

Strategy and its Execution – a hospitality industry perspective

by Dipankar Mukherjee CHAE, CMC

At a recent presentation of the Southern Alberta Chapter of HFTP a concept called “A Healthy Scorecard” was introduced. The speaker tried to link health related issues with “The Balanced Scorecard” emphasizing why this relationship was important for sustainable corporate “strategy”. Attendees to the presentation came from restaurants, independent hotels, corporate chains, full-service properties, limited service properties, hotel sales departments - in short, quite a diverse group. Following the presentation a survey was conducted to find out from the attendees about their perspective on “strategic positioning”, their understanding of “The Balanced Scorecard”, what they considered to be the most important variable influencing “strategy”, what were the biggest threats to strategy, among other questions.

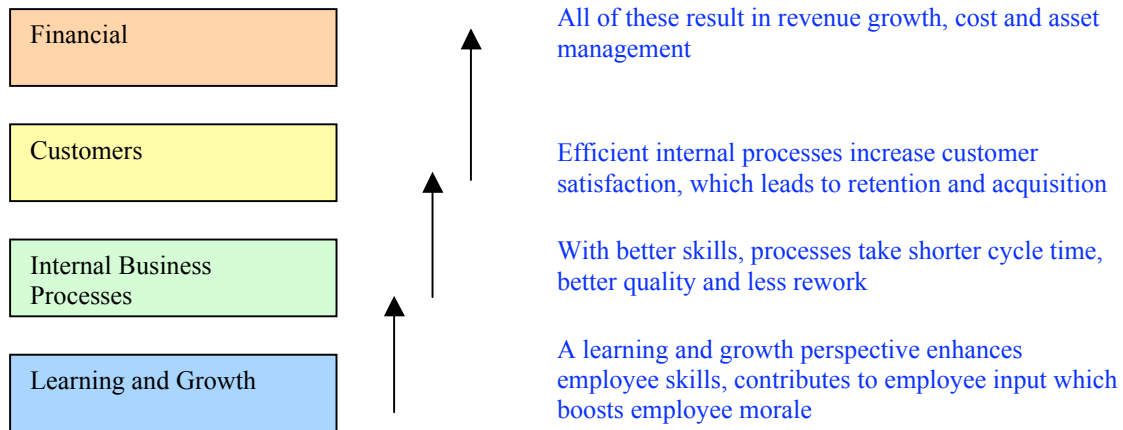
All respondents were of the opinion that “strategic positioning” was extremely important for long-term success of an organization. Based on such a feedback it could be inferred that the hospitality industry professionals are realizing the necessity of an overall planned approach to move forward.

It appears that the industry is beginning to realize the importance of a strategy-focused organization. However business success is not achieved only through brilliant strategy. It is achieved through the brilliant execution of strategy. *The Balanced Scorecard* is a tool that facilitates such execution. About half of the respondents were not aware of this concept. This warrants some discussion of the concept.

Robert S. Kaplan and David P. Norton first introduced the idea of a Balanced Scorecard in the January-February 1992 issue of the *Harvard Business Review*. Since then the concept has spread throughout the worldwide business communities at lightening speed. For the first time a CEO could instantly comprehend not only the key financial goals of an organization but also the most important non-financial drivers for their achievement. The Balanced Scorecard states that a balanced view of organizational performance must include measures that indicate performance in at least four areas: **Financial, Customer, Internal Business Processes, and Learning and Growth.**

As the authors of the concept state “Industrial age competition is shifting to information age competition”. In this new age we see newer assets such as process capabilities, employee skills, motivation, customer loyalty, data bases and so on being deployed to run a business. For a business to run efficiently it has to know how to measure and manage its assets efficiently. Traditional financial models can no longer measure and manage these newer assets. Out of this conflict evolved The Balanced Scorecard. The concept establishes a cause effect relationship between the four perspectives. In a very simplistic way this cause effect relationship could be explained as such: If **Learning and Growth** improve in an organization **Internal Business Processes** undergo improvement which in turn makes the **Customer** perspective efficient resulting in **Financial** growth. So financial growth is dependent on the growth of the other three non-financial measures.

Following is a schematic representation of the system:



Respondents who have never heard of the concept before found it fairly easy to understand. Yet they felt that implementation would be moderately difficult because of scarcity of time in their day-to-day operations. Participants were of the opinion that it would definitely help in the growth of their business. The need for more learning was felt by all but that scarcity of time was again an impediment.

When asked as what they would consider to be the most important variable influencing strategic positioning, the following scores were tabulated:

| | |
|-----------------------------|-----|
| Customer Satisfaction Index | 87% |
| Total Market Demand | 84% |
| Total Market Supply | 78% |
| Employee Satisfaction Index | 76% |
| Market Share | 72% |
| Profit | 66% |
| Occupancy | 56% |
| Operating Costs | 54% |
| ADR | 52% |
| RevPAR | 50% |

It is interesting to observe that financial measures scored the lowest as an influencing variable for strategic positioning even within a group of financial professionals. This probably reinforces the postulate as set out in “The Balance Scorecard” that financial measures are dependent on non-financial measures. So to be able to be financially successful organizations need to be successful in all the non-financial areas.

Common threats to strategy according to Michael E. Porter, Professor of Business Administration at the Harvard Business School, are – changes in technology, behavior of competition, misguided view of competition, organizational failure and a desire to grow. When respondents were asked to rate the threats, the following scores were tabulated:

| | |
|-------------------------------|-----|
| Behavior of competition | 87% |
| Change in technology | 73% |
| Organizational failure | 67% |
| Desire to grow | 53% |
| Misguided view of competition | 47% |

It could be observed from the above results that competition is being closely watched, technological solutions are being actively sought after and there is significant concern about organizational failure.

All of these findings direct us to the observation that financial professionals are realizing how vital their role is in strategy formulation in an organization. A modern day financial professional cannot confine his or her role only to transaction processing, transaction maintenance or control functions. External business conditions are changing rapidly and industrial age business dynamics are no longer valid. We can no longer afford to continue repeating old methods of doing business, “insanity is doing the same thing over and over again expecting different results” or as Jim Bakken, former VP of Quality at Ford Motor Company observed, “doing what you did will get you what you got”.

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