# Performance Measurement in Hotel Industry – Review of Literature

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*Abstract:*  The VUCA (Volatile, Uncertain, Complex and Ambiguous) business environment with changing circumstances and numerous stakeholders' expectations is pressurizing hotels to make more determined efforts towards satisfying different customer groups. Performance measurement has become a significant tool in preparing the business strategy and it guides the hotels to determine their position on the demanding tourism market. The purpose of this paper is to review literature on the development of hotel performance measurement practices. It also aims at providing an overview of the current research in the field of hotel accounting and segment reporting. The review provides insights into the problems of performance measurement and its implementation by hotel management.

*IndexTerms* - **Hotel Management, Performance Measurement, Segment Reporting.**

## I. INTRODUCTION

Thanks to the increasingly competitive environment, performance measurement is of great significance. The approach to performance measurement enables the management to take decisions appropriate for the hotel industry and enhanced performances of the organization. Information required for decision making lies in the domain of the management accounting system (MAS), which has to be properly developed and organized. Beyond doubt, the MAS differ substantially in the hotel industry as compared to other industries. Hotel organizations have unique characteristics of their operations, as they bring together many activities that are essential for guest (customer) satisfaction (Ivankovič & Jerman, 2011). It is quite well known that value is of great significance for guests and employees in the hotel industry. The choice of an appropriate performance measurement system is nowadays the most important challenge in the hotel industry. At the same time, exaggerated performance measurement systems are problematic as hotels want to quantify almost everything. Thus, the present challenge is not to find out what can be measured, but what should be actually measured. Performance measurement helps in the execution of a goal-oriented strategy. It is an important aspect of management based on value used to ascertain the value of the hotel for the owners and to meet the interests of other stakeholders. Further, performance measurement is a crucial component of the human resources management function, as well as an integral part of management reward and promotion.

This article reviews contemporary literature on  performance management systems employed by the hotel industry. It also briefly reviews literature on segment reporting practices that are being adopted by the hotels.

## II. LITERATURE REVIEW

Strategic management accounting emphasizes market share, value added for guests, and long- term strategic budgets or long-term strategy. Since the efficiency and effectiveness of a company is linked with its capability to achieve the goals, its performance cannot be left to random forces, but it has to be well-planned. For a successful business performance, well directed business operations should be performed. In order to achieve this, management needs to be equipped with high-quality information, which is in the purview of budgeting. Continuous budgeting provide information about variances between planned and realized categories. (Ivankovič & Jerman, 2011).

Uyar and Bilgin (2011) state that organizations use budgets for different reasons. Some of the most prominent advantages of budgeting are assisting in profit maximization, forecasting the future, pricing decisions, performance evaluation *etc*. All together with USALI, Activity Based Costing, Balanced Scorecard and Revenue Management in function of benchmarking, budgeting indicates a robust process of Performance Measurement.

The business environment in the hotel industry reflects constantly changing circumstances and fierce competition. Each hotel is in a direct or an indirect competition with every other hotel. Strong competition forces management to try to get closer to their guests expectations, as it is the only way to achieve success (Ivankovič *et al.*, 2009).

Performance Measurement as a tool of management accounting in the decision-making process became  popular in the 1990s by both academics and practitioners (Atkinson, 2006; Haktanir, 2006; Neely *et al.*, 2000). Pnevmatikoudi and Stavrinoudis (2016) noticed that many authors consider that the concept of performance is of great importance for the business strategy of an organization, its competitive position, and economic sustainability in the long-term. They also mention that "performance and its measurement are the key success factors for every tourism enterprise." As stated by Bourne *et al.* (2003), there was a lack

of clarity of definitions about performance measurement. In his paper, Haktanir (2006) posited the following definition from Neely *et al* (1995):"Performance Measurement is the process of quantifying actions, where measurement is the process of quantification and action leads to performance."

With the rapid growth in international travel and therefore, increasing demand of hospitality businesses, performance measurement in the hospitality industry has gained particular significance as a tool for effective decision-making (Haktanir, 2006).

Traditional performance measurement measures have been strongly oriented to financial performance. This approach has number of shortcomings such as being short-term, lacking balance and strategic focus, lacking customers approach, performing of competition *etc*. (Atkinson and Brander Brown 2001; Haktanir 2006; Atkinson, 2006; Ivankovič *et al.* 2010), and were strongly criticized for providing only a restricted perspective on the performance of the company. As hotel industry is person-oriented industry, non-financial indicators of performance measurement are also important. They are important supplements to financial performance measures as they can be expected to provide information that would improve the financial support and outcome and monitor the long-term initiatives (Haktanir, 2006). Atkinson and Brander Brown (2001) highlight the growing recognition in the hotel industry of the significance and value of people, both employees as well as guests. Therefore, the financial and economic success of a hotel depends on the behavior and attitude of employees, development of new services and products as well as customer satisfaction.

Hotel General and Department Managers should recognize equal importance of the goals of all stakeholders and not just only of their shareholders. The achievement of objectives of all stakeholders (employees, guests, community, strategic partners *etc.*) can be assessed by both financial and non-financial metrics (Ivankovič *et al.*, 2010).

**Summarized review of some of the recent articles in this regard is given in Table 1 below:**

**Table 1 – Summary of articles on Hotel Performance Measurement Systems**

| Author(s) | Article | Key findings |
|---|---|---|
| Pnevmatikoudi, K., Stavrinoudis, T. | Classification of hotel performance measurement indicators presented in international scientific research (2016) | The paper provides an overview of performance measurement indicators used by researchers and their classification. The main aim of the article is to provide both academicians and hotel management with higher clarity in understanding of the indicators, and also to have an effect on their efficient use. |
| Sainaghi, R. | Hotel performance: state of the art (2010) | This paper evaluates literature in order to provide answers on how the success of a hotel business is assessed and what factors impact performances. The analysis shows the growing importance of the Balanced Score Card as a satisfactory Performance Measurement system. |
| Zigan, K., Zeglat, D. | Intangible resources in performance measurement systems of the hotel Industry (2010) | The purpose of this research was to clarify the importance and understanding of intangible resources for the hotel industry and to highlight the need for applying and development performance measurement systems that include this type of resources as well as the requirement for hotel managers to use them in their organizations. |
| Ivankovič, G., Janković, S., Peršić, M. | Framework for performance measurement in hospitality industry – case study Slovenia (2010) | The study was carried out on the sample of Slovenian hotels with more than 100 rooms. The results showed that most hotels have poor economic performance, which is the result of inadequately developed performance measurement system. |

| Author(s) | Article | Key findings |
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| Haktanir, M. | Performance measurement in independent hotels (2006) | In this research paper, the author investigated PM practice of independent hotels in Northern Cyprus. He divided these hotels into two groups, remotely owned and owned managed. The findings indicated that PM in independent hotels was influenced by various factors. For example, the degree of owner's involvement in business process restricted the flow of information and limited the involvement of managers and employees, which affects the way management operated and PM took place |
| Atkinson, H. | Performance measurement in the international hospitality industry (2006) | This article provides an insight into performance measurement in hospitality industry according to previous literature, reviews the weaknesses of traditional performance measurement and proposes areas for further research. It highlights the importance of combining financial metrics with non-financial metrics. |
| Bourne, M., Neely, A. | Implementing performance measurement systems: a literature review (2003) | The authors analyzed different PMS design processes published in the literature and created the framework for comparing the alternative approaches. There are many companies interested in implementation of Balanced Score Card, but the attempts are generally not successful. The aim of the paper was to contribute to better understanding of the factors which impacted the success or failure of performance measurement initiatives by reviewing the literature. |
| Avelini Holjevac, I., Maškarin, H. | Performance management and measurement in the hotel industry – Case study of Croatia (2003) | There is a growing interest among hotel managers to change the way of measuring the business performance. Anyway, there is a difference between managers' opinions on what defines their success and what they in fact measure, and the difference in understanding between managers in different domains of the importance of particular indicators to overall success. The research was conducted on a sample of Croatian hotels and different domain managers. Conceptual framework for measuring performance was provided. |
| Atkinson, H., Brander Brown, J. | Rethinking performance measures: assessing progress in UK hotels (2001) | The authors explored the attitudes of UK hotels using performance measurement. They are focused on short term, very traditional and that can cause to overlooking some important issues. The understanding is that hotels measure wrong things. Potential developments were given, and the development of a balanced range of performance measures was |

| Author(s) | Article | Key findings |
|---|---|---|
| | | one of the most important task. Identification of Critical Success Factors (CSF) can also be crucial for hotels performance measurement. |

The fundamental idea behind responsibility accounting information systems is that each manager's performance should be assessed on the basis of how well they manage the items under their control. Segment reporting, a dimension of responsibility accounting personalizes the accounting information, by looking at revenues and costs from a personal control standpoint. For management in hotel organizations, each manager is assigned responsibility for the items of costs and revenues under their control, and for variances between budgeted goals and actual results (Peršić *et al.*, 2012). The basic accounting system in hospitality industry in the US is Uniform System of Accounts for the Lodging Industry (USALI). USALI has had a long history since its first version was established way back in 1926 by the Hotel Association of New York City. The aim was the attempt of definition and creation of one unique standard for internal reporting in Hospitality Industry, as per to the growing interest in benchmarking between hotels. It represented the first successful organized effort to set up a uniform responsibility accounting system for the hotel industry and in fact one of the first such efforts in any industry (Janković *et al.*, CPA 2012).

Guilding (2014) has quoted the following key benefits of using this system:

◆ it represents an "off the shelf" accounting system that can be used by any business in the hotel industry,

◆ the system can be considered as "state of the art" as it benefits from the accumulated experience   of the parties that have contributed to the system's development over large number of years,

◆ by promoting a consistent account classification scheme as well as consistent presentation of performance reports, it facilitated comparison across hotels,

◆ it represented a common point of reference for hotels within the same hotel group.

It enabled the evaluation of the performance of departmental managers based on costs and revenues within their control. The departmental statements of income provide some of the most crucial internal sources of information for hotel managers (Janković *et al.*, 2012).

## III. CONCLUSION

There is abundant empirical and theoretical literature dealing with the topic of the Performance Measurement (PM) in hotels. These papers provide both practical research and theoretical background. The review of the relevant literature provides the findings that measuring of the hotel performance is a highly comprehensive process. A significant thing is that, if hotel managers desire of having useful information from Performance Measurement to improve their business processes, all of these methods should be integrally used. And above all, budgeting processes must be effective enough in order to provide the desired effects. It has been stated that costing in a hotel, which is based only on partial costs and the USALI method of the US, is insufficient according to new demands. Traditional costing methods are also inadequate. It is recommended to complement a method like the USALI with modern methods of costing, like activity based costing method because this method computes full costs of performance and provides the basis for controlling and managing overhead costs. Performance measurement has become a very significant tool for Revenue Management and the needed KPIs are provided in a system like USALI. Revenue Management is also significant as a tool for the benchmarking process, which showcases a hotel's success compared to its competition. Having this in mind, it is crucial to raise the awareness of hotel managers about the advantages of using modern performance management system, which could help them achieve competitive advantage and long-term business success.

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