Strategy Mapping for Learning Organizations

Building Agility into Your Balanced Scorecard

PHIL JONES

GOWER
The Benefits and Principles of Strategy Mapping

As I looked around the management team, I was both puzzled and curious. We had only been working with this management team for three weeks and this was the first facilitated workshop. This was a team who had worked together for a long time. They had much well developed market analysis, detailed strategy documents and various plans they were implementing. They knew their business well, many having worked in it for a long while. It was a FTSE 100 company, so we were not dealing with anything small. Ostensibly all we were doing was playing back to them the strategy that they had written about and told us about. Yet, in this workshop, we had hit a critical moment.

The workshop had only been going for a short while and yet we were uncovering contrary views and beliefs amongst the team. Admittedly there was a clue to potential difficulties in the first meeting with the chief executive, when he said, ‘They don’t get the strategy’. The most critical issue was that some of the team believed their objective for total shareholder return (TSR) was sacrosanct: they had to achieve it. However, two of the team were questioning it and did not believe that the total shareholder return target was achievable. As the topic was discussed, the tension in the room seemed to rise. Eventually we asked, ‘So, who believes in this target?’

The seven executives on the left, including the chief executive, put their hands up. The two on the right did not. ‘So, who does not believe in this financial target?’ The remaining two members of the team raised their hands. One was the relatively new human resources director, who had been promoted to his position nine months before. The other was the finance director.

It felt as if a curtain had fallen across the room dividing those who believed in the target from the two who did not. The tension rose further. The facilitator turned to the chief executive and said, ‘Tell us what you believe’. He replied simply and clearly, ‘It is not in question. It is what we have to achieve. It is what our bonuses are based on’. The facilitator turned to the finance director and asked him the same question. He replied, ‘It is completely unrealistic, unachievable and outside our control’.

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1 TSR: The total return on a shareholder’s investment in shares, from an increase (or decrease) in value of the shares plus any dividends distributed to that shareholder.
At this point some of you might ask what we were doing there. I was tempted to ask it myself at the time. We had been invited to help them to develop a balanced scorecard to support their strategy. We read through their strategy documents and interviewed them. We were presenting them with their collective view of the strategy in the form of a view of the future five years hence and a draft of a strategy map. All we had were the story that had been told to us and the figures they gave us. The future view showed how they thought the future would develop for them, how their offering would evolve, how it would lead to achieving the shareholder value target. The strategy showed the same story, but from the view of what they had to do to be successful. Yet, somehow, we had helped them uncover a massive issue. An issue that lay undiscussed in the management team. An issue that seemed to say the chief executive had a financial target, TSR, that the finance director believed was unrealistic. That was the big first of several issues that we uncovered during our meetings.

This team did resolve this issue, and several other similar issues, to become better at discussing their strategy amongst themselves and with their staff. After some discussion they refined the strategy map and developed a scorecard that reflected their strategy, both of which were rolled out through the organization. Over the next two to three years their share price performance was around ten per cent better than the average for their sector. Whether this balanced scorecard work was a significant contributing factor to that improvement in their relative share price is hard to tell, especially as the circumstances are not repeatable. Some might claim it was responsible, but I am too realistic to make such a claim, taking into consideration the many other factors that might affect an organization’s overall performance and its share price. What I am more confident about is the effect the approach had on the team we were working with, and the subsequent teams to whom the strategy map and balanced scorecard were later rolled out. Their success was more likely given the clarity of their strategy and the improvements in the quality of conversation that they held.

I was curious as I left that workshop. What were we doing with these tools that brought about the richer discussion and realization? What principles were we applying? Bear in mind that we had not even started to look at the measures, targets or the detail of the scorecard. We were only mapping their strategy and creating a simple view of the future at this stage. The simple strategy map we used is shown in Figure 1.1. Yet there was something about how we had captured and presented this strategy that changed the way they thought and worked. What were we doing that improved the quality of conversation amongst that team?

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2 The finance director was naturally concerned that absolute shareholder return should be more dictated by the overall stock market’s performance than by the effects of one player in that market.
That meeting was back in 1999 and the strategy map shown reflects the approach from that time. Since then these techniques have been tested, developed and enhanced. This book presents fifteen years’ experience of using such techniques and adapting them in a variety of organizations, teams and strategies.

This organization wanted a balanced scorecard that would support them over the next five years, a balanced scorecard they could cascade to all their retail outlets and departments that would help them to track and manage their strategy better. Superficially we were only using two basic tools to model the strategy: a picture of the future and a strategy map. The picture of the future described how they saw the organization in five years’ time. The relatively simple technique used then has since evolved into a far richer tool which is now called a ‘tangible future’. This describes the landscape through which the organization is heading with its strategy, uncertainties, risks and decisions, and how the organization is expected to change over the same timeframe. How the organization will change is described with the strategy map.

In turn, the strategy map frames its balanced scorecard to support the strategy. This avoids an operational scorecard. Careful design of the strategy map makes sure that the scorecard you develop from it will actually address the strategy. The process of strategy map design, the ways in which strategy maps capture strategies and the principles embedded within the approach are the subject of this book. This book also explains how you can use them to manage your strategy better, learn from your strategy and become a more agile and responsive organization.

**Figure 1.1  A retailer’s corporate strategy map**
The Underlying Thinking, Principles and Techniques

Even though this meeting was a long time ago, it has remained with me ever since. I realized that the deeper things that we were doing were having a much more fundamental effect on how this team met, discussed the strategy and would operate: deeper than the mere superficial techniques would suggest. This realization started me on a journey, a journey that has included understanding the various forms of strategy and the ways strategy is discussed, described and expressed; understanding how models of change and models of learning are embedded in the approach; how to create a high quality of conversation amongst the team; how performance management influences behaviour and brings about change in an organization; and, ultimately, how strategy is implemented and managed.

I have continued to work with management teams in many different organizations on their strategy, its communication, implementation and subsequent management. I have continued to explore and pursue the underlying thinking, capabilities, skills, language and patterns of behaviour that make some balanced scorecards strategic and successful, whilst others fail. Much of this is deeply embedded in the principles, thinking and deeper processes of the strategy mapping and the balanced scorecard approach, and often not explicit.

This thinking can easily get lost or ignored. When the thinking is lost, so too are the benefits. The underlying thinking raises questions that are essentially simple, yet extremely powerful. For example, one question is about focus in your strategy. If the question is omitted you can easily end up with a hundred measures on your scorecard. Ask the question correctly and you will have a manageable number that work as a set and focus attention on what matters most. Questions like this require managers to think hard about the answers and the consequences, to discuss the answers in a way that leads to clarity and consensus within the team. If these questions are avoided, not thought through or not answered carefully, you will not capture your strategy. The resulting balanced scorecard will omit the strategy and degenerate into an operational view. The strategy map will not represent your strategy. Implementation of your balanced scorecard may even have a deleterious and ultimately costly effect on how you manage your strategy’s implementation.

This book is about the underlying thinking, behaviour, assumptions and values that make a balanced scorecard a useful strategic performance management approach, and the role of strategy mapping in that process. They are the ‘difference that makes the difference’ between a ‘strategy-focused’ balanced scorecard and an operational one. They make the difference between a culture of performance that encourages the right behaviours and a culture of measurement and target setting that can create dysfunctional behaviour. They make the difference between an organization that learns about and from its strategy, and one that formulates its strategy and then concentrates mainly on the operational implementation. They are the capabilities that both management and the organization as a whole need to learn, grow and develop to move towards strategic performance management. Strategy mapping is central to this. Understanding and applying the principles of strategy mapping in this book will help you to avoid potential problems, so that you have an effective tool of strategy implementation, execution and management.
The Executive Perspective on Strategy Mapping

How might strategy mapping help you and your organization? Let me assume that you are an executive in a management team working on your strategy. You may well have carried out some market research, looked at the state of the organization at the moment, considered various options and, together with your team, chosen your strategy from amongst the options available. You have prepared some outline planning, thought through some of the resource allocation implications and have a good idea where change is required and the extent of that change. The organization has anticipated that a new strategy is coming. Like most clients I meet, you are an experienced management team who know your market and your organization. You have a good idea of your strategy and what you want to achieve.

You want to make sure that the strategy is successful. You need your staff to understand where you are, the pressures for change and where you are going. You want to ensure they understand the imperative for change, the rate of change and how that change will happen. You want them to take on the strategy and be a part of shaping it and implementing it.

You want to make sure that, as you implement your strategy, you can tell whether it is having an effect, can see progress and can show people progress. You know that what you have created is good, but is probably not perfect. You know that the strategy will need refinement as you progress and learn more about the environment, the market, customers’ reactions and the responses of competitors. This is where your strategy map will help.

You may already have a balanced scorecard that you use. You certainly have some form of performance management that you use. It will be an early generation of balanced scorecard that does not use strategy maps and is therefore more operationally focused. It probably provides good information on financial performance and operational performance. It may serve you well, but it is time for improvement. The balanced scorecard approach has moved forward since the early versions and a more modern approach might help you deliver your strategy better.

Why might a strategy map help you? Many performance management approaches concentrate on measuring and monitoring operational performance. In contrast, a strategy map-based balanced scorecard concentrates on how the strategy will improve the organization’s performance. The emphasis is on how strategy drives change and improvement. It captures operational detail as a part of the approach, but focuses the attention of the organization on the management and implementation of the strategy. Some of the potential benefits for strategy formulation and planning, operational performance management and strategic learning are shown in Figure 1.2 as a strategy map. When these benefits are being delivered you are moving towards a strategy focused organization. How do strategy maps help you with specific aspects of managing strategy performance and learning as an organization?

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3 If you are in the role of supporting your management team, this perspective will help you as well. You will find it especially useful to think through the design from the executive team’s perspective.
Strategy maps do not map the whole operation of an organization, otherwise they would be called operational maps. As their name suggests, strategy maps are about the strategy. They are explicitly designed to capture a management team’s strategic thinking and intent. They therefore ask questions about the strategy to capture the management team’s thinking, choices and intentions. A well designed strategy map explains, on a single page, what these choices are, how the strategy will bring about change and how you will deliver your strategy. Strategy maps focus on the few things that will make the biggest difference to the organization.

Strategy maps describe the organization’s strategy from the perspective of the management team for which they were designed. Your team’s strategy map should describe your strategy. If you are the top executive team in an organization then you describe the organization’s strategy from your perspective. The teams that support you will have their own strategy maps for their own part of the strategy. Each strategy map sets the strategic agenda for each team and how they implement their part of the strategy.

Strategy maps capture your strategy and set the agenda

Strategy is about change. Your strategy needs to describe what will bring about that change and what the changes will be. Strategy maps help by describing the changes you
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wish to bring about and, just as importantly, the mechanisms that you will use to ensure those changes happen.

Strategy maps explain what will be different and how the organization will change from various perspectives. Most importantly they explain the underlying drivers of change. A failure to explain these drivers of change is what I call ‘strategy by hope and magic’. The strategy map helps you to avoid strategy by hope and magic. It makes the underlying drivers explicit and helps you manage them explicitly.

Strategy maps contain a simple but powerful cause and effect model. The structure of the cause and effect model explains how performance is driven in an organization. It also provides a predictive model of business performance. Instead of merely tracking whether you have achieved the eventual results, the cause and effect model also tells you whether you are making progress towards the end result. The emphasis changes to ‘how will we know we are succeeding?’ The cause and effect model is fundamental to this description of organizational change, but it is only one of a variety of models and mechanisms of change that the overall approach captures. Strategic change happens through a variety of mechanisms: management communication; behaviours; management attention; projects; reorganizations; changing the measures, targets and incentives; and many more. Strategy maps and their scorecards capture these.

STRATEGY MAPS HELP THE COMMUNICATION OF YOUR STRATEGY

When a client used the phrase ‘a piece of the strategy in everybody’s pocket’, I knew exactly what he meant. Strategy maps are a rich and succinct picture of an organization’s strategy on a single page and a powerful tool of communication. I know many clients who have carried their strategy maps around to explain their strategy. Others have kept a large version on their wall, or the office wall, so that the whole organization can see what needs to be achieved. People can see where they contribute to the overall strategy and which particular objectives they and their team are responsible for. Marking improvements on these one page strategy maps helps people see where and how the strategy is working. With strategy maps everyone can have their piece of the strategy in their own pocket.

At a more detailed level, strategy maps help ensure your strategy is consistent with how you manage performance. You will want to avoid the situation where the message of your strategy is not the same as the message in your measures and targets. If your measures and targets do not reflect your strategy, it will confuse your staff and undermine your strategy’s success. A strategy map-based balanced scorecard is central to ensuring you communicate the right message and a consistent message.

Strategy maps help with explanation of the strategy and engagement of your whole organization. The more people are engaged, the more they will understand how they can contribute to the development and implementation of the strategy. Embedded in the design of strategy maps are elements designed to help you engage as wide an audience as possible.

QUALITY OF CONVERSATION

At the end of an engagement, the chief executive will often say, ‘You have helped us improve the quality of conversation amongst our team’. This is good to hear: it is how the management team think, work together and behave that affects the rest of the
organization and the ultimate success of the strategy. Making a difference here makes a big difference elsewhere.

Strategy maps are a tool of thinking and conversation as well as communication. Napoleon is reputed to have said, ‘I give not a jot for plans; it is planning that is important’. The questions and techniques in strategy mapping are designed to help a management team explore and discuss the strategy in more detail than they perhaps would normally. They ensure that quality thinking has gone into the strategy. They ensure your management team share their views and beliefs about why this particular strategy has been chosen and how it will be implemented. The approach develops a shared understanding of the strategy amongst the management team and consensus over how to implement it. I call this ‘the quality of conversation’.

On occasions a chief executive has expressed a concern to me that their team, or perhaps some individuals, do not work well together. Perhaps someone does not seem to understand the strategy or appears not to want to understand the strategy. At the start of this chapter was an example of this. The issue of TSR had become undiscussable and the team had avoided the discussion. When this happens there is a tendency to dance around problems and never resolve them. Discussions become stilted. I have found that paying attention to the quality of conversation during the development of strategy maps has led to such situations being brought to the surface and, most importantly, resolved.

This quality of conversation should extend to how your strategy is communicated and rolled out. If the quality of conversation is good within the management team, it is likely to ripple through the organization and engage staff at each level as the strategy is cascaded and implemented. Engaged staff are one of the consequences of a culture of performance, rather than one of target setting and measurement.

IMPROVING HOW PERFORMANCE IS MANAGED

Strategy maps are fundamental to improving how performance is managed. A significant part of the approach can be characterized as, ‘don’t start with measures’. This surprises those who still believe that balanced scorecards are about measures and targets. They may have experienced the early balanced scorecards or simplistic measurement systems masquerading as ‘balanced scorecards’. These people have often been subjected to measure mania, the tyranny of targets and feeding the beast. Measure mania is the obsessive creation of measures for everything, usually resulting in such a confusing picture that you cannot see the wood for the trees. It is often driven by the mantra, ‘what gets measured gets managed’. As a result everything gets measured. The tyranny of targets is an obsessive compulsive disorder that first thinks every measure must have a target. This creates an environment where management is only about achieving targets. Often these conflict and confuse or create dysfunctional behaviours to satisfy inappropriate targets. Feeding the beast occurs when the central body, or head office, demands measures and other information that have no relevance to those who need to provide them. They are often demanded with a frequency that would be impossible for the central body to actually respond to. The measures’ only purpose appears to be feeding the beast of central

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4 I have also heard this variously attributed to Paton, Eisenhower and many other military leaders. Also I assume Napoleon said it in French.

5 For a richer description of undiscussables and how they arise, see Argyris 1993.
bureaucracy. In each case, the measures, targets and incentives have been used as a blunt instrument of management and change. Using strategy maps will help you avoid this problem.

In this book, strategy mapping positions you to take the opportunity to focus on learning rather than merely control. You don’t lose control: indeed you improve it. Your staff are also encouraged to learn and develop. Management team meetings can become more about how you as a team learn, develop and improve. Decision making also improves as better information is available and judgement is developed. When I explain the principles that are covered in this book, managers say they are obvious and wonder why others continue to apply such problematic approaches. Having a well designed strategy map that contains objectives in each perspective is at the centre of this approach. It is fundamental to making good decisions about what to measure and how best to learn and develop.

A MORE AGILE STRATEGY AND A LEARNING ORGANIZATION

This quality of conversation during design and communication leads to a quality of conversation about the strategy as it is being implemented. It helps you be better at learning from, refining and potentially re-communicating your strategy. Strategy maps sit in an overall process, called strategic learning, that links strategic thinking and planning with performance management and learning. Strategic learning is a way of assessing, adjusting and refining your strategy as it progresses. Events can also happen in the outside world that might cause you to adjust your strategy. The mechanisms and tools around strategy mapping help you to monitor these potential events and also to refine and adjust your strategy as they occur. Rather than being a thick plan, strategy maps are succinct, yet rich, models of your strategy in a far simpler format. This makes it far easier to refine your strategy and to communicate changes. Strategy maps support a more flexible responsive strategy and a management team who want to learn from their strategy as they implement.

In summary, strategy maps are fundamental to the balanced scorecard as a tool of strategic management. A strategy map is a pictorial representation of the strategy on a single page. It describes the strategy and tells the story of the strategy. It describes visually how value is to be created by the organization and what will drive change. Strategy maps are part of the overall balanced scorecard management approach. A strategy map sits in front of its balanced scorecard (the scorecard). Each scorecard has a strategy map. They make the difference between an operational view and a strategic perspective. They raise the level of conversation from operational detail to strategy and change. They raise the focus of management from operational control to strategy execution, where strategy becomes a continuous process of learning and refinement.

A Roadmap to Navigate this Book

This book concentrates on strategy mapping: how you design and use strategy maps. When you design your strategy map correctly, it makes it much easier to design the subsequent scorecard and manage the strategy. The book is therefore about strategy mapping rather than strategy maps. You will find that much value comes from thinking
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through the questions strategy maps ask, the process of design and the discussions that take place as they are developed and also used.

With these benefits in mind, this book is made up of seven parts which pull together the 21 chapters into logical groups that explain the various aspects of strategy mapping principles, design, implementation and use. Figure 1.3 provides a map through these parts and chapters.

Part I (Chapters 2 and 3) concentrates on the strategic management process and how your strategy can be captured and represented in your strategy maps. Chapter 2 explains how strategy maps support management’s need for governance and their strategic management process. This chapter treats strategy conception, design and implementation as a learning process where the strategy is refined as management learns and the environment changes. This is the strategic learning model. Chapter 3 explains how you can capture various aspects of your strategy within your strategy map. It also shows how extensions to the basic balanced scorecard perspectives support aspects of strategy and strategic management that a simpler balanced scorecard would otherwise omit.

Part II provides tools to capture the wider view of your strategy: how your strategy interacts with your environment, context and market; how you expect your strategy to develop over time. This is achieved through three techniques: the context diagram, value chain model (Chapter 4) and the tangible future (Chapter 5). Together these tools create the context for your strategy map and its scorecard.

Before we describe more detailed design, Part III helps you to think through how you will structure your corporate strategy map and your set of strategy maps. This involves strategic themes (Chapter 6) and the cascade (Chapter 7). Strategic themes help you explain the story of your strategy, the tensions within the strategy and the threads that run through your strategic thinking. They help you to avoid common problems that affect strategy map design. Your strategy will have to be communicated through your existing organizational structure, so Chapter 7 helps you think through how you might

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Figure 1.3  A roadmap through the chapters of this book
best cascade the strategy maps and balanced scorecards to ensure your strategy has the desired effects. Thinking through your themes and cascade before you start the design of your overall strategy map will ensure you capture the essence of your strategy, first time.

Part IV addresses the design principles within strategy maps that ripple through to your scorecards. Chapter 8 explains how the principles of strategy as focus and strategy as choice are used during design and manifest themselves in the structure of strategy maps. It provides a set of questions to ask during design that will expose the performance gaps you have. Your choices about how to close these performance gaps determine the content of the strategy map and the subsequent scorecard. The idea is introduced of managers using both judgement and evidence, which is applied during the design of the strategy map and the subsequent management of the strategy. Management teams use a variety of techniques to develop their strategy and make choices about how they will address the resulting changes. Understanding the various ways management teams make such decisions will help you capture the underlying thinking behind their strategic choices. Chapter 9 explains a fundamental principle of strategy maps and scorecards: objectives before measures. It explains how the temptation to leap straight to measures causes a narrow view of how to manage and what to manage. It also causes your staff to have to mind-read what is really required. Developing your objectives first dramatically improves the design of the scorecard that sits behind the strategy map. It makes it easier to communicate the intention of the strategy and to manage the implementation. It makes it easier to refine measures and targets as the strategy develops.

Part V explains how to detail your strategy in the objectives within each perspective of your strategy map and balanced scorecard. Each chapter provides you with both the underlying thinking and the techniques to capture your strategy within each perspective of the strategy map. Chapter 10 explains how the customer perspective captures your market position and customers’ needs. Chapter 11 explains that the financial perspective contains your planned financial outcomes. Financial activity, capability and financial inputs are captured in the lower perspectives. Chapter 12 adds a social and environmental perspective that captures the environmental impact and social impact of your organization’s activities. Chapter 13 explains how to use the process perspective to capture what you want your organization to focus on and deliver. Chapter 14 explains the vital role of the learning and growth perspective in defining the persistent, sustainable skills, knowledge, capabilities and technology that will drive the organization’s strategy long term. Chapters 15 and 16 provide extensions to the traditional balanced scorecard perspectives so that aspects of strategy that are often missed can be included. Chapter 15 explains how adding an organizational values perspective at the bottom of the strategy map provides a foundation for the strategy and the persistent values and behaviours of the organization. Chapter 16 adds the organizational context or external perspective, to include information that is not normally monitored in balanced scorecards: namely the changing context in which the strategy is being implemented and the assumptions, risks and uncertainties that you will have captured in previous chapters. This part of the book will help you think through each perspective of your strategy map to ensure you capture its richness properly.

Part VI will help you align the organization once your strategy map is built. Chapter 17 explains how to align programmes of change and projects with your strategy map, adding detail that will drive change and improvement through your organization. Chapter 18 will help you link your strategy map to your budgets and assess the implications
for budgeting. Strategy includes risk, and so Chapter 19 explains where strategy maps capture risk and where they omit it, for good reason. It also explains how aspects of risk can be included and managed in the strategy map and scorecard.

Finally, Part VII is about communicating your strategy and managing meetings using strategy maps. Chapter 20 explains how the finer points of strategy maps can help you communicate your strategy more effectively through the organization. It explains how the more subtle communication elements within a strategy map can be brought out and exploited to get your message across and engage your staff. Finally, Chapter 21 brings together the aspects of managing with your strategy map, tangible future and scorecard. It provides a management team agenda for meetings and explains how you can refine your strategy as you learn from it, using the strategy map as the basis for that refinement.

Extending Balanced Scorecard Thinking

Those of you already familiar with some aspects of balanced scorecard design will already have noticed a number of extensions to the normal way it is described. These extensions include: positioning the balanced scorecard in a model of strategic learning; using judgement and evidence; extra perspectives that cover values, the external context, and environmental and social impact; having a tangible future; and addressing the discipline and culture of performance. Together these extensions form what I consider natural developments that make up fourth generation balanced scorecards. Whilst the features described in this book correspond to fourth generation balanced scorecards, no knowledge of previous generations is required as all the aspects needed to understand this state of development will be explained as we go along. Rather than describing different types and applications of balanced scorecard and their different generations here, those interested, can find more information on my website www.excitant.co.uk.

Learning from the Case Studies

To help any reader to appreciate what strategy maps are and what they can do, there are a number of examples and case studies used throughout the book. The examples have been chosen to illustrate particular parts of the strategy map design process, rather than to be complete case studies. They have been chosen to reveal the thinking behind each part of the design of strategy maps and the variety of situations that you might encounter and need to consider. This approach is designed to help you understand how to think about strategy mapping, rather than illustrate finished strategy maps. Unusually for case studies, they do not concentrate on the end result, but on the process used to achieve it. For this reason sometimes only parts of strategy maps are used, and often short cameos from different projects have been chosen to illustrate particular aspects or to contrast different approaches.

I often say that there is no rocket science in strategy mapping, but as with rocket science you do need to understand the principles and how to apply them. You do need...
common sense, precise questions and clear thinking. Strategy maps are intuitive and powerful. When I explain the structure and thinking behind strategy maps, the usual reaction is, 'Well of course that is true'. However, people sometimes find it difficult to answer the questions prompted by the strategy map. This is because the questions are quite penetrating and address the depth, clarity and integrity of the thinking behind the strategy. Strategy mapping helps you think through these issues and have a clearer strategy, and the structure of the chapters in this book is designed to help you do this.