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The balanced score-card: short-term guest or long-term resident?

Jackie Brander Brown and Brenda McDonnell

Can the balanced score-card overcome the defects inherent in traditional performance measures?

Introduction

It has been recognized for some time, by both practising managers and academic researchers alike, that no one performance measure can adequately meet the needs of management in a competitive environment. Indeed, the traditional use of profit-based performance measures by many organizations has been criticized on a variety of fundamental grounds – for instance their relative incompleteness and lack of accuracy and neutrality[1], their encouragement of short-termism[2] and their lack of "balance"[3].

These problems are further accentuated in service industries where there are particularly significant problems in the determination and specification of objective, tangible, measurable outputs. This is all the more important given the increasing significance of the hotel sector in a global context and given the diversity of the services and products hotels typically provide. It is therefore concerning – but not that surprising – that it has been claimed that "... the search continues to find a superior performance measurement method in the hotel industry... "[4]

One performance measurement method which has been recently developed to overcome the defects inherent in the use by organizations of the more traditional performance measures is that of the balanced score-card, which, while giving managers a balance of information from a variety of different perspectives vital to all organizations, also minimizes the potential of information overload by limiting the number of individual measures included. Could this approach be a long-term solution to the "superior performance measurement method" the hotel sector is apparently looking for – or is it just a short-term, passing fad?

Hotel sector performance measures: empirical evidence

Empirical research carried out in the USA, notably by Geller[5] and Umbreit and Eder[4], indicates that hotel companies appear to utilize a wide range of measures – including not only traditional financial accounting measures, but also indicators of managerial behaviour as well as various other outcome measures of effectiveness.

Geller established, through wide consultation with the management of a number of hotel companies, the most commonly used measures of performance in the US industry and their relative ranking in terms of frequency of use. The results of this survey are shown in Table I.

It is interesting to note that a considerable proportion of these performance measures deal specifically with such non-financial/non-quantitative aspects as that of guest satisfaction and employee attitude – areas often considered critical to the "success" of hotel companies.

Despite the availability – and claimed use – of such a wide range of performance measures by hotel companies, there is still concern that hotel managers may not be receiving the information they really need. They may in fact be "overloaded" by the sheer volume of information which is available to them. Further, there is no evidence to suggest that the range of performance measures used by hotel managers represents an appropriate or effective balance of measures relative to the sector's particular characteristics and circumstances.

It may be useful then at this stage to consider these and other related concerns more fully.

Hotel sector performance measures

The empirical evidence regarding the performance-measurement process in hotel organizations gives rise to some cause for concern. First, hotel information systems have been found to evolve gradually over time – they are
only rarely planned and implemented deliberately with management's decision-making needs in mind. Further, hotel information systems have been found to lag some way behind the range of techniques available, with potentially serious implications. For instance, it has been noted that the more traditional performance measures currently being used by hotel managers – such as occupancy percentages, profit indicators and return on investment – are now thought to provide poor and misleading signals, which do not adequately support the needs of today's organizations.

Second, there is an apparent high level of interest shown by hotel management in human resources, guest acceptance, managerial abilities and marketing. However, current management information systems are relatively weak in these areas – which is perhaps not surprising, as it is well recognized that these are difficult areas to measure.

Third, it is considered essential that hotel companies develop performance measures unique to their particular market position, age, management style, financial strength and competitive strategy. Moreover, such appropriate performance measures will need to change as the organization changes.

It is also of some concern that current hotel performance measures take little account of the likely time-lags that exist between action and effect. Awareness of these time-lags is vital, both with regard to the frequency with which performance measurements are carried out and reported, and in regard to the implications associated with maintaining competitive advantage.

Consequently, even though managers in hotel companies may be inundated with printouts, reports and statistics, it does not necessarily follow that they are receiving the information needed to support effective planning, decision making and control activities. In order to overcome the deficiencies noted and to address properly the needs of hotel companies, it may be useful for hotel managers to consider the balanced-score-card approach developed by Kaplan and Norton.

Balanced score-card
General considerations
The balanced-score-card approach aims to provide management with a set of measures which combine to give a “comprehensive but quick” view of the business. Indeed, it is suggested that the score-card particularly meets the information needs of managers by combining in a single performance-measurement report the “...many disparate elements of a company's competitive agenda...” while “preventing” suboptimization by managers, as they must consider all of their organization's significant performance measures together.

The “comprehensive” nature of the balanced score-card is demonstrated by the four interlinking perspectives shown in Figure 1.

Financial perspective
Properly designed financial perspective performance measures can enhance management planning, control and decision making. Moreover, they can serve to remind executives that any changes they seek to make – for instance in service quality – will only ultimately benefit their company if they lead to improvements in the overall “bottom-line” view of their organization.

Customer perspective
As already noted, the customer perspective represents a significant area of concern for managers in the hotel sector and indicates a need for performance measures.

Figure 1. The perspectives linked by the balanced score-card
which can adequately reflect such important customer-oriented factors as the quality of services provided and the increasing incidence of non-financial competition between hotel companies.

Internal perspective
Management need to decide which operations, processes, competences and skills their organizations must excel at if customer demands are to be met adequately. Moreover, it is essential that such internal measures relate to those areas which are most likely to have the greatest impact on customer satisfaction.

Innovation and learning perspective
If hotel organizations are to be successful – and, it is to be hoped, remain successful – they must continually make improvements both to their existing services and to their operations and processes, as well as developing and introducing new ones. It is only by this continual process of improvement and innovation that companies can grow.

Implications
Keeping this balance of perspectives in mind, there are a number of important implications which management in all forms of organizations – not least the hotel sector – should consider with regard to the balanced-score-card approach. First, that the score-card emphasizes vision, strategy, competitive demands and the need to keep organizations both looking and moving forward – rather than the more traditional focus on control. Indeed, it has been demonstrated that the balanced score-card appears to be most successful when it is used to drive the process of change[9].

A second implication is that a properly designed score-card should help management to understand the many important interrelationships within their organizations, which more traditional measures generally mask or even ignore. Moreover, the measures incorporated in a score-card should also provide a balance between external and internal measures – and thereby reveal the potential trade-offs between them[3].

Third, to be fully effective the development and implementation of a balanced score-card require the involvement of a range of senior managers and not just the organization’s financial executives. Indeed, it has been noted that the balanced score-card indicates a need for the traditional role of the financial controller to change so that it “links” involvement in strategic corporate development with the maintenance of budgets, short-term performance measurements and historical records[10].

It has been claimed that the balanced score-card is “much more than a measurement exercise”[10]. Rather, it is suggested, it should be viewed as a management system which can act as a motivating focal point for the organization. Indeed, one executive vice-president with experience of implementing a balanced-score-card system states:

... the real benefit comes from making the score-card the cornerstone of the way you run the business. It should be the core of the management system, not the measurement system... “[10].

Given such “substantial” advantages claimed for the balanced score-card approach, both by academics and by organizations who have applied the technique in practice, it is certainly worthy of consideration. However, for a balanced score-card to be of use to hotel organizations and their management, it would need to reflect specific operational features and circumstances. An insight into these features is provided by the study already noted by Geller[5], which identifies key goals and critical success factors (CSFs) associated with US hotel companies, and by a pilot study carried out by the authors with the aim of developing a balanced score-card for an individual hotel.

Hotel sector: key goals and CSFs
Geller rightly recognized that, if hotel companies are to design fully effective performance measurement systems, it is essential that management can clearly determine what their precise performance measurement information needs are. To do this, Geller developed a two-step approach: first, carry out a review of the organization’s objectives and strategic plans in order to establish its key goals; second, establish what the company must do to meet these goals by identifying the organization’s CSFs[5].

Although such goals and CSFs will vary between and throughout organizations, Geller identified certain goals (Table II) and CSFs (Table III) common to most hotel companies[5]. This evidence suggests a need for a balanced score-card which adequately reflects the characteristic goals and critical success factors of the hotel sector.

Table II. US hotel industry goals

<table>
<thead>
<tr>
<th>Goal</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability/return on investment</td>
<td>1</td>
</tr>
<tr>
<td>Growth</td>
<td>2</td>
</tr>
<tr>
<td>Best management</td>
<td>3</td>
</tr>
<tr>
<td>Greatest market share</td>
<td>4</td>
</tr>
<tr>
<td>Guest satisfaction</td>
<td>4</td>
</tr>
<tr>
<td>Shareholder wealth</td>
<td>5</td>
</tr>
<tr>
<td>Employee morale</td>
<td>5</td>
</tr>
<tr>
<td>Maximize cash flow</td>
<td>6</td>
</tr>
<tr>
<td>Brand loyalty</td>
<td>6</td>
</tr>
<tr>
<td>Financial stability</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: [5]
The pilot study

The pilot study to develop a balanced score-card for use by hotel companies was carried out at a 131-bedroom, five-star hotel – part of a medium-sized UK hotel group. Located in the south of England, the majority of the hotel’s business is in the conference and meetings market. In addition to its 131 bedrooms the hotel’s facilities include three restaurants, three bars, a range of conference and function suites, a leisure club, extensive gardens and a helicopter pad.

The pilot study was carried out by means of an interview with the hotel’s general manager (GM), who has been the general manager at the hotel for some six years, having spent a number of years working within the group in a variety of other managerial roles and at several of the group’s other units. Following the process outlined by Kaplan and Norton for developing a balanced score-card[3], the interview was structured by three main stages: the first stage identified the hotel’s vision and corresponding objectives; the second determined the hotel’s critical success factors in relation to these objectives; the third developed an appropriate balance of performance measures to support the critical success factors.

Vision and objectives

The hotel’s vision and objectives are shown below:

- To achieve growing profitability and continually improving services.
- To respond quickly to changes in markets and customer needs, while maintaining a constant awareness of competitors.
- To provide a distinctive service combined with value for money.
- To develop skills of all employees, and to recognize their performance by means of opportunities for advancement.

These present no real surprises, particularly in the light of the evidence already noted. Indeed, they serve to confirm the relative importance of marketing, customer satisfaction and employee morale and skills when compared with more financially-oriented goals – and it is essential for an effective and useful balanced score-card for use by hotel companies to reflect this emphasis.

Critical success factors and corresponding performance measures

Keeping in mind the vision and objectives as identified, critical success factors and appropriate measures were then determined and developed for each of the four linked perspectives comprising a balanced score-card. The results of this stage are outlined in Tables IV-VII.

Implications and plans for further research

During the development of the balanced score-card for the hotel and, as a result of preparatory reading, a number of points have arisen which need further clarification and investigation.

<table>
<thead>
<tr>
<th>Critical success factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee attitude</td>
<td>1</td>
</tr>
<tr>
<td>Guest satisfaction (service)</td>
<td>2</td>
</tr>
<tr>
<td>Superior product (physical)</td>
<td>3</td>
</tr>
<tr>
<td>Superior location</td>
<td>4</td>
</tr>
<tr>
<td>Maximize revenue</td>
<td>5</td>
</tr>
<tr>
<td>Cost control</td>
<td>5</td>
</tr>
<tr>
<td>Increase market share</td>
<td>6</td>
</tr>
<tr>
<td>Increase customer price-value perception</td>
<td>7</td>
</tr>
<tr>
<td>Achieve market segmentation</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: [5]

Table III. US hotel industry critical success factors

<table>
<thead>
<tr>
<th>Critical success factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel profitability – both absolutely and relative to the capital invested</td>
<td></td>
</tr>
<tr>
<td>Sales achieved – with particular reference to sales mix and the volume/rate trade-off</td>
<td></td>
</tr>
<tr>
<td>Management of working capital – especially of stocks and debtors</td>
<td></td>
</tr>
<tr>
<td>Ability to react to changing markets</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Critical success factors</th>
<th>Possible measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel profitability – both absolutely and relative to the capital invested</td>
<td>Gross operating profit</td>
</tr>
<tr>
<td>Sales achieved – with particular reference to sales mix and the volume/rate trade-off</td>
<td>Total sales</td>
</tr>
<tr>
<td>Management of working capital – especially of stocks and debtors</td>
<td>Average rate/occupancy</td>
</tr>
<tr>
<td>Ability to react to changing markets</td>
<td>A reas for action identified</td>
</tr>
</tbody>
</table>

Table IV. Financial perspective CSFs and measures

<table>
<thead>
<tr>
<th>Critical success factors</th>
<th>Possible measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before selecting the hotel Value for money</td>
<td>Surveys/questionnaires</td>
</tr>
<tr>
<td>Range of services offered</td>
<td>Surveys/questionnaires</td>
</tr>
<tr>
<td>Quality of contact/response</td>
<td>Third-party surveys</td>
</tr>
<tr>
<td>During stay in the hotel Quality of service</td>
<td>Guest comment cards</td>
</tr>
<tr>
<td>Reaction to guest needs</td>
<td>Customer meetings</td>
</tr>
</tbody>
</table>

Table V. Customer perspective CSFs and measures
First, there appears to be a very definite need to be clear about the business unit for which the score-card is being developed. The GM certainly envisaged that a score-card developed for a hotel group as a whole would differ from that of the individual hotel – and, moreover, saw benefits in preparing a detailed score-card for each of the areas or departments controlled by senior managers within an individual hotel. In addition, there is a clear need for the balanced-score-card components to be reviewed and, where necessary, updated on a regular basis if the score-card is to remain both relevant and useful. The GM considered this to be particularly important given recent turbulence in UK hotel markets and suggested that the components of the score-card could be appropriately prioritized according to changing circumstances. There are also a number of areas which could be used to augment a hotel score-card such as measurements reflecting staff reaction to guest needs, teamwork and the identification of new markets.

Further research will seek to address the following areas:
- The establishment of common goals, critical success factors and performance measurements relevant to the UK hotel sector.
- The identification of possible balanced score-cards appropriate to other levels within hotel companies and a consideration of the implications of using different balanced score-cards at different levels in an organization.
- The establishment and/or development of effective performance measures appropriate to such CSFs as marketing, guest satisfaction, employee morale and staff development, which have been identified as being especially vital to the hotel sector.

It is hoped that the outcome of further research will enable academics and practising managers to assess whether the balanced score-card is likely to be a “short-term guest” or a “long-term resident” with regard to effective performance measurement in the hotel sector.

Table VI. Internal business perspective CSFs and measures

<table>
<thead>
<tr>
<th>Critical success factors</th>
<th>Possible measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teamwork and co-ordination</td>
<td>Interdependent meetings (reports)</td>
</tr>
<tr>
<td>Staff development</td>
<td>Interdependent training courses</td>
</tr>
<tr>
<td>Cost efficiency</td>
<td>Courses completed</td>
</tr>
<tr>
<td></td>
<td>Number of multi-skilled staff</td>
</tr>
<tr>
<td></td>
<td>Gross profit percentages</td>
</tr>
<tr>
<td></td>
<td>Net profit percentage</td>
</tr>
<tr>
<td></td>
<td>Surpluses</td>
</tr>
</tbody>
</table>

Table VII. Innovation and learning perspective CSFs and measures

<table>
<thead>
<tr>
<th>Critical success factors</th>
<th>Possible measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>New markets identified</td>
<td>New areas/targets identified for action</td>
</tr>
<tr>
<td>Staff development</td>
<td>Courses completed</td>
</tr>
<tr>
<td>Improvements to facilities/services</td>
<td>Development areas identified</td>
</tr>
<tr>
<td></td>
<td>New facilities/services introduced</td>
</tr>
</tbody>
</table>

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Jackie Brander Brown and Brenda McDonnell are both Senior Lecturers within the Department of Accounting and Finance at the Manchester Metropolitan University, Manchester, UK.
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