

Managing Change: Performance Measurement for Destination Management Organizations

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Introduction

In recent years, tourist destinations managers have been criticized because of their inability to reinvent themselves in face of the radical changes in the external environment. The tourism industry is in a state of unprecedented change. Indeed, the first few years of the new millennium have brought extraordinary change and transformation. War, terrorism, political upheaval, the spread of infectious diseases, airline restructuring and the advancement and use of technology are just a few of the events that are having a profound impact on destinations' performance around the world. It appears, however, that many DMO executives are unable to manage change and find it increasingly difficult to determine the impact these events are likely to have on the destination and on destination management organizations. The pressure exerted by competition is compelling international, national, state, and local governments to re-evaluate the existing tourism resources and to capitalize on them in order to attract more visitors (Fayos-Sola, 1996). As King (2002) points out, "nothing short of a reinvention of destination marketing organizations (DMOs) will ensure they are able to keep abreast of and capitalize upon the revolution taking place". In a highly competitive tourism market, it is increasingly important to understand the role each destination plays in relation to other competitive destinations. The strategic responses to these developments

“In order to improve something you have to be able to change it. In order to change it you have to be able to understand it. In order to understand it you have to be able to measure it.”

are essentially decisions on whether to proactively shape or reactively adapt to the crisis. Deciding on which strategic orientation to choose in response to current developments is essentially a decision on whether to shape or adapt to the crisis (McKinsey, 2001).

Mapping your Strategy and Measures

Organizational effectiveness depends on the ability of the organization to adapt to its environment, which is in turn influenced primarily by the strategic management of the organization (Herbert & Deresky, 1987). An effective monitoring of external forces should help identify not only emerging opportunities and threats, but also the organization's strengths and weaknesses for meeting these opportunities and threats. Organizations are shaped by their performance measure. Performance measures play a critical role in formulating corporate strategies, evaluating accomplishments, and compensating organizational members. Performance measures and outcomes are predetermined methods for assessing whether the aforementioned goals and objectives are achieved. Lebas and Euske (2002) provide a good definition of performance as "doing today what will lead to measured value outcomes tomorrow." Business Performance Measurement (BPM) then is concerned with measuring this performance relative to some benchmark, be it a competitor's performance or a preset target. Business performance, which reflects the perspective of strategic management, is a subset of the overall concept of organizational effectiveness (Venkatraman & Ramanujam, 1986).

BPM comprises of multiple measures. A measure (or metric) is a quantitative value that can

be used for purposes of comparison (Simmons, 2000). A specific measure can be compared to itself over time, compared with a preset target or evaluated along with other measures. Since a measure is used for the purpose of comparison, it need not represent an absolute value. Following Simmons (2000), measures can be objective or subjective. Objective measures can be independently measured and verified. Subjective ones cannot. Measures are also typically classified as financial or non-financial. Financial measures are typically derived from or directly related to the chart of accounts and found in a company's profit and loss statement or balance sheet, such as inventory levels or cash on hand. Non-financial measures are measures not found in the chart of accounts, such as customer satisfaction scores or product quality measures. Measures are also leading or lagging. Lagging measures give feedback on past performance, such as last month's profit, and typically do not provide insight into future performance. Leading indicators, in contrast, are designed to measure future performance, and more often than not, future financial performance.

It is important to note that performance measurement itself has no consequence: simply knowing that there is scope for improvement in an organization because you have measured some aspect of its performance will not, in itself, lead to any improvement. So in order to get some improvement as a result of performance measurement, the organization needs to do something in the light of this information. The issues associated with 'doing something in the light of performance measurement data' are covered by the more general topic of *performance management*.

Perspectives of Performance Measurement

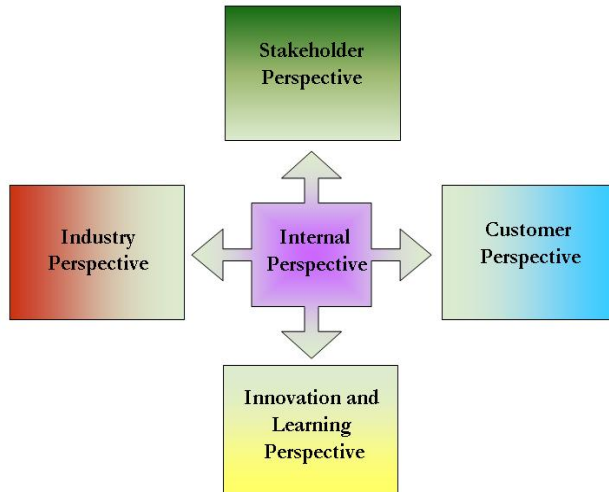
The field of performance measurement has evolved rapidly in the last few years with the

development of new measurement approaches, frameworks and methodologies, such as the economic value added, shareholder value added, activity based costing, cost of quality, competitive benchmarking and balanced scorecard. Each framework purports to be unique and appears to claim comprehensiveness, yet each offers a different perspective on performance.

Developed by the Stern Stewart Corporation as an overall measure of financial performance, economic value added (EVA) is both a specific performance measure and the basis for a larger performance measurement framework (Otley, 1999). According to its creators, EVA is a financial performance metric that is most directly linked to the creation of shareholder value, over time. EVA is net operating profit less an appropriate charge for the opportunity cost of all capital invested in an enterprise. However, using EVA alone can cause managers to invest in less risky, cost-reducing activities rather than in growth activities and as a pure financial model, EVA cannot serve as a vehicle for articulating a strategy. Shareholder value frameworks incorporate the cost of capital into the equation, but ignore everything (and everyone) else. Activity-based costing (ABC) was developed to provide better insight into how overhead costs should be allocated to individual products or customers. ABC links expenses related to the resources supplied to the organization with the activities performed within the organization. Expenses flow from resources to activities and then to products, services and customers. Both activity based costing and cost of quality, on the other hand, focus on the identification and control of cost drivers (non-value-adding activities and failures/non-conformances respectively), which are themselves often embedded in the business processes. But this highly process focused view ignores any other perspectives on performance – such as the opinion of shareholders, customers and employees. Conversely, benchmarking tends to involve taking a largely external perspective, often

comparing performance with that of competitors or other 'best practitioners' of business processes.

Perhaps the most widely used BPM framework is the balanced scorecard. Introduced by Robert S. Kaplan and David P. Norton in 1992, balanced scorecards have found widespread adoption in



Adapted from Kaplan & Norton, 2001

varied industries. Initially focused on finding a way to report on leading indicators of a business's health rather than traditional accounting measures which are lagging indicators, the balanced scorecard was refocused to measure the firm's strategy. Instead of measuring anything, firms should measure those things that directly relate to the firm's strategy (Kaplan & Norton, 2001). The balanced scorecard is broken down into four sections, called perspectives: The financial perspective relates to the strategy for growth, profitability and risk from the shareholder's perspective. The customer perspective relates to the strategy for creating value and differentiation from the perspective of the customer. The internal business perspective relates to the strategic priorities for various business processes that create customer and shareholder satisfaction. The learning and growth perspective relates to the priorities to create a climate that supports organizational change, innovation and growth. The balanced scorecard, with its four perspectives,

focuses on financials (shareholders), customers, internal processes, plus innovation and learning. In doing so it downplays the importance of other stakeholders, such as suppliers and employees.

By combining these different perspectives, the balanced scorecard helps managers understand the interrelationships and tradeoffs between alternative performance dimensions and leads to improved decision making and problem solving. The characteristic feature of 'balance' is supposed to be guaranteed by considering short-long term/financial and non-financial/lagging and leading indicators, concerning four perspectives.

One might reasonably ask, how can multiple, and seemingly inconsistent, business performance frameworks and measurement methodologies exist? They can exist because they all add value. They all provide unique perspectives on performance. They all furnish managers with a different set of lenses through which they can assess the performance of their organizations. Firms adapt these frameworks for a variety of reasons, but chiefly to improve control over the firm in ways that traditional accounting systems have not allowed. If the organization wishes to implement a major change in its strategy, a BSC scheme may be embarked upon first and then the missing elements can be captured with the help of other frameworks. Using this approach, companies get insights into profitable and profitless activities based on a customer or a product viewpoint. However, organizations in some industries have also modified the balanced scorecard in order to fit their business models.

Benefits of Performance Measurement

Measurement plays a crucial role in translating business strategy into results (Lingle & Schiemann, 1996). Performance measures or indicators are measurable characteristics of products, services, processes, and operations the company uses to track and improve performance. The measures or

indicators should be selected to best represent the factors that lead to improved customer, operational, and financial performance. A comprehensive set of measures or indicators tied to customer and/or company performance requirements represents a clear basis for aligning all activities with the company's goals. Through the analysis of data from the tracking processes, the measures or indicators themselves may be evaluated and changed to better support such goals. Numerous researchers have discussed the link between strategy, measurement and success. Those that measure gain agreement on the strategy, clarity of communication, focus and alignment and organizational culture advantages. Strategy and performance measurements need to be intertwined, and as such are likely to be unique for each organization. Organizations should measure how parts of their value chain actually fit together for an overarching advantage instead of relying on process-by-process metrics (Porter, 2002).

Measuring results facilitates early identification and correction of problems at the source, before they require correcting from the outside. A key attribute for the BSC and other BPM frameworks is the support for identifying and communicating causal linkages between components of the business that fulfill the strategy. Identifying the causal linkages may be a bottleneck. If data show a drop in success, a quick diagnosis can identify the reasons and suggest immediate remedies. At the most basic level, metrics tell us what is working and what is not. DMOs can provide better service to its stakeholders while avoiding the necessity of having remedies imposed from the outside.

Performance Measurement Systems

The level of performance a business attains is a function of the efficiency and effectiveness of the actions it undertakes. This not only identifies two fundamental dimensions of performance, but also highlights the fact that there can be internal as well as external reasons for pursuing specific courses of action (Slack, 1991). The mechanics of performance measurement are complex and the development and deployment of the process painful. Typically many measures will be reported and tracked before a key set will emerge. Many choices will be driven by industry best practices measures so that a competitive benchmarking program can be established. Many will be reported in order to establish a baseline well before a target improvement value is established. A

“Measuring results facilitates early identification and correction of problems at the source.”

balance between breadth, completeness and complexity and competitive comparison must be developed. Business Performance Measurement/Management can be done at two distinct levels: strategic and operational. The balanced scorecard is an example of a strategic BPM. Operational BPM help managers with specific operational process control issues that may or may not be directly related to the strategy however are crucial to develop the organizations BSC and hence contribute to the overall success of the organization. The key to successful performance measurement is to identify and collect meaningful performance measures that can or actually will be used.

Once a firm becomes large enough that a single manager cannot sense the firm's current state and cannot control its behavior alone, the firm must use performance measurement and control systems to replace the eyes and ears of the beleaguered manager. Over the past few decades, firms have used information technology to provide

this “sense and control” capability. Performance measurement system is a widely applied management tool which can be used to assess an organization’s progress towards achieving its predefined goals, which include the efficiency with which resources are transformed into goods and services, the quality of these goods and services, the results of a program activity compared to its intended purpose and the effectiveness of operations in terms of their specific contributions to the organization’s objectives. The system tools can leverage the latest advancements in data and application integration approaches, web-based charting and reporting, statistical analysis, artificial intelligence, machine learning and expert system technology.

Implementing a performance measurement system can significantly enhance an organization’s capacity to successfully leverage information and data. More importantly, this can help an organization foster a culture that is largely focused on strategy, learning, and continuous improvement through monitoring and measuring its own performance. It is crucial that performance measures will provide an organization with tools to examine and formulate their strategies. This entails measures that are indicative of procedures, processes, and strategies of investing in and building long-term resources, facilities, and infrastructure as needed to adapt to the fast pace of today’s changing environments.

At the lowest level of analysis lies measurement of human performance and the overall organizational performance is the ultimate level of evaluation. In between the overall organization effectiveness and the individual lie other layers, such as the functional or service group, workgroup or team and the business activity. Performance Measurement systems are often designed to be a vehicle for strategic dialog within the firms. System tools enable individuals to record and discover

discrepancies between stated goals and actual performance creating a favorable learning environment which in turn facilitates organizational change. Technology allows storing and retrieving relevant actual performance information for future comparison and decision making. Performance Measurement Systems can help provide this firm-wide coherency and enable decision makers to bundle measures based on their cognitive understanding and knowledge of the organizational environment. These systems facilitate coherence of performance metrics and scorecards scattered horizontally and vertically across an organization, so that the conversations between people about the strategy is consistent and all the different measurement units contribute to the performance of the organization as a whole.

Future of Performance Measurement in Tourism

Traditionally, the tourism industry has used visitor satisfaction studies, conversion studies, and economic impact models as indicators to evaluate the performance of a destination. However, these measures do not provide a clear understanding of the impacts on the destination performance generated by the efforts of the DMO. As a result, CVBs would sometimes find themselves limited in their ability to systematically and credibly articulate their contribution to the destination. To address this problem *A Handbook for CVBs* is published by the Destination Marketing Association International formerly, International Association of Convention and Visitor Bureaus (IACVB). The association represents nearly 600 destination management organizations in over 30 countries. The Performance Measurement Team (PMT) recently created by the Destination Marketing Association International has recommended bureaus use a standard business return-on-investment formula to quantify the financial impact on its local community

“Feedback is central to learning. If you don’t know how you’re doing, you cannot improve.”

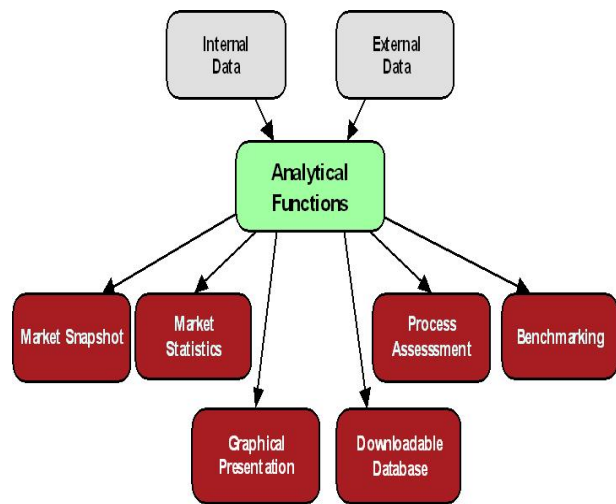
for convention and leisure travel. By using the standard corporate business valuation model, PMT has developed a definitive Return on Investment (ROI) formula for bureaus to apply. IACVB claims that with the adoption of these industry standards, a CVB will have recognized benchmarks to utilize for assessing internal performance, as well as a means to accurately compare performance with other CVBs. It is IACVB's intent that the handbook on performance reporting (IACVB, 2005) will aid the decision making process for resource allocation, sales and marketing campaign development, as well as staff training and development. IACVB continues to build on its long-standing commitment to provide strategic and operational guidance to convention and visitor bureaus (CVBs). Through the development of standards, best practices and systematic approaches to organizational functions, CVBs are able to employ comparative analytical tools in identifying organizational strengths, weaknesses, and opportunities.

In addition to internally reviewing their operations, CVBs are often required, due to their unique funding sources, to undergo external performance reviews by various stakeholders within their local communities. At times, these external audits/reviews may be done by firms lacking CVB knowledge and experience. As a result, CVBs' achievements were underreported and misunderstood, a circumstance potentially damaging to the relationship between the CVB and its stakeholders. Most bureaus are classified as independent, not-for profit organizations, but some are part of city or county governments while others have special legal authority. Further, because bureaus vary in terms of their structure, scope, size, geographic location and type of management the standard measures might sometimes be misleading if these differences are not taken into consideration. The IACVB's standard measures fail to recognize that the external environment, often referred to as the organizational environment, are different for all CVBs. The external environment consist of all

elements outside the boundary of the organization and includes elements of competition, resources, technology, economic conditions and other elements that may in some way be related to the performance of the organization. As all DMOs belong to the same tourism industry they are likely to select some measures that are similar (mainly process measures), but they also need to identify a number of measures that are unique to each one of them and are a reflection of differences in their long-term goals and in the specific issues they face, despite being in the same industry.

SMART-PERFORM for Destination Management Organizations

Incremental strategic change may be successful in fairly stable environments. However, in order to survive in the dynamic environment DMOs need to establish relationships with all important partners and prove that they know what they are doing.



The SMART-PERFORM System

Understanding the link between environmental characteristics and performance has several important implications for the way in which DMOs plan for the future. In order to facilitate this, the National Laboratory of Tourism & eCommerce at School of Tourism and Hospitality Management, Temple University is developing a performance

measurement system, SMART-PERFORM, specially catering to the DMOs. This system is designed to address the increasing information needs by integrating historical, present (near real time) and future (forecasts) data which is critical for the design and implementation of a DMOs marketing/communication programs or campaigns. Based upon the information, the system will help bureaus establish a series of performance criteria with which to evaluate their marketing efforts and resource based/capacity building aspects of the organization. More specifically, the system will benefit the bureau in terms of:

- Systematic performance appraisals;
- Useful, timely, and credible market information;
- Improved visitor satisfaction;
- Fostering accountability and responsibility;
- Improved managerial decision making; and,
- More meaningful and easy-to-understand information that can be presented to stakeholders.

In the process of adopting and implementing SMART-PERFORM the bureau will go through a process to outline their measures and set up baseline measures (the first measure taken) of a current processes, work output or organizational outcome results which could then be used for benchmarking against other like programs or CVBs. As a performance measurement system, SMART-PERFORM involves the collection, synthesis, delivery, and display of information related to the measurement of productivity output and accomplishment, as well as in-process parameters that affect productivity. If the results differ from goals and objectives, the bureau members can analyze the gaps in performance and make adjustments. A model for measuring the bureau's performance will help all members - customers, suppliers, employees, and community understand and evaluate their contributions and expectations.

Performance measurement is an evolving, iterative challenge. The PERFORM system developed especially for each participating DMO will help the bureau executives to make decisions regarding critical organizational issue such as depth/quality of strategic planning, indicators of partnerships and alliances, anticipating and preparing for changes in the environment, and investments in new markets and technologies. This will be an efficient and effective management tool which will empower managers to both monitor past performance and stimulate future action.

Recommended Readings

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of information and the Internet in travel decisions, the use of information technology for tourism marketing and the development of knowledge-based systems for tourism marketing organizations.

About the Authors



Tanvi Kothari is a PhD/BA student at the Fox School of Business and Management and the School of Tourism and Hospitality Management at Temple University. She is also a research assistant at the National Laboratory for Tourism & eCommerce. Her current research interests include Performance Measurement in Destination Marketing Organizations, development of models to assess the impact of adoption of various innovative technologies in tourism organizations and understanding the impact of the level of website sophistication on the CVBs performance.



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