Measuring hotel performance: Using a balanced scorecard perspectives' approach

Ruggero Sainaghi [a,1], Paul Phillips [b,*], Valentina Corti [a,1]

[a] IULM University, 20123 Milan, Italy
[b] Kent Business School, University of Kent, Canterbury, Kent, CT2 7PE, UK

ABSTRACT

This paper provides an examination of hotel performance research published in the seven leading hospitality and tourism journals from 1992 to 2011, through the lens of the balanced scorecard (BSC). The review seeks to answer three questions. What BSC perspectives are included in hotel performance research published in major hospitality and tourism journals? What are the trends and implications for future hotel performance research? What are the main geographical areas of publication outputs?

Eleven hypotheses were tested using a database of 138 articles that fully met the key word selection criteria of hotel, BSC and performance. The results suggest hotel performance attracts widespread attention from hospitality scholars, but significant gaps remain. Researchers have recognised the benefits of including financial and non-financial indicators. Yet, more research is required in this area to offer hotel organisations better approaches to the management of their performance. We conclude by identifying three research gaps.

1. Introduction

Encouraging signs for the future of the global hotel sector remain uncertain, due to growing evidence of challenging times ahead. The World Travel and Tourism Council (2012) reinforce the importance of travel and tourism by highlighting that in 2011, travel and tourism accounts for 9% of global Gross Domestic Product (GDP), over US$6 trillion, and 255 m jobs. The World Travel and Tourism Council using 4% growth projections forecast that by 2022 the corresponding figures will be 10% of global GDP, some US$20 trillion, and over 328 m jobs. Hospitality, which includes hotels will be at the forefront of the growth in jobs due to employment in new hotels. Yet, despite these developments several hotel companies are buckling under mountains of debt, such as Travelodge (Britain, Ireland and Spain), and the Almond Hotel group (Barbados). Bloomberg cites Robert Sonnenblick, Chairman of Sonnenblick Development LLC who foresees huge increases in US foreclosures during 2012, as debts come due but with a paucity of available financing.

High level of fixed costs, interest expenses together with the inability to refinance debt will lead to some hotels companies going bankrupt. In these cases, hotel assets will be sold and the new owner(s) will be less burden with debt and will seek to generate healthy operational profits. Academics, practitioners and consultants use a variety of operational metrics to gauge operational performance. These can include: Occupancy (Jeffrey and Barden, 2000), average room rate (ARR) (Israeli, 2002), revenue per available room (RevPar) (Namasivayam et al., 2007; Sainaghi, 2011), total revenue per available room (TrevPar) (Shang et al., 2008) and gross operating profit per available room (GOPPAR) (Claver-Cortés et al., 2007).

Traditional operational metrics provide a picture of profitability in terms of efficiency, but fail to provide a systematic depiction of effectiveness in terms of achievement of strategic objectives. Quantitative metrics are historical, while qualitative metrics look into the future and can help redefine strategy (Phillips, 2007). Defining the appropriate metrics for a corporate strategy can be as important as the actual content of the strategy. In the management literature Johnson and Kaplan (1987) note the need for better performance measurement systems. Since then, several authors postulate measurement models that provide a more integrated approach linking operations to corporate strategy (Chathoth and Olsen, 2007).

Recent approaches to performance measurement have identified the inadequacies of solely relying on quantitative and short-term indicators, and have led to the development of frameworks, such as: performance pyramids and hierarchies (Dixon et al., 1990), intangible asset scoreboard (Sveiby, 1997), SMART (Cross and Lynch, 1988), performance prism (Neely et al., 2002), success dimensions (Shenhar and Dvir, 1996) and balanced scorecard (Kaplan and Norton, 1992).

* Corresponding author. Tel.: +44 01227 824944; fax: +44 01227 761187.
E-mail addresses: ruggero.sainaghi@iulm.it (R. Sainaghi), p.a.phillips@kent.ac.uk (P. Phillips), vale.corti29@gmail.com (V. Corti).
[1] Tel.: +39 02 89 141 27 48; fax: +39 02 89 141 27 48.

These frameworks provide a way of capturing financial and non-financial performance measures. However, in today's economic and competitive environment achieving and sustaining competitive advantage necessitates explicit links between strategy and performance measures. Performance measurement frameworks now need to move beyond the mere collection of financial and non-financial measures and seek to identify causal links among measures, strategies and outcomes. The performance measurement literature emphasises the importance of these linkages between strategy and such measures (Otley, 1999; Ittner et al., 2003; Chenhall, 2008). According to Chenhall (2008) a distinctive feature of the BSC is that it identifies financial and non-financial measures covering different perspectives, which provides a way of translating strategy into action. Speckbacher et al. (2003) asserts that the BSC has evolved and can assist practitioners by providing three different types of performance measurement system, minimum standard, cause-and-effect and fully developed. The minimum standard combines financial and non-financial measures. The next evolution is the cause-and-effect, which illustrates the salient relationships between strategies and outcomes. The final evolution is the fully developed, which defines the objectives, outcomes and connecting incentives for the organisation. This indicates that the BSC can be used in organisations at different stages in the development of performance measurement systems, which broadens the appeal of this research to academics and practitioners.

Collectively, these three types of performance measurement systems provide assistance in strategy implementation (Otley, 1999; Ittner et al., 2003). Furthermore, the BSC has gained acceptance in the hospitality literature by being used to integrate performance measurement with other strategic issues. For example, McPhail et al. (2008) illustrate the importance of the alignment of the learning and growth perspective with performance measures. Chen, Hsu and Tzeng (2011) link the BSC with risk management and Phillips (2007) provides a hotel case study, which illustrates the BSC being used as an incentive scheme in a major UK hotel group.

The BSC is now a global management tool (Silk, 1998). Ittner and Larcker (2001) note the popularity for both practitioners and academics around the world. More recently, Qu, Cooper and Ezzamel's (2011) research findings found that the growth in use of the BSC is due to three main reasons. First, many users have taken the idea and adapted it to their own needs. Second, the BSC is generic theory and can be customised into local practices through customised templates. Third, customisation creates the needs for experts who use extensive exemplification through real cases, which make the BSC thrive as a product in the marketplace.

More than two decades after first BSC publication (Kaplan and Norton, 1992), the findings of Rigby and Bilodeau (2011) illustrate the enduring popularity of the BSC for practitioners. Empirical research is performed by the strategy consulting firm Bain & Co (Rigby and Bilodeau, 2011). Now in its 18th year with responses from more than 11,000 executives, the management tools survey shows that the BSC remains one of the most popular management tools. Executives in North America, Europe, Asia and Latin America were asked to rate their satisfaction with the management tools they use. In 2011, 1230 executives responded and the top five management tools were benchmarking, strategic planning, mission and vision, customer relationship management, and outsourcing. Executives ranked the BSC as the sixth most used tool (Rigby and Bilodeau, 2011).

In the academic arena, several benefits are proposed. Behn (2003) mentions the ability of the BSC framework to combine the needs of different stakeholders, such as clients, shareholders, financial institutions, employees. Prior to the BSC, previous models were mainly focused on a specific stakeholder (usually shareholders) and were not integrated into the strategy process (Wisniewski and

Dickson, 2001). Managers are able to make better decisions by using the four perspectives of the BSC (Lipe and Salterio, 2000) and like working for organisations with effective performance management systems (Malina and Selto, 2001). The BSC mixes different measures: financial and operational, qualitative and quantitative (Dess and Shaw, 2001; Ittner et al., 2003). The BSC framework enables managers to look both to the past (using financial indicators) and to the future (using learning and growth indicators) (Banker et al., 2004).

Given the generic and hospitality specific BSC literature, its benefits, practitioner popularity together with the need to build and extend prior hospitality knowledge and practice, the four perspectives of the BSC were used to guide this study. Also, the increasing influence of intangible assets in the hotel sector (Zigan and Zeglat, 2010) make the BSC with its tangible and intangible focus an appropriate management tool for this study.

The present study seeks to review existing work and to assess the depth and breadth of prior hotel performance work, with emphasis on BSC perspectives. Also given the global nature of the hotel sector, the study looks at the geographical spread of prior research. These led to the development of three research questions. What BSC perspectives are included in hotel performance research published in the major hospitality and tourism journals? What are the trends and implications for future hotel performance research? Given the global nature of the hotel sector what are the main geographical areas of publication outputs?

This study contributes to the literature in three areas. First, this paper deals with a topic that is timely and be of interest to both academics and practitioners. The study examines hotel performance research published in seven leading hospitality and tourism journals from 1992 to 2011, through the lens of the BSC. Second, this two-decade review will identify gaps in prior BSC perspective research. This will provide opportunities to develop a better understanding of hotel performance research, which can be used to help future theoretical investigations. Third, the study provides opportunities for practitioners to enhance the sophistication of their BSC frameworks, by broadening their use of perspectives, or even assisting in the creation of new hotel performance frameworks. The study contributes to both knowledge and practice by considering the academic scientific literature.

This study adopts the same journals used by Li (2008) in a review of entrepreneurship research published in leading hospitality and tourism management journals. These journals include: *Cornell Hotel and Restaurant Administration Quarterly* (CHRAQ), *International Journal of Hospitality Management (IJHM), Journal of Hospitality and Tourism Research* (JHTR), *International Journal of Contemporary Hospitality Management* (IJCHM), *Annals of Tourism Research* (ATR), *Tourism Management* (TM); *Journal of Travel Research* (JTR).

The remainder of this paper continues as follows. The next section provides the BSC theoretical background, which leads to the development of the hypotheses. The hypotheses relate to the four perspectives, the geographical scope and the research methodologies employed. Next, the review method is outlined. Followed by results. Finally, major themes are discussed; conclusions, managerial implications are drawn.

2. Theory and hypotheses

2.1. The balanced scorecard

Hotel performance measurement suffers from limitations including excessive focus on profit (Brander Brown and McDonnell, 1995), short-term (Denton and White, 2000), unbalanced (Harris and Mongiello, 2001), unsatisfactory for businesses seeking a competitive advantage (Evans, 2005), historical orientation (Atkinson