

## **PERFORMANCE MEASURING OF TOURISM SMALL MEDIUM-SIZED ENTERPRISES**

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***Abstract:** The article analyzes the performance measurement processes within the small medium-sized enterprises that run businesses in Romania's tourism sector. Related to contemporary approaches to improving business performance in the management literature, performance measurement approaches are analyzed using the balanced scorecard framework. Balanced scorecards proved to be a powerful tool that can inform the managers about the things that are working or not within a company, what is to be improved immediately and what may have another priority, the necessity for strategic management in managing internal business processes to drive innovation and learning. The article also proposes a balanced scorecard template for tourism agencies.*

**Keywords:** balanced scorecard; strategic management; tourism sector.

### **1. Introduction**

The originating protagonists of the balanced scorecard (BSC), Professor Robert Kaplan and David Norton, developed a useful tool for the companies to be able to translate their mission and strategy into a comprehensive set of performance measures and to provide the framework for strategic measurement and management. They introduced the concept in 1992 (Kaplan and Norton, 1992) hoping that the balanced scorecard will supplement traditional financial measures with other three key business areas that could be used to measure performance: customers, internal business processes, and learning and growth. Using the balanced scorecard as a management system enables companies to modify strategies to reflect real-time learning.

### **2. The strategic approach of the balanced scorecard**

Since its early development, the balanced scorecard has been used successfully as a strategic management tool in a range area of domains. Whereas five years ago, implementations were at business units and divisions, today the implementations of the model are seen at the corporate level and reflect the entire activity of the organization. Non-profit organizations started to use it, including companies in the health care sector (Chen *et al.*, 2006) and the public sector (Chan, Y.-C. L., 2004) and government organizations around the world are adopting the

concept. As for travel and tourism sector there is limited literature focusing on this subject. Researchers in the USA (Denton and White, 2000) and UK (Evans, 2005) seemed to be more preoccupied with the study of the balanced scorecard in the hotel sector, which is only a limited area that tourism refers to. The positive findings suggest that the balanced scorecard proves to be efficient when it comes to identify linkages between the four key areas that generate and perpetuate success.

An online survey conducted in the USA (De Wall, 2003) showed that of the 500 respondents, 250 reported that they had a balanced scorecard, whereas another survey conducted in Romania this time revealed that only 6,9 % of the companies use the balanced scorecard (Borza *et al.*, 2006). As the figures show, the usage of balanced scorecard by the Romanian companies is utterly low. A reason for this could be the lack of knowledge about such a model and about its tremendous benefits that could help a company to better measure its performance through those four key business areas. Thus we will illustrate how a medium-sized tourism company, such as a tourism agency, can create its own balanced scorecard, considering the service context, with its focus on human resources, intangible assets, and difficulties with regard to delivery of consistent product standards.

### **3. The use of the balanced scorecard in the tourism sector**

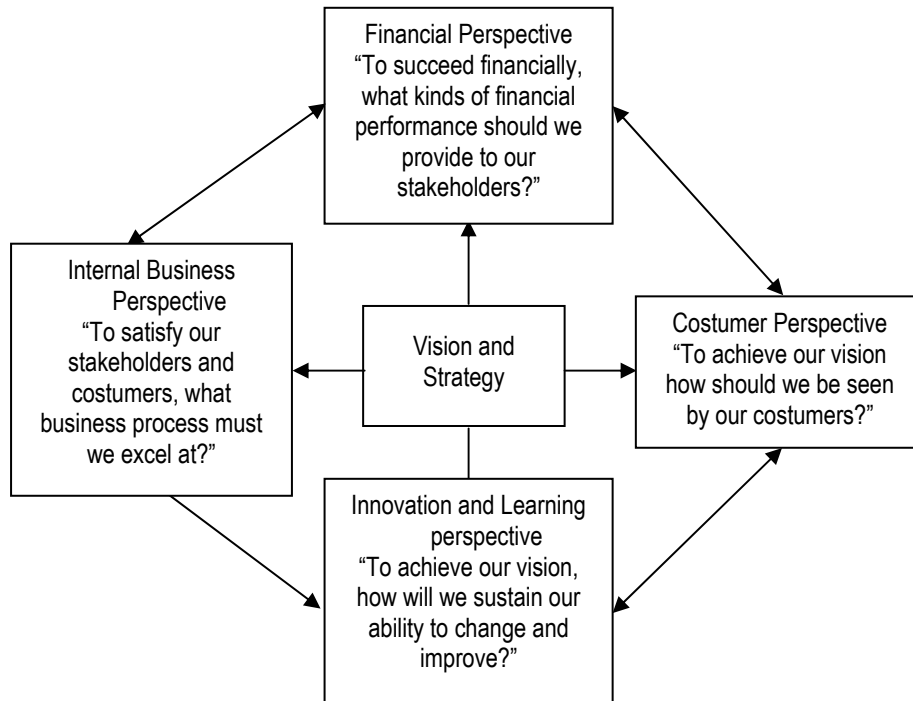
A typical scorecard includes four components (as shown in Figure 1). For each of the four components the manager would have to establish goals and then translate these goals into specific measures. The balanced scorecard includes financial measures that tell the result of actions already taken. It also complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities. All these operational measures can be seen as the drivers of future financial performance.

*Customer perspective.* The role of the customer for a tourism agency is essential. The tourism agencies like any other businesses that act in the service sector, have to consider the customer's needs in order to better satisfy them. The customer perspective in this case should become a top priority for the managers. What is really important for the customers during the serving process are the following elements: time, quality and cost. Serving the customer in a short time, by offering him the best solution (that could materialize into a plane ticket, a reservation for a hotel or a booked holiday) will have a positive effect upon him that could reflect later in the financial perspective of the company. The difference between a tourism agency that uses the balanced scorecard and that doesn't use it is that the first one will articulate goals and afterwards it will try to translate these goals into specific measures. For a tourism agency it will be appropriate to measure indicators like: customer satisfaction, local market share, number of complaints, returning customers. By

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focusing on the customer's evaluations, the company can view its performance through customers' eyes.



**Figure 1.** The balanced scorecard

**Source:** Adapted from Kaplan and Norton (1996, p.76).

**Internal business perspective.** The internal measures for the balanced scorecard should aim at quality, employee skills and productivity. A manager of a tourism company should also be preoccupied with the identification of the company's core competencies. For a tourism agency those could be translated into the capacity of offering the best alternative for the customers or the employee's attitude towards the customers. Between the indicators that the manager can use to measure the internal performance of the business one can identify the following: employee turnover, revenue by segment, complaint responses, etc. By measuring these indicators, the manager can obtain a general image about the internal situation of his company, about the things that are working and those that are not working. There will goals that the agency will have to establish and achieve in order to satisfy both the stakeholders and the customers.

***Innovation and learning perspective.*** Nowadays, the companies act in an environment that is characterized by tremendous competition, which forces the companies to make continual improvements to their products and processes. This is also the case of the tourism agencies which abilities to innovate, improve and learn can help them win the battle with their competitors. The ability to launch new products or create more value for the costumers is synonymous to the capacity of a company to penetrate new markets and increase revenues and margins. One can say that the aspects of innovation and learning are not as important as the other dimensions for a company involved in the tourism field. That is far from being true. We have to keep in mind that the costumers' needs are in continual change and the tourism companies have to come up with offers that satisfy the most sophisticated costumers. One of the big innovators in the tourism sector was Club Med, which developed a totally new concept of holiday. When Club Med was founded, back in the '70, it was an alternative for the traditional way of spending your holiday.

A tourism company can use a variety of measures for the innovation and learning perspective: new markets identified, staff appraisal, staff targets, courses completed, improvements identified.

***Financial perspective.*** The results from the financial perspective could indicate whether the company's strategy has a role in the improvement of the activity. Typical goals that can be identified in this part of the balanced scorecard refer to profitability, growth and shareholder value. A certain number of indicators can be taken into account when referring to the financial perspective: total operating revenue, comparison between costs and budget, comparison of the financial performance with the competitors. The role of the balanced scorecard as was stated by its protagonists was to convert improved operational performance into improved financial performance.

The implementation of strategy based on the balanced scorecard is not just a task for the top managers, but it has to involve all the business units in order to develop strategies that will adapt to the local competitive situation. Managers in each unit have clear measures and targets that connect their activities with goals of the company.

By taking into account the specific characteristics of the tourism companies we developed a framework of the balanced scorecard that could apply to a tourism agency. We had in mind those agencies that have more branches in different regions. In order to develop and implement the balanced scorecard, the company would have to follow certain steps:

- *clarify the vision.* During this period the manager develops a balanced scorecard that will state the general goals and measures to be accomplished. The general manager will translate the generic vision into strategy.

- *communicate to the other agencies that form the chain.* The balanced scorecard is used like a communication tool to translate the strategy to the managers of the agencies. Every agency will translate its strategy into its own balanced scorecard

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using the one that has already been disseminated by the headquarters. The objectives of the company are linked to the scorecards.

- *review the balanced scorecard.* In this phase, the general manager identifies the programs that are not in accordance with the strategy. The balanced scorecards that were created by each agency are also reviewed and updated in order to shape the strategy of the units.

- *conduct reviews from time to time.* Reviews that focus on strategic issues are done monthly or quarterly. After three years the managers will check to see if the initial strategy was achieved and if it requires updates.

- *connect the individual performance to the balanced scorecard.* The employees and also the managers will be asked to link their individual objectives to the scorecard. In that way the entire organization is linked to the scorecard.

The companies that use the balanced scorecard are able to create a new vision for themselves and also introduce a strategy and overhaul the management system. The balanced scorecard allows the strategy to evolve in response to changes in the company's competitive market.

### **4. Conclusions**

The concept of the balanced scorecard is now being promoted largely through the academic literature, and more and more companies from the United States, Central Europe or Asia are applying it. The benefits of the balanced scorecard for those companies that used it are of great importance: clarify and update strategy; communicate strategy throughout the company; align individual goals with strategy; link strategic objectives to long-term targets and annual budgets; identify and align strategic initiatives and conduct periodic performance reviews to learn about and improve strategy.

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