Towards Performance Measurement in Hotels: an Incremental Approach

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Towards Performance Measurement in Hotels – An Incremental Approach

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Abstract

The overall aim of this paper was to investigate the phenomenon of performance measurement in independently owned hotels in Ireland in order to understand the role of measurement in the management of the largest component of the hotel sector. The primary objectives of this paper was to investigate the extent to which Irish hotel operators are utilising performance measurement techniques, to establish the rationale for the use of selected performance measures in independently owned hotels and to understand approaches to performance measurement in the management of independently owned hotels.

A comprehensive investigation of existing performance management and measurement activity is provided in this study. A survey questionnaire was carried out across the spectrum of hotels in Ireland followed by focus groups and in-depth interviews carried out in a number of small and medium-sized independently owned hotels. A number of key performance measurement issues were investigated and include the rationale for performance measurement, the benefits of performance measurement, those responsible for carrying out the function, critical success factors impacting on the business and performance dimensions and measures utilised by hotel operators in the study.

The findings of this research have implications for a number of stakeholders; however, the greatest impact will be on the small and medium-sized independently owned hotel operator. The research shows that there is a need for these hotel operators to adopt a more structured formal approach to performance measurement. A number of structured models of performance measurement are proposed. These structured models will contribute to the management of performance in the hotel sector in Ireland, leading to increased effectiveness which is especially important in the current economic climate that the hotel and tourism sector is facing and will face into the future.

Key Words: Performance, Measurement, Management, Hotels in Ireland, Critical Success Factors, Dimensions, Measurement Tools.

Introduction

The tourism industry is one of the world’s fastest growing industries with estimated growth in global travel expanding from 450 million travellers in 1992 to 730 million by the year 2010 (World Tourism Organisation, 2006). In 2000, Ireland - the focus of this paper - attracted 6.3 million overseas visitors, which rose to 7.8 million in 2007 (Failte Ireland, 2007; 2008:a; 2008:b; 2008:c). However, data available for 2008 suggest that visitors from Europe are down by 6%, North American visitors are down 8.6% and other international visitors are down by 6% (Fáilte Ireland, 2008:a; 2008:b; 2008:c). In addition, the hotel sector is facing a very difficult financial crisis. Revenues have been squeezes by the combination of lower prices, excess capacity and low capacity utilisation rates. Costs have not significantly reduced; consequently, margins are under severe pressure resulting in closures across the
country with 164 hospitality businesses entering examinership, receivership or liquidation in the 1st nine months of 2009. This figure is set to continue in 2010 with additional closures (Hotel and Catering Review 2009).

The hospitality sector represents an important part of the tourism industry and comprises hotels, restaurants, pubs and clubs, guesthouses and self-catering operations. The largest component within the Irish hospitality sector is hotels. These hotels operate in a highly competitive environment as a consequence of a number of factors. First, a number of new markets have emerged in former Eastern Block countries that are in direct competition with Ireland as a tourism destination (Corr, 2007). Second, there has been a rise in market demand for, and expectations of, in-house facilities, quality of service and products and value for money (Harris and Mongiello, 2001), where visitors want to experience excellence at all levels of service, which can be readily recognised as good value for money. Third, hotel capacity has increased by 40% in eight years from 2000. This growth contributes to the increasingly competitive environment. Finally, a sharp rise in operational costs has resulted in declining profitability for hotels in addition to the recession that is impacting worldwide.

These trends require hotels in Ireland to be more efficient and competitive in meeting the needs of their customers, who are increasingly growing in sophistication (Failte Ireland, 2007; 2008:a; 2008:b; 2008:c; HBC, 2007). The ability of Irish hotel operators to adequately respond to these challenges will determine their long-term success and development (Hotel and Catering Review, 2007; O’Connor, 2004). There is a growing awareness amongst operators for the need to optimise the effectiveness of operational and business decision-making activities, such as those relating to profit, planning, control and continuous improvement, in order to maintain a competitive edge. In larger hotels, this is leading to an emphasis on sound management practices, in particular a focus on performance management and measurement in order to maintain competitive advantage (Evans, 2005).

**Literature Review**

The research presented in this paper focuses on performance measurement because, as is argued by Folen and Browne (2005), performance measurement is based on the strategic role of the organisation and should be mutually supportive and consistent with the business goals, objectives and strategy of the organisation. Organisations need to set clear goals and objectives, develop criteria for measurement and measure performance, evaluate that performance and compare the performance against the goals and objectives of the organisation. The provision of feedback and plans for improvement, along with training and development for continuous improvement provides an integrated approach to performance measurement that encompasses the organisation’s strategy and goals. Measuring performance plays an important role in planning and decision-making and makes the link between strategy, performance and strategic evaluation (Doran et al., 2002; Folen and Brown, 2005; Flanagan, 2005; Haktinir and Harris, 2005).
Research into, and the development of, performance measurement frameworks have been underpinned by concern at the overly financial focus of the measurement system of many organisations. Recent studies have shown that hotel companies place a greater emphasis on financial performance than on any other performance dimension and they are reluctant to use additional tools to monitor performance and manage the process (Atkinson and Brander-Brown, 2000; Haktanir and Harris, 2005). This limits performance measurement in hotel operations because of the over reliance on one dimension. Although, financial performance measurement is important, the use of a more comprehensive set of indicators may offer greater opportunities for measuring the strategy and organisational effectiveness in the longer term. The main performance measurement frameworks available to hoteliers are presented in table one.

It is apparent from table 1 that performance measurement frameworks have become increasingly more complex in terms of the scope of measurement and the breadth of dimensions. For example, although Sink and Tuttle’s framework (1989) only measures efficiency and effectiveness of quality, the much later framework proposed by Rouse and Putterill (2003) attempts to measure a number of integrated areas. However, it is also apparent that existing performance measurement frameworks do not cover all areas that could be considered necessary for full strategic evaluation (Atkinson and Brander Brown, 2001; Amaratunga et al., 2001; Marr and Schiuma, 2003; Smith, 2005; Atkinson, 2006). For example, the balanced scorecard of Kaplan and Norton (1992) measures a number of significant dimensions, however, this framework fails to consider the external environment, the competitive environment, multiple stakeholders (Neely et al., 2002) and the social context (Sucheshchander and Leisten, 2005).

Folen and Browne (2005) Folen, Jagdev and Browne (2005; 2007) and Folen, Higgins and Browne (2006) have argued that no definitive performance measurement framework has been developed because of the number of complex issues involved in performance measurement. For instance, according to Biazzo and Bernardi (2003), Garengo et al., (2005) and Garengo and Bititci (2007) most performance measurement frameworks do not consider company size, yet the use of performance measurement frameworks can be correlated to size, with larger firms more likely users (Speckbacker et al., 2003). Likewise Davila (2005) has suggested that size acts as a driver for the emergence of a formal performance measurement framework in order to manage the complexities of a bigger organisation. Burgess et al., (2007) also argue that larger organisations are more likely to use performance measurement frameworks than the smaller or medium sized organisations because the larger firms have more resources to implement more sophisticated performance management systems and procedures. Bergin-Seers and Jago (2007) consider size and ownership structure as key elements impacting on the use of performance measurement in research carried out in the hospitality sector in Australia. Indeed Cooper et al., (2006) and Garengo and Bititci (2007) suggest that performance measurement in small to medium-sized organisations is poor and, although little research has investigated the reasons for this, it could arguably be due to a shortage of human resources and capital resources, lack of strategic planning, misconception of the benefits of performance measurement and the overtly complex nature
of the frameworks (Hudson et al., 2001:b and Bititci et al., 2006). This would suggest that the size of
the operation has an impact on the type of framework utilised for performance measurement.

Two issues emerge from the review of performance measurement frameworks presented. First,
frameworks do not appear to be developed with the small and medium-sized operation in mind, and
there appears to be an assumption that existing performance measurement frameworks can be scaled
down and applied to small and medium-sized operations. This assumption has not been proven.
Second, the existing frameworks do not appear to be directly transferable from the manufacturing
sector to the service sector, because according to Atkinson and Brander-Brown (2001) and Krambria-
Kapardis and Thomas (2006) a hotel measurement framework needs to enable managers to effectively
cope with unique organisational characteristics and critical success factors, and reflect the complex
nature of the service delivery process within hotels which includes perishability, intangibility,
heterogeneity and simultaneity. Haktanir and Harris (2005) argue that these characteristics make it
difficult to transfer a framework from a particular sector to another. Therefore, it would seem
appropriate to suggest that different models and approaches are needed to satisfy the hotel industry
requirements in terms of performance measurement, the focus on service, the competitive environment
in which the hotel operates and the critical success factors impacting on organisational success.
Consequently, the next section of this paper considers critical success factors that enhance performance
measurement frameworks.

According to Brotherton, (2004:a; 2004:b) critical success factors are those factors capable of
providing the greatest competitive leverage upon which resources should be focused. For example,
Flanagan (2005) has identified a critical success factor as a position where the organisation’s pricing is
considered to be in the realms of competitive pricing and where the organisation’s technical capability
can match or outstrip competition. Brotherton, (2004:a; 2004:b) considers critical success factors to be
combinations of activities and processes designed to support achievement of such desired outcomes
specified by the company’s objectives or goals. Consequently, they can be partially controlled by
management and thus can potentially be managed.

Research in this area by Bergin (2002; 2003); Flanagan (2005); Phillips and Louvieris (2005); Olsen,
Chung, Graf, Lee, and Madanoglu (2005); O’Donoghue and Luby (2006); Kandampully (2006) and
Kobjoll (2007) suggest that there are a number of critical success factors, such as personal
involvement, a customer focus, quality of service, customer retention and profitability directly related
to the hospitality sector. For example, Flanagan (2005) has stated that the high contact nature of the
hotel service would suggest people, both employees and customers, are a critical component of the
success of the organisation. Therefore, a critical success factors may include the measurement of
employees as one of the areas or dimensions of a performance measurement framework specifically
designed for the hotel sector of the industry.
Research Methodology

In order to investigate the phenomenon of performance measurement in hotels, empirical research was carried out with hotel managers, owners and operators of hotels in Ireland. The research was carried out in three distinct phases. The first was a questionnaire survey of a sample of Irish hotel managers, operators and owners across the spectrum of hotels in Ireland, the second phase was qualitative focus group research conducted with managers and owners of small and medium-sized independently owned hotels, while the third phase was a series of in-depth interviews with a number of hotel operators and managers of small and medium-sized hotels in Ireland.

Results and Discussion

This section presents an overview of the main findings from the three phases of the research and then goes on to discuss the themes that emerged from the analysis of the results. For the 1st phase a self-completion questionnaire was administered to 300 hoteliers from the Be My Guest Guide published by the Irish Hotels Federation (IHF). A total of 134 hotel operators responded to the questionnaire, representing a 45% response rate.

Overview of questionnaire findings
The majority of respondents (69%) operate independently owned hotels in Ireland which is not surprising considering 75% of hotels in Ireland are independently owned and operated. Forty-six percent (61) of the respondents’ hotels had between 51 and 100 bedrooms, 20% (27) of the sample had between 100 and 150 bedrooms, 15% (20) had over 150 bedrooms and 19% (26) had less than 50 bedrooms. In terms of star ratings 59% (79) respondents indicated that their hotels had three stars, 30% (40) had four stars and the remaining 11% (15) either had two or five stars, the majority had five star rating. The sample can be considered to be representative of the population in that the majority of Irish hotel operators are at the three and four-star levels.

Financial performance measures, which are prominent in the annual accounts, were unsurprisingly the most popular measures used to assess performance 91% (122) of the respondents used profit as a financial measure, while 71% (95) used turnover as a financial measure. Operating profit margin, return on investment, asset turnover, sales and earnings per share were also used to determine data from the annual accounts. Other measures such as occupancy rates and percentage of customer complaints were more likely to be used by the international chains than the national chains and the independent properties. This is typical of the more comprehensive approach to performance measurement that is undertaken by the international operators as was evident by this phase of the research.
A number of operational indicators were measured and it is possible to see that 61% (11) of the national chains used percentage of complaints to total number of customers to measure complaints. Twenty percent (19) of independent hotel owners used the same measure, as did 65% (15) of international chains. Likewise with occupancy rates, 55% (10) of the national chains used this measure, 72% (67) of the independent hotel operators used this measure and 100% (23) of the international chain operators make use of this measure. Cash flow was measured in 83% (19) of the international chain operations, while 39% (36) of the independent hotel operators and 39% (7) of the national chain operators measured this variable.

Almost all respondents used some measure of comparison with competitors with past performance, standard of property and product being the most popular measures. However, this was the simplest type of benchmarking and as many respondents cited difficulties in obtaining peer group data a more comprehensive approach appears difficult. Ninety-eight percent of hotel operators measure customer satisfaction, primarily using number of complaints as a percentage of total complaints as a measure. Comment cards emerged as the most popular choice for collecting customer information and were used by 80% of all respondents.

Dimensions such as employee performance, measurement of efficiency and effectiveness and creativity and innovation were measured by some but not all of the respondents. Specific aspects of performance such as brand management, revenue management, value enhancements and training were measured to some degree; however, the measurement of these aspects of performance was limited. This is unsurprising as these dimensions are more difficult to measure, lack easy to use recognisable tools for measurement and require time to carry out the measurement process.

Overall, it was clear from the analysis of the questionnaires that the emphasis of performance measurement in Irish hotels is very much on tangible, measurable areas of performance, most of which are prepared by financial staff. This suggests that the information collected is primarily used for reporting purposes and with the exception of the international chains; little information is collected for a full strategic evaluation.

**Overview of focus group findings**

The next phase of the research involved three focus group interviews were held with 29 operators of independent hotel properties. Included in the sample were 9 Owners (O), 8 General Managers (GM), 8 Duty Managers (DM) and 4 Human Resource Managers (HRM). These people represent a diverse range of small and medium-sized hotels. The organisations chosen for this phase of the study were approached at a networking event for the hotel industry; both the researcher and the hotel operators were members of this group. The researcher was afforded the opportunity to comment on the research being carried out and ask potential participants who carried out performance measurement in their organisations to volunteer for the focus group interview stage of the research.
The focus groups involved twenty-nine managers from small and medium-sized independently operated hotels. The initial discussion opened with the participants providing an overview of their thoughts on performance measurement. It is apparent from this phase of the research that the level of understanding of performance measurement and the rationale for using performance measures is wide ranging among this group. For example one participant suggested that “performance measurement was an ongoing process necessary in any organisation” and another participant perceived that “performance measurement leads to an evaluation, to assess to what extent outputs are being achieved.”

Participants proposed a number of reasons for using performance measurement, which, not unexpectedly included the need for a better picture of the performance of the operation and the provision of information to assess all facets of operations. The discussion showed a perception of the value of performance measurement in comparing performance with industry averages which helps businesses set targets that are realistic and achievable. Participants indicated that performance measurement in general seems to be driven from the finance department or from investors with a keen interest in financial performance. For example, one participant indicated that “finance is seen as the responsibility of the financial controller, who often works in isolation of operations and marketing and additionally, staff operating individual departments do not appear to have much appreciation of what to expect in the greater scheme of things”.

As regards additional measurement, the focus group participants felt that dimensions that proved difficult in information gathering, such as, market share and benchmarking are not suitable for the smaller hotels as the time and resources required to collect and evaluate information of this calibre is problematic. For example, one participant noted that, “in the smaller hotels, there is not the time or the resources for training for measurement in any other areas”. In addition, another participant indicated that difficulties in performance measurement “often seem to stem from poor skills and a lack of knowledge of processes”.

It is clear from this phase of the research that there are a number of issues and challenges facing the management of independently owned hotels in relation to the use of performance measurement. Although the somewhat simplistic approach to performance measurement identified by this phase of the research may be appropriate for some hotel operations, this simplicity is not the result of a well-considered approach to performance measurement. Indeed, the research highlighted poor management, a lack of knowledge of the process and poor administration as key factors in deciding what is measured and what is not measured, rather than a careful process of identifying strategy and critical success factors and that this was considered by participants to be a consequence of “poor administration in the industry, financial dyslexia, resistance to learning - linked to fear and dearth of knowledge about aspects of performance other than financial performance”.
Overview of the In-depth Interview Findings

The organisations chosen for this phase of the study were approached at a networking event for the hotel industry similar to the focus group interview format; both the researcher and the hotel operators were members of this group. The researcher was afforded the opportunity to comment on the research being carried out and ask potential participants who carried out performance measurement in their organisations to volunteer for the in-depth interview stage of the research. Initially, ten hotel operators indicated interest in participating, two were rejected as international chains employed them and one was the manager of a national chain. Two subsequently deselected themselves because of time commitments, leaving five hotels to be included in this research.

The approach to performance measurement within the five hotels interviewed for this phase of the research ranged from an informal hands-on approach to one that can be considered to be very structured and formal where each hotel differs in the formality of its measurement and or the focus of its measurement process as can be seen from table 2.

The research shows that those hotels that have a larger food and beverage business have a more formalised process of performance measurement. Although each of the hotels appear to be small in terms of rooms, three of the hotels have a very large food and beverage business and it would appear that performance measurement in these hotels is more formal because of this. This is because food and beverage is one of the most difficult departments to manage in terms of cost, staffing and customer satisfaction. Therefore, the hotels need a number of measures to help evaluate the effectiveness of operations in this area. Where performance measurement had been identified as being more formal, the focus of performance measurement was on a limited number of dimensions, with an emphasis, once again on the financial dimension perceived necessary by all hotel operators. In terms of the measurement of other performance dimensions; the non-financial performance dimension that was most often measured was customer satisfaction.

Finally, this phase of the research established a number of critical success factors that are common to all the hotels, such as, customer satisfaction, employees, quality of the hotel product, quality of the infrastructure, and owner managed which can be incorporated into a structured framework or model to guide performance measurement.

The findings of the in-depth interviews suggest that the management of these hotels select dimensions for measurement that directly represent their operations and the degree of their involvement in the running of the business. Those that are more hands-on and involved on a day-to-day basis appear to rely on less performance measurement techniques than the hotels that have larger hierarchical structures. Once again, size, in particular, along with the complexity of the operation, dictates the amount and type of performance measures being used.
Emerging Themes

The analysis of the results of the three phases of the research leads to the identification of three themes that are common across the three phases of the research. These themes are; a lack of balance in performance measurement, the size of the business and a commonality of critical success factors.

A Lack of Balance in Performance Measurement

The first theme to emerge is that the independent hotel operators in this research prioritise the measurement of the financial dimension of performance. The research results indicate that many hotels use a considerable number of performance measures, however, these are predominantly financial in nature. This is not an unexpected finding as it reflects existing knowledge about performance measurement in organisations which indicates that hotel operators place an importance on measuring the financial aspect of their business but do not measure any other dimension in any detail. This reflects the work of O’Connor (2000); Artley and Stroh (2001a; 2001b); Kellen (2003); Kennerley and Neely (2003); Anderson and McAdam (2005) and Haktinir and Harris (2005) who have all argued that financial measures were most frequently used because of the ease of usage, the provision of instant information and easy to evaluate and track past performance.

It is evident from the research that independent hotel operators are not linking performance measurement with strategic management; therefore, it is likely that the links between the organisation’s goals, strategy, objectives and performance measurement are not being made or implemented. This is an issue for the effective management of operations in light of the challenges facing the industry and is of major importance to an organisation’s survival. This lack of strategic evaluation is a consequence of the limited number of performance dimensions that are measured by the operators. This reflects the work of Fitzgerald et al., (1991); Atkinson and Brander-Brown (2001); Doran et al., (2002); Ittner and Lareckar (2003); Kellen (2003); Neely (2004); Evans (2005); Flanagan (2005) and Meekings (2005) and shows that in many instances organisations do not have a balanced approach to measurement because this is perceived to be too difficult.

The three phases of the research showed that Financial Controllers are predominantly responsible for making decisions about the dimensions measured and these decision-makers are likely to emphasise measures which help them in their work, hence the focus on the financial dimension of measurement. The need for a balanced approach to performance measurement that has been highlighted by the work of Eccles (1998); O’Connor (2000); Neely and Bourne (2000); Neely et al., (2005); Kellen (2003); Yeniyurt (2003); Kaplan and Norton, (1992; 1996a; 1996b; 2001a; 2001b; 2004) and Haktanir and Harris (2005) appears to have been rejected by these hotel operators as is evident from the reasons outlined in the primary research.

Finally, participants in the research highlighted a lack of appropriate performance measurement systems for hotels. Focus group participants felt that the biggest difficulty they experienced in
measuring performance was a lack of tools or models they felt applicable to their hotels. In phase three of the research, a number of respondents indicated that they would put measures in place when the size and the performance of the business warranted it or if there was a suitable model or guidelines for the small and medium-sized hotel operator to follow.

The discussion above suggests that there is the potential to increase the use of more complex measures to provide a more balanced approach, but more importantly there is an apparent need for the development of a performance measurement process that is appropriate for this industry.

**Size of the Business**

The research shows that the hotels that participated in the study consider the measurement of financial performance to be critical to their business success and development. However, the research also suggests that adopting a more holistic approach that includes measuring non-financial performance is dependent on the size of the operation. As established by phase one of the research, the larger chain hotels, both national and international take a more formal approach to measurement of performance in all areas which can be attributed to a larger operation, the nature of the business in terms of bars, food and beverage restaurants, banqueting and conferencing, a more formalised management structure and in some cases the requirement to deliver on regular performance reports by the Financial Controllers and Accountants.

These findings are consistent across the three phases of the primary research and it is clear that because of the limited size of the independent hotels, managers and owners feel that their focus on a small number of measures is adequate as they provide the information the managers need to manage the business. This is consistent with the work of O’Connor (2000); Artley and Stroh (2001a; 2001b); Kellen (2003); Kennerley and Neely (2003); Anderson and McAdam (2005) and Haktinir and Harris (2005) who have all argued that financial measures were most frequently used because of the ease of usage, the provision of instant information and easy to evaluate and track past performance. However, this laissez-faire approach will limit the possibility of identifying and responding to threats from the external environment.

**Critical Success Factors**

The final theme to emerge from the research is the commonality of a number of critical success factors that are perceived to affect the performance of small and medium-sized hotels. Although it was evident from phases two and three of the research that some critical success factors were unique to each operation, the research identified the following four critical success factors as being common to small and medium-sized hotels. The first critical success factor is the quality of the infrastructure and products of the hotel. The second critical success factor is the location of the property, the third critical success factor is the high rate of customer care and satisfaction that the establishment provides and the fourth critical success factor is the staff providing the products and services of the hotel. These critical
success factors reflect the existing research work of Bergin (2002; 2003); Flanagan (2005); Phillips and Louvieris (2005); Olsen et al., (2005); O'Donoghue and Luby (2006); Kandampully (2006) and Kobjoll (2007).

**A Structured Model of Performance Measurement for Hotels**

As a result of the research set out in this paper, it is possible to propose a series of structured models of performance measurement that, if adopted, will lead to the development of a structured and balanced approach to performance measurement in hotels. From the findings of the research it is clear that small and medium-sized independently owned hotels in Ireland need to further develop their practices in performance measurement in order to manage effectively in the changing operating context. The research of Atkinson and Brander-Brown (2001) has shown that an approach to performance measurement that measures the dimensions of employees, customers and finance has been successful in small and medium-sized hotels in the United States thus; these dimensions form the basis of measurement in all three models. Finally, the critical success factors presented in the following models draw on the commonalities that were identified in the primary research.

The primary research shows clearly that smaller hotels need a simplistic, yet structured approach to performance measurement. The model set out in figure 1 is considered appropriate for a small hotel to consider at the preliminary stage in introducing a structured approach to performance measurement. This can be considered phase 1 of a structured approach to managing and measuring performance. It takes account of the factors set out above which are considered to be an essential part of performance measurement in all hotels and also proposes measurement in a small number of performance dimensions, as appropriate. The primary research and the work of Phillips and Louvieris (2005) and Bergin-Seers and Jago (2006) indicate that the dimensions suggested in figure 1 are important.

In addition, a performance measurement framework should have an internal and external monitoring system (Biticti et al., 2002; 2005; 2006; Kennerley and Neely, 2003). Therefore, the measurement of the external environment is considered through the *competitive environment dimension* proposed in this model, while the internal environment is inherent in a number of the other dimensions. A review of performance necessary to match performance with strategic intent is considered through the measurement and feedback of information to inform future direction.

Following the successful implementation of figure 1, figure 2 includes the additional performance dimensions of quality of service and the external environment, which were incorporated within other dimensions in the model suggested for introducing the concept of performance management and measurement. This reflects the work of Neely et al., (2005); Harrington and Lenehan (1998); and Robinson (2003). This is recommended as phase 2 of a structured approach to performance management and measurement.
As hotels become experienced in managing and measuring performance there is a need to expand the dimensions being measured. Therefore, in addition to the dimensions proposed in figures 1 and 2, figure 3 introduces the additional performance dimensions of organisational learning, innovation and creativity. The inclusion of these dimensions in the model is based primarily on the research of Lynch and Cross (1990); Kaplan and Norton (1992; 1993; 1996:a; 1996:b; 1996:c); Brown (1996); Kanji and Sa (2002); Neely et al., (2002); Marr and Schiuma (2003); Sucheshchander and Leisten (2005); Folen and Browne (2005) and Folen et al., (2005; 2006) who suggest that these performance dimensions are important to any organisation regardless of their operating context and industry sector and that organisations can benefit from measuring performance in these areas. This is recommended as phase 3 of a structured approach to performance management and measurement.

In the models set out above the most popular measures established by this research have been presented, while others are proposed as they close gaps in measurement identified in the research. In particular, it was evident from the research that small and medium-sized hotels lack non-financial dimensions in their measurement activities and, therefore, these are included in the models in order to provide a balanced approach to performance measurement.

It is important to note that choosing to adopt one of the structured models does not mean that the other models are necessarily unsuitable for a particular hotel. If a hotel is not using a balance of dimensions and measures, they may choose to start with the structured model proposed in figure 1, however, depending on management skills and resources, they may choose to introduce the structured model set out in figure 2. However, the research has shown that choosing too many dimensions or measures poses challenges that may prevent an organisation from successfully implementing a balance of dimensions (Rutherford, 1998; Goulian and Mersereau, 2000; Atkinson and Brander-Brown, 2001; Amaratunga et al., 2001; Artley and Stroh, 2001:a; 200:b; Ittner and Larcker, 2003; Kaplan and Norton, 2004; Neely, 2004) and thus the structured model in figure 1 is considered to be adequate and appropriate for an initial introduction of a performance measurement programme, then move to the integration of the more complex structured models once the hotel operator is comfortable with the performance measurement process. This phased approach is recommended.

References


# Tables and Figures

## Table 1: Performance Measurement Frameworks

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<td>Results and Determinants Framework (Fitzgerald et al., 1991; 1996; 2006)</td>
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</tr>
<tr>
<td>Six-Sigma (Ramakrishnan, 1999; Keegan, 1995; Robustelli and Killman, 2002; Hoerl and Snee, 2002; James, 2005)</td>
<td>Defects from Performance, Quality and Service</td>
</tr>
<tr>
<td>SME Performance Measurement Framework (Hudson et al., 2001)</td>
<td>Finance and Operations</td>
</tr>
<tr>
<td>Total Quality Management (TQM) (McAdam and Bannister, 2001)</td>
<td>Quality Teams, Checks and Procedures.</td>
</tr>
<tr>
<td>Performance Prism (Neely et al., 2002)</td>
<td>Stakeholders Satisfaction, Strategies, Processes, Capabilities, Stakeholder Contribution</td>
</tr>
<tr>
<td>Holistic Balanced Scorecard (Sucheschander and Leisten, 2005)</td>
<td>Financial, Customer, Business Processes, Social, Intellectual Capital and Employees</td>
</tr>
</tbody>
</table>

*Source: Adapted from Folan and Browne (2005); Folen, Jagdev and Browne (2005; 2007) and Folen, Higgins and Browne (2006).*
### Table 2: Approaches to Performance Measurement

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Approach to Measurement</th>
<th>Focus of Measurement Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel V</td>
<td>Semi-Formal</td>
<td>Customer Focused</td>
</tr>
<tr>
<td>Hotel W</td>
<td>Formal</td>
<td>Customer Focused</td>
</tr>
<tr>
<td>Hotel X</td>
<td>Informal</td>
<td>Customer Focused</td>
</tr>
<tr>
<td>Hotel Y</td>
<td>Formal</td>
<td>Balanced in terms of dimensions but with the financial dimension attracting the most measures</td>
</tr>
<tr>
<td>Hotel Z</td>
<td>Formal / limited</td>
<td>Competitor</td>
</tr>
</tbody>
</table>
Figure 1: A Structured Model of Performance Measurement: Phase 1

Critical Success Factors
- Location
- Employees
- Management
- Quality of Products, Service and Infrastructure
- Awards/Affiliations
- Profitability

The Competitive Environment
- Benchmarking Visits of Competitors
- Price/profit/Cost Comparisons
- Product and Service Comparisons
- Analysis of Industry Reports
- Analysis of Industry Trends
- Mystery Shopping Comparisons

Performance Dimensions

Operational Performance
- Wage Percentage
- Labour/Food/Beverage Costs
- Occupancy %
- REVPAR / REVPAS
- Average Room Rates
- Budget Variances
- Waste Management Measures

Customer Satisfaction and Quality
- Management Observation
- Comment Cards
- Mystery Shop
- Loyalty Programmes
- Repeat Customer Visits
- Guest Opinion Surveys
- SOP's for Quality Audits

Employee Performance Measures
- Appraisals
- Quality Employee Awards
- Performance Targets
- SOP’s
- Checklists
- Productivity
- Training Evaluation Questionnaires

Financial Performance
- Operating Profit Margins
- Gross / Net Profit
- ROCE / ROI
- Expenses to Sales Ratios
- Interest Cover
- Expenses as a % of Total Costs
- Turnover
- Operating Ratios
- Cash Flow Analysis
Figure 2: A Structured Model of Performance Measurement: Phase 2

Operational Performance
- Wage Percentage
- Labour/Food/Beverage Costs
- Occupancy %
- REVPAR / REVPA
- Average Room Rates
- Budget Variances
- Sales Growth
- Average length of stay
- Waste Management Measures

Critical Success Factors
- Location
- Employees
- Management
- Quality of Products, Service and Infrastructure
- Awards/Affiliations
- Profitability

The Competitive Environment
- Benchmarking Visits of Competitors
- Price/profit/Cost Comparisons
- Product and Service Comparisons
- Analysis of Industry Reports
- Analysis of Industry Trends
- Mystery Shopping Comparisons
- Market Share

Service Quality
- Management Observation
- Comment Cards
- Ireland’s Best Service Excellence
- Repeat Customer %
- Increase % of New Customers
- Star Rating Assessment
- Quality Audits

External Environment
- STEEP Factors
- Benchmarking
- Industry Reports
- Analysis of Trends

Financial Performance
- Operating Profit Margins
- Gross / Net Profit
- ROCE / ROI
- Expenses to Sales Ratios
- Interest Cover
- Expenses as a % of Total Costs
- Turnover
- Operational Ratios
- Cash Flow Analysis

Performance Dimensions

Employee Performance Measures
- Appraisals
- Quality Employee Awards
- Performance Targets
- SOP’s
- Checklists
- Productivity
- Turnover % / Absenteeism %
- Training Evaluation Questionnaires

Customer Satisfaction
- Management Observation
- Comment Cards
- Mystery Shopping
- Repeat Customer %
- Increase % of New Customers
- Word of Mouth Referrals
- Customer Profiling
- Loyalty Programmes
- Guest Opinion Surveys
Figure 3: A Structured Model of Performance Measurement: Phase 3

**Organisational Learning**
- Quality Circles
- Force Field Analysis
- ROI
- Pilot Studies
- Increased Market Share
- Repeat Business %
- Operational Measures

**Critical Success Factors**
- Location
- Employees
- Management
- Quality of Products, Service and Infrastructure
- Awards/Affiliations
- Profitability

**The Competitive Environment**
- Benchmarking Visits of Competitors
- Price/profit/Cost Comparisons
- Product and Service Comparisons
- Analysis of Industry Reports
- Analysis of Industry Trends
- Mystery Shopping Comparisons
- Market Share

**Customer Satisfaction**
- Comment Cards
- Management Observation
- Guest Opinion Surveys
- Focus Groups
- Mystery Shop
- Loyalty Programmes

**Employee Performance Measures**
- Appraisals
- Quality Employee Awards
- Performance Targets
- SOP’s
- Checklists
- Productivity/Profitability
- Return on Training Expenses (ROI)
- Operational Measures
- Training Evaluation Questionnaires

**The External Environment**
- Steep Factor
- Benchmarking
- Industry Reports
- Analysis of Trends

**Performance Dimensions**
- Wage Percentage
- Labour/Food/Beverage Costs
- Occupancy %
- REVPAR / REVPAR
- Average Room Rates
- Budget Variances
- Operating Margins
- Revenue Management Measures
- Waste Management Measures

**Service Quality**
- Ireland’s Best
- Excellence Ireland
- Optimus
- Mystery Shop
- Comment Cards
- Quality Audits

**Financial**
- Operating Profit Margins
- Gross / Net Profit
- ROCE / ROI
- Expenses to Sales Ratios
- Interest Cover / Gearing
- Expenses as a % of Total Costs
- Turnover
- Operational Ratios
- Cash Flow Analysis

**Innovation and Creativity**
- Focus Groups
- Organisational Growth
- Number of new products to market
- Success of projects to market
- Service Initiatives
- New product development processes
- Number of new markets tapped
- Performance of individual innovations
- Comparisons with Competitors
- Additional total income per head
- Increased percentage of customers