Performance Measurement and Hotel Industry in Kenya – A Review

Fwaya Erick Onyango
Narok University College, P.O. Box 861, Narok, Kenya.

Odhuno Edwin
Maseno University, P.O. Box 333, Maseno, Kenya

Kambona O. Ouma
Maseno University, P.O. Box 333, Maseno, Kenya

Othuon O. Lucas
Maseno University, P.O. Box 333, Maseno, Kenya.

Abstract:-

Extant literature indicates that performance measurement has been widely studied elsewhere in large manufacturing and generic small businesses but there has been little study of this area in tourism and hospitality, particularly in Kenya. However, there is evidence that some hotels in Kenya may be using the existing performance measurement models without appropriate adjustments to reflect the unique challenges of the Kenyan hotel industry. This paper reviews the most popular measurement models from the literature and identifies the characteristics that they demonstrate. The paper then identifies key performance measurement dimensions; reviews their relationships and finally presents these relationships in a framework. This paper should expand debate on performance measurement generally and hotels in Kenya in particular. It should further assist in making informed decisions with regard to policy formulation and implementation of performance measurement in Kenya's hotel industry.

Key words: performance measurement, hotel industry, Kenya

INTRODUCTION

Performance measurement is essential for business as the basis for continuous improvement and for designing an adequate information system (Nudurupati 2003). Kaplan and Norton (2001) suggested that integrated performance measurement frameworks are essential for businesses as the basis for defining strategic objectives that integrate lagging and leading indicators. Performance measures are therefore the means of support to organizations, since without them no decisions can be made (Zairi, 1996). Epstein (1997) posits that performance measurement is a systematic attempt to learn how products and services of organizations are responsive to the needs of the customer and the organizations' ability to improve effectiveness. Thus, measuring performance offers an effective method of determining whether or not an organization is meeting its goals and achieving its mission (Brown 1996). Subsequently, Hotels have to adopt effective and strategic performance measurement tools in order to meet their goals. For the full benefit of measurement to be realized, it is important for hotels to maximize the appropriateness and effectiveness of measurement activities at all levels of their operations.

In Kenya, many hotels are currently struggling to gain the International Organization for Standardization (ISO) certification and Company of the Year Awards. The managements of hotels in Kenya have further perfected this pursuit by focusing their attention on achieving the coveted five–star classification. This classification provides hotels with a window of opportunity to join membership of international organizations and schemes. These endeavors have therefore compelled many hotels to turn to performance measurement systems as a means of achieving superior financial and non-financial objectives. Hotel industry practitioners and scholars in Kenya have struggled to assess firm performance and to identify good practice. Given that hotels are an integral part of the Kenyan tourism industry which is an important pillar of the Kenyan economy, a review into the dimensions that affect the industry is justified. However, there is still limited research regarding the performance measurement of hotels. This paper therefore purposes to contribute to the theoretical framework and expand debate on performance measurement generally and hotels in Kenya in particular. The paper further purposes to identify the missing performance gaps with a view of providing informed decision making with regard to policy formulation and implementation on performance measurement in Kenya's hotel industry.

Research Methodology

As systems for performance measurement for hotels are only now emerging (Haktanir and Harris 2005), the need to further develop this area is apparent and it is hoped that previous research will provide a platform for developing a PMS for these firms. Thus, rather than attempt to reinvent the wheel there is value in reviewing existing performance measurement systems (PMSs), in order to use their strong points in developing a suitable model for hotels in Kenya. In developing a PMS model for hotels, by drawing on existing models, a set of criteria for selection of existing models is needed. The focus on performance has shifted to a) the management of performance as opposed to measurement of performance; b) the use of an integrated approach; and c) the two dimensions of drivers and results as key concepts. Given their importance these three criteria will be the platform on which a new PMS for hotels will be built. Based on these criteria, five models are selected: the Balanced Scorecard (Kaplan & Norton, 1996), the EFQM Excellence Model (1999), the MBNQA award model (Voss et al. 1997), the Results and Determinants Matrix (Fitzgerald et al. 1991) and the Performance Prism (Neely et al. 2001). These models meet all the selection criteria. A review of these PMSs will assist in the building of a PMS for hotels in Kenya. This review identifies the variables that describe the enablers and results dimensions. The purpose of the identification process is not only to distinguish these variables but also to build a better understanding of the good practices that managers employ to achieve desired outputs. With this understanding, a generic PMS will then be developed.

Performance Measurement and Management in hotels

The hotel industry is a service-based industry that has a number of unique characteristics including relatively low barriers to entry and operators who pursue a family or lifestyle business model (Litterall & Paige 2002) as part of their desire to seek a life change. Lynch (2005) and Lashley and Rowson (2005) recognize that hotels are not only different because of their size but also because of the distinctive dimension of the business that is the family involvement and in some cases the commercialization of the home. Many of these hotels, unlike entrepreneurial style hotels do not pursue financial growth and profit but instead are motivated by non-financial factors such as independence, self satisfaction and community recognition (Peacock, 1999; Thomas, 2000). Performance measurement may, therefore, differ amongst hotels. However, like any other business performance, the visualization of hotel performance is complex and multi-dimensional in extent and nature and varies according to management's motivation and focus. Performance embraces a convergence of management's motivations, goals and capabilities; internal organization factors; region specific resources and infrastructure; and external relationships (Morrison & Teixeira 2004).

Despite performance management differences, performance of a hotel can be described according to internal (e.g. management and the organization) and external contextual factors (e.g. seasonality and geographic location). However, these factors are generally determined by the sector in which the firm operates, and consequently, vary from those that influence manufacturing firms. Another factor is the key performance measures utilized by hospitality managers. These measures are specific to the sector in which the firm operates. For instance, in hotels the measures may include occupancy rate, average room rate, monthly takings, profit margins and guest satisfaction, whereas, in a restaurant the measures may include number of covers, nightly takings and customer satisfaction. Because of these differences a restaurant cannot be directly compared to a hotel (Thomas 2000).

Although performance is a generic concept, it differs in the way it is measured, not only in commercial versus non-commercial firms but also across different industrial sectors. Despite the general agreement that key drivers of performance are internally and externally based, views on the impact they have and how they should be managed vary in literature. As a result, the role of managers and how they influence performance continues to be a major focus of many studies. Management is seen as a way of controlling business outcomes and is comprised of monitoring, measurement and review activities (Otley 1999).Performance measurement is undertaken for a number of reasons including providing the means for evaluating the firm's progress; assisting in the identification of strengths and weaknesses; and providing information for future planning for performance improvement (Amaratunga & Baldry 2002). As such, performance measurement is an effective management tool but is not an end in itself. Measurement of results alone, does not provide improvement solutions, instead management needs to be able to utilize these results to effect change in the business. Managers measure because they want to know how well they are performing in order to decide what they want to do next. There are distinct dimensions of performance that need to be measured, some of which are non-negotiable whilst others are not so fundamental (Neely 1998). When considering appropriate measures of performance, several dimensions need to be included: the frequency of measurement, frequency of review, where the data will come from, the rationale for introducing the measure, who will act on the data and what they will do (Neely 1998). Finally, measurement activities should be aligned and integrated with strategy. For example, if a firm's strategy is to compete on the basis of price then its key performance measures should relate to price (Neely 1998).

Much of the recent literature in performance measurement relates to the need to move from performance measurement, as a means of control, to more integrated and holistic approaches. These approaches link measures to the individual firm's strategy so as to provide information to managers to help them know how well they are performing and what to do next. In response to the need for a more systematic and firm centered approach to performance measurement, Kaplan and Norton (1992) developed the Balanced Scorecard Approach. Around the same time, other integrated and holistic approaches also emerged. These included the Performance Pyramid (Lynch and Cross 1991), the Integrated Performance Measurement (Nanni et al. 1992) and the Framework for Performance Measurement in service businesses (Fitzgerald et al. 1991).

Although a number of these systems recognize the need to align measurement with strategy, many of the systems are not dynamic and do not help hotel managers to be sensitive to changes in the environment, to review and prioritize objectives according to changes, to implement the changes and to ensure maintenance of the changes (Bititci et al. 2000). Amaratunga and Baldry (2002) believe that once an effective performance measurement system is designed and implemented managers need to move from measurement to management. For this to take place two components are needed: Right organizational structure to make full use of the performance results; the ability to bring about change through the use of performance measurement.

Performance Measurement Systems (PMSs)

The performance measurement systems reviewed hereafter display a number of key characteristics that help hotels to identify set of measures that appropriately reflect their performance and objectives. It is clear when discussing the models that each has strengths and weaknesses. Neely et al. (2002) argue that the idea is not to criticize these different frameworks and methodologies, because each one of them adds some value. The problem with them, however, is that all are partial or point solution. They offer insights into some of the dimensions of performance that should be measured and managed, but by no means all of them. The need for business managers and practitioners to measure and improve performance increased in the late 1980's due to effect of dissatisfaction with traditional performance measures and increasing global competition (Harris & Mongiello 2001). This interest led to a plethora of measurement frameworks designed to help organizations implement a balanced set of measures. Accordingly, a number of PMSs were generated. The first to emerge was a self-assessment system, the Malcolm Baldrige National Quality Awards (MBNQ) (Pun et al. 1999). Then in the early 1990's, followed the European Foundation for Quality Management (EFQM) Excellence Model (Shergold & Reed 1996). Around the same time, the Results and Determinants Matrix (Fitzgerald, et al. 1991) and the Balanced Scorecard (Kaplan and Norton 1992) were also developed. Finally in 2000, the Performance Prism (Neely et al. 2001) was proposed as an improvement on the previous models.

Quality Awards Models

A new era of business performance measurement began with the idea of business excellence as a practice for organizations. In the early 1980's, a number of western countries, both in government and industry, began to push for greater productivity in business operations. Although not designed as performance measurement frameworks, the EFQM model and its US equivalent the MBNQ model took a broader view of performance, addressing many of the areas of performance. The business excellence model is a broad management model that explicitly highlights the enablers of performance improvement and indicates result areas that should be measured.Without doubt the EFQM model and the MBNQA model are both results oriented. Of the two models, the EFQM model is clearer about human resource management and has two criteria devoted to this dimension – people management and people satisfaction (Tummala & Tang 1996). Importantly, neither the EFQM model nor the MBNQA model assists with formulating and evaluating strategy. There is also strong support for the view that the models are assessment tools and not models for guiding business improvement and implementing strategic changes. A strong point of both models is their common framework and generic design, which enables comparisons between firms (Andersen et al. 2000). However, the models do not indicate best or preferred practice in an organizational context (Mc Adam and O'Neill 1999) and it is largely left to the organization to pursue information via award entry, consultancy support or their own networks.

Nevertheless, the EFQM and the MBNQA models provide opportunities and direction for business improvement through the self-assessment process and measurement of performance and organizational operation in a holistic way (Gadd, 1995; Shergold & Reed, 1996). A particular value of the EFQM model, as a performance measurement tool, is its use as a template for providing health checks on the firm's performance management and for identifying areas for change. Most importantly, it appears that the models require modification for specific sectors and especially for hotels if they are to be meaningful tools for hotel managers.

Results and Determinants Matrix

The importance of the service industries as a growing sector and the need to consider performance measurement systems that are specific to these sectors has been recognized by Fitzgerald et al. (1991). Fitzgerald et al. proposed a framework classifying measures into two basic types. Those that relate to results (competitiveness and financial performance) and those that focuses on the determinants of those results (quality, flexibility, resource utilization and innovation). This reflects the concept of causality, indicating that results obtained are a function of past business performance in relation to specific determinants. This demonstrates the need to identify drivers of performance in order to achieve the desired performance outcomes. A key component of the work of Fitzgerald et al. which is different from that of manufacturing-based models, is the performance dimensions that recognize the intangible aspects of service-based operations. In addition to the 'hard' measures of financial performance, the emphasis in the matrix is on the 'soft' measures (such as, competitive performance, quality of service, flexibility, resource utilization and innovation). These dimensions are the basis of a generic performance framework for measuring performance in service industries. Similar to the quality awards models, Fitzgerald et al. recognize the two key dimensions of performance as the determinants (or drivers) and the results. The six generic performance dimensions are grouped into two categories of 'results' and 'determinants'.

The matrix is presented as a generic performance measurement framework with the understanding that the mix of factors within the broad categories of results and determinants may vary from firm to firm. Pun and White (2005), acknowledge that the nature and relevance of the matrix is dependent on contingency factors. With regard to this study, the implications of the matrix for hotels are manifold, because of its focus on the less tangible aspects of service.

The Balanced Scorecard Approach to Performance Measurement

The most popular of the performance measurement frameworks has been the Balanced Scorecard proposed by Kaplan and Norton (1992 and 1996). The Balanced Scorecard identifies and integrates four different ways of looking at performance (Financial, Customer, Internal Business and Innovation and Learning Perspectives). The authors identify the need to ensure that financial performance, the drivers of it (customer and internal operational performance) and drivers of ongoing improvement and future performance are given equal weighting. The Balanced Scorecard reflects many of the attributes of other measurement frameworks but more explicitly links measurement to the organization strategy. The authors claim that it should be possible to deduce an organization's strategy by reviewing the measures on its Balanced Scorecard. Kaplan and Norton (1996) argue that the full potential of the Balanced Scorecard will only be realized if an organization links its measures clearly identifying the drivers of performance.

Despite its widespread use, numerous authors have identified shortcomings of the Balanced Scorecard. For example, it does not consider a number of features of earlier frameworks that could be used to enhance it. The absence of a competitiveness dimension as included in Fitzgerald's et al.'s (1991) results and determinants framework, is noted by Neely et al. (1995). Others emphasize the importance of measurement of the human resource perspective/employee satisfaction, supplier performance, product/service quality and environmental/community perspective (Brown 1996). Failure of the Balanced Scorecard to consider these dimensions limits its comprehensiveness because not all measures can be included, as is the case with the Results and Determinants Matrix as an example. A further criticism of the Balanced Scorecard is that it does not reflect different dimensions of performance. Neither the customer nor internal perspectives are defined in terms of the dimensions of performance that determine success, such as the generic strategic objectives of quality, cost, delivery (speed and reliability) and flexibility.

The Performance Prism

The Performance Prism was developed by Neely et al. (2001) to address the previously identified shortcomings of the traditional measurement frameworks. The prism was designed to assist managers in the process of selecting the best performance measures for their organization. The Performance Prism comprises five interrelated facets namely stakeholder satisfaction, strategies, processes, capabilities and stakeholder contribution. The Performance Prism is not intended to be a prescriptive measurement framework; instead managers of large organizations have used it as a tool to assist reflection. Neely et al. believes that it is the inter-relationships between the five components of the prism that best helps managers to understand the factors that drive performance. The Prism is like the EFQM model, whereby the facets could be seen as components of a system. The Prism can therefore help managers analyze their operations for performance improvement purposes. Neely et al. also believe that their prism is an improvement of the Balanced Scorecard as it recognizes the different types of stakeholders, such as employees, regulators and community, which have not been mentioned by Kaplan and Norton (1996). The prism model also recognizes the reciprocal relationship between the stakeholder and the organization.

Although this model attempts to address a number of the shortcomings of previous models, it is similar to the Results and Determinants Matrix and the Balanced Scorecard in that it does not consider the impact of firm size on performance management. Omissions with regard to size and structure could mean that these models are more relevant to big companies rather than small firms.

Key Dimensions/Drivers of Performance

Drivers of Performance (Enablers)

The enablers are a mix of lagging and leading indicators that need to be integrated to achieve the firm's strategy and the final economic goals of the organization. The enablers include stakeholders, their needs and wants; strategy formulation; capabilities; and processes. Stakeholders refer to the groups of people who influence or are affected by the accomplishment of an organization's goals. A hotel's stakeholders could include customers, suppliers, investors, alliance partners, communities, regulators and employees. The wants and needs of the business, including the management should also be considered. An effective PMS should aid the hotel to know and monitor the needs, wants and levels of satisfaction of its stakeholders. However, it should be noted that monitoring needs and satisfactions is difficult because they can vary between stakeholders.

The second component of the PMS is strategy formulation. A PMS must be designed and implanted in accordance with an organization's business strategy in order to link the strategy to the objectives of the firm's functions, groups of people and individuals, and operational aspects of the firm. A PMS should also support the definition, development and evolution of business strategy in order to support continuous improvement in the firm. The organizations capabilities are aligned with the strategy and processes needed for the firm to operate and provide the desired stakeholder output. Capabilities refer to people, technologies, practices and infrastructure. Strategy and capabilities are the inputs to the firms processing system.Processes are concerned with identifying the critical components relating to design, management and improvement activities. These processes include four categories of development of products and services, generation of demand (sales and marketing), fulfillment of demand (product and service delivery) and planning and managing the enterprise. Each single process has many components and requires the presence of several capabilities.

Outcomes of the Drivers (Results)

The key outcomes of a business are stakeholder satisfaction and business results. The enablers and how they are managed determine stakeholder satisfaction. The satisfaction levels of employees, customers and society then drive the business results. The business results indicate the success of the business. With a review of these results, managers can determine if their goals have been achieved and whether the core organizational strategies are appropriate.

The results component of the PMS deals with how hotel operators measure performance to identify and monitor the desired results. The five PMSs studied in this research generally emphasize the importance of effectively addressing performance measurement by: attending to the results-enablers relationship; using a balance between internal and external measure and; balancing different perspectives of the firm based on the nature of the measures (both financial and non-financial).

Financial measures are the traditional means of performance measurement. Business performance systems historically developed as a means of monitoring and maintaining organizational control, while business performance measurement focused on attaining a set number of key financial and accounting measures. However, these measures alone are no longer relevant for today's hotel managers. To remain competitive, hotels now need to consider non-financial or operational results as measured by product and service output. These results are explained by terms such as quality, quantity, volume, time, ease of use and money (cost, price and value). Considering the PMSs discussed prior, a performance measurement system for hotels in Kenya is therefore proposed. This system will definitely require empirical proof in order to be a useful tool for hotel managers.

Proposed PMS for Hotels in Kenya

Two key dimensions – drivers and results are demonstrated in Figure 1. The drivers are stakeholder wants and needs; strategy formulation; capabilities and processes. The results are the outputs and outcomes. The relationships between these dimensions are complex and vary over time according to the type of hotel, its stakeholders and strategies.The performance management process starts with the strategy elements, which include stakeholder and manager wants and needs; strategy formulation (goals/plans/budgets). These elements should be aligned to the capabilities and processes, which in turn determine the results. The components of the diagram that represent the process of dynamic capability and continuous improvement cycle are four activities - decide and act; collect data and information, analyze and interpret; and insights and judgment. The measurement activities are focused on collecting information from key sources. These data are essential to monitoring performance. For comprehensive measurement, it is important that the data are sourced from the firm's stakeholders and the market. The measurement activities are focused on the outputs (the financial and product/service results) and should use a balance of financial and non-financial measures. The output results then determine the outcomes of performance (stakeholder and owner-manager satisfaction).

Determining the outcomes is not enough to ensure ongoing improvement. Thus, the model demonstrates that with an assessment of goal achievement the manager needs to analyze and interpret the overall outcomes and to use insights and judgment to combine the processes of performance measurement and management in order to continually review and analyze the relationship between the drivers and results. In this way the model attempts to illustrate the cause and effect relationships of the firm's behaviors and activities and that by employing a double loop learning process, managers of hotels should be able to improve management for business success.

The theoretical model proposed below provides a general framework for performance measurement in hotels. However, it is not specific to hotels in Kenya. In order to make it relevant to Kenya, gathering of primary data from hotels is recommended. This will help to refine the key dimensions of the PMS thereby making it relevant to hotels in Kenya.

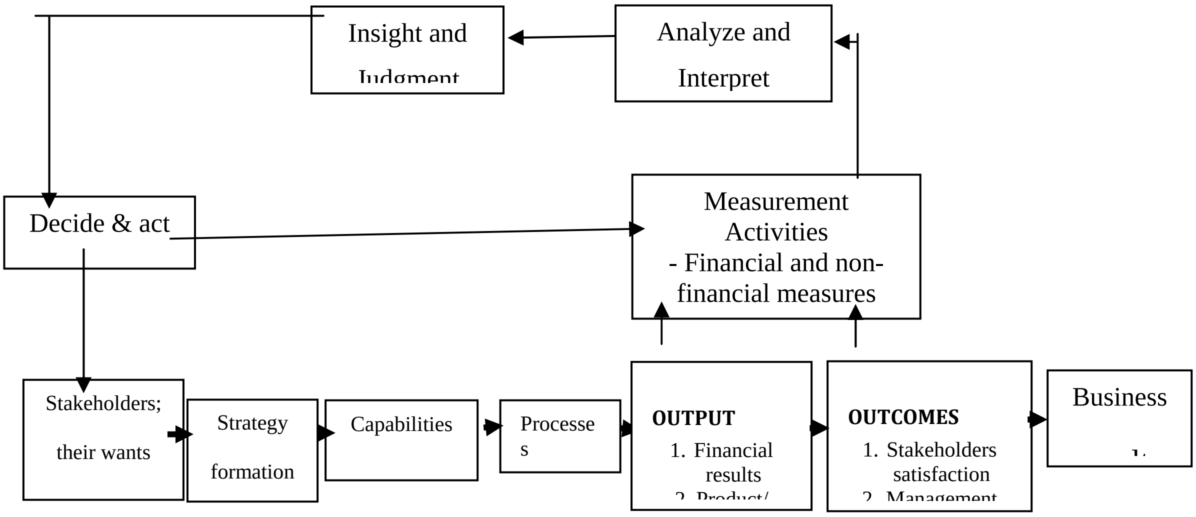

Figure 1: Proposed PMS for hotels in Kenya

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