

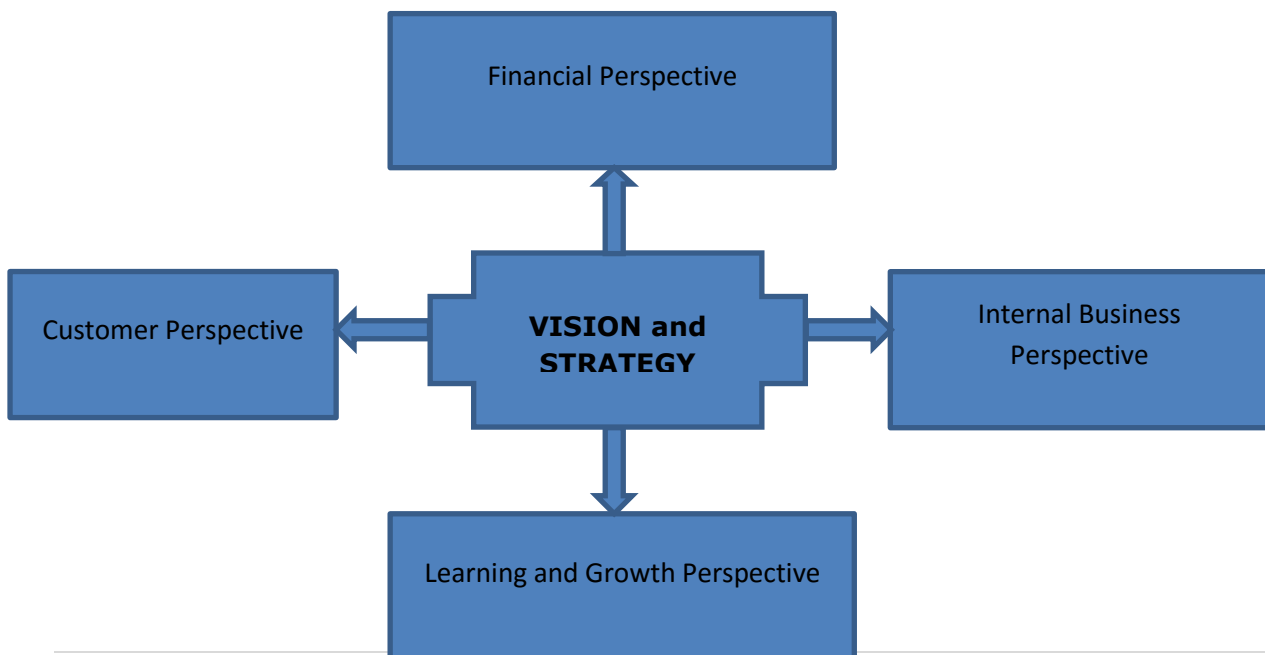
Chpt 16 Strategic Performance Management

Case: Balanced Scorecard in Hotels

A recent special issue of the top rated *Management Accounting Research* journal (Bourne et al, 2014) noted that the last 30 years has seen “a revolution in performance measurement and management”. The trend has been for traditional one-dimensional financial-based measurement to be replaced by multi-dimensional ones, which have financial and non-financial key performance indicators (KPIs) such as the SMART Pyramid, Balanced Scorecard (BSC) and Performance Prism. A lot of research was carried out over the last 30 years on the development and implementation of measurement systems, but the current focus of research “is concerned with how performance measurement is and should be used to manage the performance of the enterprise” (p. 117).

For modern business increasingly dominated by services, such as hotels, with its combination of intangible assets and need to create a consistently good service experience, the measurement of competitive performance, becomes increasingly more difficult. The balanced scorecard aims to respond to criticisms that financial measures are one-dimensional and are inherently backward-looking. The balanced scorecard, having *four* dimensions, goes further than measuring organisational success, but can offer managers a “road-map” by which they can manage (Evans, 2005). It presents a tool for translating an organisation’s mission and strategic vision to be realised into more tangible goals, actions and performance measures (Kaplan and Norton, 1996).

Figure 1 : The Balanced Scorecard



Source: Adapted from Kaplan (2007, p. 1255)

A key assumption is that these generic perspectives as can be seen in Figure 1 above, are causally related and can deliver, it is argued, long-term organisational performance and success. The scorecard thus links strategy with financial results. The learning and growth perspective is the driving force to deliver success in the internal processes, which in turn, will meet customer and shareholder needs. The four dimensions or perspectives are (Jones et al., 2012, p. 247):

Financial perspective: this dimension emphasises shareholder satisfaction, with a focus on improving short, medium and long term financial results such as profit, share price, market share, sales growth and cash flow.

Customer perspective: focuses on customer satisfaction, winning and retaining profitable customers and avoiding dilution of the brand

Internal business perspective: addresses internal business processes that must be excellent to deliver continued customer satisfaction, such as good website design and critical competencies that will deliver current and future organisational success. Processes that will deliver good service and products to customers such as product design, operations, marketing, sales, customer service processes etc.

Learning and growth perspective: draws attention to company's ability to sustain the ability to change and innovate through training, better information systems and building flexibility into the culture which can drive better results.

The BSC can be developed at corporate level or at business unit level or even departmental level, thus it is flexible and can integrate every level of the organisation. The business however, needs to be viewed as a set of processes, rather than departments. Evans' (2005, p. 387) questionnaire study of three and four star hotels in the North East of England, (with one third of the respondents being small independent hotels and two thirds of them being larger chain hotels) shows that the larger chain hotels are measuring their performance in a formal way, utilising a range of variables. Few of the small independent hotels operated an integrated form of performance measurement- owner managers used more informal means of assessment in order to manage their properties (Evans, 2005,

p. 384). If what gets measured, gets done (Eccles, 1991), it is important that hotels focus on the right metrics. Measures such as customer satisfaction and market share are drivers of profitability; in other words are *lead* measures, whereas profit is a *lag* indicator (Fitzgerald et al., 1991). Many companies have evolved in their use of the BSC, making it a tool not just to measure performance, but also to develop, communicate and monitor strategy (Kaplan and Norton, 1996).

An interesting diagram from the Evans (2005, p. 381 adapted from Doran *et al.* (2002)) article shows a very good example of the causal linkages across the financial, customer, internal, learning and growth and innovation perspective. This can be located at: <http://dx.doi.org/10.1108/09596110510604805>

From an academic perspective, Bourne et al., (2014, p.117) note that published studies “on the impact of performance measurement on performance management are inconsistent in their findings”. From a practical perspective, new organisational structures, globalisation and increasing reliance on international supply chains, create additional complexity. The latter draw an interesting conclusion in relation to performance measurement research in general, noting the trend towards “a move away from simple frameworks and processes towards a more nuanced view of the field”. A degree of subtlety is required to use performance measures to manage an organisation. When the environment is changing rapidly, solutions are uncertain and precise measurement infeasible, people must engage with the *intent* of the KPIs and realise they are just *indicators* of performance, rather than real performance. Bourne et al., (2014, p. 118) note that this may be encountered in many settings, particularly professional and knowledge work and even many service settings. Thus, in conclusion, a brief overview of the scorecard research in the hospitality literature is now discussed.

Reports of the success of the scorecard in the hospitality literature are largely positive, but Atkinson (2006) concludes that the research is small-scale isolated projects, noting the need for more in-depth research. Another key trend is the separation of hotel investment companies from hotel operating companies, which has implications for corporate objectives and goal congruence, prompting the need for more work to see how in practice scorecard and similar frameworks can mediate the potentially diverging objectives of different stakeholders such as owners and operators. Increasing corporate ownership of hotels may lead

investors for example, to set demanding financial targets, whilst paying little attention to the processes driving the results.

Questions

1. For a typical hotel, list some possible measures for the learning and growth perspective in a balanced scorecard for the hotel as a whole.
2. Explain in the diagram in the Evans (2005) article how the perspectives are inter-related- write out a narrative explanation, starting with the learning and growth perspective.
3. Referring to the above diagram in Evans (2005), what are likely to be lead indicators and what are likely to be lagging indicators in the diagram?. Explain why.
4. Research another multi-dimensional framework for service industries, which has 6 dimensions- financial performance, competitive performance, resource utilisation, quality of service, innovation and flexibility- developed by Fitzgerald et al (1991), *Performance Measurement in Service Businesses*, London: CIMA. Assuming that a five star hotel is the service organisation, write down two metrics for competitiveness, resource utilisation and innovation measures respectively.

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Solution to Case 3: Balanced Scorecard in Hotels

1.

Learning and Growth Perspective : possible metrics

Possible measures for the hotel as a whole can relate to employee skills as well as cost efficiencies through new ways of doing things:

Spend on training for staff

New methods of preparing food and associated cost savings

Percentage of new qualifications earned by staff in the year

2.

Causal linkages across perspectives:

A vertical vector runs through the BSC perspectives- starting with the Learning and Growth perspective, moving directly up to internal business processes like service quality and efficient processes up to Customer perspective like customer satisfaction and loyalty to financial perspective like ROCE.

Students can follow a number of causal linkages if they access the original diagram in the Evan (2005) article. One possible causal pathway is the training of staff (L and G perspective) leads to retention of high quality employees who, as they are satisfied, provide high quality service (internal perspective) which leads to value for the guest, and guest satisfaction (customer perspective) and this then should lead to revenue growth (financial perspective) from the repeat business from satisfied guests.

3.

Leading and lagging indicators :

Leading indicators tend to be the 4 non-financial perspectives which contain the processes and actions that needed to be done well, so that the results would follow. This means that lagging indicators are in fact the financial and competitiveness metrics, since these result from getting the leading indicators to work well.

4.

Fitzgerald Framework- multi-dimensional:

(ii) Measures of competitiveness

Market share- no. and percentage of rooms occupied out of total no. of rooms available in the local market

Average room rates charged by top six local competitors

Customer loyalty: number of repeat bookings

(iii) Resource utilisation

Percentage of rooms occupied out of total rooms available

Percentage of beds occupied out of total beds available

Food and beverage sales per staying guest

(v) Innovation measures

Average age of menus

Level of broadband connectivity

Restaurant theme- average time to renew

END