BALANCED SCORECARD COLLABORATIVE

A Palladium company

A Balanced Scorecard Hall of Fame™ Profile

Hilton Hotels Corporation

HARVARD BUSINESS SCHOOL PUBLISHING

What is the Balanced Scorecard Hall of Fame?

The Balanced Scorecard Hall of Fame for Executing Strategy™, administered by Balanced Scorecard Collaborative, recognizes organizations that have achieved breakthrough performance largely as a result of applying one or more of the five principles of the Strategy-Focused Organization. These principles, formulated by Balanced Scorecard creators Robert S. Kaplan and David P. Norton, are described in detail in their book *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* (Harvard Business School Press, 2001). BSC Hall of Fame members are personally selected by Drs. Kaplan and Norton.

To learn more about Hall of Fame selection criteria and Hall of Fame members, visit bscol.com.

The Five Principles of the Strategy-Focused Organization

Each of the five principles of the Strategy-Focused Organization include specific management best practices that contribute to the achievement of breakthrough results. These best practices—validated through ongoing research with Hall of Fame organizations and hundreds of other users of the Balanced Scorecard around the world—must be embedded in any organization that wants to make strategy execution a core competency.

Principle #1. ***Mobilize Change Through Executive Leadership***

Executive leadership, driven by a need for change, supports the drive to establish a new way of managing based on a performance-oriented culture.

Principle #2. ***Translate the Strategy into Operational Terms***

The Balanced Scorecard is used to translate the strategy into a language that everyone understands.

Principle #3. ***Align the Organization to the Strategy***

The scorecard is used to cascade the strategy to all parts of the organization and align resources needed to accomplish the strategy.

Principle #4. ***Motivate to Make Strategy Everyone's Job***

The reward and recognition system is used to align individual behavior with performance objectives called for by the strategy.

Principle #5. ***Govern to Make Strategy a Continual Process***

Strategy execution is linked to the budget, and a reporting system based on scorecard measures is used to provide feedback on strategic performance.

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ABOUT Hilton Hotels Corporation

Industry: Hospitality

The first Hilton hotel was opened in Cisco, Texas, in 1919, by Conrad Hilton. Today, the company boasts a portfolio of 2,300 properties worldwide. Hilton Hotels Corporation's holdings comprise well-known and respected brands. Hilton Hotels—the company's flagship brand—includes the Waldorf-Astoria in New York and Palmer House in Chicago. Its approximately 500 properties located in cities around the globe offer about 147,700 rooms to the travel market.

Through mergers and acquisitions, Hilton has added other name brands to its portfolio—including Conrad Hotels (the company's luxury brand); Doubletree hotels, suites, resorts, and clubs; Embassy Suites; Hampton Inn; Hilton Garden Inn; Homewood Suites; and Scandic (an overseas chain). Collectively, these holdings offer travelers accommodations at every price point.

In addition to owning, managing, and franchising hotels, Hilton Hotels Corporation has a vacation-ownership business (Hilton Grand Vacations) and serves the conference industry (Harrison Conference Centers). Its sister company, Hilton Group PLC is the operating brand for Hilton outside the United States.

An industry innovator, Hilton has a long list of "firsts." It was the first hotel company to be listed on the New York Stock Exchange (1946); the first to offer air conditioned rooms and direct-dial telephones as standard amenities; the first to open airport hotels (1959); and the first upscale hotel to develop the franchise concept (1966).

Global headquarters: Beverly Hills, California

Employees: 85,000

Total revenues: $4.1 billion (2004)

Hotels: 2,300 (57 company owned, 350 company managed, 1,893 franchised)

Inducted into the Balanced Scorecard Hall of Fame: 2000

As early as 1994, Hilton Hotels recognized the power of the BSC to reverse declining guest satisfaction and loyalty across the global hotelier's diverse properties. By carefully phasing in the Balanced Scorecard, it aligned its many hotels behind a compelling vision and strategy—delighting customers, employees, and shareholders alike.

Maintaining your position as the first choice of the world's travelers isn't easy. But Hilton Hotels Corporation keeps its people working toward this clear and ambitious vision. Despite excruciating hits to the travel industry after the 9/11 terrorist attacks, the global hospitality giant has maintained its dominant position.

How? By embedding the Balanced Scorecard in a powerful framework of continuous improvement and value creation that has enabled Hilton to ride out even the worst of its industry's vicissitudes. Interestingly, Hilton's use of the BSC has roots stretching as far back as the early 1990s.

Addressing Dwindling Guest Satisfaction and Loyalty

In the early years of the 1990s, the economic turbulence spawned by the first Gulf war, a wave of overbuilding in the hotel industry, and a worldwide recession had left the hospitality industry reeling. Combined with excess industry capacity leftover from the 1980s, these forces were driving down occupancy levels and profits for many of the big hoteliers—Hilton included.

In 1994, Dieter Huckestein—the newly appointed president of Hilton Hotel's operations—took matters in hand. He began a property-by-property assessment of the performance of each of the 50 hotels that Hilton owned and managed. (At that time, the company also franchised an additional 150 hotels.)

The assessment revealed alarming developments. Most troubling was the growing disconnect between revenues (which in some cases were increasing) and measures of guest satisfaction and loyalty (which were decreasing). The latter are long-established leading indicators of financial performance. "Our customer service delivery message wasn't getting to the most important people in our organization: team members who interact with our customers," says Huckestein.

Two Broad, New Strategies

Hilton had experimented with various Total Quality Management (TQM) initiatives and with what Huckestein calls "flavor of the month" management approaches in attempts to address its growing problems. But its experimentation had yielded only lukewarm results. The company had yet to establish a cohesive strategy for the Hilton brand, one that integrated the right set of performance indicators into that strategy to guide the entire organization.

> **"Only the customer," Huckestein says, "can tell us what's working and can choose us over other hotels. And only the customer can answer the tough questions: Are we doing things right? Are we doing the right things? Are we doing the *right* things right?"**

More fundamentally, if Hilton hoped to see improved results, Huckestein decided, everyone had to be "on the same page." He felt convinced that operating performance and customer results would pick up if he could strategically align Hilton's hotels with a single shared vision of "balanced" performance.

And since a large portion of Hilton's revenues came from its owned or managed properties, the pressure to sustain profitability had grown even more urgent. Moreover, while they represented a new source of sales, Internet travel sites, then a growing phenomenon, also posed a threat to branding; by grouping upper-tier hotels by their three- and four-star rankings, these sites were, in effect, commoditizing them. Huckestein knew that his company's leaders needed a firmer understanding of what drives value for Hilton's five constituents—customers, employees, shareholders, strategic partners, and the individual communities in which the hotels operate—and how to deliver against those drivers consistently.

He also believed that his firm could achieve long-term profitability only through improved customer loyalty across all hotels. "Only the customer," he says, "can tell us what's working and can choose us over other hotels. And only the customer can answer the tough questions: Are we doing things right? Are we doing the right things? Are we doing the *right* things right?"

As his first step to setting Hilton on a better path, Huckestein defined two broad, new strategies:

1. *Pursue an aggressive growth plan* to ensure that "a Hilton was always nearby"; and
2. *Install a new performance management system* to help standardize processes and deliver consistent quality across every Hilton property.

To implement the growth plan, Hilton embarked on a record franchise expansion, boldly accumulating significant debt as it scored over $1 billion of full-service-hotel acquisitions. It also forged a strategic alliance with Hilton Group PLC, owner of the Hilton name outside the United States. The newly expanded and unified Hilton brand established a strong platform for improving hotel operations. But now the company needed to concentrate on its second broad effort, which would require the tight alignment of processes, people, and technology.

Huckestein set out to find a methodology that would help him achieve this alignment and enable Hilton to measure and improve its value creation. The methodology, he decided, had to be rooted in sound academic principles, be adaptable to everyday operations, and able to infuse corporate strategy and goals into every Hilton hotel. The ideal candidate? The BSC.

What Gets Measured, Managed, and Rewarded…Gets Improved

Huckestein was no stranger to the Balanced Scorecard methodology. As senior vice president and managing director of the Hilton Hawaiian Village from 1991 to 1994, he had experimented with the BSC and a TQM approach at the hotel. By the time he was appointed president of Hilton Hotels in 1994, early implementation of the BSC at the Hilton Hawaiian Village had begun showing results. For example, in 1996, the hotel won the prestigious first level of the Hawaii State Award of Excellence Quality Prize (an award modeled after the Malcolm Baldrige Award), which recognizes the value of implementing quality processes to improve guests' experience.

Based on what he saw happening in Hawaii, Huckestein selected the BSC, coupled with TQM, as the tool to improve performance across the entire Hilton organization. "What gets measured, understood, managed, and rewarded…gets improved," he explains. "And the BSC offered us a way to do all of that."

Huckestein set an aggressive goal for the BSC: sustained industry leadership, defined by the highest profit margins, RevPAR index (a hotel's revenue per available room as benchmarked against that of its local competitors), and customer loyalty results in the industry. Though Hilton officially "adopted" the scorecard approach in 1994, several years would pass before the methodology took firm root in the organization. As with any management approach, merely adopting the BSC wasn't enough. Before Hilton could achieve its desired results, it would have to implement the BSC in a way that integrated all aspects of the business and changed the company's culture.

Taking the First Steps

What did customers want—and how successfully was Hilton satisfying those desires? Before Hilton could create a strategy map, it had to answer these questions. Backed by Hilton's president/CEO and a core group of top executives from operations support, operations strategy and planning, and brand performance, Huckestein commissioned a research project to compare Hilton's performance against that of competitors. In particular, he wanted to know how Hilton was performing on the hotel attributes that affect customer attraction and retention most directly.

The study revealed a dismaying development: the company's hotels were not consistently meeting customer expectations in 10 criteria, ranging from cleanliness of the bathroom and room overall, to customers' sense of safety, to the courtesy and responsiveness of clerks. Despite actions taken to improve performance in these criteria, the quality of the guest experience remained inconsistent across Hilton properties—especially between franchised properties and Hilton-owned-and-managed hotels. The scorecard team decided to broaden its perspective to include all five stakeholders in the scorecard framework.

To that end, in 1997, the company drafted its first version of a corporate-level BSC based on three "value drivers"—the conceptual elements of the corporate strategy that most "touch" each of Hilton's constituents. These drivers, which serve as Hilton's scorecard perspectives, were:

1. ***Operational effectiveness:*** how efficiently Hilton hotels convert revenue into profit through hotel operations, processes, and procedures
2. ***Revenue maximization:*** how well each Hilton hotel reaches its RevPAR targets, set according to local market demand and pricing
3. ***Value proposition:*** how well Hilton hotel managers create a service environment that increases repeat visits (loyalty) among guests and retention of key staff members

Value Drivers	KPIs
Operational effectiveness	• EBITDA (earnings before interest, taxes, depreciation, and amortization)
Revenue maximization	• RevPAR • RevPAR Index
Value proposition	• Overall guest satisfaction score (from guest comment cards) • Overall guest loyalty score (from guest telephone surveys) • Overall staff satisfaction score (from comprehensive team member surveys) • Average quality score (from mystery shopper visits)
Brand management	• Score on compliance with brand standards from on-site inspections

The following year, the company added a fourth value driver to its strategy map: ***brand management,*** or "consistency in the delivery of services and products offered by Hilton Hotels Corporation and expected by customers."

Defining KPIs, Setting Targets

Next the company established key performance indicators (KPIs), or metrics, for its major value drivers, as shown in the following table:

These KPIs had deeply meaningful connections. For example, guest loyalty—as measured by responses from customers who indicate that they are likely to return to Hilton—exerts a more powerful than expected impact on revenues. One study of 42 Hilton hotels conducted during the years 1996 to 2000 showed that a 5% increase in customer loyalty in a given year is associated with a 1.1% increase in annual revenues the following year at a typical property. Guest loyalty is also a leading indicator of future RevPAR. Thus, any decline in loyalty serves as an early warning signal for hotel managers.

In the hospitality industry, RevPAR itself has special significance—even more so than market share. According to Operations Support SVP Dennis Koci, "No one wants to be known as the company that has the best market share, but that still can't make money. That's why we emphasize RevPAR, not just occupancy."

Scorecard reports for the entire chain were produced by the operations support department and distributed to each hotel quarterly. Thus the staff at each hotel not only knew what was expected of them, but also understood their performance and how it compared with that of teams at other hotels.

Performance data on these kinds of metrics is invaluable. With this information, Hilton's senior executives could more successfully decide how much to spend on initiatives such as loyalty programs or how strongly to tie incentive compensation to improvements in customer loyalty.

Refining Measures and Targets and Cascading the BSC

After defining high-level KPIs, Hilton cascaded the resulting enterprise scorecard down to regions, hotels managed by the corporation, and departments. During the cascading process, each hotel's KPIs were customized to reflect the property's unique qualities—while still expressing the same value-driver focus established for the overarching enterprise. When setting KPI targets, the company used actual performance from prior years as a baseline for each hotel's targets to ensure the targets were reasonable and achievable. Thus, hotel managers and employees saw the targets as realistic and reachable—crucial perceptions if people are to "make their numbers."

Other local KPI targets—such as those relating to brand management standards—were set on the basis of the difference between current performance and a "perfect" score of 100%. Improvement goals were then determined based on closing this "gap to perfection" by some common amount, such as 20%. Thus, the level of expected performance was always higher than the year before, and each hotel was asked to improve to the same extent relative to "perfection."

The company also decided to establish a color-coded "traffic light" system to help managers quickly recognize and address problem performance, as well as reward exceptional performance. Green indicated performance above target; yellow, performance above last year's but below this year's target; and red, performance below last year's.

Thanks to this newly established alignment and accountability, all of Hilton's hotels were now operating within the BSC format. And everyone working at Hilton—from Huckestein down to front-line team members—had a clear line of sight to how their performance affected the company's ability to execute its strategy.

In these early years, scorecard reports for the entire chain were produced by the operations support department and distributed to each hotel quarterly, showing current and year-to-date performance. Thus the staff at each hotel not only knew what was expected of them but also understood how their performance was to date and how it compared with that of teams at other hotels.

Continuously Improving Strategic Performance…

As the various Hilton hotels began comparing their actual performance against scorecard targets, the next logical step was to create a structured process for improving performance. With the assistance of J.D. Power and Associates, the company developed a complete, customized Continuous Improvement Process (CIP) that somewhat resembled the one that Huckestein had implemented at the Hilton Hawaiian Village. The process included root-cause analysis in a situation-target-plan context, supported by the plan-do-check-act framework.

In 1997, hotel managers concerned about their scorecard performance began asking the corporate office for tools to improve their "red zone" numbers. The company began delivering instruction in the use of CIP to all of Hilton's owned, managed, and franchised hotels. Training programs also included the BSC introduction and its use as the "trigger" for the application of CIP when performance on any measurement was subpar. On-site follow-up ensured that everyone understood the BSC and CIP and used the dual framework at every hotel.

And when scorecard implementation brought poor performance to light, the company was there to provide additional corporate support where needed. For instance, Hilton encourages collaboration among leaders to spread best practices; the general manager of a struggling hotel, for example, is welcome to consult with other hotel managers to discuss problems and learn more about effective practices. The company also offers online tools to support learning.

…and the Scorecard

In 2000, in this same spirit of continuous improvement, Hilton asked consultancy Customer Relationship Resources to examine its BSC system and suggest improvements. The effort yielded these changes:

- ***Content:*** Hilton added explanatory diagnostic information about KPIs to clarify the reasons underlying poor performance and provide direction for improvement. It also added measures on workforce skills needed.
- ***Speed:*** The company decided to automate the scorecard, to speed up data input. At the time, logging results took approximately four weeks, because people had to manually enter data from multiple sources into a single database.
- ***Ease of use:*** Automation would also make the scorecard easier to use. Until this point, managing the data, maintaining the database, and reporting and distributing performance results required significant effort expended over more than 10 person-days.
- ***Integration:*** Hilton set out to incorporate the Balanced Scorecard and CIP into an overall Value Creation Process to leverage these methodologies' effectiveness. Here's how the Value Creation Process works: the corporate strategy is tested to ensure its ability to support the vision. Then, individual business-unit strategies and tactics are developed, resulting in unit-specific KPIs and targets that get incorporated into the BSC, CIP, and recognition and reward processes. In this way, individual and hotel plans harmonize with the high-level corporate strategy.

Value Drivers	KPIs
Operational effectiveness	• EBITDA • **EBITDA margin** • **EBITDA margin growth (leverage)**
Revenue maximization	• RevPAR • RevPAR Index
Loyalty	• **Overall guest loyalty score** • **Overall satisfaction score**
Brand management	• Score on compliance with brand standards from on-site inspections
Learning and growth	• **Orientation training** • **Skills training** • **Diversity plan performance (from end-of-year review)**

These changes were implemented during the remainder of 2000. In addition, the company defined a fifth value driver—learning and growth—and several new high-level KPIs. By 2001, the revised set of value drivers and KPIs were as shown in the table. (New elements are indicated in boldface.)

With the company's newly automated scorecard, BSC users at any level within Hilton—enterprise, brand, region, hotel, department, and individual—can assess performance on these KPIs.

While the value drivers are enduring, KPIs are changed fairly regularly, as problems are solved and conditions evolve. For example, when customer satisfaction proved to be insufficient as a measure of brand loyalty, Hilton revised the KPI to incorporate additional loyalty metrics.

Driving Performance Through Comprehensive Communication

Throughout its implementation of the BSC, Hilton Hotels has used communication to drive performance improvement. As Huckestein points out, communicating a corporation's strategy to its workforce is not a one-time event; it must be comprehensive and continual. Personal communication, in his view, has the greatest impact. Executives from Hilton Hotel's senior leadership team personally visited each of their hundreds of properties to roll out the strategy and their BSCs. Letters, memos, and other communications from the president's office to the field have also helped to constantly reinforce the strategic message. These communications employ language such as "Go for the green" (the top performance level on a BSC measure) and "Because of your Balanced Scorecard, we've achieved…"

In addition, scorecard measures have been painted on the walls of employees-only corridors, and results are posted using the color-coded performance zones. Other communication vehicles include posters (one reads "Performance = stock equity") and paycheck stuffers reminding employees that a good idea could win them (for example) a trip to the Super Bowl.

Linking Incentives to Strategic Performance

Like a comprehensive communications plan, a well-thought-out compensation, recognition, and reward system exerts a huge impact on employees' motivation to support strategy. Everyone working at Hilton—from housekeeper to chain president—has merit pay increases, bonuses, and (if they're eligible) stock option grants tied to their hotels' scorecards. Company directors and officers get merit pay adjustments and bonuses based on the aggregated scorecard performance of the hotels they oversee. General and resident managers at each property are eligible for stock option awards and an annual merit pay adjustment, based on their property's BSC performance.

Performance on each measure is color-coded according to the red, yellow, green system. And getting into the green zone produces tangible results. For example, the Pointe Hilton Tapitio Cliffs Resort in Phoenix, Arizona—the first property in the system to reach green zones in all performance categories—won the company's coveted Million$ Team Pride Award. It received $1 million in Hilton stock to divide among team members. (Executives, who already receive stock options through their own incentive programs, were excluded.)

The Million$ Team Pride Award is Hilton's most pivotal award program, because, notes SVP of Operations Support Koci, "it's what gets the BSC from the executive suite down to the front desk clerk and the room attendant."

The Million$ Team Pride Award is Hilton's most pivotal award program, because, notes SVP of Operations Support Koci, "it's what gets the BSC from the executive suite down to the front desk clerk and the room attendant." It raises the performance bar higher for Hilton's hotels and rewards the very best hotel teams for reaching their customer satisfaction goals. Hotels win the annual award by collectively achieving 100% in eight measured performance areas on their Balanced Scorecard. Every team member at a winning hotel shares equally in a pool of $1 million (limited to a designated cap of $500 per team member). Hilton also actively publicizes this program in the press. Since its inception, the number of "all-green zone" hotels has risen dramatically (last count: 13). Rather than reduce the per-person reward, which would diminish the award's impact, the company is committed to raising the amount of money in the pool to ensure it can meet the promised individual cap of $500.

Non-cash awards include the Hilton Pride Innovation Awards, which reward employees for submitting value-creating ideas (posted on the company intranet), and a customer satisfaction award.

Three Generations of Scorecard Automation

Over the years, Hilton's scorecard reporting system has evolved through three generations, giving the company a strong edge in using technology to support strategy execution. Here's a closer look at this evolution.

Generation 1: A Simple Ranking Report

The first-generation BSC, employed from 1997 to 2000, was a relatively simple instrument. In essence a ranking report, it consisted of a static spreadsheet file distributed quarterly.

Then came Hilton's $3.7 billion acquisition of Promus Hotel Corporation, a big franchiser of midpriced chains such as Hampton Inn, Doubletree, Homewood Suites, and Embassy Suites. Carried out in 1999, the acquisition was intended to help Hilton compete successfully against other multibrand companies. It fulfilled its purpose, but it also pushed the number of the company's hotel properties from 269 to about 2,400 (housing about 300,000 rooms), and the number of hotels under Hilton's direct management from 60 to almost 400.

Though Hilton now saw itself as "strategically complete," the skyrocketing number of hotels and rooms in its portfolio made it impossible to track BSC results at the property level with the existing spreadsheet-based reporting system. The solution? Automate.

Generation 2: Off-the-Shelf BSC Software

The second generation of the scorecard took the form of an off-the-shelf BSC software application, which the company adopted in 2000. The application offered such features as drill-down reports that allowed each operating department to track its individual scorecard and compare it to industry benchmarks and competitors.

In early 2001, Hilton rolled out the application across all its brands and corporate-managed hotels. The reporting system gave managers up-to-the-minute reports on their performance. It also provided them with detailed information that enabled them to determine the source of performance problems and take steps to continuously improve. Says Koci, "We had a huge new opportunity to enhance how we manage our business based on performance measurement and information." He adds: "In the past, you might get a customer loyalty rating that put you in the red zone, but you wouldn't know why your score was low. Now we can drill down and find out which areas within that measure are doing well and which are not."

For example, one manager found that her customer loyalty rating was low because of guest-room noise. Before the reporting system was overhauled, she might have recaulked all the exterior windows. But by using the new drill-down capability, she determined that the number-one noise issue was the air-conditioning and heating system inside the rooms. Number two was corridor noise. As it turned out, external noise made up just 5% of the problem. "So she didn't spend money fixing the wrong problem," notes Koci. "Instead, she used those funds to upgrade the HVAC systems in the rooms and replace security's walkie-talkies with earphones to reduce hallway noise."

The new system also greatly improved speed and ease of use for those generating scorecard reports and analyses. All required financial data from internal sources and nonfinancial data from external sources were delivered to two data warehouses managed by Hilton's information technology group. Archived data from the two systems were then pulled into the BSC software system, updating hotel, area, region, brand, and enterprise scorecards for all owned and managed hotels on a weekly basis. The scorecards included actual up-to-date performance versus targets, Web links to internal best-practice sites and other Hilton Web-based resources, and diagnostic information to help explain the causes behind actual performance.

Certainly, such technology-enabled benefits were valuable. Yet Hilton's executives had an even bolder vision: an automated strategy execution system that would link and integrate all of Hilton's existing key business processes that had been automated (including its scorecards). To realize that vision, the organization would need to make even savvier use of information technology.

Generation 3: An Automated Strategic Management System—and the Advent of an Office of Strategic Management

In 2001, Hilton hired Scott Farr (a CPA who had been a manager at the BSC software maker that produced the off-the-shelf application Hilton had adopted) to head a new department, Performance Management (PM), which reports directly to Operations Support SVP Koci. Farr went to work creating an automated, state-of-the-art system—a mega database—that integrated all systems and processes comprising Hilton's performance and strategy management. While strategy formulation would continue to reside in the C-suite, Performance Management would, in effect, become Hilton's high-technology answer to an office of strategic management. The ultimate goal was to keep data updated in real time and provide maximum visibility across functions and up and down the organization. These achievements, Hilton's leaders theorized, would enable managers to optimize decision making and orchestrate day-to-day operations in tandem with their strategic goals.

Two changes would have to occur for these gains to come within reach: First, the company would have to automate its business plan—which, ideally, would boost the company's responsiveness to external events, a post-9/11 goal. Second, Hilton would have to integrate the business plan with its BSC and all other major strategic processes, such as budgeting, continuous improvement, performance support, and rewards and recognition.

At first, the Performance Management group's efforts were subsidized by projects it performed for other departments. As PM rolled out the cascaded BSCs, each hotel began contributing to the group's budget. Today, its staff of 12 full-time professionals is funded by annual allocations from each hotel. Eight primarily IT professionals handle tool implementation (writing interfaces and other programming, developing new functionalities), while four others manage the business processes.

The strategic management system has since scored major successes. Dubbed "InFocus" (a play on "being in focus with our strategy"), it unifies all of Hilton's key strategy-related processes and their underlying systems. Data is updated according to reporting cycles. The company's business plan generates budgets and goals, whose measures and targets are automatically updated in the Balanced Scorecard software. (Most other BSC measures data are imported automatically from other applications.) Performance shortfalls highlighted in the BSC software are forwarded to the Continuous Improvement Process section, which identifies the causes of problems and the resources required to solve them. These details are then passed to the Performance Support section, from which the appropriate departments can be alerted. From there, the results are sent to Recognition and Reward, where bonuses and merit increases are calculated. The degree of human intervention varies by process, but the idea is to maximize automatic data flows and viewing and reporting flexibility.

"Come May 15, if I know in six weeks I'm going to have to report on changes, I won't wait," says Koci. "I'll be thinking about it now. That's the real advantage—not the report that corporate will get on July 15, but the action this move inspires."

Reaping the Benefits of InFocus

InFocus has generated vital benefits for Hilton. According to Koci, the ability to see one's bonus change in real time has helped drive improvements in performance. Every employee can see how he or she is doing on his or her measures. It also helps people monitor their potential bonuses. For example, each day, a hotel's general manager can click on a special button in the upper-right-hand corner of the screen to find out exactly where his or her bonus stands.

Automation of the company's business planning, which took place in 2003, has also proved a major boon. For one thing, it has enabled Hilton to respond more quickly to "looming clouds," explains Koci. "It became very clear after 9/11 that the travel industry's outlook had completely changed. The annual business plan binders submitted by our hotels at the beginning of 2001 had been rendered useless. We wanted a business plan that would allow us to constantly adjust to the continually evolving business climate."

Through InFocus, the general managers (GMs) of the company's 400-plus corporate-managed properties link their BSCs to their annual business plans. Every quarter, the GMs revise their strategies and business plans for the remainder of the year, based on their just-recorded quarterly results. After entering the results, they explain in the data-entry field of the BSC software how they intend to update their business plan. By linking the plans—created every fall—to the scorecards, Hilton has extended both tools' capabilities.

The scorecard now triggers changes in GMs' tactics. Before, GMs would look for red performance zones and react. Now, if they see a yellow zone, they adjust their strategy before it becomes red. Consider a hotel whose RevPAR is down because leisure travel in Q1 ended up below projections. In April, the GM can shift advertising dollars from business journals to consumer travel magazines. While GMs aren't able to change the amount of their respective budgets, they can make adjustments that exert a big impact on future performance. They can immediately redeploy their resources, or at least rethink their original plans, instead of waiting for the annual managers' meeting—which may well be too late.

This new approach helps GMs adjust their action plans around new information. The anticipatory aspect is equally important. "Come May 15, if I know in six weeks I'm going to have to report on changes, I won't wait," says Koci. "I'll be thinking about it now. That's the real advantage—not the report that corporate will get on July 15, but the action this move inspires." Here's another advantage: regional senior vice presidents (SVPs), to whom GMs report, can spot broader trends far sooner than before. An SVP can also communicate the smart tactics employed by any one of his GMs to all of his other reports right away, multiplying the salutary effects of the action regionwide.

This innovative way of using the BSC has ushered in a new era of proactivity among managers. "It forces managers to revisit their plans in a standardized way, based on intelligence the BSC provides, and transform it into action at the team level," Koci says. Now, "the BSC is the heart and soul of the actual planning process." It helps managers adopt new tactics to promote business, and discuss and share these tactics openly.

An Extended Track Record of Results

Since Hilton's adoption of the BSC in 1997, the company has met and sustained its core BSC goals repeatedly. It has reached top industry position in profit margins, the RevPAR index, and customer loyalty results. Consider these highlights:

1997–2000

The company's market revenue index rises from 104% to 106%. (100% represents "fair share" in the local competitive market.) In these same years, guest loyalty jumps from 48% to 57%, and EBITDA margin hits 300 basis points (3%) above the industry average.

From 1998 to 1999, Hilton enjoys a 3% higher profit margin than other full-service hotels, and sees a 2.7% increase in RevPAR.

In 1999, the Hilton story is published in *Cornell Hotel and Restaurant Administration Quarterly,* in an article titled "A Comprehensive Approach to Delivering Value for All Stakeholders," by Dieter Huckestein and Robert Duboff.

In 2000, Hilton is ranked number one in customer satisfaction and sees an increase in post-stay loyalty. The company is also inducted into the Balanced Scorecard Hall of Fame as an inaugural member and wins the Boston University School of Business Award in recognition of its effective use of the scorecard as a management tool.

2000–2002

Hilton again consistently delivers a 3% higher profit margin than other full-service hotels. This 3% increase translates into a 100% increase in stock price.

In 2002, Hilton's Hotel Operations Group improves customer satisfaction and increases RevPAR while also reducing costs—noteworthy achievements during a major contraction in the travel industry. That same year, Doubletree Hotel Bakersfield, the premier hotel in the southern San Joaquin Valley, wins the company's coveted Million$ Team Pride Award.

In 2001 and 2002—during one of the worst travel markets in years—Hilton properties managed internally with the BSC outperform same-brand franchise hotels managed by third parties (such as Meristar and Interstate), as measured by RevPAR. In addition, cost per occupied room goes down 3.8%—taking $36 million out of Hilton's cost structure. Meanwhile, the same measure for franchises declines 3.44%. "We outmanage the management companies," says Koci.

2001–2005

Company stock delivers a 12.5% average annual return—soundly beating the Standard & Poor's hotel, restaurant, and leisure index, as well as the returns of rivals Marriott International and Starwood Hotels & Resorts Worldwide.

In 2003, Hilton Garden Inn wins the J.D. Power award for highest guest satisfaction among midpriced, full-service hotel chains. That same year, *Financial Analysis, Planning & Reporting* publishes an article in its September issue proclaiming that Hilton has achieved a 100% boost in share price since implementing the BSC.

In 2004, Hilton's overall RevPAR rises 6.8% over 2003. Its total revenues increase 9% over 2003. Also in 2004, Embassy Suites Hotels announces 16 top-performing hotels based on BSC scores in customer satisfaction and improved loyalty from 2002 to 2003. Earnings in Q1 2005 increased a whopping 73%, and revenues from company-owned hotels grew 3% over Q1 2004. Thanks to a resurgence in business travel, the company has raised its forecast for the year.

With these achievements to Hilton's credit, it's not surprising that Huckestein (who in February 2005 was appointed chairman and CEO of the company's Conrad Hotels division) has described the Balanced Scorecard as "the core of everything we do. The beauty of the Balanced Scorecard is its simplicity. Everyone can understand what we're trying to do, and can see their role in our overall strategy. I recently had dinner with about 15 managers of our properties in Boston, and the Balanced Scorecard was a constant topic of conversation. It has truly given our managers a clear-cut vision. They understand what we require, collectively and individually, to achieve our strategic intent."

KEY RESULTS

- Customer satisfaction has steadily and handily improved: in 2000, the company was ranked #1 in customer satisfaction among its peers. In 2003, Hilton Garden Inn won the J.D. Power Award for highest guest satisfaction among all midpriced full-service hotel chains.
- Guest loyalty rose 9% in the first three years of BSC implementation.
- Hilton has seen steady increases in both RevPAR and total revenues. Its share price has increased 100% since the company adopted the BSC.
- The company has reduced costs—in one year, by as much as $36 million.
- Hilton has outperformed its peers in several financial criteria:
  > Its EBITDA margin was 300 basis points (3%) above average in the first three years of BSC use;
  > It has enjoyed higher profit margins and higher average annual returns;
  > In 2001–2002, one of the worst travel markets in years, Hilton's RevPAR beat same-brand franchise hotels managed by third parties.
- Team spirit and a sense of common purpose has intensified among employees.
- Employees at every level have found it easier to comprehend performance metrics, goals, and strategy. People understand what's expected of them.
- The Million$ Team Pride Award program has raised the performance bar across the organization. Within just a few years, the number of "all-green-zone" hotels has risen from one to 13.
- Overall performance across many different hotels has become consistent, thanks to the common measurement system the BSC provides.
- With greater visibility (afforded by Hilton's high-tech reporting system), managers can better pinpoint the source of performance problems, anticipate trends and developments, and adjust to changing conditions to sustain performance.

TAKEAWAYS

- Identify leading indicators and make those areas the core of your improvement efforts.
- When used in tandem, a process improvement program and the BSC reinforce each other's effectiveness.
- Keep the vision and strategy as simple as possible. Draw a clear line of sight for employees between their performance and its impact on strategy execution.
- Employees must view targets as being realistic and manageable. People get excited when they know they can reach a goal.
- Encourage collaboration and peer-to-peer consultation for sharing solutions and spreading best practices.
- Communication isn't a one-time event. Keep reinforcing the message.
- Team incentives are powerful performance catalysts. They help ingrain the BSC concept and a performance culture from the executive suite to the lowest levels of the organization.
- Leverage technology for reporting and communicating. By improving data entry and reporting capability and making information accessible in real time, you support alignment and adaptive behavior.

SFO SPOTLIGHT

- ***Top leadership sponsorship:*** Huckestein, Hilton's president, chose the BSC as the main vehicle for Hilton's performance improvement and involved his top deputies closely in the research and transformation effort. A believer in investing in value creation for the long term, he subscribed to the practice of integrating management models such as the BSC and quality management. Huckestein spearheaded an energetic, systematic, and comprehensive strategic transformation. A core group, consisting of Huckestein, top executives from Operations Support, Operations Strategy and Planning, and Brand Performance, visited hundreds of properties to help roll out the strategy. Through constant communications, process improvements, and investment in technology and training, leaders have kept the focus on alignment and strategy front and center. [Principle #1: Mobilize Change Through Executive Leadership]

- ***Case for change clearly articulated:*** The post 9/11 downturn in the travel industry aggravated Hilton's internally caused performance ills. Intent on understanding the value drivers for all Hilton's stakeholders, Huckestein led the charge in diagnosing the cause of declining profits and customer satisfaction. A study he commissioned confirmed that customer loyalty would be the key to long-term profitability. The findings provided senior leaders direction in shaping the transformation effort, pointing to the need for organizational alignment. The findings also helped constitute value drivers, metrics, and the basic design of the corporate BSC. [*Mobilize* principle]

- ***Vision and strategy clarified:*** Hilton has a straightforward, accessible, compelling vision: "the first choice of the world's travelers." To achieve it, the company defined two broad strategies at the outset: pursue an aggressive growth plan, and install a new performance management system to standardize processes and make quality consistent. [*Mobilize* principle]

- ***Balanced Scorecard created:*** Through a rigorous research study, the company identified value drivers (effectively, Hilton's scorecard perspectives) and KPIs to support those drivers. The team cascaded the corporate scorecard to regions, Hilton-managed hotels, and departments. In 2000, after an assessment of Hilton's BSC program, the company implemented several changes, including incorporating the BSC into its Value Creation process. This process involves testing the strategy to determine whether it, in fact, supports the vision, and developing business unit strategies to devise unit-specific KPIs. [Principle #2: Translate the Strategy into Operational Terms]

- ***Targets established:*** KPIs were carefully rationalized to reflect the most significant factors in the hotel industry and were customized to each property's unique qualities. They were pegged to quantifiable results Hilton had established from its own historical performance (e.g., a 5% increase in customer loyalty translates into a 1.1% increase in annual revenue the following year), as well as to established industry metrics such as RevPAR. Hilton has established targets that employees see as realistic and achievable, based on each hotel's prior performance. Improvement goals are set according to the gap between current and "100%" performance, so constant improvement is built in. KPIs change regularly as problems are solved and conditions evolve. [*Translate* principle]

- ***Initiatives identified and rationalized:*** Hilton developed its own Continuous Improvement Process (and training programs for it) to help managers establish initiatives to improve performance in specific areas. [*Translate* principle]

continued on next page

SFO Spotlight *continued from previous page*

- ***Strategic awareness created:*** Executives from Hilton Hotel's senior leadership team personally visited Hilton's hundreds of properties to roll out the strategy and the BSC. Posters, paycheck stuffers, and scorecard results (in the color-coded "traffic light system") painted on the walls of employees-only corridors further reinforce the message. Hilton bolstered its explanation of KPIs and offers guidance to managers on achieving improvements in these areas. By automating the BSC, Hilton made it easier to use the system, thus encouraging employee buy-in. Finally, executives recognized from the beginning that communication is not a one-time event. A steady stream of letters, memos, and other communications from leaders has helped reinforce the message. [Principle #4: Motivate to Make Strategy Everyone's Job]

- ***Personal goals aligned:*** Unit-specific KPIs and targets help managers and employees connect their goals to unit and company strategy. Both support the value drivers on the high-level scorecard. [*Motivate* principle]

- ***Personal incentives aligned:*** Hotel managers' compensation is based on their entire team's performance. Targets are incorporated into the recognition and reward programs, including the coveted Million$ Team Pride Award, which promotes team efforts to reach hotel goals with awards of company stock. Merit increases, bonuses, and stock option grants are all tied to the BSC, so all employees are in some way incentivized to be personally aligned. Even directors' and officers' pay and bonuses are tied to aggregated scorecard performance. [*Motivate* principle]

- ***Competency development aligned:*** In 2000, learning and growth, a fifth value driver (perspective) was added to Hilton's BSC, reflecting the importance of the company's employee orientation program and skills training, including e-learning. [*Motivate* principle]

- ***BSC reporting system established:*** The evolution of Hilton's reporting system from spreadsheet to BSC software with real-time functionality, and finally, to a comprehensive, automated strategy management system reflects its resourceful use of technology to maximize information access to management—enabling proactive management. It has also helped drive performance improvements—merely by allowing people to monitor their potential bonus in real time. [Principle #5: Govern to Make Strategy a Continual Process]

- ***Planning, budgeting, and strategy integrated:*** Hilton automated its business planning process in 2003, thus facilitating ongoing adjustments to changes in the business environment. Next, it integrated the BSC program and all key management processes through InFocus. Hotel BSCs are linked to business plans, so managers can now revise their strategy and business plans quarterly, furthering their ability to adapt to changes in the environment. [*Govern* principle]

- ***Process management linked to strategy:*** BSC and quality management principles were integrated into a Continuous Improvement Process early on. The CIP process is of central importance, and the company offers training in it. [*Govern* principle]

- ***Strategic management office established:*** The Performance Management Group, which is responsible for the InFocus system, integrates BSC management and all key strategic management processes, including BSC reporting, budgeting, CIP, and employee recognition and rewards. A full-time staff of 12 professionals handles both the IT-related aspects and coordinates the business processes. Operations Support, to which PM reports, orchestrates strategic formulation and planning. [*Govern* principle]

TO LEARN MORE

To learn more about Hilton Hotels and its Balanced Scorecard program, see:

- *Balanced Scorecard Report* articles:

  "Automating Strategic Management: Hilton Hotels' Innovative InFocus System," by Carole A.Winkler, Contributing Writer, *BSR* March–April 2005 (Reprint # B0503C)

  "Hilton Hotels' New Dynamic Business Plans, Powered by the BSC: A Next-Generation BSC with Tactical Capability," by Janice Koch, Editor, *BSR* May–June 2003 (Reprint #B0305F)

- The BSC library: BSC portal members with access to the library can search the keyword "Hilton Hotels" for a complete list of resources, including conference presentations and executive video interviews. (For information on becoming a BSC Portal member, go to www.bscol.com.)
- Web site: www.hilton.com

ADDITIONAL RESOURCES

- For more information on the Strategy-Focused Organization (SFO) principles, visit BSC Online. Membership is free. Go to www.bscol.com/bsc_online.
- For additional guidance on the SFO principles, and to learn about best practices in use at other organizations that have successfully executed strategy, go to www.bscol.com/toolkits. Here, you'll find many resources available for purchase, including Strategy Execution Toolkits.
- For access to the largest compilation of published materials on the Balanced Scorecard and the Strategy-Focused Organization, visit www.sfo.harvardbusinessonline.org.

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