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**University of Surrey, School of Management**

**Centre for Hospitality Industry Performance Research**

**Executive Briefing No. 2**

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**STRATEGIC PERFORMANCE SYSTEM:**

**Managing in 3-Dimensions**

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## **STRATEGIC PERFORMANCE SYSTEM: Managing in 3-Dimensions**

### **INTRODUCTION**

Continuing problems within the large economies of Japan, Germany and the USA, together with the after-effects of the Iraq conflict and the recent SARS outbreak are all being cited as having a direct impact on business performance. Others question whether they merely underline constraints in current approaches to strategic and operational performance.

By June 2003, corporate and investment activity seemed to be starting to pick up; nevertheless:

- Six Continents' demerger into InterContinental Hotels Group and Mitchell and Butlers pubs – the final stage of Bass' metamorphosis out of brewing – was derailed by Hugh Osmond's opportunistic bid – as IHC's shares dropped. Slide-rules were run over other hotel investments and Le Meridien hotel chain was soon in crisis talks with its bankers, as it is now worth less than the value of its debt.
- A combination of funding the costs of unification and telecoms companies that over-paid for their 3G licences, seems to have refocused German banks; with the inevitable knock-on effect on the private equity funding that had been filling the breach in funding opportunities.
- In every country (within Euroland) in just about every sector of the economy, managers complain that demand is falling, political uncertainty is rising and profits are plunging<sup>[1]</sup>.

These are just some of the symptoms that hoteliers need to digest and incorporate into their current strategic performance systems, so that they can fully capitalise on the effectiveness of daily operations. Moreover, if hoteliers are to leverage improvements in long-term competitiveness and performance, the need for enhanced performance measurement systems has never been more pressing.

This briefing outlines a tested<sup>[2]</sup> strategic performance system 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.

The following section details why current hotel performance initiatives are not delivering expected advantages. This briefing introduces the *SPS: 3-D* model and concludes by illustrating how it can help you leverage a competitive advantage.

## **CURRENT CHALLENGES FOR THE SECTOR**

There is a rich variety of performance initiatives and debates taking place within the hospitality sector. Currently, favourites include the Balanced Scorecard (BSC)<sup>[3]</sup> and Six Sigma<sup>[4]</sup>; whilst leading industry figures and academics continue to question the suitability of current approaches to hospitality performance metrics<sup>[5]</sup>.

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. Appendix 1 highlights the measurement philosophies of BSC and Six Sigma - with an outline of the salient strengths and weaknesses of each approach.

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.

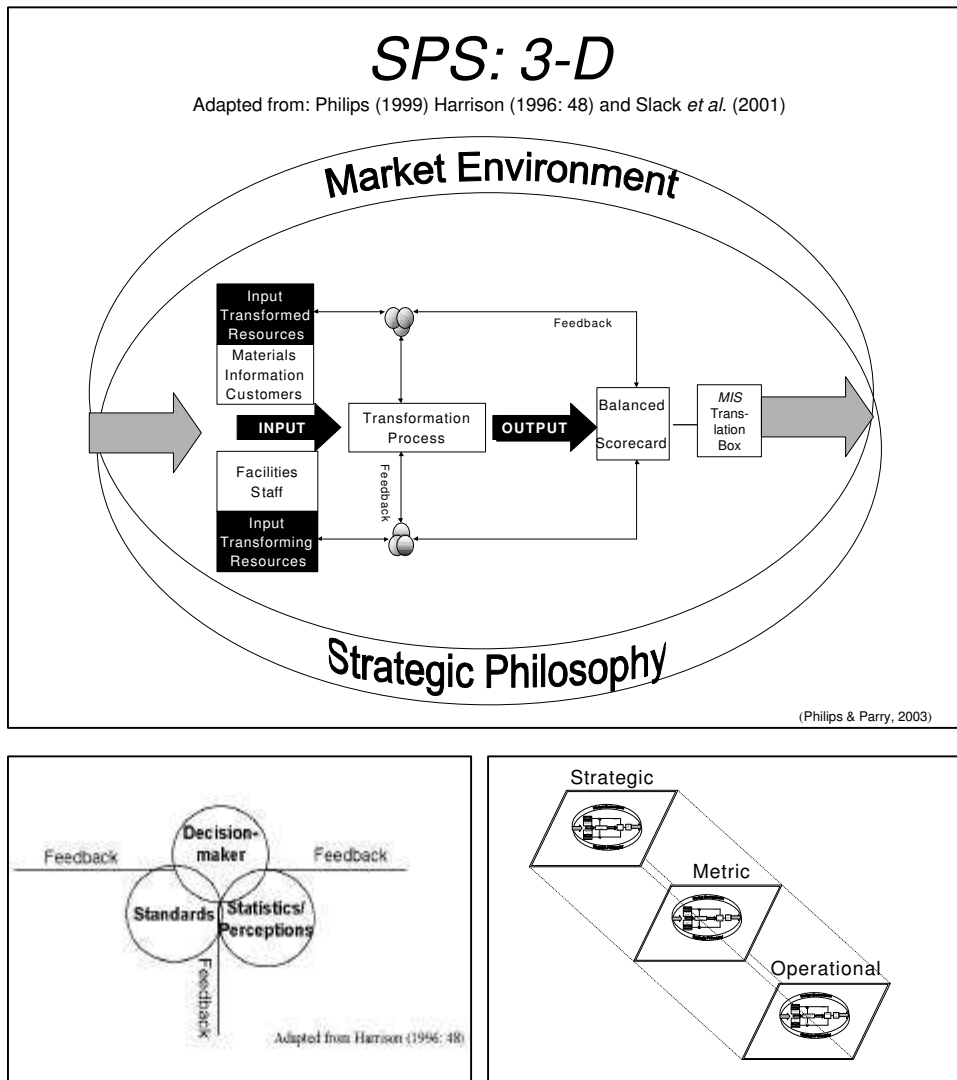
Recently, practitioners<sup>[6,7]</sup>, and academics<sup>[8]</sup> have expressed the danger of an over reliance on RevPAR. Slattery has stated that the gap between the concept of RevPAR and RevPAR statistics has become too wide to be ignored. Younes and Kett advocate the new concept of GOPPAR, which 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.

**SPS: Managing in 3-dimensions**

**Background**

Building upon Phillips<sup>[9]</sup> 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**  
**STRATEGIC PERFORMANCE SYSTEM: Managing 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<sup>[10]</sup>. 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<sup>[11]</sup> 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. Research studies<sup>[12]</sup>, though, 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.

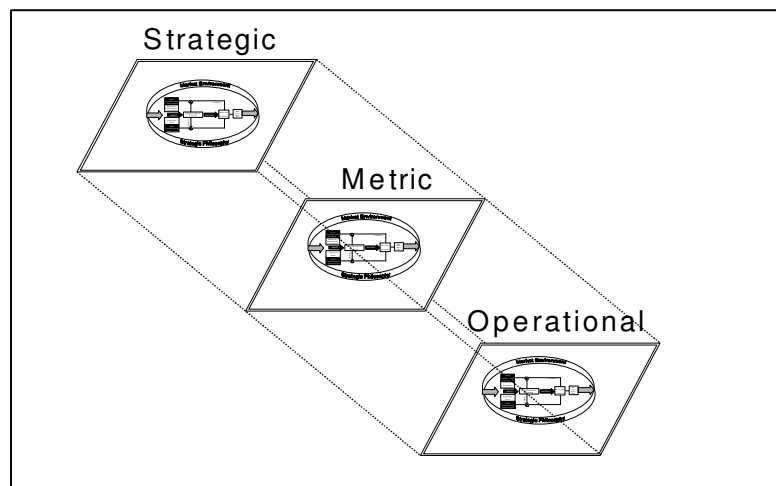
## Outputs

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).

## Methodology

To address the usual concerns over the implementation of performance initiatives, such as the ease of information gathering, and ease of interactivity, the *SPS: 3-D* model operates at three levels (see Figure 2). These being strategic, metric and operational, which allow for the integration of the multiple perspectives of staff throughout the organisation.

**Figure 2**  
**SPS: 3-D**



The *SPS: 3-D* model delivers a cost-effective, scientific, approach to identifying relationships between strategy and performance metrics. Hoteliers have found that previous incarnations of the model can make the decision-

making process more reliable and, potentially, more effective. In addition, the model requires managers to think more laterally and look at performance in a novel way, within existing lead-times.

The model makes full use of visual representations to emphasise patterns and situations at the strategic level. At the operational level, visual representations help front-line staff to interpret and evaluate operational situations; providing useful inputs, without the barriers of articulation that can block easy integration with strategic models and financial information. The heart of the proposed model is the metric level. The metric level unites information and insights from both the strategic and operational levels into the metric representations required by the organisation's MIS - which can, then, be used to re-evaluate visual representations at the strategic and operational levels.

An additional benefit of the flexible methodology proposed is the scope offered by the *SPS: 3-D* model to be used for simulation, education, training and for a variety of 'quick fix' projects - as well as for in-depth longitudinal and comparative studies.

### **HOW CAN SPS: managing in 3-dimensions help you?**

Consider

- When you drive to work, you'll mainly use forward-looking sources for your decisions, pick up sub-conscious clues from the environment, and make many small-scale adjustments. However, when you get to work, you'll base most of your decisions on backward-looking information, not be aware of any sub-conscious clues and emphasise fewer, larger-scale, changes.
- Somewhere in your organisation is a staff member classified as 'lazy / dis-interested', but actually frustrated, who has the answer to one of your critical strategic challenges. Your strategic planning process not only doesn't know who they are, it wouldn't be able to integrate their idea into your plan anyway.

- The next time you describe something as `unpredictable' or `external', stop and talk it through with experts in that field. You'll quickly be told that not only were the clues there to be seen, but that the cause and effect both lie within the same `system'.
- New initiatives often gain momentum even as it becomes clear that they're doomed. Maybe due to the fact of blind faith in their success<sup>[13]</sup>, or because winning permission was emphasised over practical details<sup>[14]</sup>, or perhaps because strategic support came only after the profitable window of opportunity had passed.

***For further information about Strategic Performance System: managing in 3-dimensions and/or if you would like to work with Centre for Hospitality Performance Research (CHIPR) developing the hospitality performance debate, please contact:***

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## APPENDIX 1

### An overview of the Balanced Scorecard and Six Sigma

Measurement Philosophy	Strengths	Weaknesses
<p><b>Balanced scorecard</b> Kaplan and Norton's Balance Scorecard (BSC) has emerged as a ubiquitous performance managerial tool that provides managers with the mechanisms to develop performance objectives and measures linked to strategy.</p> <p>The BSC adopts four perspectives: financial, customer, Internal Business Processes and Innovation &amp; Learning.</p>	<p>High profile performance management tool, which provides a greater balance between financial and non-financial measures</p> <p>The BSC addresses the needs of three major stakeholders (shareholders, customers and employees)</p> <p>The BSC can fulfil a control role within organisations at a strategic and operational level</p> <p>The BSC can act as a useful communication tool</p>	<p>The BSC does not provide guidance as to how to improve performance to achieve the desired strategic results<sup>[15]</sup>.</p> <p>The BSC fails when it is not rooted in the management and culture of an organisation<sup>[16]</sup>.</p> <p>The BSC requires that a company strategy be defined. The scorecard does not define the best strategy for a company to take<sup>[17]</sup>.</p> <p>Measures that are unique to specific elements of the organisation may be ignored, misinterpreted, misunderstood or undervalued by those not familiar with them<sup>[18]</sup>.</p>
<p><b>Six Sigma</b> The philosophy of Six Sigma has been influenced by efforts of Total Quality Management (TQM).</p> <p>The term six sigma simply means that customer-specified tolerances for acceptable output are six standard deviations (sigma) from the mean, or 3.4 defects per million.</p>	<p>Improving customer satisfaction</p> <p>Reducing cycle time</p> <p>Reducing defects</p>	<p>Six sigma is gaining wide acceptance in industry, but lacks a theoretical underpinning<sup>[19]</sup>.</p> <p>Six sigma has not been carefully defined in either the practitioner or academic literature<sup>[20]</sup>.</p> <p>Explicit use of goals to motivate performance can create the illusion that goal setting is solely a technical issue without consideration of behavioural issues<sup>[21]</sup>.</p>