# GUIDANCE ON MEASURING PERFORMANCE IN THE HOTEL INDUSTRY

**Iuliana Parvu**[1]
**Cristina Ciami**[2]

**Abstract**

*In the world of business, it is said that "if a certain process or phenomenon can not be measured, then it can not be driven." An efficient management, in order to make timely decisions, needs significant measurements of all processes running within the organization. Just that way the negative deviations from what is considered a natural course of business can be quickly corrected. Moreover, the relevant measurements will give the manager not only a picture of the company's performance, but also an explanation of this performance. The present paper proposes a series of performance indicators that can be used in the hospitality industry for a complex foundation of managerial processes.*

**Key words:** *hotel industry, organizational performance, key performance indicators*

## 1. Introduction

The competitive environment, in which the majority of modern organizations operate, forces them to make permanent efforts to get to know their performance to compare it with that of similar organizations and, of course, to improve their performance. It is obvious that this approach is also needed in the hotel industry - a growing industry.

The tendency of competition intensify on this market is also evident in Romania. According with Eurostat data, between 2014 and 2017, the number of accommodation increased by over 25% and the number of nights spent at tourist accommodation establishments rised by over 31%. At the same time, the Romanian hotel market was, in 2017 the second most attractive in the region, after Poland, in terms of the transaction sector.

We consider, in this context, that it is very important to develop complex systems for measuring hotel performance usable by hotels of varying sizes. This paper proposes a number of specific indicators that can be used in the hospitality industry.

## 2. Organizational Performance – a complex dimension

Improving the company's performance has always been a fundamental managerial objective, thus defining, in fact, the organizational success. Obviously, in order to determine performance, this must be measured. Traditionally, organizational performance has been measured and expressed through financial / accounting results - profit, turnover - calculated at the end of a certain period (year, semester etc.), respectively through various financial rates. However, these financial records, unaccompanied by non-financial results or operational results, do not allow current managers to understand the the system they manage and to lead effectively. In order to remain competitive, companies must also pay attention to the non-financial dimension that defines the business and which is the foundation for achieving good financial results. Thus, dimensions such as service quality, consumer satisfaction, organizational flexibility, organizational culture, use of resources and technology etc. must be frequently used in assessing company performance.

The literature offers a range of business-class models for quantifying performance. One of these models is The Balanced Scorecard (Kaplan & Norton, 1992). The core of the model is that it provides a performance assessment method that combines both financial and non-financial indicators. Thus, the model allows managers to address the business from four major perspectives, namely: Customer perspective (*Which is the perception of our consumers about our business?);* Business perspective (*What are the characteristics of the business we excel*

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[1] Spiru Haret University, iuliana.parvu@spiruharet.ro
[2] Spiru Haret University, cristina.sandu@spiruharet.ro

*at?*); Innovation and learning perspective (*Can we continue to create and improve the value of the business?*); Financial perspective (*Which is the perception of our shareholders about our business?).*

Another model is the Scoreboard, a model that aims to improve performance through a deep understanding of the systems and of the production processes. Managers using this model periodically gain a global perspective on the business they run, which allows them to make well-grounded decisions. Although initially (in the 50's) the model did not use non-financial indicators, several decades later it was completed to meet the needs of managers.

It should be noted that the models used in performance measurement have been developed in the context of the industrial sector, which makes them, to some extent, incompatible with the services sector and even more with hotel services.

That is why in the present study we propose a series of key indicators in terms of measuring performance in the hospitality industry, respectively in the entrepreneurial context and not in the context of the big hotel chains.

In this end, a number of issues need to be clarified, such as:

• *What are key indicators?*– Key indicators are those that enable the management team to lead the business, to base strategies, not just those indicators that reflect business performance from one period to the next. For this reason, indicators may differ from one organization to another, even in the context of the same market;

• *How many key indicators will be included in a performance measurement system?* - Developing a performance measurement system with many indicators, without highlighting which ones are essential, is almost of no help. On the other hand, it is impossible to specify an exact number of indicators applicable to any organization. However, it is estimated in the literature that a number ranging from 4 to 10 indicators is sufficient for most companies;

• *How inflexible is the choice of indicators?* - Although indicators once identified at company level can be modified / adjusted, it should be noted that they should be relevant for a long period of time.

• *If a number of key indicators are set, will others be calculated?* - Of course, in a system of measuring organizational performance, other indicators can be used for management.

### 3. Approaches of performance measurement in the South-East Region hotels

For an overall view of how the concept of organizational performance measurement is understood in the accommodation units in the South East Region, we organized a series of meetings with the management staff from 22 accommodations located in this region, specifically on the Black Sea Coast and Constanta. The meetings aimed to collect primary data on how the management teams of these accommodation units understood the issue of organizational performance, and for this purpose there were free discussions and a questionnaire was handed over. We believe that the results can be generalized without major errors, as the study includes a relatively homogeneous population.

The questionnaire contained questions to identify the organization and the respondent (age, education, function, work experience) and questions regarding the subject of the study, respectively about the extent to which the organization calculates and analyzes various aspects of the performance measurement in hotelier industry. The questions about the performance have been analyzed by assigning a 5-level scale, having the following significations:

- 1 – the aspect is not relevant and is not evaluated;
- 2 - the aspect is relevant but is not evaluated;
- 3 – the aspect is relevant, there are primary information that allows analysis, but is not analyzed;

- 4 – the aspect is relevant, it is analyzed, but using the manager's intuition, not key indicators

- 5 - the aspect is relevant, it is analyzed by management, using key indicators of which progress is presented during periodical meetings

The South-East region is relevant to the tourist services industry in Romania, with recent statistics showing the following: 18,5% of the accommodation in Romania in 2017 are located in this region (second place at national level) and within region, 77% of the accomodations are in Constanta; 24% of the Romanian hotels are in the Southeast Region (1st place nationwide) anf about 84% of them are in Constanta; the number of tourists arriving in hotels in the Southeastern region represents 18.5% of the total number of tourists staying in hotels in Romania in 2015, which places the region on the third place in the country.

As far as the questionnaire is concerned, the questions addressed four categories of performance components, about which the respondents were asked if they analyzed and measured them, as follows:

I. *Measuring performance from customer relationship perspective:*
- Market-share progress;
- The level of customer satisfaction;
- Repeat purchase rate;
- Customer lifetime value.

II. *Measuring performance from the perspective of the relationship with the employees:*
- Number of employees per guest room;
- Labor costs;
- The average seniority;
- The level of knowledge in the organization;
- Individual performance of the employees.

III. *Measuring performance from the perspective of internal processes:*
- The efficiency of the reservation process;
- The efficiency of the accommodation process;
- The efficiency of the cleaning process
- The efficiency of the check-out process

IV. *Measuring the financial performance of the firm:*
- Average daily rate;
- Revenue per available room – RevPAR;
- Turnover;
- Profit;
- Break-even point;
- Operating Costs
- Liquidity rate.

Centralizing and analyzing the answers of the respondents reveal a clear imbalance between assessing financial performance and of the non-financial performance. Without specifying the results for each component, it is noted that the financial indicators are preferred by the managers of the accommodation units which were part of the study, although such indicators are not sufficient to explain the organizational trends, respectively the efficiency of the managerial decisions. None of the respondents were able to provide relevant data records sustaining a certain level of  the financial performance. Thus, the results, regardless of their status, positive or negative, could not be considered as a consequence of the relationship with the clients, of the level of competence of the employees, of the relationship with the investors, with the suppliers etc.

**4. Key performance indicators relevant for the hotel industry**

Establishing a set of generally applicable industry-wide indicators is not possible and, above all, it is not relevant. What we present below is a series of indicators, structured in four areas of interest for hotel management, namely:

1. The overall activity of the hotel;
2. Relationship with the hotel customers;
3. The hotel position on the market;
4. Leisure services.

**1. The overall activity of the hotel**

The indicators included in this category are meant to highlight and explain the performance of the hotel on various areas of interest:

| The overall activity of the hotel | |
|---|---|
| **Key performance indicator** | **Explanation** |
| *Key performance indicators from the financial perspective* | |
| **Staff expenditure rate** | It represents the weight of the personnel expenses in the turnover. This type of expenses has the greatest weight in the context of the hotel industry. In Romania the average value is 21.2%. |
| **Revenue per Available Room (RevPar)** | It measures revenue (or sales) per room relative to the total room inventory available. |
| **Average Daily Rate (ADR)** | It measures revenue per room relative to the number of rooms sold |
| **Prime-cost Rate** | It is a basic rate in the restaurant industry and is calculated as a percentage ratio between the prime-cost indicator and the turnover. Prime cost indicator is calculated by adding the cost of raw materials to the cost of labor directly associated with the production process for food and beverages. Values of the prime – cost rate differ according to the type of the food unit, but for medium-level restaurants (3 stars) the goal is up to 60%. |
| *Key performance indicators from the efficiency perspective* | |
| **Reservations Rate** | It measures the percentage of the accommodated rooms as a result of a reservation process. It is calculated as the ratio between the total number of rooms rented over a certain period of time and the number of rooms reserved for the same period of time. It can be analyzed in the structure: telephone bookings, on-line booking, etc. |
| **Occupancy Rate** | It is a commonly used indicator in the tourism industry, representing the relationship (or ratio) between the number of rooms sold and the number of rooms available in a certain period of time |
| **Average lenght of stay** | It is the average amount of days guests stay at the hotel during a particular period. It is a ratio between Number of roomnights an Number of bookings. This indicator can vary a lot from a hotel to another. |
| **Number of employees per guest room** | The indicator is computed using the ratio between number of full-time employees and total number of rooms available for sale. It is one of the critical factors in hotel industry because it influences the labor costs which is the biggest expense line item in a hotel Profit and Loss Statement. For most hotels in the European Union, this indicator ranges from 0.24 to 0.71. |

| *Key performance indicators from the human resources perspective* | |
|---|---|
| **Employee turnover rate** | Employee turnover refers to the number or percentage of workers who leave an organization and are replaced by new employees. Most companies calculate a quarterly or annual turnover rate as a ratio between number of employees who left and the the average between beginning and ending number of employees. is important to know because the costs of hiring (recruitment, selection, training, etc.) and integration of new employees can significantly affect the budget. |
| **Competency level of employees** | It refers to the extent to which employees know how to efficiently use various equipment specific to the hotel industry. |
| **Payment for overtime work** | It measures the additional costs in relation to the budgeted wage costs. High values of this indicator may reveal organizational weaknesses. |
| *Key performance indicators from the productivity perspective* | |
| **Time dedicated to activities other than operational** | It refers to the time spent by employees for activities such as meetings, planning, training etc. |
| **Productive time** | It is calculated as the difference between the planned working time and the previous indicator. |

## 2. Relationship with the hotel customers

This category brings together those indicators that evaluate and help explain the hotel performance with respect to hotel customers.

| Relationship with the hotel customers | |
|---|---|
| **Key performance indicator** | **Explanation** |
| *Key performance indicators from the attention paid to the customers perspective* | |
| **Customer benefits** | The real or perceived value that a customer experiences or believes he is receiving through interaction with a company. It quantifies what customers receive in addition to what they paid (accommodation, meal etc.). Benefits may include resolution of a problem, achievement of a desired outcome or fulfillment of a need through a purchase; a feeling of confidence following purchase; or satisfaction with post-purchase service. |
| **Level of the services' personalization** | It is determined by the existence of a system of collecting customer preferences in relation to as many aspects as possible, and then by determining the extent to which they are met. |
| **Turn-around time for customer requests** | It means the amount of time taken to complete a process or fulfill a request. Measures the time that elapses from when the customer addresses or wishes to make a request to hotel representatives and when they respond (for example, the phone response time) |
| *Key performance indicators from the feed-back perspective* | |
| **Number of positive feed-backs** | Measures the number of positive feed-backs received from customers, measured on a scale of 1 to 10. |
| **Number of customers' complaints** | Measures the number of complaints made by guests throughout their relationship with the hotel. |
| *Key performance indicators from the customers'profitability perspective* | |
| **Customers retention costs** | Customer retention is the cost of keeping an existing customer. For example: discounts, promotional giftsetc. |

| Relationship with the hotel customers | |
|---|---|
| **Key performance indicator** | **Explanation** |
| **Customer Retention Rate** | Customer retention rate is the percentage of customers mantained in a particular period, relative to the number of customers at the start of the period. The indicator reveals the number of customers remaining at the end of the period without counting the number of new customers acquired. |
| **Cross-selling value** | Cross-selling reffers to the sell of the related products or services that complement a customer's main purchase. The indicator determines the extent to which customers were persuaded to buy other products than those they originally intended to buy. For example, the customer only wants accommodation, but is convinced to also buy the meal. |
| **Up-selling value** | Upselling is a sales technique used to get a customer to spend more by buying an upgraded or premium version of what's being purchased. For example, a room with enhanced comfort. |
| **Average customer profitability** | It is calculated as the multiplication of the net average profit of a transaction and the average number of the repeated transactions. |

### 3. The hotel position on the market

The tourism industry is highly competitive, which makes it important to have an analysis of the organization's position related to the competitors. The main directions of analysis are presented below.

| The hotel position on the market | |
|---|---|
| **Key performance indicator** | **Explanation** |
| *Key performance indicators to assess the relationship with competition from a financial perspective* | |
| **Profit** | It implies to compare the evolution of the organization's profit with the evolution of the competition's profit. |
| **Labour costs** | It is advisable to make a frequent comparison of the organization's labour costs with those of competitors. |
| **Productivity** | It is a comparison of thr efficiency levels. |
| *Key performance indicators to assess the relationship with competition from the brand perspective* | |
| **Brand performance** | This indicator is measured on the basis of two major components: *Brand awareness* (refers to the extent to which customers are able to recall or recognise a brand) and *Brand preference* (measure of brand loyalty in which a consumer will choose a particular brand in presence of competing brands, but will accepts substitute sif that brand is not available). |
| **Product usage** | This indicator is the total of components such as: service usage frequency, average usage time, average purchase value |
| **Market share** | Represents the percentage of an industry, or market's total sales, that is earned by a particular company over a specified time period. Relative market share is a marketing metric used to compare the firm's market share to the largest competitor in the market. |

| Key performance indicators to assess the relationship with competition from the product/service perspective | |
|---|---|
| **Top products/services** | Identifying the most popular products / services of the competition and comparing the company's products with them, identifying the pluses and minuses. |
| **Frequency of the products / services renewal** | Compares the frequency with which the competition renews products / services in relation to the organization. |

### 4. Leisure services.

This component includes those indicators to measure the performance of profit centers that can operate within the hotel. In order to exemplify, in the table below, we present th indicators related to a gym that can function in a hotel.

| Gym performance analysis | |
|---|---|
| **Key performance indicator** | **Explanation** |
| *Key performance indicators from a financial perspective* | |
| **Equipment investment** | It refers to the value of the investments made for the endowment and arrangement of the gym. |
| **Number and dynamics of the subscriptions** | The value of the subscriptions over a year. |
| **Income** | Total income over a year |
| **Expenditure** | Total expenditure over a year |
| *Key performance indicators from a structural perspective* | |
| **Gym surface** | The size of the gym |
| **Services variety** | It refers to the the level of the services'diversity. For example: aerobics, massage etc. |
| **Number of employees** | It measures how many people work directly with the customers in the gym. |
| *Key performance indicators from an operational perspective* | |
| **Qualification level of the employees** | Certificates held by employees, attesting their competence. |
| **Capacity of the gym** | It refers to the maximum number of clients who can train in the gym at a time |
| **Duration of a session** | It refers to the way in which the activities taking place in the gym are divided and according to which the unitary tariff is set. |
| *Key performance indicators from the customer perspective* | |
| **Average waiting time** | Measures the average duration (expressed in minutes) of the customer's waiting time from the time it is ready to start and until it actually starts. |
| **Customers' feed-back** | Represents the average value of the customer reviews |

### 5. Conclusions

Improving organizational performance is the fundamental objective and responsibility of any manager. In the present paper we pointed out that, in order to highlight and explain this performance, most of the tourism managers use strictly financial indicators based on the accounting principles. However, many theorists and practitioners have expressed the view that

this kind of quantitative indicators can not explain the causes that determined a certain state of performance. Thus, the literature reveals that it is inappropriate to attempt to base exclusively or predominantly on financial indicators. The level of inadequacy is more evident in services. In order to overcome these shortcomings, it is necessary to act in two directions: on the one hand the diversification of the financial information used for the substantiation of the control and management decision process, on the other hand the identification of indicators of performance measurement with a different coverage area to surprise and qualitative assessments.

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