In Search of Hospitality: Theoretical and Practical Issues in Performance Measurement and Management in Hotels

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Introduction

The purpose of this chapter is to outline the performance measurement and management (PMM) literature on hotels against the background of the generic literature in the same area. The context of hotels is very important, because they are situated within the economically important service sector. Tourism is a service industry of significant importance to the economies of both Ireland and England: -

> Tourism in England contributes £106 billion to the British economy (GDP) when direct and indirect impacts are taken into account, supporting 2.6 million jobs. When only direct impacts are taken into account (i.e. excluding aspects such as the supply chain), the contribution is £48bn, with 1.4 million jobs directly supported. In 2011, there were 208,880 VAT registered businesses in England in tourism sectors (this includes categories such as accommodation, food and drink, transport, travel agencies, cultural activities etc).

Source: https://www.visitengland.com/biz/tourism-england/value-tourism-england

Firstly, it explains the key operational aspects of the cost structure of hotels and the variability of demand and fixed capacity, that tends to make them revenue-orientated businesses with revenue management as a key driver of their profitability. Then, the role of representative industry bodies such as *Fáilte Ireland* and *Visit Britain* are explained.

Secondly, the literature is reviewed in two stages, because in this area, there are two groupings- the literature and practices of the practitioner/hotel consultancy firms and tourism industry bodies and the academic literature. As sizeable differences exist between the worldview of academics and that of practitioners, the authors of this paper put the professional hospitality and tourism industry bodies and hotel consultancy firms into one group (called the "consulting to practice" cohort) as they directly represent, advise, or are working with the industry. Then, the literature of the hospitality academics is deemed to be a separate constituency (the theoretical cohort), because they only interface indirectly with the practitioners in the industry. Such groupings correspond with the study of Van Helden *et al.* (2010) who classified researchers and consultants as distinct and separate groups, noting differences in the knowledge creation process amongst them.

The academic literature on Performance Measurement and Management (PMM) is discussed, starting with basic definitions of these concepts and covering all three generations of multi-dimensional Performance Measurement frameworks right up to Strategic Enterprise Management systems. Performance Management is discussed and the Fitzgerald and Moon (1996) dimensions, standards and rewards framework for implementing any MDPM system is reviewed. Then, against this backdrop, the academic PMM literature *in hospitality* is discussed. The key performance indicators for hotels are explained and the role of benchmarking as a continuous improvement mechanism in the industry, is profiled.

Moving to the hotel consultancy literature, the need for benchmarking as a mechanism for continual improvement in hotels is discussed and the hotel consultancy firm's *Crowe Horwath Annual Hotel Industry* survey is profiled, highlighting the type of KPIs that are used in this survey. The use of the survey as a tool by which hoteliers can benchmark their operations, is explained. The prevalence of financial metrics in this survey is noted. Moving to the importance of trend data within the industry, the use of dashboards and visuals is highlighted as an important characteristic of how the industry KPIs are presented.

Next, the online tools and research reports promulgated by Fáilte Ireland, which is the Irish tourism industry professional body, are deemed to be part of the "consulting to practice" constituency.

The chapter concludes with some recent empirical work on the metrics reported by small and medium–sized three star hotels (all independent) in the North West of Ireland, which shows very basic performance measurement systems, mainly financial – namely a focus on profit supplemented by personal knowledge of customers, which was considered more important than service quality. Some uncertainty re ways to measure quality were reported and innovation was implicitly understood, without being formally measured.

Hotels – A Profile of their Operational Characteristics

In this section, an attempt is made to profile a hotel's cost structure as well as the volatility of demand and the ensuing need for hotels to be revenue focused, is discussed.
A hotel is a total market concept, comprising location, facilities, service, image and price. Image is a by-product of location, facilities and service, but is enhanced by such factors as its name, appearance, atmosphere and association (famous movie stars as past guests etc).

Price expresses the value given by the hotel through its location, facilities, service and image and the satisfaction derived by its users from these elements of the hotel concept. Location is a fixed entity, but price, image, facilities and service lend themselves to some adaptation, with time (Medlik, 1994).

> The individual elements assume greater or lesser importance for different people. One person may put location as paramount and be prepared to accept basic facilities and service, . . . ignoring the image, as long as the price is within a limit to which he is willing to go. Another may be more concerned with the image of the hotel, its facilities and service. However, all the five elements are related to each other, and in a situation of choice, most hotel users tend to either accept or reject a hotel as a whole, that is the total concept.
>
> (Medlik, 1994, p.15)

The hospitality industry has been acknowledged as an inspiring industry due to the intrinsic complexity (Berts and Kock, 1995). A restaurant operation within a hotel is pure manufacture, whereas the provision of a room is a pure service activity. A pub or a bar in the hotel operates as a retailer, buying stocks of alcohol, that are stored until sale. Some really large hotels in Las Vegas for example, illustrate the mixed example of manufacturing, service and retail in that they have rooms, entertainment and gambling (pure services), restaurants (manufacturing) and shops and bars (retail) all under one roof (Caesar's Palace).

The broad range of businesses within the industry also leads to a variety of ownership and management structures. Dittmann *et al*., (2009, p. 1355) give an interesting summary:-

> An individual can decide to own and operate his or her own hotel unaffiliated with a brand. Alternatively, the owner can contract with a third party to manage the hotel. Another series of organizational forms begin with a hotel company (brand). They have the option of owning a hotel themselves or franchising. If they choose to franchise, the frachisee has to decide whether to operate the hotel him or herself or to contract with another party for the management of the hotel. . . . If they choose to franchise, the franchisee has to decide whether to operate the hotel him or herself or to contract with another party for the management of the hotel. If the franchisee opts for a management contract, he or she has to decide whether the hotel company (brand) should run the hotel or contract with some other third party. The final form is when a real estate developer decides to build a hotel. The individual rooms are sold to investors who then choose to live in their room or enter the room into a rental pool. A manager is then hired according to a standard management contract.

The hospitality industry competes a lot on quality as do most service firms and this can be based on building a brand and sustaining brand value which must be sustained by quality of service, quality of employees and customer satisfaction. In manufacturing industries, rework can correct employee failures such as defective products, but in the hospitality industry, contact with customers is critical once they enter the "service factory" and mistakes cannot be easily corrected, before the customer experiences the service.

As Figure 1 below shows, the rooms departments (in hotels) have low variable costs- usually they comprise (on the accommodation side) the costs of cleaning and of letting a room. This means that there is price discretion or that discounting is possible, because of minimal variable costs in any hotel whose revenue is derived mainly from selling rooms, rather than being a food and beverage operation. Therefore, it opens up the possibility of using dynamic room rates in pricing rooms. As the variable cost per occupied room is normally very low in relation to the average room rate in hotels, even a 50% reduction in the selling price leaves a sizeable contribution per occupied room. It also means that hotels must focus on maximising revenue rather than simply control of costs, as they have high fixed costs to cover, such as the costs of insuring the hotel building, depreciation of fixtures and bedroom furniture and administration costs.

Insert Figure 1 here

As Figure 1 above shows, the food and beverage department in a hotel has a lower fixed cost element in the total cost structure, than variable cost. The rooms department has a high fixed cost element in the total structure, particularly if it is a luxury (five-star) hotel and so the break-even point is higher than that of the food and beverage department. A luxury hotel will provide higher quality of facilities, high-specification buildings and stylish furnishings, with less flexibility to employ casual (variable cost) labour, but more permanent, highly skilled employee and management teams, which drives up the fixed cost proportion of total costs in these hotels (Harris, 2011).

Profit Sensitivity Analysis and Profit Multipliers

Due to the presence of high fixed costs and a high break-even threshold, hotels with a significant rooms operation can be termed market-oriented or revenue-oriented (Harris, 2011). Such a hotel would be sensitive to revenue-based key factors, such as price level and volume of sales.

Harris (2011, p. 138) notes the key factors that profit is influenced by, as: room occupancy, average room rate, number of covers[1] (meals), food and beverage prices, food and beverage cost of sales, other variable costs and finally fixed costs. Then, each of the factors is varied individually by say 10%, holding the others constant, and the impact on profit is assessed, using a technique known as profit sensitivity analysis.

[1] In the restaurant industry, the term "cover" refers to a diner who eats or a meal that is served. A cover differs from a table in that it represents only one of the meals served at that table. It differs from a dish in that it includes the extras that a diner orders, such as drinks, appetizers and desserts. When projecting sales, many restaurateurs find that they achieve a greater degree of accuracy by basing their calculations on expected number of covers rather than expected number of tables. See http://yourbusiness.azcentral.com/cover-restaurant-6923.html.

The profit-multiplier (PM) = % change in net profit / % change in the individual key factors

The profit-multipliers for each of the key factors are computed and a ranking is drawn up. If revenue-based key factors are top ranked, then the hotel is clearly a market-oriented one, whereas if cost-based factors are top ranked, then the business is cost-oriented. Harris (2011, p. 148) notes that “profit-sensitivity analysis provides a basic framework for developing a profit improvement programme”. He also gives an interesting example of a luxury hotel as an example of a revenue-oriented business, whereas an airline catering contractor’s profit multiplier profile would represent a cost-oriented business. “The price level will usually be fixed by annual agreement with the airlines and the sales volume will normally be determined by the airlines’ needs. Thus, both the revenue-based profit multipliers are outside the control of the catering contractor. Therefore, the most appropriate control strategy to maintain profitability is to concentrate on cost of sales, variable payroll and to a lesser extent variable overhead” (p. 147).

Volatility of Demand and Yield (Revenue) Management

The pursuit of revenue is characterized by high volatility in demand. Hotels do not experience the same level of demand for their rooms each night, each week or each month or each year. The perishability of the room stock means that “you cannot save the room stock for another day; a sale lost is lost forever in these circumstances” (Jones et al., 2012, p. 95). In the early years of the 1980s, following deregulation of the US airline industry and the discounting used by budget airlines, “yield management” was the term used to describe this demand-based flexible approach to pricing. Guilding (2013, p. 308) noted that the price of an air ticket depended on how far in advance the booking was made, whether it coincided with a period of high demand as well as prices offered by competing airlines. A constantly changing market with discounting by competitors and different market demand unfolding day by day, meant that seat pricing was a dynamic exercise. Today, the same mechanism operates in hotels for room rate pricing, but it is called revenue management. Further discussion of the intricacies of revenue management systems is omitted here, as it belongs to the theme of Analytics or Big Data.

Seasonality

Most hotels experience fluctuations in demand for hotel rooms such as peaks and troughs depending on the time of year and the day of the week. Weddings are most popular on Saturdays; business travel is mainly taken Mondays to Thursdays, but slackens in the summer as holidays are taken; short-break travel is mainly at weekends; major local, national and international events impact on demand for hotel rooms in Dublin and other cities- such as the Dublin Horse Show in August. There is a seasonality also in terms of peak holiday season (July-August), then off or low season (October-March) and finally the shoulder months between high and low season (April to June). This assumes the typical Irish or British situation where the high season is the (sunny) summer months, whereas in ski destinations, obviously the above low season could in fact be their high season.

All of these issues provide challenges to the Revenue Management functions in hotels, whether it be through simply packaging weekend breaks to cover periods of low demand to the sophisticated algorithms of expert systems software – see, for example, the market leading company: www.ideas.com.

Having profiled the operational characteristics of hotels, it is now useful to briefly describe the role of the national tourism industry representative bodies in Ireland and the U.K., before proceeding to consider the general performance management and measurement literature.

Tourism Industry Representative Bodies in Ireland and the UK

Fáilte Ireland is the National Tourism Development Authority. Its role is to support the tourism industry and work to sustain Ireland as a high-quality and competitive tourism destination. They provide a range of practical business supports to help tourism businesses better manage and market their products and services.

They also work with other state agencies and representative bodies, at local and national levels, to implement and champion positive and practical strategies that will benefit Irish tourism and the Irish economy.

They also market Ireland as a holiday destination through a domestic marketing campaign (DiscoverIreland.ie) and manage a network of nationwide tourist information centres that provide help and advice for visitors to Ireland - See more at: http://www.failteireland.ie/Footer/What-We-Do.aspx#sthash.8xMvK2sJ.dpuf.

The Irish Hotel Federation (IHF), which represents the hotels themselves, offer reports and surveys detailing the issues facing the hospitality industry in Ireland, including items such as budget planning, strategic planning and waste management policy. (www.ihf.ie). The Irish Tourist Industry Confederation (ITIC) acts as a representative body for the hotel industry, dealing with issues such as lobbying government on policies impacting on tourism (www.itic.ie). In addition to their destination promotion activities and grading inspections etc, tourist boards also try to raise awareness of and prime benchmarking as a way of improving performance (Ogden, 1998). Professional hospitality and tourism industry bodies' literature was deemed to include reports and tools issued by bodies such as Fáilte Ireland, the Irish Hospitality Institute, the Irish Hotel Federation, amongst others and indeed the equivalent in the UK (VisitBritain[2], British Hospitality Association etc).

Performance Measurement and Management (PMM)

Before measurement, the company's strategy, organisation and processes must be understood and translated into a set of objectives. Then, there are two approaches to performance measurement to monitor that strategy- firstly, the stakeholder approach which means that companies compete on many dimensions other than financial ones and so other non-financial measures need to be developed to capture the quality, service and flexibility issues of today's customer-oriented strategies. Secondly, the shareholder perspective favours a single financial metric such as profit, market share or residual income or economic value added.

The stakeholder perspective has a number of multi-dimensional performance measurement frameworks, such as the SMART pyramid (Lynch and Cross, 1001), the results and determinants framework (Fitzgerald et al, 1991), the balanced scorecard (Kaplan and Norton, 1992) and the performance prism (Neely and Adams, 2001). These frameworks share some basic features- they must have a link to corporate strategy, include external as well as internal measures; include financial and non-financial measures and make explicit the trade-offs between the various measures of performance (Fitzgerald, 2007, p. 224).

The frameworks are prescriptive in nature with generic dimensions of performance such as flexibility and customer satisfaction being specified. The actual measures chosen by hotels for these dimensions will depend on the business type and on the competitive strategy adopted by the organisation. Thus, as outlined at the start of this section, the starting point in all of these frameworks must be corporate strategy, cascading down into the specification of the critical success factors (CSF) which must be reflected either directly or indirectly in the set of measures used. Neely *et al*. (2003) discuss three generations of performance measurement frameworks. First generation ones (Balanced Scorecard, and the Skandia Navigator) supplemented traditional financial measures with non- financial ones. Second generation ones (the Performance Prism) were a significant advance on first generation ones, because they required success maps to be developed which required the question of how value was created from the transformation of resources across the perspectives, to be addressed. They also were further refined by the addition of failure or risk maps (Neely *et al.*, 2002). These identify the potentially critical failure points in the organisation, that "if unmonitored could lead to excess exposure to risk" (p. 131). The neglect of how free cash flow is created in the latter models, led to third generation frameworks which required organisations to look at the cash flow consequences of the linkages between the non-financial and intangible dimensions of organisational performance and the cash flow consequences of these (p. 132).

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[2] As the strategic body for inbound tourism and the national tourism agency – a non-departmental public body funded by the Department for Culture, Media & Sport, VisitBritain has a unique role in raising Britain's profile worldwide, increasing the value of tourism exports and developing Britain's visitor economy. Our mission is to grow the value of inbound tourism to Britain, working with a wide range of partners in both the UK and overseas. See: https://www.visitbritain.org/

While the Balanced Scorecard (Kaplan and Norton, 1992) may be the first tangible balance of performance measures, Ridgeway (1956) had first acknowledged that concentration on any single measure of performance would lead to dysfunctional consequences as performance may then be maximised against that measure, to the detriment of overall performance. Research by Ittner & Larcker (1998a) concluded 'by incorporating non-financial indicators into their measurement systems, many firms sought to create a wider set of measures that capture not only firm value, but also the factors leading to the creation of value in the business' (Ittner & Larcker, 1998a, p.214). It is therefore very important for an organisation to construct an optimal measurement system with a mix of financial and non-financial measures.

In an interesting paper, Bourne et al (2003, p.15) conducted research with executives in a number of leading European companies and concluded "the past obsession with pure financial performance is decreasing and there may be a recognition that there is a trade-off between hitting today's financial results and sustaining the capabilities and competencies that allow companies to compete effectively in the future". Companies, they claim, are being asked to explain not only what their profitability is, but also how they achieve it and if they can explain this, it supports their share price. They also observed that many companies (one of the best known being Sears Roebuck and Co.) create a success map, which is a diagram showing the logic of how the objectives of the organization interact to deliver overall performance . . . they have a great advantage in communicating both "how" objectives are to be achieved and "why" objectives have been developed (p. 16).

Another change that was observed was that companies (Shell for example) were using their own data to test their assumptions and were finding "counter-intuitive relationships that gave them greater insight into how to better manage their business" (p. 17). Another interesting finding they found was that the innovation and learning perspective was being evaluated in terms of the companies developing their process capabilities, in conjunction with their underpinning resources. So, they were managing their performance in a manner that brought them beyond measuring the indications of innovation (p. 19). Finally, they found that … "linking objectives from the success map with process improvement initiatives creates sustainable improvements in performance" (p. 20).

Performance Management

Measuring performance will have no impact unless action is taken as a consequence of that performance measure. Performance Management can be achieved using the Fitzgerald and Moon (1996) dimensions, standards and rewards framework, which answer the questions:

- What should be measured?
- How should standards/targets be set for the measures?
- What should be the rewards for meeting the targets/standards?

In particular, the measures should be balanced across the perspectives of whatever MDPM is being used; the targets must be owned, must be achievable and equitable between units and the bases for rewards should be clear, should motivate those concerned and should relate to matters controllable by those affected (Smith, 2007).

Recent Research

Brignall and Ballantine (1996) have argued that there are three core elements to the design of any MDPM (multi-dimensional performance measurement models) system

- A control model (feedforward, feedback or a mix);
- A level/unit of organizational analysis (e.g. corporate, SBU, product);
- Multiple dimensions of performance

Brignall (2000) sets out nine aspects to follow in designing and implementing a MDPM- noting the need to identify first of all the key stakeholders and their information needs, the level of the organization where measurement will take place and . . . finally the Fitzgerald and Moon (1996) dimensions, standards and rewards framework to smooth the implementation process. Ittner (2003) cautions that the selection of non-financial measures should not be chosen simply based on generic performance measurement frameworks and managerial guesswork, but more on "sophisticated quantitative and qualitative inquiries into the factors actually contributing to economic results" (p. 95).

Brignall and Ballantine (2004) explore the interaction between Performance Measurement and Management systems and the many ways in which organisations strive to improve performance via organizational change programmes. Strategic Enterprise Management (SEM) systems are computerized enterprise management packages, but are designed to help with strategic change and integrated management processes aligned with strategy. Brignall and Ballantine (2004) argue that the design, implementation and use of SEMs can be studied using a model of "context, content and process" for organizational change (Pettigrew, 2000).

Stringer (2007) carried out a review of 120 field studies of Performance Management research over 15 years, published in the AOS journal and the MAR journal, noting the striking diversity in terms of the performance elements studied, the type of studies, the theoretical development, the research questions, research sites and countries, whether the studies examine the whole organization or parts of organisations and who is interviewed. This has led to a fragmentary nature of theoretical development in PM, as few studies use the same theoretical base or attempt to build on the theoretical development of prior studies.

A recent special issue of the top rated *Management Accounting Research* journal (Bourne *et al.*, 2014) noted that the last 30 years has seen "a revolution in performance measurement and management". The trend has been for traditional one-dimensional financial-based measurement to be replaced by multi-dimensional performance measurement frameworks (MDPM), which have financial and non-financial key performance indicators (KPIs) such as the SMART Pyramid, Balanced Scorecard (BSC) and Performance Prism. A lot of research was carried out over the last 30 years on the development and implementation of measurement systems, but the current focus of research "is concerned with how performance measurement is and should be used to manage the performance of the enterprise" (p. 117).

From an academic perspective, Bourne *et al*. (2014, p.117) note that published studies "on the impact of performance measurement on performance management are inconsistent in their findings". From a practical perspective, new organisational structures, globalisation and increasing reliance on international supply chains, create additional complexity. The latter draw an interesting conclusion in relation to performance measurement research in general, noting the trend towards "a move away from simple frameworks and processes towards a more nuanced view of the field" (p. 117).

A degree of subtlety is required to use performance measures to manage an organisation. When the environment is changing rapidly, solutions are uncertain and precise measurement infeasible, people must engage with the *intent* of the KPIs and realise they are just indicators of performance, rather than real performance. Bourne *et al*. (2014, p. 118) note that this may be encountered in many settings, particularly professional and knowledge work and even many service settings. This point is also made by Parmenter (2006), a noted performance improvement consultant and is discussed later.

Next, a brief overview of the performance measurement and management in the hospitality literature, is discussed, starting with scorecard research in hotels.

Performance Measurement in Hotels- A Review of Academic Literature

For modern business increasingly dominated by services, such as hotels, with its combination of intangible assets and need to create a consistently good service experience, the measurement of competitive performance, becomes increasingly more difficult. It would appear from the literature and from visitor ratings by Fáilte Ireland, for example, that the three criteria of *customer service, quality and price* are vital to the hotel industry. In any service business, there is a complexity attaching to the determinants of competitive success and to the production of the service. As a result, the route to profitability is multi-faceted and differs between hotels even of the same grade. The above summarises the main aspects of hotels, that make PMM for them, somewhat different from the generic PMM approach.

It is not surprising therefore, that the balanced scorecard can be applied to hotels. An interesting diagram from Evans (2005, p. 381) article shows a very good example of the causal linkages across the financial, customer, internal, learning and growth and innovation perspective using a hotel situation. This can be located at: http://dx.doi.org/10.1108/09596110510604805 . Another interesting discussion of the benefits from the application of the balanced scorecard are mentioned in Huckenstein and Duboff's (1999) of the Hilton Group's adoption of the scorecard, which was rated very positively.

Evans (2005) survey found that many hoteliers (in the North East of England) were using measures from all four scorecard categories and not just financial measures. However, Evans (2005, p. 387) reported that "further research is necessary to understand the relationship between the measures and the strategy and vision of the companies concerned and to understand whether managers fully understand the casual linkages inherent in the Balanced Scorecard".

By contrast, Atkinson and Brander-Brown (2001) suggested that the UK hotel industry appeared to concentrate on past-oriented financial measures, which suffer from such deficiencies as being lagging rather than leading indicators, being short-term in focus and not linked to the competitive environment. They used a postal questionnaire of 88 hotel companies- all of the operators listed in *The Hospitality Yearbook 1999,* a mix of large international hotel organisations with multiple brands, regional chains as well as smaller independent operators. Of the non-financial measures that were monitored, it was quality of service and customer satisfaction that was measured, but they tended to be past-oriented measures.

Harris and Mongiello's (2001) survey of European chain hotel property general managers, using a balanced scorecard format, found that although some companies emphasised financial and/or customer measures, there was fairly convincing evidence that companies were using all four scorecard perspectives. Furthermore, through their assessment of managers' performance indicator choices based on 'actions' taken, rather than on choices 'listed', even though financial indicators were found to be the most used measures, they were not so prominent as to dominate managers' behaviour.

In a follow-up study comprising a small number of in-depth interviews with general managers who had completed the earlier questionnaire, Mongiello and Harris (2006) identified an interesting decoupling. Whilst the managers interviewed were required to report (mainly) financial performance indicators to their corporate offices, when given a choice in managing their own properties, they described a significantly broader range of indicators.

Reports of the success of the scorecard in the hospitality literature are largely positive, but Atkinson (2006) concluded that the research is small-scale isolated projects, noting the need for more in-depth research. Another key trend is the separation of hotel investment companies from hotel operating companies, which has implications for corporate objectives and goal congruence, prompting the need for more work to see how in practice scorecard and similar frameworks can mediate the potentially diverging objectives of different stakeholders such as owners and operators. Increasing corporate ownership of hotels may lead investors for example, to set demanding financial targets, whilst paying little attention to the processes driving the results.

In a study of the association between non-financial performance measures with financial performance in a US hotel chain, Banker and Potter (2005) analysed the association between guest satisfaction and level of complaints with revenue and gross operating profit and found improvements in non-financial measures were followed shortly by increases in revenue and profit. From the results, they suggest that quantifying the relationship between financial and non-financial measures may provide the potential basis for setting targets for non-financial measures.

PricewaterhouseCoopers (2000:17) study, suggests 'the number of rooms in a hotel does affect profitability…'. O'Neill and Mattila (2006) who assessed the relationship between hotel revenue indicators and profitability in a sample drawn from published data, supported the PWC study. They found that although profitability was affected by age, scale and brand affiliation of hotel properties, occupancy was ultimately a larger contributor to net operating income. Similarly, Pine and Phillips (2005) undertook a broad comparative study of hotel performance in China using available data. Overall, the findings indicate that the bigger the hotel and the higher the star rating, the better the performance. They suggest that this may be partly due to the fact that the high performers apply international standards and business and management techniques and/or have foreign partners.

Although there has been significant growth of national and international hotel chains in recent decades, independent hotels continue to dominate the market in many countries (Shaw and Williams, 1994). An investigation into performance measurement practice in independent hotels in Northern Cyprus found the emphasis to be on guest satisfaction at the departmental level and financial results at the hotel level. Interestingly, this manifested itself in terms of mainly qualitative 'real-time' measures related to the guest experience and quantitative 'past' measures for financial results (Haktanir and Harris, 2005).

Phillips (1999) in an article entitled "hotel performance and competitive advantage: a contingency approach", noted that traditional accounting- based measurement systems are no longer satisfactory for firms seeking competitive advantage (p. 359). In their quest for competitive advantage, existing performance measurement systems are falling short. In this conceptual paper, Phillips argues that a performance measurement system has the potential to deliver competitive advantage "if inputs, processes, outputs, markets and environmental characteristics are congruent with business objectives" (p. 359). He uses a 115 bedroom 4-star mid-market hotel, part of a major hotel chain to show how the proposed performance measurement system can assist hoteliers in delivering competitive advantage. The hotel was focussed on the business market segment and was located in the South East of England and included bars, restaurants, a conference suite and a leisure club.

To satisfy rising customer expectations and keep pace with increasing competition, independent hotels will need to place a greater emphasis on the development of their own performance measurement system (PMS). In this regard, insights from consulting can be helpful. One of PWC Dublin's performance improvement partners, Cronin (2009) emphasizes the need to provide *insights* rather than just information as vital in a world where, to achieve performance improvement, the business model is being squeezed all the time to generate gains:

> The world has now changed, minimizing revenue loss, cutting cost and conserving cash is what really matters. Analyzing that 0.5% drop in margin, challenging that supplier for cost and service, struggling with that pricing decision, screaming for that cost analysis, and reducing headcount have all become the priorities of the day. . . . Converting to an agile model with the appropriate mix of fixed and variable cost to meet market demands is key.
>
> Cronin (2009, p. 45)

Cost Issues in Hotels

Cost metrics such as payroll costs (rooms, food and beverage) as a percentage of the associated departmental revenue (rooms, food and beverage) are also vitally important for monitoring as are utility costs, which form part of Undistributed Operating Expenses (see http://www.tandfonline.com/doi/pdf/10.1080/10913211.2015.1038196). As noted by Crowe Horwath (2015b, p. 11), these costs include gas/oil, electricity, water and waste removal, and while hotels have implemented conservation programmes to reduce the level of usage, prices have been increased by the utility provider :-

> While the hotel sector is operating at 15.7% below [pre-recession] average room rate, the unit costs for utilities has vastly increased over the same period (p.11).

Moving next to the first section of the "consulting to practice" literature- namely that of the industry representative bodies, the aim is to explore the websites of these representative bodies to see the wisdom they promulgate re PMM.

FI surveys and reports -professional tourism bodies' literature
Fáilte Ireland provides hoteliers with many surveys and reports containing valuable data on tourism in Ireland (http://www.failteireland.ie/Research-Insights/Accommodation-Statistics-and-Reports.aspx). For example, it annually conducts a visitor attitude survey, providing hoteliers with pertinent information on Ireland as a tourism destination, such as the importance of destination determinants in the decision of tourists to choose Ireland. Similarly, it annually produces a hotel survey, to monitor hotel performance, particularly with regards to occupancy levels, and to provide summative demand and supply trends in relation to grade, region, size and location (www.failteireland.ie). Fáilte Ireland also makes available information on the current performance of tourism sectors in Ireland, and also provides projections of future performance. The *Tourism Barometer*, provided quarterly by FI, provides an insight into the performance of all sectors of the tourism industry and provides prospects for the remainder of the year (FI, 2010b).

The *Tourism Barometer* consists of a series of charts, and indicates *trends* with regards to: occupancy, overseas market performance, concerning issues and employment and perceptions as to factors affecting positive/negative performance, reasons for price increases/decreases and opinion trends as to the current economic situation. The accommodation occupancy survey offers hotels a benchmark for occupancy levels across the various accommodation types: hotels, guesthouses, bed and breakfasts, hostels and self-catering (www.failteireland.ie). Furthermore, the professional body provides overseas market estimates, enabling hoteliers to assess the overall market size.

Other FI supports- the *Business Tools website –KPI templates*
The *Business Tools*[3] website provides access to cutting edge thinking, best practice business expertise and solid management advice. It consists of *online benchmarking tools* to increase competitive position and online best practice guides to improve business performance and some online solutions and specialised supports. This diagnostic indicator was developed by Fáilte Ireland and tourism operators to identify support needs within their enterprises. It is an online interactive facility accessed via the main Fáilte Ireland website, where all hoteliers can input their own financial metrics and benchmark their own financial performance with industry averages, so highlighting areas for improvement. Fáilte Ireland advocates adopting a KPIs perspective, and insists KPIs are not generalisable across all hotels in the industry, so each hotel must customize their own set. They also provide a template enabling hotel management to create a marketing budget and action plan specific to their hotel.

As part of the diagnosis, hoteliers are encouraged to enter background information in Stage 1, then at Stage 2, enter 'hard' data or business results mostly in percentage terms, which will give a snapshot of the business and can be compared to external benchmarks such as the *Crowe Horwath Annual Hotel Survey* results. At Stage 3- performance drivers -the 5 Ps – promotions, performance, profitability, people and processes- are highlighted.

Insert Figure 2 here

This section (Stage 3) of the Diagnostic is focused on the *critical business dimensions which drive the results in the business.* It therefore tries to guide the hotelier towards leading indicators and processes, in contrast to the Crowe Horwath Annual Survey. The Diagnostic seeks to analyse current performance across five critical dimensions:

3.1: Promotions: How well do you currently implement your sales and marketing strategy and your customer relations management strategy?
3.2: Performance: How effective are your business planning efforts and how efficiently do you manage your key operational departments?
3.3: Profitability: How effective is your financial management system and how well do you monitor activity and results across all elements of the business?
3.4: People: How effectively do you manage, deploy and measure the impact of your human resources?
3.5: Processes: How well do you manage key supporting processes in your business?

Within each of these five areas, ten key questions are posed, the purpose of which is to prompt a discussion on the relevant area in order to determine whether it is an area of excellence or an area of deficiency and needing attention. For each key question, two sub-questions are provided to help the hotelier answer the key question. A simple three-point scale is used for 'scoring' the response to each key question, as follows:

[3] http://www.failteireland.ie/Supports/Develop-your-tourism-enterprise/Business-tools/Check-and-compare-your-hotel%E2%80%99s-performance.aspx

- We underperform or are not active in this area
- We perform well in this area
- We excel in this area

When the overall scoring is done, it shows a simple summary representation of where the business stands in relation to each area. Ultimately, the aim is to determine whether a particular area is an area of excellence or an area of deficiency and needing attention. See more at: http://www.Fáilteireland.ie/Supports/Develop-your-tourism-enterprise/Business-tools/Check-and-compare-your-hotel's-performance.aspx

Once the performance gaps are identified, then moving to Stage 4, Fáilte Ireland offer best practice advice in the form of templates and questions for the hotelier to ask him/herself. See more at: http://www.Fáilteireland.ie/Supports/Develop-your-tourism-enterprise.aspx).

To conclude, an examination of the website of Fáilte Ireland shows that this professional body is promoting a practical approach to performance measurement and management. As illustrated above, there is an online interactive Business Diagnostic Indicator facility, which guides the hotelier forward -from benchmarking his/her financial metrics - to an examination of the *processes* behind these hard data. A further example of an initiative which encourages process benchmarking is the *Optimus* programme, promoted by Fáilte Ireland.

The Optimus Framework

Fáilte Ireland created the *Optimus* framework to overcome the traditional frailties of PM in hotels. This framework is a derivative of total quality management (Ehrlich, 2006), and enables businesses to increase profitability, efficiency and competitiveness. Optimus is rooted in the principles of the European Excellence Framework for Management (EFQM) model. The objective of *Optimus* is to instil a customer-oriented focus throughout a hotel, whereby all procedures and processes are aligned towards the achievement of customer satisfaction. *Optimus* actively promotes excellence in the Irish hotel industry through the provision of awards for achievement of service excellence, best practice and business excellence (www.optimus.ie).

To realize such business excellence, *Optimus* consist of three steps, starting with Step One, Service Excellence, leading to Step 2, the Mark of Best Practice, where the hotel is benchmarked in its results and processes against leading hotels. Step 3 is Business Excellence and to achieve this award, the standard of the EFQM must be satisfied. Implied characteristics of hotels obtaining this honour include inspirational leadership, strong values, ethics and culture and a focus on continuous learning and innovation amongst others.

Further to the three steps, level four and level five awards can be achieved, which are recognised by EFQM. To achieve level four and five status, a hotel must develop effective partnerships with other hotels and stakeholders, conduct business activities ethically, and balance its commercial and legal responsibilities with its responsibilities to society (www.optimus.ie).

As the final part of the literature review, the hotel consultancy firms and what they promulgate, is next for consideration. These are closer to practitioners, because they actively work with hotel clients. Effectively, this source of literature (along with that of the professional tourism bodies) is viewed as the cohort which consults to practice and to practitioners (practice cohort).

Hotel Consultancy Literature/Practice

Those organisations who wish to embrace change may find that the identification and transfer of *best practices* is key to successful change. Leading organisations in the industry may present best practice which others wish to model or benchmark. By comparing one's organisation to the best in class, performance gaps can be identified and one can seek to improve to the benchmark standard (ICAEW, 2006). Using benchmarking as a tool will support the firm's analysis and business case for continuous improvement. Firms select their own particular areas in need of improvement and benchmark these.

World class organisations have recognised that to achieve best results from benchmarking, they must go beyond simple benchmarking of numbers or metrics. They must critically examine their own practices (go behind the figures) and explore how the *process* performs and then understand the enabling factors that allow it to perform in such a manner, that defines it as best practice.

Many types of benchmarking exist- *metric, process, strategic, internal and competitive*. Metric is the initial step in benchmarking and helps identify a performance gap by gathering numerical data. The last type of benchmarking- competitive benchmarking- is useful in mining how your company is, compared to the industry.

It can be difficult for any firm to directly access competitor information. In the case of the hotel industry, a hotel consultancy firm, first founded in New York with the arrival of two brothers from Hungary, began to act as intermediaries, carrying out an annual survey that allowed average data to be collected from the hotel industry. Horwath Hotel, Tourism and Leisure (HTL) Consulting also established the *Uniform System of Accounts for the Lodging Industry* (USALI)– a system so successful, that it has become the international industry standard for hospitality accounting. Chin *et al.* (1995) noted that the widespread use and acceptance of a standard chart of accounts, in the form of the USALI, has helped competitive benchmarking.

Some of the benchmarking firms providing information to the hotel industry are now discussed.
TRI Hospitality (http://www.trihospitality.com/) is a private consulting firm based operating in the United Kingdom, of which there is no equivalent in Ireland, due to the considerably smaller market size. The HotStats chain hotels survey is compiled each month by TRI Hospitality Consulting. It collects profit and loss benchmarking data from more 1,650 properties representing 360,000 rooms from 100 different brands in the United Kingdom, Europe and the Middle East, which enables monthly comparison of hotels' performance against their competitors.

It is distinguished by the fact that it provides in excess of 100 performance metric comparisons covering 70 areas of hotel revenue, cost, profit and statistics, providing far deeper insight into the hotel operation than any other tool. The KPI data collected and reported by the firm are divided into three branches: profitability, DataWeek and market intelligence. Over 100 metrics in the profitability branch are provided, focusing on: rooms department, market segmentation, restaurants and public houses, conference facilities, sales and marketing department, overheads, expenses, utility costs, payroll and profits. DataWeek provides information updated daily on room KPIs.

Furthermore, HotStats issues monthly surveys and reports, in which an analysis of the hotel industry environment and performance are provided. HotStats describes within its reports the main KPIs for hotels to be: occupancy percentage, average room rate, room RevPAR, total RevPAR, payroll percentage of total revenue and total gross operating profit PAR (HotStats 2011a: HotStats 2011b). For full service hotels, HotStats includes two additional indicators, namely food and beverage RevPAR and the gross operating profit percentage of total revenue (HotStats, 2011c).

Benchmarking in Hotels and the Crowe Horwath Annual Hotel Industry Survey

Crowe Horwath Ireland is a member of *The Horwath HTL* network comprising over 50 offices in 39 countries and carries out the Ireland Hotel Industry Survey. As specialist hospitality consultants, the *Crowe Horwath Annual Hotel Industry Surve*y serves as a hotel consultancy-based benchmarking tool for the sector. Detailed information can be extracted, such as illustrated in Table 1 below.

Insert Table 1 here please

The most recently available one is the *Ireland Hotel Industry Survey 2015*, an adapted extract from which, shown above in Table 1, shows the typical metrics that would be reported for the Irish hotel industry, providing average figures for each grade of hotel to perform their own benchmarking exercise. Although shown below by grade of hotel, the same metrics are reported elsewhere in the survey, by region and also by size of hotel– hotels of 1-49 rooms; 50-99 rooms and 100+ rooms. The hotelier reading the survey can fill in his/her own metrics on a special table at the back of the survey booklet, called “Analyse your own Operation” (see for example Crowe Horwath, 2015b, p. 43).

Crowe Horwath do not provide a multi-dimensional (MDPM) framework *per se* for the industry; however, extensive discussion and analysis of the overall average industry results by grade, location and size of hotel is provided and it therefore enables benchmarking (see later).

In small hotels, cash flow is essential for survival, as they may experience low turnover and profitability. Ogden (1998) found wide variation in standards of quality and cost control across the small hotel section in Scotland, noting that "one of the main reasons for the disappointing performance was the lack of standard procedures and performance standards with in-built management checks" (p. 189).

Small hotels pride themselves on an ability to offer a specialized service as a key part of its competitive strategy, compared to the more undifferentiated service delivery package of large chains. Ogden (1998, p. 189) clarifies that benchmarking is not about standardization "but about highlighting critical success factors and developing systems to improve attainment of them which will fit the specific operation".

Taking an overview of the key metrics, the figures in Table 2 next (reading from right to left), show that:

- Occupancy levels grew by 1.9 percentage points to 67.8%
- Average room rate increased by €4.80 to €82.29, up 6.2% on 2013
- Total revenue per room (TRevPAR) grew by 9.5% to €53,916
- Profit margins improved by 2.2 percentage points to 17.1%
- Overall profit before tax and finance per room increased by 25% to €9,201

Insert Table 2 here

- Note that average room occupancy and average room rate are also analysed <u>per month</u> in the Survey

Interestingly, the average room rate in 2014 lags the pre-recession (2006) average room rate (see Crowe Horwath, 2015b, p. 8). This can be seen in Figure 4 below. Further analysis of this rate *by grade* reveals a lag also. In these highlights (Figure 3), there is a clear emphasis on *financia*l *revenue-oriented* measures of performance such as ARR and Occupancy, RevPAR, TRevPAR.

In addition, one cost metric is reported, namely, the ratio of departmental labour cost to rooms revenue and indeed, the equivalent cost metric is reported for food and beverage and total revenue. This labour cost metric in fact measures resource utilisation for a high cost in hotels- that of labour. In the survey, there are some non-financial statistics such as percentage of repeat business, length of stay and number of guests per room. Therefore, benchmarking metrics are available based on *non-financial* as well as financial data such as Average Daily Room Rate and RevPAR. Non-financial metrics are reported, but are not headlined in the survey as much as financial metrics.

Dashboards and the Visual

An interesting consulting article by Jonathan Tellis (2010) explains the definition of an information dashboard (based on the book by Stephen Few) and used by the business intelligence software industry to convey the idea that it is possible to drive an organisation using constantly adjusted KPIs, in the same way that it is possible to drive a car. A visual display is needed on a single screen to allow the most important information to be monitored at a glance (p. 11). The use of visuals such as the Occupancy and Average Room Rate (ARR) trend in the chart below (Figure 3) shows the *trend* in these metrics.

Insert Figure 3 here

Such charts could be done by individual hotels to see how their trend compares to the overall trend for the industry. As Caeman Wall, Head of Research at Fáilte Ireland says "after two decades of such reports, Crowe Horwath's analysis of the sector is at this stage a priceless piece in the mosaic of intelligence we have for this industry" (Crowe Horwath, 2015c, p. 4). The above results (Figure 3) show the drop in occupancy and ARR rates in 2008 and 2009 when the hotel industry hit recession, but a slow recovery in room occupancy, rates, revenue and profits beginning in 2012**.**

Trend data, as shown in Figure 3 above, can bring figures alive, particularly for non-finance personnel. It is something that is very common in hospitality, particularly in the Crowe Horwath Survey, the Fáilte Ireland Tourism Barometer[4] and other reports as well as Visit Britain, the national tourism body for Britain. For instance, by surfing to VisitBritain at https://www.visitbritain.org/latest-quarterly-data-uk-overall, anyone can get some charts showing the latest quarterly data for overall visits to the UK, based on the International Passenger Survey. This shows the overall volume and value of visits to the UK by overseas residents. The metrics reported are number of visits, spending and visitor nights from April to June 2015. By surfing on, further charts can be seen, showing for the latest quarter for example, visits to the UK by overseas visitors, the breakdown of visits, nights and spend by market and purpose of visit.

Finally, Parmenter (2006) gives practical advice based on consultancy experience regarding the "new thinking on key performance indicators". He suggests (p. 3) that there are in fact three types of performance measure- KRIs, PIs and KPIs (key results indicators, performance indicators and key performance indicators). He developed the 10/80/10 rule (an organisation should have no more than 10 KRIs, up to 80 PIs and 10 KPIs).

The common characteristics of KRIs is that they are the result of many actions- they give a clear picture of where you are going, but do not tell management what they need to do to achieve desired outcomes. Only PIs and KPIs can do this. KRIs that have often been mistaken for KPIs include customer satisfaction, net profit before tax etc. The 80 or so PIs that lie between KRIs

[4] See for example :http://www.Fáilteireland.ie/FáilteIreland/media/WebsiteStructure/Documents/3_Research_Insights/3_General_SurveysReports/Fáilte-Ireland-tourism-barometer-October-2015.pdf?ext=.pdf

and KPIs are the performance indicators (PIs). They help teams align themselves to the firm's strategy. They include net profit on key product lines, profitability of the top 10 customers etc.

A KPI should tell you what action needs to take place and comprise a set of measures focusing on those aspects of organisational performance most critical for the current and future success of an organisation. They should number less than 10, be measured frequently (daily or 24/7), be non-financial, be understood by all staff and acted upon by senior management team on a daily or 24/7 basis and be capable of being tied down to individual or team responsibility and have a significant impact on most of the critical success factors and balanced scorecard perspectives for the organisation (p. 3).

This is valuable clear advice from an acknowledged expert in the field of Performance Measurement consultancy.

Having considered the literature from academia, the tools promoted by Fáilte Ireland to measure and manage performance and the hotel consultancy reports and benchmarking data, it is now appropriate to review empirical work carried out in hotels in the North-West of Ireland. This provides an important check on the *actual practice* of PMM.

Empirical findings from a survey of hotels in the North-West of Ireland

The empirical work was based on a taught masters dissertation carried out over three months, which examined what measures were used by management to evaluate performance in three star hotels, in the northwest region of the Republic of Ireland. The tourism industry in Ireland, particularly in the Northwest region, has undergone significant growth since the early 1990s attributable to demand for alternatives to agriculture and fuelled by generous incentives through European Union (EU) grant aid. Using a survey of all three star hotels in the region, listed in the Irish Hotel Federation's "*Be Our Guest*" guide, a useable response rate of 57% was achieved from the postal questionnaire survey. This was higher than the 20% reported in a postal survey of 88 hotels by Atkinson and Brander-Brown (2001). The questionnaire was divided up into twelve dimensions of performance. These were classified into financial performance, customer service, operations and marketing (this questionnaire is not reproduced here but is available from the authors).

Demographics

Respondents were asked to indicate a profile of their age, position, gender and education.
Owner managers and managers were evenly split with 50 percent each. 43.8 percent of respondents were aged between 31-40 years and a further 43.8 percent were over 41 years. Only 12.5 percent of respondents were between 20 and 30 years. 81.3 percent of respondents were male and 18.8 percent were female. Regarding education, 43.8 percent of respondents indicated that they had attained either certificate or diploma. 12.5 percent indicated that they had attained a masters degree.

Sample Selection

The questionnaire was distributed by post to a sample of twenty-eight three star hotels and guesthouses in the northwest region of the Republic of Ireland, based on the entire listing per the '*Be our Guest Guide*'. Responses were received from sixteen of the twenty-eight surveyed. The sample, while small, was believed to serve as a good approximation of the views of three-star hotel managers.

Financial Performance

Respondents to the survey viewed *profitability* as very important to the success of the organisation. It was used extensively in decision making and strategy formulation but not so much in staff performance evaluation. Cost efficiency was not considered as important as profitability, as a determinant of success.

Customer Service

Relations with customers and product / service quality are considered in the literature to be one of the most important determinants of success in the hospitality industry (Croston, 1995). Respondents reiterated this suggestion with over 80 percent agreeing that *customer retention* / satisfaction was a very important driver of long-term success. It was not however extensively used in evaluating managerial and staff performance. Respondents also did not believe that service quality was as important as relations with customers for long-term success. Respondents were also unsure as to the quality of their measurement system for assessing product / service quality.

Operations

Operational / divisional performance was not considered very important to long-term success and was not used extensively in evaluation of staff performance. It also emerged that relations with employees were not considered very important. The majority of hotels surveyed were small to medium businesses and as the case findings suggested, relations with employees were considered very good with high level of communication and were thus not considered an issue. Likewise, relations with suppliers were not considered of paramount importance.

Respondents did not agree that innovation was a crucial area in the success of hotels or service firms. Innovation was identified by Fitzgerald *et al*., (1991) as a good source of competitive advantage, yet respondents were divided over its importance. However, as Fitzgerald *et al*. (1991) suggested, innovation is a naturally occurring phenomena in service businesses. Perhaps these hotels had an informal system that facilitated innovation, but were neither aware of it nor measure it.

Summary of Empirical Findings

The results show a lag in the performance measurement framework in use in these hotels- they would appear to belong to the first generation of such frameworks. A significant number of in-depth interviews with some of the respondents to the survey, would complement the questionnaire findings, as would an exploration of the training and qualifications of the hotel owner-managers who replied.

Conclusions

There has been a significant increase in the amount of published work on generic PMM, as noted by the recent *Management Accounting Research* 2014 issue devoted to the topic. Similar work on PMM in the hospitality industry is ongoing and has been discussed. The academic literature is plentiful in the area of generic frameworks that balance financial and non-financial performance measures and indeed has progressed to the third generation of such frameworks. Hotel consultancy firms however, provide a significant amount of benchmarking data, largely of financial revenue-oriented measures, with fewer non-financial measures.

The industry in the UK is also well served by many sources of benchmarking data from VisitBritain as well as HotStats etc. Eminent consultants like Parmenter (2006) warn that there should be no more than 10 KPIs and they must be measured daily. When the tools and advice offered by an industry representative body such as Fáilte Ireland is reviewed, benchmarking of financial results is the first stage in diagnosing your business, but interestingly, the other stage is an examination of the processes that contribute to these results with a focus on *people, processes, performance* as well as *profitability*.

When actual practice by hotels was examined however, the research was limited in that it was done by means of a postal survey, rather than by using case studies. The short study in this chapter was based on a small sample of owner-managed small and medium-sized hotels in the North West of Ireland and has produced similar results to those of Brander-Brown and Atkinson (2001) in the UK; namely a majority of the respondent hotel companies almost exclusively monitor financial dimensions of performance. Also, there was some similarity in the attention and importance paid to customer satisfaction which was monitored more frequently and at more organisational levels in the latter study, than quality of service, in common with the Irish study reported here.

In practice, the empirical work showed a focus on measuring and managing the financial dimensions, especially revenue performance. It is then possible, however, for these hotels to follow up on improving their capabilities and processes using the *Optimus* framework, for example, which is primed and evaluated (through awards and certificates etc.) by the industry representative body- Fáilte Ireland. This practice can counteract the apparent lack of measurement of the other non-financial aspects of a hotel’s business, such as quality of service, customer satisfaction and innovation. If the hotelier does not measure these aspects using their own non-financial measures, they may still intuitively understand them or may rely on the help and support from the industry representative body- in the form of templates, to improve performance in these areas.

When actual practice is assessed using hotels in the North-West of Ireland, it would appear that some of the prescriptions of the academic literature are followed, in that financial performance is measured, but there is a lag in the use of MDPM frameworks. The management and measurement of the non-financial aspects of a hotel's performance can be encouraged through the use of FI's *Optimus* framework and its various online templates aimed at improving operational as well as financial performance.

Hotel consultancy firms can also provide benchmarking data through the *Crowe Horwath Annual Hotel Industry Survey*, for example. Therefore, the role of the industry bodies is to help the hotel move towards better performance in stages or levels, without implementing an official MDPM approach per the academic literature. Therefore, the SME hotels in this survey displayed a somewhat nuanced approach to PMM, through a combination of basic financial measurements and focus on profitability, supplemented by an awareness (but no measurement) of what else was important in the particular hotel.

Therefore, the lack of non-financial measures *per se* may not be a hindrance to good performance, provided the hotelier is *able to explain* not only what their profitability is, but also how they have achieved it, as Bourne *et al*. (2003) emphasise.

The insights and tools offered by the "consulting to practice" cohort therefore, are hugely complementary to the prescriptions of the purely academic literature (the "theoretical" cohort), when discussing issues of actual PMM in hotels.

<u>Appendix 1</u>

Definition and Explanation of Key Performance Indicators used by hotels

Research by Croston (1995) suggested that "success in hotels is a journey, not a destination". To help understand this journey, some key performance indicators are now defined and explained.

The Average Daily Room Rate or Average Room Rate (ARR) is defined as:

<u>Room sales revenues achieved</u>

Total no. of rooms occupied

and the Average Room Occupancy metric is:

<u>No. of rooms sold</u>

Total rooms available in the hotel

Both of these metrics, on their own, are incomplete measures of sales performance. A higher level of room sales revenues will not result from an increased occupancy level, if the room rate has been disproportionately dropped. Similarly, a higher level of total revenue from rooms will not result, if an increase in the average room rate coincides with a disproportionate decline in the occupancy rate.

To circumvent this incompleteness problem, the manager can link the Average Room Rate (ARR) to occupancy statistics and this is what RevPAR achieves- it aggregates the two metrics.

If we take a hotel with 100 rooms of which 60 rooms are sold for a given day, generating a total revenue of €4200, we can compute RevPAR in either of two ways:-

RevPAR = ADR * Average Occupancy

By dividing the Total Revenue by the Number of rooms sold **(€4200 / 60)**, we get the value of €**70** as the Average Daily Room Rate. Meanwhile, we find a **60 %** Occupancy rate (60/100 rooms occupied).

So, aggregating the ARR by the Occupancy %, we get **(€70 * 0.6)** = €42= RevPAR

An alternative calculation is to divide **(€4200 / 100)**, we also arrive at a RevPAR result of €**42**.

Total revenue per room or *TRevPAR* is an update to the widely used RevPAR- it is the total revenue earned from all of the guest spend- so it includes the revenue earned from letting the room, but also includes food and beverage spend and spend on spa treatments, tours, parking, gifts etc. *TRevPAR* is the preferred metric for accountants and hotel owners, because it effectively determines the overall financial performance of a property, while *RevPAR* only takes into account revenue from rooms. *TRevPAR* is useful for hotels where rooms are not necessarily the largest component of the business. Outlets such as banquet halls and spas also provide a source of revenue for these hotels.

It is interesting to note that in the adapted extract (Figure 3), that both *RevPAR* and *TRevPAR* are reported.

Gross Operating Profit per available room (*GOPPAR*) goes beyond RevPAR by taking total annual hotel revenue after all departmental and undistributed operating expenses and dividing this figure by the number of rooms available. It puts attention on profit at the broader hotel property level but correlates it to rooms, the main driver of hotel business.

The Yield statistic is a measure of room revenue achieved in relation to room capacity and is expressed as a percentage:

Yield percentage = Rooms revenue / Maximum potential rooms revenue

Actual revenue is related to maximum potential revenue on the basis of 100 per cent room occupancy or guest occupancy or however full capacity is defined for a particular hotel, using the full rack rate and excluding value added tax and breakfast (if included) to give maximum attainable revenue (Harris, 2011, p. 44).

It is the reciprocal of *RevPAR*, which is a monetary value per room. This simple yield statistic provides a single value for measuring the performance of the hotel in revenue management terms, but it does not probe the profitability earned. To do this would mean deducting the cost of servicing the room from the revenue, so computing a contribution-based yield figure. See Adams (2006, p.112).

The yield statistic above can be maximised by managing both the room rate and the occupancy percentage, "so that when demand exceeds supply, the customer pays more and when demand is low, the price is discounted, while ensuring that each customer pays the maximum possible price" (Adams, 2006, p.112). "Rate cutting can generate more revenues, but is not always transferred to the bottom line when operating profit per occupied room is falling, owing to expenses increasing at the rate of inflation" (Adams, 2006, p. 110).

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