

# Performance Measurement System Approaches In Hotel Industry: A Comparative Study

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**Abstract-** Performance Measurement is a critical tool for organizations in order to achieve their goals and objectives. Historically, PM has been developed as a means of monitoring and controlling organizational power, to achieve overall goals and objectives of the organization. Moreover, Performance Measurement is essential for the decision-making process of an organization. Organization's performance measures are related to its strategic mission and its competitive situation. A parallel investigation of the contemporary PM approaches shows the Tableau de Bord is originated in France which means that this model is highly influenced by French culture, which may reduce the chances of success for implantation Tableau de Bord by non-French companies due to the difference in culture. According to Bullen and Rockart, 1981 Critical Success Factors approaches need more information that obtained by interview, so it time-consuming and depend on the subjectivity of managers in determining the Critical Success Factors. The Performance Pyramid approaches are designed and focusing manufacturing industry, thus, there may be obstacles in its application by the service sector, such as hotels, due to the difference in the nature of work between the industrial sector and the service sector. Results and Determinants Framework approaches have been developed for service industries, but there is no clear evidence that the Results and Determinants approach balance between the performance dimensions in it. Balance Scorecard approach showed that a shortage in the measurement of human resources practice, employee satisfaction, supplier performance, product/service quality, environmental perspective (Maisel, 1992; Lingle and Schieman, 1996, Brown, 1996). Moreover, this approach has become extreme to the manufacturing sector, but also it is suitable to use by other sectors like service. For developing effective performance measures, managers must concentrate on marketing, guest satisfaction, employee morale, and staff development. In addition the hotel managers should include these dimensions of performance in their balance scorecards, with emphasis on the importance of the participation of all hotel employees in implementing balance scorecards.

**Keywords:** performance measurement, Hotel, Performance Pyramid, Balanced Scorecard, Tableau de Bord.

## 1 Introduction:

Performance Measurement (PM) system has been produced to control the organization. Performance Measurement is an essential tool for organizations in order to realize their goals and objectives. Nanni et al., (1990) showed that Performance measurement systems historically has been developed as a mechanism of monitoring and keeping organizational control, to achieve overall goals and objectives of the company. Moreover, Performance Measurement is critical for the decision-making process of the organization. Organization's performance measures are associated with its strategic mission and its competitive circumstances. For effective PM, managers must focus on features for example, non-financial as well as financial aspects. They have to combine the collection of measures.

The aim of this paper is;

- Define the Performance Measurement,
- Comparative the changes in the PM concept
- Discuss the PM approaches
- Finally, make appropriate suggestions for practitioner.

## 2 Performance Measurement:

The literature defines performance measurement (PM) is "the method of quantifying activities, where estimation is the process of quantification and performance effects to performance", moreover, performance measurement defined as the capableness and efficiency of performance that measured of quantify the efficiency and /or effectiveness of an activity, and as the set of measured related to quantify both the capableness and effectiveness of performances (Nelly et al 1995 p.80).

Geanuracos and Meiklejohn (1993) state that "performance measurement is an updated matter"; which that means it is very essential for the organization across the world; the differences depended on what they are measuring". Simons (1995) has recently defined control systems and performance measurement as "the set, information-based methods, and systems, managers use to control or develop models in organizational activities". Horngren, Datar, et al (2003) stated that "measuring performance is a necessary component of any management control system. Performance measures (both financial and non-financial) and rewards must motivate managers and employees at all levels to attempt to gain company goals and objectives". Many performance measures rely on internal financial information. Traditionally information is given from the end results of operations. In the past decade, financial measures of performance were examined that it was short-termism (Doyle, 1994; Wilson and Chua, 1993). Moreover, the analysis of traditional PM systems is from their failure to measure and control various dimensions, by focusing nearly solely on financial measures. Therefore, the dissatisfaction with traditional PM systems, a number of PM models have been developed in the last decade such as Tableau de Bord, Critical Success Factors (Bullen and Rockart, 1981), The Performance Pyramid (Lynch and Cross, 1991), Performance Measurement System for Service Industries (PMSSI) (Fitzgerald, 1991), Balance Score Card (Kaplan and Norton, 1992).

## 3 PM Approaches:

Regarding PM approaches, there are many approaches that described performance measurement includes, Tableau de Bord, Critical Success Factors, The Performance Pyramid, Results and determinants Framework, and The Balanced Scorecard. Tableau de Bord approach is a management control system and requires three-dimensional communication between the managers and assistants and high communication between different

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levels of the organization. It is recommended for all organization to have their own table de bord as a control system which is the data required achieving organizational goals. Moreover, this approach is used in France (Haktanır, 2005). According to Bullen and Rockart, (1981) stated that Critical Success Factors (CSF) approaches start with classifying the goals of the company and design data systems and produce information record (Geller, 1985). On the other hand, the CSF approach is based on data acquired by interview. Hotel Information System focuses on performance measures. HIS requires operational and financial data, Marketing information, and Human resources. However, The downside of this system is information overload. The value of CSF for the organization and organization strategies is not required in the hotel information system approach. Secondly, all approaches focus on the utility of the information. In each system, information is needed to recognize what is going on at each step in the organization. Managers demand financial, operational, personnel and marketing information to analyzing reports and control behavior in order to make a decision. The Performance Pyramid approach is developed by Lynch and cross, (1991), and the strengths of this framework are the connection between the hierarchical structure of business performance measurement and the business process. The purpose of using performance measurement systems within a feedback context is to monitor organizational performance. The pyramid of financial ratios had a distinct hierarchical structure, linking measures at different organization levels. Furthermore, it is useful for production /manufacturing companies. Results and Determinants Framework model developed by Fitzgerald (1991). The model useful for Service Industry. The main strength of the results and determinants matrix is that it specifies, in fair detail, what the measures should look like and presents a useful development process. This approaches focuses on results such as financial performance, profitability, liquidity, capital structure, competitiveness relative market share, sales growth and determinants such as Quality of service-reliability, responsiveness, aesthetics, cleanliness, friendliness, communication, courtesy, competence, availability, delivery speed, efficiency and Innovation- Performance of process

and individual innovations. Balance Scorecard approaches developed by Kaplan and Norton (1992) explained that the management system through organizations should explicate their vision and strategy and put into practice and provide feedback and develop performance and results. Balance scorecard keeps firms looking for and moving forward. Balance scorecard recommends managers view the organization from four perspectives. These are learning and growth perspective, business process perspective, customer and financial perspective and minimize information overload. Innovation perspective is a development program and new product development is essential as well and this perspective focuses on culture employee attitude and satisfaction. The second perspective tries to satisfy shareholders and customers. This approach concentrated on the revenue side to create value for shareholders. Improve quality and reduce cost through the process are significant measures. The vision from the client perspective should satisfy customers. On the other hand, financial figures provide information about the firm but the challenge is to detect the linkage between operations and finance. The Balance Scorecard shows a lack of attention to the measurement of human resources, employee satisfaction, supplier performance, product/service quality, environmental perspective (Maisel, 1992; Lingle and Schieman, 1996, Brown, 1996). Moreover, this approach has become appropriate for the manufacturing sector. The Balance Score Card approach illustrates the organization vision and strategy in the long term and viewing the organization from four perspectives as Learning and growth perspective, business process perspective, customer and financial perspective. The preceding Paragraphs illustrate each of PM systems separately, but it worth to make comparison between each of them in order to find out which of the previous four approaches is more suitable to hotels. So table (1) shows the difference between PM Approaches from several aspects such as Balance between dimensions of performance, Participation (employees and managers) in developing the PMS framework, Type of sector which is more appropriate to use the framework, Subjectivity of managers in using the framework, Subjectivity of managers in using the framework, Linking Rewards to performance of employees or managers and lastly the usage of the approach.

**TABLE (1)**  
**Comparative Analysis of the PM Approaches**

PMS Approaches					
Type of comparisons between PMS frameworks	Tableau de Bord	Critical Success Factors	The Performance Pyramid	(PMSSI) Results and Determinants	The Balanced Scorecard
<i>Balance between dimensions of performance</i>	No effort to balance	Try to balance	The balance not clear	The balance not clear	The balance is integral part of this approach
<i>Participation (employees and managers) in developing the PMS framework</i>	only top management participate	Only managers participate	The managers and employees are participate	The managers and employees are participate	The managers and employees are participate
<i>Type of sector which is more appropriate to use the framework</i>	industry sector	All sector	industry sector	service sector	All sector
<i>Subjectivity of managers in using the framework</i>	high subjectivity of managers	high subjectivity of managers	Low subjectivity of managers	Low subjectivity of managers	There is no subjectivity of managers
<i>Linking Rewards to performance of employees or managers</i>	No clear link between rewards and performance	link the reward to performance of managers	link the reward to performance of employees and managers	link the reward to performance of employees and managers	link the reward to performance of employees and managers
<i>framework usage (Accountability or provide information)</i>	Just for provide information	Accountability for managers	Accountability for department	Accountability for the past performance	Used for accountability and provide information

Source: literature

#### 4 Traditional PM:

The traditional beliefs were looking to end financial results in order to understand the performance of the business. Therefore, traditional PM focuses on financial performance, with the primary objective of notifying external stakeholders of the position of the business. Practitioners have used more traditional performance measures such as occupancy percentages, profit indicators and return on investment. According to Nelly et al. (1995) epitomize traditional performance measurement systems as cost/efficiency, the trade-off between performances, profit-oriented, and short-term orientation. Moreover, traditional manufacturing businesses were "encourage short-term, encourage managers to reduce the differences from standard. In addition, Atkinson and Brown (2001) mentioned that UK hotels are still focusing on more traditional forms of performance measures and this measure establish relations with a number of weaknesses. Harris and Mongiello (2001) revealed that the traditional performance measurement "narrow, easily and quantifiable". Moreover, Emmanuel et al., 1990 claimed that the performance measures have lack of neutrality. In addition, Wilson and Chau, 1993 mentioned that the performance measurement is encouragement of short-termism. Eccles, 1991; Kaplan and Norton, 1992 showed that the performance measurement have lack of balance.

#### 5 Contemporary PM:

The disappointment with traditional PM, new innovative performance measurement systems have been developed in the last decade. Atkinson and Brown (2001) showed that managers were rethinking their performance measurement systems; thus, the aim of rethinking was empowering their organizations to be more effectively meet the inconstant demands and challenges of their competitive environment. The Critical Success Factors (CSF) provided a basis to find out the relationship with performance measures and management goals (Bullen and Rockart, 1981). Firstly, firms' goals must be put forward and have to be a strategy and what kind of information measures their performance. Building an effective information system is important for companies. Geller (1985) recognized the commonalities and variations among the hotel firms are CSFs. Moreover, the hotel firms need more marketing and human resources' figures rather than financial figures. According to Lynch and Cross, (1991), the Performance Pyramid provided a strategy where financial figures are evenly used with non-financial figures. However, it was designed for the manufacturing industry. Balance Scorecard approaches were focused on the vision, strategy, and competitive advantage and maintain organizations moving forward and help practitioner to understand the importance of interrelationships with organizations and provide a balance between external and internal measures (Kaplan and Norton, 1992). The differences in the developed of performance measurement system have been summarized regarding Neely et al., 1995 in table 2.

**TABLE (2)**

*The development of performance measurement systems.*

Traditional performance measurement systems	Innovative performance measurement systems
Based on cost/efficiency	Value-based
Comparison with standard	Improvement monitoring
Profit-oriented	Customer-oriented
Short-term orientation	Long-term orientation
Trade-off between performances	Performance compatibility
Prevalence of functional measures	Prevalence of transversal measures
Prevalence of individual measures	Prevalence of team measures
Aim at evaluating	Aim at evaluating and involving

*Source : Neely et al., 1995*

#### 6 Discussions and Result

According to Haktanir and Harris, (2005) mentioned that although "hospitality industry characteristics play a role in the development of accounting and control systems. Moreover, Kotas, (1975) mentioned that the discernible link between industry context and appropriate performance measurement". Haktanir and Harris, (2005) emphasized that there is a paucity number of studies into performance measurement practices in the service business in general and the hospitality industry. Atkinson and Brown, (2001) mentioned that UK hotel firms are still focusing on traditional performance measures. As a result, Atkinson and Brown, (2001) suggested that UK hotels must rethink about

using this traditional performance measurement. Moreover, they have continued to mention that US hotel firms use a triangular approach to performance measurement-linking and balancing measures, for employees, customers and financial performance. Kotas, (1973) emphasized that the service industry is "market-oriented" thus, the implementation of the business orientation concept in a service industry. Another suggestion is that managers must focus on the revenue of the business rather than the cost. Haktanir and Harris, (2005) emphasized that the understanding performance measurement practice of an independent hotel requires an understanding of the context of the business. Therefore, performance measurement

practice in an independent hotel shows that the most critical result is to gain an overall effect by the guests during their stay. Moreover, the total hotel product is received by customers. Thus, shift our attention in order to satisfy employees for performing better consequently to satisfy customers. For the managers' perspective, guest satisfaction is the main signs as the operational measures of success. In addition, the indicator of customer's satisfaction measures by feedback from customers. Moreover, there are several performance indicators such as verbal communication and guest comment cards between guest relations staff and customer. According to Harris and Mongiello (2001) recommended that the managers want to improve their business performance throughout human resources practice starting from training programs, and marketing practices starting from pricing, product, service, and sales strategy

### 7 Managerial implications and Conclusion:

The top management must focus on goals, vision, mission, plans, budget, and standards to achieve hotel goals. Moreover, Hotel management does not ignore non-financial aspects rather than financial aspects in terms of guest satisfaction and employee attitude for the success of hotel companies with designing an effective information system. In addition, the effective motivation factors to increase employee's job satisfaction, and positional effect the customer's satisfaction, and have to pay attention to customer satisfaction with overall service levels and give empowerment to their employee in terms of solving problems on time. Moreover, the management must encourage the guest relation to find out problems during service, therefore they can reconsideration strategies for better performance. Finally, management should create value with innovative activities to keep customers in the hotel to increase in-house sales. The performance measurement of a hotel requires an understanding of the natural of business in the hospitality industry. Moreover, the most critical issues in the hotel industry that the natural of the product. In addition, the total hotel product received by customers. Therefore, management and employee must effort to satisfy customers during their stay and as a result satisfying employee's leads to performing better consequently to satisfy customers. Moreover, Innovative activities are important elements in terms of measuring the success of the business. Because of the service characteristics, it is important to make decision on-time and the attitude of employee and the success of employees are a critical factor for achieving organizational goals.

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