STRATEGY MAPS

Converting Intangible Assets Into Tangible Outcomes

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MAIN IDEA

In business, you can't manage what you can't measure. Nor can you measure what you can't describe. This is a problem because for many enterprises, more than 75-percent of their market value is generated by intangible assets which traditional financial and accounting metrics simply don't capture at all.

To address this problem, thousands of companies worldwide have adopted the "Balanced Scorecard" approach which supplements financial measures (which summarize the results of actions taken previously) with nonfinancial measures (of customers, internal processes and learning and growth) to capture the lead indicators of future financial performance. In this way, direct links are formed between the strategy a company chooses and its results. The directness of this link enhances the company's ability to manage and ultimately execute its desired strategy.

In developing a Balanced Scorecard for each organization, a strategy map is also developed which links intangible and tangible assets with objectives in cause-and-effect relationships. Originally, strategy maps were considered a by-product but managers found these maps were very useful in articulating the strategy of the organization and how that strategy links to the objectives. Put differently, strategy maps help managers describe and manage strategy at an operational level because they show:
1. How value gets created from the organization's internal and learning and growth perspectives.
2. The dynamics of the corporation's strategy and the processes which are designed to create value.
3. How the company's intangible assets – human, information and organizational capital – are measured and aligned.

Thus, strategy maps may have started out with a minor role but they have now moved to center stage in describing how an organization creates value using both its tangible and intangible assets. They provide a framework by which important management decisions can be made. And as such, every manager needs to understand his or her own organization's strategy map. To try and manage without a strategy map in place is like working in the dark. At the very least, any organization which understands its own strategy map has a sustainable competitive advantage over those organizations which adopt a much more hit-and-miss approach.

"The strategy map has turned out to be as important an innovation as the original Balanced Scorecard itself. Executives find the visual representation of strategy both natural and powerful. As one executive speaker exclaimed at the start of her talk, 'I love strategy maps'. When we post organization's strategy maps on the walls of rooms where we hold conferences, delegates use their coffee breaks to study each diagram – even for organizations completely different from their own. Strategy maps provide increased granularity for executives to describe and manage strategy at an operational level of detail."

– Robert Kaplan and David Norton

A strategy map provides a visual framework for an organization's strategy – how it intends to create value. Specifically, a good strategy map will link together:
1. The desired productivity and growth outcomes.
2. The customer value proposition which will be needed.
3. Outstanding performance in internal processes.
4. The capabilities required from intangible assets.

In effect, a strategy map captures the organization's strategy in visual form so that managers can better execute their desired strategy.

A company or other organization creates value by producing goods and services that can be sold for a profit. At one time, it was suggested managing these processes is the most important duty of management. In today's competitive environment, however, operational excellence alone is not enough to provide a sustainable competitive edge. A strategy map helps ensure internal processes are well executed and properly aligned with intangible assets and the customer value proposition.

In order for added value to be realized from the three intangible assets, two things need to happen:
1. Intangible assets must be aligned with the strategy the organization is attempting to execute.
2. An integrated program must be undertaken under which an attempt is made to enhance all of the organization's intangible assets in a coordinated fashion rather than in standalone programs.

The key to managing intangible assets is to measure their degree of "readiness" – which is defined as the extent to which the intangible asset meets the requirements of the enterprise's overall strategy.

A strategy map provides a concise yet comprehensive description of an organization's strategy. With this clarity, executives have an enhanced ability to describe, measure, manage and execute the desired strategy. To get the most from a strategy map, however, it should be combined with a Balanced Scorecard of measures, performance drivers, targets and initiatives. This combined strategy map and Balanced Scorecard allows the effectiveness of the strategy to be constantly monitored and initiatives to be managed with the goal of closing any gaps between target performance and actual results.

In short, when used in combination with a Balanced Scorecard, a strategy map helps organizations execute more effectively.