A BALANCED SCORECARD SYSTEM FOR MANAGING STRATEGY AND MEASURING PERFORMANCE OF DESTINATION MANAGEMENT ORGANIZATIONS

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An organization’s strategy describes how it intends to create value for its shareholders, customers and citizens. The art of strategy is to identify and excel at the few critical processes that are the most important to the customer value proposition. . . . A study of failed strategies concluded, “in the majority of cases the real problem isn’t [bad strategy] . . . it’s failed execution”. (Kaplan and Norton 2004, pp. 4, 47)

The Setting

Ireland West Tourism (IWT), a regional tourism authority covering the counties of Galway, Mayo and Roscommon on the mid-west coast of Ireland, invited the Dublin Institute of Technology (DIT) to develop a Balanced Scorecard for its organization with the strategic horizon of 2010. Dr. Douglas Frechtling, a U.S. Fulbright Scholar at the DIT Faculty of Tourism and Food, joined the Head of Faculty, Dr. Michael Mulvey, in developing the first Destination Management Organization application of the Balanced Scorecard system for IWT. DIT applied for a grant from the World Tourism Organization Education Council in 2004 to support this effort, and this grant was approved. The balance of the expense was funded by Ireland West Tourism, and we are grateful to IWT Chief Executive John Concannon for his enthusiasm and support. Dr. Frechtling served as Principal Facilitator for the project.

What is the Balanced Scorecard (BSC)?

Since the time of Adam Smith (1723-90), Scottish philosopher and first student of the industrial economy, business organizations have been measured by financial performance: the flow of net income a firm returns to its owners. As the economies of the major developed nations of the world have evolved, such a single-minded focus is, at best, inadequate and, at worst, works against the owners’ best interests.

In the 21st century service/information economy, value-creation is no longer concentrated in tangible fixed investments but instead emanates predominantly from the knowledge of managers and employees, from customer and supplier relationships, from management databases and from “cultures of innovation and quality” (Niven 2002, p. 6)
There are several explanations for this development (Niven 2002, pp. 6-7):

- Financial performance measures characterize what has happened in the past but are a poor guide to why it happened and what future returns will be.

- Financial measures tend to reinforce the “silo mentality” in organizations, where each business unit is evaluated by its own contribution to profits. Yet the value-creating activities through today’s matrix-oriented organization (teams of workers from different functional areas working together to solve key problems) cannot be so measured.

- Financial performance measures can be artificially inflated in the short-run to boost quarterly income by reducing long-term value-creating activities such as conducting research and development activities, managing customer relationships, and optimizing supply change relationships.

- Finally, financial performance measures are not relevant to all units of an organization, or, indeed to all organizations. They have very little use, for instance, in maximizing performance of organizations in the not-for-profit sector comprising government agencies, NGOs, professional associations and Destination Management Organizations (DMOs) such as Ireland West Tourism (IWT).

The Balanced Scorecard (BSC) does not jettison financial measures since they are the ultimate gain that business owners and investors seek. Even DMOs must watch their bottom lines to gauge resources available to pursue their missions. Rather, the BSC supplements this single measure with identification and tracking of the drivers in the organization that predict future financial performance or, for DMOs, mission progress.

Simply put, the Balanced Scorecard is a carefully selected set of quantifiable measures derived from an organization’s strategy and used to align the organization’s short-term actions with this strategy, while allowing strategy to evolve in response to changes in the company's competitive, market and technological environments (i.e., strategy management), and used to assess the effectiveness of these actions in achieving the organization’s strategic objectives (i.e., performance measurement).

**What is a “Destination Management Organization (DMO)”?”**

A “destination management organization” is an organization, usually nonprofit or even a government agency, representing a defined area with the mandate from the tourism industry and/or a government to manage most or all of four elements: the destination offering, the visitor mix, marketing programs, and stakeholder leadership. (Anderson 2000) A DMO may formally be a convention and visitors bureau, a city tourism department, a state/provincial office of tourism development, a national ministry of tourism or a national tourism commission. (Ritchie and Crouch 2003, p. 185) The U.S. based Destination Marketing Association International (formerly the International Association of Convention and Visitor Bureaus) boasts more than 500 organization members in 30 countries. (Harrill 2005, p. xv)

A DMO may be an agency of a national state or local government and funded out of tax and other revenues. At the local level, DMOs often are funded wholly, or to a large extent, by
membership dues and fees, and organized as not-for-profit corporations. Members of such organizations normally include hotels, attractions, eating and drinking places, local transportation companies and other firms dependent on visitors for significant proportions of their revenues. Services provided in return for membership dues include joint sales and marketing campaigns, visitor guides and other publications directed at potential customers, listing of events and prominent hot links on the DMO’s website, collective lobbying for or against public measures affecting visitor business, and influence over the destination’s annual marketing plan. (Harrill 2005, pp. 161-170)

Most DMOs in the U.S. are required to have a board of directors that has governance and fiduciary responsibilities detailed in a set of bylaws. Such duties customarily include purpose and governing principles, approving annual operating budgets and monitoring expenditures, selecting and monitoring the chief executive and other administration officers, and providing direction and oversight for the organization’s operations. (Harrill 2005, pp. 191-192) DMOs established as part of government normally operate as any government agency, but are often more sensitive to stakeholder interests than the average government office.

**Where did the BSC come from?**

The Balanced Scorecard as an organizational performance measurement tool grew out of a research study conducted in 1990 by Prof. Robert S. Kaplan of Harvard University and David P. Norton, president of an information technology consulting firm (Kaplan and Norton 1992). Over time, organizations have found the BSC to be an effective system to implement and manage strategy, as well. By 2002, the BSC had been adopted by nearly half of the Fortune 1,000 top corporations in America. (Niven 2004, p. 14)

The BSC was initially developed to help profit-seeking organizations to reach their financial objectives. It has subsequently been developed to help nonprofit organizations answer the question, “are we making continual progress toward fulfilling our mission?” (Niven 2003, p. 33)

The “balance” in the BSC relates to three areas that are neglected in the traditional financial performance business model (Niven 2002, p. 22):

- Balance between financial and non-financial indicators of success
- Balance between internal and external stakeholders
- Balance between lag and lead indicators of success.

**What does the BSC aim to do?**

The BSC addresses two key organizational issues:

1. How to measure organizational performance in reaching strategic goals
2. How to effectively implement a strategy to reach these goals.

The challenges of resolving Issue 1 – measuring organizational performance relative to strategic goals – have been outlined above.
Issue 2 – implementing strategy – is no less demanding. Niven (2002, p. 9) quotes a 1999 *Fortune* magazine article that declares, “70 percent of chief executive officer (CEO) failures came not as result of poor strategy, but of poor execution”. As explained below, there are good reasons why the BSC has become an effective strategic management system, as well as being a preferred performance measurement system in many organizations today.

**How does the BSC approach Issue 1: Measure Organizational Performance?**

As noted above, financial measures indicate the success of past efforts to create value. This makes them *lag indicators* of performance. The BSC complements these with a set of “drivers of future performance”, as *lead indicators*. Both of these sets are derived from the organization’s strategy – the process the organization has designated to reach its strategic objectives over the ensuing 3 to 5 years. Upon reflection, several characteristics of successful strategies are clear:

- Measurement is critical to the achievement of an organization’s strategic objectives
- Stating strategic objectives in measurable terms is essential
- Measures beyond financial objectives are required if the strategy is to succeed in achieving these long-term goals.

One of the distinctive elements of the BSC approach is that it complements the financial perspective (lag indicators of a strategy comprising tangible outcomes in traditional financial terms) of profit-seeking organizations with lead and lag indicators in each of three additional organizational perspectives:

1. Customer Perspective – specific target markets and the value propositions\(^1\) the organization can offer to each
2. Internal Processes Perspective – the specific internal processes the organization uses to serve these customers by fulfilling their related value propositions
3. Learning and Growth Perspective – identifying and employing the human capital, information capital and organizational capital needed to support the organization’s value-creating internal processes.

Thus, the BSC works in four Perspectives with lead and lag indicators when we add the Financial Perspective to the above three.

The DMO operates in somewhat different Perspectives from the for-profit world in two of the above:

1. Customer Perspective – the Customer group is traditionally understood as people or organizations that buy or use the business organization’s products. Following this concept, the DMO may serve at least three “customer” sectors: visitors, intermediaries that facilitate visitor flows to the destination (tour operators, travel agents, etc.), and the

\(^1\) In the BSC system, the “value proposition” defines the company’s strategy for customers as a specific mix of product, price, supporting services, relationships, and image that the organization offers each target market segment.
businesses serving visitors. The latter group includes the local suppliers of tourism products (hotels, B&Bs, restaurants, pubs, attractions, festivals, auto rental, sightseeing companies, etc.) and/or the governing body that directly supports the DMO financially and/or that the DMO is legally obligated to serve. We can call these three groups the “Principal Stakeholders” instead of customers, so this becomes the “Principal Stakeholder Perspective”.

2. Financial Perspective – the DMO does not exist to maximize its own net income. Rather, it contributes to maximizing the income of the suppliers of services to visitors to the DMO’s area. It should, of course, obtain the maximum return for its budget expenditures, but this is trivial compared to its raison d’etre. Initially in the DMO BSC development process it seems prudent to focus on the objective of increasing the revenue of the visitor-serving businesses in the destination and revenue of principal intermediaries. Later, the DMO might develop programs to address these businesses’ productivity and thereby contribute further to increasing net incomes and returns on investment.

The DMO’s Internal Process Perspective and the Learning and Growth Perspective differ from the traditional BSC in recognizing the central focus on Principal Stakeholders rather than on customers narrowly defined.

How does the BSC approach Issue 2: Implementing the Strategic Management System?

Simply, managers use the BSC to align all short-term actions of the organization with progress toward the strategic objectives. In addition, the DMO should encourage all Principal Stakeholder suppliers and intermediaries to adopt BSCs that support the DMO, to leverage their efforts toward achieving regional tourism objectives. This process should include (after Niven 2002, pp. 17-20):

- Translating mission and vision into measurable goals DMO employees and managers can focus on.
- Cascading the BSC down to each IWT employee and offering incentives for each. “Cascading” is the process of developing BSC matrices from the top down to every employee in the organization so that each employee/manager is manifestly contributing to reaching the DMO’s Strategic Objectives. (Niven 2003, p. 228)
- Cascading the BSC down to managers and employees in individual supplier and intermediary businesses, to ensure that every division, department, office and individual understands how to contribute to the DMO strategy. This can be reinforced by linking employee rewards to achieving objectives in their personal and departmental BSC matrices.
- Establishing strategic budgets at the DMO that specifically identify the financial and human resources necessary to reach BSC objectives and identify for termination resource allocations that do not contribute to strategy.
- Continuously monitoring the BSC performance measures to identify activities and initiatives that are not working as expected toward achieving strategic objectives, and to suggest revisions that will contribute to strategy.

- Communicating the organization’s strategy and goals to all supplier and intermediary stakeholders and sharing GSC results throughout the DMO network to unlock employee creativity and commitment to strategy.

How does a BSC for a DMO nonprofit organization differ from those for other organizations?

As opposed to the private company that necessarily must focus on financial outcomes as the “accountability measure between it and its owners” the nonprofit organization should focus on progress towards its mission (Kaplan 2001, p. 360). However, Kaplan characterizes the typical nonprofit as an organization where “donors provide the financial resources – they pay for the service, whereas another group, the constituents, receives the service.” (Kaplan 2001, pp. 360-361) This in fact describes conditions for one type of nonprofit organization, “non-profit institutions serving households” in the parlance of the System of National Accounts. (Commission of the European Communities et al. 2003, ¶4.18) DMOs are of a different class: “non-profit institutions serving businesses” (Commission of the European Communities et al. 2003, ¶4.59). Here, we can expect the funding organizations are among those served, if not congruent with them. The practical consequence is that the BSC need not separate funding entities from customers/recipients as Kaplan characterizes them (Kaplan 2001, p. 361).

Employing Kaplan and Norton’s four perspective schematic (Kaplan and Norton 1996, p. 76), we can re-orient their precedence to make progress toward the DMO’s mission the outcome sought, with the financial perspective positioned as a foundational enabling or constraining element, as shown in Figure 1.

This diagram places the DMO’s mission at the top as the ultimate objective. Strategy forms the core of the Balanced Scorecard, and the Customer Perspective is placed closest to the Mission. The Learning and Growth and Internal Processes perspectives feed into creating value for Principal Stakeholders, but also benefit from their reactions. As Figure 1 makes clear, foundational to this process is the Financial Perspective. Financial resources enable progress toward customer value and fulfilling the DMO mission, and also act as constraints on such progress. While the DMO is not ultimately judged by its income, it needs to pay attention to ensuring the financial resources required to successfully pursuing its Mission and Vision are available.

Figure 1 also indicates that each perspective will have objectives to be sought, measures of the objectives (i.e., the objective must be stated in measurable terms), a target level for each objective, and one or more initiatives to be undertaken to reach the targets for each objective.
What does a BSC matrix for a DMO look like?

The results of a BSC development process are best presented in two formats: the BSC Matrix and the Strategy Map. Figure 2 presents a sample page of the BSC matrix under development by the IWT senior staff. It clearly and linearly identifies the key elements in a DMO’s BSC to implement strategy and measure performance. The Strategic Objective for the region is stated at the top. In the matrix, the Strategic Measure is identified by Perspective. The region’s target is stated (column 3) in a clear, quantitative form. The DMO cannot achieve the Target levels by itself. Rather, it undertakes programs (“Initiatives”) to produce Outcomes (column 4) that directly contribute to reaching the target. IWT proposes to achieve the column 4 outcomes by reaching certain Output targets through implementing certain input “Initiatives” (column 6). Initiatives are defined as:

- key action programs developed to achieve objectives or close gaps between measures of performance and targets. Initiatives are often known as projects, actions, or activities. They differ from objectives in that they are more specific, have stated boundaries (beginning and end), have a person/team assigned to accomplish them, and have a budget. (BSC Collaborative 2005a)

Each initiative is the Input cause designed to reach certain Output targets. The staff hypothesize that reaching these output targets will produce the level of Outcome in column 4. Olve et al. 2003 (p. 288) call these “strategic bets”. Initiatives are adopted because they are expected to produce the Outcome level targeted through reaching the Output objective. In the sample here, the IWT staff is hypothesizing in the A. Customer row (based on past experience or informed conjecture) that partnering with tour operators, airports and air carriers will produce 80 percent load factors on all international flights to the West of Ireland. This, in turn, will contribute 15 thousand new air visitors toward reaching the target of 62.5 thousand new visitors in 2006. Monitoring these hypotheses monthly, and changing initiatives when strategic bets lose, ensures that the organization stays on track to achieving their Strategic Objectives in 2010.