

Cause and Effect Models—Strategy Maps

The missing link on many Balanced Scorecards

Introduction

I have been involved with the development, implementation of Balanced Scorecards for over 5 years. For the last 2 years I have been delivering Balanced Scorecard training programmes to both the public and private sectors as well as lecturing on an MBA programme. The number of organisations that I have talked to who purport to be using a Balanced Scorecard but don't have a “cause and effect model” or indeed even know what I am talking about is staggering — probably 95%! The example below for a Budget Airline is what many organisations consider to be a Balanced Scorecard, in my view it probably isn't as there is no apparent understanding or communication of any cause and effect logic. What are the implications of cutting back on the ground crew training, or a lack of interest in taking up shares, is there a relationship between training and plane lease costs, etc? You can't tell from looking at

Cause and effect

Research by Cranfield Institute of Technology* on the impact of business performance management highlighted the importance of cause and effect models or maps in understanding the intangible drivers of value in an organisation:

Strongly Agree	Agree	Neither disagree or agree	Disagree	Strongly disagree
28%	61%	9%	2%	0%

* Business Performance Management, 2003, Bernard Marr

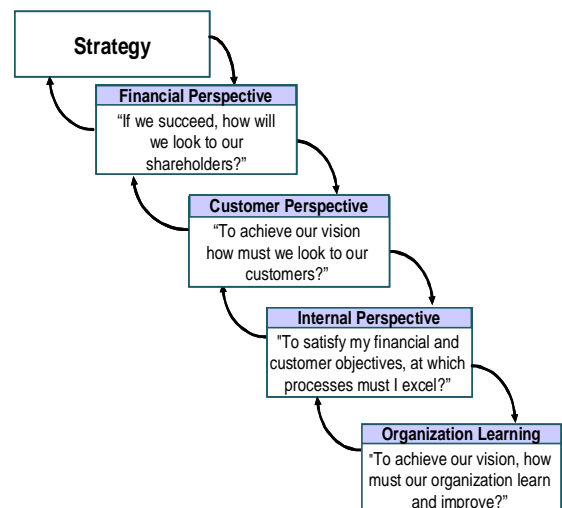
Perspective	Measure	Target
FINANCIAL	Market Value	>30% CAGR
	Seat revenue	>20% CAGR
	Plane Lease Costs	<5% CAGR
CUSTOMER	CAA on time arrival rating	#1
	Customer Ranking (Market survey)	#1
PROCESS	On-ground time	< 30 minutes
	On-time departure	> 90%
LEARNING & GROWTH	% ground crew trained	Yr 1 70% Yr 3 90% Yr 5 100%
	% ground crew stockholders	Yr 1 70% Yr 3 90% Yr 5 100%

The world works with cause and effect logic. If organisations are to change then they need to understand how to manipulate the drivers of their performance - their cause and effect logic. An organisation's strategy defines how it is going to achieve its Vision and Goals. Strategy can be described in terms of financial, customer, process and organisational learning perspectives, see diagram below.

Strategy Maps

A Strategy Map captures the cause and effect logic of how the organisation is going to change and improve to achieve its Vision and Goals. A Strategy Map is developed by answering the questions:

1. If we succeed financially how will we look to our stakeholders?
2. To achieve our vision how must we look to our customers?
3. To satisfy our financial and customer objectives at which processes must we excel?
4. To achieve our vision and goals how must our organisation learn and improve?

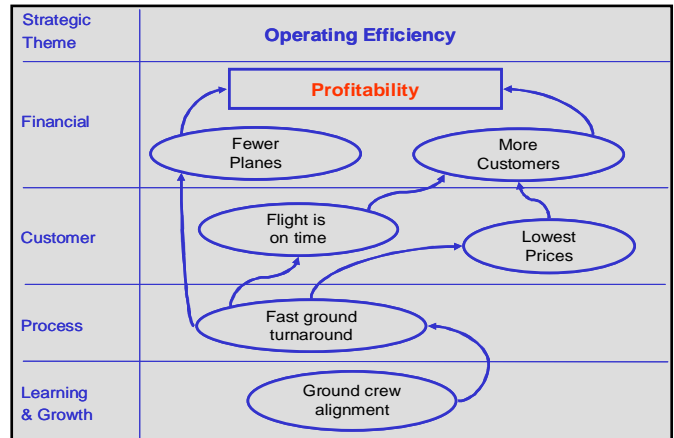


Describing Strategy (Kaplan and Norton)

Strategy Maps (continued)

The example strategy map is for a budget airline. It is for a particular strategic theme - *Operational Efficiency* (most organisations will have between 3 and 5 major strategic themes) so it is not their complete strategy. It answers the questions:

- **how are we going to improve profitability?** *Through using fewer planes and attracting more customers.*
- **Why will more customers take more flights?** *By targeting customers who value price and on time arrivals.*
- **At what must we excel?** *Turning around flights in the minimum time.*
- **How will our staff do that?** *By education and compensation to show how they contribute to the airline's success; and the opportunity to share in success with an employee shareholder programme.*



Budget Airline Strategy Map Example

The strategy map tells the story of the budget airline's strategy through a stream of linked strategic objectives. The relationship between investing in the ground crew and having fewer planes and winning more customers becomes apparent. The strategy map is the cornerstone of the balanced scorecard, see below.

You might think that the strategy map looks deceptively simple but the process of creation will challenge the management team. They will have to translate their strategy into strategic objectives in a cause and effect model. They will probably be starting with different interpretations about their strategic objectives and priorities; in most cases they will also find some holes in their strategic logic. In particular it will challenge the management team to be very clear about the key market segments that they are targeting and the value that they must deliver to be successful. Reaching a consensus will take time but will result in greater understanding and commitment to the change programmes necessary to deliver the strategy.

Balanced Scorecards

When the strategy map has been drafted it can be developed into a Balanced Scorecard by firstly defining how success will be measured and tracked and the target level of performance or improvement needed. The key project initiatives required to make the strategy a reality are then identified. The measures and targets are now defined in a cause and effect logic that puts them into context — they are no longer a meaningless set of numbers!

Strategic Theme	Operating Efficiency	Objectives	Measurement	Target	Initiative
Financial		>Profitability	>Market value	>30% CAGR	
		>More Customers	>Seat Revenue	>20% CAGR	
		>Fewer planes	>Plane lease cost	>5% CAGR	
Customer		>Flight is on time	>CAA on time arrival rating >Customer ranking (market survey)	>#1 >#1	>Quality management >Customer loyalty programme
		>Lowest prices			
Process		>Fast ground turnaround	>On-ground time >On-time departure	>30 minutes >90%	>Cycle time optimisation
Learning & Growth		>Ground crew alignment	>% ground crew trained >% ground crew stockholders	>Year 1 - 70% >Year 3 - 90% >Year 5 - 100%	>Ground crew training >Share option scheme

Budget Airline Balanced Scorecard Example

Strategy Maps and Scorecards can not only be used at a Corporate or Business Unit level but they can also be very valuable at building strategic understanding and consensus for a key function (e.g. IT, HR, etc), for partnerships and joint ventures, outsource contracts, and to track business benefits delivery for programmes and projects.

How can I learn more?

Business Transformation (Training and Coaching) can help executives and managers to successfully develop and implement Strategy Maps and Balanced Scorecards. Contact Denis Mahoney on +44 1903 784783 or +44 7766 333294 or visit our website at www.business-transform.co.uk or via email to denis.mahoney@business-transform.co.uk