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## PERFORMANCE MEASUREMENT IN THE CROATIAN HOSPITALITY INDUSTRY – A COMPARATIVE STUDY

Nowadays hotel managers need information to make smart business decisions and to achieve their planned results. Performance measurement is an integral part of the management processes with the goal identifying areas of poor performance and opportunities for better achievements. It should provide useful information for short and long term decision-making and for meeting the needs of the triple bottom line.

This paper reviews the literature of performance measurement in hospitality industry. The aim of the paper is to examine the use of performance measures in Croatian hospitality industry. The research results show an increasing implementation of USALI methodology and a growing trend of usage of segment reports by middle and low management. In order to satisfy the requirements of the triple bottom line, it is required to implement an upgraded performance measurement system with new dimensions and key performance indicators, using the USALI as a starting point.

**Key words:** performance measurement, USALI, Balanced Scorecard (BSC), hospitality industry

### 1. INTRODUCTION

Performance measurement is an important part of the decision-making processes. As the overall objective of all organizations is to ensure satisfaction for their stakeholders, developing appropriate performance measures is a very important issue. The hospitality industry has been affected by both the world-wide growth in tourism and the economic recession. In accordance with these changes, performance measurement in the hospitality industry has gained particular importance as a tool for maximizing revenue and minimizing costs. Measuring performance in hospitality industry has been attracting researchers for some time. However, many researchers emphasise that the hotel industry still does not have a properly developed performance measurement system (PMS) that could provide useful information for short and long term decision-making, and some of them offer a specific PMS model for the hospitality industry. The orientation towards traditional financial measures and slow adjustment to modern trends has been stressed very often. (Phillips, 1999; Banker et al., 2000; Mia & Patiar, 2001; Brander Brown & Aktinson 2001; Pavlatos & Paggios, 2009, Dittman et al., 2009). Limited research has been done in the field of performance measurement for the needs of the triple bottom line in the hospitality industry (Mihalič et al., 2011).

### 2. THEORETICAL BACKGROUND

Performance measurement has gained popularity in 1990s, particularly with the development of new management accounting techniques. It can be defined as the process of quantifying the efficiency and effectiveness of past actions (Neely, Adams, 2001). Some authors (Moulin, 2004) have criticized this definition by suggesting, that instead of quantifying should be used the term evaluating. Moulin defines performance measurement as evaluating how well organizations are managed and the value they deliver for customers and other stakeholders. Performance measurement is the information gathering process. It is an integral part of the management process with the goal of identifying areas of poor performance and opportunities for better achievements. However, the traditional performance measures have been criticized for encouraging short term orientation, lacking strategic focus and focusing on financial measures. New, non-financial measures are needed in order to cope with the changing environment, which primarily includes quality, sustainability, customer satisfaction and innovations. These new measures must be flexible and directly related to the strategic goals.

The most widely known measurement tool is Kaplan and Norton's BSC (Kaplan and Norton, 1992). This model, with its four distinct perspectives, provides its own set of guidelines for the design of performance measurement systems that would lead to performance excellence. It provides a monitoring system that combines both financial and nonfinancial measures, as well as lagging and leading indicators. BSC has become popular in the hospitality industry after being implemented in the Hilton Hotels in 1994 (Huckestein and Duboff, 1999). Another successful performance measurement system in the hospitality industry is Six Sigma, which has been successfully implemented in Starwood Hotels & Resorts (Marx, M., 2006). The case study shows that the successful top-down transformational change approach by Starwood Hotels & Resorts executives led to short-term financial benefits (according to EBDIT) and focuses on the delivery of consistent and exemplary service to the guests.

Regarding the performance measurement in the hospitality industry, it can be argued that research and development lags behind that in other industry sectors (Quintano, 2011; Yilmaz and Bititci, 2006). The existence of Uniform System of Accounts for Lodging Industry (USALI) plays an important role in hospitality performance measurement. It enables the widespread use of a standard chart, what ensures competitive benchmarking. USALI has resulted in the development of common approaches to ratios and key statistics. According to Geller's research (1985) the most commonly used performance measures by US hotel companies are operational and financial measures. Similar research carried out in the UK displays almost the same results. Furthermore, CIMA's study (Collier and Gregory 1995) showed interesting findings. The most common way of measuring performance is by comparing actual with budgeted figures. Along traditional measures such as room yield, profit contribution, occupancy rates and labour cost percentage, some ways of quality measures were remarked. Brander Brown and Atkinson (2001) in their research indicate the predominance of financial and past orientated measures. Atkinson (2006) also noted in their research that not much progress has been done and little evidence exists of the development of new theories. Recent researches show that non financial measures are being included, especially in the field of corporate social responsibility and corporate environmental responsibility (Mihalić et al., 2012).

According to Quintano, there are three approaches regarding the performance evaluation in hospitality (Quintano, 2011). While Phillips (1999) proposed a contingency approach using inputs, processes, outputs, markets and environmental characteristics congruent with business objectives, Southern (1999) suggested a system approach. Systems concepts and techniques are applied in a hotel situation to describe and analyse influences between subsystems. An operations management analysis framework is then used to consider the design of operating systems with specific reference to performance measures which drive and support an organisation's competitive stance based on competitive factors. Andersen et al (1999) came up with a stochastic frontier approach to performance evaluation in the hotel industry, with particular reference to managerial efficiency levels. The model is based on "cost X-efficiency, which requires achieving the lowest possible cost, given current prices and firm output.

### 3. METHODOLOGY AND RESEARCH RESULTS

The research has been carried out by the Department of Accounting at the Faculty of tourism and hospitality management in Croatia. It consists of two stages that were aimed at examining the use of performance measures in the Croatian hotel industry. The first stage in 2010 (Peruško-Stipić) comprised the sample of 47 hotel companies that represent 54% of the overall accommodation capacity. The second stage was carried out in 2011 (Zanini-Gavranić). The sample which consists of 11 large hotel companies (35% of the accommodation capacity) was analyzed. The data was collected using a questionnaire that was sent to hotel managers, accountants and controllers in hotel companies. First we examined the level of the implementation of USALI standards in the Croatian hotel industry.

In Table 1 it can be seen that there is an increase of 91% in 2011 in fully implemented USALI standards in comparison to 2010. 36,17% of the hotel companies in 2010 had partly implemented USALI standards and in 2011 there were none. Accompanying these results there was decrease in companies that have not implemented the standards from 34,04% in 2010 to 9% in 2011, which is a change of 73,56%. The results from 2011 have to be accepted with a slight reserve, since only large hotel companies are contained in the sample. The first stage examined the rate of time usage of reports prepared based on USALI. The research has shown that 37,50% of users use the reports daily, 25% weekly, 85% monthly, and 92,50% annually.

Table 2 shows the percentage of usage of different reports prepared on the basis of USALI. It can be seen that the Room and Food and Beverage reports are mostly used daily (61,29%) and reports for Other operated departments, Rentals and other income, Overhead costs and Non-controllable fixed costs are mostly used monthly.

Table 1: The level of implementation of USALI standards in Croatian hotel industry

Year	Fully implemented			Partly implemented			Not implemented		
	%	Index	% of change	%	Index	% of Change	%	Index	% of change
2010	29.79	-		36.17	-		34.04	-	
2011	91	305.47	205.47	0.00			9.00	26.44	-73.56

Source: Prepared based on Peruško-Stipić, 2010, and Zanini-Gavranić 2011.

Table 2: The usage of USALI reports

Report	% of use			
	Daily	Weekly	Monthly	Annually
Rooms	61,29	9,67	29,00	
Food and Beverage	61,29	6,67	29,00	
Other operated departments	25,28	15,66	53,56	11,64
Rentals and other income	16,12		48,38	3,22
Overhead costs	8,6	3,22	57,00	6,45
Non-controllable fixed costs	6,45		54,00	7,25

Source: Prepared based on Peruško-Stipić, 2010.

In the second stage research was focused on the usage of quality and eco performance measures in prepared reports. 69% of the questioned sample was using these performance measures in their reports. The level of usage of quality and eco performance indicators is seen in table 3.

Table 3: The level of usage of quality and eco performance measures in hotel reports

Department	QUALITY COSTS in %	ECO COSTS in %
Rooms	66,08%	63,00%
Food and Beverage	72,16%	64,50%
Other operated departments	49,66%	37,33%
Overhead costs	17,00%	9,00%

Source: Prepared based on Zanini-Gavranić 2011.

The results show that the highest extent of quality and eco costs is in Food and beverage department, 72,16% hotel companies report quality costs and 64,50% eco costs. In Room department 66,08% report about quality costs and 63% eco costs. Followed by the Other operated departments that 49,66% of hotel companies measure and report quality costs and 37,33% eco costs and the lowest result have the Overhead costs where in 17% of hotel companies are measured quality costs and 9% eco costs.

#### 4. DISSCUSION

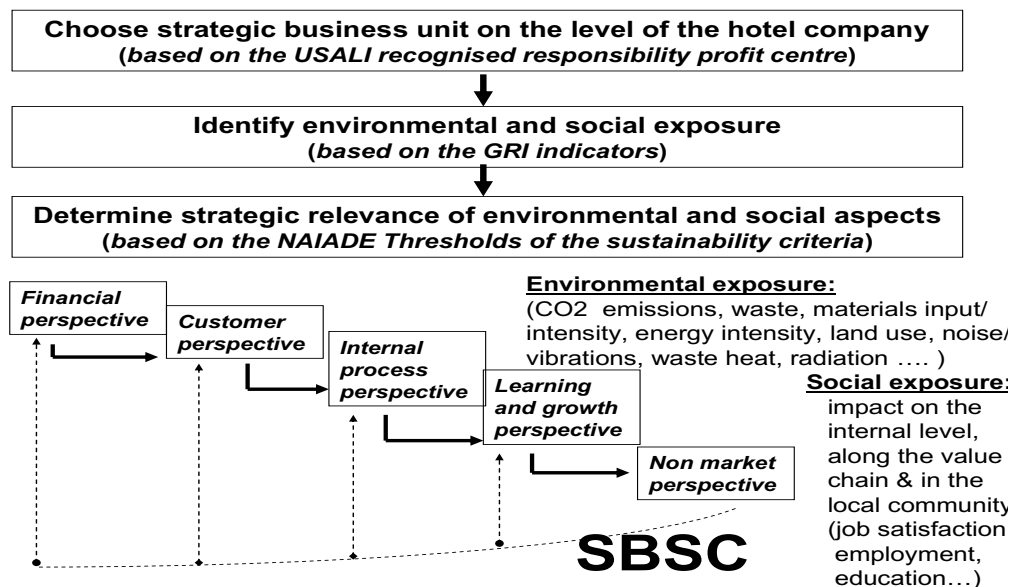
The question is how well some hotels or hotel companies can harmonize the actual performance measurement system with the triple bottom line requirement (economic, environmental, social dimension) and methodological framework of the Sustainability Balanced Scorecard (SBSC) (Figge et al. 2002). Performance measurement based on USALI standards, is today harmonized according to the International Financial Reporting Standard 8 (IFRS 8), which is used for improving the profitability of hotel operations, in order to ensure the achievement of excellence. As SBSC provides a powerful tool for integrated sustainability management, it is necessary to establish a relationship with USALI standards, and thus improve them, by creating the possibility for reporting about relevant and strategically focused performance which is aligned with the principles of sustainable development in the hospitality industry. Today USALI is mostly oriented to providing information for short-time decision making, but it can be directly or indirectly connected with different BSC perspectives. The financial perspective indicator leads to improved economic success, by transforming strategy into daily actions. Information on financial results about daily (monthly, periodically, etc.) actions is provided through the

standardized USALI reports for responsibility profit centres and also for costs centres as reportable segments (USALI, 2006, 33-174).

Summarizing data from internal USALI reports and discussing the their in the long-term movement tendencies, can be an information basis for planning and for the control needs of the BSC financial perspective. The financial measures define the financial performance that a strategy is expected to achieve, but it is also the endpoint of the cause-and-effect relationships between the other BSC perspectives. USALI reports of all profit centres are directly connected with the goal of different market orientations, specific internal processes, and also with the specific needs of learning and growth. The customer perspective defines the customer / market segments in which the business competes. By means of appropriate strategic objectives, measures, targets and initiatives, the customer value proposition is represented in the customer perspective through which the firm / business unit aims to achieve a competitive advantage in the target market segments. Financial information in USALI reports, as well as non-financial indicators (USALI, 2006, 189-194), allow to provide information about the position of each responsibility profit centre in relation to the target customers and competition.

Classic approach of BSC does not include all aspects which are crucial for achieving a permanent competitive advantage on the target tourism market, according to the principles of sustainable development. Management Accounting is required to provide the necessary data and information in accordance with the goals about environmental and social business strategies as addition to the other business strategies. To achieve this it is necessary to establish a special form of USALI reports with content of relevant environmental and social information. Information presented in this type of USALI statements can be a starting point for the assessment of achievement level of strategies in the defined short-time period. Based on the presented information in USALI statements, indicators about environmental and social aspects of daily business can be prepared. New approach of the system of USALI statement would create requirements for assessing the relationship between economic, environmental and social aspect of business in short time. Information, which specific USALI reports provide for short-term business decisions making on segment level, SBSC provides it for long-term decision making to fulfil the requirements of the sustainability concept.

Figure 1: Framework for the identification of the sustainability concept of a SBU in a hotel company



Source: Prepared based on (Figge et al., 2003, 29; Delai, I., Takahashi, S. 2011, 450/457, NAIAD, 1996)

SBSC is a strategic instrument of management, directed for a permanent improvement in the business's performance in economic, environmental and social terms. Based on this reasoning, the process of formulating a SBSC should meet some basic requirements. The process must ensure economic management of environmental and social aspects, which must be integrated with the general management system of the firm. On other part SBSC has to be formulated on the level of the *strategic business unit* (SBU) in which environmental and social aspect must be integrated according to their strategic relevance (Figge et al., 2003, 28). In hospitality industry SBU can be basically all those responsibility profit centres, which the USALI system treated as reporting segment, if they are integrated according to their strategic relevance. Above stated indicates the interconnectedness and interdependence of USALI standards reporting system with the SBSC methods requirements, in achieving the goals and objectives of sustainable development. SBSC integrated economic,

environmental and social aspect on the level of SBU, according to their strategic relevance. Concerning the question of “non market perspective” position, it can be a separate perspective or its key performance indicators can be included in existing perspectives with the same effect on the quality of decision making.

## CONCLUSION

SBSC include environmental and social issues on the level of SBU, as a strategic oriented responsibility profit centre. Since the reporting issue on the level of SBU, are the information presented in USALI statement, it is necessary to refine the reporting system of USALI standards, with the new environmental and social issues. This also means that it can be applied to integrating environmental and social aspects into the successful implementation of both conventional corporate strategies and explicit corporate sustainability strategies. USALI reports have to be embedded in process of SBSC preparation in the wider context of strategic management, which is obligated to prepare sustainable strategy, and to translate it into operational terms and performance. Information prepared according USALI standards and SBSC methodology can help to enhance both effective and efficient environmental and social management and sustained economic success of the hotel company.

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