Chapter 9
Appraising performance

Aim

To identify and evaluate the techniques of measuring and appraising the performance of food service operations.

Objectives

This chapter is intended to support you in:

- Identifying the basis for performance appraisal
- Identifying the aspects of food service operations which are commonly appraised
- Developing skills in the application of a range of performance measures and appraisal techniques, to the revenue, costs and profits, and the food and beverage product
- Determining the usefulness and limitations of various quantitative and qualitative appraisal techniques and their application to food service operations.

9.1 Approaches to appraisal

To be able to systematically appraise a food service operation, it is necessary to identify its component parts and appraise them separately before bringing them together and appraising the operation as a whole. For a food service operation the component parts for performance appraisal are:

- Revenue
- Costs
- Profits
- The product.

The nature of revenue, costs and profits are complex. Each of these is considered in detail together with the approaches that might be used to appraise them. An identification of key points for each aspect is given at the end of the section where they are examined. The appraisal of the product is then considered taking account of the data, which the appraisal of the revenue, costs and the profits might provide.

The next stage in the process (detailed in Chapter 10) is to bring the various strands together to complete the appraisal of the operation as a whole, and to be able to make strategic decisions about the current and future operation and the business.

Fundamentals of appraisal

Appraisal is the action of placing a value on a measurement or collection of measurements. Those taken in a food service operation are predominantly concerned with performance, and are often referred to as 'performance measures'. They are also known as Key Performance Indicators (KPIs). However, a measure alone has no value. To be able to place a value on a performance measure, there will need to be an identified objective to measure it against. For example, an actual revenue measurement of £1200 has limited value until it is compared with a revenue objective of £1000. The revenue can then be appraised as surpassing the objective by £200, or 20%.

Other measurements and objectives are needed to explore or value the revenue measurement further. If cost objectives and actual costs are known, it is possible to explore or value the revenue measurement in a more meaningful way, i.e. the amount of profit (or loss) can be measured. Subsequently a profit objective can also be applied and a further value placed on the achievements of the operation.

To begin to appraise a food service operation it is a prerequisite to identify the goals and objectives of the operation. Knowing the goals and objectives will enable the appraiser to focus on those parts of the operation which most significantly impact on the achievement of the goals and identified objectives. In Chapter 2, page 52, we identified that:

- **Goals**, or aims, are the broad intentions of an organisation.
- **Objectives** are the measurable outcomes, which will indicate the progress being made by an organisation towards meeting its specific goals.

Operational appraisal then is concerned with measuring achievement against the objectives.

There may however be circumstances where the food service operation's objectives are not clear. In these situations it will be necessary for the appraiser to take a proactive role. This proactive role will vary depending on the responsibilities of the appraiser. For example:

- Area managers, managers, department heads and others with responsibility for revenue, costs, profits and product quality, who are unclear as to their objectives, need to be proactive by consulting with other members of their organisation (usually their immediate line manager), in an attempt to establish what the objectives are.

- An owner-operator with no clear objectives should consider what their objectives should be. This can either be done by the owner or can be done in consultation with others: the staff and/or a consultant, for example.

The formulation of objectives is an important part of any business. Having objectives assists in ensuring that resources are being directed efficiently and that the goals will be met. As objectives are dynamic and vary according to circumstances, the setting and revising of objectives is a continuous process. Appraisal is part of this process as it measures the extent to which the objectives are being met. The resultant appraisal will help in confirmation or revision of the appropriate goals for the organisation, which in turn will lead to the setting, or revising of the organisation's objectives

The basis for effective operational appraisal

Effective appraisal can only be achieved if there are established objectives for the food service operation. These objectives are usually in the form of budgets and statements of other standards, against which actual performance can be measured and appraised. The time and resources devoted to identifying, establishing and communicating objectives will vary between operations, depending on the perceived importance of this process. In operations where the objectives are not clear, staff and management will need to be proactive in order to identify and establish what their objectives actually are.

Budgets

Some of the measurable objectives of a food service operation are commonly expressed in the form of 'budgets'. Examples of measurable budget objectives are revenue, costs, profits, average spend per head, number of customers. These objectives are used in various ways:

- Budget objectives are compared to actual performance and therefore help to appraise that actual performance, e.g. revenue budgets.
- Budget objectives can help effect control over the operation, e.g. cost budgets.
- They can help to predict the future, e.g. cash flow and profit forecast budgets.

Operators will mainly use budgets to assist in making reasoned and objective evaluation of the performance of the operation, so that informed decisions can be made regarding their business. However, budgets can be used for other reasons.

Budgets are often thought to act as a motivator. Sometimes the ability to achieve the budget is related to remuneration and bonuses, or if budgets are not met employment of those thought to be responsible may be terminated. This 'stick and carrot' use of budgets can act as a motivator if the budgets are perceived to be achievable. Conversely they can act as a demotivator if they are perceived to be unobtainable.

For budgets to be perceived as a motivating factor, they should be set with the agreement of all the participating parties. In large organisations, budgets are agreed between