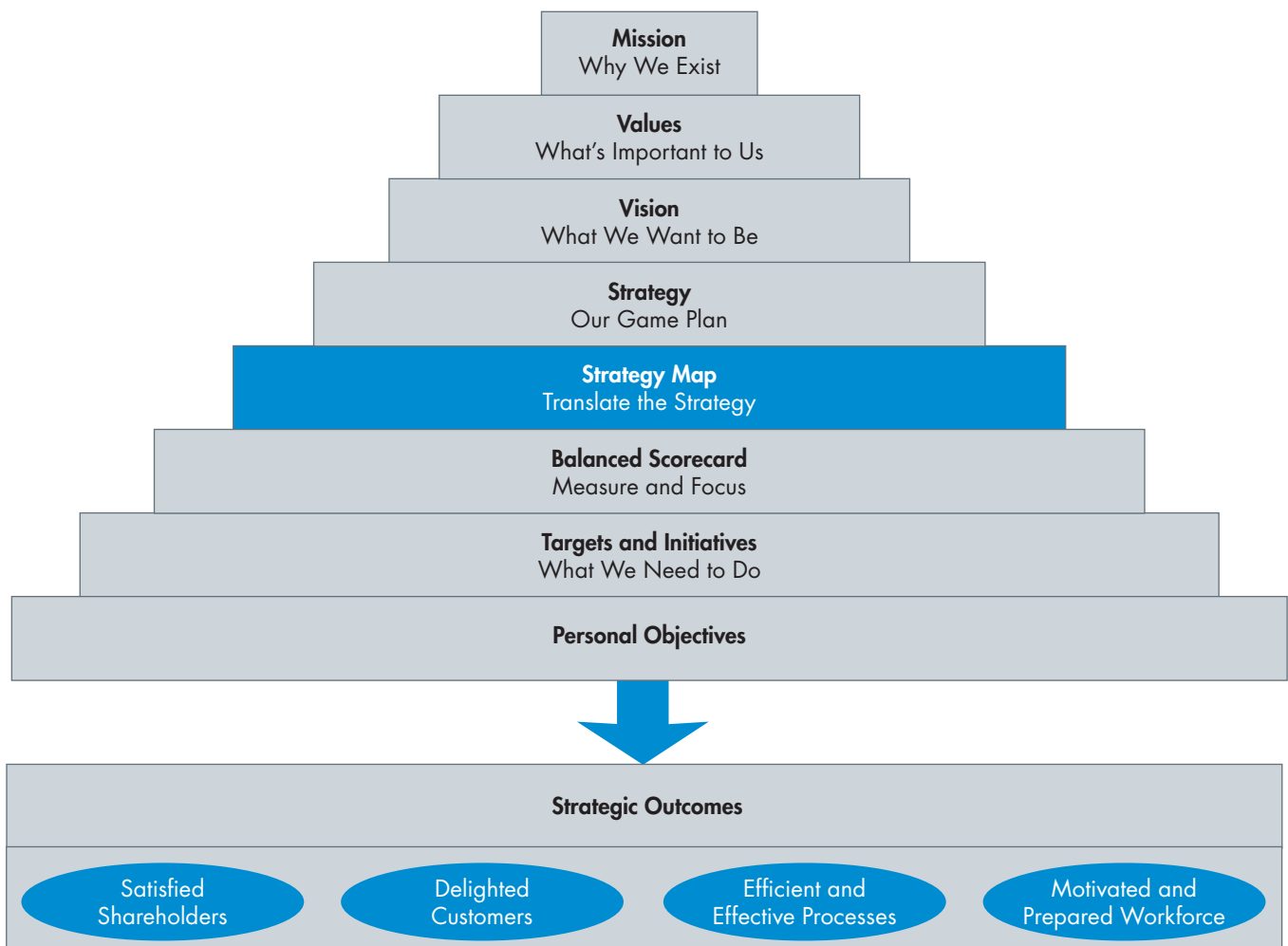
INTRODUCTION

The vast majority of organisations have well-defined procedures for developing strategic plans. And for the most part, the result of their planning exercises are good, solid, strategies designed to move the entity forward and provide sustainable, even superior, returns. But there is often a major disconnect between the formulation and execution phases of strategy. The ability to cascade an organisation's vision, mission and core strategies into actionable behaviours that achieve critical objectives continues to be a challenge for most organisations.

As the saying goes, "a picture is worth a thousand words." Strategy maps, pioneered by *Balanced Scorecard* founders Robert Kaplan and David Norton, allow organisations to describe and communicate their strategies concisely and succinctly and close the gap between formulation and successful implementation of strategy. Strategy maps describe how organisations create value by building on strategic themes such as "growth" or "productivity." These themes determine what specific strategies organisations will adopt at their customer, process, and learning and growth levels. Well-constructed maps describe how the organisation plans to meet its specific customer promises through a combination of employee, technology and business processes that satisfy customer expectations and meet shareholder demands.

THE STRATEGY PYRAMID

Strategy maps can be, and often are, used as standalone tools that organisations employ to develop, understand and convey their strategic story. To maximise their value, however, they need to be seen and used as core building blocks in an aligned strategy initiative. Figure 1 highlights where the strategy map and Balanced Scorecard fit in the overall strategic management process.

Figure 1: Strategy Pyramid

Mission
Why We Exist

Values
What's Important to Us

Vision
What We Want to Be

Strategy
Our Game Plan

Strategy Map
Translate the Strategy

Balanced Scorecard
Measure and Focus

Targets and Initiatives
What We Need to Do

Personal Objectives

Strategic Outcomes

Satisfied Shareholders

Delighted Customers

Efficient and Effective Processes

Motivated and Prepared Workforce

Strategy Mapping – A Six-Step Process

This tool provides an integrated view of the development of a strategy map. 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.

Steps 1 through 4 of the strategy mapping process address the question, "What do we want to accomplish?" Steps 5 and 6 address the question, "How do we plan to accomplish our objectives?" The completed generic strategy map (Figure 2) illustrates how the financial and customer-focused goals of the organisation are linked to the underlying internal processes and learning and growth strategies necessary to deliver on those goals.

Figure 2: Generic Strategy Map
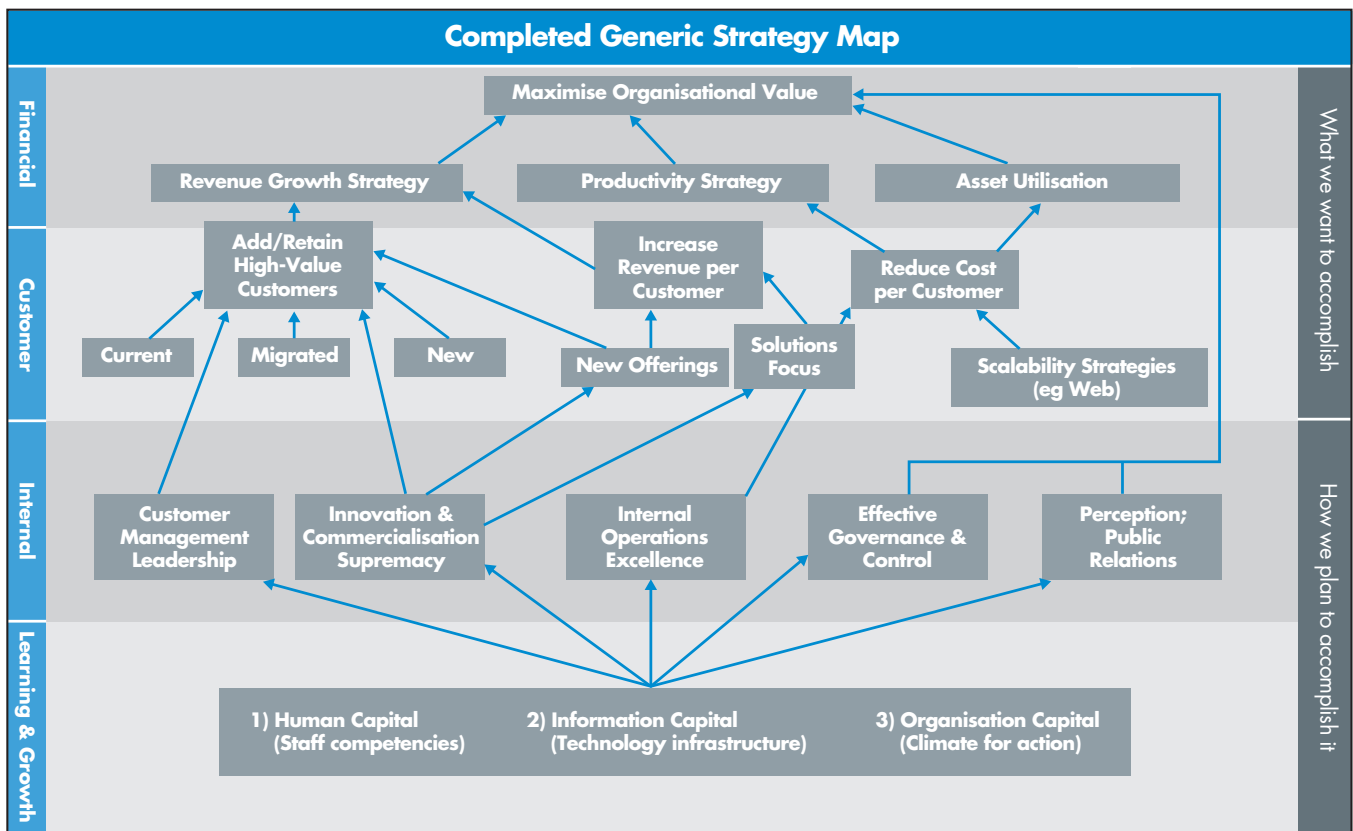
STEP 1: SPECIFY AN OVERRIDING OBJECTIVE

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 phase of creating/reaffirming an organisation's mission, core values and vision. This step must differentiate between what the organisation 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 and so on. Indeed, these are critical outcomes and are highly desired by all organisations. However, for profit-making organisations, the overriding objective must be economic.

There is no question that serving customers effectively, developing new and unique products and achieving market dominance are worthy objectives. But in a profit-making environment, these are all the ingredients for success, not success itself. Success is achieved by significant revenues and/or cost containment that lead to superior economic returns — *the overriding objective.*

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 6% within three years

• Increase profit margin from 8 to 12% and net 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.

STEP 2: CHOOSE THE VALUE PROPOSITION

The second step in strategy mapping is to choose the value proposition that will help the organisation win the market. 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. The three value propositions put forth by Treacy and Wiersema provide an excellent framework for competing in today's markets:

1. Operational excellence
   (also referred to as best total cost)

2. Product leadership

3. Customer intimacy
   (also referred to as customer solutions)

As Table 1 indicates, three images can make an organisation stand out. Companies focused on operational excellence will use price as the key driver of the "best deal" image. 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 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.

Table 1: The Value Propositions

External Image \ Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Price	**Primary focus: very low prices; Image: "Best deal"**	High end of pricing	High end of pricing
Unique attributes	Meets 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"**

STEP 3: CHOOSE THE FINANCIAL STRATEGIES

Having established the value proposition, organisations next formalise their plans and strategies around revenues and costs. Financial strategies can be categorised into three key areas:

1. Revenue growth

2. Productivity

3. Asset utilisation

All organisations 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. By aligning financial strategies with the value proposition, companies can position themselves to properly decide what customers are willing to purchase.

Knowledge of the value proposition assists organisations to pinpoint which of the three financial strategies will dominate. Table 2 illustrates that organisations pursuing operational efficiency propositions will focus on reaching their overriding objectives primarily through productivity and asset utilisation strategies. Organisations 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.

Table 2: Financial Strategy Chart

Financial Strategy ╲ Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
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 utilisation	Maximise inventory turnover Utilise fixed assets to reduce product cost	Utilise fixed assets in pursuit of product leadership	Utilise fixed assets in pursuit of customer intimacy

STEP 4: CHOOSING THE CUSTOMER STRATEGIES

Having established financial strategies, organisations must formalise their plans and strategies to win the marketplace. In other words, they must clearly establish and articulate their customer strategies. Customer strategies can be categorised into three key areas:

1. Retaining and adding customers

2. Increasing revenue per customer

3. Reducing cost per customer

Organisations 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. To retain and add customers, customer-intimate companies will tend to use strategies such as promoting word-of-mouth marketing and loyalty programmes. By offering complete solutions and bundling packages, these companies attempt to increase revenue per customer.

Table 3: Customer Strategy Chart

Customer Strategy \ Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Retain and add customers	Competitive prices	Latest technologies Newest 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 in pursuit of product leadership	Spending and cost control policies in pursuit of customer intimacy

STEP 5: EXECUTE THROUGH THE INTERNAL PERSPECTIVE STRATEGIES

Having established financial and customer strategies, organisations next establish those important actions that will realise the plans and strategies to win the marketplace. On the right hand side of the strategy map, the focus changes 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 organisation believes will lead to the accomplishment of the overriding objective. Consequently, organisations must consciously choose internal business processes that link directly to the earlier steps. Table 4 below indicates how a company could focus its processes, given its value proposition.

To endure, all organisations must have solid internal operations. However, companies following an operational excellence value proposition must make

internal operations a very high priority, eliminating non-value-adding activities, reducing cost, and delivering low prices. Organisations pursuing product leadership must mainly focus on processes that motivate, identify, develop and launch commercial innovations because the leadership proposition is to bring cutting-edge technologies, designs or services first to market. Customer-intimate organisations 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.

Table 4: Key Process Chart

Process to excel and lead at / Value Proposition	Operational Excellence	Product Leadership	Customer Intimacy
Internal operations	Primary focus— must excel	Meets or maintains threshold standards	Meets or maintains threshold standards
Innovation	Low end of threshold standards	Primary focus— must excel	Meets or maintains threshold standards
Customer management	Meets or maintains threshold standards	Meets or maintains threshold standards	Primary focus— must excel

STEP 6: PLAN THE LEARNING AND GROWTH STRATEGIES

Having established financial and customer strategies and developed an execution plan, organisations 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 organisation'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

3. Organisational capital

Human capital is the economic value an organisation 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.

Information capital relates to how organisations utilise their information systems, networks, manuals, databases, files and infrastructure to gain competitive advantage and to execute strategy.

Organisational capital is the firm's ability to connect employee goals to corporate goals. Companies with high levels of organisational 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 organisational capital.

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 organisational capital policies must be aligned to the chosen value proposition.

VALIDATING AND CASCADING 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.

Corporate-level strategy maps help organisations 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 3 illustrates, there is a continuum of possible drilldown maps.

Organisations can employ different types of cascading maps. First, there is the "within organisation" type shown in Figure 3. 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. "Within-perspective" drilldown maps convey additional information that can point employees to specific actions and accountabilities that will help in executing strategy. A third type of cascading is the "across-function" type. 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 employees understand and are equipped to act on.

Figure 3: Drill-Down Map Continuum
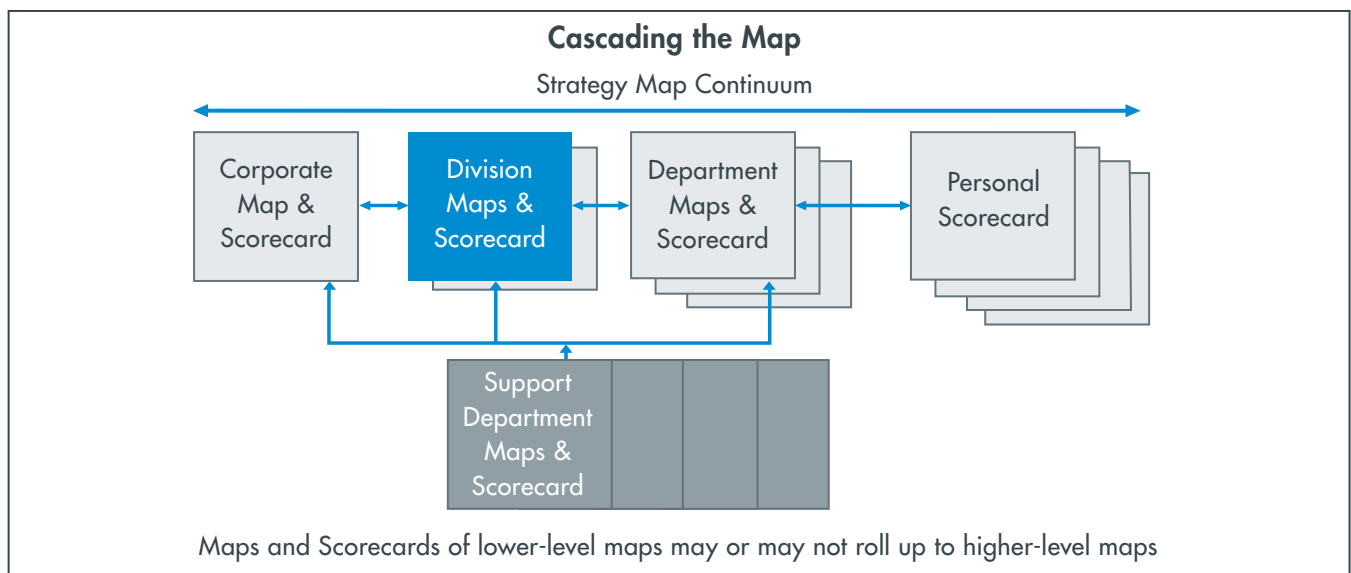
CONCLUSION

Strategy mapping is an effective and powerful initiative that can help keep a company at its competitive peak. The steps provided in this tool enable organisations 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 organisational performance.

Endnote

[1]M. Treacy and F. Wiersema,"The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market," (Cambridge: Perseus Books, 1995).

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a joint venture of AICPA and CIMA, established the CGMA designation
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