Measuring hotel performance using the balanced scorecard: A theoretical construct development and its empirical validation∗

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Abstract

A key contribution to the performance measurement literature was the introduction of the balanced scorecard (BSC) in 1992. However, despite its appealing rationale in capturing different aspects of performance and its wide and increasing use in a range of industries, there has been no rigorous psychometric development and testing of performance scales from the BSC perspective in the hospitality industry. In order to contribute to fill this gap, this study adopted a two-stage design seeking to develop and test a scale of organizational performance using the BSC in the hotel sector. In Stage 1, the authors generated and refined the scale items, recognizing unique characteristics of the hotel sector. In Stage 2, the scale has been assessed in terms of dimensionality, validity, and reliability. The findings suggest that managers do make a meaningful distinction between five aspects of hotel performance. Unexpected results, contributions, limitations, directions for future research, and managerial implications are all discussed.

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1. Introduction

Although there has been a wide use of the balanced scorecard (BSC) in a range of industries, little is known about the design and implementation of its overall framework in the hospitality industry with a few exceptions such as Min et al. (2008) who only attempted to develop a number of financial performance measures for hotels. In Hoque’s (2014) review of 181 articles covering 20 years of studies on the BSC, none of these studies was published in a tourism and hospitality journal or addressed the hospitality industry, which shows a clear gap when it comes to the use of integrative theoretical frameworks of BSC in this industry. Similarly, in their review of research published on hotel performance from the BSC perspective in the hospitality and tourism journals over 20 years, Sainaghi et al. (2013: 157) have concluded that “no broad theoretical frameworks have yet emerged”. They continue to add that scholars need to do research beyond specific perspectives of the BSC and to understand the relationships between these perspectives. In the same vein, it was argued that there is an apparent schism between the BSC theory and its application in the hotel sector (McPhail et al., 2008) and that the literature relating to BSC applications in this sector is weakly developed (Evans, 2005).

Considering the above discussion, the present study seeks to develop a customized organizational performance scale for the hotel context with particular emphasis on BSC perspectives. It is anticipated that the outcomes of this study can serve as a reference for hotels which are seeking to improve their performance and to use their resources effectively and efficiently. In support of this view, Sainaghi (2010a) argues that the BSC model is particularly useful for hospitality firms, due to the extensive use of operating indices such as customer satisfaction and occupancy which might help the integration between financial and non-financial measures and facilitate the alignment between these measures and hotel’s strategy. In addition, Hoque (2014: 48) emphasizes that “the findings of studies using non-financial performance measurement systems and subjective measures of effectiveness are also valid in the context of BSC practices. Hence further research is warranted, using different paradigms and measurement methods, to examine the effectiveness of the BSC in different types of settings”.

Overall, although improving performance is the ultimate goal of any organization (Elbanna and Naguib, 2009; Venkatraman and Ramanujam, 1986), our current understanding of hotel performance through the lens of BSC needs more attention from
researchers. In view of this situation, this study has three objectives: (1) to establish a structure for the BSC perspectives in the hotel sector; (2) to empirically validate the scales of these perspectives; (3) to provide researchers and practitioners with a set of items to measure a critical concept in the hotel sector, namely, hotel performance.

A two-stage empirical study was used to reach these objectives. Within this approach, the exploratory study was informed by Phillips and Louvieris’ (2005) initial template of BSC while consulting related research and feedback from both academics and practitioners in the hotel sector. At the end of this stage, a revised scale of the BSC was developed and examined in the second stage.

The research proceeds as follows: the next section summarizes the theoretical foundations of BSC and explains its four default perspectives. Following this, research methodology is explained and the findings are presented. The paper then discusses the study limitations, future research opportunities and implications for academics and business practitioners.

2. Theoretical background

2.1. Theoretical foundations of BSC

The deficiencies and deleterious consequences of performance measurement systems (PMSSs) have been debated in the literature for more than sixty years (Neely et al., 2008). Throughout the 1980s and afterwards, authors highly criticized the use of such systems and consequently the way in which organizations assess their performance (e.g., Johnson and Kaplan, 1987). In this vein, the historical and exclusive reliance on financial measures to evaluate organizational performance has been severely criticized in recent decades for several reasons. First, they are considered inadequate in that they are short-term oriented, not actionable and subject to manipulation (Atkinson and Brown, 2001; Johnson and Kaplan, 1987; Phillips, 1999). Second, financial measures do not identify areas of strategic improvement and innovation activities which are extremely important for today’s competitive environment (Ittner and Larcker, 1998; McPhail et al., 2008; Neely, 1999; Sainaghi, 2010b). Third, they are insufficient for managing nowadays organizations, hotels in particular, which are daily becoming more customer-oriented and are keen to benefit from their knowledge-based human capital (Kaplan and Norton, 2001). Likewise, according to Johnson and Kaplan (1987), the role of short-term financial measures was diminished by the new business environment, which is characterized by the decreased reliance on direct labour and the increased influence of intellectual capital and other intangible resources. Finally, because of their historic nature, financial measures reflect past actions of organization and remain silent about its future prospects. Therefore, organizations are encouraged to evaluate their performance by non-financial indicators that are thought to provide a better view of long-term performance than short-term financial measures.

Responding to these criticisms, there has been increasing attention, since the mid-1980s, from academics and practitioners towards the development of various PMSSs in order to provide managers with better information on performance of their organizations and thus to assist them in adjusting business operations with the aim of improving organizational effectiveness (Chenhall, 2005; Hall, 2008). These PMSSs include, for instance, the performance measurement matrix (Keegan et al., 1989), the SMART pyramid (Lynch and Cross, 1991), and the BSC (Kaplan and Norton, 1992). The latter, i.e. the BSC, has been regarded by many scholars as the most influential multidimensional PMS worldwide (Rantanen et al., 2007). For example, it has been adopted by increasing numbers of organizations, e.g., 57% in the UK, 46% in the US and 26% in Germany and Austria (Neely et al., 2008). Kaplan and Norton introduced the BSC as a multi-dimensional performance measurement framework in which the financial and non-financial measures are combined in a single performance scorecard model. The intention of this performance evaluation system is to create a motivation for executives and other employees to pursue both financial and non-financial objectives and would ultimately achieve a balance between short-term and long-term interests (Elbanna, 2012). Moreover, the BSC has been applied successfully and has produced promising outcomes in many research settings, such as manufacturing firms (Hoque, 2005; Hoque and James, 2000), local governments and municipalities (Bianchi and Montemagni, 2008; Hoque and Adams, 2011), banks and insurance companies (Kaplan and Norton, 1996b) and hospitals and healthcare centres (Stewart and Bestor, 2000).

As regards the hospitality industry, some US hotel chains, such as Hilton and Marriott franchisee White Lodging Services, have reported using the BSC (Denton and White, 2000; Huckestein and Duboff, 1999). The results, in general, indicate that the implementation of this system has encouraged managers to focus on both short-term and long-term measures, rewarding teamwork and sharing best practices with other hotels (Huckestein and Duboff, 1999). In a related study, Doran et al. (2002) argued that the reported successes in the previous two US hotels may be attributed to their unique characteristics in terms of reputations, strategies, opportunities and constraints. Consequently, Doran et al. suggested that it is essential to revise the BSC system in order to take account such characteristics. In addition, Harris and Mongiello (2001) claimed that although hotels are generally classified as service companies, they contain in reality three different types of industrial activity (namely, rooms, beverage, and food), which might display different cost structures and business orientations. This diversity of activities and their associated cost structures have ultimately called for a diverse set of performance measures, which a PMS such as the BSC can incorporate. Moreover, since the level of international competition in the tourism marketplace has been growing in recent years, this competitiveness has created a need for an effective strategic planning process (Elbanna, 2016; Phillips and Moutinho, 2014). One of the main essential requirements to the development of such effective process is to have a PMS that is linked to the hotel’s strategic plan, its competitive environment, revenue management, and market orientation (Haktanir and Harris, 2005). In this regard, the BSC can play a vital role.

2.2. The BSC perspectives

The BSC contains a diverse set of performance measures addressing the following four perspectives: financial, customers, internal business, and innovation and learning (Kaplan and Norton, 1992, 2001). The financial perspective comprises items that measure how the company would like to be viewed by its shareholders. Therefore, this perspective typically includes several profitability and growth measures, such as return on sales or investment, operating income and sales growth. As regards the second perspective (i.e., customer), it identifies how the company differentiates itself from competitors in terms of its image and reputation, the unique mix of products and services offered and the company’s relationship with customers. It encompasses measures such as customer satisfaction, customer retention rate and market share. Once the company comes up with a clear picture of its financial and customer perspectives, it can determine the processes that should be improved to satisfy its shareholders and customers. The internal business perspective highlights these critical processes, which fall under several categories of objectives such as achieving excellence in operational management (Kaplan and Norton, 2001). Finally, the innovation and learning perspective involves the changes and
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