

## **MANAGING STRATEGIC PERFORMANCE IN 3-DIMENSIONS**

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# MANAGING STRATEGIC PERFORMANCE IN 3-DIMENSIONS

## EXTENDED ABSTRACT – PERFORMANCE MANAGEMENT

### Introduction

A measurement diversity approach can enhance economic performance, as managers place emphasis on a broad set of financial and non-financial performance measures (e.g. Lingle and Schiemann, 1996). A contingency approach can also improve economic performance, as measurement gaps between the firm's strategic priorities and measurement practices are minimized (e.g. Langerfield-Smith, 1997). Nevertheless, despite frameworks emerging, such as the balanced scorecard (Kaplan and Norton, 1992) that extend organisational perspectives beyond traditional financial measures, many organisations still fail to identify, analyse and act on the non-financial measures (Ittner and Larcker, 2003).

This developmental paper outlines a tested strategic performance system (see Phillips, 1999) that utilises a 3-Dimensional perspective, to leverage competitive advantages at three levels of activity. The SPS: 3-D model encourages hoteliers to enhance their strategic planning processes, translating these into improved business results and removing blocks to organisational learning - across all aspects of performance.

### Current challenges for the hotel sector

There is a rich variety of performance initiatives and debates taking place within the hospitality sector. Currently, favourites include the Balanced Scorecard (Kaplan and Norton, 1996) and Six Sigma (Linderman, et al, 2003); whilst leading industry figures and academics continue to question the suitability of current approaches to hospitality performance metrics Demetriadi, (2002).

Perennial concerns focus on:

- too many measures existing;
- measures not relating to strategy;
- measures being results-biased and not telling managers how the results were achieved and how they got there; and
- reward-system not being aligned to performance-measures and measures not supporting team-based management structure.

Some hotel organisations are currently investing significant resources in BSC and Six Sigma performance initiatives. Despite, there being evidence of documented successes, our research has shown that current thinking is still constraining the breakthrough in performance that the sector needs. The *SPS: 3-D* model is designed to assist hotel organisations, at different stages of their performance initiatives and at different levels of operation, to address critical strategic issues – whether evolutionary or revolutionary advances are sought. Further, the model can help organisations address some of the following common problems.

**Some hotel organisations are now looking for the next breakthrough in results using the BSC**

First-generation BSC products are, primarily, marketed as control tools for managers with the “red, yellow, green” reporting of achievement of targets - green indicating a job well done, yellow meaning scope for improvement and red needing immediate attention.

To get breakthrough results, however, hotel organisations need to replace simplistic causality between the four perspectives of financial, customer, internal business processes and innovation & learning. Second-generation BSC initiatives need to be able to identify cause-and-effect relationships of strategic management with performance management – translating these into operational tactics.

**Some hotel organisations have failed to derive tangible benefits throughout the organisation - at the strategic, business and operational levels**

For those organisations that are trying to grapple with the implementation of strategic initiatives, such as BSC and Six Sigma, we believe that problems do not necessarily reside in the technical aspect of the initiatives, per se. Success will come from two critical perspectives.

First, by integrating the multiple perspectives of staff at the strategic, business and operational levels into a consolidated view of the Critical Success Factors. Second, by rising to the challenge of focusing on the best measures of organisational effectiveness instead of relying on issues that are relatively easy to measure.

**Some hotel organisations are placing too much reliance on traditional quantitative indicators.**

Traditional indicators such as RevPAR have been used extensively by practitioners, consultants and the academic community to assess hotel performance. Notwithstanding, the usefulness of RevPAR for benchmarking hotel performance, the inherent pitfalls in the RevPAR performance indicator make it a poor proxy for the complex hospitality sector.

Recently, practitioners (Slattery, 2002; Younes and Kett, 2003) and academics (Enz et al, 2001) have expressed the danger of an over reliance on RevPAR. Slattery has stated that the gap between the concept of RevPAR and RevPAR statistics has become too wide to be ignored. Younes and Kett advocate the new concept of GOPPAR, which reflects the total underlying operating profit of a hotel. While, Enz, *et al.* assert, with supporting evidence, that the commonly used average measures of ADR, RevPAR and occupancy may be insufficient to see what the “typical” hotel’s performance is really like.

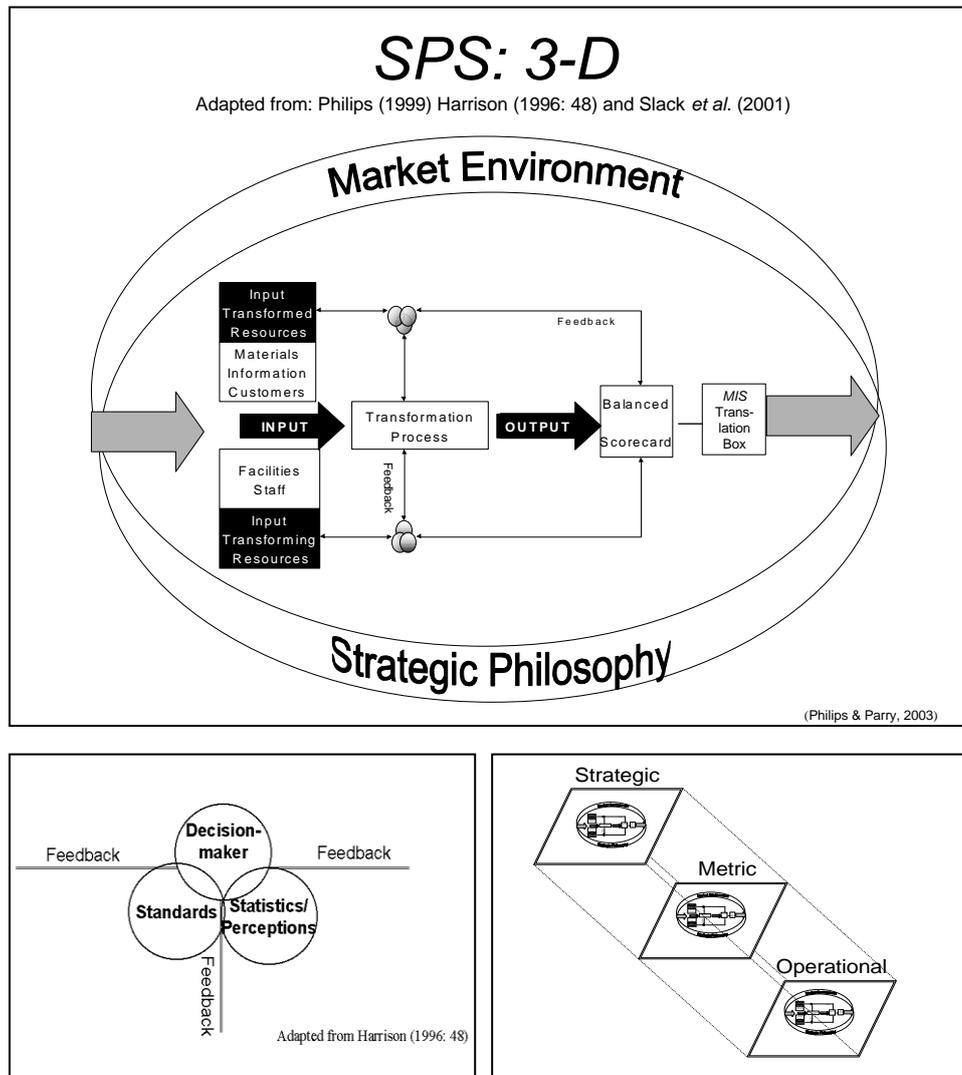
## **MANAGING IN 3-DIMENSIONS**

### **Background**

Building upon Phillips’ (1999) multidimensional performance measurement systems for hotels, as the overall framework, the *SPS: 3-D* model (see Figure 1) comprises three levels, with each containing a core section and two enveloping ‘environmental hemispheres’ – addressing Market Environment and Strategic Philosophy. The Input and Output arrows are placed at the critical interfaces between the Market

Environment governing hotel market segments and the Strategic Philosophy of critical stakeholders demonstrating the organisation's current state.

**Figure 1**  
**MANAGING STRATEGIC PERFORMANCE IN 3-DIMENSIONS**



The *SPS: 3-D* model takes the view that there is a strong link between strategic orientation (strategic philosophy) and performance (metrics) with the mediating variables (market environment) affecting the dynamics of this relationship. Our research, over the last five years, has shown that performance measures used by best practice organisations reflect this relationship - hotel organisations have been found to be no exception.

**Core section**

The model encourages hoteliers to recognise the criticality of blending transforming resources (e.g. facilities and staff) with transformed resources (e.g. food & beverages, information and customers) in this phase (Slack, 1998). This distinction ensures that a

realistic interpretation of inputs is considered and fed into the operational strategy, at each level. For example, the degree to which a hotel brand needs to be proactive, in light of decisions being taken by different customer segments.

All inputs are fed into the hotel organisation's internal transformation. These core activities relate to the critical drivers of value within hotel organisations – the property, brand, IT and management. Continual improvement and organisational learning is incorporated into the *SPS: 3-D* model, through the use of three feedback filtering loops.

### **Triple-filter feedback**

The triple-filter feedback Harrison (1996) focuses on Decision-makers, Standards and Statistics / Perceptions, enabling users to address a variety of conceptual issues, neglected by traditional models. The 'decision-maker' feedback filter enables users to incorporate the interaction of a hierarchy of players (e.g. decision-influencers and decision-takers, etc.) into the dynamics of practical decision-making process, while dealing with operational concerns (e.g. dominant logic and company politics).

The 'standards' feedback filter reflects the pervasiveness of statutory guidelines, company policies, etc. and enables accepted norms to be tested. For example, many hotel companies still budget 4% p.a. for maintenance 'capex', despite recent evidence suggesting that this rule of thumb measure falls well short of market requirements.

Many organisational practices assume that managers have accurate perceptions of their organisations' market environment and strategic philosophy. Mezas and Starbuck (2003) show that most managers have markedly different perceptions and that some have inaccurate perceptions. Hence, the 'statistics / perceptions' overlap of the feedback filter ensures the robustness of the information captured by managers and the appropriateness of its measurement – whether it be qualitative or quantitative.

### **Outputs**

The outputs of the transformation processes are fed into the hotel organisation's performance initiative, such as the BSC or Six Sigma. The translation box recognises the likely need for the core metrics to be fed into the organisation's proprietary management information system (MIS).

## **CONCLUSION**

Recent hospitality sector performance is confirming that traditional performance measurements are not providing the accuracy or richness required by decision makers. Emerging measures hold out rich promise but cannot yet deliver the level of confidence required for organisations to commit to them.

This paper seeks to bridge this gap and to demonstrate how the *SPS: 3-D* Model can integrate trusted approaches to performance measurement with the insights that come from new techniques; whilst taking different perspectives, in order to open up new vistas on future potential.

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