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CHAPTER I
INTRODUCTION

1. Introduction

Every economy in the world today, continues to depend on the service sector unlike earlier when the agriculture, manufacturing and trade sectors ruled the roost. The service sector is now recognized as a vital sector of the economy. This sector contributes a major share to the GDP. There are very many reasons as to why service sector is growing and has become a vital sector of the economy. The service sector is assuming increasing importance in the Indian economy. The weightage of the service sector is an indication that in future, India’s GDP growth will be influenced considerably by the service sector.

India ranks fifteenth in the service output and provides employment to around 23% of the total workforce in the country. Though the service sector is India’s number one sector contributing to more than 40% of GDP, yet it contributes less than one per cent of the gross tax structure. The importance of the service sector in the Indian economy can be further gauged by the fact that the majority of new employment in the organized sector has been in the service sector. While the total employment in the organized sector in the last 25 years has increased by around 57%, the increase in employment in the service sector in the corresponding period was around 70%. The details of some of the fastest growing service sectors in India are given in the following chart 1.1. There is a growing market for services and increasing dominance of service in economics worldwide, not just in India. This tremendous growth and economic contribution of the service sector have drawn increasing attention to the issues and challenges of the service sector industries worldwide. The service sector in India today accounts for more than half of India's GDP. According to data available for the financial year 2006-2007, the share of services, industry, and agriculture in India's GDP is 55.1 per cent, 26.4 per cent, and 18.5 per cent respectively. The fact that the service sector now accounts for more than half of the GDP marks a milestone in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.
The service sector has recorded double-digit growth consistently in the last three years. It grew by 11.0 per cent during 2011-12 on top of 10.3 per cent growth in 2010-11, which has been the highest growth since 1999-2000 as per the new series.

The Indian economy recorded a strong growth during 2006-07, thanks to economic reforms, which paved the way for robust growth. Real Gross Domestic Product (GDP) growth rate accelerated to 9.4 percent during 2006-07 from 9.0 percent level in the previous year. It contributed mainly to the sustained expansion in the industry and services. It was 3.2 percent in 1990-1991. Real GDP growth during the Eleventh Plan period (2006-07 and 2011-12) averaged 7.6 percent –the highest average rate of growth during any plan period so far. Real GDP originating from agriculture and allied activities estimated by the Central Statistical Organization (CSO) registered a lower growth of 2.7 percent during 2011-12.

However, the growth of real GDP originating from industry entered the fifth year of expansion as it recorded a double-digit growth of 11.5 percentage during the year (8.2 percentage in 2010-11), which was the highest growth achieved since 1995-96. While industrial growth was mainly driven by the manufacturing sector, both mining and power sectors witnessed accelerated growth. In terms of use-based classification, the performance of the capital goods sector was particularly impressive with 18.2 percentage growth. The basic goods and consumer goods sector also
recorded a double-digit growth of 10.3 per cent and 10.1 per cent, respectively, during 2011-12. The well-performing industrial sector was also boosted by improved performance of the infrastructure sector, registering 8.8 percent growth during 2011-12.

For a change, the traditional agriculture and manufacturing sectors of the Indian economy have taken a back seat, paving way for the dominance of the growing service sector, riding on the convergence of the new technologies for faster and efficient delivery. Coincidentally, at a time when the manufacturing sector has been reeling under stagnant growth during the last couple of years, it is the record contribution of the service sector that has been saving India the embarrassment whenever its GDP growth figures are added up by the government.

The hotel and tourism industry’s contribution to the Indian economy by way of Foreign Direct Investments (FDI) inflows were pegged at US$ 2.35 billion from April 2000 to February 2011, according to the Department of Industrial Policy and Promotion (DIPP).

1.2 The Hotel Industry in the Indian Scenario

The hotel industry in India has witnessed a tremendous boom in recent years. The hotel industry is inextricably linked to the tourism industry and the growth in Indian tourism has blossomed in to the growth of the Indian hotel industry. A thriving economy and increased business opportunities in India have acted as a boon for the Indian hotel industry. The arrival of low cost airlines and associated price wars has given domestic tourists many options. The ‘Incredible India’ destination campaign and the recently launched ‘Atithi Devo Bhavah’ (ADB) campaign have also helped in the growth of domestic and international tourism and consequently the hotel industry. In recent years the Government has taken several steps to boost travel and tourism which have benefited the hotel industry in India.

The hotel industry comprises a major part of the tourism industry. One of the fastest growing sectors of the economy now is the hotel industry. This industry alone is a multi-billion dollar and growing enterprise. The hotel industry is diverse enough for people to work in different areas of interest and still be employed within the hotel. Historically viewed as an industry providing a luxury service valuable to the economy only as a foreign exchange earner, the industry today contributes directly to
employment (directly employing around 0.15 million people), and indirectly facilitates tourism and commerce. Prior to 1980, the Indian hotel industry was slow-growing. However, subsequent partial liberalization of the India economy generated tourism interest in India, with significant benefits accruing to the hotel and tourism industry. The Indian economy is now the second fastest growing economy in the world, China being the first. India has achieved an average growth rate of 9% over the past four years. It is expected to grow at the rate of 8% between 2008 and 2016. India is also now the fourth largest contributor to the world Gross Domestic Product (GDP) in Purchasing Power Parity (PPP) terms after USA, Japan and China. This has attracted a lot of attention from all over the world.

India has enormous potential for the development of tourism, but it has not yet developed and realized its importance. The Government of India has allocated 9230 crores during the 11th Plan, the allocation of which is less than 1% of GDP for the tourism sector. China spends 3.8%, Nepal 5%, Malaysia 8.4% and Indonesia 15% of their GDP. As reported in 2011 by the World Economic Forum, India was ranked 11th in Asia Pacific region. However, India is ranked the 14th best tourist destination for its natural resources and 24th for its cultural resources. The Indian hotel industry has emerged as one of the key industries driving in the growth of the service sector and the Indian economy. According to the World Travel & Tourism Council (WTTC), growth in the hotel industry is at 15% every year with 1, 50,000 hotel rooms over the next couple of years.

In recent decades, the business environment has changed. A new environment has begun that is termed as the “information age” because knowledge and information are more readily available than ever before. Organizations have reacted in different ways versus change in business. These changes include change in management structure and assessment methods. The new organizational environment requires being more flexible and adaptable with environmental factors. This flexibility involves group work and cooperation between different organizations. An organization intending to compete is mindful of expected changes in planning and practice. Such an organization should consider the customer’s needs and should assign more responsibilities to the human resource department. Strategic information can show an organization the future route whereby the competitive route is decided and based on this information, the company’s success is enhanced.
The changing business environment has also brought about dissatisfaction in using solely traditional financial measures for performance measurement. Knowledge and information are now competitive factors for today’s organizations. In a knowledge-based business environment, intangible assets create value for organizations, while traditional tangible assets become less important. Some organizations are comprised almost entirely of intangible assets, such as a new product or service innovation, human capital, which are difficult to measure with traditional financial accounting systems.

In addition, financial indicators such as profitability are simply an indicative part of an organization’s developmental success on a short-term basis. Therefore, to put more emphasis on the importance of strategic information, one should consider an organization’s performance from four different angles using financial and non-financial reports based on critical success factors. These four angles include financial and three non-financial ones. Financial performance, Customers’ satisfaction, Internal processes and Innovation and learning. The increasing importance of intangible assets creates a need for a different type of performance measurement system.

Therefore, an accounting report on the basis of these four perspectives is called the Balanced Scorecard. The Balanced Scorecard (BSC) is defined as an assessment of all financial and non-financial factors playing a role in an organization achieving its strategic goals. Compared to financial information, a BSC may provide a basis where by one can have a more comprehensive analysis and assessment. The implication of BSC becomes an inseparable part of learning as method and organizations try to guarantee their success in a competitive arena using this method. Kaplan and Norton (1992) introduced the Balanced Scorecard in the early 1990's to overcome the deficiencies of traditional financial performance measures in today’s business environment. The BSC is a multi-dimensional performance measurement system encompassing both financial and nonfinancial measures that are derived from the organization’s strategy and that are linked together in a series of cause and-effect relationships. Kaplan and Norton (1992, 1996, and 2001) propose the use of four performance dimensions: Learning and Growth Perspective, Internal Business Perspective, Customer Perspective and Financial Perspective. The BSC is an innovative performance management system which any organization could use to focus and align their executive teams on, human resources, information technology.
and financial resources on an unfiled overall strategy much as businesses have traditionally employed financial management systems to track and guide their general fiscal direction.

Thus, Indian organizations have been compelled to adopt contemporary management accounting techniques in order to ensure survival and maintain competitive advantage (Joshi, 2001). The importance of performance measurement practices for decision-making processes in Indian organizations is generally well documented in the field of management accounting. While financial measures continue to dominate in the corporate performance scorecard, there has been growing use of non-financial, forward-looking measures such as on-time delivery, customer satisfaction, and productivity in addition to financial measures for performance evaluation by corporate India in today’s information age. The hotel industry is one such organisation.

The hotel industry is defined by a wide range of economic activities all relating to the provision of goods and services (Walker, 1999). It includes the tangible products of hotel rooms, food and beverage, restaurants and so on. These are all quantifiable according to industry standards and ratings. The intangible aspect of service is more problematic and it is reliant upon the use of individual HR in the interpretation of the representative equation. It can be argued that service standards are set and are perhaps even quantifiable; in every case it is the individual interpretation of these standards on which an organization in the service industry is reliant on. As has been seen from the individual components of HR, not all individuals possess or develop each component in equal parts and thus variability of service occurs. It is not only this individual and specific relationship of human capital and services that is problematic for the hotel industry. Other features of the industry combine with issues of human capital management to make the management of a hotel organization a very complex process.

The Ministry of Tourism classifies functioning hotels under the star system into various categories from one to five stars, deluxe and a newly introduced category of heritage hotels and also reclassifies these hotels after every three years to ensure that they maintain the requisite standards. The Hotels and Restaurants Approval and Classification Committee was set up for the very purpose and has representatives
from the Indian Government, State governments and hotel and travel industry associations.

1.2.1 Classification of hotels in India:

Based on the quality, infrastructure and service they offer they are classified as: Five-Star Deluxe, Five-star, Four-star, Three-star, Two-star, One-Star and Heritage hotels. They are based on general features and facilities offered.

Premium and Luxury Segment: This segment comprises the high-end 5-star deluxe and 5-star hotels, which mainly cater to business and high market foreign leisure travellers and offer a high quality and range of services.

Mid-Market Segment: This segment comprises 3 and 4 star hotels, which cater to the average foreign and domestic leisure traveller. This segment also caters to the middle level business travellers since it offers most of the essential services of luxury hotels without the high costs. The tax component of this segment is lower compared to the premium segment.

Budget Segment: These comprise of 1 and 2 star hotels referred to as “Budget Hotels”. This category does not offer as many facilities as the other segments but provides inexpensive accommodation to the highly price-conscious segment of domestic and foreign leisure travellers.

Heritage Hotels: In the past four decades certain architecturally distinctive properties such as palaces and forts, built prior to 1950, have been converted into hotels. The Ministry of Tourism has classified these hotels as heritage hotels.

Inventory: The number of rooms in a hotel is categorized as less than 50 rooms, 50-150 rooms, and more than 150 rooms.

Affiliation: The two types of affiliations which are used to categorise of hotels are affiliated to chain of hotels and independent ones. The hotel industry has the following characteristics:

- High staff turnover and thus the ongoing development and loss of instructional and social capital which are significant issues in the day to-day management.
- Long irregular hours over 7 days a week cause individuals to react and deal with stress in different ways which affects their performance.
The hierarchical structure of many businesses is such that it resists the development of inter organizational networks and the sharing of organizational knowledge.

The diversity of the workforce in terms of culture, age and gender as well as the diversity of skills required by individual departments results in a multitude of issues for the efficient management of HR.

1.3 Human Resource in hotel industry

The importance of Human Resource (HR) for hotel and tourism industry is increasingly being realized. Despite the heightened need for HR in the hotel industry, the function has apparently not achieved its full potential around the world. In developing economies HR evidently needs to be utilized more. There are a number of problems and constraints, which concern human resource development in the Hotel and Tourism Industry, viz., shortage of qualified staff; shortage of training infrastructure and qualified trainers; working conditions in the hotel industry; and lack of proper strategies and policies for human resource development. Overall, the potential of HR in the quality of staff dependent on the hotel industry is yet to be fully realized.

There is a need to mobilize HR with the purpose of enabling staff to participate in the task of organizational development and nation building attention. With the development of skills, increase of knowledge and change in attitude, the staff can achieve competently pre-determined goals. Having equal importance, however, is the quality of staff training, which is often relatively neglected during the early stages of hotel industry development. By applying a well-ordered and professional HR approach to work in the protected areas field, skills, knowledge and attitude of personnel will be enriched and thus the overall quality of work performed will improve.

The use and management of HR is therefore particularly relevant to the hotel industry due to the use of intangibles in the product (service), the diversity of the workforce and high staff turnover rates. These factors contribute to constant evaluation of the human capital available within the workforce. A hotel’s employees are often demanding and generally not well rewarded. Hence employees may not be too motivated to consistently deliver the necessary quality service. The primary role...
of HR can then mediate between the business and the employee’s needs in order to encourage and facilitate quality service. In the absence of substantial financial rewards, for example, more intangible and intrinsic rewards such as teamwork and training can be offered. The range and balance of HR policies and practices in the hotel industry can have a significant impact on service quality. Secondly, HR policies and practices will influence the leadership and management style of line managers who have an effect on employee service delivery. Thirdly, the HR principles adopted by hotels contribute to an organization’s culture which can play a large part in influencing service delivery.

The importance of Human Resource Development for hotel and tourism industry is increasingly being realized. Despite the heightened need for HR in the hotel industry, it has apparently not achieved its full potential around the world. In developing economies HR evidently needs to be utilized more. There are a number of problems and constraints, which concern Human Resource Development in the hotel and tourism industry, such as, shortage of qualified manpower; shortage of training infrastructure and qualified trainers; working conditions in the hotel industry; and lack of proper strategies and policies for HR. Overall, the potential of HR in the quality staff-dependent hotel industry has not yet been fully realized. There is a need to mobilize HR with the purpose of enabling them to participate in the task of organizational development. This would include the need to train the staff, their skills, increase their knowledge and change their attitude, so that they can competently achieve pre-determined goals. Of equal importance, however, is the quality of staff training, which is often relatively neglected during the early stages of hotel industry development.

The purpose of Human Resource Development is to improve the capacity of HR through learning and performance at the individual, process and organizational levels. By applying a well-ordered and professional HRD approach to work in the protected areas field, skills, knowledge and attitudes of personnel will be enriched and the overall quality of work performed will improve.

1.4 Quality of hotel services

The quality of service in the hotel industry is derived from the field of marketing which values human interaction between a business and its customers.
(Antony et al., 2004). It incorporates the concept of meeting and exceeding customer expectations and it is generally accepted that better service quality impacts positively on an organisation’s performance and competitive positioning. However, these definitions derive from a goods manufacturing perspective and are not applicable to the service industry. Of the five dimensions, reliability has been consistently shown to be the most important determinant of perceptions of service quality.

A review of definitions of service quality is important to the study as accurate knowledge of what customers expect is the first and perhaps the most critical step in delivering quality service. Furthermore, the controversies that belie service quality implementation may stem from the difficulties that surround the definition of the quality concept (Robinson, 1999).

1. Reliability: Delivering on promises

Reliability is defined as the ability to perform the promised service dependably and accurately. In its broadest sense, reliability ensures that the company delivers on its promises; promises about delivery, service provision, problem resolution, and pricing. Customers want to do business with companies that keep their promises, particularly their promises about service outcomes and core service attributes.

2. Responsiveness: Being willing to help

Responsiveness is the willingness to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints and problems. Responsiveness is communicated to customers by the length of time they have to wait for assistance, answers to questions, or attention to problems. Responsiveness also captures the notion of flexibility and ability to customize the service to customer needs.

3. Assurance: Ability to convey trust and confidence

Assurance is defined as an employee’s knowledge and courtesy and the ability of the firm and its employees to inspire trust and confidence. This dimension is likely to be particularly important for services that customers perceive as high risk, or for services of which they feel uncertain about their ability to evaluate outcomes – for example, banking, insurance, brokerage, medical and legal services.
4. Empathy: Provision of caring, and individualized attention

**Empathy** is defined as caring, and individualized attention that an organisation provides to its customers. The essence of empathy is conveyed, through personalized or customized service, that each customer is unique and special and that their needs are understood. It includes approachability, sense of security and the effort to understand each customer’s particular needs.

5. Tangibles: Representing service physically

**Tangibles** are defined as the availability of physical facilities, equipment, personnel and communication materials. Tangibles provide physical representations or images of the service that customers, particularly new customers, use to evaluate quality. Service industries that emphasize tangibles in their strategies include hospitality services in which the customers visit establishments for this service, such as restaurants and hotels, retail stores and entertainment companies.

1.5 Rating of hotel service:

The measurement of organizational performance is even more significant in service organizations as compared to manufacturing. (Bharadwaj and Menon, 1993) It was stressed that service providers must concentrate more on customer relationships rather than on short-term transactions. Furthermore, in service organizations, such as hotels, this is even more critical because of the nature of its business which is more focused on human skills and intangible assets. The increasing importance and value of people (employees and customers) in the hotel industry make the traditional accounting practice is no longer appropriate (Atkinson and Brown, 2001; Phillips, 1999).

Current accounting practices in hotels rely heavily on financial measures and is ruled by intuition and past experience. Examples of financial indicators used by hotels include operating profit/income, operating margin, return on investment (ROI), price, Revenue Per Available Room (RevPAR), and costs (Denton and White, 2000). RevPAR equals room revenue divided by the number of available room or hotel occupancy an on average daily rate. In other words, the RevPAR rating reflects a hotel’s performance in both occupancy and price. Another study carried out by Atkinson and Brown (2001) found that profitability is the most monitored financial indicator by hotels besides revenue and cost control.
However, there are several weaknesses of focusing on financial measurement alone. Specifically, the weaknesses of the financial measures used by hotels are as follows:

1. Financial measures are lagging indicators rather than leading indicators and cannot be used to predict future performance (Denton and White, 2000).
2. Financial measures only partially reflect the effect of past and current activities (Banker et al., 2005).
3. Financial measures do not capture the relevant performance issues necessary for today’s business environment (Phillips, 1999a).
4. Temptation exists for managers to focus only on dollar figures, which may not tell the whole story of the organization. Lower level managers and employees may feel helpless in affecting the net income or investment. Financial measures that are relatively stable over time do not reflect new conditions and new goals (Hansen and Mowen, 2003).
5. There is a lack of strategic focus and failure in providing data on quality, responsiveness and flexibility (as cited in Neely, 1999).
7. The RevPAR alone cannot be used as the basis for performance comparison between hotels because hotels in high-price areas tend to have a much higher RevPAR than hotels in low-price areas.

Due to the limitations of financial performance measurement mentioned above and the impact of global competition in the hotel industry, hotels should rethink their current performance measurement which is more focused on financial measures to a more balanced measurement which has both financial and non-financial dimensions. Further, according to Atkinson and Brown (2001), because of the high fixed costs associated with hotels, their performance management system should enable managers to make decisions not only based on financial but also other measures that reflect market orientation, revenue management, and complex nature of the service delivery process within hotels. Hence, non-financial measures are necessary for hotels. The reasons for using non-financial measurements are as follows:
✓ The non-financial measures contribute to enhance performance within the service environment, as they deal with causes instead of effect (Arias Aranda, 2003).

✓ The non-financial measures reflect current managerial actions which are not reflected in the financial performance for some time (Banker et al., 2005).

✓ The non-financial measures especially indicators on customers may provide information on how certain hotel properties improve or diminish the operator’s reputation (Banker et al., 2005).

1.6 Non-financial measures

According to a publication by the American Accounting Association (1975), non-financial performance measures are defined as information expressed in non-monetary units and ratios. The use of non-financial measures calls for the use of the operations-based measures which are the origins of management accounting systems (Johnson and Kaplan, 1987). Non-financial measures are classified into four categories: quality, delivery, production process time, and flexibility.

These measures are, however, not a new phenomenon. The use of these performance measures has become a subject of great interest particularly in relation to intensive competition, customer satisfaction, and the inadequacy of traditional measurements and the use of new manufacturing practices. Reasons for the use of non-financial performance measures are:

✓ Perceived limitations in the use of traditional financial measures;

✓ Increased competitive pressure; and

✓ Implementation of other programme like Total Quality Management.

In addition, the advantages of using non-financial measures are:

✓ These measures are timelier than financial ones;

✓ They are both quantifiable and precise;

✓ They are meaningful to the workforce and hence aid continual improvement;

✓ They are consistent with organisation goals and strategies; and

✓ They change and vary over time as the markets change.
Many arguments have been raised concerning the determination of non-financial measures as leading indicators of financial performance. Improvements in different non-financial areas such as customer satisfaction, quality and innovation affect future financial performance. A survey of vice presidents of quality for major US companies found that only 28 per cent could relate to customer satisfaction measures to accounting returns, and only 27 per cent to stock returns. Thus it proves that a higher customer satisfaction leads to a higher return on investment, after controlling the past returns and the time trend.

Furthermore, customer satisfaction measures are associated with the company's current market value, but not with contemporaneous accounting measures. Srinivasan (1997) investigated the relationship between financial and non-financial performance measurements in the context of hotels. His study demonstrated that customer satisfaction measures were significantly associated with future performance, in terms of revenues and profit.

1.7 The Balanced ScoreCard (BSC) approach

According to its creators (Kaplan and Norton, 1992), the BSC has been offered as a superior combination of non-financial and financial measures developed to meet the shortcomings of traditional management control and performance measurement systems. The BSC incorporates financial performance measures with non-financial performance measures in areas such as involving customers, internal processes and learning and growth. Consequently, the BSC includes measures of financial performance, customer relations, internal business processes and organizational learning and growth. The combination of financial and non-financial measures of the BSC was developed to link short-term operational control to the long-term vision and strategy of the business (Kaplan and Norton, 1992, 1996a, 2001).

1.7.1 Concept and Definitions of Balanced Scorecard

The Balanced Scorecard is a management and measurement system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. The BSC transforms strategic planning from an academic exercise into the nerve centre of an organization. Kaplan and Norton describe the innovation of the BSC as follows:
“The BSC retains traditional financial measures. But financial measures tell the story of past events. The industrial age companies for which investment in long term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment, in customers, suppliers, employees, processes, technologies and innovations”. So, the importance of the BSC is highlighted by the limitations of traditional measures. The term Balanced Scorecard reflects the balanced between short and long term objectives, between financial and nonfinancial measures, between lagging and leading indicators and between external and internal performance perspectives (Robert Kaplan and David Norton, 1996a) In the words Balanced Scorecard is a structural approach to ensure alignment of day to day business operation with the business strategies determined by the executive team. It helps a management think through the areas of strategic importance by addressing financial, customer, business process and internal learning-growth.

This shows that the BSC relates to strategies and regular operations by addressing four different perspectives i.e. financial, customer, business processes and learning growth. BSC is a framework which translates a organization’s vision and strategy into a coherent set of performance measures. It helps business to evaluate how well they meet their objectives. It typically has four to six components, each with a series of sub-measures. Each component highlights one aspect of the business. The BSC includes measures of performance which are lagging indicators, medium term indicators and leading indicators. The BSC is a useful approach for organizational measurement and improvement.

The BSC is a performance measurement system using a multi-dimensional scorecard to translate strategy into a balance of financial and non-financial performance measures. The general concept of the BSC is as given below; The BSC provides an inter-connected model for measuring performance and revolves for distinct perspectives, financial, customer, internal business and learning-growth. Each of these perspectives is stated in terms of the organization’s objectives, performance measures, targets and initiatives and are all harnessed to implement corporate vision-strategy. This explains the four perspectives of the BSC in implementing the corporate strategy. The BSC is a conceptual framework for translating an
organization’s strategic objectives into a set of performance indicators distributed among four perspectives- financial, customer, internal business process and learning-growth. Some indicators are maintained to measure an organization’s progress towards achieving its vision, others indicators are maintained to measure the long term drivers of successes. ‘BSC is a valuation methodology that converts an organization’s value drive-such as customers, services, financial performance, operational efficiency and innovation- to a series of defined metrics, records and analyses these matrices to help determine if they are achieving strategic goals’. It explains how the BSC is a system that converts value drivers of the organization into metrics to evaluate strategic goal achievement.

It starts from the organization’s vision-strategies from here critical success factors are defined. Measures are constructed that aid target setting and performance measurement in areas critical to strategies. BSC is a performance measurement system derived from vision-strategy and reflects the most important aspects of the business. It supports strategic planning and implementation by federating the actions of all parts of an organization, around a common understanding of its goal and by facilitating the assessment and up gradation of strategy. BSC is a new management concept which helps managers at all levels to monitor results in their key areas. It recommends broadening the scope of the measures including customer perspective, financial perspective, internal business perspective and learning-growth perspective.

It monitors current performance as well as tries to gather information about how well the organization is positioned to perform better in future. To summary the above definition one can conclude that the BSC is a system of combining financial and non-financial measures of performance in one single scorecard. It includes performance measures for four perspectives; financial, customer, internal business process and learning-growth. It need not be restricted to four perspectives alone; more may be added. The BSC focuses on the link between business process and decisions and results. It is considered as a device to guide formulation, implementation and communication. It also helps in tracking the performance and evaluation.

The BSC includes measures of financial performance, customer relations, internal business processes and organizational learning and growth. Financial performance measures indicate the extent to which organizations’ strategy, implementation, and execution contribute to bottom-line improvement. The
achievement of financial targets reflects the outcome of dimensions of performance captured by the BSC’s other three perspectives. According to Kaplan and Norton (1992), improvements within an organization’s operations result in the financial numbers taking care of themselves. By furnishing a language that because operationally on expectations and performance, the BSC lays the foundations for discussions about how each individual can contribute to the organization’s goals and vision, thereby also facilitating learning at both individual and organizational levels.

1.7.2 The BSC and the hotel industry

A limited literature focusing on the hotel sector in particular has become established with regard to strategic measures and implementation in general (e.g. Phillips, 1999b) and focusing on the BSC approach in particular. Although hotels are generally thought of in a service context, in reality they encapsulate three different types of industrial activity – rooms, beverage and food – which exhibit differing cost structures and business orientations (Harris and Mongiello, 2001). The underlying diversity of activities and their differing cost structures, it can be argued, call for a diverse set of relevant performance measures, which a framework such as BSC can incorporate.

Many independent and chain hotels have performance evaluation at enterprise level implying that a performance measurement and management system (PMMS) has to be in place for the successful implementation of stakeholder objectives and strategy in the hotel industry as in any other enterprise. Research beyond this introductory has opted for a BSC approach or its adaptation. In the basic BSC model, a number of objectives (alternatively known as Key Result Areas or Critical Success Factors) are grouped into four major dimensions. All four dimensions are perceived to be equally important or balanced. Within each dimension, a limited number of objectives are also deemed to be equally important or balanced.

1.7.3 Cause and Effect Relationships

Using strategy as the basis for developing measures reflects a carefully considered thought process in the design of an effective performance measurement system. Linking the scorecard’s dimensions and measures to the organization’s strategy are a key characteristic of the balanced scorecard. Kaplan and Norton state that an organization’s strategy should be apparent by looking at its Balanced
Scorecard. This is the key requirement for an organization to be considered to have at least begun to adopt a Balanced Scorecard.

The structure pertains to the linkages between the different measures within the individual perspectives and across the different perspectives. Measures should be linked together in a series of cause (leading indicators) and effect (lagging indicators) relationships, which ultimately culminate in the financial perspective. Some measures in a perspective may have cause-and-effect linkages between them but at least one measure in each perspective must be linked to a measure in another perspective. For example, an organization could decide to measure employee satisfaction and employee retention in the Learning and Growth Perspective and employee productivity in the Internal Business Perspective.

Employee satisfaction could be linked to employee retention which, in turn, could be linked to employee productivity. These linkages should be explicit and testable. Causal linkages are important because they provide the mechanism to link the everyday actions of frontline employees to financial results. Causal linkages are also important because they provide the mechanism to validate the organization’s strategy. Kaplan and Norton (1996, 2001) maintained that the cause-and-effect relationships are hypotheses about an organization’s strategy.

**Chart 1.2**

**Cause and Effect Relationships among the Four Perspectives**

<table>
<thead>
<tr>
<th>1. Knowledge &amp; skills of employees is the foundation of all innovation and improvements.</th>
<th>Learning and Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Skilled and empowered employees will improve the ways they work.</td>
<td>Better Processes</td>
</tr>
<tr>
<td>3. Improved work processes will lead to increased customer satisfaction.</td>
<td>Increased Customer Value</td>
</tr>
<tr>
<td>4. Increased customer satisfaction will lead to better financial results.</td>
<td>Improved Financial Performance</td>
</tr>
</tbody>
</table>

Source: Kaplan and Norton
1.8. Review of literature

Measuring organizational performance has been an important area and it has undergone continuous development and modification. Since the inception of the concept, management experts as well as academicians have been trying to develop advanced methods of measuring it. On account of its growing importance, the subject has many scholars, economic theorists, financial analysts and other aspects to probe into the various facets of performance measurement systems. A number of studies have been conducted in India and abroad to study the various aspects of performance measurement in the hotel industry. An attempt was made to summarize the important studies such as research thesis, books, articles, projects and working papers keeping in mind the relevance of the present study. Literature survey was used as a strong base to the research on performance appraisal in the hotel industry.

Review of literature has been set in parts viz.

- Review of published articles
- Review of project and working papers
- Review of research thesis
- Review of books

1.8.1. Review of published articles

A number of articles relating to performance appraisal systems and Balanced ScoreCard approach have been published at the national and international levels in several journals. However, a few of the articles reviewed by the researcher have been listed below.

**Brander-Brown and McDonnell (1995)** the study is both dated and limited in its scale, focusing as it does on one property in the South of England. Notwithstanding these evident limitations, the hotel manager saw obvious benefits in using the technique. The study identified that a scorecard for an individual hotel would be likely to vary from a scorecard for a group of hotels, that the measures would need to be continually reviewed in order to retain their relevance, and that components might need to be prioritized.
Johanson et al. (1998) have shown in their study that, conclusions are drawn from literature whose goal was to put information on intangibles into financial and non-financial frameworks. The analysis primarily focuses on two concepts: The human resource management oriented concept called Human Resource Costing and Accounting (HRCA) and the strategic management oriented concept called Balanced Scorecard (BSC). Despite numerous articles and books on theoretic views and models to capture intangibles in a tangible way, little is known about the outcome of HRCA and BSC. Theoretical elaboration about possible effects is not rare, but investigations are scarce when it comes to financial attempts and almost non-existent with respect to nonfinancial models. HRCA and BSC have largely been developed and applied to internal managerial purposes, though they appear to be used occasionally for external marketing, the future of HRCA may well be to link it to the BSC. To date, HRCA suffers from not being grounded in business strategy. Linking HRCA to BSC would solve this problem and, conversely, the BSC would have the option to utilize measures that have already been developed within the HRCA framework.

Ziaoddin (2000) the study has been conducted to evaluate the Service Quality in 5 star hotels of Tehran the capital of Iran. The main purpose is to change discipline of hospitality industry to a completely customer oriented one. The analysis data have shown that there are some strong correlation between the underlined variables of research and Service Quality in 5 star hotels. In spite of the positive general evaluation of more than 50% of the guests, approximately 50% of them believed that the perceived Service Quality is poor in these hotels. This means there is a big gap between customer expectations and perceived service of these hotels. Have faced defect in Service Quality of such luxurious hotels, the mentioned gap would be related highly to the managerial and ownership problems. The main cause of the gap between services rendered in 5 star hotels and related international standards are the lack of up to date personnel in the system.

Denton and White (2000) reported on the experiences of Hilton and Marriott franchisee White Lodging Services in implementing BSC. In both cases, BSC was found to be a generally useful tool, in that it brings together previously disparate measures of performance (that abound in this sector) in a coherent model. Thereby it “helps to unify all parties’ stakeholders”. In the Hilton study the authors pointed to the implementation of BSC as having been successful in reinforcing a coherent business
culture, which is seen as vital in a business with so many separate operating units and with volatility in its personnel. Other benefits include encouraging managers to focus on both short-term and long-term measures, rewarding teamwork and allowing best practices and strategic information to be shared.

Harris and Mongiello (2001) examined the range of performance measurement concepts available to managers (including BSC). The continuing research identified the key indicators that hotel managers find useful in managing their businesses, and acknowledged BSC’s value.

Atkinson and Brown (2001) in a study of UK hotels, reported that such Hotels predominantly focus on financial performance dimensions, and that they focus on the short term with little strategic use of the information. Two explanations for such a short-term financial orientation are offered: (1) That increasing corporate ownership of hotels lead investors to set demanding financial targets whilst paying little attention to the processes driving the results; and (2) That many senior managers promoted from operational roles consequently tend to focus on “real-time operational control rather than future-oriented strategic intent”. In order to establish the current status of performance measurement within the UK hotel industry, it was decided to utilize a hybrid methodology combining an extensive questionnaire survey with a series of in depth interviews. With the intention of successfully meeting the challenges of an increasingly complex competitive environment, organizations in many industries are rethinking their performance measurement systems. Traditional performance measurement systems, meanwhile, typically stress the short term, focusing on past achievements while largely ignoring the drivers of future performance. Concern has been expressed that UK hotels are still focusing on these traditional performance measures and so may be overlooking important issues, potentially leading to detrimental outcomes. This concern is supported by new empirical evidence obtained regarding the current range of performance measures used within UK hotels. This evidence suggests that with few notable exceptions, UK hotels do appear to emphasize traditional measures and therefore still seem to have some considerable rethinking to do.

Doran et al. (2002) an empirical study of San Diego hoteliers identify both the perceived benefits and potential pitfalls. Whilst noting the reported successes of Hilton and White Lodging Services, suggest that such success may owe a great deal to
the two organization’s unique circumstances (e.g. histories, strategies, opportunities and constraints) and suggest that it is imperative that the BSC approach is modified to take into account individual circumstances. In relation to the identification of the causal linkages between balanced scorecard components, provide a useful illustration of how these might be viewed in a hotel context.

**Anand et al. (2005)** have been found to be the most critical issue in the implementation of the Balanced Scorecard in corporate India. In this article also the author’s major findings are as follows: 1. The financial perspective has been found to be the most important perspective followed by customers’ perspective, shareholders’ perspective, internal business perspective, and learning and growth perspective. And employees’ perspectives also figure in it. 2. The expense centre budgets, brand revenue/market share monitoring, profit centre, and transfer pricing mechanism are the other performance management tools used by the Indian companies. 3. Corporate India monitors the indicators as per ISO 14000 norms in the environmental and social perspectives of the performance scorecard. 4. The difficulty in assigning to the different perspectives and in ‘establishing cause and effect relationship among these perspectives’ have been found to be the most critical issue in the implementation of the Balanced Scorecard in corporate India.

**Haktanir and Harris (2005)** in their study have discussed the aim of this work to explore performance measurement practices in the context of an independent hotel in Northern Cyprus. The study was conducted in a 392-room five-star resort hotel over a nine-week period using multiple data collection methods comprising semi-structured interviews, documentation collection and observation. The finding indicated six main themes, which are grouped under business dynamics and overall performance, employee performance, customer satisfaction, financial performance, and innovative activities performance measures, so that understanding the type, the communication process and the purpose of utilizing the performance measures are described and analyzed. Thus this paper has shown the results of performance measurement practice of an independent hotel setting, providing in-depth information about the context of the business, the decision-making process and the information flow. Also, the paper documents performance measurement practices in the hospitality management field, providing an insight into the kinds of measures used by decision-makers of an independent hotel business in Northern Cyprus.
Evans (2005) this study seeks to assess the Balanced Scorecard approach to strategy and its usefulness for the international hotel industry. The paper has undertaken a wide-ranging literature review which focuses on strategic implementation and the BSC approach, which is compared and contrasted with evidence of practice derived from a survey of hotels in Northeast England. In reviewing the literature it is clear that a source relating to the more detailed implementation issues of strategy (which is where BSC can be cited) is relatively scarce. The primary research is based on a limited survey of hotels and it is recognized that further research is necessary to establish the exact nature of the causal linkages between performance measures and strategic intent and also to gain insights into practice elsewhere. The paper considered a broad range of generic and industry specific literature sources and concludes that, despite its limitations, such a structured approach to strategy provides a useful managerial tool for hotel managers. The paper will be useful to academics with an interest in strategic implementation and performance measurement.

Sharma and Bhagwat (2007) in their work developed an integrated BSC and AHP approach for supply chain management evaluation. They developed in this paper based on an extensive review of literature on supply chain management performance measures, supported by AHP analysis. It also suggests from the view of different decision levels and overall performance measurement that is the best BSC perspective.

Kim and Lee (2007) they developed and tested a new performance measurement that employs the balanced-scorecard (BSC) and the fuzzy- Analytic Hierarchy Process (AHP) in the hotel industry. Two surveys were conducted: the first survey from hotel experts to identify core performance drivers for the performance evaluation, and the second survey from executives working in luxury hotels to determine priorities among the selected attributes using the fuzzy-AHP model. The results showed that the financial attribute is considered most important (36%) among the four given core attributes, followed by customer (31%), learning and growth (18%), and internal business perspective (15%). In addition, a total performance score for each hotel was determined and the performance rankings of the hotels were revealed using the new index developed in the study. The results suggest that hotel management consider using the new proposed evaluation model as a supplement to their traditional performance measures.
McPhail et al. (2008) have propounded that, the extent to which performance measures that align with the “learning and growth” dimension of the balanced scorecard (BSC) are applied in the hotel industry, have been examined by conducting interviews with 14 hotel human resource (HR) managers. Further, it was found that most of the hotels were using a single measure of employee satisfaction to represent “learning and growth”, which do not enable examination of the five separate dimensions of “learning and growth” represented in the BSC model: Employee capabilities, Goal alignment of employees, Motivation of employees tracking of employee tools and Employee lifestyle and well-being. This study has provided evidence of an apparent schism between academic knowledge and practice with regards to the BSC concept in general and the “learning and growth” dimension of the BSC in particular. The findings suggest limited awareness of the BSC concept amongst hotel managers, although data collected precludes any judgment to be made as to whether this limited awareness is peculiar to the HR function. The findings also suggest that despite claims concerning the BSC’s potential to serve a quest for competitive advantage, it is not being widely adopted in hotels. While it appears that the attention directed to the BSC may have impacted positively on hotels.

Quintano (2009) argued that in reality and at any point in time, some Dimensions are more important than others. Similarly, at any point in time, some Objectives are more important than others, hence at both levels there arises the need for “prioritization” by means of a merger of BSC tenets and a ranking method. A systematic performance measurement and management system (PMMS) need to be in place for the successful achievement of stakeholder objectives and strategy in the hospitality industry. The paper will focus in particular on the highly competitive Superior-hotel market category. Global hotel chains in this category, such as Hilton Hotels, Four Seasons, and Marriott have opted for a Balanced Scorecard (BSC) approach or its adaptation. In the basic BSC model, a number of Objectives or Key Result Areas (KRAs) are grouped into four Dimensions, namely the Customer Dimension, the Employee Dimension, the Internal Process Dimension, and the Financial Dimension. All four Dimensions are perceived to be equally important or “Balanced”. Within each Dimension, a manageable number of Objectives are also deemed to be equally important or “Balanced”.

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Kaplan and Norton (2010) their article was based on a multi-company research project to study performance measurement in companies whose intangible assets played a central role in value creation. They believed that if companies were to improve the management of their intangible assets, they had to integrate the measurement of intangible assets into their management systems. Several companies quickly adopted the Balanced Scorecard giving us deeper and broader insights into its power and potential. During the next 15 years, as it was adopted by thousands of private, public, and non profit enterprises around the world, they extended and broadened the concept into a management tool for describing, communicating and implementing strategy. This paper describes the roots and motivation for the original Balanced Scorecard article as well as the subsequent innovations that connected it to a larger management literature.

Kim and Kim (2010) in their works determined the elements to be found at the web sites of the tourism and accommodation firms and their importance degrees according to AHP and based on the BSC. Writers determined 23 indicators at 4 formats and they determined the significance degree of these indicators.

Huang et al. (2011) presented the use of the AHP to prioritize all of the measures and strategies in a BSC framework in their study. They proposed that this study has found related strategies and objectives from four perspectives of BSC. This case illustrates selection or design of the most appropriate and helpful measures of the BSC in the pharmaceutical firm in an emerging market.

Chena et al. (2011) presented the balanced scorecard approach is an effective technique for performance evaluation. For more accurately reflecting the dependence and feedback problems of each factor in real world situations, here a new model is developed using a balanced scorecard approach for evaluating the performance of hot spring hotel. A DANP hybrid MCDM model is adopted to solve the dependence and feedback problems, while establishing a performance evaluation and relationship model. An empirical case study is presented to demonstrate the effectiveness of the proposed hybrid MCDM model. Based on this study, the perspective between ‘learning and growth’, ‘enterprise’s internal processes’, and ‘customer’, all aim for solid financial performance as the ultimate goal, and report a positive influence. This effective performance evaluation model developed by applying the hybrid MCDM
enables business managers to understand the appropriate actions and achieve a competitive advantage.

1.8.2. Review of project and working papers

A number of project reports and working papers have been published concerning performance appraisal systems and Balanced ScoreCard approach. However, a few of the project reports and working papers reviewed by the researcher have been listed below.

Kaplan and Norton, (1992) in Conceptual Foundations of the Balanced Scorecard was based on a multi-company research project to study performance measurement in companies whose intangible assets played a central role in value creation. They believed that if companies were to improve the management of their intangible assets, they had to integrate the measurement of intangible assets into their management systems. “After publication of the 1992 HBR article”, several companies quickly adopted the Balanced Scorecard giving us deeper and broader insights into its power and potential. During the next 15 years, as it was adopted by thousands of private, public, and non profit enterprises around the world, we extended and broadened the concept into a management tool for describing, communicating and implementing strategy. This paper described the roots and motivation for the original Balanced Scorecard article as well as the subsequent innovations that connected it to a larger management literature.

Bourne et al. (2003) attempted a create interest in performance measurement with many companies attempting to implement the balanced scorecard. However, there was also evidence that many of these implementations were not successful. This paper reviewed the different performance measurement system design processes published in the literature and creates a framework for comparing alternative approaches. The paper then proceeded to review the literature on performance measurement system implementations and concludes that the performance measurement literature is at the stage of identifying difficulties and pitfalls to be avoided based on practitioner experience with few published research studies. This paper is the first of two, the second going on to consider performance measurement implementation from the point of view of the change management literature.
Spur et al. (1996) developed an approach for design performance measurement systems based around the Integrated Enterprise Modelling Method and a process-mapping tool. Based on this method, a common understanding of the value chain can be generated. The process maps are used as the basis for the identification of critical success factors which then define performance indicators required for their perspectives of: financial results, market structure, in terms of customers, products, competitors, business processes, in terms of volume, value, quality, time and cost and innovation and learning.

Krause and Mertins (1999) developed during a facilitated six-stage process, these stages being: 1 develop a value chain process model, 2 identify the critical success factors, 3 define the performance indicators, 4 gather and verify the data, 5 evaluate the performance indicators 6 implement a continuous process. The key points of this approach are: it relies on the underlying model, it is facilitated, with learning occurring during the development of the process maps , it recognises the need for a framework for designing performance measures based round the performance measurement record sheet.

Neely et al. (2000) Described the development and testing of a structured methodology for the design of performance measurement systems. Frameworks, such as the balanced scorecard and the performance prism, have been proposed, but little attention devoted to the question of how these frameworks can be populated, i.e. how managers can decide specifically which measures to adopt. Following a wide ranging review of the performance measurement literature, a framework identifying the desirable characteristics of a performance measurement system design process is developed. This framework provided guidelines which were subsequently used to inform the development of a process-based approach to performance measurement system design. The process was enhanced and refined during application in three action research projects, involving major UK automotive and aerospace companies. The revised process was then formally documented and tested through six further industrial applications. Finally the process was written up in the form of a workbook and made publicly available.

Rohm (2001) discussed a main thought about doing the right things and doing things right, it describes how to develop a Balanced Scorecard performance system ,explores issues that organisations face in building and implementing scorecard system ,and
share lessons learned from organisations that have taken the balanced scorecard journey. The author decides that the balanced scorecard journey has two phases: Building the scorecard and implementing the scorecard. He suggested six – steps framework to be used in building an organisation's balanced scorecard, and additional three steps to implement the scorecard system throughout all levels of an organisation. This article has a high instructing value that it expresses the general rules of building and implementing BSC.

**Bruggeman and Decoene (2002)** the purpose of this working paper was to investigate managers’ perception about the effectiveness of the linkage between the Balanced Scorecard and variable remuneration. Kaplan and Norton (2000) propose to use the Balanced Scorecard not only as a tool for communicating and monitoring strategy but also as a tool for evaluating and rewarding managers. So far little research has been performed on the effectiveness of Balanced Scorecard-based reward systems. This paper reports on the perceived impact of linking variable remuneration to the Balanced Scorecard using an exploratory field study in a Belgian manufacturing division of a Danish petrochemical company. The study first reviews the management control literature addressing reward systems, performance target setting and the impact of performance measurement attributes on manager’s motivation. Then they analyse the empirical data collected via in-depth interviews, supplemented with an in company survey. Based on these data we were able to formulate hypotheses and build a model on the motivational impact of a BSC-based variable remuneration system.

**Al-natour and Ribhee (2005)** conducted on Jordanian industrial companies to check the applicability of Balanced Scorecard and its effect on operational performance improvement. The analysis of survey results shows how much the Balanced Scorecard is useful as a measurement tool with its integrated set of financial and nonfinancial measurement that enable a strategy to be managed and validated. It also provides evidence of the usefulness of the balanced scorecard (BSC) as a tool for improving project management effectiveness through the development of financial score.

**Kaplan and Norton (2010)** introduced the Balanced Scorecard in a 1992 (Harvard Business Review article). The article was based on a multi-company research project to study performance measurement in companies whose intangible assets played a central role in value creation. They believed that if companies were to improve the management of their intangible assets, they had to integrate the
measurement of intangible assets into their management systems. After publication of the 1992 HBR article, several companies quickly adopted the Balanced Scorecard giving us deeper and broader insights into its power and potential. During the next 15 years, as it was adopted by thousands of private, public, and non-profit enterprises around the world, we extended and broadened the concept into a management tool for describing, communicating and implementing strategy. This paper described the roots and motivation for the original Balanced Scorecard article as well as the subsequent innovations that connected it to a larger management literature.

Schaltegger and Freund (2011) this working paper provided an overview of the Sustainability Balanced Scorecard (SBSC) approach. Its basis, the Balanced Scorecard (BSC) as developed by Kaplan and Norton, is introduced with an emphasis on conceptual elements such as the four basic perspectives, the role of leading and lagging indicators as well as the development of strategy maps based on cause-and-effect-chains in and across the BSC perspectives. Due to its openness to modifications of perspectives and indicators and the different kinds of information that can be handled, the BSC was further developed to support an integrated corporate sustainability management. The SBSC helps to address different environmental and social aspects with regard to their relevance for strategy implementation and execution at the business unit or company level. Moreover, it can be used as a tool of sustainability accounting and reporting.

1.8.3. Review of research thesis

A number of scholars carried out research works on performance appraisal systems and balanced scorecard approach. A few of the doctoral thesis reviewed by researchers have been listed below.

Zuriekat (2005) investigated the implications of fit (internal consistency) between the above contextual factors and the extent of performance measurement diversity usage on organisational effectiveness. Nine performance measurement categories are investigated including: financial, customer, operational, innovation, employee, supplier, environment, and quality and community categories. Considerable publicity and interest has been given to the balanced scorecard approach (BSC). This study also gathered empirical data to investigate various issues relating to BSC approach. The
results of the descriptive analysis showed that financial, customer, operational and quality performance categories are extensively used for performance measurements and evaluation purposes. Other non-financial performance categories are also used but to a lesser extent. Despite the popularity of the BSC approach, only a minority of companies (30%) reported using it in their performance measurement systems. The findings also emphasise the inconsistency between companies following the BSC approach, particularly the number and types of perspectives used. The results suggest that using financial and non-financial performance measures does not necessarily imply that the companies are really balanced scorecard users. This finding therefore raises implications for future BSC researchers, and by drawing off contingency theory literature, it overcomes some of the deficiencies of previous research relating to balanced scorecard approach. Finally, this study contributed to the literature by utilising the structural equation modelling method, which has several advantages over other multivariate data analysis.

Sharma (2009) identified the Key Performance Indicators (KPIs) by applying factor analysis tool on the data collected through the questionnaire. After applying factor analysis it was found that 12 factors came out as a result of the study. These 12 factors later acted as Key Performance Indicators for the banks to evaluate their Information System. These 12 factors were further categorized into 3 categories as: Factors contributing in Strategic Integration, Factors contributing in Functional Integration and Factors contributing in Technical Integration of IS in the bank. Any factor or KPI would behave differently in different banks. So it is implied that success or failure factors would be different for different organisations. They are studied on the basis of evaluation model. The findings brought out that the effectiveness of Information System in the Indian banking industry in the tricity region of Chandigarh was comparatively good. Statistically, there was no significant difference in effectiveness score of Public and Private Sector banks. The study could help the banks to focus on development of IS with respect to Strategic, Functional, and Technical perspective. It could help banks to identify properly their success, limiting, and failure factors, and further improve upon them.

Harshakumari (2007) evaluated a company’s performance in terms of financial measures like profitability, ROI, EVA. Reasons for selecting corporate units which are using the Balanced Scorecard in India are to find out the application and relevance
of Balanced Scorecard with performance evaluation. Researcher therefore found out 44 companies which are using BSC, though it is not an exhaustive list. Researcher has tried to collect primary data by way of questionnaire from all the companies but as due to confidential matter response rate was less. And finally the researcher has received response from 8 companies. Here in this report the researcher has analyzed all the details containing application of the BSC in performance evaluation with special weitage age to four perspective of the Balanced Scorecard.

**Magdalena and Andreas (2000)** The Balanced Scorecard- A tool for managing knowledge? Sweden. This thesis focused on two concepts that are believed they have, and further will, add insights of how to manage a company today: the Balanced Scorecard and knowledge management. The Balanced Scorecard provides a new way to manage more of a company's resources than just the financial, by offering a widened scope for essential management activities and processes for future competitiveness. The main purpose of this thesis has been to explore whether the Balanced Scorecard is a proper tool for managing knowledge in an organization. The researchers have chosen a sample consists of three companies from not similar business that are working with the Balanced Scorecard on a strategic level, and have been doing so for a period of time. The authors decided that the Balanced Scorecard could be useful as a tool for managing knowledge and management control in the studied companies. This thesis may help in explaining the ways of exploiting the Knowledge management issues in implementing the Balanced Scorecard, and which measures that should be used.

### 1.8.4. Review of books

For this study the researcher has reviewed various books on performance appraisal systems and balanced scorecard approach. A few of the doctoral thesis reviewed by the researcher have been listed below.

**Kaplan and Norton (1996a)** The Balanced Scorecard- Translating strategy into actions, the famous book of the father of the Balanced Scorecard, has given the primary details of the concept. It has presented various steps to implement the Balanced Scorecard in any organization. The book is divided into two parts i.e. measuring business strategies and managing business strategies. The former portion is concerned with measurement of business strategies by considering customer,
financial, internal business processes and learning-growth perspectives. While the later portion is concerned with various techniques to align organization with strategies by creating strategy map and continuous evaluation.

Kaplan and Norton (2001) in their book “The strategy focused organization” In the time when implementation of strategy is the key for survival and success, has stressed for strategy implementation and has given four steps to create strategy focused organization from top to bottom. First step is to translate strategies to operational terms so that people can understand it easily. The second step is to align the organization to create balance, which is related to alignment of management and its policies with strategies. Making strategy everyone’s job is the third step which is concerned with distribution of specific objectives from top to bottom. While the last step is making strategy a continual process, i.e. maintenance of strategy as regular process.

Niven (2000) in his book namely “Balanced Scorecard Step by step- maximizing performance and maintaining results guides readers through the processes required for a successful Balanced Scorecard project. In addition he shows how to become a strategy-focused organization by embedding the Balanced Scorecard into critical organizational processes. This book also has suggested a group of characteristics which should be available in the measurement tools:

- The linkage between the measurement tool and the strategy.
- Quantitative to avoid bias from evaluator to another.
- Easy to be understood and accurate.
- Suits the desired objective.

1.9. Research questions to be addressed in the study:

Based on the literature reviewed the following research questions have been drawn to be addressed in the present study. Though these questions can be generalised to hotel industry, the present study specifically concentrates on the Indian hotel industry with special reference to star hotels in Karnataka.

1. What is the significance of performance appraisal in the hotel industry?
2. What are the performance measurement systems related to the hotel industry?
3. Is there any relationship between performance appraisal and accounting practice in hotel industry?

4. What is the effect of Balanced Scorecard approach on performance appraisal in star hotels?

5. To what extent is the Balanced Scorecard approach among the hotel industry feasible?

6. What is the extent of the implementations of the Balanced Scorecard approach among the hotel industry?

7. How is the relationship between performance appraisal and Balanced Scorecard approach in the hotel industry examined?

8. What is the relationship between the usage of Balanced Scorecard measures and the organization performance?

9. What is the relationship between business strategy and the application of Balanced Scorecard measures?

10. To what extent has the contribution of the hotel industry in the service sector development been analysed in Karnataka?

11. How is the importance of service quality in star hotels perceived?

12. What is the extent of the cause-and-effect relationship between financial and non-financial indicators in the hotel industry?

13. How is the short term and long term objectives of Balanced Scorecard linked in measurement of performance?

14. How is the Lagging indicators as outcomes and leading indicators as performance drivers linked?

15. How are quantitative and qualitative factors in the hotel industry examined?

1.10. Research Gap

The above literature survey clearly denotes that research has been focused on different financial and traditional methods of performance appraisal relating to the hotel industry. It is clear from this, that none have carried out research on the BSC with reference to the performance appraisal of hotel services. Further, none of the earlier studies has focused on activities like Total Quality Management, customer satisfaction towards hotel services management, data base marketing and service reply system management and evaluation creative marketing. To fill this gap, this research assumes a significant role.
1.11. Statement of the Problem

Despite recent growth, in the hotel industry is facing numerous new challenges due to external and internal factors in its business environment which affect its organizational performance. The external factors include keen competition from peers in the hotel industry (inflation and increase in fixed expenses). These external factors severely affect the Indian tourism industry particularly the hotel industry.

Besides external factors, hotels have to deal with internal challenges which are related to the hotel. This management internal factor may contribute to the poor performance in hotels. Financial measures only tell about an organization’s past performance while non-financial measures reflect the health and wealth-creating potential of the organization. However, there are several other weaknesses of focusing on financial measurement alone.

Due to reduced and moderate levels of average occupancy rates in the Indian hotel industry and limitations of financial performance which has been because of the impact of global competition in the hotel industry, the hotel industry should rethink its current performance measurement which is more focused on the financial to a more effective and balanced measurement which has both financial and non-financial dimensions. The research proposes responsiveness which is expected to influence and enhance hotel performance. Hence, this is an examination of the performance consequent to applying BSC measures incorporating both financial and non-financial measures. By examining this, it shows how it is correlated with the extent to which the organisation’s particular strategy is emphasized and how it is related with performance measurement system attributes’ link related to hotel performance measurement.

1.12. Need for the Study

India is thought to be focused on a budget and other traditional methods of evaluation, rather than adopting modern methods for handling and review and business organisations. India risks losing competitive opportunities compared to other competitors. India has recently started strategic planning, and has difficulty doing so, in that it applies traditional evaluation which often depends on financial perspective evaluation and high fixed costs associated with hotels. Thus any performance measurement system should enable managers to make decisions not only based on
financial but also other measures that reflect market orientation, revenue management, and the complex nature of the service delivery process within hotels. Due to limitations of financial performance mentioned above and several weaknesses of financial measures and the impact in the hotel industry, hotels should rethink their current performance measurement which is more focused on financial measures to a more balanced measurement which has both financial and non-financial dimensions by using BSC for hotels.

Non-financial measures are needed to be introduced into a framework in known well hotels as that incorporates both financial and non-financial measures. According to this model, non-financial measures—namely internal quality, employee satisfaction, employee loyalty, productivity, organizational value, customer satisfaction, and customer loyalty would result in profitability and growth. The BSC transfers a strategic plan from an attractive but passive document into the organization on a daily basis; therefore it may help executives to find other measurements besides profitability to evaluate their organizations' performance. Hotel executives need a new way to assess how well their organizations are functioning, how to predict future performance, and how to align the organization towards new strategies to achieve breakthrough performance.

1.13. Contribution of the Present Study

This research makes both theoretical and practical contributions. In terms of practical contributions to the area of performance measurement, the use and relative importance of financial and non-financial measures will be highlighted. Firms are continuously struggling with the issue of performance measures (e.g. developing the kind of measures and understanding their use). This dissertation can provide some direction to managers in four ways.

First, the reliance on the types of financial and non-financial measures and the processes that will lead to the outcomes by using the Balanced Scorecard approach in the hotel industry in general and hotels in Karnataka in particular. Second, this research also examines the relevance of outcome measures, which are the results of past efforts, vis-a-vis the measures that drive future performance from a strategic perspective. Third, this research examines the degree of inter-relationship between outcome measures and the performance drivers of outcomes based on the four areas
of measurement (the financial, customer, internal-business-process and learning and growth perspectives), how managers at hotels utilize these measures as a guide for their actions, which ultimately influence long-term growth and performance. Finally, it examines the relationship between financial and non-financial measures based on the customers, finance, internal-business-process and learning and growth perspectives to the Balanced Scorecard approach in hotels.

Although not its primary focus, this research explores the external outcome of the interaction between strategic choice, and performance measurement as reflected in non-financial perspectives. From a research perspective, this dissertation provides an evaluation of the Balanced Scorecard framework as a tool which can assist organizations in developing a performance management framework. It specifically seeks to extend upon the BSC framework by positing that institutional forces play a major role in performance measurement and management. The research work goes further to suggest that Human Resource should form part of the core consideration of factors that influence performance measurement within the BSC framework, particularly to other business affected by similar circumstances. This research contributes to the existing literature in several areas and provides a foundation for future research.

1.14. Objectives of the Study

The research was focused on the following objectives:

1. To study the strategies adopted by the Indian hotel industry in performance appraisal.
2. To study the key performance indicators practised in the hotel industry in India.
3. To study the importance of Balanced Scorecard approach in performance appraisal in the hotel industry in Karnataka.
4. To examine importance of Balanced Scorecard approach in performance appraisal of star hotels in Karnataka.
5. To examine the degree of inter-relationship between financial measures and non-financial measures that drive outcomes of future performance of hotel services.
6. To give suggestions for a better performance scorecard to achieve a balance between financial and non-financial performance measures in the hotel industry.

1.15. Hypothesis of the study

In relation to the objectives of the study, the following hypotheses have been identified:

1. H1- Indicators of performance appraisal in star hotels in Karnataka are exclusively based only on financial measures.

2. H2- There is a positive relationship of learning and growth perspective to the Balanced Scorecard approach in Karnataka star hotels.

3. H3- There is a positive relationship of internal business processes perspective to the Balanced Scorecard approach in Karnataka star hotels.

4. H4- There is a positive relationship of the customer perspective to the Balanced Scorecard approach in Karnataka star hotels.

5. H5- There is a positive relationship of the financial perspective to the Balanced Scorecard approach in Karnataka star hotels.

1.16. Research Variables

For the purpose of this study, that classified the available information is classified into the blocks of variables across the BSC perspectives: Learning and Growth, Internal Business Processes, Customers and Financial.

1.16.1. Definitions of variables

According to the BSC approach, four perspectives should be measured which should be composed of number of independent variables like explained in figure 1.3:
1.17. Research Methodology

This research work is constructed on the basis of primary data and secondary data. An effort was made to collect actual data about the “Performance Appraisal of Indian Hotel Industry Applying Balanced Scorecard” A Study of Selected Star Hotels in Karnataka. For this purpose a structured questionnaire was administered to samples of respondents from managerial staff, non managerial staff and customers of all selected star hotels in Karnataka. The sample size was selected on stratified random sampling method. In addition, the required data was collected through interaction with the top managers and prime customers in three and four star hotels in Karnataka.

The secondary data provided a springboard to getting updated on the research topic with a focus on theoretical dimensions of the Balanced Scorecard and empirical test conclusions on one hand and the research methodologies adopted by various researches from the viewpoint of key performance indicators related to performance appraisal on the other. The greatest contribution of reviewing literature through secondary sources of information was the visualization of almost a clear view of the research problem for the present study. The source materials forming the background information were collected from various textbooks, journals, reports, magazines, published papers, annual reports and internet sources.

To gather appropriate secondary data, the study depended on documented information (published and unpublished) or in organizations. Web sources were also used to collect literature using popular search engines like Google, Scholar Google,
Yahoo and powerful databases such as Science Direct, Skiros, Springer, Emerald, Elsevier, Wily, Base-search, Gigapedia, Social Science Research Network (SSRN), Essays and the like.

Many of the principles, standards and guidelines and institutes such as the Balanced Scorecard Institute, Harvard Business School Press, Management Accounting Quarterly, HVS Hospitality Services, FHRAI Indian Hotel Survey, Ministry of Tourism of India and the like formed fertile ground for assimilating and presenting the literature related to the research topic. The questionnaire is primarily designed to obtain information on the detailed performance measures being used by the sample of hotels selected and to compare the responses with the BSC approach. Consequently questionnaire sections mirrored the BSC components (financial, customer, internal business, and learning and growth perspectives).

The questionnaire was sent to all three and four-star hotels in Karnataka State, covering the cities of Mysore, Bangalore and Mangalore. The questionnaire was administered to 113 hoteliers who were chosen from the Guide published by the Karnataka Hotel and Travel Association (KHTA). A total of 92 hotel operators responded to the questionnaire, and valid responses from over 82 percent of those surveyed were received, representing a satisfactory response rate. The hotels also were in all size categories ranging from under 30 rooms to 200 rooms (very large hotels of over 200 rooms are not represented in the region). Of the respondents, two thirds were from chain hotels and one third from independently owned hotels, which also tend to be smaller.

### Table No.1.1

**Sample Profile in Terms of Hotels in Karnataka**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total Number</th>
<th>Number of sample Unit</th>
<th>Received responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three-star</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangalore</td>
<td>136</td>
<td>68</td>
<td>55</td>
</tr>
<tr>
<td>Mysore</td>
<td>19</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Mangalore</td>
<td>8</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Four-star</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangalore</td>
<td>48</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>Mysore</td>
<td>9</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Mangalore</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>223</td>
<td>113</td>
<td>92</td>
</tr>
</tbody>
</table>

Source: Survey Data
The research was carried out in three distinct phases. The primary data was collected through a structured questionnaire which is pretested through a survey.

The first phase was a questionnaire survey on identifying the Key Performance Indicators of the hotel industry and then the KPIs were identified by applying factor analysis tool on the data collected through the questionnaire. These factors later acted as Key Performance Indicators for the hotels to evaluate their measures.

The second phase referred to the foundation of the initial hierarchical structure previously established in the design of expert questionnaires under the Analytic Hierarchy Process (AHP) method in order to evaluate the appropriateness and importance of each dimension measurement and evaluation indicator and contained multiple choice questions which made it possible to identify the performance measures commonly used by the hotel industry. The questionnaire had three parts: explanations for answering, questionnaire contents, and data basis of the respondents. The score range was from 0 to 10; thus, the higher the score, the higher the importance attributed to the item. The AHP method was also applied to analyze the results of the questionnaire survey and screen out the KPIs. A complete hierarchical structure was established for the questionnaire design under the AHP. The questionnaire consisted of the following two parts: (1) evaluation criteria to rank each individual criterion in terms of relative importance and (2) evaluation methods to measure the results on a 1 to 5 scale.

The third part of the questionnaire sought the opinions of the respondents regarding the measurement of performance within the sector and focused on BSC application in performance measurement in star hotels. A set of 45 statements regarding performance evaluation and of the four perspectives of BSC (Customer, Internal Business Processes, Learning and Growth and Financial). This section was based on Garrison and Noreen (2003) method, with some refinements regarding questions to be more suitable to hotels. The questionnaire distributed among managers and employees in the hotels were to evaluate the application of balanced scorecard in the hotels. The aim of the questionnaire was to find the performance appraisal of hotels in different BSC perspectives. Every question had five alternative answers according to the Likert Scale which consists of five degrees (very little, little, sufficient, very much, very extensive). This scale has been transformed to quantitative degrees as shown in table No.1.2.
Table No.1.2
The Significance of the Answers

<table>
<thead>
<tr>
<th>The answers</th>
<th>Values</th>
<th>Relative weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>&lt;= 20%</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>21-40%</td>
</tr>
<tr>
<td>Average</td>
<td>3</td>
<td>41-60%</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>61-80%</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>&gt;=81%</td>
</tr>
</tbody>
</table>

The validity of internal consistency

The questionnaire was designed to ensure that precise data required would be collected from respondents to achieve the objectives of the present research. The item in the questionnaire was essentially identified after having reviewed the literature on the problem. These items have face validity as the concepts to be measured are clearly specific in each question. Words were carefully chosen, avoiding slang, abbreviations and any term with potentially ambiguous meanings.

For this study, the questions were of high face validity in addition to being developed from the literature and we based on clear and familiar concepts. The majority of the questions/ statements were suggested by prior literature as the most relevant questions on performance appraisal.

To test the validity of Internal Consistency of the BSC, the correlation between the score of each perspective and the total score of the questionnaire has been calculated, and the correlation between the score of every item and the total score of its perspective has been calculated, Table 1.3 shows the correlation coefficient between every measure score in the four perspectives and the whole score of the perspective which it belongs.
It is observed that there is a high and significant correlation between every perspective and the whole scorecard, which means that the BSC enjoys a high validity coefficient.

### The reliability by Alpha-Cronbach

The Balanced Scorecard was applied on a sample consisting of managers working in hotels. Alpha- Cronbach coefficient validity for the sample has been calculated; it equals 0.92 which means that the BSC has a high reliability coefficient. It is approximately the same results for every Perspective of the Scorecard.

### Table No.1.4

**Alpha-Cronbach coefficient for four perspectives of BSC**

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>No. of questions</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>12</td>
<td>0.77</td>
</tr>
<tr>
<td>Internal Operational Processes</td>
<td>13</td>
<td>0.91</td>
</tr>
<tr>
<td>Learning and Growth</td>
<td>11</td>
<td>0.89</td>
</tr>
<tr>
<td>Financial</td>
<td>8</td>
<td>0.72</td>
</tr>
<tr>
<td>The Total of the scorecard</td>
<td>45</td>
<td>0.92</td>
</tr>
</tbody>
</table>

The study used various statistical methods for analyzing the data collected. The questionnaire solicited responses on five- point liker’s scale. After having calculated the weighted point, the mean value for each statement was calculated. The
collected data were analyzed using descriptive statistics including mean and standard deviation. The mean value was used to indicate the disclosed information levels for each quality indicator, where ‘1’ indicated the lowest and ‘5’ indicated the highest disclosure of information levels.

The researcher used the SPSS software to analyze the data at significant level ($\alpha=0.05$). At first, descriptive statistics such as Mean, Standard deviation, Variance, etc, performed for each of research variables. The statistical tools employed include averages and Linear Regression – Correlation test.

The statistical procedures needed for this research are summarized in table 1.5.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>statistical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1</td>
<td>AHP method</td>
</tr>
<tr>
<td>Hypothesis 2</td>
<td>Linear Regression – Correlation Test (r)</td>
</tr>
<tr>
<td>Hypothesis 3</td>
<td>Linear Regression – Correlation Test (r)</td>
</tr>
<tr>
<td>Hypothesis 4</td>
<td>Linear Regression – Correlation Test (r)</td>
</tr>
<tr>
<td>Hypothesis 5</td>
<td>Linear Regression – Correlation Test (r)</td>
</tr>
</tbody>
</table>

Analytic Hierarchy Process (AHP) proposed by Satty, is an approach for decision making that involves structuring multiple choice criteria into a hierarchy, assessing the relative importance of these criteria, comparing alternatives for each criterion, and determining an overall ranking of the alternatives on the basis of measures. AHP, requires to provide judgments about the relative importance of each factor and then to specify a preference for each decision alternative on each factor. In the management of hotels, one wants to not only know which factors affect performance, but also understand the degree of influence of each factor, and which sub-factors affect these factors. The output of the AHP is prioritized ranking the overall preference for each of the decision alternatives which eventually help the decision maker to select the best approach.. The AHP consists of the following four steps:

1. Decision hierarchy is constructed by breaking down the decision problem into a hierarchy of interrelated and interdependent elements.
2. Pair wise comparisons are made on the decision elements.
3. Estimation of the weights of elements is done by using Eigen method.
4. The weights of the decision elements are aggregated to provide a set of ratings for the decision alternatives.

The Pearson correlation coefficient, is to find the validity of Internal Consistency by the correlation between every statement and its Perspective and to test the hypothesis. The Pearson Correlation coefficient has been computed between the degrees of every perspective and the total degree of all the Balanced Scorecard.

One-Sample T-Test was alone to check differences between the Mean of the responses of every perspective and the Average Mean. One Sample T-Test was applied to check the difference between the Mean of the sample and individual responses about every measure of the four Perspectives, and the Average Mean (Test value) which equals (3).

Regression estimates the coefficients, involving one or more independent variables that best predict the value of dependent variables. Linear Regression, checked the effect of every perspective on the total degree of the questionnaire. Linear Regression Analysis has been used to study the effect of Learning and Growth Perspective on the Internal Business Processes Perspective and effect of Internal Business Processes Perspective on the Customers Perspective and the effect of Customers Perspective on the Financial Perspective, and to know the relative importance of the whole Balanced Scorecard.

**1.18. Limitations of the Study**

Like any other research work in the field of social sciences, the present research “Performance appraisal of the Indian hotel industry applying Balanced Scorecard” -A study of selected star hotels in Karnataka is also not free from limitations. The main limitations are:

1. Performance appraisal is generic but the research is confined to the hotel industry in Karnataka.
2. The analysis and interpretation based on the sample of the responses in Karnataka will not reflect the responses of the universe as a whole.
3. The statistical figures from various sources collected for the purpose of research work may vary resulting in slight variation in the responses, analysis and interpretation.

1.19. Chapter Scheme

This research work is presented in six chapters:

The **first chapter** deals with the Performance Appraisal, Industry Applying Balanced Scorecard in the field of both industrial and service sector as an evaluation strategy. An extensive survey of literature available both national and international are brought out. The research gap, need for study, objectives of the research work limitations involved therein, research methodology of study, hypotheses and research design are also mentioned.


The **fourth chapter** presents Key Performance Indicators in the hotel industry, Identification and development of Indicators, Performance Measure Alignment, Factors that are critical to the success of a performance management system and Factors that play a role in managing through measures.

The **fifth chapter** has a clear account of survey- modalities adopted, actual collection of data, data analysis, and data interpretation. The statistical tools such as sample T-test, linear regression analysis and AHP decision making software used are outlined in this chapter. Further the testing of hypotheses is highlighted in this chapter.

The **sixth chapter** has the summary of findings, suggestions, area for future research and the conclusion.