Human resource managers’ perceptions of the applications and merit of the balanced scorecard in hotels

Ruth McPhaila,*, Carmel Heringtonb,1, Christopher Guildingc,2

aDepartment of Management, Services Industry Research Centre, Griffith University, Private Mail Bag 50 Gold Coast Mail Centre, Queensland 9726, Australia
bDepartment of Marketing, Services Industry Research Centre, Griffith University, Private Mail Bag 50 Gold Coast Mail Centre, Queensland 9726, Australia
cDirector of Services Industry Research Centre, Griffith University, Private Mail Bag 50 Gold Coast Mail Centre, Queensland 9726, Australia

Abstract

The extent to which performance measures that align with the “learning and growth” dimension of the balanced scorecard (BSC) are applied in the hotel industry has been examined by conducting interviews with 14 hotel human resource (HR) managers. Minimal appreciation of the BSC concept was in evidence. When an explanation of the BSC framework was provided, the interviewees unanimously held the view that the term “learning and growth” did not adequately encompass the HR oriented performance measures that they seek to apply. Further, it was found that most hotels were using a single measure of employee satisfaction to represent “learning and growth”, which does not enable examination of the five separate dimensions of “learning and growth” represented in the BSC model. These findings suggest a significant schism between BSC theory and the application of HR oriented measures in the hotel industry.

Keywords: Performance management; Balanced scorecard; Learning and growth; Hotels

1. Introduction

Measuring organisational success and implementing effective strategies for success represent continuous challenges for managers, researchers and consultants. The wide variety of industries rethinking their performance management and performance measurement systems (Eccles, 1991), and the many performance measurement frameworks, theories and models that have emerged serve as testimony to the importance attached to developing comprehensive and effective measurement systems. Literally, performance measurement is the process of quantifying past action (Neely, 1998), to facilitate the pursuit of organisational control. Control can be viewed as the process of ensuring that an organisation pursues strategies that lead to the achievement of overall goals and objectives (Hoffecker and Goldenberg, 1994).

This study explores the extent to which the balanced scorecard (BSC) (Kaplan, 1994; Kaplan and Norton, 1992, 1993, 1996a) is understood and utilised by human resource (HR) managers within the hotel industry and, more specifically, the extent to which the scorecard’s “learning and growth” performance measures that are described in the literature are applied in hotels. The BSC is a comprehensive performance measurement framework. Its comprehensive nature derives from the four interlinking perspectives that it encompasses: (1) financial perspective, (2) customer perspective, (3) internal perspective, and (4) innovation and learning perspective (termed “learning and growth” in this study). The relative merits of the BSC have been examined extensively in the literature; however, there appears to be relatively limited attention directed to the manner in which the “learning and growth” dimension of the scorecard is being operationalised. Prior to outlining
the research design and reporting the study’s findings, the next section provides an overview of the most pertinent literature.

2. Literature review

Inappropriate measures of performance have been identified as barriers to organisational development. This is because performance measures represent a fundamental link between strategies and actions (Achterbergh et al., 2003). Much criticism has been directed to traditional performance measurement systems’ failure to encapsulate multiple dimensions of performance, with too much importance attached to financially denominated dimensions of performance. Numerous commentators have elaborated on problems arising from a narrow focus on financially quantified targets (Amaratunga et al., 2001), and have highlighted ways to accord recognition to qualitative dimensions of performance and intangibles such as quality management, customer retention, research and development, and innovation, within regular performance evaluation processes. A rapid switch from local and domestic competition to a “global” market place has resulted in international hotel companies attaching heightened significance to the development and implementation of strategies consistent with securing business success (Brotherton and Adler, 1999). This underscores the evolving nature of hotel management systems and the pertinence of research into the extent to which hotel performance measures achieve a degree of “balance” (Evans, 2005).

The importance of developing and applying well-designed performance measurement systems is underscored by the many performance measurement theories and conceptual frameworks that have emerged. These include: (1) dynamic multi-dimensional performance model (DMP) (Maltz et al., 2003); (2) The Service Profit Chain (Heskett et al., 1997); (3) Boston Consultancy Group (BCG) portfolio model (Peters, 1993); (4) “success dimensions” model (Shenhar and Dvir, 1996); (5) “Results and Determinants Model” (Fitzgerald et al., 1991); (6) BSC (Kaplan and Norton, 1992, 1993, 1996a, b); (7) “game theory” assessed by authors such as Coe (1981), Bettis and Hall (1982), Hapeslagh (1982), Fraguhar and Shapiro (1983), and Hamermesh (1986); (8) and “Tableau de Bord”. This study draws its primary focus from the BSC model.

2.1. The balanced scorecard

Of the frameworks, models and theories presented above, the BSC, developed by Kaplan and Norton (1992), is generally accepted to be one of the most popular performance management systems (Amaratunga et al., 2001). It is particularly notable that the BSC has gained wide acceptance within the service sector as a means of providing a focus on HRs, intangible assets, and challenges associated with regard to maintaining consistent product standards, while not neglecting financial performance (Bharadwaj and Menon, 1993; Sherman, 1984). Although hotels are generally thought of in a service context, commentators such as Harris and Mongiello (2001) contend that this perception masks a breadth of industrial activities that need to be controlled at the hotel property level, i.e., provision of room accommodation, production and provision of food, and beverage retail. In light of the diversity of these activities, that each have differing cost structures, it would appear that a hotel represents a commercial context with a particularly high need for a broadly focused performance measurement system such as the BSC (Evans, 2005).

Much of the merit of the BSC framework derives from a second implicit “balance” that takes it beyond constituting an ad hoc collection of financial and non-financial measures. The scorecard captures organisational strategy by means of a cause-and-effect model that ultimately links all measures to shareholder value. Non-financial measures, such as customer retention, employee turnover, and number of new products developed, belong to the scorecard only to the extent that they reflect activities an organisation performs in order to execute its strategy (Amaratunga et al., 2001).

Financial performance measures indicate the extent to which an organisations’ strategy, implementation, and execution are contributing to bottom-line improvement. The achievement of financial targets reflects the outcome of dimensions of performance captured by the BSC’s other three perspectives. According to Kaplan and Norton (1992), improvements within an organisation’s operations result in the financial numbers taking care of themselves. Kaplan and Norton (1992b) describe the continuous process of highlighting what should be an organisation’s focus, as a cycle. The vision is made explicit and communicated to all members of an organisation by way of goal and incentive identification (Olve et al., 1999). By furnishing a language that operationalises expectations and performance, the BSC lays the foundations for discussions about how each individual can contribute to the organisation’s goals and vision (Reisinger et al., 2003), thereby also facilitating learning at both individual and organisational levels.

The customer perspective of the BSC gauges the ability of an organisation to provide quality goods and services, the effectiveness of their delivery, and resultant customer service satisfaction. The BSC requires that managers translate their general mission statement relating to customer service into specific measures that reflect the factors that really matter to customers (Kaplan and Norton, 1992). This customer perspective engenders a managerial focus on the internal business results that lead to satisfied customer expectations (Achterbergh et al., 2003).

Internal business process perspectives of the BSC concern the use of business processes to achieve shareholder and customer satisfaction. This internal perspective
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