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THE BALANCED SCORECARD IN THE SOUTH AFRICAN HOTEL INDUSTRY



BY JEREMY ESEKOW

SUPERVISOR: PROFESSOR ENRICO ULIANA

Declaration of originality

I, Jeremy Esekow, certify that the following dissertation entitled "The Balanced Scorecard in the South African Hotel Industry" is original in its entirety. All references made to other books, journals and articles in this dissertation are legitimate.

Jeremy Esekow

16 February 2001

ABSTRACT

The hotel industry is one where success or failure largely depends on service quality. To control financial performance in such an environment, management must be aware of the need to closely monitor and control this non-financial aspect. This does not appear to have been the case to date. The Hotels and Leisure Sector of the Johannesburg Stock Exchange is one of the poorest performing, with the hotel groups having fared the worst. An oversupply of hotel rooms, the increasing availability of alternative forms of accommodation and a perceived decline in service standards are amongst the threats causing these unfortunate results. Management action is thus necessary to survive and prosper in the face of these current challenges.

A case has already been made for the necessity of employing the use of non-financial indicators in the management of most organizations. The use of such indicators within a structured management system has proven to yield better information for decision-making and control than merely adding a selection of indicators to an existing financial reporting framework. Several structured management control systems exist. It is suggested that the balanced scorecard, where overall organizational strategy is linked to individual goal setting and action, is a highly effective management tool within a hotel environment. The measurement of performance relating to customer, service process and infrastructural goals within the standard key perspectives of a balanced scorecard enables a hotel manager to better control the intangible service process. Thus guest – staff interaction can be successfully controlled in line with the hotels strategy, while at the same time, environmental challenges will have been built into the goal setting equation. The balanced scorecard has been implemented successfully in several hotel groups internationally, proving its suitability to the industry. It is thus recommended as a solution to the ailing South African hotel industry.

The Balanced Scorecard in the South African Hotel Industry

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Chapter 1

Introduction to the South African Hotel Industry and the Balanced Score Card

1. The state of the tourism industry

The tourism industry has become the world's number one generator of cross border receipts, with \$4,4 trillion having been generated in 1997 (GTKF, 1998), excluding airfare (a 2,2% increase on 1996). Worldwide foreign arrivals also reached an all time high of 614 million in 1997 (3,1% up on 1996 levels). It comes as no surprise then that hotel occupancy rates are on the increase as well, with a level of 67,2% (Horwath, 1996) being reported worldwide for 1996 as compared to 66,5% in 1995. The hotel industry seems to be booming worldwide with gross operating being 29,4% of sales (1995 - 25,7% (Horwath, 1996)) and these trends seem to be showing no signs of letting up. The 1999 Fortune 500 Number one performer in terms of biggest increase in revenue, and third best performer as far as profits were concerned was Starwood Hotels and Resorts with a 417.6 % revenue increase on 1998 revenue, and 27,7% profit increase. Host Marriott, another corporation with hotel interests came fifth (Fortune 500, 1999). In 1997 hotels generated approximately \$300 billion worldwide (GTKF, 1998).

The South African Tourism Industry is no exception to this growth trend, with South African foreign arrivals at an all time high (Horwath, 1996). South Africa has had compounded annual growth in its foreign arrivals of 17% in the ten years to 1996 (Horwath, 1996) and its domestic market has yielded an increased revenue generation in terms of accommodation receipts of 65% above 1994

levels (Kessel Feinstein, 1996). The industry increased capacity by 11 000 hotel rooms between 1995 and 1998 (Financial Mail, 1999). However, the average price: earnings ratio of the hotels and leisure sector in the JSE has declined steadily from around twenty in 1995 to seven in 1999. Non-hotel leisure groups have fared the best with current average price: earnings ratios of ten. Only one hotel group, City Lodge, can boast positive, albeit slowing earnings growth over the past five years. The entire South African hotel industry seems to be ailing, with Karos Hotels having been acquired in a R90 million bail-out by international chain Movenpick (and subsequently liquidating), Cullinan Hotels having sold all five of its hotels to Liberty Life, and Sun International trading at 90% below levels traded five years ago (Financial Mail, 1999). In fact, share prices of all hotel groups listed on the JSE have decreased by 80% since 1996, causing Stafford Thomas to write in the Financial Mail, "For a case study in getting it wrong, look no further than the hotel groups".

2. A brief history of hotels

The hotel has been in existence for around 12 000 years, having evolved into a complex, multi-national industry. The hotel has undergone significant changes in architectural design, services offered, customer base and management techniques since its early days as a barn attached to the inn-keepers house offering little more than a night of restless sleep. The hotel evolved into its present form mostly in Europe and the United States, as travel in search of new financial and settlement opportunities become more common. Services quickly transformed from a simple bed to ablution and dining facilities, lockable rooms, business centres etc. The hotel became a national and even international chain, in addition to becoming a highly competitive industry. In 1996, there were 307 683 hotels worldwide with 11 333 199 rooms. The hotel industry at that time, employed 11 194 418 people worldwide (IHRA, 1996).

Management styles and techniques had to evolve with the industry, shifting away from the improvement of services, which lends itself only to short term competitive edges (competitors generally copy the service) to more long term competitive solutions. Measures such as outsourcing, cross-industry alliances, guest loyalty programs and diversification into related industries have been introduced to maintain profitability and competitiveness. Another recent survival tactic has been the expansion of hotel properties into less developed countries and newer tourist destinations e.g. Thailand and South Africa.

3. Need for management action

The results on the Johannesburg Stock Exchange are evidence of the disappointing performance of hospitality stock, certainly from a shareholders perspective (Thomas, 1999). It has been determined that the challenges in the industry are many, encompassing oversupply of rooms (Saunders, 1997, GTKF release, 1997), perceived lack of value for money, which is compounded when considering the slipping value of the Rand internationally (Southern African Tourism Update, 1998), the proliferation of alternative forms of accommodation (GTKF, 1998), and an increasingly tarnished reputation of the Southern African region amongst foreign travellers (Bendixen, Cronson and Abratt, 1996, Southern African Tourism Update, 1999). The IHRA, in addition to these threats, set out its own list of challenges that it considers critical to the survival of a hotel in the future (IHRA, 1997). Hotel management, it would seem, need to utilise a greater level of control and innovation in the future in order to survive. A hotel manager can do little to improve the overall reputation of the region, or to manipulate the other environmental factors that may be threatening the industry. The slipping value for money rating currently experienced in the industry (down to six out of ten in 1998, from eight in 1995) (Southern African Tourism Update, 1998) can certainly be addressed however.

As will be demonstrated, the core business within a hotel is service orientated. Value is created largely through interaction between staff and customers, as opposed to the exchange of a product. Thus, the innovation and management control that seem necessary to lift hotels above their poor performing environments are best directed at this inherent aspect within a hotel.

The management approach adopted to control aspects of a business that are significant to its survival, must incorporate tools and methodologies tailored to the critical success factors. In the case of a hotel, or other service intensive environment, where considerable value is created through the interaction between staff and customers (Troughton, 1999, Lotter, 1999, Hill, 1999), the management approach must be able to measure and control this interaction. Case studies by Fisher and Brancato (1995) have added to the argument that the measurement of this highly intangible perspective of hotel operations cannot be effectively measured using traditional financial means (Ittner and Larcker, 1998). Non-financial indicators are required as a measurement device in this regard. It has been demonstrated that non-financial measures are more useful to an organisation if developed systematically within a management structure (Vaivio, 1999).

4. Critical analysis of management approaches

Several management control tools have surfaced that incorporate non-financial indicators, all with different focuses. These include the Tableau de Bord, Intangible Asset Measure and the Balanced Scorecard. Economic Value Added™¹ was also adapted to its present form recently, partly as a response to the inadequacy of complete reliance on traditional financial reporting as a gauge to the performance of an organisation. It will be demonstrated that within the South African hotel industry, there is great scope for the application of a management tool that incorporates non-financial indicators, in particular, the

¹ Trademark of the Stern Stewart Corporation

Balanced Scorecard. This will be demonstrated through a process of highlighting the defining characteristics of the industry, matching these characteristics with the usage of non-financial indicators, and then arguing the superiority of the Balanced Scorecard over other selected management control systems.

As will also be demonstrated, within the South African hotel industry, management are aware of several of the concepts and perspectives utilised in the Balanced Scorecard process. Several hotels employ selective non-financial indicators (Phinn, 1999, Lotter, 1999) or some form of goal setting. These will be contrasted against theoretical knowledge of the Balanced Scorecard process, and against case study experience. A generic Balanced Scorecard will then be developed for a South African hotel, which will argue the practicality of the management tool against the current problems facing the industry and against recent criticism of the process.

5. Research approach

A Balanced Scorecard will be developed within a South African hotel setting as a proposed response to assist in rectifying the poor financial performance being experienced industry-wide. Findings of the research, will be presented in a 'Theory as Narrative' framework whereby current practices and assumptions relating to the various variables within several hotel settings, together with plausible accounts of how actions within the Balanced Scorecard methodology could produce financial improvements. Common within field research, the ailing industry will serve as the foreshadowing problem as opposed to the utilisation of a strong hypothesis as a starting point. (Baxter and Chua, 1998). It is felt that in light of the repeated calls for more qualitative, contextual and interesting research (Ahrens and Dent, 1998), this research methodology is fitting. The Balanced Scorecard that will be developed serves as an illustration of the theory developed in the previous sections, and gives a description of the conceptual process in the mind of the researcher. This method of research will yield

inherently creative texts— though a distinction must be drawn between ‘making things out’ (case study and interview research) and ‘making things up’ (Ahrens and Dent, 1998). The Balanced Scorecard that is finally derived is the product of theory developed from the patterns uncovered during the research process and the current general state of the hospitality industry. It should be highlighted, therefore, that this derivation is a conceptual framework based on the analysed theoretical intuitions explored during the research process.

6. Objective of this study

As the hotel industry is not performing to its potential, the purpose of this study is to:

- Analyse the threats and opportunities within the industry, and
- Investigate the applicability of implementing a Balanced Scorecard within a hotel as a means to manage the hotel’s performance within the current environment.

7. Research performed as background

During interviews conducted with several hotel managers employed at various hotels in South Africa, as well as obtaining feedback from questionnaires sent to several hotels countrywide, insight was gained into the critical management and performance measurement aspects of those hotels. Several hotel managers were also introduced to the balanced scorecard concept in later interviews and initial responses to the management control tool were obtained. In addition to this, several recent articles relating to the balanced scorecard as a management solution in general and as a hotel management solution suggest both resoundingly positive outcomes when employed in an organisation (Strubling, 1996, Huckstein and Duboff, 1999, Denton and White, 2000), and theoretical limitations as a self contained management system (Norreklit, 2000, Otley, 1999).

7.1 Questionnaires

Questionnaires were sent to thirty general managers of hotels across the country. Hotels were selected from all provinces in the Republic of South Africa. The sample was selected from a listing of all hotels registered with SATOUR as at January 1997. In performing the sample selection, an attempt was made to include hotels representing each of the nine provinces, and to include a varied representation of hotel gradings where possible. The selection was also weighted to areas of higher hotel density. Specifically, five hotels were selected from Gauteng, five from the Western Cape and five from Kwazulu Natal, with the remaining fifteen being selected from the remaining six provinces.

Personal interviews were conducted with an additional seven managers in the Gauteng region. No countrywide geographical representation was attempted. Questions in the following categories with regard to both the distance questionnaire and personal interviews were put to managers:

- Background of general manager
- Management structure within the hotel
- Performance measurement within the hotel
- Budgeting and forecasting
- Tourism future in South Africa
- Community involvement
- Government support of tourism
- Theft and crime
- Staff training
- General costs
- Advertising and marketing
- Revenue and profits

7.2 Limitations of the research

As the sample size for the mailed questionnaire was thirty hotels, no conclusions can be drawn to the industry at large despite attempts being made to cover hotels as they are dispersed throughout South Africa. In certain of the provinces, no responses were received, and with regard to the hotel gradings, responses were received such that no comparisons between the varied grading ranges could be derived to any meaningful degree of accuracy.

Eleven responses were received from the distance questionnaires overall representing a 37% response rate. No statistical conclusions can be extrapolated to the industry at large, since the sample size was not large enough to be representative of the entire population, as highlighted above. However, together with the personal interviews conducted, the research did shed light onto current hotel management operating practices. See Appendix A for the questionnaire.

7.3 Later interviews

Several hotel managers and other hospitality industry personnel were interviewed. Interview questions were structured around the balanced scorecard framework gaining further insight into management focuses and non-financial indicator usage in the industry. See Appendix C for the interview framework. See Appendixes F, G, H, I and J for detailed findings from the interviews.

Chapter 2

Issues to be considered by management in a hotel environment

1. Current measurement of performance

Many hotel managers use non – financial measures as a gauge of success. REVPAR (revenue per available room) is commonly used as a success yardstick in support of profit for the period. REVPAR is a useful measure in that it allows a hotel to measure both occupancy rates and revenue earned for the period. In a hotel environment, occupancy is a critical factor – it tells management how many customers utilised the core service of the hotel. Total room revenue earned may also be a very important measure to monitor. It tells management how much revenue was earned from the core service. The two are often a trade – off. If a luxury hotel prices its rooms at half of the rate of any other luxury room in the region, its occupancy levels may increase as guests are lured by the prices. Though occupancies are higher, revenue may decrease. Alternatively, if the hotel decides to increase its room rates to double the rates of other luxury hotels in the region, occupancies may decline as customers defect to other hotels that they can afford. A combination of the two measures allows a hotel to price its room within a range that appeals to its targeted market to ensure that the hotel makes the required revenue and fills its rooms with the required amount of guests.

This measure does not account for the strategy of the hotel or the specific threats and opportunities the hotel is facing. Perhaps the hotel is facing circumstances similar to The Grace, whereby management are pricing the room cheaper than that of competitors to build up a client base (Lotter, 1999). The Grace may gain

benefit from focusing specifically on occupancies and the amount of repeat and new customers in line with their strategy to build a loyal guest base. Another hotel may wish to target an exclusive guest base and more benefit could therefore be gained from measuring their penetration into this market, rather than a general REVPAR measure. REVPAR, while useful in many situations, may be of no use to a hotel if it is not in line with the strategy of the hotel. Non-financial measures must suit the threats, opportunities and strategy of the hotel.

2. Threats and opportunities in the hotel industry

The hotel companies in South Africa are not performing exceptionally well. In the Financial Mail Top Companies for 2000 survey, SISA (Sun International), the largest hotel chain in South Africa slipped from 30th place to 36th place¹. Cullinan Hotels, a pure hotel group experienced a slip in profit placing from 148th to 249th position. In terms of Economic Value Added TM, the Financial Mail describes the Hotel and Leisure sector as performing poorly (Eedes, 2000).

Most of the hotel managers interviewed agreed on several threats and opportunities currently inherent in the industry (See Table 2.1 for a summary of the findings). Several managers stated the proliferation of bed and breakfast, and self catering apartments as a serious cause for concern, whilst others stated that crime, and lack of government support for the tourism industry were major issues detrimental to the survival of the industry. These hotel managers also pinpointed the oversupply of hotel rooms as a cause for concern. These coincide with threats to the industry as highlighted in the press and journals.

¹ In terms of profits, the chain improved. Gambling profits however play a significant part in the groups profit.

Table 2.1 Summarised findings of interviews with several hotel managers

General managers
55% of managers attended hotel school. 64% come from a food and beverages background. 84% of managers (in larger hotels) spend at least one quarter of their days managing the food and beverage department.
Performance evaluations
82% of hotels have formal staff evaluations at least once a year. 73% of hotels claim to regularly meet budgets in their food and beverage department as opposed to 64% in the room rentals department.
Budgeting
85% of hotels claim to budget, all only one year into the future. 91% rely on past results when setting the budgets, though 64% do take into account current events. None rely on the SATOUR statistics at all.
South African tourism future
69% of hotel managers felt that the current international tourism growth rate could not be sustained. Domestic growth rates were generally felt to be sustainable. 64% felt that our service standards were not comparable to international standards (comments were made though that in terms of value for money, our service standards were superior). 77% felt that there was a definite oversupply of hotel rooms.
Community involvement
There were no definite trends as regard to hotels involvement in community projects. Several hotels left the question out indicating little to no involvement. With regard to protecting guests outside the hotel premises, advice was generally offered with regard to areas to stay away from.

Government support
Every hotel manager involved in the questionnaire stated that the government did not do enough to promote or support the industry.
Training
All managers felt that there were not sufficient training facilities in South Africa. All managers train their staff informally on the job, particularly on employment. Less than 4% of annual budgets in all cases go towards training with most hotels spending only around 1%.
Theft
69% of managers feel staff theft is a problem and 64% feel that guest theft is a problem. The annual cost of theft was never disclosed as material – hence no major plans are in place to combat it.
General expenses
38% of hotels do at times purchase their supplies at retailers in addition to wholesalers and manufacturers. There is definitely a trend to outsource with 46% of hotels having outsourced cleaning. Cost cutting is done generally (across the board). Margins on the various revenue streams were generally as expected (70% on room rentals and 50% on food and beverages), though some managers did disclose erratic figures.
Advertising and marketing
In all cases, advertising and marketing expenditure was less than 10% of total expenditure. Often though, hotels are marketed on a group level. In some cases, hotel managers reported selling up to 70% of rooms at a discount, though some reported as low as 10%. 91% of managers feel that South African hotels are under-priced.

Revenue
Occupancy figures surprisingly did not correlate to the industry reported averages, varying as high as 90% and as low as 40%. The bulk of managers interviewed disclosed that local tourists made up the bulk of their guests. English, German and American tourists made up the bulk of international travellers. The make up and peak season of tourists is largely a function of the type of hotel i.e. coastal hotels are generally much busier in December than inner city hotels.
Profitability
All but one manager stated that their hotels were profitable. This is seen as inconsistent with industry publications as stated earlier in the chapter. Perhaps these hotels were profitable. Baxter and Chua (1998) cite the dangers of obtaining unreliable data from research participants if no relationship of trust has been developed.
General comments
69% of managers did not feel positive about the granting of casino licences expecting no great boost in the tourism arrival statistics. 77% view alternative forms of accommodation (e.g. bed and breakfasts) as a threat.

(Not that not all managers answered all questions on the questionnaire)

2.1 Oversupply of hotel rooms

In March 1997, 62 active projects were identified in the Johannesburg, Cape Town, Durban and Pretoria areas totalling 10 100 rooms (GTKF release, 1997). The negative effect that could result from this increased development is oversupply. This could result in increased competition in hotel rates and a decline in average occupancies. Demand growth is not as great as supply growth

(Saunders, 1997). Latest results seem to reinforce this view. Average hotel occupancies in South Africa have remained below 60% in the past two years, and thus well below international averages, which have generally fluctuated between 66% and 68% (GTKF, 1998).

The controllable threats latent within the oversupply problem are those of losing market share to new competitors.

2.2 Value for money

South African room rates have also been increasing at a compound rate of over 4% per annum between 1993 and 1996 (GTKF, 1998). The average rate for a hotel room in South Africa is \$43 per night. This rate is significantly less than international averages (see Table 2.2).

Table 2.2

Average room rate	1995 \$	1996 \$	1997 \$	1998 \$	1998 \$ International
	←		SA	→	
3 – star	27	30	34	40	54
4 – star	42	48	52	56	83
5 – star	71	80	87	106	143
All grades	28	35	39	43	89

(GTKF, 1998)

In recent times, South African hotels have been accused of “pricing themselves out of business” due to the constant yearly increases in hotel prices. A British tour operator said in May 1998 that SA tourism growth is cooling off due to overpriced hotel room and car rental rates. This is alarming since 23% of foreign air arrival visitors come from England (GTKF, 1998). Yet England’s National Rugby Team upgraded from their three star accommodation to stay at the five star Mount Nelson to take full advantage of South Africa’s affordable accommodation. When comparing South African room rates to those of overseas

hotels, using Table 1, where SA hotels are significantly less dear than their international counterparts, it seems that South African hotels would not be overpriced, assuming a similar service quality. By international standards South African hotels seem to be very reasonably priced. The criticism offered may thus be pointing to 'value for money', rather than just 'money'. In a recent SATOUR survey undertaken in winter 1997, value for money satisfaction out of a maximum of ten was measured at six, down from eight in 1995 (Southern African Tourism Update, 1998). The accusations thus, do indicate that the real problem is not the increased room rates, but rather the service given for payment of these rates.

It is evident based on South Africa's slipping service ratings that service levels need to be raised if it is international tourism that a hotel is seeking to attract and build customer loyalty.

2.3 Alternative accommodation

A major factor causing the decrease in occupancy levels and thus profitability in the hotel industry is the increasing growth in popularity of alternative forms of accommodation.

Self-catering establishments have increased in popularity amongst business travellers and holidaymakers. Currently 23% of international visitors and 13% of domestic holidaymakers stay in self-catering apartments (GTKF, 1998). These establishments have grown in number by 63% in the last three years.

There are currently estimated to be half as many bed and breakfast / guesthouse beds available as there are hotel beds in South Africa. The South African Bed and Breakfast Information Centre is opening a 24-hour toll free bed and breakfast booking centre, which will soon be accessible by Internet (GTKF, 1998).

Timeshare has grown at a rate of 15% per annum over the last ten years with growth of 26% last year. Major international tourism players such as Disney and Thomas Cook are now offering timeshare holidays, and it is estimated that 215 000 South Africans already own timeshare (GTKF, 1998).

This suggests that hotels are losing guests to these alternate forms of accommodation, even after factoring in the growth in the overall tourist base. Again, customer retention and loyalty need to be built.

2.4 Technological advancements

Technology will be a major future consideration particularly in the travel planning industry. Currently only 1% of global travel bookings are made over the Internet, however this number is expected to increase to 35% within 5 years (GTKF, 1998). Computicket has already attempted to set up an accommodation bank offering domestic tourism products, though it has had limited penetration thus far. Microsoft has also entered the Internet travel-planning arena (GTKF, 1998). Janet Aldworth, vice president of the Association of South African Travel Agents, stated that the Internet and other factors will put half of the currently operating travel agencies out of business in the next couple of years (GTKF, 1998). It also allows for the small hotel operators to market their rooms on an equal footing with the large hotel chains.

The challenge to a hotel in this instance is one of remaining technologically competitive, as well as ensuring a continuation of market exposure to its target market to ensure maintenance of market share. Processes may need to be increasingly automated and streamlined, and customer databases developed.

2.5 Safety and security

Satour's Michael Farr estimates that for every murdered tourist, 200 foreign visitors cancel their trips to South Africa (SA Tourism Update, 1998). The loss in revenue is an estimated R3,5 million. In a recent book written by a hospitality security professional, the author urged that while the onus is on tourists to be security conscious, hotels presently do not do enough to protect their guests from crime (Prestia, 1993). The growth of worldwide terrorism, overshadowed in South Africa, by its increasing crime rate, is a concern of many international tourists, as is the guest expectation of receiving clean air and water in cities with pollution problems.

In a study performed by the University of the Witwatersrand Graduate School of Business Administration (Bendixen, Cronson and Abratt, 1996), it was discovered that international tourists perceived South Africa as a perilous or high-risk product. 250 tourists were interviewed at London's Heathrow airport on their perceptions, attitudes and orientations towards South Africa as a tourist destination, and the findings were that South Africa's major draw-card for the international tourist are its wildlife, scenery and world class hotels and resorts. Fears over personal safety and crime were factors discouraging the international visitor. The new casinos and gambling facilities made very little impact in the guests' decision.

While individual hotels can do little to increase the overall appeal of South Africa to foreign tourists, consideration can certainly be given to improving the security process within a hotel through informing guests about areas to avoid and providing external hotel security where practical. Hotels can also target tourism markets that are not as concerned about the safety perceptions of South Africa.

3. Non-financial indicators and the threats

Upon investigating the above threats to the industry from a management standpoint, several themes and necessities surfaced

- 3.1 Control of market share loss by the development of guest loyalty
- 3.2 Improvement of service levels as expected by the hotel's target market
- 3.3 Development / maintenance of a technological and process infrastructure
- 3.4 Continual monitoring and assessment of the target market.

Upon discussion with several hotel managers (Lotter, 1999, Hill, 1999, Phinn, 1999, Corcoran, 1999), similar threats were highlighted. In order to combat them, management initiatives have been taken to focus on the core of these threats. Recognising that at the core of controlling market share loss is the developing of guest loyalty, management of The Grace hotel in Rosebank, Johannesburg instituted a process of collecting data on guest preferences, and employed a full time guest liaison officer. In order to measure the results of this loyalty generation drive, they regularly review guest repeat booking (Lotter, 1999). The City Lodge chain has developed a process of measuring guest satisfaction. A mystery guest program is in use whereby a professional company sends an employee once a month to stay at the hotel and analyse the service levels. Results are sent to the hotel. Together with this, guests are encouraged to complete questionnaires rating services levels at the hotel (Phinn, 1999). Similarly, several other hotel managers interviewed had in place a system for measuring customer satisfaction (Hill, 1999, Corcoran, 1999). All then modified their service levels and facilities based on customer demand trends.

In order to remain competitive, monitoring only financial ratios may no longer be enough. In terms of developing strategic plans, evaluating the achievement of organisational objectives and compensating managers, many managers feel that traditional accounting based measurement systems no longer adequately fulfil these functions. Case studies by Fisher and Brancato (1995) have shown that

they are too historical and “backward looking”, lack predictive ability to explain future performance, reward short-term or incorrect behaviour, are not actionable, do not capture key business changes until it is too late, are too aggregated and summarised to guide managerial action and give inadequate consideration to difficult to quantify intangible assets (Ittner and Larcker, 1998). The measurement of non-financial aspects of an organisation; those aspects that drive the success of the business, is a seemingly critical factor in management control and decision-making. In research conducted by Ernst and Young, it was discovered that non-financial indicators drive 35% of investors' portfolio decisions. The more non-financial information analysts used, the more accurate their forecasts were found to be. This effectively means that using non-financial information can lead to better decision-making. This is particularly true when considering the currently widening gap between financial performance and company value which is largely due to an increased recognition of intangibles and future value creation potential (Ernst and Young, 1999).

It is thus no surprise that companies, including hotels, are turning towards alternate non-financial measures in order to measure the ‘value drivers’ that lead to success in more competitive environments (Ittner and Larcker, 1998). Non-financial indicators are increasingly important tools in management accounting as part of a drive to ensure the relevance of accounting information systems (Smith, Management Accounting, 1997). This is not to say that there is no room left for traditional financial measures. Profits and cash flows have also become very important in terms of remunerating managers for performance in addition to the growing importance of non-financial measures. Added to this, recent research has indicated that organisations that use non-financial performance measures appear to deliver better financial performance than those which rely solely on financial indicators (Otley, 1997). The demand for non-financial information is certainly set to increase (Shields, 1997).

Sears, Roebuck and Company recently restructured and rethought its business plan, and dramatically improved its results. A key tool employed in the turnaround was the development of a new measurement system, an 'employee-customer profit model', and a set of measures that showed how well they were doing with employees, customers and investors, called the 'Total Performance Indicators'. These Total Performance Indicators are highly non-financial in nature, and measure areas such as employee retention, service and helpfulness and customer retention. The accurate measurement of these key non-financial perspectives of Sears, was one of the critical elements that allowed for Sears financial turnaround (Rucci, Kim and Quinn, 1998). It is thus apparent that the usage of non-financial indicators is not only necessary to measure these 'value drivers' of performance, but can also lead to more profitable outcomes by forcing management to focus the entire organisation on the critical elements of the business.

As stated, many hotels have initiatives in place to manage the critical success factors within their hotels. Based on interviews with hotel managers in 1999, many of these initiatives revolve around the concept of service quality. It is generally acknowledged within the industry that the relationships built with customers through interaction with management and staff secures future business (Troughton, 1999 – Appendix J). This intangible relationship, while not qualifying for disclosure in the financial statements as a measurement of success or profitability, if measured accurately would suggest very important information on the long-term survival of the hotel and its ability to add value. Fisher and Brancato (1995) argue that this cannot be adequately measured using financial indicators (Ittner and Larcker, 1998), but must rather be measured using non-financial indicators. Much research has been undertaken on the use of non-financial measures as an indicator of performance. During an empirical investigation of an incentive plan based on non-financial performance measures, Banker, Datar and Srinivasan (1998) found positive associations between customer satisfaction measures and future accounting performance in eighteen

hotels managed by a hospitality firm. Studies have however also been conducted that demonstrate how firms experience considerable difficulty linking these measures to future accounting performance. Brancato (1995) reported that none of her case study participants could precisely quantify the link between key non-financial performance measures and the bottom line. Ittner and Larcker's investigation of customer, business and firm level data supported claims that customer satisfaction measures are leading indicators of future customer purchase behavior, growth in customers and changes in business unit accounting performance (Ittner and Larcker, 1998). The case is therefore not one of trying to establish whether there is any benefit to be achieved from non – financial indicators. That there is benefit, has already been established (Ezamel, 1992). How to effectively use these measures within a specific organisation i.e. what to measure, and how to measure it, is the question.

Recent research has demonstrated that, while the adoption of non – financial measures within a management control approach can be more effective than relying on purely financial measures, merely adopting random non – financial measures to gauge performance in deemed critical areas is not sufficient (Viavio, 1999). It is proposed that in a service intensive environment such as a hotel, where financial measures seem to be lacking with regard to reporting the actual level of service provided, non-financial measures are particularly critical if any accurate picture of corporate performance is to be painted. As stated above, in this particular environment, where service levels are deemed to play such an important role, the status of these two elements (staff and customers) as they relate to the performance of the business would need to be included in the set of non-financial measurements. It is not enough, however, to merely add a few non-financial measures onto ones monthly management packs as is being done at the hotels investigated. A management control system provides information that is intended to be useful to managers in performing their jobs and to assist organisations in developing and maintaining viable patterns of behaviour (Otley, 1999) i.e. if effective, it systematises the data generated to facilitate useful

decision making and management control. It also results in meticulous consideration of appropriate non-financial measures (Otley, 1999). If non-financial performance measures are not beneficial in all settings, Ittner and Larcker (1998) have identified the circumstances under which these systems do improve performance as an important research topic.

The usage of non – financial measures on their own while generating new, potentially useful information can be enhanced within a management control framework (Vaivio, 1999). In addition to this, having a standardized control system across all hotels within a group enables management to better maintain a standardized service, giving them the ability to compare performance amongst the hotels within a structured framework. The Hilton internationally implemented a standardized management control system, recognizing these advantages (Huckenstein and Duboff, 1999). It is proposed that a suitable management control system is needed to house and effectively utilise the non – financial information generated within a South African hotel setting.

4. Non financial management frameworks

In recent years, several management control systems have been developed that incorporate non – financial management to a greater or lesser degree. The shortcomings of purely financial reporting have been recognized for some time. In fact, for over fifty years, French companies have been using a tool called a Tableau de Bord to improve their production processes and allow top managers to monitor the progress of their businesses. It highlights the importance of not overloading management with information and that performance should be reported based on a small number of indicators, not all of which should be financial. In practice, Tableau de Bords tend to overemphasise financial measures, and rely heavily on benchmarking based on last years performance rather than on the best-in-class performers. Most measurement information is

collected internally rather than from customers and suppliers (Epstein and Manzoni, 1997).

Swedish companies have been using a tool called the Intangible Asset Measure (IAM) since the late 1980's to monitor the performance of their companies, and to direct performance towards their companies' strategies. The IAM works on the notion that people are an organisation's only profit generator and that they, through their actions, create the assets within an organisation, including intangible assets. The IAM guides managers on how to utilise the intangible assets, identifies the flows that create and renew the intangible assets, and guards against the risk of losing them. The IAM focuses on measuring the people in the organisation, on the premise that this will give an early warning system as to the state of the organisation. Proponents of this system argue that this is more important than any signal generated from the financial accounting system, and that non-financial indicators are more important than financial ones (Sveiby, 1997). This method however lacks a strategic direction. Measures are developed within the internal structure, external structure and competence perspectives. While these perspectives may give a holistic picture of the performance of the company, the lack of financial measurement does not link these non – financial measures to actual profits. Whilst managers need to measure the non – financial aspects of their company (as has been established), financial success is still the factor to which they will strive. In addition to this, no guidance is given by Sveiby on what measures to select other than the areas in which to classify these measures.

Economic Value Added TM was developed in its present form recently as a means to both measure the performance of a company based on a single performance indicator, and to create a logical connection between the performance of that company and its value as traded on a securities exchange. EVA, however, even under its own assumptions is particularly weak in measuring and monitoring the means which managers have adopted to achieve their overall objectives (Otley, 1999).

The most recent of these management control developments has been the Balanced Scorecard. This framework for the inclusion of non-financial indicators into a company's reporting structure was initially developed and introduced in the Harvard Business Review in 1992 by Robert S. Kaplan and David P. Norton, in an article entitled "The Balanced Scorecard – Measures that Drive Performance". The Balanced Scorecard approach states that a company should formulate and agree on its strategy, and then fit its performance measurement indicators around that strategy to facilitate the measurement of the performance of the company as it relates to achieving the goals of the company. The method highlights four key perspectives that the company should consider around which to base this strategy i.e. the financial, customer, internal business processes and learning and growth perspective. These perspectives serve as a basic template, not a straight-jacket. A company could theoretically select more, or different perspectives if deemed necessary. Kaplan and Norton (1992) argue that a Balanced Scorecard is not merely a collection of financial and non-financial measures in various categories, but an integrated set of measures developed from a "theory of the business" that explicitly links the scorecard metrics in a causal chain of performance drivers and outcomes (Kaplan and Norton, 1992).

The Balanced Scorecard seems to be a strategically developed hybrid between the Tableau de Bord and the Intangible Asset Measure. Financial measures are essential in summarizing the consequences of strategy implementation (Simons, 2000). While retaining the financial indicators so favoured by South African managers (Stadler, 1999), the Balanced Scorecard places equal importance on measuring the intangibles in an organisation. This approach has attracted growing world-wide interest with approximately 60% of the Fortune 1000 companies surveyed by management consultants Renaissance World-wide having experimented with the Balanced Scorecard, including 60% of the top 300 banks. Renaissance World-wide believes that the uptake of the Balanced

Scorecard in South Africa is set to increase with the increased threat of global competition (Stadler, 1999).

In their book, *The Balanced Scorecard – Translating Strategy into Action* (1996), Kaplan and Norton cite the example of an airline pilot flying an aeroplane. The pilot and the aeroplane obviously have a mission / goal, that being to arrive at the prearranged destination with all passengers safe and happy. If that aeroplane had only one gauge on its dashboard, the passengers might become a bit concerned. How would the pilot know that he was still on course, or that he was flying at the correct altitude, if he was only checking his speedometer? The same is true for a company. It is important for management to concentrate on all areas that affect its profitability. Management must also understand the goals of the company, the direction in which the company should be heading, in order to define those areas in which management should be focused.

5. Matching the Balanced Scorecard to the South African hotel

In order to identify and understand the management challenges currently inherent in the hotel industry, information was collected via questionnaires sent to thirty hotel general managers throughout the country. An additional eleven managers situated in Gauteng were interviewed between 1997 and 1999 (see Appendix B, C, E, F, G, H). Based on these questionnaires, interviews and a South African tourism literature review, it was established that the significant management challenges existing in the industry today include building and retaining a loyal customer base, maintaining service processes that appeal to and satisfy these customers, and securing the ability to update these processes in the future as guest demands evolve, specifically through staff development (Troughton, 1999, Phinn, 1999). These needs would seem to be reflected in the Balanced Scorecard model, which specifically targets customers, internal

business processes and the maintenance of a skills and technology foundation to ensure the future delivery of service value (Kaplan and Norton, 1992).

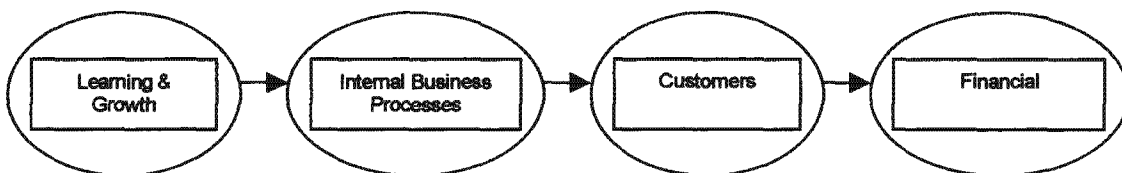
Kaplan and Norton (1996) extend the Balanced Scorecard methodology beyond mere performance measurement. A management methodology was developed which through a logical sequence:

- Set and obtained consensus from management on the overall strategy of the company
- Developed clear and realistic goals which, through their attainment would realise the strategy of the company
- Linked these goals to tangible measures within the four key perspectives of the organisation.

This ensured that the organisation was not only employing non – financial measures as an added paradigm to its reporting process, but was employing a strategic tool that had a direct bearing on the economic and management circumstances surrounding the organisation. Specifically, through a process of developing a clear strategy that addresses the current circumstances, identifying and analysing the value added relationships between different assets and processes within the hotel, and formulating goals and indicators that measure the attainment of those goals, threats can be addressed. See Appendix D for a more detailed implementation methodology.

Kaplan and Norton assume the following causal relationship:

Figure 2.1 – Balanced Scorecard Measurement Perspectives



This is to say that the measures of organisational learning and growth are the drivers of the internal business processes, which are in turn the drivers of the customer perspective etc. (Norreklit, 2000). Within a hotel context, this could mean that the identifying of a profitable target market facilitates the development of a focused marketing drive that can attract other guests within the target market, thus addressing the threat of increasing hotel and alternate accommodation oversupply. Each of the four perspectives houses within it the ability to address different aspects of the major threats facing the industry, thus demonstrating the potential of the balanced scorecard as a viable management alternative within a South African hotel. While no conclusive evidence exists to support this causal relationship, cohesion may be found between elements of say, customer satisfaction and financial performance (Ittner and Larcker, 1998).

In addition to cost-effective measurability, relevance, controllability and several other self evident factors behind the feasibility of a design system, coherence is viewed as a design requirement (de Haas and Kleingeld, 1999). These need to be tested in a feedback process, as will be discussed. If in a hotel it is found that effective usage of customer databases, leads to better room preparation, which in turn leads to heightened guest loyalty and ultimately increased profits, measures should be developed and put in place to measure such a cause and effect chain.

Surprisingly little research has been conducted however on the implementation of performance consequences of the Balanced Scorecard concept, despite widespread practitioner interest (Ittner and Larcker, 1998). Towers Perrin, a consulting firm, performed a survey of sixty companies using the method. In terms of satisfaction with the method, 64% of respondents reported higher satisfaction with this method than other measurement approaches (Ittner and Larcker, 1998). Criticism has also been offered, where some EVA² advocates claim that the Balanced Scorecard hinders performance because there is no

² EVA® is a trademark of the Stern Stewart Corporation

single overall measure of performance which managers can concentrate their efforts to improve (Vaivio, 1999). It is suggested, based on the identified challenges within the South African hotel context, that an approach which encapsulates the measurement of customers, service processes and staff / infrastructure development – all identified as considerations in the maintenance of successful financial performance – is potentially useful. It is also hypothesised that the concentration on one, two or three financial goals (recommended in the methodology (Kaplan and Norton, 1996) is not as significant a drawback as the EVA® (earlier) advocates, with their single measure management approach suggest. These advocates should consider that all of the non – financial measures are selected in a causal chain that ultimately leads to the realisation or non – realisation of financial goals, if cohesive relationships are found. The financial goals are not stand-alone measures of success. Thus, in essence, a handful of performance measures (if not one) can be concentrated on. Only they are backed up by a meaningful cause – and – effect chain of information.

6. The causal chain

In the context of a hotel, it has been demonstrated that non – financial measures are a necessary tool with which to evaluate the performance of a hotel. It has also been claimed that non – financial measures are more effective within a structured management framework (Vaivio, 1999). This framework should have a logical connection with the organisation in question, and it is proposed that the Balanced Scorecard has a direct bearing on a South African hotel in the following manners:

- The Balanced Scorecard elicits the formalization of strategy from management. It will be demonstrated that strategy and goal setting are evident but lacking in present day hotel management.
- Several highlighted challenges and threats within the industry, such as the need to secure customer loyalty, the need to maintain and improve service

processes, and the need to develop staff are all directly tackled within the scorecard customer, internal business process and learning and growth perspectives.

- Financial ratios, so valued by South African traditional management systems, are retained in the Balanced Scorecard.
- The interaction between hotel staff and guests is an intangible factor that is believed by many hotel managers to be the critical value creator in a hotel environment. Causal relationships that determine links between the key processes and financial profit are examined within a Balanced Scorecard methodology. This empowers management with the ability to monitor and control this interaction.

Through the assumed causal relationship framework inherent in the Balanced Scorecard methodology (Figure 2.1), the processes and critical aspects within a hotel will be examined. Through this, it will be determined whether a Balanced Scorecard is an effective management tool within a hotel environment.

Chapter 3

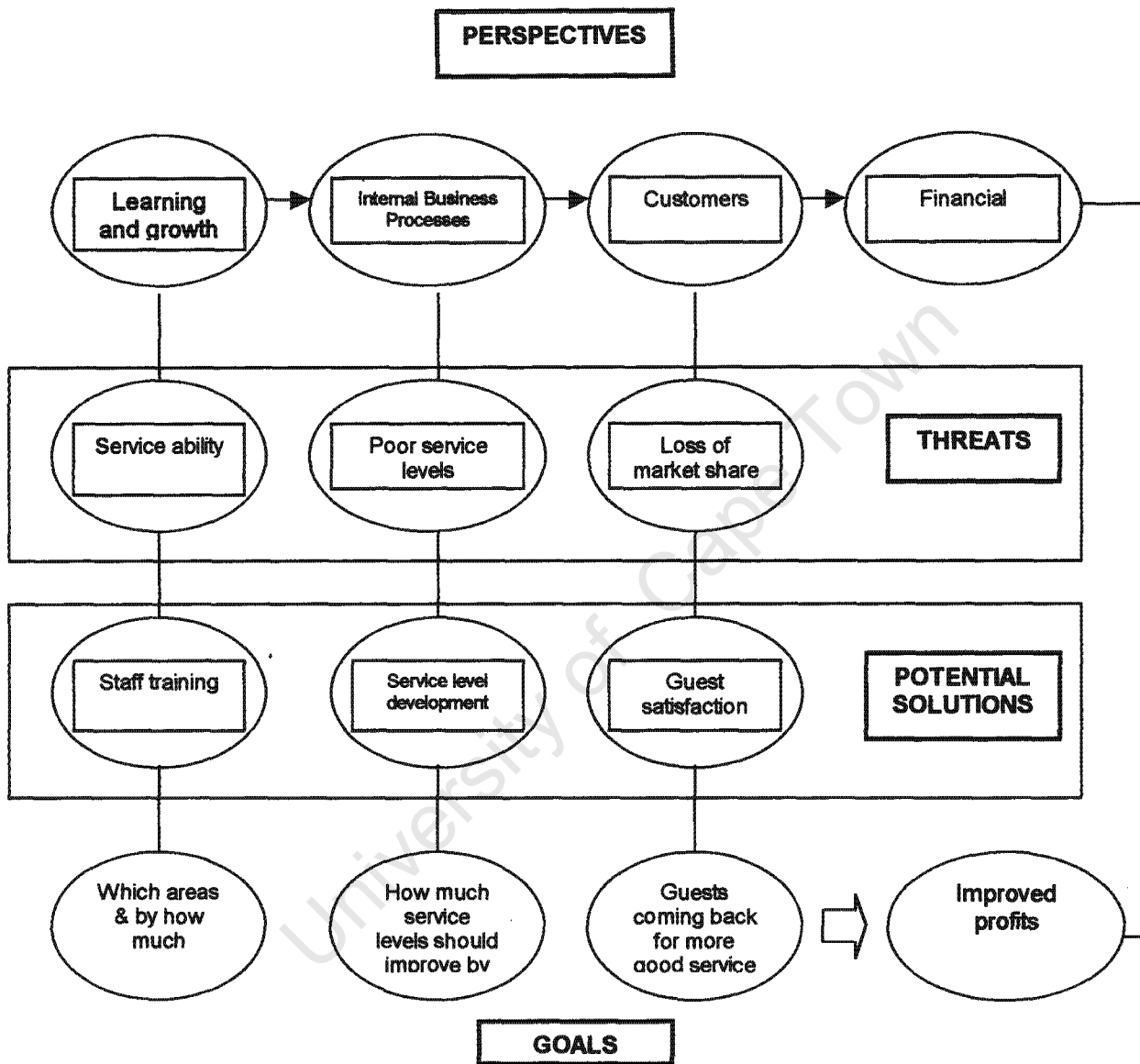
A case for the application of the Balanced Scorecard

3.1 The framework

The framework established in the Balanced Scorecard methodology (Kaplan and Norton, 1996) utilises four key perspectives i.e. financial goals, customers, internal business processes and learning and growth. These are assumed to interconnect in a cause – and – effect chain as described by Norreklit (2000) as follows: the measures of organizational learning and growth are the drivers of the internal business processes, which are in turn the drivers of the customer perspective etc. (see Figure 2.1) (Norreklit, 2000). This causal relationship has not been proven, though elements of the interconnectedness have been found (Ittner and Larcker, 1998).

It is hypothesised that major threats existing in the hotel industry find a mirror within these perspectives, and that potential solutions could be measured for effectiveness within this framework (see Figure 3.1). Within the learning and growth perspective, the poor service ability of hotels can be improved, and potential solutions e.g. the training of staff can be employed and measured. This could have a cause – and effect repercussion on overall service levels (housed within the internal business processes perspective), which, if improved, could impact on customer satisfaction generation (customer perspective), addressing the challenge of losing market share.

Figure 3.1 – Linking Threats of the hotel industry to Balanced Scorecard perspectives



The compatibility of the Balanced Scorecard will be discussed along this framework.

3.2 Goals

3.2.1 Introduction

Within these assumed causal relationships, the outcome of the entire process is the realisation or non – realisation of the goals to which management are striving. Kaplan and Norton (1992) when citing their example of an aeroplane, state that the goal of reaching the destination must be established to justify the plane taking off. The goals, ultimately financial measures, determine whether the management solutions and processes employed and measured within the other three perspectives are performing adequately or not.

Hotels, as do all organisations, need formal, realistically set goals and targets to meet, to assist in management control. These would then form a foundation upon which to build a meaningful strategy to face the current challenges.

3.2.2 Current goal setting practice

“A goal is a formal aspiration that defines purpose or expected levels of achievement” (Simons, 2000). Goals communicate to employees, what managers expect them to do, and how they should allocate their time. They can only be made actionable when there is a measurement attached to them so that it can be determined whether the employees are meeting these goals. A goal is therefore a benchmark. In terms of motivating employees to attain those goals, care must be taken in setting them. The goals should be realistic and attainable, neither too easy to achieve, that the employees become lethargic, nor unrealistically optimistic that employees feel overwhelmed (Amabile, 1998). In a

hotel setting, the formulation of goals must reflect the economic and tourism reality of the hotel's environment.

Whether formalised or not, managers do practice a level of goal setting. Goal setting currently is affected by several circumstances widespread in the South African hotel environment. Of thirteen hotel managers questioned in 1997, the basic attitude towards goal setting and management was a focus on food and beverages (due to 64% of the managers coming from a food and beverages background), and a complete reliance on past results when budgeting into the future. In addition to this it was discovered during interviews conducted in 1999, that overall strategy, upon which targets and goals should be based, were very often not clearly defined. In addition to this, very little staff participation is involved in the process of budgeting and goal setting, a factor, which impacts on the eventual measuring and possible rewarding of staff performance (Shields, 1997). Goal setting (if any) was not explicitly linked to a plan of how goals were going to be achieved either.

It is important to have reliable sources in order to determine with some degree of accuracy an estimate of the occupancies that a hotel can expect in the future. As stated, the vast majority of managers look to historical figures when budgeting and goal setting, and about half looked to current events in the press to assist them in the process. None relied on SATOUR or the Central Statistical Service's monthly hotel occupancy figures in their budgeting process, considering both sources to be unreliable. This issue was highlighted in a scathing attack by visiting Hyatt International marketing director for Europe, Africa and the Middle East, Allan Edgar. He slammed the inaccuracy of the publication of South Africa's tourism statistics, accusing the country's Central Statistical Service (CSS) of creating a false picture to investors anxious to put money into the country's hospitality industry. (Southern African Tourism Update, 1998)

Dr Mike Fabricius, chief director of the Department of Environmental Affairs and Tourism agrees. He said that he was not happy with the way the Central Statistical Service's statistics are currently presented. While not doubting their quality, he does question their interpretation and analysis. He favours the formation of an independent statistical bureau based on the Australian system. (SA Tourism Update, 1998). Currently, tourism arrival statistics are very basic. Airport arrivals seldom tally with the total number of tourism arrivals, which include millions of cross-border visits. As for hotel bed occupancy figures, they became so confusing that the CSS stopped issuing them. (SA Tourism Update, 1998)

Ideally, reliably tourism arrival figures could prove extremely useful when developing goals and strategies, as echoed by Bloom and Liebold (1994), who stated that rigorous forecasts utilising some form of accurate statistical analysis are central to the successful implementation of strategic plans. While 95% of tourism businesses are regarded as too small to be in any position to develop appropriate demand forecasts themselves (Bloom and Liebold, 1994), there is ongoing development in several universities locally and internationally in this regard to assist these tourism organisations. 81,5% of respondents in the South African tourism industry when posed with the question of the need for a scientific-based method for forecasting demand in the tourism industry expressed that there was a need.

As long as there is a lack of accurate statistical tourism data, management will need to determine future occupancies using alternate methods. This compounds the need for non-financial indicators on aspects of guest satisfaction, which, while not necessarily statistical, can give a clearer picture of future arrivals when complimented with historical occupancy trends.

3.2.3 Measuring goal achievement

In terms of measuring the attainment of those goals, a vast majority of the managers interviewed in the 1997 survey reported meeting their budgeted targets. Effectively, the common accounting ratios associated with an income statement such as net profit and gross profit, together with occupancy rates and line on line actual versus budgeted account comparisons were analysed by management. While these measures may have bearing on the current challenges identified by the managers, they do not follow an obvious systematic approach, one, which could yield potentially more reward (Vaivio, 1999).

In terms of the strategy behind financial and strategic goal setting, experience ranging from confusion and ignorance to deliberate strategic attempts was found in practice. A senior manager at the Hilton Sandton could not recall knowledge of a specific goal within the organisation (Corcoran, 1999), while the 1998 annual report lists the goals, one of which is balancing profitability while enhancing the customers experience, and another, to achieve excellent rates of return through driving the hotels acquisition strategy. At the City Lodge Group, definite goals though partly intangible were communicated to all staff members, together with broad steps to achieve them, on pocket cards (Figure 3.2). Specific profit enhancing initiatives are also initiated and targets set e.g. the 'Spouse on the House' program which encourages businessmen to stay at the City Lodges, by allowing their spouses to stay for free. This program is focused on developing loyalty in the business traveller, a target market identified as profitable to the City Lodge (Phinn, 1999).

Figure 3.2 (City Lodge goals)

<p>1. Service Excellence We will greet, first, smile, and call guests by name, and do it in a "singing" and enthusiastic manner.</p>	<p>5. Attitude We will be the friendliest staff in the world.</p>	<p>9. Teamwork We will conduct a teambuilding session with our staff at least once a month.</p>
<p>2. Dress Our team players will always dress smartly, wearing their name badges and look like ambassadors of our company.</p>	<p>6. Preparation & Anticipation We will anticipate our guests' needs long before they occur and prepare tirelessly for every eventuality.</p>	<p>10. Telephone We will answer the phone within 3 rings, adopting our new skills which includes a "singing voice".</p>
<p>3. Leadership We will lead by example and promise to work harder and smarter.</p>	<p>7. Productivity As shareholders, we will excel in performing our tasks.</p>	<p>11. Recognition & Reward We will introduce "Golcha Programme" to ensure we catch our staff doing something right.</p>
<p>4. Mentorship We will ensure that we "coach" our staff in their jobs.</p>	<p>8. Relationships We will build relationships both internally and externally.</p>	<p>12. Persistence We will allocate enough of our time to hunt so as to ensure we make a difference.</p>

The City Lodge through its 'Spouse on the House' program has specifically identified a threat in the market (the loss of profitable target market share) and has developed a goal and strategy to combat the threat. The Grace in Rosebank has also set goals to be the highest REVPAR (revenue per available room) generators in Johannesburg, through growing a loyal, foreign tourist base. They also have established a program to grow their transit guest revenue (Lotter, 1999).

In several cases, goals, while having been set, have not been formalised, linked across the organisation, or even communicated to staff in the organisation.

3.2.4 Balanced Scorecard goal setting approach

The Balanced Scorecard retains a strong emphasis on financial outcomes, acknowledging that causal measures from all the paths on a Balanced Scorecard should be linked to financial outcomes (Kaplan and Norton, 1996). The financial goals are therefore the ultimate quantifications of the achievement of strategic objectives. To set these goals, the methodology requires a formalisation of

strategy, incorporating an understanding of the business environment (both internal and external). This entails consolidating the approach of the organisation towards revenue growth (an outcome of which will be identifying a target market/s), cost reduction or productivity improvement (which will lead to an analysis of service processes and standards), and asset utilisation and investment (appraising staff development policies and levels in addition to the status of tangible assets). Translating this into a hotel setting, forcing management to set goals in this light would elicit results directly related to the challenges and threats currently facing the industry, as well as having realistic links to the operating capabilities of the hotel. The targets would no longer be exclusively based on past results or misleading industry statistics.

3.2.5 Balanced Scorecard goal setting in practice – an analysis of two case studies

While devoting significant management resources to these perspectives, little is done in directly measuring the performance of important aspects within the perspectives towards achieving organisational goals (if at all set). The usage of the balanced scorecard to measure and control non – financial performance is therefore a worthwhile experiment in South Africa. This is magnified by the experiences of several international Hilton hotels (Huckestein and Duboff, 1999) and White Lodging Services, a hotel management company (Denton and White, 2000), where the balanced scorecard and a derivative thereof were successfully used to improve overall performance.

The Hilton Hotels Corporation (housing the American Hilton hotel range) decided to implement the Hilton balanced scorecard as a response to the growing challenges of meeting guest expectations and increasing performance disparities amongst its different properties. This came at a time when capacity overhang from the 1980's, and the emergence of new competitive brands were forcing the

Hilton to develop a new, comprehensive operating approach and to differentiate their products and services. These environmental factors are similar to the ones currently facing the South African hotel industry. The Hilton began its strategic – planning process by examining its position in the marketplace in terms of how it was comparing with its competitors, and where it was not meeting customer expectations. The Hilton also created a value chain, at the heart of which were the five major stakeholders: customers, team members, owners, strategic partners and vendors, and the community. Management then decided on four key perspectives within which it created its performance indicators i.e. brand management, revenue maximization, operational effectiveness and value proposition. They linked their business strategies to tactical actions of all team members through constant communication to all staff, incentive bonuses and performance reviews, merit based salary increases and stock-option grants. Results of the program have been positive. Smith Travel Research report that their Revenue per available room has improved in comparison to competitors since implementing the scorecard. Hilton also reports improvements in all its non – financial measures. Customers' opinions on overall satisfaction, their likelihood of recommending the Hilton brand, and their likelihood of returning have improved. Consistency of service amongst the hotels has also improved (Huckestein and Duboff, 1999). This indicates that while the Hilton is now able to measure the important aspects of the hotel, management are focusing on the improvement of those aspects, and the results are materialising.

Huckestein and Duboff (1999) have shown that in the case of Hilton Hotels Corporation, this structured approach to goal setting together with non – financial measurement of critical performance areas resulted in improved results. The implementation of a balanced scorecard at White Lodging Services has also yielded positive financial results.

Management at White Lodging Services implemented a balanced scorecard as a means to reconcile owner and management performance requirements, these

being superior investment returns and the greatest possible revenue. Management began to realise that traditional financial measures can be read in different ways depending on who is reading them, but are not adequate on their own. They recognised that other factors such as customer satisfaction and employee turnover contribute to financial outcomes and are also potential measures of management success. They implemented a tool that they felt could accomplish this while monitoring their progress in facing environmental and competitive challenges. Management preferred to measure only one indicator within each of the four standard perspectives in the balanced scorecard model. They developed a consensus on the cause – and – effect relationships contributing to financial performance, and built a scorecard of perspective goals, five performance measures, targets and a performance rating scale for these measures. In the two years since the scorecard was implemented, White Lodging Service managed properties have outperformed similar brand averages financially. They have been alerted, through their scorecard to commit resources towards guest services, and are noticeably excelling in all other financial departments. Management confess to having a greater alignment of objectives than before, communication of goals and objectives has caused property managers to have a greater understanding of owner's expectations, and owners are aware of the resources and processes needed to achieve those objectives (Denton and White, 2000).

These two case studies have suggested that in the United States, hotels chains and hotel management companies have benefited from the use of a Balanced Scorecard process. Goal formalisation upfront has resulted in management at these entities being able to clarify causal relationships and thus effectively control and monitor performance in the critical performance areas.

To further analyse these critical areas, the assumed causal relationships developed by Kaplan and Norton will be employed as presented in Figure 2.1.

3.3 The customer perspective

3.3.1 Introduction

It is hypothesised ((Ittner and Larcker, 1998) that, within a hotel, generation of customer satisfaction leads to improved financial performance. This could be due to the decreased cost of advertising to already happy customers, decreased price elasticity's, secured future revenues (Anderson, Fomell and Rust, 1997) or lower customer defection rates if a bad stay is experienced at some point. Certainly a cause that results in customer satisfaction is quality service, as will be established. Studies have shown that businesses with satisfied, loyal customers become significantly more profitable over time (Simons, 2000).

In formulating a strategy, the questions to be asked are:

What action should we take to generate customer satisfaction? and,
What should we measure to know that customer satisfaction is being generated?
That a link between guest satisfaction and financial performance exists in a hotel is beneficial. That the customer perspective is so important in the hotel industry, as emphasised by the focus placed on guest feedback at the hotels studied (Phinn, 1999, Lotter, 1999, Hill, 1999, Corcoran, 1999) further highlights the importance of tracking this aspect. At a stage in hotel development where management are faced with loss of market share to alternate forms of guest accommodation, this perspective becomes even more important.

3.3.2 Current hotel customer measurement

In interviews with several hotel managers, it was established that non – financial measurement within customer perspective has revolved largely around the aspects of guest feedback and, database development on guest preferences

(Phinn, 1999, Lotter, 1999, Hill, 1999, Corcoran, 1999). The prevailing opinion in the industry is that any form of value creation is extraordinarily customer – staff interaction intensive. This effectively means that the causal link between guest – employee service and financial results is deemed to be amongst the strongest in any industry. A management consultant with several years' experience in the hospitality industry stated that the factor that causes the hotel industry to differ from any other industry is the amount of contact points between the guest and the hotel. Most guests come into contact with several employees of the hotel including the bellboy, porter, front desk officers, concierge and waiters. In no other industry are there so many ambassadors (Troughton, 1999). Guest satisfaction is largely dependent on pleasant dealings with all of these ambassadors. The most important assets in any hotel are the intangible ones i.e. the staff (Troughton, 1999). The manner in which staff interact with each other and with the tangible assets of the company are the key to the success or failure of any company.

It is thus not surprising that attempts have been made to monitor the effects of this interaction from a guest's perspective. The Park Hyatt has attempted to determine who its most profitable guests are, and has standardised its whole operation around catering specifically to those guests needs. To monitor the success of its efforts, guest satisfaction cards are distributed to guests at the end of their stays and processed by an independent company. The Hyatt's guest database (Spirit) shares guest preferences and comments across the group to ensure that guests at one hotel will receive similar service at any other Hyatt (Hill, 1999).

The City Lodge employs similar tactics to monitor guest satisfaction. Databases of guest service preferences, and guest questionnaires are employed together with a mystery guest program to determine and maintain guest satisfaction. The City Lodge monthly pack includes a quantified measure of guest satisfaction. A mystery guest satisfaction rating of less than eighty percent results in a head

office investigation (Phinn, 1999). The Hilton Sandton and The Grace also employ non – financial management tactics to monitor customer satisfaction. Management of the Grace chair a meeting every week where all guest responses to satisfaction cards, and other comments are reviewed (Lotter, 1999).

It is therefore certainly recognised that feedback from guests is essential to managing a hotel effectively. Figure 3.3 illustrates other guest feedback measures utilised.

Figure 3.3 – Guest feedback gathering approaches

Hotel group	Service response policy
Cresta Hospitality	Client feedback forms handled directly by MD, John Bull. Responses referred back to the relevant hotel.
Gooderson Leisure Corporation	Client feedback forms in all rooms assessed by general manager. Responses forwarded to operations director and managing director before being referred back to the hotel.
Protea	Operates a guest service plan as well as a training programme for all staff. Each of the average 7 400 guest comments received each month is individually analysed and responded to.
Southern Sun	Unique guest comment system with mobile phone number of one of the group's directors displayed on the door of each room. A central phone line is manned 24 hours a day, seven days a week. All calls are dealt with immediately with the relevant hotel being notified of any problems. Questionnaires and comment forms in all rooms.
Sun International	Phone lines direct to management; dedicated customised guest feedback at Central Reservations office; customer feedback forms. Trial programme at

	Sun City complex features a quick, single call line with response time to complaints / guest requests constantly monitored.
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The above examples illustrate how hotel management are actively collecting non – financial data specifically in the customer perspective. The City Lodge and Hilton were also found to be quantifying this data into measures that could be compared against expected targets (Corcoran, 1999, Phinn, 1999). All managers intimated that a critical aspect of their performance success revolved around controlling customer satisfaction. They reinforced the assumed causal links between customer satisfaction and financial performance as stated by Kaplan and Norton (1992).

Often, however, customer satisfaction 'data' is collected, as opposed to customer satisfaction 'information'. Databases of guest service preferences are collected, together with boxes full of satisfaction cards. A structured approach is needed to collaborate and quantify this data into information, which can be directly linked to financial goals. This is by no means a unique occurrence in South Africa.

Hagel III and Rayport (1997) comment how we are all familiar with hotels that make us re-enter basic information such as home and business addresses, telephone numbers, places of employment, and methods of payment, even though we have supplied it repeatedly during previous stays. Hotels have amassed huge databases of detailed information on their guests on the premise of potentially being able to mine that data at a later stage for value. This is causing guests to become resentful and opportunistic, in that they are beginning to demand value for their personal details and opinions. Hotels such as the Ritz-Carlton have begun to compensate guests who complained of poor service, not only to improve their impression of the hotel, but also to gain the information necessary to better customize their services (Hagel III and Rayport, 1997). The alarming fact that emerges, is that hotels are not effectively utilising the

databases. A possible indication of effective use of guest responses would be willingness of guests to supply the information based on an assurance that services would improve as a result of the completed questionnaire. The fact that response rates for these surveys is in the single figures (Hagel III and Rayport, 1997) is testimony to this mistrust. After supplying information, a guest may be left with the expectation that the more the hotel knows about him, the better service will become. The non-materialization of such an expectation may result in disloyalty. This is all the more incentive for the hotel to put the data collected to good strategic use.

Sun International boasts the most advanced customer database developed in South Africa (specifically catering to the gaming operations)(Jackson, 1999). Hyatt boasts the most advanced guest database in the world (Galileo) (Hill, 1999). These databases serve to indicate that non – financial information can be generated. There is a danger however that it is not being efficiently utilized, implicit in the dropping service ratings currently experienced in the industry (Southern African Tourism Update, 1999).

3.3.3 Customers and the Balanced Scorecard

The Balanced Scorecard adopts an approach whereby goal setting will cause management to target specific profitable market segments. The measurement of the customer perspective is then focused on generating improved performance within this market segment. It is also recognized that within this perspective, customer satisfaction is not necessarily going to be the sole, crucial measure. Rather, cause – and – effect indicators are developed that specifically link the financial goals to desired customer outcomes (Kaplan and Norton, 1996). It was discovered that customer satisfaction was perceived to be a crucial indicator and link between the service process and financial goals.

3.3.4 The customer perspective in practice

Management at White Lodging Services after reviewing nine potential guest-relations indicators, decided on measuring guest satisfaction scores as the sole customer related scorecard indicator. This was done due to the perceived value of high customer satisfaction levels and was considered by management as forming an integral link in the cause – and – effect chain between operations and profitability. It was also found during internal research conducted by White Lodging Group, that guest scores correlated with investment returns substantiating the selection of this measure. Targets were set to be in the top twenty percent of brand averages, facilitating the achievement of overall performance goals. It was later found that, while White Lodging Services managed brands were performing financially better than the brand averages, guest satisfaction levels had not improved relative to the other brand properties (Denton and White, 2000). This suggests that the cause – and – effect value chain is not functioning as intended, and the measure should be investigated further. Guest satisfaction is however an invaluable factor in hotel performance, as indicated by the fact that three of the nine measures in the Hilton balanced scorecard track it (Huckestein and Duboff, 1999), and White Lodging Services internal research proved it within the organization.

3.4 Internal business processes

3.4.1 Introduction

Within this perspective, management attempt to identify the processes that are most critical for achieving customer and shareholder objectives (Kaplan and Norton, 1996). In a cause – and – effect framework, these processes, if found to be the critical value adders, directly affect the achievement of customer

objectives, which in turn lead to financial goal performance. An understanding of the processes considered to be critical within the hotel industry will therefore be explored, followed by present day efforts to measure and control this perspective of the causal chain.

3.4.2 Hotel needs

A factor, unique to the hotel industry; perhaps the factor that differentiates the industry from most service industries is the intangible nature of the product offered. Within the core service of a hotel, the guest enters the premises, stays for a term, and then leaves. No stock of any material nature is sold to the guest, nor does he pay for any significant service other than for the renting of a room. The nature of the service is not significantly altered from its condition prior to the service offering. In addition to this, that customer, who has not really bought any particular service or product that he will take away with him, spends a significantly longer period at the business premises than normally experienced in other industries.

The hotel industry is not entirely unique however. Similar industries do exist, those being hospitals, airlines and health clubs, amongst others. In all cases, a form of rental of space occurs, for a short-term period. Periphery services are offered in addition to the space rental, but the primary objective of all these businesses is the filling of that space with customers – beds in the case of both hospitals and hotels, seats on aeroplanes and the health facilities in the case of a club.

A resource based view of any organization states that the organization will achieve a competitive advantage through the resources that it commands that creates customer value, is difficult to replicate, unique and long – lasting (Atkinson, Balakrishnan, Booth, Cote, Groot, Malmi, Roberts, Uliana, Wu, 1997).

Since the nature of the service provided is so intangible, particularly within a hotel, where a customer does not generally leave feeling any healthier, wealthier or fitter, it becomes difficult to determine whether customer value has been created. No faulty goods can be returned, and no contracts (outside of agreements between large companies and hotels where rooms are regularly block – booked) can be cancelled, nor do guests generally have the option of extending their stay if they were satisfied. In recent interviews with several hotel general managers, a recurring theme at the core of offering an enjoyable stay was the quality of service offered by the hotel staff. Once the guest has checked into the hotel and is satisfied with his room to a point where he is willing to remain in that room for the duration of that stay, a telling factor, perhaps the most crucial, that will determine whether his time spent will be enjoyable, possibly warranting another visit, is the nature of his interaction with the staff of the hotel. This interaction is also generally for a significant period of time. The same is certainly true with health clubs (Trotter, 2000), and hospitals. In these ‘customer – staff interaction intensive environments’, it becomes crucially important to monitor this interaction to ensure that it is of a standard that will generate customer loyalty, good (or at least not bad) publicity, and thus continued business. The monitoring of this relationship cannot be achieved through normative financial measurement techniques, but rather through non-financial measurement means.

3.4.3 How hotels currently measure internal business processes

When asked what processes or aspects differentiated their hotels from other hotels, and what processes were necessary to perfect in order to achieve the hotel’s customer objectives, most manager’s replies were environmentally focused (Lotter, 1999, Hill, 1999). Several commonalities were revealed, relating to an overall service level. Fred Lotter (The Grace) stated that the ambience, homeliness and uniqueness of the hotel in relation to other hotels was its value

proposition. Fred targeted food preparation as one of the contributors to this goal, relating that several guest comments singled this aspect out. Mr Lotter also acknowledged that food sales only contributed to 20% of overall profit generation. He himself believes that staff service levels are the real generator of this service uniqueness. He has not instituted any indicators to measure the hotels environmental factors save as to monitor guest responses weekly. These are not specifically linked to measuring the hotels target market or improvement in financial performance.

The internal business process aspect singled out by all other managers interviewed as a critical source of customer satisfaction and loyalty (two very common customer goals as demonstrated above) was standardisation of services (Phinn, 1999, Hill, 1999, Corcoran, 1999). Managers felt that the ability to offer a guest the same level and type of service at one branch, as any other branch in the country or world, builds customer loyalty and increases profits. Customer satisfaction comparisons were performed across hotel groups in several cases as a means to measure this standardisation. The mystery guest program employed at the City Lodge group measures service standardisation more effectively, as the guest evaluates the actual processes in relation to other brands, rather than his emotions about the overall stay. Several managers highlighted specific services offered by the hotel as being crucial customer value creators, and have implemented strategies to build on these services (Phinn, 1999, Hill, 1999). The performance of these strategies is not directly measured though.

3.4.4 The Balanced Scorecard and internal business processes

The Balanced Scorecard approach to non – financial measurement formulation is structured. As highlighted, it assumes a causal relationship between internal business processes and customer objectives, in its indicator development.

Consideration is also be given to the following:

- Cause - and - effect aspect of the specific process and outcomes. If management does not understand the relationship between the driver of a particular process and the final outcome of that process, the monitoring of that driver will not generate useful information. A cause and effect chain must exist between the elements of the organisations performance that are being measured and the actualisation of set goals. Within the customer perspective, it is no good to measure the number of repeat bookings if it has no bearing on the set goal of attracting new guests to the hotel. Measures cannot be set based on casual perceived links between the activities of the hotel and desired outcomes. Norreklit (1999) states that a financial calculus of the costs and activities within the hotel must be performed, results from which can be utilised in the strategic planning and financial and non-financial measurement processes. Coherence needs to be established between the actions of the hotel, and the desired ends. If non-coherent cause – effect relationships are measured, management will receive misleading information on the performance results.
- The cost of the information versus the benefit of receiving that information or alternatively the lost opportunity if the information is not generated. The monitoring of outputs is generally cheaper than that of inputs or the actual transformation process. There may also be a trade off on the reliability of data produced i.e. opting for a cheaper more simplistic measurement may yield less accurate data.
- The inputs, processes and outputs in the provision of services. Information about inputs is necessary, but rarely sufficient enough, for control. (Simons, 2000). The quality of raw materials placed into a process, while definitely playing a part in the quality of the final product, is certainly not the sole determining factor. In the room rental department of a hotel the only real inputs costs are the costs to check the guest in and out, clean the room and replace the guest supplies, and service the guests. The focus of any attempt to monitor these input costs should centre around the

staff, as they in addition to providing the quality of service so crucial in this interaction intensive environment, also constitute the bulk of the cost. Within room rentals, transformation costs are significantly different to those of all manufacturing and most service industries. As has already been described, the customer takes no tangible service or product away. No raw materials are converted into anything significant once the hotel has been built. Yet, as with most industries the customer satisfaction that is generated, is very much reliant on the quality and efficiency of the 'transformation' process. The 'transformation' process in a hotel is the guest – staff interaction (Troughton, 1999). A manager can choose to monitor the process directly only if it is possible to observe the production or service processes in action (Simons, 2000). Since this is difficult in a hotel setting, a more indirect method is needed. The monitoring of staff service as part of the transformation function is seen as essential. This is due to several factors:

- There is no output produced beyond a guest leaving the hotel satisfied or dissatisfied.
 - Standardization is a key element of many hotel chains. Guests choose to stay at hotels because of the guarantee of a similar experience gained at another branch of a particular hotel chain. Monitoring the transformation process assists in the standardization of products (Simons, 2000).
 - A manager can choose to monitor outcomes only if it is possible to measure the production or service outputs accurately (Simons, 2000).
- The critical criteria as relating to the goals. Whenever quality is a critical criterion of effectiveness, managers should choose to gather information about, and monitor directly, the transformation process itself. (Simons, 2000). If standardization is a critical criterion, monitoring the transformation process is necessary, to ensure that all products or

services are of the same quality, whilst if innovation is critical, managers would rather monitor output.

A serious drawback in the internal business process control activities is that, despite the recognition by management of the importance of intangible value in the generation of customer outcomes, great reliance is still placed on financial measures. Management closely track gross profit percentages, cost of cleaning per cleaning staff compliment, and revenue per staff member. While these may have a value in certain costing exercises, they should only be monitored if they are found to have a direct bearing on the ultimate financial goals.

The Balanced Scorecard establishes those goals upfront and develops measures directly related to them by employing a structured approach. This approach should also consider the factors set out above. This approach should therefore include the intelligent measurement of service standardisation, and the putting of a measure to the interaction between staff and customers, as these were both thought to be critical generators of common customer objectives (Phinn, 1999, Hill, 1999, Corcoran, 1999).

3.4.5 Internal business process measurement in practice

The White Lodging Services management team, in their implementation of a Balanced Scorecard decided on a consolidated process audit incorporating a number of organizational sections. Areas where the hotel needed to excel were identified, however, as expected these were very often found to be difficult to quantify by both White Lodging Services (Denton and White, 2000) and local hotel managers. As stated, the maintenance of quality standards is essential for guest satisfaction, but costs to maintain or even improve these standards should not increase. No studies have conclusively proven that an improvement in quality

leads to an improvement in profitability, but it can be inferred that demand for the hotels services will increase.

3.5 Learning and Growth

3.5.1 Introduction

The objectives in the learning and growth perspective provide the infrastructure to enable ambitious objectives in the other three perspectives, to be achieved. Objectives in the learning and growth perspective are the drivers for achieving excellent outcomes in the first three scorecard perspectives (Kaplan and Norton, 1993). These three perspectives will typically reveal large gaps between existing capabilities and the capabilities required to achieve targets for breakthrough performance (Simons, 2000). The learning and growth function states that management must prepare for the future of the company i.e. to take a long-term view and invest in its infrastructures. Though the short-term financial effects of this may be negative, in the long run, the company will have the ability to remain competitive. Management will generally measure rates of improvement in critical customer-based and internal processes. The three principal areas of this perspective are employee capabilities (staff in the hotel), information systems capabilities, and motivation, empowerment, and alignment. The managers interviewed acknowledge the important role staff play in the generation of customer satisfaction, and thus profitability. They also acknowledge the competitive advantage that a guest database, if effectively utilised, can yield. None of the hotels studied use non – financial measures to monitor the status and development of either of these potential assets.

3.5.2 Hotel needs

An essential area in a hotel from a management point of view is management of the interaction between customers and staff. This intangible service is believed to generate customer loyalty (Lotter 1999, Phinn, 1999), more so than the aesthetic appeal of the rooms or guest amenities, which are generally copied by competitor hotels within a short space of time (IHRA, 1996). Using a resource based view of an organisation (Atkinson et al, 1997), which states that an organisation achieves a competitive advantage through the resources that it commands that are unique and difficult to replicate, it becomes apparent that the maintenance of this customer loyalty must arise from the perpetuation of superior service levels by the staff employed at the hotel and the systems that they use. In fact, Sveiby (1997) states that employees are the only profit generators of an organization. Staff are the more controllable element of the customer – staff interaction process, and they represent the driver behind service excellence. It is their capabilities and the ability to motivate, empower and align them around the organisations goals (Kaplan and Norton, 1996) that will drive service standards, customer satisfaction and financial performance. Studies have shown, that customer and employee satisfaction closely track one another (Simons, 2000).

Employees must now add value to the service that they provide on a larger scale than previously. For an organisation just to maintain its existing relative performance, it must continually improve (Kaplan and Norton, 1996). This requires that employees be re-skilled to a level where they are seeking to add value to the hotel through the quality of service that they provide. This can only happen providing companies have a systematic means to ensure that employees, especially the most valued, can translate their own satisfaction to the satisfaction of the company they work for (Morris, CMA, 1997). Their minds and creative abilities must be mobilised for the achieving of organisational objectives as set out in the companies Balanced Scorecard. If a key financial objective of the hotel is selling a larger array of hotel services, management must train front

desk staff to effectively sell these products, or to be able to match a particular type of guest with services that he might appreciate. The information that employees then gather from guests at these interaction points should be fed back into the company and used to drive improvement, innovation and change if necessary (Morris, 1997).

Information systems capabilities are recognised as another foundation stone in the causal chain linking organisational development to financial performance. Several hotel managers cited the importance of owning guest information as a means to developing better service levels (Hill, 1999, Phinn, 1999, Lotter, 1999). The IHRA Millenium Report (1996) cites technology as a major factor in achieving successful hotel performance in the future.

These factors have certainly not been ignored in present day management.

3.5.3 Current hotel learning and growth activity

In terms of developing employee capabilities, hotels have traditionally recognised the importance of training staff, though several stumbling blocks currently exist which have undermined the commitment to and effectiveness of training drives. No evidence of the direct measurement of training success was found either (Phinn, 1999, Hill, 1999).

Training is highly emphasised in management literature, and was often discussed in several interviews with hotel managers. In these interviews conducted in 1997, all managers felt that there was a lack of training facilities for the hotel industry in South Africa. Despite this, hotels do not seem to have taken on the task of training their own staff very seriously. All managers interviewed revealed that they spent insignificant amounts on formal staff training. Several hotels relied on training at the time of employment and regular on the job training

and few have formalised regular, annual training. Training is expensive and while management see the possible benefits, they are wary to over commit to a costly program when the staff turnover in hotels is high. Several hotels actively spend nothing on training excluding the hidden cost of management time. This may suggest that management are not convinced of a direct relationship between staff training and profitability.

The benefits of training are a more productive and profitable work force and a lower staff turnover as employees potentially become more motivated (Troughton, 1999). The disadvantages are the increased costs involved. The objective behind controlling this cost is obviously to hire and train efficient, quality staff members the first time, to train them efficiently and effectively, and to keep them motivated and happy in order to keep staff turnover low. The achievement of these objectives can potentially result in higher guest satisfaction, which in turn can result in a better bottom line (Iltner and Larcker, 1998). General costs to retrain staff and continuously hire new staff will also decrease.

Ross Phinn of the City Lodge utilises training as a means to both improve productivity and staff satisfaction levels. In fact City Lodge training is treated more formally than that of most other hotels studied. Ross Phinn felt that many of the one-year courses were not particularly effective when it came to practical delivery of service. The Hospitality Board has developed a National Qualification system to address this problem and it is currently becoming more accepted amongst hotel groups in South Africa. Diplomas are granted in various areas of hotel service after a practical exam is taken. It is the responsibility of the hotel where the employee works to provide the necessary training. The possession of a diploma offers the employee a sense of accomplishment and motivation. This in turn is hoped to improve service levels, customer satisfaction and ultimately profitability, though, as stated, no direct measurement or linking of these concepts on a causal chain is employed. In fact, managers will profess to train their employees to improve productivity, while at the same time emphasising that

it is in fact quality of service and not productivity (which leads to customer satisfaction) that generates profits.

Customer satisfaction is certainly not the only factor that creates financial success. It could be speculated that productivity, for example, could also lead to profitability (Anderson, Fomell and Rust, 1997). There is often a trade off between customer satisfaction and productivity. One may argue that improving quality leads to improved productivity, by way of fewer defects (Anderson et al, 1997), however cost to provide the services also increases, increasing the cost of production. Standardizing services is seen as a method of decreasing costs (albeit with diminishing return), while customisation increases production cost (Anderson et al, 1997). This means that in an environment where customers favour standardization, both productivity and customer satisfaction can lead to profit, while in an environment where customers favour customized services, quality of service (and thus customer satisfaction) will more likely lead to profitability (Anderson, et al 1997). It is also generally assumed (and demonstrated in an airline company), that within the service industry, customers favour customisation, and that this trade-off between quality and quantity exists (Anderson, et al 1997). This is certainly true within the hotel industry, as has be demonstrated, with quality of service tailored to a guests needs being the decisive factor in customer satisfaction generation. Standardization is critical however only in that guests require the same level of service at all branches in a hotel chain. It is for this reason that the focus of training should be on customer satisfaction, and the cause and effect chain that leads up to customer satisfaction (and then financial performance), rather than on employee productivity.

3.5.4 Current information systems capabilities

Access to strategic information, but more importantly usage of strategic information has become a crucial element for survival in the hotel industry.

Management need to understand who and where their markets are, as well as what kind of service their guests require. The development of a guest database is an essential element. Management should seek to grow and use their guest databases. A plan should exist to develop this and management should monitor their success against this plan, perhaps by using a strategic information coverage ratio (Kaplan and Norton, 1996). Roger Cline, director of hospitality-consulting services for Arthur Andersen in New York stated how guest information is a critical asset that needs to be secured, maintained, evaluated and leveraged against in order to successfully promote a brand. He feels that the hotel industry needs to recognise that customer information is as much of an asset as the physical buildings themselves, and that if one analyses business in general, information-intensive and brand-intensive companies get valued more highly than asset-intensive companies (Worcester, 1999).

Sun International (S.I.) is able to track the spending of every Most Valued Guest (MVG) card-holder at every S.I. casino in South Africa. Spending is closely monitored from a geographical and socio-economic perspective. S.I. have determined that approximately 20% of their guests generate 80% of their revenue. They also know that Gauteng residents account for 80% of their gaming revenue, and from which neighbourhood and social class. Marketing initiatives are now being based on the information generated from this database. Mail shots (mass mailing of pamphlets advertising specials) are sent to the customers regarded by S.I. to be the more highly rated gamblers, and not to areas and households from where no big gaming business has traditionally been generated.

The Hyatt has also developed a guest database, which is perhaps more advanced than that of the other hotel chains. The Hyatt is able to track repeat business through the Galileo international travel booking system, which is in fact owned by the Hyatt group. Most travel agents use Galileo worldwide to reserve bookings for its customers. Any travel booking arrangements worldwide, which are processed through this system and relate to the Hyatt chain of hotels, are

updated in the Hyatt's central customer databases. This in addition to the Spirit system, empower the Hyatt with up to date detailed information on all of its guests (Hill, 1999).

The information that is generated in the guest database systems is used to improve services (in the case of the Hyatt) and as a means to reach their target market (in the case of Sun International). These would both seem to fit in with a causal chain. The Hyatt are able to improve services to their most favoured guests (their profitable guests), and Sun International are able to market directly to their most profitable guests. Measurement of the development and utilisation of information technology can be measured in a balanced scorecard value chain as a contributor to eventual profit.

3.5.5. Current employee empowerment, motivation and alignment

The motivation, empowerment and alignment objective focuses on the organisational climate for employee motivation and initiative. This encompasses the making and implementation of employee suggestions, and the degree to which individual goals are aligned with those of the organisation as well as determining the degree of success with which teams e.g. the cleaning department are functioning. These objectives are long-term objectives, which are crucial to the future success and survival of the hotel. They are objectives that are often passed over by management in traditional systems, as they do not immediately impact on the results that management generate. (Kaplan and Norton, 1996) They are not measured in hotels either, though they are certainly recognised as crucial elements in the fostering of quality service.

In hotels currently, the focus on staff performance often rests on staff satisfaction (Troughton, 1999, Phinn, 1999, Corcoran, 1999, Hill, 1999). The 1998 Hilton financial report states "In a business such as ours, it's the people — not the brick

and mortar — on whom we depend to deliver on the Hilton promise, and thereby enable us to reach our goals as a company for our investors. There are no better employees in this industry than those who wear the Hilton name badge. We are proud and appreciative of their talents and dedication, and remain committed to devoting the resources necessary to ensure that this team continues to have the skills, motivation and diversity required to keep Hilton 'number one' in an increasingly competitive and challenging business." The Hilton formally appraises its staff bi-annually and encourages feedback (Corcoran, 1999), while the general manager of the Hyatt invites selected staff members into his office monthly, on an informal basis to voice their gripes or compliments (Hill, 1999). However, no hotel managers interviewed had any measures in place to measure staff satisfaction.

Retention of staff is considered a major concern amongst management, with many managers attributing it to the poor service levels currently being ascribed to the South African industry. Hotels' inability to retain staff is also reasoned as a significant expense. As soon as management train their employees, they are in effect investing in the company. The loss of such a trained employee therefore represents a loss in intellectual capital of the business. Respondents to Hotel and Motel Management's 1999 independent Management Company survey indicated that attracting, retaining and training employees was their primary objective for 1999 and beyond.

According to a 1998 National Restaurant Association study, turnover costs for restaurants average about \$5,000 per employee. Cost estimates are similar for the lodging industry, according to the AHF study. Robert Woods, professor and director of the centre for the study of lodging operations at the Restaurant Hotel Institutional Management School at Purdue University in West Lafayette, helped conduct the AHF study. Woods said turnover costs for managers can average \$50,000 or more, and many companies associate the cost of losing one trained manager with approximately one year's annual salary because that is how long it

takes for a new manager to become fully productive. He stated how the industry was now beginning to face the fact that it needed to be more attractive to employees in the long term, and that before, hospitality had a pass-through mentality. It was understood that employees used positions as a stepping-stone for advancement to another hotel, and that the bottom line was, hotels needed to get their people to stay longer. (Worcester, 1999)

It was found that generally there was a low staff turnover amongst lower levels of employees such as cleaners and waiters in South Africa, and a much higher level of turnover amongst the middle management level. This is in fact paradoxical to the goals of the hotel, as stated above, where a far more expensive form of training is invested in management than cleaners. City Lodge has found no difficulty in retaining the service of lower levels of staff. 95% of the original cleaning staff compliment at the time of the Morningside hotels opening were still employed there in 1999. Middle level staff, including front desk workers, have a high staff turnover. Echoing Robert Wood's words, Ross Phinn of City Lodge feels that these staff members view the job as a beginning in the hotel industry and are not prepared to stay at the remuneration levels currently offered. He feels that if the hotel were to incentivise these tasks, staff turnover would decrease.

If so much intangible value is placed on the interaction between staff and customers, it is felt that management effort should be placed on controlling and measuring staff satisfaction, motivation and empowerment. If middle management turnover levels, the achievement of these three goals cannot be achieved, and this could rightfully be the cause of decreasing service level standards. These sentiments have been echoed at hotels internationally.

3.5.6 What the Balanced Scorecard has to offer in the learning and growth perspective

The Balanced Scorecard adopts an approach whereby goal setting, the identification of profitable target markets, and the determination of necessary services and service levels create within the organization an awareness of the required staff and technological infrastructure. Management will therefore be able to address the declining service level ratings and other identified threats in a structured and intelligent manner. Strategies to develop the infrastructure i.e. development of staff service capabilities and an effective building and usage of customer and staff databases can be put in place. The measurement of the learning and growth perspective is then focused on the organizations infrastructure development as it ultimately contributes to profit generation and the overcoming of real threats.

3.5.7 The Balanced Scorecard and the learning and growth perspective

At White Lodging Services, twelve possible measures in the learning and growth perspective with regards to a Balanced Scorecard were considered, and measurement of associate turnover levels was eventually included. The justification was that all other measures would be invalid in the absence of a stable base of long-term employees at the properties (Denton and White, 2000).

3.6 Analysis of the Balanced Scorecard in a hotel context

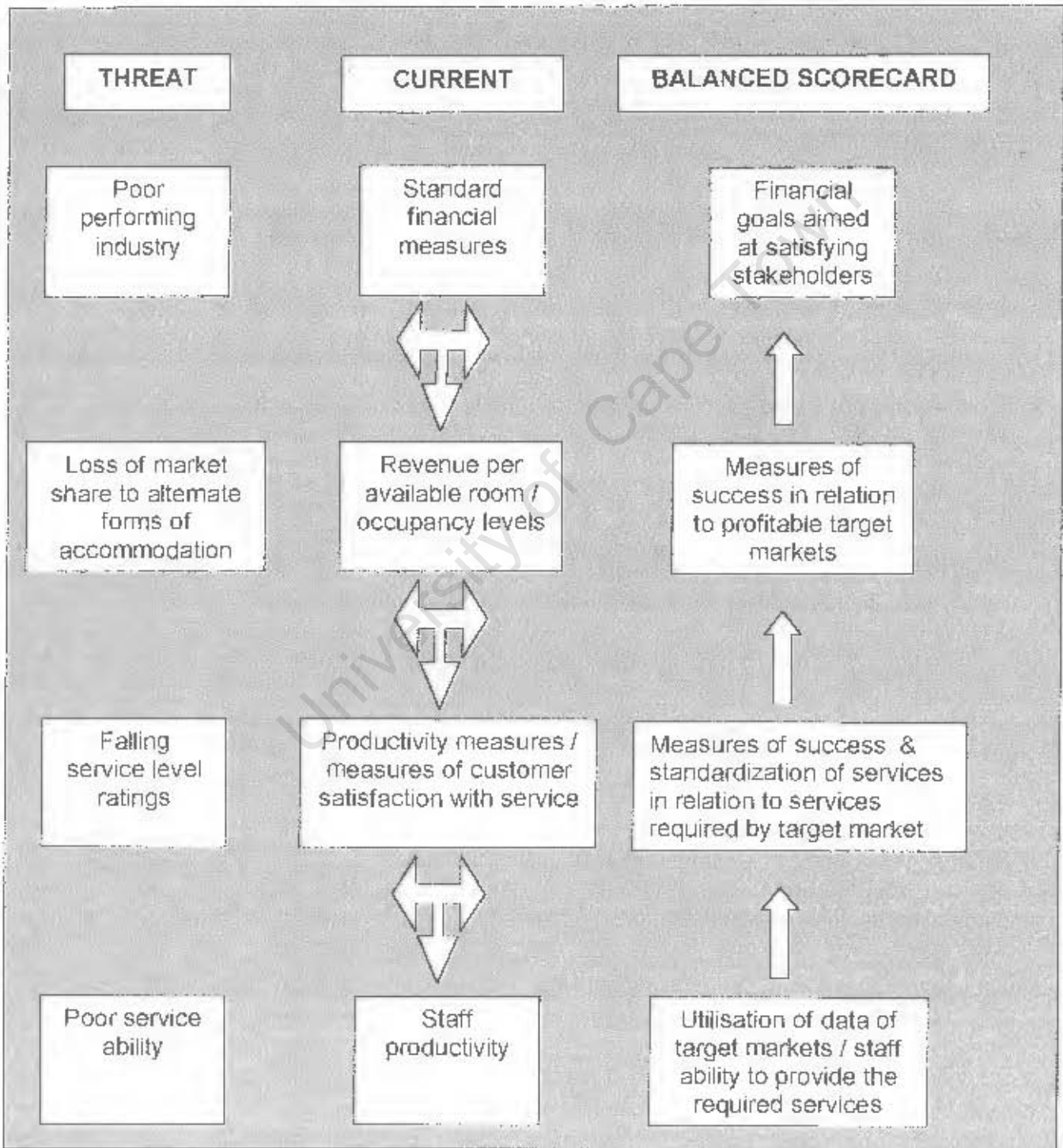
Currently, hotels are addressing many of the current threats that face the industry. Managers practice a level of goal setting derived loosely from the perceived threats (Hill, 1999, Lotter, 1999). They have also targeted markets that are believed to be profitable to their businesses (Hill, 1999, Phinn, 1999, Lotter,

1999), and identified services and aspects within their hotels that they believe deliver the standard of service required by their markets (Hill, 1999, Phinn, 1999, Lotter, 1999). Current managers have also recognised the need to develop their staff and databases to ensure that they can continually provide these services (Hill, 1999, Phinn, 1999, Lotter, 1999, Jackson, 1999). The current approach is not structured however. Strategic drives aimed at overcoming the threats are only measured as an outcome, and even then, not specifically, but rather as an overall improvement to profit or turnover. Attempts to improve service levels, staff training or database utilisation are not always measured (Lotter, 1999, Corcoran, 1999). It would seem that management are aware of the threats, have attempted to address them, but are not achieving the necessary outcomes as demonstrated by a poorly performing sector, a continual loss of market share to alternative forms of accommodation and falling service level ratings. A more structured approach – a Balanced Scorecard – may provide the solution, for the following reasons:

- It addresses the threats currently faced by the industry within a logical framework (see Figure 3.4):
 - Staff service ability will be directly measured in line with the targeted service levels and service standardization requirements. Poor staff service abilities can thus be remedied.
 - Service processes can be measured in line with the expectancies of the hotel's target market. Service level ratings can thus be improved.
 - Guest satisfaction and guest mix can be compared to actual profitability / value creation. Falling occupancies and market share losses can therefore be curbed.
- It utilizes causal links between resources and the outcomes of their actions to ensure that control is exercised on aspects of the hotel that have a bearing on the threats and profits
- It measures success on a lead and lag basis, whereby instead of focusing only on financial results as is so commonly done in South Africa, it puts

measures in place that allow a level of anticipation and control of the financial outcomes.

Figure 3.4 – Comparing current to Balanced Scorecard potential solutions



Chapter 4

A conceptual framework for a Balanced Scorecard and criticism of the methodology

4.1 Introduction

Two case studies of the implementation of a balanced scorecard were researched in order to determine the practicality of the theory in a hotel environment. The case-studies were performed at White Lodging Industries (Denton and White, 2000) and the Hilton ((Huckestein and Duboff, 1999), both American based hospitality organisations. While both proving successful, more insight must still be gained into the practicality of the balanced scorecard methodology in the South African hotel environment. In addition to this, criticisms of and limitations to the balanced scorecard must be considered. This chapter will discuss findings of the case-studies and then propose measures suitable to a generic hotel environment. Criticisms levelled against the Balanced Scorecard methodology will be considered in a step by step manner as each of the perspectives is considered.

The objective of a Balanced Scorecard is to assist management in clarifying its strategy and then harnessing all necessary facets of its organisation profitably towards the goals of that organisation. There are a large and diverse variety of hotels in South Africa, most of them with different markets, strategies, operating and measurement capabilities. Where the Johannesburg Park Hyatt has a world-wide guest database tracking guest satisfaction, the Ascot Hotel in Norwood Johannesburg has no such facilities. Fittingly, their strategies and markets differ markedly. A balanced scorecard developed for the luxurious Johannesburg Park Hyatt would therefore not suit the budget Ascot Hotel, nor could a balanced

scorecard likely be developed along some median between the operating capabilities of the two hotels that could effectively benefit both hotels. It is not possible to develop one balanced scorecard that suits every hotel in South Africa. There are several similarities between most hotels in South Africa, as highlighted in Chapters Two, and the causal chains for a generic balanced scorecard, if developed, could serve as a basic template from which further modifications could be made to more suitably fit a specific hotel. The four key perspectives in the balanced scorecard model namely financial results, customers, operating cycles, and learning and growth share similar characteristics within most hotels. Once a strategy has been determined, and goals have been set, objectives in each of these perspectives can be developed, and the measures can be put in place.

4.1 Effective usage at the Hilton hotel chain

The Hilton brand implemented a balanced scorecard in 1996, as a response to an increasingly competitive hospitality environment and growing guest expectations. Two years later, Hilton was able to report improved revenue per available room in comparison to competitors. Management attribute this success partly to the balanced scorecard and cite several advantages and improvements, which materialised as a consequence of the balanced scorecard process. These improvements in the management process include the following:

- Management at the hotels were encouraged to focus on short and long term drivers of success. They then became more willing to take risks in improving both service and financial performance.
- Brand equity increased by reinforcing quality control, and this allowed for certain franchises to command a rate premium over competition and still retain market share.
- Teamwork was cultivated and rewarded. Employees become focused on the concepts of external competition and customers.

- Performance reviews became more objective. Objective feedback, rather than subjective opinions became available as a means to rate performance, against agreed upon targets.
- Sharing of best practices with other hotels in the brand were encouraged.
- The Hilton was able to communicate how the company creates value throughout the organisation.
- Management were able to link the scorecard to other innovative processes in the organisation, such as the Situation Target Proposal system, thus driving continuous improvements.

Once Hilton acknowledged that a management system was needed to manage the customer – staff interaction intensive facets of its organisations, it implemented the balanced scorecard process. The method has proven to be a success, with management now regularly monitoring eight indicators of performance, five of which are non – financial (Huckestein and Duboff, 1999)

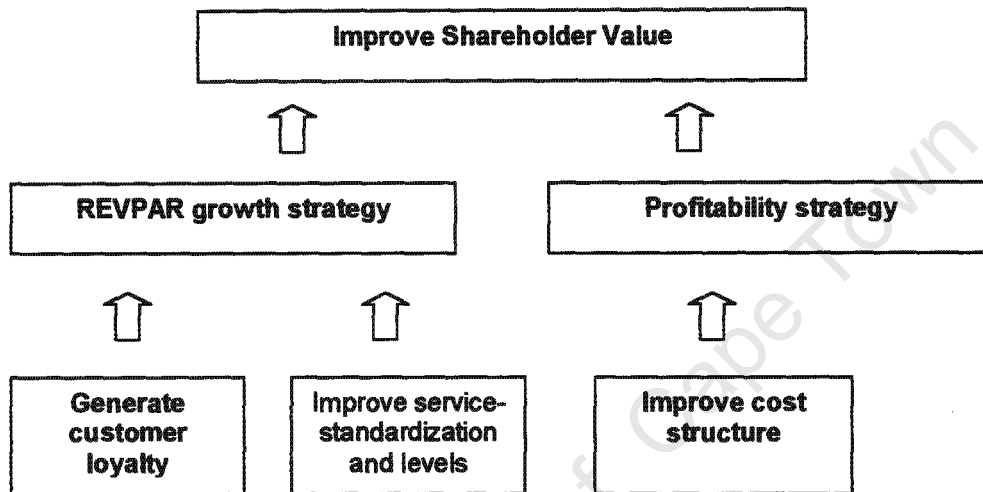
In acknowledging the need is a South African framework, the following Balanced Scorecard was developed. As was experienced in The Hilton, certain challenges will have to be overcome, and certain shortcomings and limitations to the theory will need to be addressed.

4.2 Strategy

Strategy in a hotel in South Africa does currently exist, as explored in Chapter Two. Most obviously, it is to become more profitable or to increase occupancy levels and turnover. Strategy however is not being communicated effectively, and should be. The development of a management control system, such as the balanced scorecard, can be the vehicle for strategic dialogue, facilitating consistent and mutually coherent dialogue throughout the organization (de Haas and Kleingeld, 1999) to assist with the operations of all departments and

employees. Towards generating a generic Balanced Scorecard, the overall general strategy that will be used will be to become both the most profitable hotel of their grading in the area (a desire shared by most hotel managers) and to increase revenue per available room primarily through improved service standards and customer loyalty development (See Figure 4.1).

Figure 4.1 – A strategy map



Strategy development within a Balanced Scorecard framework is an area that has been criticised. De Haas and Kleingeld (1999) question the mechanical approach of strategy formulation established by the methodology (Kaplan and Norton, 1996), and prefer the tableau de bord strategic learning process rather than a priori planning. Where standardization amongst branches within a hotel chain is critical to the generation of guest loyalty, room for staff innovation becomes more limited. 'Top down' planning is a method of creating that standardization. Mechanical goal setting, where the strategy of the organisation is formulated and then integrated into the different branches of the organisation can facilitate a consistent service quality. This is not to say that employees are served with a set of 'foreign' strategic instructions. Dialogue and goal suggestions are encouraged amongst executives and managers, and feedback from employees / branches, as to their opinions and feelings about the

organisation is recommended before management formulate or clarify a strategy (Kaplan and Norton, 1996). Kaplan and Norton also describe a strategic learning process whereby a feedback system is designed to constantly “test, validate and modify the hypotheses embedded in a business unit strategy” (Kaplan and Norton, 1996). This included periodically reconstructing the scorecard if necessary based on factors such as whether the external environment is the same as what was anticipated when the scorecard was first developed. Therefore, while strategy development may be mechanical, it is by no means static or inflexible, and could potentially suit a standardized environment such as a hotel. Norreklit’s accusation that strategic development is not thorough and lacks interactivity ignores the real life application of the process. Kaplan and Norton (1996) cite several case study’s whereby strategic development is undertaken after months of feedback from employees at all levels, including peer reviews of scorecards developed at different departments.

4.3 Financial indicators

Financial measures indicate whether the implementation of plans and initiatives is contributing to profit improvement (Simons, 2000). They are lag indicators that tell the tale of failure or success of the other three perspectives and encompass the performance aspects of input, transformation and output within the hotel processes. White Lodging Services selected two financial indicators after analysing a list of twelve indicators that they had traditionally reviewed. The first indicator they selected was a yield index that gauges a property’s revenue per available room relative to competition incorporating year-on-year yield growth. The second indicator chosen was an index of operating performance relative to a flexible budget model that re-forecasts expected profitability performance based on actual top-line achievement. Uncontrollable cost items were excluded from this yield calculation, fitting the findings of Banker and Datar (1989) to include such expenses only if they directly relate to controllable profit. Targets were set based on a perceived achievable level above brand averages. These two

indicators were chosen in line with their goal of having their properties be the best performers in their brand from an occupancy and operating performance perspective, as well as facilitating the achievement of internal consistency.

In line with maintaining or improving hotel profitability, a South African hotel may set the following goals:

- Survival – the hotel has to be able to operate even in periods of low tourism.
- Sustainability – in a period of tourism uncertainty (see Chapter One for threats facing the industry), it is imperative to maintain profitability levels.
- Growth – the hotel must continually win market share, particularly when growth in tourism arrivals is uncertain.

Suggested measures

FINANCIAL PERSPECTIVE	
GOALS	MEASURES
Survival	Minimise break even / closing point
Sustainability	Profit per available room (PROPAR), Return on capital
Growth	Occupancy rate

Survival

A unique aspect of the South African tourism industry is the uncertain future. An effective measurement of risk is a necessary indicator to determine whether the hotel is delivering the required returns to its stakeholders to compensate them for the risk that they have exposed their funds to. An indicator that can be included in the Balanced Scorecard should be able to compare the returns being delivered

to the current risk exposure. Monitoring the trading results of the hotel overall and its individual departments against the break even point of the respective departments, with the required investor return built into such an equation would be a satisfactory measure. In addition to measuring risk, management are able to control the performance margins within the hotel through this measure.

Outsourcing the food and beverage function is proving to be a viable alternative to managing the function alternatively with many Holiday Inns in South Africa already having opted to follow this route. This is understandable since food and beverage departments rarely make a profit and they consume so much management time and resources. Outsourcing the function is essentially selling future potential losses and profits from the function in exchange for a guaranteed monthly annuity. Before a decision to outsource is taken, many factors relevant to the hotel must therefore be considered. Monitoring the closing point in the food and beverages function against actual covers sold is therefore a useful measure. The closing point can also be used for the overall hotel room rentals to measure strategic initiatives for combating low cyclical tourism periods. See Appendix C for a discussion of break-even and closing points in a hotel environment.

Sustainability

In any rational hotel as in any business, the owners want to make a profit. Maximisation of stakeholders' wealth by way of monitoring the return on capital employed is a key objective to any company, including hotels. Measurement of growth is another crucial area. All hotel managers interviewed stress the importance of occupancy levels. A bed night empty is a bed night lost. Peter Moore (1999), financial director of the Grace Hotel chain calls hotel rooms the ultimate perishable. A more informative measure of occupancy is revenue per available room (REVPAR). This measure which divides revenue per period into the number of rooms for that same period gives management a tool for

measuring both occupancies for the period as well as an indication of the number of rooms that are being sold at a discount. Monitoring REVPAR from period to period gives a meaningful indication of growth in turnover. Measuring profit per available room (PROPAR) i.e. dividing profit (room sales less variable room department costs) per period by the number of rooms available over that same period would give an indication of whether growth in revenue is in fact profitable. This measure gives an overall indication of the success or failure of all strategic initiatives to improve performance. While encompassing customer satisfaction (on the premise that satisfied customers will return, boosting occupancy), it also informs management whether the costs to provide customers with the determined level of service, through process improvements undertaken by way of learning and growth initiatives, were financially feasible.

Growth

The monitoring of occupancy levels gives management information on the size of the market that it is reaching. It is built on a chain of cause and effect which states that market size will grow by fostering guest loyalty and creating / maintaining a name synonymous with service quality. Other external factors may contribute to the fluctuation of this performance measure, such as the overall tourism market perception of South Africa, or the development of new hotels in the area. Norreklit (1999) states that in the development of overall strategy and the perspective goals, it is important to take into consideration any strategic uncertainty. Management should constantly monitor competitors actions and local / international developments when benchmarking goals.

4.3.1 Criticism and comment

Otley (1999) criticises the Balanced Scorecards approach to the setting of goals and targets, putting forward the question of what level of performance the organisation needs to achieve in each of the areas defined in the organisations

set strategies, objectives and plans, and how it goes about setting appropriate performance targets for them. In terms of target setting, four steps are included in the methodology: setting of stretch targets, the identification and rationalization of strategic initiatives, the identification and rationalization of cross-business initiatives, and the linking of the three to five year strategic plan to annual resource allocations and budgets. These steps demonstrate that not only are targets considered, but they are integrated into the management of the company i.e. explicit and ambitious targets are theoretically set for each of the measures (Kaplan and Norton, 1996). The entire approach is centred around the monitoring and control of the four perspectives around the goals set for these perspectives. The goals represent targets. This target setting if implemented would be a vast improvement on current target setting in many hotels, which rely heavily on historical results, not necessarily within a strategic plan, as demonstrated in Chapter Three.

A major benefit of implementing a Balanced Scorecard is that it is fairly easy to understand the linkages along the cause and effect chains i.e. if a target in the customer perspective is met the corresponding financial target on that causal chain should be achieved. Research has also shown that in relatively short periods, major performance improvements have been achieved within a one-year timeframe (Kaplan and Norton, 2000). A Towers Perrin survey of organisational usage of the scorecard found that employees and managers understanding of the goals and measures they were working towards must not significantly better than that of previous management systems (Iltner and Larcker, 1998). These findings are contracted by the several case studies cited in Kaplan and Norton's *Strategy – Focused Organization* (2000), where in one example of an implementation at Mobil North America Marketing & Refining, even the wife of an employee phoned to enquire about certain measures in the learning and growth perspective, realising the direct bearing they had on her husbands performance and pay-check. This is proof of the potential of the Balanced Scorecard to improve organisational understanding of company and individual performance.

Perhaps an inadequate method of implementing and organisational communication of the balanced scorecard affected the Towers Perrin survey companies negatively.

4.4 The customer perspective

Management at White Lodging Services after reviewing nine potential guest-relations indicators, decided on measuring guest satisfaction scores as the sole customer related scorecard indicator. This was done due to the perceived value of high customer satisfaction levels and was considered by management as forming an integral link in the cause – and – effect chain between operations and profitability. It was also found during internal research conducted by White Lodging Group, that guest scores correlated with investment returns substantiating the selection of this measure. Targets were set to be in the top twenty percent of brand averages, facilitating the achievement of overall performance goals. It was later found that, while White Lodging Services managed brands were performing financially better than the brand averages, guest satisfaction levels had not improved relative to the other brand properties (Denton and White, 2000). This suggests that the cause – and – effect value chain is not functioning as intended. The practicality of Balanced Scorecard theory revolves around building causal relationships to predict, understand and control the results of an organisation. In the above case, an anomaly in the cause – and – effect would need to be investigated further.

Guest satisfaction is however an invaluable factor in hotel performance, as indicated by the fact that three of the nine measures in the Hilton balanced scorecard track it (Huckestein and Duboff, 1999), and White Lodging Services internal research proved it within the organization. In a South African hotel setting, the prevailing opinion amongst hotel managers is also that customer satisfaction amongst the profitable target markets will lead to financial success.

Kaplan and Norton (1993) state that there are four important categories in the customer perspective: time, performance, service and cost. These categories are not as straightforward in a service intensive environment as a hotel. As stated, within room rental, customer satisfaction is likely to come from the quality of staff performance during these periods of interaction as well as maintenance of the facilities. This involves an element of reaction time, friendly and helpful assistance, a clean guest friendly environment (well cleaned rooms), and perceived quality for money (the guest received an acceptable level of service for the money he paid). Noticeable here is that all elements of customer satisfaction can be linked in a cause and effect chain to staff performance. If employees perform well, barring any external calamities, customer satisfaction will result. Quality service on its own by no means leads to positive financial results (Norreklit, 1999); indeed, several Baldrige quality service award winners have experienced financial problems (Kaplan and Norton, 1996). Profitable guests need to be targeted (Phinn, Hill, 1999) and the delivery of this quality must be affordable. Thought must also be given to the customers that pay the most promptly and regularly in this regard (Allen, 1997).

Attracting and retaining the most profitable guest mix is a core goal of many hotels, as revealed during several interviews with hotel managers (1999). On a cause and effect chain, it stands to reason that by retaining profitable guests, profitability will result. It is possible to infer, on the basis of neo-classical economics that by maintaining or increasing the quality without increasing the costs, customer demand will increase (all other things being equal) (Norreklit, 1999). Thus, within the internal process perspective, service delivery costs must be monitored, while within the customer perspective, maintaining the right guest mix (Hill, 1999), and customer satisfaction with employee performance (Lotter, Phinn, Corcoran, 1999) are critical elements.

Suggested measures

CUSTOMER PERSPECTIVE	
GOALS	MEASURES
Attracting	Guest mix ratio
Retaining	Customer satisfaction index

Customer satisfaction

Customer satisfaction is certainly not the only factor that creates financial success. It could be speculated that productivity, for example, could also lead to profitability (Anderson, Fomell and Rust, 1997). There is often a trade off between customer satisfaction and productivity. One may argue that improving quality leads to improved productivity, by way of fewer defects (Anderson et al, 1997), however cost to provide the services also increases, increasing the cost of production. Standardizing services is seen as a method of decreasing costs (albeit with diminishing return), while customisation increases production cost (Anderson et al, 1997). This means that in an environment where customers favour standardization, both productivity and customer satisfaction can lead to profit, while in an environment where customers favour customized services, quality of service (and thus customer satisfaction) will more likely lead to profitability (Anderson, et al 1997). It is also generally assumed (and demonstrated in an airline company), that within the service industry, customers favour customisation, and that this trade-off between quality and quantity exists (Anderson, et al 1997). This is certainly true within the hotel industry, as will be demonstrated, with quality of service tailored to a guests needs being the decisive factor in customer satisfaction generation. Standardization is important only in that guests require the same level of service at all branches in a hotel chain. It is for this reason that the focus of performance measurement should be on customer satisfaction, and the cause and effect chain that leads up to

customer satisfaction (and then financial performance), rather than on employee productivity.

An important decision to make is whether to measure customer satisfaction and retention from an output or transformation process perspective. Standardizing the service implies monitoring and controlling the transformation process (Simons, 2000) i.e. measuring performance of staff and gauging customer satisfaction as staff deliver the performance. Measuring output implies obtaining customer feedback once the customers check-out. In terms of generating customer feedback, it is probably more convenient to request all the required information at once (check-out) than at each point of interaction with staff. In a rational hotel setting, guest satisfaction is often the driver that causes guests to return to a hotel. Management can thus obtain an indication as to future guest retention. All hotels studied had developed a hotel guest satisfaction card, which was handed to all guests on check out. Responses on these cards give management this indication as to future guest retention as well as an idea on which aspects and services of the hotel need improvement. An index can be calculated to put tangible measures to the responses obtained.

Guest mix

The other key factor in measuring the customer perspective is whether the right customers are being attracted, and kept. The sheer size and scope of guest loyalty programs (Corcoran, 1999, Hill, 1999) world- wide suggest how important the development of a loyal guest base and repeat business really is. Through this, the hotel would hope to sell the right mix of rooms, by marketing itself and customizing its services towards its favourite guests. At Sun International, management have found it necessary to sell a large percentage of rooms at a discount to rated gamblers, thus sacrificing room revenue for gaming revenue. The Park Hyatt in Rosebank has found that young businessmen are the most profitable type of guests and would hope to grow this market. Block-booking of

rooms for conferences and corporate clients, at the relevant discount rate, serves as a means to secure acceptable occupancy levels while at the same time decreasing the average room rate. It is thus very important to calculate the correct guest mix at budgeting time and also to monitor the mix the hotel is achieving to determine whether customer goals are being met. Each hotel manager should determine who their most profitable guests are, and it is essential that they monitor their acquisition and retention of these guests. This should be done on a historical / lag basis by measuring guests by type against initial projections and prior data.

4.4.1 Criticism and comment of the Balanced Scorecard customer perspective

Norreklit criticises the fact that no time lag effect is built into the model i.e. goals in different perspectives cannot be achieved at the same time, the model suffers from a lack of clarity i.e. assumed relationships between perspectives may not hold, and that there is assumed uni-directionality between perspectives.

These potential flaws in the theory may explain the anomaly experienced at White Lodging Services where, despite improved financial performance on the implementing of a Balanced Scorecard, customer satisfaction levels deteriorated (Denton and White, 2000). Several theories may explain this, amongst them:

- Customer satisfaction (of the broad customer base that White Lodging Services are measuring), may not translate into financial improvements i.e. there is no causal relationship between the organisations' internal business process goals, customer satisfaction and financial performance.
- There may be a timing difference between the achievement of the goals in the various perspectives. Financial reward may be experienced immediately on achievement of short-term improvements in the internal business process perspective. Improvements in customer satisfaction

may only be realised at a later stage, as was experienced at White Lodging Services. This is not in line with the cause and effect theory of the balanced scorecard perspectives. Customer satisfaction as a lead indicator should offer a level of forecast as to the future financial successes of the organisation (lag indicators), not trail it.

- Inaccurate measurements of customer satisfaction are being generated.

Managements' establishing of the causal relationships and eventual achievement of a holistic picture of the organisation is deemed to be a far more effective way to control and direct performance than the haphazard management techniques currently being employed in the industry as demonstrated in Chapter Three.

The scorecard is supposed to communicate a holistic model of the strategy of the company, by demonstrating how each employee and department, contributes to the organizational success of the company. Management, based on their experience in the company and industry develop this set of cause – and – effect relationships hinged on casual links established amongst the perspectives.

Within the strategic feedback system, management are able to test these hypotheses using tools such as correlation analysis. Correlations, if found to be functioning, provide powerful confirmations of the business unit's strategy, and if found lacking, lend evidence to strategic revision (Kaplan and Norton, 1996).

Multi-directionality of the perspectives may also be established during this strategic learning process, and measures revised to incorporate this phenomenon. Norreklit suggests the usage of a financial calculus to establish and test perceived links (1999).

4.5 The Internal Business Process perspective

No specific internal processes were highlighted more commonly than others that delivered the value proposition sought after by target customers. This is again

demonstrated by the fact that the White Lodging Services management team decided on a consolidated process audit incorporating a number of organizational sections. Areas where the hotel needed to excel were identified, however, as expected these were very often found to be difficult to quantify by both White Lodging Services (Denton and White, 2000) and local hotel managers. As stated, the maintenance of quality standards is essential for guest satisfaction, but costs to maintain or even improve these standards should not increase. No studies have conclusively proven that an improvement in quality leads to an improvement in profitability, but it can be inferred that with no increase in costs, demand for the hotels services will increase. Kaplan and Norton (1996) state that innovation, operations and post sale service must be considered.

The goals established within the internal business process perspective based on comments from the hotel managers interviewed are the maintaining of a cost effective service quality (operations) (Lotter, Hill, Corcoran, Phinn, 1999), standardization (innovation) (Phinn, Hill, 1999), and good relationships with suppliers (Hill, 1999).

Suggested measures

INTERNAL BUSINESS PROCESSES	
GOALS	MEASURES
Standardization	Mystery guest index (lead)
Cost effective	Gross profit percentage (lag)
Supplier relations	Days debtors (lag) Bookings per period (lead)

Standardization

Within the innovation process, standardization can be achieved by controlling the performance of staff at the transformation process stage (Simons, 2000) i.e.

while they are interacting with guests. The mystery guest survey is an effective method of gauging whether all staff services offered are efficient and effective at the time interaction between staff and the mystery guest interact. It also allows the hotel to be compared to other hotels in the chain on a common index.

Cost effective

Monitoring the gross profit percentage provides information on costs incurred to provide the services offered in all departments. It is a lag indicator, which, in a cause –and – effect chain will demonstrate in conjunction with customer satisfaction whether the cost of maintaining the service quality is too high.

Supplier relations

Travel agencies / tour operators are both the suppliers of many bookings, and the largest debtors group in many hotels. The hotel relies on the travel agent / tour operator to generate business while at the same time, the hotel, like any business, needs its customers to pay on time (Allen, 1997). Good relationships between the hotel and the travel agent lead to sustained, if not increased bookings¹. Monitoring the number of bookings received by travel agencies / tour operators against comparative months gives management information on their relationships with the agencies. Calculating the average days debtors allows management to determine overall hotel performance (service quality, relationships with customers, and debt collection efficiency). This is a causal relationship, which assumes that debtor collection periods will be shorter if the customers were satisfied with their stays. In theory, these satisfied guests would settle the travel agencies, who would then settle the hotel debts. A similar measure was included in the Rockwater balanced scorecard where it was also

¹ While there is no guarantee that increased business leads to increased profit, other measures along the balanced scorecard chain, such as the monitoring of gross profit and guest mix give management an element of control over other profit influencing factors

found that satisfied customers paid outstanding invoices the quickest (Kaplan and Norton, 2000).

4.5.1 Criticism and comment on the Balanced Scorecard Internal Business Process perspective

Several managers reported difficulty in measuring the success or failure of initiatives to improve on processes, the most common being the measurement of efficient front desk check – in (Lotter, 1999, Phinn, 1999). While customers can be questioned as to their satisfaction with the procedure, management have no idea whether this leads to profit or is an accurate reflection of the state of affairs (based on low response rates). In this regard, criticisms of the Balanced Scorecard as an effective measurement technique have been put forward. Otley (1999) criticises the balanced scorecard by stating that no formal procedures are suggested for the development of measures, no target setting is considered, reward systems are not addressed at all, and no explicit guidance is given for management feedback.

With regard to Otley's criticism that no formal procedures for the development of measures, one must keep in mind that the balanced scorecard is a control system developed and perhaps usable in any industry. It is impossible to write a book laying out a formal structure for the development of performance measures that can be used in every single industry. The hotel industry is vastly different from the deep-water excavation industry. The balanced scorecard methodology as set out in the book, "The Balanced Scorecard – translating strategy into action", lays out a framework for the development of measures, considering many theoretical factors that could influence the measures, and is backed up by several case studies. In all case studies, management, using expertise and knowledge gained from experience in their industries, were able to develop balanced scorecard measures. They did not need, and would probably not have benefited from step – by – step guide judging from the vast differences in

balanced scorecards developed. The strategic mapping process (Kaplan and Norton, 2000) and methodology framework proved adequate. In a 1996 survey by Towers Perrin of sixty companies who had employed the balanced scorecard, no major problem resulted from the companies being unable to determine what measures to implement. 45% of companies did complain that the measures that they needed, required the quantification of qualitative data (Ittner and Larcker, 1998). No major problem is expected in this regard, within a hotel, where foundations already exist for the measurement of customer satisfaction, albeit not within a strategic setting. The bottom line of the Towers Perrin survey was that 64% of respondents reported that the satisfaction or value received from their balanced scorecard was higher or significantly higher than that received from other performance measurement approaches, implying a general ability to develop measures even though a detailed methodology was not set out in the book.

The criticism expressed by Otley is indeed accurate. The theory of the management technique does not include a template for the development of performance measures as do other management control tools such as Economic Value Added™ where over one hundred adjustments to net income are expressly stated in deriving the performance indicator. The general satisfaction with the Balanced Scorecard as measured in the Towers Perrin survey and as presented in several case studies included in *The Strategy – Focused Organization* (Kaplan and Norton, 2000) indicates though, that the flexible nature of the method is working.

Otley should also consider that measurement of strategic success is not something that can be packaged into a step – by – step mechanism. Strategy is why and how an organisation performs activities differently from its competitors in order to provide a unique value proposition (Porter, 1996). The Balanced Scorecard is a descriptive, not a prescriptive framework that builds a view of the strategy of an organisation (Kaplan and Norton, 2000). Any two competitors

would hope to have more effective and innovative strategies than each other. Attempting to create a mechanical approach to measuring strategy would in itself be an attempt to limit strategic development and could ignore the many unique facets that the Kaplan and Norton case studies have already uncovered (2000).

4.6 The Learning and Growth perspective

Learning is the ability of the hotel to evolve competitively within a changing environment and to improve the competency and morale of staff. As guests service requirements increase, the hotel must be able to cost effectively provide the required services. Management needs to be able to anticipate these needs in advance. In devising this perspective at White Lodging Services, twelve possible measures were considered, and measurement of associate turnover levels was eventually included. The justification was that all other measures would be invalid in the absence of a stable base of long-term employees at the properties (Denton and White, 2000).

Other factors have been identified in the South African hotel industry that serve a crucial base upon which to build a balanced scorecard. Goals to be considered in this perspective are staff satisfaction (Phinn, Hill, Lotter, 1999), and the development and usage of guest databases to further improve service levels (Hill, Lotter, Corcoran, Jackson, 1999).

Suggested measures

LEARNING AND GROWTH	
GOALS	MEASUREMENTS
Staff satisfaction	Staff satisfaction index
Development of database Usage of guest database	Strategic information coverage ratio

Staff satisfaction

The measurement of staff satisfaction enables management to determine the level of effort with which guests are served. "Satisfied employees mean satisfied customers" (Morris, 1996). The implementation and quantification by means of an index of an anonymous staff satisfaction questionnaire is a method of determining the level of staff satisfaction. Categories to include in the questionnaires are listed could include training, pay and the job itself.

Database development / usage

Access to strategic information, but more importantly usage of strategic information has become a crucial element for survival in the hotel industry. Management need to understand who and where their markets are, as well as what kind of service their guests require. The development of a guest database is an essential element. Management should seek to grow and use their guest databases. A plan should exist to develop this and management should monitor their success against this plan, perhaps by using a strategic information coverage ratio (Kaplan and Norton, 1996). Measurement of this aspect can be done through a combination of the following:

- Determining the number of complaints specifically related to requested services from repeat guests.
- Monitoring the number of log – ins to client databases, where a service could be offered because the guest information was in the database.
- Weighting the cost of database development against employee feedback on the usefulness of having the information available.
- Obtaining feedback from guests as to their willingness to provide information to the hotel and their feelings on whether the hotel actually uses the information.

See Figure 4.2 for a summary of all the perspectives.

Figure 4.2

STRATEGIC OBJECTIVES	STRATEGIC MEASUREMENTS	
	CORE OUTCOMES (LAG)	PERFORMANCE DRIVERS (LEAD)
Financial		
Survival	Break-even / Closing point	
Sustainability	Profit per available room Return on Capital	
Growth	Occupancy rate	
Customers		
Attract target market	Guest mix ratio	
Retaining target market		Guest satisfaction survey
Business processes		
Cost effective services	Gross profit percentage	
Standardization		Mystery guest index
Supplier relations	Days debtors Bookings per period	
Learning and growth		
Staff satisfaction		Staff satisfaction index
Development / usage of guest databases		Strategic information index

4.6.1 Comments and criticism of the Balanced Scorecard Learning and Growth perspective

A point made several times in investigating the management of hotels currently, was the importance of rewarding hotel staff for superior performance (Troughton,

the manager operates effectively without utilising the total salary budget and meets performance levels, he is rewarded with a percentage of the salary saving. His compensation is thus linked to overall performance and also encourages cost saving.

Herein lies a criticism of the Balanced Scorecard methodology. Otley (1999) criticises the balanced scorecard by stating that reward systems are not addressed at all. Reward systems are indeed addressed in the balanced scorecard approach contrary to Otley's comments. Kaplan and Norton admit that the proper role of the balanced scorecard in determining compensation is not yet clear, yet 70% of respondents in the Towers Perrin survey already based compensation on the balanced scorecard or some variant that incorporates financial or non-financial measures (Ittner and Larcker, 1998). Kaplan and Norton state that for the scorecard to create the cultural change that should coincide with a balanced scorecard implementation (acceptance of the management system), incentive compensation must be connected to achievement of scorecard objectives (Kaplan and Norton, 1996). The approach does not however include a methodology for implementing such a system, but rather cites case study experience from several companies on the implementing of an incentivization scheme.

Several factors need to be considered before the hotel decides to incentivize performance of its staff:

- Financial reward is not the sole motivating factor from an employees perspective (Pfeffer, 1998).
- The performance incentives set for the employee must be linked to the goals of the company based on a cause and effect relationship. Consider that output measures give the highest confidence that economic value is being created (Simons, 2000). Input and transformation process measures give less confidence, thus, management must have a greater

understanding of cause and effect before incentivising performance based on a process measure, such as comments from guests.

- If the hotel is not able to internally motivate its employees through their inclusion in the setting of their own goals (a recognised element of the 'top down' balanced scorecard goal setting environment) (Otley, 1999), it may have to compensate for a resulting lack of motivation through incentivization (external motivation).

A suggested method for determining employee satisfaction is through employee satisfaction surveys, a feedback method that provides key indicators which can be used to gauge a companies performance objectives relating to human resource planning management (Morris, 1997), as well as giving the hotel an opportunity of linking the data to customer satisfaction for the purpose of creating a more accurate service performance rating. Several elements should be considered in such a rating including:

- The job itself
- Supervisor relationship
- Management style
- Future opportunity
- Working environment
- Pay, benefits and rewards
- Co-worker relationships (Morris, 1997)
- Training

Generating knowledge of the satisfaction levels of staff, together with the tools to accurately reward staff for good performance, a hotel would then have the ability to monitor and control the creation of service quality through the guest – staff interaction process.

Otley also criticises the information flows (feedback and feed-forward loops) that are necessary to enable the organization to learn from its experience, and to adapt its current behaviour in the light of that experienced, that he states are missing from the Balanced Scorecard.

Feedback is certainly considered within a balanced scorecard approach. In the chapter, "Feedback and the strategic learning process", Kaplan and Norton (1996) cite several methods for improving feedback, including correlation analysis and anecdotal reporting (informal reports behind the measures as to the successful or unsuccessful implementation of the strategy). In this way, management attention is focused on strategic issues (e.g. are we following the right strategy), teamwork and learning (Kaplan and Norton, 2000) rather than last months operational and tactical issues. In addition to this, when management review actual performance against targeted performance, a far more holistic picture is obtained through the non – financial perspectives than that of purely financial management control systems, thus allowing for more informative feedback.

4.7 Challenges of the balanced scorecard implementation

Management at the Hilton did report that the benefits of their scorecard far outweighed the disadvantages. They do warn other hotel managers of several challenges that had to be overcome before the scorecard became a viable process.

- Substantial time and resources were required to develop and maintain the process.
- Senior management needed to be continuously committed and involved at all levels in the organisation.
- A framework and the tools to develop the process had to be present.

- Measures had to be carefully selected as being cohesive to the organisational goals, accurately measurable, linking to the perspectives, and controllable.
- The scorecard had to be easy to understand at all levels in the organisation.
- Targets had to be realistic, yet flexible.
- Communication from the scorecard to all levels of the organisation, and vice versa had to be continuous.

These challenges were overcome at the Hilton, and it is suggested that they are not insurmountable in a South African setting. The process of successfully implementing a balanced scorecard has been performed at several South African companies e.g. Primedia and Netactive. This implies that South African organisations have the resources to overcome the challenges of setting accurate stretch targets, selecting measures in line with the strategy and meeting the other requirements of implementing a successful scorecard. In addition to this, South African hotels are operationally similar to international hotels. Many hotels are franchises of their international counterparts e.g. Hyatt, Hilton and Intercontinental. Operationally, no hurdles to implementing a balanced scorecard are overwhelming.

4.8 Limitations developing a Balanced Scorecard in the hotel industry

There are several other limitations to the implementation of a Balanced Scorecard in the hotel industry. These include inter-company disagreement on a target market, reliance on guest questionnaires, difficulty in incentivising performance, high staff turnover and technology requirements.

4.8.1 Inter-company disagreement on a target market

From a customer perspective, there is often disagreement within a larger group structure as to who the most profitable target market is. Sun International found this to be an area of conflict. In the past, the gaming and rooms department were almost in competition and contradiction with each other from a profitability perspective. The A-rated gamblers are the highest casino spenders and therefore the most profitable to the gaming operations. To encourage these guests to stay at the resort, rooms are marketed to them at highly discounted rates. The most profitable guest to the hotel from the room's department point of view is the guest who is paying the rack rate. The rooms department would therefore much prefer to sell that room to a regular guest than the A-rated gambler. It seems though that from a group profit perspective, several rooms should be discounted to the A-rated gamblers from the point of view that what will be lost in room revenue can easily be made up in gaming revenue. However, when individual department managers are reporting their results, the overall group results are not a major concern to them (Jackson, 1999). A transfer pricing scheme could perhaps be built into this equation whereby the rooms department could charge the gaming department a calculated mark-up on these discounted room sales. See Appendix I for detailed findings from the Jackson interview.

4.8.2 Reliance on guest questionnaires

Another limitation in the guest perspective of the Balanced Scorecard is the feedback on guest satisfaction that is currently obtainable. Satisfaction questionnaires are the principal form of feedback that is available. The problems traditionally found with the utilisation of a satisfaction card however, are the following:

- Low response rates.
- Lag time in getting actionable information.
- Non-response bias i.e. We received no response so we couldn't have done anything wrong. Generally, only extreme satisfaction or disgust with a service or stay finds its way onto a questionnaire.
- Inability to clarify questions / answers for respondents i.e. questions may not be properly understood, particularly with foreign guests.
- Too many questions to respond to and too many companies currently using satisfaction surveys ("Survey Rage").

Intelligently planned information gathering drives and meaningful usage of the information gathered can overcome several of these problems.

4.8.3 Difficulty in incentivising performance

In order to obtain commitment to the scorecard from the entire company, a key recommendation is the incentivising of individual objectives. Incentivisation is also a key element in the general motivation of staff. In the hotel industry, this may not be as easy as it seems. Ralph Deckelbaum, president of Rockville based, Mardeck Ltd., a hotel property company with 1 959 rooms, said he views the big picture problem as needing to provide more service and having a lack of resources to do so. He stated that within hotels, occupancies are relatively flat and revenues are growing by only a few dollars (Worcester, 1999). This certainly applies in South Africa, where perhaps hotels simply can't afford to incentivise.

Another difficulty from the staff perspective is the actual measurement of productivity. While it is fairly simple to measure superior performance in the cleaning department, it is less simple in the front desk, or food and beverages department due to the fact that their tasks are more a function of the seasons

than their own commitment to the job at hand. Perceived guest satisfaction from a particular service doesn't necessarily mean that profitability, and thus staff compensation should result either.

4.8.4 High staff turnover

The high staff turnover experienced at hotels is a concern when one considers that the implementation of a Balanced Scorecard is a long-term commitment. If staff are continuously changing, the implementation of such a process becomes severely disrupted. Management must remain particularly committed to the process, and not lose sight of the objectives, continuously re-examining the goals and results of the scorecard. To lose interest, particularly with such potentially high staff turnover, would doom the project to failure. Perhaps with the implementation of the balanced scorecard staff satisfaction measures together with reward system linkage, staff turnover will decrease.

The encouragement for employees to remain with their hotels, and perhaps the lack of incentivization of their performance are the two most discussed themes that need to be considered before a balanced scorecard can be effectively implemented (Moore, Phinn, Hill, 1999).

4.9 Conclusion

Management in South African hotels have been utilising non - financial indicators for several years in an attempt to measure value creation through intangible service aspects. Their attempts have failed to yield impressive financial improvements. This may be because there has been no complete management framework within which to implement indicators that relate specifically to the

current threats and opportunities. Vaivio (1998) found that the utilisation of non - financial indicators at Lever Industries within a management framework was more effective to the organisation than the usage of non – financial in no particular framework. Since the Balanced Scorecard template of perspectives can be specifically related to the current threats and opportunities facing the industry, a generic Balanced Scorecard using measures logically derived from:

- Measurement capabilities of a hotel
- Inherent success factors in the industry
- Current threats and opportunities
- Accepted non – financial measurement theory
- Past Balanced Scorecard implementation success

was proposed. Whether the Balanced Scorecard would be successful or not in a South African setting would only be resolved once implemented. Several factors give clues to its' success though.

White Lodging Industries and the Hilton chain (in America) successfully implemented Balanced Scorecards, citing amongst other things that it contributed in standardising and maintaining service levels, knowledge sharing, performance reviews and brand awareness (Huckestein and Duboff, 1999). White Lodging Services reported improved profits on implementing the Balanced Scorecard. Though the circumstances in which both hotels implemented their Balanced Scorecards are similar in several respects to the circumstances facing the South African hotel industry today, there are limitations to its implementation that do not lend to easy successes i.e. difficulties in rewarding superior performance, high staff turnovers, disagreements in reaching consensus on organisational goals, and a current reliance on guest questionnaires as a mechanism for customer satisfaction feedback. These, in addition to the potential flaws latent in the Balanced Scorecard, beg for a case study.

Chapter 5

Summary and Conclusion

The hotel industry is an old and established industry in South Africa as well as the rest of the world. Having become increasingly competitive, it is not performing as well as it should, considering the worldwide growth in tourism. Many different marketing and management schemes have been implemented to boost hotel profits, as the tourism and hotel environment has changed.

In South Africa, the tourism industry has had tremendous growth spearheaded by the falling of the Apartheid regime. Since then, there has been large-scale investment and development in the tourism sector of the economy, causing, perhaps, an oversupply of rooms in several geographical areas in the country. Hotel managers acknowledge that there are several threats currently facing the industry, primarily being:

- Loss of market share to alternate forms of accommodation
- Falling service level ratings
- Poor service ability

These lead to poor financial performance.

In attempting to overcome these challenges, the function of creating value, through consistent, standardised quality service was highlighted as core. The management system currently in use within a hotel should thus be geared around the control and measurement of this service. Customer – staff interaction was highlighted as the key ingredient for quality service, and thus, customer satisfaction. It was demonstrated by Banker, Datar and Srinivasan that there were positive associations between customer satisfaction and profitability within the hotel industry (Ittner and Larcker, 1998). Current hotel management does focus on customer relationships, with nearly all hotels interviewed employing

guest databases and other feedback measures. The research methodology did not incorporate a sample large or diverse enough to be representative of the entire industry, though findings did shed light on the importance of increased management efforts within a non-financial perspective. Though non – financial measures are in certain hotel chains, widely used, these are not always utilised within a logical framework. The control and measurement of these non-financial indicators is more effective within a structured management system as demonstrated by Vaivio (1998). Several management control tools were briefly analysed, amongst them Economic Value Added TM, the Tableau de Bord and the Intangible Asset Measure. These were considered to be less practical to the current South African hotel industry than the Balanced Scorecard for several reasons:

- The Balanced Scorecard retains financial indicators as well, a factor considered essential to a staunchly financial backgrounded management public.
- Its template of Balanced Scorecard perspectives matches the current threats faced by the industry, enabling management to address these threats directly.
- In addition to allowing the hotel to build a strategy to combat the threats and opportunities, the balanced scorecard provides a management methodology for remaining on the set strategic course.

It was thus proposed that a Balanced Scorecard should serve as the framework around which to achieve these financial measures. Two case studies of the implementation of Balanced Scorecards were also discussed as benefiting greatly the hotels in which they were implemented, and consequently, measures adapted to the current situation employing accepted non – financial indicator theory were developed for a generic Balanced Scorecard.

The implementation of a Balanced Scorecard is seen to be a useful management tool, since it provides a balance between these necessary non-financial

indicators, and the traditional financial ones so favoured in South Africa. It's strategically structured backbone, incorporating the goals of the organization, and a search for cause and effect chains running through staff performance, service quality within the business processes and customer satisfaction could provide the necessary control, both to steer the hotel through the challenges of the future and to focus itself towards securing a profitable market, particularly since these seem to reflect current threats and challenges.

Several criticisms and limitations of the balanced scorecard were raised, which could inhibit the implementation of the methodology. These ranged from general criticisms of the Balanced Scorecard theory to practical hindrances. The most serious of these is considered to be the motivation of employees (a factor which has a direct bearing on the interaction and successful service quality offered to guests). In light of the Balanced Scorecards 'top down' goal setting approach, extrinsic motivation through financial means is considered critical (a factor echoed by current managers and consultants). This would prove both difficult to measure and contrary to accepted remuneration norms in the industry. On the whole, these criticisms and limitations were all considered as being surmountable, in light of the successful implementation of Balanced Scorecards at the Hilton group and White Lodging Services in the United States. It was also suggested that if already proven successful in the hotel industry, a case can be made for experimenting with the balanced scorecard in similar customer – staff interaction intensive environments, such as airlines, hospitals and health-clubs.

Existing literature describing the use of the balanced scorecard in other industries is generally overwhelmingly positive (Newing, 1995; McLemore, 1998). Ittner and Larcker (1998) state that surprisingly little research has been done on the implementation or performance consequences of the balanced scorecard despite widespread use of the tool. Further research, perhaps in the form of a case study implementation of a scorecard in a South African hotel setting is recommended.

APPENDIX A – Hotel Manager questionnaire format

HOTEL QUESTIONNAIRE

Hotel name	
Hotel group	
Hotel grading	
Number of rooms	
Interviewee	
Interviewer	
Date of interview	

General manager

1. Progression up the hotel chain	
2. Training or skills required to be a General Manager	
3. How does General Manager spend his day	
4. Day to day management - guest management	
- staff management	
Meetings	
Planning	
Other	
5. Time spent per department per day	
Room rentals	
Food and beverages	
Other	

Hotel structural chain

1. How many levels of management	
2. How many employees at the hotel	
• room rentals	
• food and beverages	
• other	
3. How many managers at the hotel	
• room rentals	
• food and beverages	
• other	
4. Does the hotel have a centralized or decentralized management policy	
5. Who does the general manager report to	

Performance evaluation

1. How much time is spent evaluating employees yearly / monthly	
2. How much time is spent evaluating each of the departments yearly / monthly	
• room rentals	
• food and beverages	
• other	
3. On what basis are departments evaluated	
• room rentals	
• food and beverages	
• other	
4. On what basis are the managers of the departments evaluated	

5. How is staff productivity evaluated	
6. How is the overall profitability of the hotel evaluated	

Budgeting and forecasting

1. Does the hotel budget into the future	
2. What timeframe does the hotel budget within	
3. Who compiles the budgets	
4. What information sources does the hotel look towards when compiling its budgets	
• long term	
• medium term	
• short term	
5. Is the general manager familiar with any form of scientific forecasting techniques e.g. Delphi forecasting	
6. Are budgets generally met	

The future of South Africa in terms of tourism

FOREIGN TOURISM	
1. Can the current growth levels be sustained	
2. Is the standard of hotels in South Africa comparable to international standards	
• guest services offered	
• staff professional level in terms of training, work ethic and overall helpfulness	
• prices	

3. Is there an over or undersupply of hotels in South Africa currently	
4. How should South Africa be marketed internationally and nationally	
DOMESTIC TOURISM	
1. Has the hotel felt the effects of the increased growth in domestic tourism	
2. Can the current growth levels be sustained	

Community involvement

1. Does the hotel involve itself in any community upliftment projects	
2. Are any community projects planned in the future	
3. Does the hotel employ any measures to safeguard its guests from crime	

Government support

1. Can the Government do more to boost local and foreign tourism in South Africa	
• incentives for building hotels	
• increase tourism awareness countrywide	
• fight crime / protect tourists	

Theft / crime

1. Is there a major problem with theft in your hotel	
2. What would you estimate the annual cost of theft in your hotel to be	
3. In what department does theft mostly occur	
4. What measures are currently taken to defer theft	
• strong internal controls in place	
• strong disciplinary measures	
5. Plans in the future to prevent theft	

Training

1. Are there sufficient training facilities for the tourism industry in South Africa	
2. Does the hotel run its own in - house training	
3. How much is budgeted for annually in terms of in - house training	

General expenses

1. Is the hotels focus on cost minimization, increased guest satisfaction, or a combination of the two	
2. In terms of external purchases:	
• Are all goods generally bought from regular suppliers	
• Are any policies followed in regards to minimizing storage and ordering costs:	
• general hotel supplies	
• food and beverages	
• Are tenders sought and compared before bulk orders are placed	
3. Is cleaning done in - house or is it	

outsourced	
4. Does the hotel have large bad debt expense	
5. Does the hotel invest generously in credit check facilities	
6. In low cyclical periods, where does most cost - cutting occur	
7. Is it possible to obtain a copy of the hotels budget for this period / most recent results	
8. Is it possible to obtain a breakdown of fixed and variable costs per department	

Advertising and marketing

1. Through what medium is the most extensive advertising done (e.g. airport, magazines and newspapers, billboards, television, travel agencies etc.)	
2. What income group is the hotel marketed at	
3. Is advertising focused at foreign or domestic tourism	
4. What is the annual advertising budget	
5. What percentage of rooms are sold at a discount	
6. What are the average discounts given	
• corporate	
• tour groups	
• individuals	
• seasonal discounts	

Revenue

1. What are the hotels average occupancy rates during the year	
2. What is the occupancy split between foreign and domestic tourists	
3. What is the revenue split between foreign and domestic tourists	
4. Do you notice a large percentage of any particular nationality visiting your hotel	
5. What are the high and low cyclical periods of the hotel during the year	
6. Does the hotel have any plans to boost off season room rentals during the year	

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Profits

1. How does the hotel budget for profits (e.g. mark-up on cost, % of total investment etc.)	
2. Does the hotel have any plans in future to boost hotel profits	

General comments

1. View on the issuing of casino licences in terms of boosting tourism in general	
2. Does the hotel industry face any future dangers in terms of the proliferation of bed and breakfasts, guest houses and self catering apartments	
3. How does a hotel make a profit in South Africa	
4. Other	

APPENDIX B – Hotel Balanced Scorecard questionnaire

**HOTEL
QUESTIONNAIRE -
BSC**

BACKGROUND
INFORMATION

NAME OF HOTEL

PERSON INTERVIEWED

POSITION HELD

BACKGROUND OF INTERVIEWEE

BACKGROUND OF HOTEL

HOTEL FACTS

Number of rooms

Number of restaurants

Number of bars

Number of staff:	Rooms	Restaurants	Bars
Managers			
Employees			

What are the most profitable areas

What is the hotel focused towards making more profitable

STRATEGY OF THE HOTEL

GROUP STRATEGY

Long term

Short term

HOTEL STRATEGY

Long term

Short term

COMMUNICATION OF STRATEGY

**What is method of communication to all levels of staff
Egg internal brochures, staff meetings**

BUDGET PREPERATION

Who prepares budgets

How are budgets prepared

What sources of information are used

Are budgets ambitious

Are they aligned towards the corporate strategy

MANAGEMENT PACKS

How many pages per month

How many ratios and measures

Do you review the whole pack

What ratios are used to:

FINANCIAL

Measure overall profitability

Measure departmental profitability

Track revenue in relation to overall investment

CUSTOMER

Track revenue per guest (rooms and beverages)

Track new guests

Track repeat guests

Track whether hotel is getting the guests it's aiming for

Determine guest satisfaction

INTERNAL PROCESSES

What are the most important internal processes (egg book in / out, room preparation)

--	--

How does the hotel track process improvement

--

Does the hotel use ABC / TQM etc

--

What is the process in dealing with guest complaints

--

How is it measured

--

**What is the process in implementing new initiatives:
Who thinks them up**

--

How are they tested

--

What time period to eventual market introduction

--

Is revenue / profit per initiative measured

Is the whole process monitored

How is the working capital cycle measured

What are the most effective and efficient processes:

Day to day operations

Working capital

Other

What are the least effective and efficient processes:

Day to day operations

University of Cape Town

Working capital

Other

LEARNING AND GROWTH

Are employees happy overall

**Do employees make a management contribution
(egg suggestions)**

How is employee satisfaction measured

Is there a high staff turnover

Is strategic job coverage measured

Are employees compensated based on the important measures currently used

What kind of guest information

is
available on the database

OVERALL
What is the feedback process
on all new initiatives used
(processes improvements)
(critical area improvements)

QUESTIONS TO KEEP IN MIND

Can I see a management pack

Can I see the last quarter / years results

Can I come in to conduct more interviews with departmental heads

Can I do a case study

Do you have other people to refer me to

University of Cape Town

APPENDIX C - Break-even and closing points

The most opportune time to control profits is before the costs have been incurred and the revenue has been earned. It is important to develop a costing model beforehand that provides management with the necessary information to price the different services in a manner that adequately covers the costs (Wood, F. and Lightowlers, P., 1985) Break even analysis provides management with the ability to generate different scenarios at different costs and volumes for the purposes of determining profits.

The break-even point is the sales point where total revenue earned is equal to the total expenses of the operation. Various factors must be determined beforehand such as the expected occupancy, level of fixed and variable costs and realistic pricing alternatives.

Example of break even in the hotel industry

An entrepreneur wants to build a 100-room hotel in an area in Cape Town with an annual occupancy of 60% and a room rate of R120. He believes he can achieve a 65% occupancy with a new hotel. His fixed costs will be R500 000 per annum and his variable / semi-variable costs will be R200 000 plus 40% of sales. He desires to earn R10 000 per room or R1 000 000 per annum.

The break-even point for this hotel is at R700 000 (R200 000 + R500 000) + 40% of sales. With sales equalling 100% of these costs, the equation will be:

$$100\% = R700\ 000 + 40\%$$

Breakeven sales is thus: R700 000 / 60% which equals R1 166 667.

This equates to the selling of 9 722 rooms a year. In a 365 day year, this translates to occupancies of 27%.

In an area with 60% average annual occupancies, the break even seems very feasible.

Based on the manager's predictions he can achieve a 65% occupancy. This will entail him selling R2 847 000 worth of rooms a year. With total costs of

R1 838 800 (40% of R2 847 000 + R700 000), he will be making R1 008 200, which will more than meet his expectations.

It is also possible to utilise a daily break even point, by dividing monthly breakeven by the number of operating days, which for a hotel is the number of days in the month.

The closing point in a hotel is that point where sales volume fails to recover all the costs of opening the hotel for business. In order to calculate this, costs must be separated into those, which will be incurred whether the hotel is open for business or not e.g. rent, and those that are only incurred when a hotel is open for business e.g. labour. If it will cost the operator R1 000 to open the door for business, he must make at least R1 000 in sales. If he can only expect to earn R900 that day, he will save himself R100 by staying closed.

Although no profit is earned when a hotel is trading below its break-even point, it may still be worth its while to open its doors in seasons where break even cannot be earned. The hotel may earn enough cash to partially cover those costs, which will be incurred, whether or not the hotel opens for business. As long as the hotel can recover enough cash to cover the costs of opening it's doors for business on any day plus R1 extra, it has contributed R1 towards covering the 'permanent' costs, and the day's business was worthwhile.

Appendix D - Balanced Scorecard Implementation methodology

The implementation of a Balanced Scorecard is not as simple a task as developing a new set of measures and then monitoring their results over set periods. It is a complex process that should be phased in over a period of time. Kaplan and Norton, state that due to its scope, complexity and impact, a new management system should be phased in over time (Kaplan and Norton, 1996). There are various stages in the development of this system, which begin with the clarification of the company's vision and strategy. It thus becomes immediately obvious that the mobilisation of the process must begin with senior management. In fact, the responsibility for the development and implementation of a Balanced Scorecard management system rests with senior executives of the hotel or hotel group.

Ten stages can be defined from the initial decision to implement the Balanced Scorecard management system, through to its implementation (Kaplan and Norton, 1996). Depending on the internal structure within the hotel or hotel group, these steps should be adapted.

- Clarify the vision into a proper strategy.
- Communicate to middle managers and develop divisional scorecards, using the corporate scorecard as a template.
- Eliminate non-strategic investments and launch corporate change programs.
- Review divisional scorecards.
- Refine the vision after new, cross-business issues have been identified.
- Communicate the Balanced Scorecard to the entire company and establish individual performance objectives (link top management objectives and incentives to their scorecards).
- Update the long-range plan and budget: Set five-year goals and budget for funding of necessary investments. The first year plan should become the annual budget.

- Conduct monthly or quarterly reviews, which are focused more heavily on the meeting of strategy decisions than cost savings and the meeting of budgets.
- Conduct the annual strategy review.
- Link the performance of all employees, if possible, to the Balanced Scorecard.

Clarify the vision into a proper strategy

At an owner or senior manager level, the vision of the hotel or group should be discussed and clarified. An executive committee, preferably the steering committee of the project should be formed for this purpose. As was found during the process of interviewing several hotel managers, if a vision existed at all, it was generally just an inspirational motto. This vision needs to be built into a Balanced Scorecard at this stage, and in so doing; consensus and commitment towards the strategy can be developed at a senior level. As in the case of the vision of City Lodge (Figure E.1), several statements can be found, and while it is possible to determine with some accuracy whether the group will own/ manage/ operate 5 000 rooms by the year 2003, the other vision statements are somewhat less tangible. A Balanced Scorecard, when developed at this stage, should not only clarify the vision, but also set measures in place to quantify the future attainment or non-attainment of these visions.



Figure D.1 (City Lodge vision)

Communicate the corporate scorecard to middle managers and develop divisional scorecards, using the corporate scorecard as a template

Middle management should become familiar with the corporate scorecard as developed in stage one. This management should include the general managers and assistant general managers of all the hotels in the group or of the individual hotel to which the strategy is being applied. It is important at this stage for the executive committee to obtain commitment and belief in the management tool from this level of management, as it will be their responsibility to lead the staff of the hotel according to the Balanced Scorecard system. Based upon the corporate scorecard, the hotel managers must develop a Balanced Scorecard for their individual hotels. A scorecard must be developed for each of the hotels. In the case of the City Lodge group, it may be sufficient to develop one scorecard for each of the different brand hotels within the group i.e. one scorecard for the

City Lodge hotels, one for the Town Lodges etc. On a departmental level, if significant enough, the front desk manager and general manager should develop a scorecard for the rooms department, and the food and beverages manager and general manager should develop the scorecard for the food and beverages department. Depending on the structure of the hotel group, it may be practical for regional or other managers to involve themselves in this level of development. Scorecards could be developed jointly amongst the managers of the different hotels, or compared at some time in this stage, to ensure standardization. It is also at this stage that management must consider what information is already being generated by the present systems within the hotels, and what information is not being generated. It may be necessary to upgrade existing data generating systems to produce new information for the Balanced Scorecards. Management must also ensure that the data required for the performance measures is practically obtainable without having to make unreasonable modifications at unreasonable cost to the hotel.

Eliminate non-strategic investments and launch corporate change programs

Often, when the executive committee clarify the vision and strategy of the Balanced Scorecard, they will identify active programs that are not contributing to the strategy. A marketing scheme aimed at a market segment that is now regarded as not core to the success of the hotel may be eliminated, or the maintaining of an in-house cleaning department may be discontinued. Upgrades to the data capturing systems should be started at this stage. Revised programs, which are aligned with the strategy of the hotel, should be developed. The new marketing scheme, which is now aimed at the target market of the hotel, should be implemented, and the costly cleaning should be outsourced through an independent cleaning company.

Review divisional scorecards

The executive team must review the hotel and divisional Balanced Scorecards to ensure that they are aligned with the strategy as lay down in the corporate scorecard. This process also allows the executive team to participate knowledgeably in shaping the strategy of the individual hotels and departments.

Refine the vision after new, cross-business issues have been identified

As hotel scorecards and departmental scorecards are developed, issues will be uncovered that were not originally uncovered or included in the corporate scorecard. Staff satisfaction may not have been included in the original corporate scorecard, while at a departmental level it was considered as to be a crucial element of strategy. At this stage, the corporate scorecard will be updated.

Communicate the Balanced Scorecard to the entire company and establish individual performance objectives

Once the management teams are comfortable with the strategic approach that has been decided, the scorecard should be disseminated to the entire staff complement in the hotel group. It is important to get 'buy-in' from all staff if the new strategic process is going to be successful, and this entails not only educating staff on the Balanced Scorecard system, but also convincing them of its potential. In order to obtain the support of the upper management levels, their remuneration packages should be linked to their scorecards. By incentivizing the success of their hotels through their scorecards, a win-win situation is created. The hotel will succeed in the direction chosen by the executive committee as best fitting the vision of the company, and the hotel managers will be happy to strive for this success.

Update the long-range plan and budget: Set five-year goals and budget for funding of necessary investments

Five year goals are set for every measure on the scorecard e.g. the budgeted revenue per available room for the next 5 years is set. It is important to realise that these budgets should be updated on a regular basis, based on the feedback that is being continuously received from the hotels and the environment in which it operates. The group should also budget for the funding of all investments required to achieve these goals e.g. a new training program may need to be developed.

The first year of this 5-year plan will become the annual budget for the coming year. The budget should be realistically obtainable, neither too ambitious nor too pessimistic.

Conduct monthly or quarterly reviews, which are focused more heavily on the meeting of strategy decisions than cost savings and the meeting of budgets

Monthly review meetings which, are more focused on strategic issues should then begin. It is important at this stage not to become involved in the meeting of monthly budgets and the position of individual hotels within the group from an occupancy or overall profit perspective. Management should rather keep sight of the long-term goals and the alignment of the individual hotels and the group towards the meeting of those goals. It will soon become apparent whether the goals and strategies that were decided on are in fact the right ones for the group, and whether strategy needs to be adjusted on the corporate or individual hotel scorecard. Weak links in the chain will also be identified. These reviews should take place on a monthly or quarterly basis. The holding of half-yearly reviews may not be regular enough, as the momentum in place at the beginning stages of the implementation could soon be lost. Crisis management could also result

where meeting shareholders expectations and budgets seem too important to be pushed aside for a discussion on long-term visions.

Conduct the annual strategy review

After two years have passed from the time of the clarification of vision, the annual strategy review meeting should be held. The individual hotels should be able to determine whether they are meeting initial strategic decisions or not, and the corporate strategy may require updating. The executive committee should table a list of the most important strategic issues at corporate level, and each individual hotel manager should comment on whether these issues are relevant and obtainable, or need updating. The executive committee should then update the corporate strategy and scorecard.

Link the performance of all employees, if possible, to the Balanced Scorecard

The group should then focus on linking the performance of all employees to their individual objectives on the Balanced Scorecard. In this way, all employees will be rewarded financially on the meeting of individual hotel and corporate strategic goals. The hotels marketing department will be rewarded when the occupancy rates of the target market increase, and front desk staff will be rewarded when the guest satisfaction rating increases.

Appendix E - City Lodge Interview

Summary of interview with Ross Phinn, General Manager – September 1999

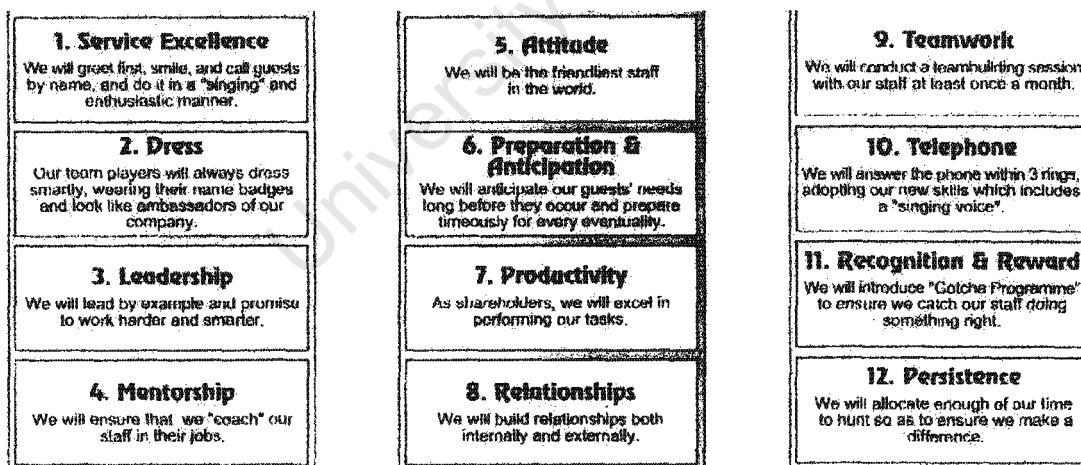
The City Lodge group in South Africa has a more clearly communicated strategy. City Lodge Group intends to increase its room and suite supply from 3 000 rooms currently to 5 000 by the year 2003 including international expansion into Africa and South America. Other elements of City Lodges vision are to be recognised as the leading provider of selected service accommodation, delivering world-class service, enhancing the guest experience through innovation, technology and passionate service and delivering exceptional returns to stakeholders. City Lodge has developed 12 steps for the attaining of these goals which include leading by example, delivering monthly team building sessions to staff and anticipating guests needs (Figure E.1). Through these steps, staff at lower levels in the organisation are aware of the behaviour that is required of them to achieve the vision. All staff are required to carry with them, a card setting out the vision and steps. Management make no mention in their vision or steps to achieve this vision of maintaining or increasing profitability. However many of the current initiatives being utilised in the hotel revolve around the cutting of costs and boosting of occupancy rates.

The hotel runs at high occupancies during the week being a hotel, which is geared at the business traveller but experiences low weekend occupancy rates. Management have attempted to boost occupancies during weekends through the introduction of the team scheme, which discounts rooms on the occurrence of a booking of 4 rooms or more, and the 'Spouse on the house' program, which allows the husband or wife of a guest to stay for free. The hotel group has also introduced an Internet auction site, which sells rooms to the highest bidder, generally on weekends (www.bid2stay.co.za).

In terms of cost cutting to boost profitability, management are attempting to cut back on labour costs by not replacing staff who have resigned. Selected employees are expected to perform more than one function e.g. several employees serve breakfast in the morning and then clean rooms once breakfast is complete. Tighter controls on cleaning chemicals have been implemented and management have attempted to cut down on energy consumption e.g. turning off half of the geysers during the day. Measures such as these have been implemented to assist management in meeting budgeted profits. (Phinn, 1999)

The goal of improving profitability is clearly evident in the City Lodge group. The steps in the pocket card (Figure E.1) can be linked to the improvement of profitability as well. Since staff can easily relate to this concept and are most likely spending a significant portion of their day on it, the concept should be included among the goals of the hotel in a manner agreed upon by management.

Figure E.1



The City Lodge group has targeted itself at a much broader core market, that being the South African business traveller. Management initially found themselves to be in a niche market area, which in itself proved to be profitable, and has since found the business traveller to be the most lucrative type of guest

that visits the hotel. As the company employing the guest generally settles the bill, guests are more willing to make use of the bar and other entertainment facilities at the company's expense.

A key element of success in the hotel industry, according to management of the City Lodge group is the creation of a loyal customer base, as this creates repeat visits. The means to ensure that this base is created is to ensure that guests leave the hotel satisfied. The City Lodge has several systems in place to measure the satisfaction of their guests.

Guest satisfaction is determined by means of a guest questionnaire completed after every stay. The questionnaire attempts to briefly tackle all areas of service including the food and beverages offered. Questionnaires are sent to head office where they are analysed and the satisfaction level is quantified. A satisfaction level of less than 95% is cause for alarm and an investigation by head office is conducted. An independent company has been contracted to perform the function of mystery shopper. Once a month this mystery guest will stay at the hotel and rate all services offered. Any overall rating of less than 80% will result in an investigation by head office management. Guests are also invited to leave their business cards at the reception desk. They are e-mailed by the hotel and invited to comment on the service they received during their stay. Ross prefers this form of guest feedback to that of the mystery shopper and questionnaires since any responses received are more current and detailed than the questionnaire. He also feels that the mystery guest may stay on one particularly bad day resulting in a rating that did not really reflect the entire period under review. A guest database is kept at each hotel from which a guest history can be determined together with guest preferences.

Ross Phinn of the Morningside City Lodge feels that the areas in which the hotel excels are the standardised service that it provides. Guest brand loyalty to the City Lodge group is a common occurrence, as the service and set out of the hotel

do not change. The City Lodge breakfasts are an area in which the hotel also excels. Ross feels that guests are satisfied with the value for money that they receive.

City Lodge has recognised another targeted guest base in businesswomen whom they feel respond very well to the hotels services and amenities. Women are booked onto the second floor wherever possible to remove the fear of intruders climbing into their rooms through a ground floor window. Cotton wool, buds and other female necessities are provided and appreciated by women as well.

The City Lodge has a decentralised purchasing system. Hotels are individually responsible for ordering and receiving stock. Ross feels that this system is very effective in that no delays common to a centralised purchasing system occur and faulty / incorrect deliveries are more timeously identified and rectified. Thus, common guest needs are rarely left unfulfilled.

An area where improvements could be made is debtor recoveries. No incentive is offered to the debtors clerks / receptionists on timely recovery of debtors, and thus there is no incentive to keep an efficient receivables book. Ross stated that the incentivising of this function as is done at the Don group of hotels would be highly effective in shortening the working capital cycle.

The City Lodge group operates on a concept called TLC (Tip top service, loving staff and a clean hotel). This concept and the standardisation of hotels generates guest loyalty and repeat business. Ross stated that this is the key to optimising internal business processes and thus becoming a profitable hotel.

The City Lodge group recognises the importance of staff in the profitable management of a hotel, however no measure is currently in place to determine whether staff are satisfied. Ross Phinn, assistant general manager at the

Morningside City Lodge stated that word will generally get around fairly quickly as to whether a particular staff member is dissatisfied with his job or an aspect thereof, and management will then attempt to rectify the situation.

Training of staff is a tool that can be used to both improve productivity and improve staff satisfaction levels. The City Lodge group has attempted to use this tool on a larger scale. Ross Phinn felt that many of the one-year courses were not particularly effective when it came to practical delivery of service. The Hospitality Board has developed a National Qualification system to address this problem and it is currently becoming more accepted amongst hotel groups in South Africa. Diplomas are granted in various areas of hotel service after a practical exam is taken. It is the responsibility of the hotel where the employee works to provide the necessary training. The possession of a diploma offers the employee a sense of accomplishment and motivation. Management are also rewarded by the fact that staff are proven capable.

Another aspect of employee satisfaction is recognition for doing a good job. The City Lodge group of hotels has in place the 'Gotcha' system, which is a reward system. If staff are caught by management performing well in daily tasks, points are granted. Every quarter, prizes are granted based on the highest points earned. This system has proven to be effective amongst lower levels of staff. Staff are occasionally singled out in guest satisfaction questionnaires and e-mails as performing well or poorly. Management in the appraisal of those staff members considers these comments seriously.

Appendix F - The Grace interview

Summary of interview with Charles Lotter, General manager – September 1999

The Grace is an up-market 5 star hotel in Rosebank Johannesburg. It is part of the Grace group of hotels, which also consists of the Mount Grace in the Magaliesburg, the Cape Grace in the Cape Town waterfront. It has been open to the public for 2 years. The group, unlike the Hilton group, has no further expansionary plans. They are a family owned hotel chain, and are currently content with their position in the South African market as far as their hotel properties are concerned. In the first year the Rosebank hotel reported a R4 million loss, and is expecting to break even in the current year. The strategy of the hotel is to retain a loyal and growing client base that visit whenever in Johannesburg (increasing sales volume). Ultimately, the hotel also aims to have the highest revenue per available room (REVPAR) in Johannesburg within the next three years, and from a more long-term perspective, the highest REVPAR in South Africa (increasing the average check). They also hope to increase transit business, which Charles Lotter, the general manager sees as the perfect way of filling vacancies during low periods of the week. Where business guests generally stay at the hotel midweek, during weekends, the hotel suffers very low occupancies. Transit guests who on their way to their home country spend one night in Johannesburg are now being targeted, as their stays are not generally bound by a day of the week (Lotter, 1999).

The Grace Hotel in Rosebank has targeted itself at a very specific client base, that being overseas corporate clientele who have travelled to Johannesburg on business. Approximately 75% of all rooms sold are to international corporate travellers, particularly English guests and residents of the Channel Islands. The balance of rooms sold, are to transit passengers on their way too or from Johannesburg International Airport. So confident is the management that it has

successfully targeted and secured a client base that it relies heavily on word of mouth to market the hotel, through referrals from previous guests and from locals who have eaten at or heard about the restaurant cuisine. Since the markets of the different hotels in the group are so diverse, very little business comes from guests from other Grace hotels. There are no conference facilities, but conference guests occasionally do stay at the hotel.

No guest is found to be vastly more profitable than any other. Since there are approximately 50 restaurants within easy walking distance of the hotel, it is generally found that all guests eat breakfast at the hotel, few if any eat lunch, and approximately 30% eat dinner. As is generally accepted, most profit comes from the selling of a room rather than food and beverages. Thus the hotel does not focus on attracting a particular type of foreign guest e.g. English tourists or conference delegates. Most guests generally pay the same rate for a room. In line with the long-term strategy of the hotel, it intends to build a loyal guest database and then to increase the rack rate. Charles Lotter, from guest and previous guest interaction, confidently states that guests are getting value for money, and will be prepared to pay more in the future.

The hotel has a system in place to ensure that guest satisfaction is being achieved, and to measure the eventual satisfaction of that guest.

An employee of the hotel has the sole responsibility of guest liaison officer. She has no operational duties other than keeping guests occupied and happy. She records all guest comments and particular preferences onto a guest database, which is accessed whenever that guest returns. Customer satisfaction cards are handed out to every guest that arrives, and are also available on departure. Approximately 20% of the guests actually complete the cards. Once a week, management has a meeting where they are reviewed.

The booking system has the facility to determine which of the guests has previously stayed at the hotel. This has the dual functionality of giving management an indication of the volume of repeat business and readying staff for guest arrivals. Statistics could be generated monthly on the volume of return

guests as an indication of guest satisfaction. Charles Lotter reviews the list every morning for repeat guest arrivals, and ensures that the necessary staff are aware of any special guest requirements that are included on the guest database. There is no formal system in place to measure restaurant guest satisfaction. In fact, though most guests comment on the superior quality of the food, and many referrals come from local restaurant patrons impressed with the food, Charles Lotter recognises that food sales make up a small part of hotel profitability and attempts not to devote too many management resources to the process. He maintains the standard based on the amount of business it generates for the hotel (Lotter, 1999).

At the Grace, staff, particularly the management of the hotel are encouraged to contribute towards the improvement of the hotel through suggestions, new ideas and complaints. Management make a point of asking staff on a regular basis how they have "surprised and delighted" their guests. This occasionally leads to new innovative ideas. Staff are also allocated to customer service teams. Each team consists of employees from different departments of the hotel. Teams meet regularly to discuss their grievances and suggest improvements. Management take all suggestions seriously though action is not always taken (Lotter, 1999). Most innovation comes from management of the Grace. They spend a substantial amount of time travelling, often staying at international hotels. This experience allows them to determine the services that they would expect if they were guests at the Grace, as well as exposing them to new service concepts and products. (Moore, 1999)

Charles Lotter believes that the ambience, homeliness and uniqueness of the Grace in comparison to all other luxury hotels are the factors that cause the Grace to succeed. He states that the offering of a unique service above all other factors including price competitiveness, location and effective marketing campaigns cause a hotel in the luxury market to become profitable. Charles stated that it was hard to pinpoint the processes in his hotel that are performed exceptionally

well, but highlighted that an area commonly praised by the targeted guests is the food served. Food preparation and guest liaison are two areas that he believes are above the industry norm and critical to the success of the hotel, however he feels the hotel experience offered as a whole is a well performed process based on the high incidence of repeat bookings.

At the Grace in Rosebank, management trains staff internally. They are trained according to new environmental and social trends noticed by management. An increase in transit guests has been witnessed, and is expected to continue, thus training has been adjusted to deal with this. Whereas corporate guests often dine quickly and expect to be presented with a bill before they have even finished their morning coffee, transit guests spending the day in Johannesburg eat at a more leisurely pace. Waiters are trained to identify the different classes of guests and respond accordingly. Front desk staff have become more familiar with the different sites and attractions in Johannesburg to assist leisure guests plan their day, whereas corporate guests never needed the service. Charles believes that staff morale at his hotel is high, and admits to spending a large portion of his time interacting and training his staff.

Appendix G - The Park Hyatt Hotel interview

Summary of interview with Wayne Hill, Manager – June 1999

The Park Hyatt Hotel is a 5 star up-market hotel in Rosebank catering to successful local and international businessmen. The hotel has luxury facilities including an a la carte restaurant, full conference and banqueting facilities, and 24-hour room service. The Park Hyatt is part of the worldwide Hyatt Hotel chain. The hotel has targeted itself at a very specific guest, that is successful businessmen and businesswomen, in particular, the entrepreneurial travelling businessman who requires an office away from home. Park Hyatt's general manager, Hans Heyligers, said that at least 90% of the hotel's occupancy was from the international business sector, while 10% were tourist-related. Approximately 40% of its guests are American business travellers, and the remainder originate mainly from England, South Africa and Germany.

The hotel is equipped for this customer through the environment and business services it offers. Management find that the business guests are generally a more profitable source of income in that they utilise more of the services provided by the hotel i.e. internet connections and cellular phones. They also spend more time at the hotel than do holidaymakers, who are generally out all day. The Park Hyatt hotels are standardised in line with the Hyatt's corporate image. The service and environment offered in the Rosebank Hotel is very much in line with any other Hyatt around the world. It is this quality of the hotel that creates loyalty and repeat guest business. The Hyatt's Gold Passport guest loyalty program offering incentives based on nights spent at the hotel also generates repeat business and won an international award in 1999 for the best guest loyalty program of all hotels.

The Hyatt utilises a guest database called Spirit where the service preferences of all its past guests are stored. This database is shared by all Hyatt hotels and enables the Rosebank Hyatt to serve a guest who has previously stayed at the Hyatt in Chicago in the manner that he prefers.

The Hyatt has a system in place to ensure that is delivering the standard of service that its guests expect. Guests are all given satisfaction cards to fill out at the end of their stays. An external marketing company processes these cards on a monthly basis and management monitors the results. The Hyatt is satisfied that it will receive an objective view of its performance standards through this process. The quality of food and beverages served are included in this questionnaire. Satisfaction cards are also filled out by conference / banqueting customers (Hill, 1999).

The Hyatt has also developed a guest database, which is perhaps more advanced than that of the other hotel chains. The Hyatt is able to track repeat business through the Galileo international travel booking system, which is in fact owned by the Hyatt group. Most travel agents use Galileo worldwide to reserve bookings for its customers. Any travel booking arrangements worldwide, which are processed through this system and relate to the Hyatt chain of hotels, are updated in the Hyatt's central customer databases. This in addition to the Spirit system, empower the Hyatt with up to date detailed information on all of its guests (Hill, 1999).

The Hyatt hotel operates on a similar set of rules, though the target market differs. Wayne Hill states that most processes are standardised across the Hyatt group. He feels that the Hyatt delivers all of its services effectively and efficiently in line with the requirements of the targeted business market. While guests and restaurant patrons seem satisfied with the service offered, Wayne stated areas where the elements of the processes required to deliver these services could be improved upon. Wayne emphasised the relationship that the Hyatt has with many

of its suppliers as problematic, particularly with regard to food and beverage purchases. He stated that the Hyatt has few long-term supplier relationships due mainly to the supplier's inability to cope with the regular bulk orders placed. There has been a trend towards cutting 'back hotel' space in the modern hotel. This effectively means that hotels have to order smaller quantities more often as less storage space is available. Wayne feels that suppliers often do not have the right quality of stock in place, or any of the required supply at all. He stated that this was not a problem experienced by all of the Hyatt's and was not aware of any of planned action to improve the supply process. Stock-outs are an occurrence that cannot be tolerated by the hotel in delivering the standard of service required by the Hyatt's target market. Speed of service is also an area where improvement is possible, particularly with regard to room service delivery. Guests are now told more realistic delivery times to avoid dissatisfaction, but Wayne hopes to ultimately improve service speed.

The Hyatt in a similar commitment has developed its own staff training programmes from cleaning staff to top management levels. Wayne was not concerned about the lack of training facilities in South Africa for this very reason. He also emphasised the need for cross culture training in improving staff productivity. If management understood the backgrounds of the staff that they need to motivate, he feels that they would be far more effective. He feels that hotels should take a greater interest in the training of their own staff.

At the Hyatt, management have experimented with staff incentivisation. Wayne Hill admits that his restaurant employees are not the most contented staff in the hotel industry, but the staff turnover in his restaurant is purported to be one of the lowest in the industry. Wayne attributes this to the fact that restaurant workers are being paid a salary plus an annual bonus based on their performance. A percentage of restaurant profits are distributed amongst the restaurant workers.

APPENDIX H - The Sandton Hilton interview

Summary of interview with Brendan Corcoran, Manager – September 1999

At the Sandton Hilton, however, the Front Desk Manager was not aware of any particular segment of guest that was being targeted by his hotel, other than upper class travellers who could afford to stay at the hotel. He could also not determine which classification of guest was more profitable than the other guests.

In determining guest satisfaction the hotel has several systems in place. The Hilton made use of a detailed guest questionnaire, which every guest of the Hilton is requested to complete in the form of an interview conducted at head office level. Results are then sent back to the hotel in the form of a rating on relevant areas of service offered. The company makes use of the mystery guest program whereby a guest employed by an independent company visits the hotel and rates his stay. Results of this stay are corroborated with the guest satisfaction rating and areas of concern are highlighted.

The group maintains a guest database of all guests enlisted in the Hilton loyalty program (HHonors), which currently has over 2 million members (Hilton group 1998 year end financials). The hotel can track repeat guest business as a means towards determining whether guests are satisfied with the service offered across the group. A guest databases is also kept at the individual hotels, which contains details on previous stays at the hotel and service preferences.

At the Hilton hotel, Hyatt hotel and City Lodge, general and departmental managers are encouraged to be innovative, though not on the same level as at the Grace. All staff are encouraged to suggest improvements though this would only generally occur on an individual service level. There were no formal

structures at any of these hotels for the collection or implementation of staff suggestions.

Brendan Corcoran of the Sandton Hilton described the quality standard of service as a whole as being a key internal business process in the securing of Hiltons target market.

APPENDIX I - The Sun International interview

Summary of interview with Brad Jackson, Database Manager – June 1999

Sun International has developed a guest database, which for the time being is geared exclusively at the gaming customers. The database is highly sophisticated and was developed in anticipation of the imminent influx of casinos across South Africa. Guests are rated on the Most Valued Guest (MVG) program, which bases itself on how much revenue that will be earned annually from a customer. Cards are issued based on how many MVG points the guest qualifies for. Depending on which card the MVG holds, the cardholder qualifies for privileges such as reduced room rates and VIP parking facilities.

As a result of this system and from previous Sun International guests, Sun International (S.I.) is able to track the spending of every cardholder at every Sun International casino in South Africa. Spending is closely monitored from a geographical and socio-economic perspective. S.I. have determined that approximately 20% of their guests generate 80% of their revenue. They also know that Gauteng residents account for 80% of their gaming revenue, and from which neighbourhood and social class.

Marketing initiatives are now being based on the information generated from this database. Mail shots (mass mailing of pamphlets advertising specials) are sent to the customers regarded by S.I. to be the more highly rated gamblers, and not to areas and households from where any big gaming business has traditionally been generated. Brad Jackson, the customer database manager, has now commenced discussion for the development of a room guest database along the same lines as the gaming database. (Jackson, 1999)

APPENDIX J – Tourism Consultant interview

Summary of interview with Wayne Troughton, Management Consultant at Grant Thornton Kessel Feinstein – June 1999

Wayne Troughton is a management consultant at Grant Thornton Kessel Feinstein, a leading tourism consultancy in South Africa. He has also had many years experience working in management positions in international hotel chains in the United Kingdom.

His belief is that within a hotel environment, the greatest opportunity for delivering a value added service lies with the staff of the hotel. With so many points of contact between the organisation and its clients through the various staff members, Troughton sees several opportunities every day for staff members to influence the standard of the service offering.

Troughton however recognises a challenge for the management team in a hotel in that there is generally a high level of staff turnover present. He states that due to low salaries and a limited career path in an individual hotel, it becomes difficult to instil a culture of service excellence in an individual staff member purely because that staff member knows that he will not be an employee long enough to motivate this attitude within himself.

In commenting on the implementation of a Balanced Scorecard within a hotel setting, Troughton expressed his support for such a tool. He was most impressed with the alignment of employee goals to those of the organisation with performance bonuses being offered if such goals were met. He recognises in addition to this, the need for training in line with the goals of the organisation.

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