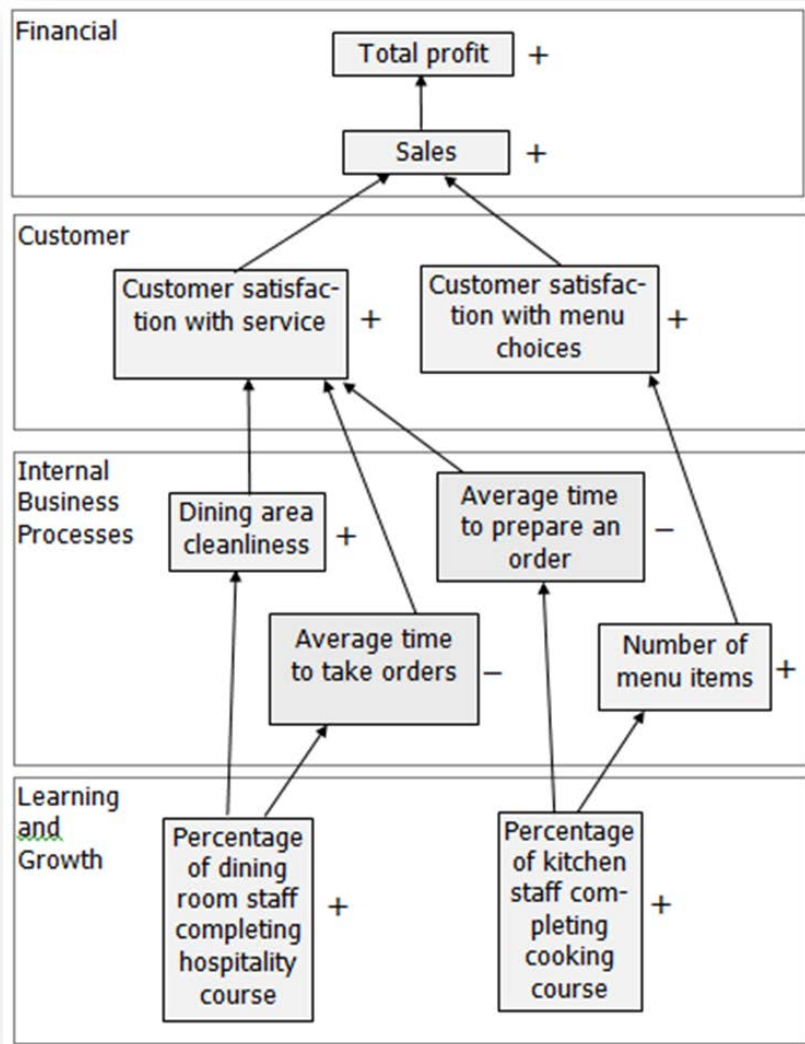


## Comments on the case “Powder 8 Lodge”



### Hypotheses

The hypotheses underlying the balanced scorecard are indicated by the arrows in the diagram.

Reading from the bottom of the balanced scorecard, the hypotheses are:

- o If the percentage of dining room staff who complete the hospitality course increases, the average time to take an order will decrease.
- o If the percentage of dining room staff who complete the hospitality course increases, then dining room cleanliness will improve.
- o If the percentage of kitchen staff who complete the cooking course increases, then the average time to prepare an order will decrease.
- o If the percentage of kitchen staff who complete the cooking course increases, then the number of menu items will increase.

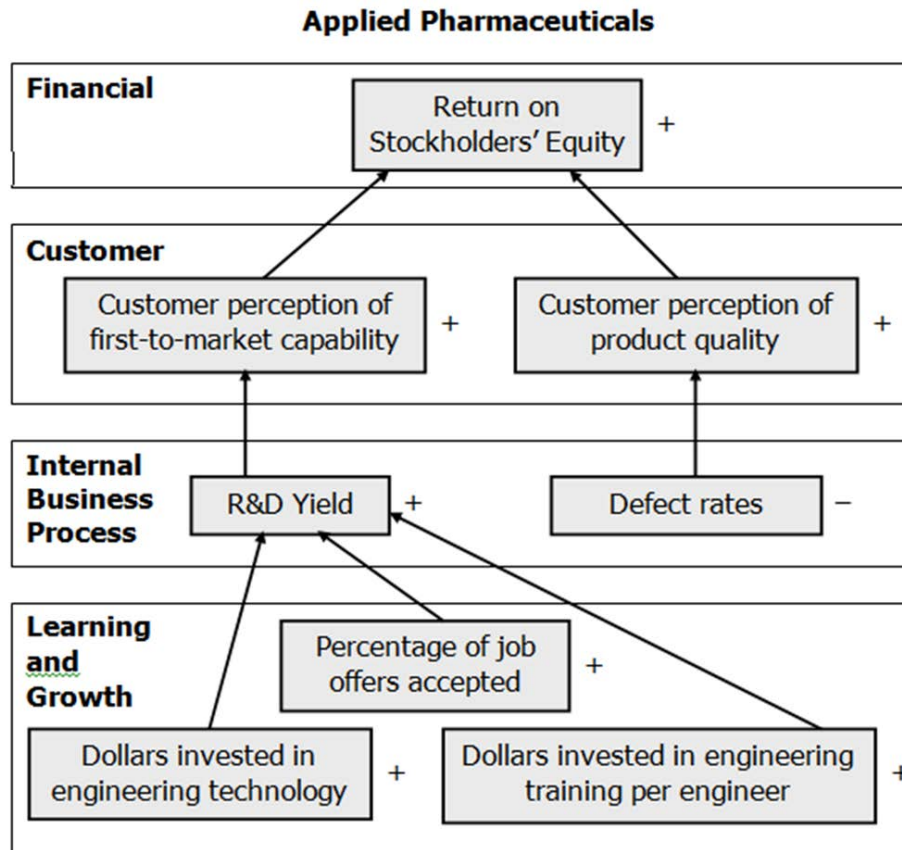
- o If the dining room cleanliness improves, then customer satisfaction with service will increase.
- o If the average time to take an order decreases, then customer satisfaction with service will increase.
- o If the average time to prepare an order decreases, then customer satisfaction with service will increase.
- o If the number of menu items increases, then customer satisfaction with menu choices will increase.
- o If customer satisfaction with service increases, sales will increase.
- o If customer satisfaction with menu choices increases, sales will increase.
- o If sales increase, total profits for the Lodge will increase.

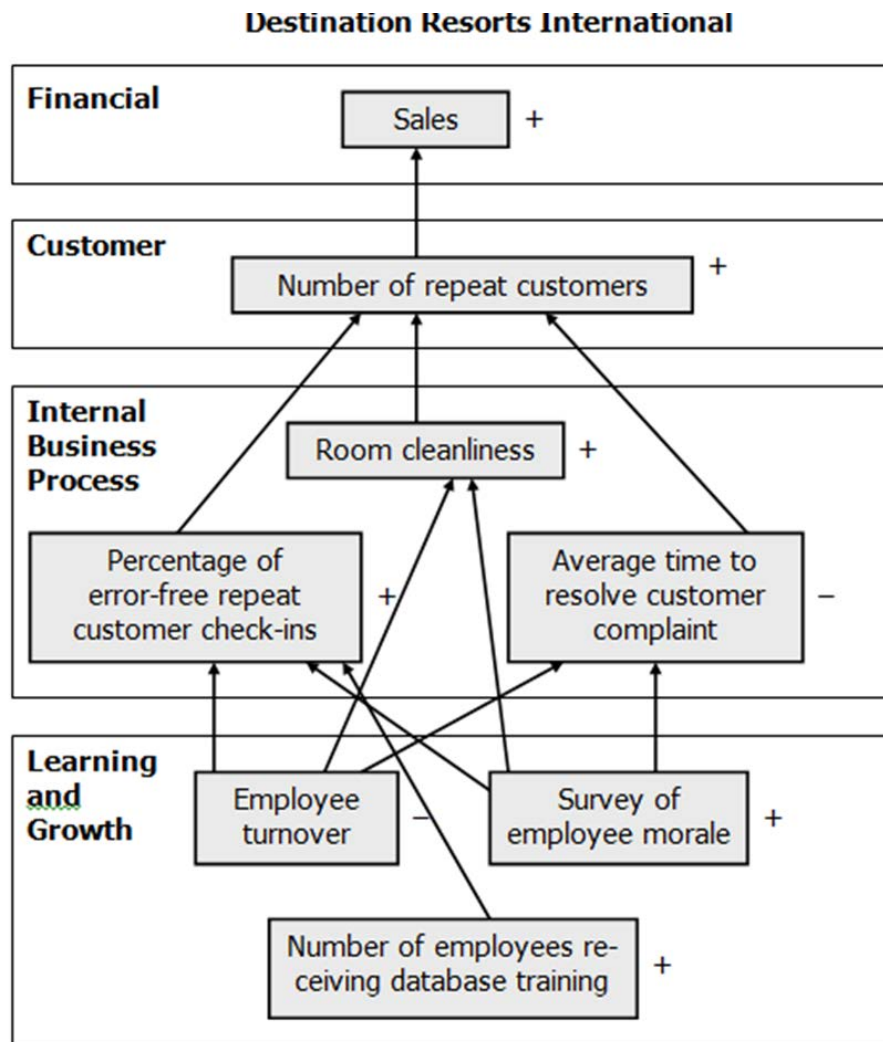
Each of these hypotheses can be questioned. For example, even if the number of menu items increases, customer satisfaction with the menu choices may not increase. The items added to the menu may not appeal to customers. The fact that each of the hypotheses can be questioned does not, however, invalidate the balanced scorecard. If the scorecard is used correctly, management will be able to identify which, if any, of the hypotheses is incorrect. [See below.]

### **Wrong Hypotheses**

Management will be able to tell if a hypothesis is false if an improvement in a performance measure at the bottom of an arrow does not, in fact, lead to improvement in the performance measure at the tip of the arrow. For example, if the number of menu items is increased, but customer satisfaction with the menu choices does not increase, management will immediately know that something was wrong with their assumptions.

## Comments on the case “Applied Pharmaceuticals vs Destination Resorts International”





## Strategies

Both companies view training as important; both companies need to leverage technology to succeed in the marketplace; and both companies are concerned with minimizing defects. There are numerous differences between the two companies. For example, Applied Pharmaceuticals is a product-focused company and Destination Resorts International (DRI) is a service-focused company. Applied Pharmaceuticals' training resources are focused on their engineers because they hold the key to the success of the organization. DRI's training resources are focused on their front-line employees because they hold the key to the success of their organization. Applied Pharmaceuticals' technology investments are focused on supporting the innovation that is inherent in the product development side of the business. DRI's technology investments are focused on supporting the day-to-day execution that is inherent in the customer interface side of the business. Applied Pharmaceuticals defines a defect from an internal manufacturing standpoint, while DRI defines a defect from an external customer interaction standpoint.

## **Hypotheses**

The hypotheses underlying the balanced scorecards are indicated by the arrows in each diagram.

Reading from the bottom of each balanced scorecard, the hypotheses are:

### **Applied Pharmaceuticals**

- If the dollars invested in engineering technology increase, then the R&D yield will increase.
- If the percentage of job offers accepted increases, then the R&D yield will increase.
- If the dollars invested in engineering training per engineer increase, then the R&D yield will increase.
- If the R&D yield increases, then customer perception of first-to-market capability will increase.
- If the defects per million opportunities decrease, then the customer perception of product quality will increase.
- If the customer perception of first-to-market capability increases, then the return on stockholders' equity will increase.
- If the customer perception of product quality increases, then the return on stockholders' equity will increase.

### **Destination Resort International**

- If the employee turnover decreases, then the percentage of error-free repeat customer check-ins and room cleanliness will increase and the average time to resolve customer complaints will decrease.
- If the number of employees receiving database training increases, then the percentage of error-free repeat customer check-ins will increase.
- If employee morale increases, then the percentage of error-free repeat customer check-ins and room cleanliness will increase and the average time to resolve customer complaints will decrease.
- If the percentage of error-free repeat customer check-ins increases, then the number of repeat customers will increase.
- If the room cleanliness increases, then the number of repeat customers will increase.
- If the average time to resolve customer complaints decreases, then the number of repeat customers will increase.
- If the number of repeat customers increases, then sales will increase.

### **Wrong hypotheses**

Each of these hypotheses is questionable to some degree. For example, in the case of Applied Pharmaceuticals, R&D yield is not the sole driver of the customers' perception of first-to-market capability. More specifically, if Applied Pharmaceuticals experimented with nine possible drug compounds in year one and three of those compounds proved to be successful in the marketplace it would result in an R&D yield of 33%. If in year two, it experimented with four possible drug compounds and two of those compounds proved to be successful in the marketplace it would result in an R&D yield of 50%. While the R&D yield has increased from year one to year two, it is quite possible that the customer's perception of first-to-market capability would decrease. The fact that each of the hypotheses mentioned above can be questioned does not invalidate the balanced scorecard. If the scorecard is used correctly, management will be able to identify which, if any, of the hypotheses are invalid and the balanced scorecard can then be appropriately modified.