



Non-financial performance measurement by small and medium sized enterprises operating in the hotel industry in the city of Cape Town

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Abstract

Small and Medium Enterprises (SMEs) operating in the hotel industry in South Africa are perceived to be failing partly due to their reluctance to adopt Non-Financial Performance Measures (NFPMs). The main purpose of this study was to determine whether SMEs in the hotel industry use NFPMs, the purpose and perceived effectiveness of the NFPMs used, as well as the factors that inhibit these entities from using NFPMs. To achieve these objectives, a questionnaire survey was administered on owners/managers of 100 hotels operating in the city of Cape Town in South Africa. The results of the study revealed that all sampled SMEs use NFPMs, and that customer oriented measures were the most frequently used NFPMs, while learning and innovation related measures were the least frequently used NFPMs by the sampled SMEs. The NFPMs, were mainly used for improving the profitability of their business, improving productivity and effectiveness, as well as for improving decision-making. The results also revealed that customer oriented measures were perceived by the sampled respondents to be the most effective of the three NFPMs identified. The use of NFPMs was however inhibited by high cost of implementing these measures, incomparability of the measures to those of other SMEs due to their entity specific nature, difficulty in quantifying the NFPMs measures, as well as employee resistance. This study provides useful information on the usage of NFPMs that the Department of Small Business Development can possibly use to inform the development of interventions aimed at reducing SMEs' failure. These findings may also help SMEs to improve their usage of NFPMs in order to capitalise on the benefits gained from using these measures. Furthermore, these findings may help SMEs to overcome the factors that inhibit them from using NFPMs and lead them to more efficient operation.

Keywords: SMEs, Non-Financial, performance measurement, Hotels

Introduction



To survive the ever-increasing competition in the South African hotel industry, large hotels have embraced both financial and NFPMs to aid in managing their businesses effectively (Wangui, 2013:58). They have done so not only to obtain and retain their highly coveted five-star rating but also to be accredited by international standardisation bodies as well as to obtain membership in international hotel associations (Ongore & Kobonyo, 2011). As a result of adopting both financial and NFPMs, these hotels have shown better results than the mid-tier and budget hotels, typically operating as SMEs, which are characterised by a high failure rate (Köseoglua, Topaloglu, Parnell & Lester: 2013:88). By contrast, the mid-tier and budget hotels which typically operate as SMEs, have continued to over rely on traditional financial performance measures which only allow for feedback on the action taken; thus, tend to direct their management's attention towards past actions as opposed to future success (Mcp hail, Herington & Guilding, 2008; Türüdüoğlu, Suner & Yıldırım, 2014).

Unlike financial performance measures, NFPMs provide businesses with feed-forward information that is future- oriented and thus more relevant for planning purposes (Guilding, 2014). In addition, these measures provide a closer link to long-term organisational strategies. While financial performance measures generally focus on annual or short-term performance against accounting yardsticks. Furthermore, these measures can result in counterproductive behavior whereby managers pursue short-term goals at the expense of more critical long-term goals.

NFPMs are also progressive with regard to meeting and exceeding customers' expectations as well as gaining and maintaining a competitive advantage over competitors. Thus, they are critical in achieving profitability and other long-term strategic goals (Micheli & Manzoni, 2010). By supplementing financial measures with non-financial data relating to strategic performance and the implementation of strategic plans, businesses can communicate objectives and provide incentives for managers to pursue long-term strategies (Kidd & Song, 2008:491; Pangarka & Kirkwood, 2009). Furthermore, NFPMs provide a holistic view of a business' operations and dynamic information (Taticchi, Tonelli & Cagnazzo, 2010). Such an approach enables businesses to evaluate their current performance and continuously monitor operational progress over time (Taticchi *et al.*, 2010). Thus, these measures expose operational weaknesses and opportunities for improvement, which can then be used to review and clarify objectives and priorities. In so doing, a business is able to understand its internal and external contexts, which are likely to compel it to adopt better strategies for improving its management processes as well as business performance (IFAC, 2016; Molloy, Miller & Elicker, 2010).

Non-financial indicators can also capture critical non-financial and industry-specific performance indicators. In the hotel industry, these could include: bed occupancy levels, customer satisfaction surveys completed by customers, guest evaluations of employees' helpfulness, guest evaluations of design, facility renovations and maintenance. Others are: number of repeat customers, number of complaints, and guest evaluation of extra benefits gained such as relaxation, exercise, and refreshments. Such non-financial measures are the real drivers of value within modern businesses that make their future performance predictable (Phillips & Louvieris, 2010:209; Bongani, 2013:25).

Notwithstanding the above-mentioned potential advantages of non-financial measures to SMEs operating in the hotel industry, prior studies in other countries have observed small and medium hotels tend to over-rely on FPMs (Kambona & Othuon, 2010:859), largely disregarding non-financial measures (Zigan & Zeglat, 2010: 600). This over-reliance on financial measures



indicates that management's attention is directed towards the results of past actions rather than towards strategic determinants of success (Wadongo, Odhuno, Kambona & Othuon, 2010: 868). Indeed, some studies have partly attributed the high failure rate of SMEs (estimated to be between 60% and 80%) to a lack of use of NFPMs (Wadongo, Odhuno, Kambona & Othuon, 2010:859). Among the reasons provided for the low uptake of NFPMs by SMEs in general are inadequacy of information systems among these entities, complexity of the NFPMs that renders them incomprehensible and unusable as well as the general perception that the measures are not as important as the financial ones (Chow, Van Der Stede, 2006).

Although the use of NFPMs by SMEs has been extensively researched over the years in the developed countries, little has been done in South Africa. The few studies that have investigated the use of NFPMs in the country have focused mostly on large organisations (Pooe, 2007). Therefore, there is a dearth of research on NFPMs employed by the SMEs, particularly those operating in the hotel industry. Given the importance of SMEs operating in the hotel industry in creating the much-needed jobs, and considering the high failure rate of these entities when compared to their larger counterparts which have adopted non-financial measures, it is imperative that the use of non-performance measures by SMEs be investigated.

The main purpose of this study was to determine the extent to which SMEs in the hotel industry sector use NFPMs. To achieve this purpose, the study investigated the types of NFPMs, if any, are utilised by SMEs, the purpose for which the NFPMs are used, the perceived effectiveness of the NFPMs, as well as the factors, if any, that inhibit SMEs from utilising NFPMs

Literature review

Only a few studies have been conducted on the use of NFPMs by SMEs globally in general and in South Africa in particular. A single study conducted by Wadongo, Odhuno, Kambona & Othuon (2010), investigated the key performance indicators in the hospitality industry, and found that decision-makers give more attention to measures such as sales growth. Thus, this measure is frequently used and is regarded as one of the mostly used measure, while market share is hardly used because decision-makers believe it to be less imperative.

Wadongo, Odhuno, Kambona and Othuon (2010) found that decision-makers pay no attention and less usage is given to evaluations of attitude, behaviour, and expertise of employees, guest evaluations of design facilities renovations and maintenance, and guest evaluations of benefits gained such as relaxation, exercise, and refreshment. Thus, it is likely that a number of customers do not return to such business.

In a study conducted by Petzer, Steyn and Mostert (2009) on customer retention practices of small, medium and large hotels In South Africa. Small hotels in operating in Gauteng obtain an average of 41.2% retention rate, followed by 27.6% retention rate on medium hotels and large hotels retention rate of 20% of their customers. This study concluded that majority of hotels in the Gauteng region measure the number of repeat customers with overall customer retention rate.

According to Choi, and Chu (2001) hotels that attract and maintain their customers are likely to have more repeat customers and survive in the industry. Therefore, it is significant that hotels understand guest demand so that they can fully satisfy them to entice them for a repeat purchase.



This study further found a positive correlation between the level of guest satisfaction and the number of repeat customers and these findings were in union with those of (Cronin & Taylor, 1992; Hennig, Thurau & Klee, 1997).

Another study on the significance of customer satisfaction was done by Melia (2010), confirming that customer care has direct relationship with repeat customers. This study concluded that customer care contributes to a percentage of 60% of repeat customers. This study highlights the significance of customer care and guest satisfaction as it contributes to repeat business and retention rate. Another significance of encouraging repeat customers through customer satisfaction is that, it facilitates the survival and growth of the organisation. These findings were also in line with that of (Pedraja & Jesus, 2004). Similarly, Wadongo, Odhuno, Kambona & Othuon (2010) revealed that customer satisfaction survey is very frequently used and found to be a one of the significant measures hotels use to measure performance.

In light of the importance of internal business process for the financial and operational performance of the hotel, a study conducted by Akbaba (2006) investigated measuring service quality in the hotel industry in Turkey. Akiba's (2006) findings confirmed the importance of internal business processes since majority of the hotel respondents indicated that they render quality service to guests and also respond to guests' request within the required time.

Wadongo, Odhuno, Kambona and Othuon (2010) found that the frequency of equipment breakdown is one of the less significant and rarely used NFPM by SMEs in this study. According to Akbaba (2006), investigating service quality in the hotel industry: a study in a business hotel in Turkey, revealed that the little attention is given to the frequency of equipment breakdown, followed by low levels of response regarding the usage of this measure. The study by Wadongo, Odhuno, Kambona and Othuon (2010) further revealed that hotel suppliers delivering on time is less important thus, consequently less frequently used by SMEs. Additionally, this study revealed that less emphasis is given by SMEs to suppliers' meeting standard of purchasing specifications therefore, and this measure is not predominantly used, therefore found less significant by SMEs operating in the hotel sector.

Several studies were conducted on star classification. Hotel classification is done according to the service quality that a hotel renders to its guests and the suitability of their facilities (WTO, 2008). Hotel star classification is an important measure of hotel performance and a marketing technique to attract customers. Scholars have documented evidence regarding recognition of the significance of star classification ratings towards the performance and revenue generation by the hotel, as stated by the (WTO, 2014). Research evidence reveals that there is a positive correlation between star classification and hotel performance (Kiplagat, Makindi & Obwoyere, 2015), which concludes that hotels that have higher star classifications have reported higher profits and are generally more established than those that do not. However, this study also acknowledges that some customers do not fully rely on star ratings as they also make use of travel agents, trip advisors, and word-of-mouth when selecting a hotel. Notwithstanding the importance of star classification, small and budget hotels finds it difficult to upgrade to a higher star classification because of the higher service quality costs that are associated with the star classification (Kiplagat, Makindi & Obwoyere, 2015).

Even though obtaining a star classification was intended to assist and attract guests to find a hotel of a particular standard, specific quality, and economic class, which would generate revenue for



the hotel. Friedlander, (2014) found that star rating and industry classification such as luxury, upscale or budget hotels are irrelevant and insignificant to today customers' when selecting a hotel, hence some hotels find no value in chasing star classification. Friedlander (2014) claims that this is owing to the inconsistency in defining star classification. Therefore, star classification is increasingly deteriorating in levels of usage by guests when evaluating or choosing a hotel, thus, hotels' usage of star classification has become less effective (Friedlander, 2014).

This is further supported by the National Tourism Organisations (NTOs), which states that there is complexity in hotel star classification in some countries. Due to the changes in technology, guests are turning from traditional hotel classification and are now relying on new electronic media classification as a tool to gather information about the hotel (Minazzi, 2010; Friedlander, 2014). Moreover, Minazzi (2010); Pierret (2016); Kotler; Bowen and Makens (2010) found that the inconsistency of defining hotel classification is attributed to the nature and diversity in the hotel accommodation industry, and differs from country to country, this is one of the causes of the decline in star classification. In addition, Pascarella (2005) believes that obtaining hotel star classification also declined owing to confusion regarding the different ratings that are shown on different travel agent websites, where one hotel will be rated differently with different stars by different websites.

Despite the above, literature reveals that in some parts of the world, obtaining star classification is still significantly used as an official and traditional method to evaluate the performance of hotels (Fraser, 2014). Moreover, Fraser (2014) found that star rating and obtaining star classification have never completely gone away, although there is certainly a decline in importance and usage owing to competition brought about by trip advisors and that customers tend to rely on them in recent times.

According to Duobiené and Rauktiené (2010) learning and innovation refers to creativity, new innovations and developments done by the organisation with the intention to attract new customers and retain the existing retain ones. Duobiené & Rauktiené (2010) further found that learning and innovation are more future focused as oppose to financial measures that are backward looking. Change in today's business is constant, therefore, hotels should continue to learn and be willing to adapt to new innovations and developments (Bongani, 2013). This is the reason learning becomes a necessity for continuous development of employees while the hotel also learns from the process, and interacting with customers (Bongani, 2013). Therefore, continuous training and development of human capital become essential for learning about the business process.

Türüdüoğlu, Suner and Yıldırım (2014) conducted a study entitled, 'determination of goals under four perspectives of balanced scorecards and linkages between the perspectives: a survey on luxury summer hotels in Turkey'. The purpose of their study was to identify the goals of the balanced score card (BSC) and the strength of the correlation between the financial perspective, customer oriented measures, internal business process and learning and growth perspective. Türüdüoğlu, Suner and Yıldırım (2014) found that majority of the hotel decision-makers gave high priority to financial performance measures, followed by the customer perspective, with internal business process and learning and innovation following consecutively. However, when moderate highest priority was added to the highest priority, learning and growth perspective was found to have a strong effect on guests. It was further revealed that different managers gave high priority and attention to specific measures. For instance, general managers and financial managers gave



a high significance to financial perspective when evaluating performance measures, while the sales and marketing manager normally focused on customer measures. The other findings revealed that a strong correlation exists between customer and finance with a high of 41.7% rate. While lowest relationship exists between learning and growth and financial measures with 15% rate.

Another learning and innovation measure that affects hotel profits is the employee turnover rate. Simons and Hinkin (2001) reveals that employee turnover is a cost to the hotel. This study found that there is a positive association between profits and employee turnover, consequently employee turnover drive out profits from the hotel. The higher turnover rate is also correlated with average room rate. It was concluded that the higher the room rate, the higher the employee turnover over. Strangely, the more the rooms the hotel has the higher the employee turnover rate, which indicates that SMEs in the hotel sector are likely to have low room rate than their bigger competitors.

Similar studies like those of Lee-Ross (1999); AlBattat, Som and Helalat (2013) have found that employee turnover in the hotel industry has been a problem for several years. Moreover, the level of employee turnover is influenced by several factors such as the working nature, labour nature, or managers' nature. This study stated that large hotels were always found to have a lower employee turnover crisis than budget hotels.

Jagun (2015) also asserts that employee turnover rate is a major phenomenon in the hotel sector and is attributed to several factors such as a lack of motivation and entertaining activities in their workplace. Some respondents believed that managers do not value their input, nor did they reward their effort to boost their morale. Inadequate pay, unfavourable working hours and lack of training programs to improve employee skills are the major factors identified to be associated with the current high employee turnover rate in the hotel industry.

The study by DiPietro & Condly (2007) concludes that the hotel industry is with no doubt in a crisis of financial loss and negative impact on operational performance owing to the current phenomenon of employee turnover rate. In addition, DiPietro & Condly (2007) complements previous studies which argued that employee turnover has been identified as an expensive measure of financial and operational effectiveness.

On the other hand, employee performance appraisal has been regarded as one of the most vital non-financial performance measurement tool useful for accurate employee performance review (Boadu, Dwomo-Fokuo, Boakye, Frimpong, 2014; Frankling, 201; Toppo & Prusty, 2012; Kateřina, Andrea & Gabriela, 2013; Selvarasu & Sastry, 2014).

Mwendwa (2014) concluded that an effective employee performance appraisal is helpful to cut down unnecessary costs on human resources management and help the entity to gain competitive edge. Employee performance appraisals are also very crucial for managing employee performance in an organisation. Although employee performance appraisal indirectly contributes to profit and performance of the business, as it motivates employee in performing their duties and satisfying customers, there are several factors affecting the performance of employee. Included in these factors are: the performance appraisal tools, the set performance standards, timing, nature and continuity of performance appraisals, communication and feedback with staff on the appraisals and training of appraisers. However, another study by Chei (2014) presents different



factors that affect the performance of employees and they include: employee empowerment, transformational leadership, teamwork, and work environment.

According to Narban, Kumar, Narban, Pratap, & Narban (2016) employee performance appraisal is paramount as it helps managers to have a better understanding of the quality of its employees and how that quality is converted into performance. When performance appraisals are used effectively, they help management with necessary information in decision making. However, Narban *et al.* (2016) also found that performance appraisals are not appreciated by selected decision-makers in SMEs.

However, some studies are of the different view regarding performance appraisals. Grubb (2007) found that performance appraisal should not be used in organisations due to the fact that they are financially costly and socially demoralizing, discourage poor performing employees, absorb vast amounts of time and resources, unbiased systems. Additionally, employees feel unfit for works for weeks after receipt of ratings, it leaves employees bitter, and some feel inferior, depressed or despondent.

Thus, if appraisal is viewed negatively, employees may feel bitter about their jobs causing stress to hotel managers, loss of productivity and revenue for the hotel because discouraged employee are likely to deliver poor service quality leading to customer dissatisfaction or complaints and low retention and low return customer rates and thus a loss of sustainability.

On the other hand, selected studies believe that the lack of good employee appraisals result in employee absenteeism. Employee absenteeism refers to the continuous failure to report for duty as scheduled in the roster in spite of the reasons (Cascio & Boudreau, 2010:52). Employee absenteeism had been found by (Chandrasekar & Cichy, 1990) to have a negative impact on finances, customer satisfaction, loss of time, compromise in productivity and quality of the service in the hotel industry for decades and current research still concludes that hotel managers are still facing the same crisis today (Guinsberg & Bayat, 2012).

Numerous studies like that of Guinsberg and Bayat (2012) investigated this problem and found that on average 65.5% of the respondents argue that employee absenteeism affects attitudes and morale of employees, although few respondents argues otherwise. Moreover, this study reveals that majority of the respondents argue that employee absenteeism impacts on the financial performance of the financial statement of the business with 70% response rate, while 30% them argue otherwise. Absenteeism does not only affect workers but also affect customer satisfaction. Up to 60.5% of the respondents believe that employee absenteeism negatively affect customer satisfaction in the hotel industry. Contrary to that, few of the respondents do not believe so. As a result of the impact employee absenteeism has on business operation and performance, (Guinsberg and Bayat, 2012) found that employee absenteeism is efficiently handled by managers in hotels operating in Cape Town.

According to Sandhyarani (2013) employee absenteeism is a problem that no organisation can escape. Although several factors contribute to absenteeism, this study reveals that employees are human being after all, therefore organisation should accept that they do not have control over human. Among the several factors that contribute to employee absenteeism, low wage was found to be the major factor, if employee were paid very well, they are more motivated.



Similar findings were found in a study conducted by Basariya (2014) who also agreed that higher wages, job variation, employee job benefits and a tight schedule, where employee can work more than six day without off, poor attitude of managers and poor training are some of the popular factors that contribute to the current problem of absenteeism.

Another significant non-financial performance measure is employee satisfaction, as it has impact on the productivity and performance of hotels. In a study conducted by Yee, Yeung & Cheng (2008) on the impact of employee satisfaction on quality and profitability, found that there is positive association between employee satisfaction, quality, customer satisfaction and profitability in the service industry. Yee *et al.* (2016) revealed that employee satisfaction is a strong determining factor in operational performance. This study complements previous studies that showed that service quality and customer satisfaction can be compromised due to unsatisfied employee. Thus, employee satisfaction is critical in attaining high quality service and profitability in the service industry. In conclusion, employee satisfaction directly affects quality and customer satisfaction, which in turn affect profitability.

A similar study was conducted Brown and Lam (2008) investigating the link between employee satisfaction and customer satisfaction. The findings showed a substantive significant association between employee satisfaction and customer perception of the service quality. The results revealed that employee satisfaction is the driver of customer satisfaction. These findings are similar to those of Wangenheim, Evanschitzky and Wunderlich (2007) stating that employees who are not in contacts with customers on a daily basis or not directly working with customers still have a positive relationship with customer satisfaction.

The following gaps were identified from the review of the previous studies. The majority of the studies were conducted outside South Africa, some in developing countries, while some in developed countries and others in underdeveloped economies, so their findings are not be generalizable to this country. In addition, some of the literature only focused on a single aspect of NFPMs, given their narrow focus, their findings may not be conclusive to all three NFPMs as investigated in the present study. Furthermore, some of these studies employed a very small sample size or used a comparative study approach where only two hotels were investigated, while others used case studies, and case study methodology violates the generalisation of the findings principle, therefore their findings may not be generalizable in South Africa. Some of the studies were conducted more than five years ago; therefore dues to changes in the business environment, their findings may not be valid today. Others that were conducted in other industries mostly manufacturing meaning that their findings may not be generalizable due to the hotel industry which is labour intensive and customer based while manufacturing is not. Some of the studies were conducted in five star hotels while this study focused on the small and medium hotels and to these categories, the findings may not be generalizable.

Given the gaps and inconsistencies identified in the prior literature above, the following questions have remained unanswered.

- What types of NFPMs, if any, are utilized by SMEs?
- For what purposes do SMEs use NFPMs?
- What are the perceptions of decision-makers of SMEs regarding the effectiveness of the NFPMs, which are currently employed by these entities?
- What factors, if any, inhibit SMEs from utilizing NFPMs?



Methodology

A self-administered questionnaire was employed to collect the data from hotel owners, managers or accountants, which was analysed using both descriptive and inferential statistics. The following sub-sections further elaborate on this.

Questionnaire design

The questionnaire was designed around the three NFPMs that were investigated in the study, namely customer oriented, internal business process and learning and innovation. The questionnaire comprised of six pages including the consent letter (cover page). The letter was used to highlight the purpose of the study and to assure the respondents that any information they reveal would be used solely for the purpose of this study, and be kept confidential and anonymous, and that there were no risks associated with participating in this study. The questionnaire began with general questions on the types of NFPMs used in the hotel sector, it then narrowed down to the purpose for which the NFPMs are used, then to the respondents' perception of the effectiveness of the NFPMs and the factors that could inhibit the usage of the NFPMs. Questions on the respondents' profile and their businesses' profile were asked last so as not to impede the respondents from answering the questions that are of most important.

Population and sample selection

The targeted population comprised 100 hotel SMEs operating in the Cape Metropole. Considering that only a few previous studies had used a very small sample size (Esekow, 2001; Lungiswa, 2009), and the fact that there is not a large number of hotel SMEs operating in the Cape Metropole, a target sample of 100 hotels was set. Consequently, 100 participants from SMEs comprised the sample. These included hotel owners, managers, or accountants all who were deemed to be active in the operation of the hotel and thus were expected to be familiar with the usage of NFPMs in their businesses. A purposeful sampling method was employed to select the sample.

Results and discussion

The analysis and discussion of the results of this study are presented in the following sub-sections.

Response rate

Of the 130 questionnaires that were distributed, five were not completed as the targeted respondents were on leave, while 25 were misplaced by the hotel staff given the changes in shifts associated with this industry. Consequently, 100 usable questionnaires were returned resulting in a response rate of 77%. This rate was higher than that of a comparative study by Lungiswa (2009) whose response rate was 50%. The response rate of the current study also conforms to the recommendation by Fowler (1988) that a response rate should be at least 20% to provide credible results about a population. Of the respondents, 77% of the respondents were managers, 9% were owners, while a 9% percentage were accountants. Only 5% of respondents were both owners and managers. With regard to the number of years that respondents had been in their respective



positions, the results revealed that 49% of the respondents had been in their respective positions for more than 10 years, 33% between six and 10 years, 11% between one and five years. Concerning respondents' highest level of education, the results revealed that 57% of the respondents had a bachelor's degree, 26% had a diploma, while 13% had other unspecified qualifications. Only 2% had a matric as their highest qualification, 1% had a master's degree, while a 1% percent had attended short courses. None of the respondents had a doctorate.

In relation to the number of year that their businesses had been in existence, the results indicated that 78% of the businesses had been in existence for more than 10 years, 16% had been in existence for between 6 and 10 years. Only 6% had been in existence for between 1 and 5 years. Given that 94% of the businesses had been in existence for more than 6 years, they had adequate time to implement NFPMs, thus were ideal for this study. As far as the number of employees is concerned, the results revealed that 54% of the businesses had 21 to 50 employees, 21% had 51 to 100 employees, while 12% had 11 to 20 employees. Of the respondents, 6% indicated that their hotels had 6 to 10 employees, while 4% indicated that their businesses had more than 100 employees. Only 3% of the respondents indicated that their businesses had one to 5 employees. Hence, 97% of the respondents were from hotels that could be classified as SMEs, thus were the suitable participants of this study. The above results suggest that a heterogeneous group of respondents of diverse positions, experience, levels and types of education, from different sizes of hotels had participated in this survey. This alongside the high response rate of 77% mitigated for non-response bias that is typically associated with questionnaire surveys.

Types of NFPMs used

In question one, respondents were asked by the way of a yes/no question whether their businesses used NFPMs. The results are shown in Figure 1. As shown in the figure, all respondents indicated that their businesses used NFPMs.

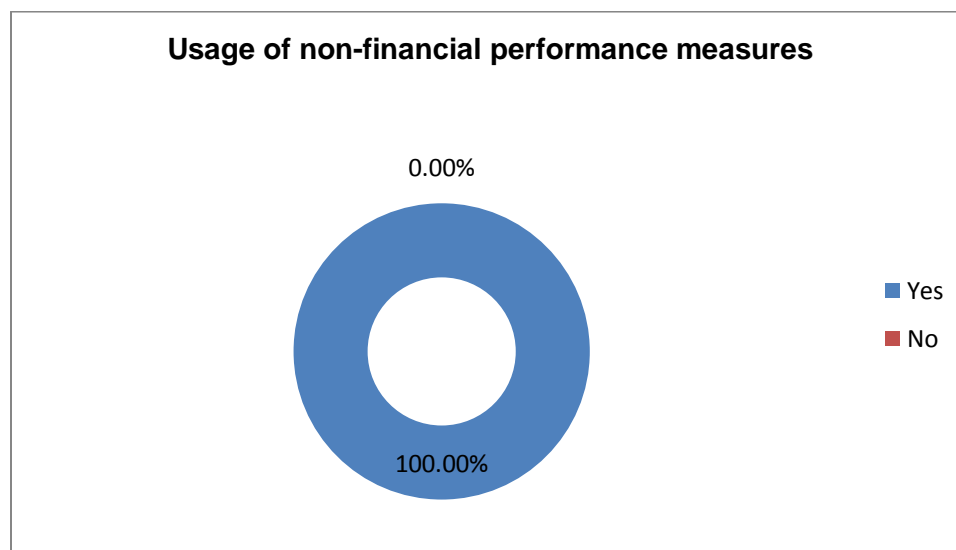


Figure 1: Usage of NFPMs (Source: Own data)



In question two, the respondents were asked, to indicate how often their businesses used various NFPMs that ranged from customer satisfaction related measures, to internal business process related measures, to learning/innovation related measures. For this purpose, a five-point Likert scale was used with weightings of: one for never, two for rarely, three for sometimes, four for frequently, and five for very frequently. As a result, the closer the mean was to five, the more often a specific NFPM was used.

To ensure clarity, the percentages of those who indicated that their business used a particular NFPM frequently or very frequently were added and included in the third column of Table 1, under the title “percentage that used the NFPM frequently”. This approach is justified as it has also been used in similar prior studies (Kamala, 2015).

Table 1: The frequency of usage of NFPMS

Number	NFPMS	Percentage that use the NFPM frequently	Respondents	Standard deviation
			N= 100	
Customer measures		Frequently	Mean	
a.	Market share percentage	64%	3.72	1.341
b.	Sales growth percentage	98%	4.70	.628
c.	Bed occupancy levels	98%	4.67	.551
d.	Guest satisfaction surveys	99%	4.72	.451
e.	Guest evaluation of employee helpfulness	78%	4.25	.845
f.	Guest evaluation of facilities	71%	4.03	.969
g.	Number of repeat customers	81%	4.16	.950
h.	Guest evaluation of extra benefits provided such as exercise and refreshment	64%	3.67	1.138
i.	Guests' complaints	81%	4.10	.870
Internal business process				
a.	Ability to adjust to guest request	94%	4.59	.668
b.	Response time to guest request	93%	4.61	.737
c.	Frequency of equipment breakdown	57%	3.68	1.362
d.	Hotel suppliers delivering on time	84%	4.30	1.210
e.	Hotel suppliers meeting standard purchasing specifications	89%	4.42	1.182
f.	Obtaining star classification	74%	4.00	1.082
Learning and innovation				
a.	Number of employee training and development programs	60%	3.62	1.237



b.	Employee training hours	55%	3.53	1.235
c.	Number of product and services innovated per year	50%	3.36	1.367
d.	Level of Information Communication Technology (ICT) usage	79%	4.23	.962
e.	Employee turnover rate	79%	4.06	1.135
f.	Employee performance appraisal	89%	4.34	.781
g.	Employee absenteeism	88%	4.32	1.024
h.	Employee satisfaction surveys	84%	4.29	.967

Scale: 1 = never; 5 = very frequently (Source: Field work)

As shown in Table 1, customer related measures were some of the most frequently used NFPM's by the sampled SMEs. Specifically, most respondents (99%) indicated that their SMEs used guest satisfaction surveys, followed by sales growth percentage (98%) and bed occupancy level (98%). Other customer related NFPM's frequently used by the sampled SMEs were: number of repeat customers (81%), guests' complaints (81%), guests' evaluation of employee helpfulness (78%), guests' evaluation of facilities (71%), market share percentage (64%) and guests' evaluation of extra benefits provided (64%). The means obtained also mirrored the percentages indicated. The standard deviations of less than one for seven out of nine statements in this category indicate agreement in the responses of the respondents.

Likewise, internal business process related NFPMs were frequently used. The most frequently used NFPMs in this category was, ability to adjust to guest request (94%), followed closely by response time to guest request (93%). Other internal business process related NFPMs frequently used by the sampled SMEs were: hotel suppliers meeting standard purchasing specification (89%), hotel suppliers delivering on time (84%), obtaining star classification (74%) and frequency of equipment breakdown (57%). The means obtained also mirrored the percentages indicated. The standard deviations of more than one for four out of six statements in this category indicate disagreement in the responses of the respondents.

Also, frequently used were learning and innovation related NFPMs. The most frequently used NFPMs in this category was; employee performance appraisal (89%), followed by employee absenteeism (88%), then level of Information Communication Technology (ICT) usage (79%) and employee turnover rate (79%). Other learning and innovation related NFPMs were: number of employee training and development programs (60%), employee training hours (55%) and number of product and services innovated per year (60%). The means obtained also mirrored the percentages indicated. The standard deviations of more than one for five out of seven statements in this category indicate disagreement in the responses of the respondents.

From the above results, one can observe that the three most frequently used were customer related. These were followed by three internal business process related NFPMs and then two learning and innovation related NFPMs. Likewise, the two least frequently used NFPMs were learning and innovation related. The above results are consistent with those of Wadongo *et al.* (2010); Banker, Potter & Srinivasan (2005) and Petzer, Steyn and Mostert (2009) who found that more attention is given to NFPMs such as sales growth, customer satisfaction, customer complaints and retention rate. These studies however also revealed other NFPM measures that



were used in the hotel industry including: politeness and friendliness of staff, employee helpfulness, staff understanding of guest requests, staff providing efficient service, the efficiency of check-in and check-out, multi-lingual skills for staff, and neat appearance of staff.

The purpose for which NFPMS are used

In question three, respondents were asked to indicate how often their businesses used NFPMS for 17 different purposes. To this end, a five-point Likert scale was used with weightings of one for never, two for rarely, three for sometimes, four for frequently, and five for very frequently. Accordingly, the closer the mean was to five, the more often a specific NFPM was used. For clarity, the percentages of those who indicated that their business used NFPMS for a particular purpose frequently or very frequently were added and included in the third column of Table 2, under the title “percentage that used NFPM for the purpose frequently”.

Table 2: The purpose for which NFPMS are used

Number	Purpose for which NFPMS are used	Percentage that use NFPMS very frequently	Respondents	Standard deviation
			N= 100	
		Frequently	Mean	
a.	Aligning strategic activities to the strategic plan	76%	4.17	1.016
b.	Improving the profitability of the business	96%	4.61	.567
c.	Improving productivity and mission effectiveness	94%	4.55	.716
d.	Obtaining feedback needed to guide planning efforts	86%	4.34	.890
e.	For identifying best practices in the hotel and expand their usage elsewhere	67%	3.90	1.283
f.	For budgeting and control purposes	93%	4.49	.689
g.	For developing tactical strategies	85%	4.29	.902



h.	For problem identification	89%	4.38	.789
i.	For improving decision-making	94%	4.54	.610
j.	For optimising the use of resources	92%	4.51	.674
k.	For business process improvement	93%	4.50	.732
l.	For training and learning purposes	85%	4.26	.883
m.	For influencing, evaluating and rewarding employee behaviour	89%	4.38	.862
n.	For encouraging innovation	72%	3.94	1.071
o.	Increase customer satisfaction	94%	4.53	.674
p.	For benchmarking performance against that of competitors	64%	3.77	1.355
q.	For motivating employees	92%	4.51	.847

Scale: 1 = never; 5 = very frequently (Source: Field work)

As shown in Table 2, the most frequent purpose for which NFPMs were used by the sampled SMEs was for improving the profitability of the business (96%), followed by improving productivity and mission effectiveness (94%), improving decision-making (94%), increasing customer satisfaction (94%), and then for budgeting and control purposes (93%), and business process improvement (93%). Other purposes for which NFPMs were frequently used by the sampled SMEs included: optimising the use of resources (92%), motivating employees (92%), problem identification, and influencing, evaluating and rewarding employee behaviour (89%), followed by obtaining feedback needed to guide planning efforts (86%), developing tactical strategies (85%) and training and learning purposes (85%). Further, purposes for which NFPMs were frequently used by the sampled SMEs includes: aligning strategic activities to the strategic plan (76%), encouraging innovation (72%), identifying best practices in the hotel and expand their usage elsewhere (67%), benchmarking performance against that of competitors (64%). The means obtained also mirrored the percentages indicated. The standard deviations of less than one for thirteen out of seventeen statements in this category indicate agreement in the responses of the respondents.



The perception regarding the effectiveness of NFPMS

In question four, respondents were asked to indicate their perception regarding the effectiveness of twenty-three NFPMS used in their businesses. A five-point Likert scale was used with weightings of one for very ineffective, two for ineffective, three for neutral, four for effective and five for very effective. For clarity, the percentages of those who perceived a particular NFPM to be either effective or very effective were added and included in the third column of Table 3, under the title “percentage that perceived a NFPM to be effective”. As shown in Table 3, the NFPMS that was perceived by most respondents as to be effective were: sales growth percentage (99%) and bed occupancy level (99%), followed by guest satisfaction survey (96%), ability to adjust to guest request (95%), response time to guest request (93%), employee satisfaction surveys (92%), and level of Information Communication Technology (ICT) usage (90%).

Other NFPMS perceived to be effective by the sampled SMEs include: employee absenteeism (89%), guest evaluation of helpfulness (87%), hotel suppliers meeting standard purchasing specifications (85%), hotel suppliers delivering on time (81%), guest evaluation of facilities (80%), employee turnover rate (80%), guests’ complaints (80%), employee training hours (77%) followed by obtaining star classification (73%) and number of employee training and development programs (70%). The NFPMS perceived to be less effective were: guest evaluation of extra benefits provided such as exercise and refreshment (65%), market share percentage (62%), followed by the number of product and services innovated per year (60%) and lastly the frequency of equipment breakdown (56%). The standard deviations of less than one for the thirteen out of twenty-three statements in this category indicate agreement in the responses of the respondents.

Table 3: the perception regarding the respondents’ effectiveness of NFPMS

Number	NFPMS	Percentage that perceived a NFPM to be effective	Respondents	Standard deviation
			N=100	
		Very effective	Mean	
a.	Market share percentage	62%	3.77	1.179
b.	Sales growth percentage	99%	4.77	.489
c.	Bed occupancy levels	99%	4.73	.468
d.	Guest satisfaction surveys	96%	4.67	.587
e.	Guest evaluation of employee helpfulness	87%	4.27	.839



f.	Guest evaluation of facilities	80%	4.08	.950
g.	Number of repeat customers	83%	4.20	.853
h.	Guest evaluation of extra benefits provided such as exercise and refreshment	65%	3.78	1.133
i.	Guests' complaints	80%	4.11	.898
j.	Ability to adjust to guest request	95%	4.48	.689
k.	Response time to guest request	93%	4.53	.745
l.	Frequency of equipment breakdown	56%	3.52	1.453
m.	Hotel suppliers delivering on time	81%	4.20	1.223
n.	Hotel suppliers meeting standard purchasing specifications	85%	4.23	1.196
o.	Obtaining star classification	73%	3.99	1.049
p.	Number of employee training and development programs	70%	3.86	1.172
q.	Number of product and services innovated per year	60%	3.67	1.288
r.	Employee training hours	77%	4.01	1.049
s.	Level of Information Communication Technology (ICT) usage	90%	4.43	.756
t.	Employee turnover rate	80%	4.06	1.062
u.	Employee performance appraisal	94%	4.52	.643



v.	Employee absenteeism	89%	4.40	.995
w.	Employee satisfaction surveys	92%	4.57	.769

Scale: 1 = very ineffective; 5 = very effective (Source: Field work)

Factors that inhibit respondents business from utilising NFPMS

In question five, respondents were asked to indicate, using a “yes” or “no” response whether there are any factors that inhibit their businesses from utilising NFPMs. The results are shown in Table Figure 2. As indicated in Figure 2 below, 90% of the respondents indicated “Yes” there are factors that inhibit their businesses them from utilising NFPMs while only 10% indicated “No”.

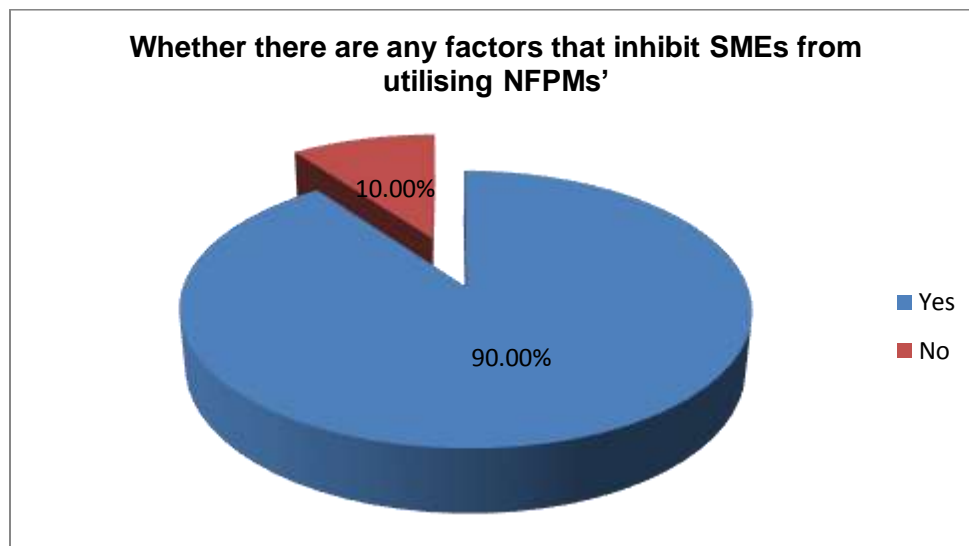


Figure 2: Whether there are factors that inhibit SMEs from utilising NFPMs (Source: Own data)

In question six, respondents who indicated that their business face factors that inhibit them from utilising non-financial performance measure to specify the extent to which they agreed with 16 statements on the factors that inhibit their businesses form using NFPMs. A five-point Likert scale was used with weightings of one for strongly disagree, two for disagree, three for neither agree nor disagree, four for agree and five for strongly agree. For clarity purposes, the percentages of those who either agreed or strongly agreed to a given statement were summed together, and reported as “percentage that agreed with the statement” in the third column of Table 4.

As shown in Table 4, majority of the sample SMEs indicated that the factors that inhibited their businesses from using NFPMs were that the cost of implementation NFPMs is very high (87%), followed by difficulty of quantifying NFPMs (83%), inability to compare with other businesses due to the company specific nature of NFPMs (83%), and a lack of resources in terms of money



required and time (83%). Other major factors that inhibit the sampled SMEs from using NFPMs include: a lack of the necessary skills and human resources (81%), cost ineffectiveness of the NFPMs (79%), inadequacy of information systems in the entity (78%), complexity of the NFPMs (73%), a lack of awareness about performance measures (72%) and absence of an effective process of implementing the measures (68%). Among the factors that inhibited the sampled SMEs from using NFPMs to a lesser extent were a lack of objectivity as these measures can be determined in various ways (54%), conflicting results among the different performance measures (54%), a lack of management support (47%), employee resistance (42%), perception that non-financial measures are unreliable (25%), and that non-financial measures are irrelevant to the business (21%). The standard deviation of less than one for the ten out of sixteen statements in this category indicates agreement in the responses of the respondents. Whereas the standard deviation of more than one for six out of sixteen statements in this category indicates disagreement in the responses of the respondents.

Table 4: factors that inhibit respondents business from utilising NFPMS

Number	Factors that inhibit the usage of NFPMs	Percentage that agreed with the statement	Respondents	Standard deviation
			N= 89	
		Strongly agree	Mean	
a.	Difficult to quantify	83%	4.60	.686
b.	Cost ineffectiveness of the performance measures	79%	4.40	.849
c.	Inadequacy of information systems in the entity	78%	4.36	.895
d.	Complexity of the NFPMs	73%	4.16	.916
e.	Non-financial measures are unreliable	25%	2.75	1.342
f.	Non-financial measures are irrelevant to our business	21%	2.60	1.371
g.	A lack of objectivity as these measures can be determined in various ways	54%	3.76	.989



h.	Cost of implementation is very high	87%	4.60	.578
i.	Are company specific and, thus, hamper comparison with other business	83%	4.49	.659
j.	A lack of resources in terms of money required and time	83%	4.56	.656
k.	A lack of the necessary skills and human resources	81%	4.52	.785
l.	A lack of awareness about performance measures	72%	4.15	1.017
m.	A lack of management support	47%	3.49	1.235
n.	Absence of an effective process of implementing the measures	68%	4.04	.891
o.	Conflicting results among the different performance measures	54%	3.72	1.076
p.	Employee resistance	42%	3.40	1.420

Scale: 1 = strongly disagree; 5 = strongly agree (Source: Field work)

Summary and conclusion

The aim of this paper was to determine the extent to which SMEs in the hotel industry sector use NFPMs. Regarding the types of NFPMs used by SMEs, the results revealed that the three most frequently used NFPMs were customer related measures, namely: guest satisfaction survey, sales growth and bed occupancy level, and that the two least frequently used NFPMs were learning and innovation related. These were, employee training hours and number of product and services innovated per year.

Concerning the purpose for which SMEs use NFPMs, the results revealed that these entities used the performance measures frequently for improving the profitability of the business, improving productivity and mission effectiveness, as well as improving decision-making. By contrast, the SMEs used the NFPMs less frequently for encouraging innovation, for identifying best practices in the hotel and for benchmarking performance against those of their competitors. As far as the perceptions of decision-makers of SMEs regarding the effectiveness of NFPMs currently employed by these entities is concerned, the results revealed that sales growth percentage, bed occupancy levels and guest satisfaction surveys were perceived by the sampled respondents to be the most effective NFPMs. By contrast, market share percentage, number of product and



services innovated per year, as well as the frequency of equipment breakdown were perceived to be less effective. With respect to the factors that inhibit SMEs from utilising NFPMs, the results revealed the high cost of implementing these measures alongside the incomparability of these measures due to their company specific nature as the main inhibiting factors. Other factors that inhibit SMEs from utilising NFPMs include difficulty in quantifying the measures, employee resistance, unreliability of these measures alongside the view that they are irrelevant to the respondents' businesses.

This study contributes to the literature in numerous ways. Firstly, it is the first study, to the best of the author's knowledge, to investigate the use of NFPMs by SMEs operating in the hotel industry in the Cape Metropole. Therefore, this thesis fills a gap in the body of knowledge by investigating the use of NFPMs in a critical but neglected industry in the Cape Metropole.

Secondly, this study provides a rare insight into the use of NFPMS by SMEs in the South African context, the purpose for which they are used, the perceived effectiveness of the tools and the factors that inhibit SMEs from using these measures. Bearing in mind that most prior studies on the topic were conducted in developed countries, this study provides unique empirical evidence from a developing country's context, namely South Africa, on the use of the NFPMs.

Thirdly, unlike prior South African studies which tended to examine the use of management accounting tools or performance measures in general, by comparing the use of financial performance measures and NFPMs, this study uniquely focuses on only NFPMs thus provides a more detailed account of the use of NFPMs by SMEs operating in the hotel industry.

This study should be of considerable value to the Department of Small Business Development, which offers financial and non-financial support services to SMEs. The Department's aim is to create a business environment that is conducive to the development and growth of SMEs. This study provides comprehensive insights into the use of NFPMs. It identifies the purposes for which these measures are utilised as well as those for which they are not used, as well as the perceptions of decision makers in SMEs of their effectiveness and the factors that discourage their use. These insights could help the Department to devise new strategies that will make the interventions it designs and implements more effective. The current strategies and interventions used by the Department do not seem to have the desired effect because the failure rate of SMEs remains high.

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