

HOW TO APPROACH HOTEL PERFORMANCE MEASUREMENT? A CONCEPTUALIZATION OF KEY DETERMINANTS

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Abstract

Purpose – Market changes put new challenges for the hotel business. Hotels require and rely on measuring business performance, wherein inadequate measurement may compromise hotel performance and thus competitiveness on the tourism market. Performance measurement is an important managerial activity and a crucial support in company management and business decision making. Unfortunately, recent findings on measuring hotel performance are insufficient and incomplete. Therefore, the purpose of this paper is to foster innovation in hotel performance measurement and fill the findings gap in conceptualization of hotel performance key determinants by proposing an innovative approach to the conceptualization of hotel performance measurement.

Design – Introductory remarks in the research problem are followed by hotel performance literature review, further key determinants of hotel performance are elaborated and a conceptual approach for measuring hotel performance is proposed, the paper ends with managerial implications and concluding remarks.

Methodology – The objective is achieved by (i) a review of the hotel performance literature, (ii) the amalgamation of relevant findings in hotel performance researches, and (iii) proposing a hotel performance measurement framework.

Approach – Based on the review of the relevant literature in the field of research findings will be summarized, critically reviewed and with theoretical footing a new innovative conceptual approach for measuring hotel performance will be proposed.

Findings – The conceptual framework of hotel performance measurement includes internal, external and temporal components. By approaching measurement of hotel performance internal, external and temporal determinants should be considered. Hotel characteristics stand out in the literature as crucial determinant of internal environment that determine business performance. Tourists, concretely destination demand represent a crucial element of the external environment of the hotel business. Further, the temporal component refers to tourism seasonality. It is necessary to explore hotel performance per season: low, medium and high season, to the contrary, research performance in a single time point or the aggregate annual data may lead to incorrect conclusions.

Originality of the research – The contribution of research is a new innovative approach of hotel performance measurement conceptualization. This paper provides understanding of hotel performance determinants and fills an identified gap in the hotel performance measurement literature. Research findings are an important contribution to future research of hotel performance.

Keywords hotel performance measurement, conceptual approach, hotel characteristics, destination demand, tourist season

INTRODUCTION

Market changes with increasingly competitive environment and extremely heterogeneous demand pose new challenges for the hotel business (Jeffrey and Barden, 2001). The study of determinants of business performance is crucial support in company management and business decision making. Information on the contribution of individual variables in the overall business performance allows the organization to improve effectiveness (Onyango et al., 2012). Jeffrey and Barden (2000a) noted that the hotel industry is dynamic but stable system with changes at the individual level and stability at the aggregate level. Therefore, the changes that occur in the form of trends and fluctuations may be common for the industry as a result of changes in tourist flows or may be individual, specific to individual facilities, as a result of individual peculiarities of a hotel. In such a system, each hotel must constantly compete to maintain or improve its level of operations, which is impossible without efficient use of its resources. Time variability of tourist demand puts the hotel business before the task of monitoring the impact and improving the efficiency of use of hotel resources. The growth of competition in the surroundings and the complexity of tourism demand necessitate a need for information obtained by continuous, consistent and comparable monitoring of the operation in order to improve performance and survival in the market (Jeffrey and Barden, 2001). Successful business is necessary in an increasingly competitive environment if a hotel wants to survive and thrive (Medlik and Ingram, 2002, p. 178). Hotel business monitoring is carried out to assess the quality and quantity of business, to reveal the location and cause of business loss and to find ways to improve business. Hotels require and rely on monitoring hotel business, whereby inadequate measurements may compromise hotel performance, and the competitiveness on the market (Phillips, 1999). Fact is that measuring business performance represents a crucial support in company management and business decision making. Information on the contribution of individual variables in the overall business performance allows the organization to improve its effectiveness, therefore, it is necessary for the company to adopt effective and strategic business measures with the identified drivers and valid indicators of business results to determine the level of realization of the set objectives (Onyango et al., 2012). Despite the relevance of hotel performance measurement, current methodological approaches are incomplete. The aim of the paper is by reviewing of hotel performance literature to identify the gap in the approaches to measure hotel performance, furthermore, to identify key determinants of hotel performance and based on theoretical knowledge, to obtain a conceptualized approach for measuring hotel performance.

1. HOTEL PERFORMANCE: A LITERATURE REVIEW

The term performance, as the outcome of the hotel business, has diverse applications in the hotel sector (Okumus, 2002). Performance is usually defined in terms of output or an achievement of quantitative goals (Armstrong, 2006, p. 7). Hotel performance literature highlights that measuring hotel performance aims to monitor and control the execution of pre-set tasks. The goal of every business analysis is to increase the efficiency and effectiveness of operations, whereby business analysis realizes its task by the process of diagnosing disorders, information on the causes and consequences of

the disorder, and then by preparing business decisions. Business analysis determines hotel strengths and weaknesses and is warning about disturbances and possible crisis. Timely detection of weak spots is crucial for the success of a business. Hotel business monitoring gathers useful information on the operations, which are the basis for business decision-making and a prerequisite for improving the business. From the above it is clear that the hotel company should not see business analysis as a cost but as a productive instrument for managing company business.

Hotel long-term survival in a competitive and seasonally characterized environment depends on the ability of companies to identify the environmental factors that determine their performance and to adequately measure their business performance. Therefore, from business analysis it is expected to reveal information on how to increase the rationality of business, how to maximize the impact, how to make optimal decisions in a changing environment, and how to ultimately manage the business of a hotel company. In order to identify factors affecting the business and the direction of individual factors (positive or negative) and intensity of activity (small, medium or large), and based on this to propose and make business decisions with the purpose of eliminating or reducing negative impacts and increasing positive impacts, it is necessary to access adequately hotel performance measurement. Getz and Nielson (2004) emphasize that the interest should be focused on the elements of the business that will provide companies greater performance and allow year-round business.

Reviewing the literature various approaches to measuring hotel business performance are identified. Most concepts are the result of the integration of methodological framework and experience of business practices. Neely et al. (2000) concluded their research about the approach to conceptualize business performance measurement with the interpretation that better understanding of business operations results requires their conceptualization through two fundamental approaches, according to the drivers of performance as well as business outcomes, that means that the result of business operations should consider but also the way of achieving the results. Pursuant to which, measuring business results requires measuring of results, but also measuring of process parameters, inputs, affecting the overall result or performance. Business drivers are divided to internal and external factors, whereby right understanding of internal and external factors and their impact on the company's business is the key to effective management. Business outcomes are performance indicators. Measuring the impact of hotel operations was primarily focused on financial performance indicators, but relevance of non-financial indicators eventually grew (Sainaghi and Canali, 2011). According to Onyango et al. (2012) business performance is a multidimensional concept that requires consideration of financial and non-financial indicators. Following are the most important business performance indicators of hotel companies in research: revenue per available room, average room rates, price stability, business efficiency, length of business season, occupancy rate of accommodation capacities, business stability expressed by rate of occupancy and customer satisfaction, as a parameter that occupies an increasingly important role in the research of business performance.

Limitations of current approaches to measuring hotel performance derive from the fact that most of the concepts are based on the examination of the impact of internal determinants on hotel performance. Authors, mainly, examined the impact of selected

internal determinants on selected performance indicators. The external environment, with the external factors of hotel performance, have not been sufficiently distinguished or remained ignored in current literature. The key methodological flaw in the current modeling of the concept of measuring business performance is the disregard for the time component. It is necessary to approach measuring the impact of internal and external determinants on hotel business performance from different time points/periods. Products and services that are marked with seasonal use require research on a seasonal basis, on the contrary, performance research at one time point or on aggregate annual data may lead to incorrect conclusions.

2. CONCEPTUALIZATION OF HOTEL PERFORMANCE KEY DETERMINANTS

Based on literature review and business practice experience it can be concluded that measuring hotel performance needs to be approach taking into consideration three components, the internal, external and time component. Hotel performance is determined by factors from the internal environment, but is also under the influence of the external environment, whereby the influence of internal and external determinants can vary over time. Stated is elaborated below.

2.1. Internal component of hotel performance

Internal environment of hotel performance is discussed through the structure, culture, resources, strategies, processes, systems, products, or the role and responsibility of individuals. Hotel characteristics stand out in literature as key factors of internal environment that determine business performance. Hotel characteristics refer to the specifics of a hotel related to the building itself, offerings or business of the hotel. Hotels, based on their characteristics, differentiate themselves from other hotel facilities and position themselves on the market. The more market distinct the features are and market-adapted to a target segment, bigger will be their contribution to the overall business performance. There are many approaches to hotel classification according to the characteristics of the business, in terms of market hotels are classified according to criteria such as hotel categories, types of services they offer to guests, the standard of service quality, price (in accordance with the standards of services offered), the amount of earnings, location, method of construction, belonging to the hotel chain and/or a particular hotel brand, ownership, according to the place of service, according to the length of stay of guests, the motifs of arrival and the period of operations. It has to be highlighted that hotel characteristics are the main determinant of the hotel selection process of tourist demand (Li et al., 2013; Sohrabi et al., 2012), and academic literature distinguishes them as the most important internal factor of business performance. Koenig and Bischoff (2004) point out that it was the difference in the characteristics of hotels that has showed a significant relevance in the interpretation of differences in business performance. Relevance of hotel characteristics, as well as internal factors of hotel business are emphasized by Capor, Riera and Rossello (2007), advocating the view that certain features of the hotel are linked to increasing demand and thus achieve better performance. Kim (2010) concludes that in previous academic literature impact of hotel characteristics on performances of accommodation capacities

was inadequately treated, and despite a significant role in the hotel business it remained misunderstood and contradictory. By analyzing the studies that have been directed to examining the impact of hotel characteristics on hotel performance the following hotel characteristics have been singled out as the most important determinants of hotel performance: category of the hotel, size of the hotel, hotel location, form of business and market orientation of the hotel.

2.2. External component of hotel performance

External environment of hotel performance refers to the market and the industry in which the company operates, creating uncertainty and unpredictability of business. Examination of the impact of external environment on business of hotel companies was neglected in previous research efforts. The number of papers that explored the connection of external factors and the performance of the hotel business is insufficient. External environment of the hotel company refers to the market and the industry in which it operates (Onyango et al., 2012). Phillips (1999) points out that the companies are affected by various factors of the external environment, while at the same time the external environment is complex, dynamic, variable and unpredictable, and creates problems for the business of companies. Company that ignores the external environment or it does not give it sufficient attention causes uncertainty of its performances (Wang et al., 2012). Capo, Riera and Ross (2007) considered that the failure to consider factors of external environment in modeling the performance of the hotel business limits the achievements of research. For the hotel business a key factor of external environment is destination demand. Tourists and guests are a crucial element of the hotel company. By following the hierarchical process of tourist travel, part of the overall tourism demand spills over to the destination tourism demand, which then chooses the accommodation options in the selected tourist destinations (Kim, 2010). Tourist flows determine hotel business, because without tourist arrivals there is no demand for hotel services. Hotel performances are under significant influence of the tourist destinations demand given that hotel demand actually absorbs part of the tourist demand. Therefore it is necessary to understand that in the process of tourist demand formation operate objective and subjective factors, called push factors. Once the objective factors have been fulfilled subjective factors of tourism demand come into play. Subjective factors of demand arise from subjective behavior of the individual, enhancing the effect of objective factors. In addition to the stimulating factors, pull factors also affect tourism demand of receptive destinations. In order to satisfy their individual need for travel, along with stimulating factors, it is necessary to form attractions on the destination side as destination pull factors (Crompton, 1979). Pull factors attract demand into a single destination after a person has made a decision about the trip (Baloglu and Uysal, 1996). Tourist attractions, as well as market-validated resources, are the factors that have the ability to attract visitors and satisfy their motives for travel (Kušen, 2002). Without tourist attractions there is no tourism, they are the key elements of the tourism system (Vanhove, 2005; Gunn, 1994) and key motives in choosing a tourist destination (Crouch and Ritchie, 1999). Next to the selection of destination they determine the consumption of services during the stay at a destination (Kozak and Rimmington, 2000). Once the tourist has chosen a tourist destination follows a selection process of tourist services at the destination, including hotel services. Accordingly, the demand for hotel services is in function of travel. Traveling

of tourists is not prompted by a desire to stay in a particular hotel, but the desire for rest or business motives, which ultimately results in a demand for the services of accommodation when they go on trips on which they stay at least one night. In this way, the demand for accommodation services is derived from the overall tourism demand. Accordingly, the services of accommodation can be viewed as complementary tourist demand (Vrtiprah and Pavlić, 2005, p. 72). Given that the demand for the services of accommodation is derived from the function of tourist demand, the demand for the services of accommodation can be explained as an indirect function of tourist demand (Vrtiprah and Pavlić, 2005, p. 74). Factors that determine tourist demand have an indirect relation to the selection of hotel capacities, as the hierarchical process of itinerary is the following: tourists choose a tourist destination, and then select the accommodation option within the scope of selected tourist destinations on the basis of their own preferences (Kim, 2010). Market orientation and performance of a destination is transferred to company's business within the destination (Sainaghi and Canali, 2011). Therefore, starting from the destination and its performance we can better understand and interpret the performance of enterprises operating within a destination (Sainaghi, 2010). According to said arises the justification and adequacy of respect for this hotel business external environment variable.

2.3. Temporal component of hotel performance

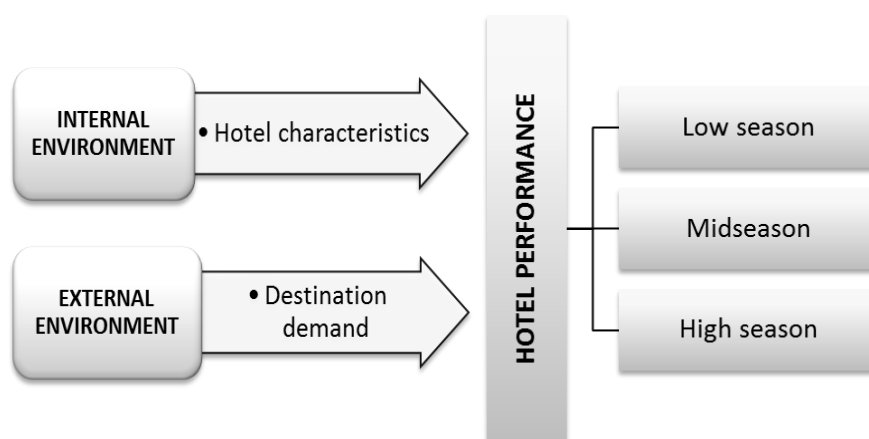
The hotel product, as well as other tourist products, has a character of seasonality. The seasonal product meets the seasonal demand, which varies according to the needs, motives and habits by seasons, which leads to the conclusion that tourists are looking for different benefits of the tourism product through the seasons (Capo, Riera Rossello, 2007; Rossello, Riera, Sanso, 2004; Spotts and Mahoney, 1993; Calantone and Johar, 1984). Set of benchmarks must be focused and limited to a certain period of time, but proper performance requires that measurements of performance are time oriented, and not only state oriented, because ignoring the impact of situational context can lead to inaccurate research findings. Calantone and Johar (1984) point out that products and services that have a seasonal character of use require seasonal-based performance research. Accordingly it is necessary to approach the measurement and analysis of hotel performance from different time points/periods, or observe them over time, or seasons. The inadequacy of measuring hotel performance purely in a single time point or aggregately at the level of a business year is confirmed by the fact that according to research of Ćorluka, Mikinac and Milenkovska (2016) the average level of occupancy of hotel accommodation facilities in coastal holiday tourist destinations from November to April, five months of the fiscal year, is only 6%, while annualized it is 36%, which is below the profitability of the business, but hotels are on annual level still profitable with satisfactory revenue per available room. The above is an example of business management focused solely on increasing revenue per available room. Borooah (1999) notes that it is inappropriate to manage a hotel aimed at increasing revenue per available unit, while at the same time ignore the rate of accommodation occupancy, which means that no account is taken to increase the occupancy rate, instead care is taken how to charge the filled capacity as much as possible. This approach is unsustainable. Unsustainability of business is confirmed by the fact that in certain destinations concentration of tourist activities in the quarter of a year was 90% (Ćorluka and Matosevic Radic, 2014). Ćorluka, Mikinac and Milenkovska (2016)

classified the tourist seasons as low, mid and high season. Low season lasts for 5 months: January, February, March, November and December, the midseason lasts for 3 months: April, May and October and high season consists of 4 months: June, July, August and September. These classifications should be the starting point for future studies that will analyze hotel performance after the tourist season.

2.4. Conceptual approach for measuring hotel performance

Based on the elaborated determinants of hotel performance an innovative conceptual approach for measuring hotel performance was created (Figure 1).

Figure 1: **Conceptual approach for measuring hotel performance**



Source: Author.

Based on the conceived approach determinants of hotel business performance are factors of internal and external environment and the time component. Key determinants of the internal environment are hotel characteristics. Hotels based on their characteristics absorb part of the destination demand, whereby hotel characteristics have the pull factor on the demand. The more the hotel characteristics meet the needs of the market the greater will be their contribution to the business performance of the hotel. The key determinant of external environment is destination demand. Hotels as business entities are a part of an integrated destination product. Destination attraction will act as a pull factor of demand and will attract demand to a destination that will then choose among providers of accommodation services within the destination. The greater the destination demand consequently the greater the potential demand for hotel services, therefore hotel performances depend on the performances of tourist destinations in which the hotel operates. Furthermore, analysis of hotel performance has to be addressed from different time points, i.e. seasons. In fact, given that demand varies according to seasons, expectations of hotel services are also different. In particular, it is assumed that the same characteristic of a hotel will not equally contribute to performance in low, mid and high season, also, the level and profile of destination demand varies by tourist season, which will have a reflection on the

performance of hotel companies. Accordingly, it is necessary to adopt the concepted model of measuring hotel performance in hotel performance analysis. The model will provide information about the impact of internal and external determinants of business performance in the observed seasonal interval.

3. MANAGERIAL IMPLICATIONS

Paper contributed to better insight into drivers hotel performance and approaches of hotel performance measurement and gained awareness of the importance of hotel performance measurement within the hotel management. Hotel managers should be aware that the given business situation is a current situation and not a permanent situation. The competitive and dynamic tourist market requires continuous monitoring of hotel business and identification of crucial drivers of business results. Paper is providing a better understanding of the measurement approaches of hotel performance and determinants of hotel performance by answering two crucial hotel management questions “*How to approach hotel performance measurement?*” and “*Which are the key hotel performance determinants?*”. By approaching hotel performance measurement the management has to respect three components, the internal, external and time component. *Given in example, a hotel could improve its product with investing in wellness and spa offer, this might contribute to higher occupancy in April, the management might give the credit to their business venture, but at the same time the whole destination increased demand dues to a festival or new low cost carrier connection with an emitting market. Is the increase attributed to the internal or external factor, furthermore will the effect of wellness and spa offer on occupancy rate be the same in July when demand with their motives and desire differ to April demand.* According to the hotel management should access performance measurement considering the contribution of internal, external and temporal factors on business outcomes. Excluding one of those variables might lead to incomplete or wrong interpretations of business drivers. Paper also contributed to management knowledge of key business performance determinants. Managers should focus on hotel characteristics as the crucial internal factor and determinant of the hotel selection process within tourist demand. Strong characteristics should be highlighted, weak characteristics should be improved. Managers should also be aware that the hotel is an integral part of the tourist destination and highly depending on destination demand, with the respect to seasonality and seasonal change in the motives and needs of tourist traveling in different tourist seasons. Adhering to the given guidelines the management approach to measuring hotel performance will be improved, which will ultimately result in a better and more accurate identification of the key determinants of hotel performance.

CONCLUSION

The theory points to the relevance of measuring hotel business performance. Previous approaches to conceptualize hotel performance measurement were incomplete. Theoretical findings state that when measuring hotel performance we should consider the results of business operations but also the way towards achieving results, whereby the drivers of hotel performance are separated to factors of internal and external

environment, and in a seasonally characterized business it is necessary to analyze the business according to tourist seasons because researching performance in a single time point or from aggregate annual data may lead to erroneous conclusions. Based on this an innovative conceptual approach for measuring hotel performance was created. The model includes internal, external and time component. Characteristics of hotels stand out in literature as key determinants of internal environment, which determine the business performance of a hotel. Destination demand is the key element of the external environment of the hotel business. The time component refers to the seasonality of tourism, which requires that hotel performance is analyzed per season: low, mid and high season. The contribution of the research is a new innovative approach to conceptualize hotel performance measurement. The paper gives insight into the determinants of the hotel business performance and meets the perceived theoretical gap in conceptualization of measuring hotel performance. Created conceptual approach is an important contribution to the theoretical basis for future studies of hotel performance and the hotel industry. The conceptual approach for measuring hotel performance will be empirically verified in future research of the author.

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