PERFORMANCE EVALUATION OF TOURISM SECTOR IN IRAQ

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TO MY PARENTS, BROTHERS AND SISTERS

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ABSTRACT

In this thesis the performance evaluation of tourism sector in Iraq is described and analysed. The research focuses on the measurement of financial, non-financial and economic performance related to tourism sector and to the enterprises which are operating in the tourist field in Iraq.

As the purpose of the study is to examine and evaluate the performance of the state-owned enterprises in the tourism sector, other objectives are considered as well:

- to assess the impact of tourism as an economic activity, relating to the balance of payments, employment, etc., in comparison with other productive sectors,
- to define the performance criteria, financial and non-financial, which are necessary to the study,
- to measure the performance of tourism enterprises empirically by building a model to explain the variation in financial performance of different enterprises and rank them, and
- to construct a theoretical programme concerning the evaluation of tourism services from the customer's point of view.

The study covers the financial, non-financial and economic performance in detail. Financial performance is based on the traditional statements (balance sheet and profit and loss accounts) and afterward different ratios

have been selected. A comprehensive model relating to factor analysis has been built. The model was used to measure the financial performance of different enterprises under investigation in the tourism field in Iraq.

Non-financial performance is based on a suggestion programme which concern the quality audit of the services from the customer's point of view.

Economic performance is based on the role of tourism in development and its impact on the economy in, for example, the balance of payments, employment, tourist multiplier effect.

A systematic review of methodologies on financial evaluation led to identifying the most appropriate indicators of performance measurement: profitability, managerial performance, and liquidity. These cover all the financial aspects of tourism enterprises. By following factor analysis technique, we could classify and rank the enterprises under investigation into three groups:

- Above-average performance enterprises.
- Average performance enterprises.
- Below-average performance enterprises.

A review of financing methods in tourism sector including the theories of capital structure, and a case study to Hatra tourist project in Iraq.

CONTENTS

		Page
DEDICATION.		i
ACKNOWLEDGEMENTS.		ii
ABSTRACT.		iii
CONTENTS.		v
LIST OF TABLES.		xii
LIST OF FIGURES.		xiv
CHAPTER 1 : INTRODUCTION		
1.1	General.	1
1.2	Research Objectives.	2
1.3	Research Purpose.	3
1.4	Organisational Structure of the Study.	4
1.5	Research Scope and Methodology.	7
1.5.1	Research Scope.	7
1.5.2	Research Methodology.	9
1.6	Previous Studies.	12
1.7	Limitation of the Study.	13
1.8	Anticipated Contributions.	14
CHAPTER 2 : TOURISM IN IRAQ		
2.1	Introduction.	16
2.2	Historical Background of Iraq.	17
2.3	Geographic Characteristics.	18
2.3.1	Location.	18
2.3.2	Area.	19
2.3.3	Population.	19

2.3.4 Language. 19

2.3.5 Climate. 20

2.3.6 Vegetation Region. 20

2.4 Business and Economy. 21

2.5 Religious Tourism. 21

2.6 Development of Tourism Sector in Iraq. 22

2.7 Problems and Potentials. 25

2.8 Tourist Board. 26

2.9 State Policies Towards Tourism. 26

2.10 The Implication of Performance Evaluation for Tourism Investment and Governmental Policy. 29

2.10.1 The Implication for Tourism Investment. 29

2.10.2 Governmental Policy on Investment. 33

* Ownership Policy 34
* Performance Evaluation and Investment. 35
* Price Policy. 39
* Purposes of Government Investment Policy. 40

2.11 Summary. 42

CHAPTER 3 : ROLE OF TOURISM IN DEVELOPMENT

3.1 Introduction. 46

3.2 Assessment of Comparative Advantage. 51

3.3 Conditions Relevant to Iraq. 54

3.4 Contribution of Tourism to the Balance of Payments. 57

3.4.1 U.K. 61

3.4.2 Cyprus. 65

3.4.3 India. 68

3.4.4 Iraq. 71

3.5 Tourism and the GNP and GDP. 74

3.6 Multiplier Effect of Tourist Expenditure. 83
3.7 Tourism and Employment. 90

3.8 Impact of Tourism on the Agriculture and Industrial Sectors. 99

3.9 Summary. 103

CHAPTER 4 : FINANCING THE TOURISM SECTOR

4.1 Introduction. 111

4.2 The Funding Sources. 113

4.2.1 Financing by Government and NTO as a Public Sector. 114

4.2.2 Financing by Funding Institutions and Equity. 116

4.2.3 Other Financing Sources. 118

4.3 Efficiency Criteria for Investment. 119

4.3.1 Public and Private Criteria for Financing Tourism Projects. 120

* Public Sector Criteria. 120
* Private Sector Criteria. 127

4.3.2 Project Appraisal Methods. 128

* Pay-Back Period. 128
* Average Return on Book value. 129
* Internal Rate of Return (IRR). 130
* Profitability Index. 131
* Net Present Value (NPV) 131

4.3.3 Capital Structure Theories. 132

* Optimum Capital Structure. 132
* Leverage Tax Clienteles. 134
* Traditional Financing Analysis. 134

4.4 Efficiency in Investment - Some Considerations, Case Study of a Tourist Project. 136

4.4.1 Introduction. 136

4.4.2 Investment and Financing of the Project. 137

* Investment Estimates. 137
* Estimated Income of the Project. 141
* Estimated Yearly Operation Expenses. 142
* Economic Balance Sheet. 144
* Economic Profitability of the Project. 145

4.4.3 Conclusions and Suggestions. 148

4.5 Summary. 150

CHAPTER 5 : EFFICIENCY IN TOURISM ENTERPRISE - PERFORMANCE EVALUATION.

5.1 Introduction. 155

5.2 The Meaning of Performance Evaluation and its Objectives. 156

5.2.1 Definition and Meaning of Performance Evaluation. 156

5.2.2 Role of National Tourism Organisation (NTO). 159

5.2.3 Objectives of Performance Evaluation. 161

5.3 Level of Analysis of Performance Evaluation. 162

5.4 Features of Performance Evaluation. 164

5.5 Challenges to Performance Evaluation. 165

5.6 The Unified Accounting System (U.A.S.). 165

5.6.1 Background of U.A.S. 166

5.6.2 Objectives of U.A.S. 167

5.6.3 Characteristics of U.A.S. 168

5.6.4 The Accounts Code. 169

5.6.5 The Importance of U.A.S. to Tourism. 174

5.6.6 The Weaknesses of the U.A.S. 174

5.7 The State of Performance Evaluation and the Needs for Specific Criteria. 175

5.7.1 The Situation of Performance Evaluation of the Tourism Sector in Iraq. 176

5.7.2. The Importance of Specific Indicators for Performance Evaluation. 180

5.8 Summary. 181

CHAPTER 6 : PERFORMANCE EVALUATION - INDICATORS

6.1 Introduction. 186

6.2 Literature Review of Performance Indicators. 187

6.2.1 Types of Indicators. 189

* Single Indicator and Measures of Growth. 189
* Multiple Indicators. 190
* Composite Indicator. 191

6.2.2 The Nature of Performance Indicators. 193

6.3 Framework of Indicators of Tourism Enterprise Performance. 197

6.3.1 Financial Ratios Classification. 197

* Profitability Ratios. 203
* Managerial Performance Ratios. 204
* Solvency Ratios. 206

6.3.2 Final Selection of Financial Measures. 209

* Profitability Ratios. 209
* Managerial Performance Ratios. 210
* Solvency Ratios. 211

6.3.3 Limitations of Financial Ratios. 213

6.3.4 Non-Financial Indicators. 215

6.4 Quality Service Assessment. 220

6.5 Quality audit of Tourism Services. 226

6.5.1 Step 1: Audit Planning and Preparation. 229

6.5.2 Step 2: Audit Execution and Procedures. 235

6.5.3 Step 3: Preparation of Audit Report. 240

6.6 Summary. 243

CHAPTER 7 : COMPARISON OF PERFORMANCE EVALUATION INDICATORS

7.1 Introduction. 250

7.2 Sources of Data. 250

7.3 Objectives of Factor Analysis. 252

7.4 Steps of Factor Analysis Technique. 253

7.5 Computation of Financial Performance. 258

7.5.1 Calculating of the real ratios. 259

7.5.2 Computing the Correlations between Ratios. 259

7.5.3 Extraction of Factor Matrix(Unrotated Matrix). 262

7.5.4 Rotation Process. 263

7.6 Factor Score. 267

7.7 The Mathematical Model. 269

7.8 Testing the Strength of the Model. 278

7.9 The Application of Statistical tests for Performance Improvement. 311

7.9.1 Above Average Performance Enterprise. 311

7.9.2 Average Performance Enterprises. 311

7.9.3 Below Average Enterprises. 312

7.10 Previous Studies. 316

7.10.1 In General. 316

7.10.2 In Tourism Field. 319

7.11 Summary. 321

CHAPTER 8 : CONCLUSIONS AND RECOMMENDATION FOR FURTHER STUDIES

8.1 Introduction. 327

8.2 Contribution of the Study. 328

8.3 Summary. 329

8.4 Main Conclusions. 330

8.4.1 Financial Performance Evaluation. 330

8.4.2 Non-Financial Performance Evaluation. 332

8.4.3 Economic Performance Evaluation. 333

8.5 Further Studies. 334

APPENDICES.

1. Calculation of GNP and GDP in Iraq. 337-8

2. Depreciation Rates for General Fixed Assets in Public Sector in Iraq. 339

3. Depreciation Rates for Profit-Making Enterprises of Tourism. 340

4. The Tourism Accounting System. 341

5. The Diwan of Financial Control or Board of Supreme Audit. 360

6. Computer Programmes. 364

7. List of Important Intreviewees and Organisations 373

BIBLIOGRAPHY. 374

LIST OF TABLES

		Page
2.1	Investment estimate by development phase	37
2.2	Investment breakdown by tourist motivation	38
3.1	Visible export and tourism receipts in Iraq	52
3.2	Number of foreign tourists, length of visits and average expenditure in Iraq	53
3.3	Number of hotels, distributed by governorates	55
3.4	Distribution of guests in the hotels by nationality in Iraq	56
3.5	Balance of payments and travel account for the UK	62
3.6	Comparison between tourism spending and consumer spending in the UK	64
3.7	Balance of payments for Cyprus	66
3.8	Travel account and the share of tourist receipts to visible export in Cyprus	67
3.9	Balance of payments and travel account for India	69
3.10	Balance of payments and travel account for Iraq	72
3.11	International tourism receipts as a % of GDP- comparison of various countries	78
3.12	Tourism receipts as a proportion of GDP in the UK	79
3.13	Shares of tourism receipts to GDP and National Income in Iraq	81
3.14	Average contribution to GDP of selected economic activities in Iraq	82
3.15	Tourist multiplier estimation	87
3.16	Number of hotel employees compared with those main manufacturing establishment in Iraq	94
3.17	Number of main industrial establishments and their employees in Iraq	97
4.1	Capital requirements and the minimum foreign exchange component of Hatra project	138
4.2	Detail of accommodation facilities of Hatra project	139
4.3	Time-table of the investment	140
4.4	Income estimation of Hatra project	142
4.5	Operating expenses estimation of Hatra project	143

4.6	Estimated economic balance sheet of Hatra project	145
4.7	Economic balance sheet with the assumption of reducing village investment by 10% and with direct management.	148
5.1	Analysis of the assets accounts	171
5.2	Balance sheet accounts framework of UAS	172
5.3	Resulting accounts (profit & loss account)	173
6.1	Seriousness classification scale	239
7.1	Scale of ratio-factor correlation	258
7.2	Correlation matrix of R1 to R25	260-1
7.3	Unrotated factor matrix	264
7.4	Transformation matrix	266
7.5	Rotated factor matrix	268
7.6	Estimated factor score coefficients	272
7.7	Raw coefficient scores	275
7.8	Values of financial performance with 0.3 cut-off	276
7.9	Total values of financial performance	277
7.10	Model classification and rank of the enterprises under investigation	315

LIST OF FIGURES

		Page
3.1	Circular flow of money.	86
6.1	Financial ratios categoric framework.	201
6.2	Quality or fitness for use parameters.	222
6.3	Quality audit cycle.	242
7.1	Financial performance/ company 1.	279
7.2	Profitability/ company 1.	280
7.3	Managerial performance/ company 1.	281
7.4	Liquidity / company 1.	282
7.5	Financial performance/ company 2.	283
7.6	Profitability/ company 2.	284
7.7	Managerial performance/ company 2.	285
7.8	Liquidity/ company 2.	286
7.9	Financial performance/ company 3.	287
7.10	Profitability/ company 3.	288
7.11	Managerial performance/ company 3.	289
7.12	Liquidity/ company 3.	290
7.13	Financial performance/ company 4.	291
7.14	Profitability/ company 4.	292
7.15	Managerial performance/ company 4.	293
7.16	Liquidity/ company 4.	294
7.17	Financial performance/ company 5.	295
7.18	Profitability/ company 5.	296
7.19	Managerial performance/ company 5.	297
7.20	Liquidity/ company 5.	298
7.21	Financial performance/ company 6.	299
7.22	Profitability/ company 6.	300

7.23	Managerial performance/ company 6.	301
7.24	Liquidity/ company 6.	302
7.25	Financial performance/ company 7.	303
7.26	Profitability/ company 7.	304
7.27	Managerial performance/ company 7.	305
7.28	Liquidity/ company 7.	306
7.29	Financial performance/ company 8.	307
7.30	Profitability/ company 8.	308
7.31	Managerial performance/ company 8.	309
7.32	Liquidity/ company 8.	310

CHAPTER (1)

INTRODUCTION

Chapter (1)

Introduction

1.1 General:

Tourism has received great care and much attention from the government in Iraq. Iraq is the cradle of civilisation and its history is rich with such names as Babylon, the Hanging Gardens, Nineveh, Ashur, etc., therefore, a tourism organisation was established in 1956, namely " The Tourism and Summer Resorts Administration", which was changed to the State Organisation of Tourism (SOT), in order to encourage tourism activities and to acquaint the people of the world with Iraq's past and present.

Accordingly, many state-owned enterprises were established. Later most of them showed poor performance, therefore, since 1980, the government has been encouraging the private sector to invest in tourism. Tourist agencies and small companies were established, and new modern hotels were built. This is in addition to the fact that the government established some projects, in the north and west of Iraq, in association with the multinational companies, e.g. Hilton, Sheraton, etc.

Iraq designed a unified accounting system in 1979.

The main purpose of the system is to unify the accounting transactions of profit-making firms operating in the public sector. Most of them are manufacturing enterprises. This means that the system has, by definition, been designed to suit the manufacturing industries more than the services sector, i.e. tourism. Applying this system for services enterprises, e.g. hotels, tourism companies, etc., will lead to conflicts, problems and deficiencies, in particular, when it is used for the purpose of evaluating the performance of these enterprises.

As the type of accounting systems varies in a country over time and changes in response to economic and political events, therefore, adoption of an additional information system for tourism, as an economic activity, is useful in this regard.

1.2 Research Objectives

The basic objective of this research is to examine and evaluate the performance of the state-owned enterprises in the tourism sector in Iraq, in addition to pursue the following objectives:

1. To evaluate tourism as an economic activity, in particular, relating to the balance of payments, in comparison with other productive sectors.

2. To define the performance evaluation criteria, accounting and non-accounting, which are necessary to the study.
3. To measure the performance of tourism enterprises empirically by building a model to explain the variation in financial performance of different enterprises and rank them.
4. To construct a theoretical programme concerning the evaluation of tourism services, i.e. hotel sector, from the customer's point of view. This is an important part of evaluation which can provide a tool for improving the performance of tourism enterprises.

1.3 Research Purpose

The performance evaluation of enterprises is a subject that attracts a lot of comments from different parties. The general research question addressed in this study is "Why do we need to study performance evaluation of the tourism sector in Iraq?".

To answer this question, it is necessarily to understand the requirements of performance evaluation and its situation in Iraq, as well as to understand the meaning of performance evaluation and its objectives. These will be explained in the study. However, the main reason is the deficiencies of the financial statements.

Although the traditional financial statements are important for the long-term evaluation of the operations, they are also helpful at all levels of management, but they still suffer from deficiencies in evaluating the relationship between tourism enterprises and their customers. The profitability, liquidity, sales revenues, etc., are the summary performance indicators which suffer from several deficiencies (see chapter six).

Therefore, it is necessary to study the evaluation process from the customer's point of view as well as the traditional financial statements to achieve the ideal situation, and to overcome the above deficiencies. Also, it helps the managers to solve the problems which faced them. It seems clear that tourism enterprises in general require a more efficient means of measuring customer satisfaction. Thus, the quality audit applied to the services is an important tool, which has not been applied before in Iraq.

1.4 Orgnisational Structure of the Study

The organisation of the chapters is in line with the objectives stated above. This chapter outlines the frame-work of the study: the objectives, the purposes, the scope and methodology, previous studies, the limitations and the anticipated contribution of the the study.

Chapter two discusses the development of tourism sector in Iraq and its potential. Historical background and geographical characteristics have also described. Finally, the state policies towards tourism and state investment in tourism are considered in detail.

Chapter three deals with the role of tourism in the economy. Seven main sections have been considered. These are: the assessment of comparative advantage between tourism and other sectors; conditions relevant to Iraq; the contribution of tourism to the balance of payments, with examples of the U.K., India, Cyprus and Iraq; tourism and the GDP and GNP; the multiplier effect of tourist expenditure; tourism and employment; and the impact of tourism on agriculture and industry.

Chapter four discusses the financing of the tourism sector. It covers different areas like the sources of funds; efficiency criteria for investment including public and private criteria, project appraisal methods, and capital structure theories. It includes a case study of tourism project finance in Iraq.

Chapter five describes the requirements of performance evaluation and its objectives. Because of its wide use in different fields, the term performance evaluation has different interpretations. This chapter, therefore, deals with the meaning of the term, its

objectives, and the level of analysis. The use of the Unified Accounting System (UAS), its characteristics, objectives, the codes and the weaknesses have also been discussed. Finally, the situation of performance evaluation of the tourism sector along with the needs for specific criteria is set out.

Chapter six serves different aspects of performance evaluation: it surveys the literature on performance indicators, types of indicators, the nature of performance indicators. A framework of indicators for tourism enterprises' performance is given by selecting appropriate financial and non-financial ratios. It also discusses the quality service assessment, and a theoretical programme for the quality audit of tourism services from the customer point of view.

Chapter seven explains the methodology used to compute the financial performance of different enterprises by using a mathematical model along with a comprehensive statistical technique called "factor analysis". The test of the model is also achieved by plotting the values of financial performance and its components (profitability, managerial performance, and liquidity) in separate graphs. The application of statistical tests for performance improvement lead to the classification of the studied enterprises to be either above average, average, and below

average performance. The classification and rank of the enterprises are shown in table (7.10). Computer programmes are used to carry out the calculation. Finally, a review of previous studies in this regard (in general and in the tourism field) has been discussed.

Chapter eight is the concluding chapter which recommends policies to improve the performance of tourism enterprises in the light of the finding of the study. It also includes a number of topics could be used for further studies.

1.5 Research Scope and Methodology

1.5.1 Research Scope

The research project will cover both theoretical and empirical materials. The theoretical side includes defining the appropriate indicators to measure the enterprises' performance, and expanding the analytical structure to explain performance, distinguishing between accounting and non-accounting factors. While the empirical side includes studying the economic influence of the tourism enterprises in the economy, and collecting and analysing the actual results of the indicators during the period 1976 to 1988.

The reasons of choosing this period are:

1. The years before 1980 are outside the effect of the war

with Iran.

2. The years 1980 to 1988 are under the circumstance of the war with Iran.

Therefore, to see the influence of the war on the tourism sector in Iraq and to have better evaluation of the tourism enterprises of their performance during the period.

The term performance in this proposed study relates to both accounting and non-accounting performance. The accounting performance is referred to traditional profit and loss statements, rate of return on investment, etc., considering the state-owned enterprises similar to private companies. While, non-accounting performance criteria which are relevant to tourism sector, e.g. the satisfaction of the clients, the quality of services, the attractivness criteria, etc., can interact and play an important role with accounting and economic criteria at the time of measuring performance evaluation of enterprises in the tourism sector.

In addition the economic performance is also relevant to the term performance. It incorporates the quantifiable cost and benefits from the viewpoints of the national economy. For example, it evaluates the costs and benefits in shadow prices rather than market prices. Because the real cost is in fact its shadow price, therefore, any tourist project that cost less than its shadow price is

economically advantageous (see Bargur and Arbel, 1976). This part is too difficult to measure, therefore, we shall leave it to further study.

However, it is necessary to analyse the financial characteristics of tourism enterprises as well as the quality criteria to services of these enterprises before a judgement concerning their performance evaluation can be drawn. This is demonstrated by the fact that there can be conflict between profitability, which is widely accepted as a performance criterion of enterprise, and survival. Therefore, profitability should be matched with solvency and the quality of service too.

1.5.2 Research methodology

The research methodology for this study might be divided into three parts:

i. Desk research:

This part was done mainly at the University of Strathclyde, University of Glasgow and Mitchell Library. This part was followed to accomplish the literature review and computer results regarding the field work.

Different materials, books, articles and reports have been used to assist in constructing the mathematical model

to measure the financial performance. As a consequence, performance criteria should be tested as well as efficiency when the resources of an enterprise are utilised. Thus the proposed study attempts:

- to assist in showing the government economic and social objectives on the macro and micro levels,
- to define the performance criteria which are relevant to the study and measure them empirically, and,
- to link the accounting and non-accounting evaluations, in order to provide a broader view to the factors which lead to performance improvement in tourism enterprises. This requires to take into account the quality audit from the customer's point of view for tourism services as well as the traditional financial measures.

The facilities at the computer centre at the University of Strathclyde have an important role to apply and test the model. Several computer programmes have been written to carry out the calculation of the financial performance. A comprehensive statistical technique has been followed which called "factor analysis".

ii. Field work research

The field work was started in November to December, 1990. The time was very critical because of the crisis in the Gulf.

The field work, however, was done before the war in the Gulf.

Personal interviews have been organised with the General Managers of different organisations. The aim of these interviews was to get permission to obtain the financial and economic data. Financial data are collected from the balance sheets and profit and loss statements. While economic data are collected from the annual statistical report for trade, employment and hotel services.

iii. Research stages:

The research project was carried out between March 1988 and April 1991. The first nine months was consumed with preparing a proposal for the topic "Performance Evaluation of Tourism Sector in Iraq". During that time, the researcher joined the postgraduate course in tourism at the Scottish Hotel School to increase his knowledge and background in this field. From the second year, a computer and literature search was been done. This was followed by preparing a comprehensive approach and model to evaluate different enterprises which were operating in the tourist field in Iraq.

The period between August 1990 (when the Gulf crisis started) up to November 1990 was concerned in obtaining

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second one.

The quality audit is an important evaluatory technique for tourism enterprises in Iraq which has not previously been applied. As a result of the connection between both measures (financial and non-financial), a better situation in performance evaluation of tourism enterprises will be achieved

1.7 The Limitation of the Study

Two main limitations were faced this study:

1. Gulf crisis:

As the researcher prepared himself to carry out the field work in September 1990, the Gulf crisis developed. Therefore, many difficulties faced the field work; 'frozen' bank accounts; cessation of funding from the Iraqi Embassy; and two months delay in obtaining re-entry visa. Despite these difficulties the researcher travelled to Iraq to collect the required data related to financial performance. These data are very important to test the model and calculate the financial performance.

2. Limitation of time:

It was very difficult to remain in Iraq throughout January 1991 as planned, to carry out more research

relevant to the quality audit. As the war started on 16th of January 1991, it has not been possible to field test the quality audit format.

1.8 The anticipated contribution

The study, if successful, will provide the following contributions:

1. The study broadens the research frontier by probing into factors that affect the performance of the tourism sector.
2. The study provides a new tool (mathematical model) to measure financial performance.
3. The evaluation concerning the tourism services from the customer's point of view is regarded as an essential and primary step in the evaluation process (see chapter 6). Its combination with financial evaluation will create a more comprehensive assessment of the enterprise.
4. The study will contribute to a better understanding of performance evaluation in tourism sector in both the financial and non-financial characteristics which can assist the management in decision-making and problem - solving.
5. The study could provide both accounting and tourism researchers with the necessary background to encourage them to conduct further research into the link between accounting and tourism theory.

CHAPTER (2)

TOURISM IN IRAQ

Chapter (2)

Tourism in Iraq

2.1 Introduction

Tourism in Iraq has been focused on many things such as, history, geographical location, climate, religious activities and business and economic factors.

However, the potential of tourism, as is the case with other activities is specific to time, place, methodology used in its assessment, marketing difficulties and socio-cultural conditions. It is also relative to the role of other sectors in the economy and existence of price and quality competition.

The following is a description of these factors, state policies and a consideration of investment policy in tourism.

2.2 Historical background of Iraq

Iraq is located on the North East of the Arabian Peninsula in the South West of Asia. The old name of Iraq-Mesopotamia, meaning the land between the two rivers, i.e. the presence of the river valleys of the Tigris and Euphrates.

Iraq has a long history which gives witness to the greatness the country has known over the centuries in terms of human achievement. It had occupied a pioneering position in the history of human civilisation. In the realms of Sumer, Akkad, Assyria, Babylon, and later in Baghdad, there developed civilisations supported by a highly developed agricultural economy based on an intricate system of irrigation. Each of these civilisations provided a source of intellectual inspiration and Iraq remained a lantern of progress and development for many centuries.

However, all aspects of civilisation had gradually faded away and the country was torn by wars, invasions, fires and floods.

By 634 A.D. the Arab Moslem armies began the conquest of Iraq. Ctesiphon, the Persian capital, fell and in 637 A.D. Persian domination came to an end.

The Arab Islamic civilisation radiated human knowledge to all over the known world. And under the Abbasid's empire, Iraq became the centre of arts and science and a number of its scholars indulged in medicine, astronomy, mathematics, literature, history and geography and left behind them many valuable works.

Darkness fell upon the country after 1258 -the Mongols left behind them a trail of horror and destruction. In the 16th century Ottomans ruled Iraq- until 1917, when Iraq was placed under the British mandate. A form of political independence was at last obtained in 1932.

However, ever since man started to trade, Iraq has been a crossroad of caravans and commercial routes. Tourism has been a natural concomitant to such an activity, as an expression of man's wish to familiarise himself with the unknown and with the ways and manners of others.

2.3 Geographic characteristics

2.3.1 Location

Iraq is situated in the south-west of Asia, to the north-east of Arab homeland, bounded on the North by

Turkey, on the East by Iran, on the West by Syria, Jordan and Saudi Arabia, on the South by Arab Gulf, Kuwait and Saudi Arabia. Iraq lies between latitudes 29° 5' and 37° 22' North and between longitudes, 38° 45' and 48° 45' East.

2.3.2 Area

The area of Iraq covers 438,317 sq. km. Relief and main physical divisions are:

1. The Alluvial Plain; covers middle and south of Iraq.
2. The Desert Plateau; covers west of Iraq.
3. The Mountains; covers north of Iraq.
4. The Terrain Region;between the mountainous and alluvial plain.

2.3.3 Population

Iraq has a population of over 17 Million, of which the majority are Arabs. There are other several minorities such as; Kurds, Turkoman, and Syrian.

2.3.4 Language

The official language is Arabic, but there are also other officially recognised languages: Kurdish, Turkoman and Syriac. The foreign language most widely used is English.

2.3.5 Climate

Iraq lies within the moderate northern region. Its climate is continental and subtropical, with rainfall system similar to that of the Mediterranean where rainfall occurs in winter, autumn and spring.

Iraq's climate can be divided into three kinds:

1. Mediterranean climate; in the mountain area.
2. Steppes Climate; in the terrain area.
3. Hot desert climate; in the west and south of Iraq.

2.3.6 Vegetation region

The main areas of vegetation can be seen:

1. Forest and mountain herbs region;

   the most important plants are: acorn, almonds, walnuts, pinenuts and terebinth.

2. Steppes region;

   Most of its plants are: herbs, some bulbs and thorny plants

3. River banks region;

   It consists of tree, shrubs, herbs, willow tamarisk, liquorice shrubs and camel thorn. On the river bank citrus tree and date palms are grown.

4. Marshlands region;

The important marshes are in south of Iraq namely, Al-Huwaiza and Al-Hamar, where reed and cane grow.

5. Desert region;

It contains special plants which adopted themselves to the climate such as: tamarisk, mildfail, zizyphus, thorns and other desert plants.

2.4 Business and economy

During 1987, (21,572) business travellers have visited Iraq. A declining of 16 percent of previous year which was (25,785). However, business tourism and its potential in Iraq is dependent upon the extent of wholesale and retail trade and the extent of the openness of the economy. In the very near future, this market could grow very rapidly, because of the wider opportunity to rebuild the country after the Gulf crisis. This depends on business relationships with some countries which have influence on the political situation and future prospects for development of the country. More detail related to the significance of tourism is given in the next chapter.

2.5 Religious tourism

Another important market in the present and future of tourism in Iraq is "religious tourism". Great shrines exist in Baghdad, Kerbala, Najaf and other cities.

Thousands of domestic, arab, and foreign visitors from Iran, Turkey, Pakistan, India and other Muslims pilgrims visited these shrines every year. All these shrines were built with gold (in both the dome and minarets). They have a very special and important influence for all Muslims.

2.6 Development and problems of tourism sector in Iraq

The main objective of the Iraq tourism sector is to meet the demands of domestic tourism by extend the existing resources and facilities. However, the government has implemented a tourist plan based on the development and popularisation of selected areas.

The country's Tourism and Summer Resorts Administration (TSRA), a subsidiary of the Ministry of Information, was established in 1956. But, with the exception of publishing some illustrated maps and tourist magazines, it remained largely inactive until the seventies. Cooperation between the French OTH-OTU (Omninum Technique De I'Urbanisme) and TSRA to carry out a pilot study had been agreed. In 1975, work was started by a French consortium on a lakeside holiday resort at Habbaniya, west of Baghdad. It is now the largest tourist village in the Middle East. This tourist complex contain:

- A 4 star hotel (600 Beds), 500 chalets, a conference

hall and a library.

- 3 restaurants, bars.
- Summer and winter swimming pools, tennis courts, etc.
- A store for lending sport equipments.
- A supermarket, bank, post office, and other facilities.

The project has contributed much to the economy from tourism within the country. Domestic and foreign visitors spent their holidays in it.

The government has also established a number of tourist resorts in the north of Iraq (Kurdistan area). Most of them were closed because of the war with Iran. The resorts such as: Zawite, Suara Tuga, Ashawa, Sarsang, Anahki, Araden , Sulaf and Amadiya are very popular with the Iraqis and arabs from the Gulf States to spend summer in them. The government started to rebuild most of these resorts when the war with Iran was over, but unfortunately another war happened (Gulf Crisis). These projects might be the major development of tourism sector in the future.

Inadequate standards and range of facilities have to some extent prevented the growth of international tourism in Iraq. In other words, Iraqi tourism remains one of the least developed in the Middle East, in particular for foreign visitors. As with Jordan and Egypt, the lure of Iraq's ancient sites has tended to dominate the country's

foreign tourists.

In 1977, the TSRA was abolished, and a new organisation was formed under the Prime Minister, namely, State Organisation of Tourism (SOT) according to Act No. 49. The new law gives SOT more power and a bigger role in the economy.

SOT based its development plans on careful planning. The first step in this direction was a comprehensive survey of touristic potential in Iraq, which lead to the definition of the aims and means which made possible the drawing up of the 1975-85 plan in two stages. The plan included the development of the present facilities and establishments, and the improvement of their services for benefit of national and foreign visitors. It also included the construction of first-class and de luxe hotels in Baghdad and other towns in the country, and the expansion of, for instance, the Habbaniya Tourist town, one of the largest of its kind in the Middle East. The Autonomous Region in the north, so rich in natural beauty, received the intense attention of the SOT which has filled it with all the services and amenities that the tourist would expect to find for his comfort and delight.

The government in the last five years plan developed and created some festivals such as, Spring Festival in Nineveh (it is called mother of two springs), Al-Marbad

Poetical Festival, and Babylon International Festival. Much attention was also given to religious tourism and to maintain the holy shrines for the pilgrims.

2.7 Problems and Potentials

Iraq's main development difficulties in tourism have resulted from an unstable political environment, and shortage of clustered attractions.

However, the potential of tourism in Iraq is very promising from a domestic, religious and business tourism point of view. From 1982, the government encouraged and supported the private and public sectors to build and increase the number of hotels and new resorts. Also great attention was given to develop and modernise the roads, highways and transport sectors. Finally, instruction related to travel allowances restricted Iraqis from travelling abroad and gave a positive encouragement for domestic tourism. As more Iraqis were restricted by this policy, they have decided to take their holidays within the country, in particular in the north of Iraq and other lake resorts such as Al-Habbaniya.

While there can be no doubt that the future of foreign tourism will rest with the systematic marketing of its historical and cultural legacies, it should also be

stressed that Iraq has other potentially significant tourist attractions. Iraq incorporates almost every type of Middle Eastern scenery and condition, such as desert, steppe, alluvial plain, mountain and marshland.

2.8 Tourist Board

The progress level of SOT for the last period was not satisfactory to the government. Some tourism enterprises (mentioned in chapter seven) have been sold to private sector (by shares) and SOT was abolished. In 1990, it was replaced by the "Tourist Board", whose objectives are as follows:

1. Planning of tourism in both public and private sectors.
2. Carry out studies and researches in tourism in Iraq in the different regions, and formulating up the future development strategies for national tourism markets and promotion.
3. Monitoring the services in both the private and public sectors, and the quality, of national tourism performance.

2.9 State policies towards tourism

The tourism sector has been the object of particular interest to the government, who has ensured its successful

growth by increasing tourism investment.

Based on the above situation, the Iraqi policies towards tourism were based on the following (see Master Plan,1985):

1. Investment policy;

will be explained in detail in the next section.

2. Foreign exchange policy;

To encourage Iraqis to stay in Iraq and use the facilities established in the tourist resorts, by applying a the policy of social prices. Also to encourage and attract foreign tourists to acquaint them with Iraq (its past and present).

3. Religious tourism policy;

To encourage religious tourism and offer cheap accommodation for pilgrims in all the shrines' areas.

4. Incentive policy;

To encourage the private sector to take the initiative for more development. Examples are given

in the next section.

5. Conservation policy;

To maintain and preserve cultural and natural historical places and lifestyles which constitute the major tourism resources of the country .

6. Marketing policy;

To extend markets in particular arab countries. Also to explore new tourist markets in Asia, Europe and America by encouraging the multi-national companies such as Hilton and Sheraton in order to expect better international promotion.

7. Training policy;

To build a strategy for training at different levels:

-at university level,

-at secondary level, and

-at elementary level.

Also to establish institutes and schools specialising in tourism.

2.10 The implication of performance evaluation for tourism investment and governmental policy

The reasons for establishing tourism enterprises are varied, ranging from political ideology to the economic necessity of generating hard currencies or creating jobs. The question which arises here, where large volumes of resources may be committed to an enterprise is, how do these enterprises survive and how performance can be improved?

2.10.1 The implication for tourism investment:

Much attention has been given to the key role of the investment decision, and to the need for sound investment appraisal methods which consider the cost and benefits of potential new investments and the desirability of allocating resources to them (Brooks, R.,1979; Rogers and Phipps, 1977:96).

Tourism enterprises in developing countries, in general, must meet two apparently contradictory objectives. Being publicly owned, they are expected to pursue different activities in the public interest and at the same time achieve economic goals (i.e. generating profit). However, the effectiveness of managerial decisions regarding investment will have a certain

influence on the profitability of any enterprise. By their decision, the enterprise selects one project from a number of alternatives. Also, as Rogers and Phipps have noted, the enterprise is committed to a level of fixed costs which will persist in the future (see Rogers and Phipps, 1977:99). Accordingly, state-owned enterprises have to reconcile business requirements of financial flexibility and early reaction to a changing environment with the need to ensure public accountability and consistency with social goals, which in many cases, are not prescribed at all (see Aharoni, 1981: 1341). In tourism projects, the location and the specific characteristics of the project are so important that consequences of a wrong decision are extremely difficult and costly to rectify

Ideally, investment decisions should involve a three-level process, suggested by Rogers and Phipps (1977: 96-97) "Firstly, there should be a primary allocation of funds according to the strategic policy developed by the firm. In large organisations, this is essentially a top-level management decision while in smaller firms it will be the function of the individual entrepreneur. Once the strategy has been planned the second part of the process will be to screen and rank individual projects and schemes. The aim here should to select projects with the highest rate of return and to ensure that no project earns less than the opportunity cost of capital. A third stage,

often overlooked by managers, should be a post-dated assessment of the actual decision made and the way in which it was implemented". Thus, actual profitability can be compared with the expected rate of return, identifying any source of error to ensure that mistakes will not be repeated.

This depends on the life of the project and also on such conflicts which might arise between different groups interested in the project such as: shareholders (or government in public sector) are interested in the rate of return of their investment, employees in their wages, and customers and suppliers in obtaining an advantageous price. However, the minimum level of agreement between these groups is that the project should continue to exist as an entity (see Emmanuel and Otley, 1986:22). There can be conflicts between profitability and survival, therefore as criteria, profitability should also be matched with solvency and the quality of service.

There are two kinds of investment in developed and developing countries, private and public. They normally have different objectives and are not seeking the same results. Private investors are seeking profitability. Public sector investors will be seeking economic development, foreign currency, taxation and improved amenity. These factors can affect the approach to, and the

method of, financing (Bodlender, 1982: 277). Private investment in some circumstance, may have a limited role in supporting the development of tourism. There are many limitations for that:

1. because private sector does not tend to invest in any project unless there is an acceptable level of profit. In other words, the essence of private sector investment is that it should be profitable. Jenkins and Henry (1982:501) have noted that "private sector involvement in tourism is likely to be initiated by opportunities for profitable investment, and priorities are likely to be related to financial and economic consideration".

2. The private sector is acting under instructions issued by the government. For example in Iraq, the amount of loans taken by the private sector from the government did not exceed I.D. 15.8 million in 1986. These loans accounted for 65 per cent of the total investment of the private sector in tourism development (SOT,1987).
3. Most (if not all) tourism resources are publicly owned.
4. Tourism services and facilities may be largely affected by seasonality which means a low return for investment.

Accordingly, private investment is concentrated in the touristic areas which are already developed. Thus, the key role in tourism investment is played by the government.

Jenkins and Henry (1982:501) have noted that "in developing countries, it will be argued that a greater degree of intervention by government is required to achieve material objectives because of the absence of a developed innovative private sector". The main source of funds to these investment is the annual budget for the government. Also other sources have contributed in financing tourism investment through loans, e.g. World Bank. This indicates the significant role of government in the development of tourism.

2.10.2 Governmental policy on investment

Aharoni(1981:1343) remarks that "government in some countries have attempted to solve problems by separating economic from social goals, by compensating the enterprise for the economic losses incurred in the pursuit of government mandated social objectives". In Britain, for instance, several White Papers and reports stressed the need for allowing the nationalised industries to pursue basic economic objectives. In addition investment criteria and financial objectives were imposed as principal devices of economic control of nationalised industries (see Jowett and Rothwell, 1988:83).

In Iraq, it should be underlined that the situation, taking into account both the socialist regime and the

resources of the State, is unique regarding tourism. Therefore, according to the policy actually followed by the government, the main options in tourism development cover:

. The complete control by the government of planning and programming of tourism development.
. The implementation of the tourist projects will be controlled by the tourism administration (e.g. SOT) either directly (pilot projects) or indirectly (secondary projects).
. The financing of tourist projects will be entirely secured by the government.
. Public ownership of tourist facilities will be mainly dominated by tourism administration.

2.10.2.1 Ownership policy

Under Iraqi law, tourist facilities generally are owned by:

1. A public body:
- The State which is represented by a tourism administration or SOT.
- Local administrations which are represented by governorates or muhafadhas.
- Other public bodies such as, Ministry of Religion,

Trade Unions, State Pension Funds, etc.

2. Private ownership:

- Private individual.
- Private firms.
- co-operative firm.

In view of the policies of the government, two solutions are possible regarding legal status and ownership.

1. The state and other authorities own all the tourist facilities.
2. The state is the owner of only the most important tourist facilities.

According to the options policy in Iraq, the second one is preferred. With this policy the state, through tourism administration and other public authorities, will be the owner of the main tourist facilities (e,g, main hotels, main tourist centres). The other tourist facilities (secondary projects) will belong to the co-operative firms, private companies, individuals, etc.

2.10.2.2 Performance evaluation and investment

However, when a successful tourist business becomes established, the construction of additional facilities or improved existing facilities often take place. Thus, further economic stimulation results from well planned and

managed tourist businesses. This related investment is an extremely important source of the economic "ripples" which result from tourist investment. Also, with the generation of tax revenue, employment, and other benefits, the government may see fit to improve the infrastructure and make other aids available to industries being developed such as employment services, training programmes, promotional efforts, and similar aids to help growing industry (McIntosh, 1973:4). Thus, it is necessary to set up goals for tourism enterprises to fit with the national interest.

Husain (1988:6) notes that "the organisations which have a high performance rate should attract greater resources for expansion of their activities i.e. further investment. Performance evaluation has, therefore a direct bearing as well on the investment of the resource holders". Tourism enterprises in Iraq, for example, are usually large firms in the economy. Management in these enterprises do not have discretion in the choice of strategies, organisational form and policies which are often dictated by government. Following that, most of the performance indicators were given to these enterprises in advance. Compensations and benefits were awarded to managers and staff when they had achieved the indicators, such as profit, capacity utilisation ...etc. Therefore, there is a need to establish standard indicators which are

accepted and can be used in comparison with other countries.

In Iraq, it is emphasised that the size of the progr-ammes proposed by the Master Plan would require an investment effort of about 35 to 42 million Iraqi Dinars per annum during the period 1976-85. The total investment effort of 365.8 million of ID will be divided into two five years' development phase as follows (Master Plan, 1985:175):

- First phase of development 1976-80: 178.4 millions of ID (48%).
- Second phase of development 1981-85: 187.4 millions of ID (52%).

The breakdown of various items of investment show in the following table:

Table (2.1) Investment estimate by development phase (in millions ID)

Item	1st phase 1976-80	2nd phase 1981-85	Total 1976-85
Accommodation	127	136	263
Complementary facilities	20	20	40
Local infrastructures	18	20	38
Development costs	8	6	14
General expenditures	5	5	10
Total investment	178	187	365

Source: Master Plan, Iraq, 1985.

The following table shows the investment breakdown by tourist motivation:

Table (2.2) Investment by tourist motivation(in 000's ID)

Item	1976-80	1981-85	Total
Business and commercial	46422	50414	96836
Summer holiday	83223	99149	182372
Short vacation	14913	12355	27268
Winter sport	840	1750	2590
Thermal	12727	7632	20359
Wildlife, cultural	9640	8010	17650
Religious	1205	915	2120
Transit	4474	1530	6004
General expenditure	5040	5600	10640
Total investment	178484	187355	365839

Source: Master Plan, Iraq, 1985.

The SOT will directly invest the amount for the project for which it is responsible. For projects implemented by local authorities, SOT will transfer to their budgets the corresponding amount (on official approval or at time of tendering).

For projects implemented by co-operative firms, private firms, etc., the SOT will give long term loans (20-25 years) at preferential rate of interest (varying

according to type of facilities of investment). For instance:

- For facilities, like business hotels, transit, etc., with a year-round opening and high rate of occupancy (200-210 days), i.e. a higher yearly gross operating profit, the interest will be 6-7% for 20-25 years, with a grace period of a 3 years, for 70% of the investment.
- For facilities having a seasonal utilisation (summer holiday, short vacation, etc.,) the loan will rise to 85-90% of the investment, but the interest will be lower (3-4%). The loan repayment period may very according to the same criteria.

2.10.2.3 Price policy

For price policy, SOT has, for the tourist facilities under its ownership, practised the policy of "social prices"; this being done to favour the lower and middle income group families and to encourage the general development of tourism. This is one of the targets which is used by government in the field of tourism.

In prices policy, two alternatives are possible:

1. Although there are official tariffs, the prices of the tourist services are "market prices", depending on one hand on the relation between the demand for tourist

services and their supply, and on the other, on the costs and the internal profitability of these services. Concerning this, government can (in order to favour kinds of tourism for certain social classes) offer subsidies that will partly cover the costs of vacations.

2. The alternative is to fix social prices for tourist services (for facilities having social objectives such as short vacation, summer holiday, thermal tourism, etc.). And also to adopt a policy of market prices for tourist facilities not having social objectives such as;

- business and commercial facilities,
- transit facilities,
- week-end holiday.

In general with the hypothesis of social prices, the tariffs of tourist facilities should cover the operating expenses, the management commission and yearly depreciation.

2.10.2.4 Purposes of government investment policy

There are two purposes which have to be considered in determining the priorities of tourism investments in the government policy:

1. Investments should reflect the social as well as economic value. This means that projects should offer

their products (service and facilities) to a large number of people. Jenkins (1980:27) has noted that "tourism in developed countries can be regarded as a mainly social activity with economic consequences, while in developing countries it is largely an economic activity with social consequences". Also he noted that in many, if not in all, developing countries, these social and cultural effects have a low ranking against the economic benefits expected to accrue from the development (Jenkins and Henry, 1982:246).

2. Investments should be distributed in the regions instead of concentrating in one region. This mean that, investments in the tourism sector should be used as a part of regional planning policy. Therefore, the priority of investment in developing countries was given to the resources with a good accessibility located nearby the urban centres. For example in Iraq, Abdul Jabbar has described the tourism policy prior to 1980 as "unlucky" because 69 per cent of the total expenditure was spent in the north region (about I.D. 147 million). Most of these projects were destroyed in the war with Iran (see Abdul Jabbar, 1985: 25).

According to the policy, the responsibility for project implementation, is with SOT, and it is the only responsible body to carry out planning and programming for

the whole tourism sector at different levels:

- At national level, with elaboration and approval (and if necessary revision) of the National Tourism Development Plan.
- At regional and local level, with the elaboration of Master Plan of Tourist Regions and of detailed plans and feasibility studies for each tourist unit.
- At projects level, all procedures for implementation of pilot projects: operating programmes, budgeting, elaboration of projects, approval, specification for tender, control of building constructions, etc., will also be approved by SOT.

This action means that centralisation planning has to be accomplished mainly through the planning division of SOT.

2.11 Summary

In this chapter, the state of tourism in Iraq has been highlighted. This includes, development of the tourism sector, historical background, geographical characteristics, problems and potentials, state policies towards tourism and finally state investment in tourism. It concludes that the future of tourism sector in iraq is very likely to be related to domestic, religious and business tourism. While foreign tourism could be based on the historical and cultural legacies.

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CHAPTER (3)

ROLE OF TOURISM IN DEVELOPMENT

CHAPTER 3

Role of Tourism in Development

3.1 Introduction

Different opinions exist regarding the economic and social implication of tourism. For many countries tourism represents a significant potential for future development, while for others it offers a diversification of their economic activities. The expansion of tourism is desirable, therefore, in certain developing countries, but on the condition that the tourism policy introduced is based on the sustainable use of their own natural resources and on a minimal dependence on external factors.

Some proponents believed that tourism development could be used, in particular by developing countries, as the great panacea, by bringing in foreign exchange, creating jobs, promoting better communications, helping to preserve monuments and develop other attractions, and generally aiding modernisation. On the other hand, various authors have pointed to several negative aspects of international tourism. One of these involves increased imports due to the development of the tourist sector, resulting in lower net earnings of foreign exchange than the gross figure reflected in balance of payments accounts. Domestic prices can also rise due to an influx

of tourists, especially land price. With regard to employment, Summary (1983:4) says that " upper level jobs in hotel and restaurants often go to expatriates, leaving only low level, menial jobs for nationals".

In other words (Wilson, 1988:226) reviewed the situation as cited in the following quotation:

" On one hand tourists bring welcome foreign exchange receipt, and their expenditure can stimulate the local economy; also the tourist industry is labour-intensive, hence the industry's potential for employment creation is considerable. On the other hand tourism can result in lop-sided development and the creation of enclave sectors. It can cause market distortions, and create external environmental diseconomies that adversely affect the indigenous population . The evils of mass tourism have been much publicised and subjected to critical attention, though perhaps more by environmentalists than those usually employed in the industry itself".

De Kadt (1980:66) points to the "demonstration effects" which result from the direct interaction of tourists with the local population. These effects include changes in values, behaviour or attitudes, which can result from mere observation of tourists. He concludes that " tourists on vacation usually demonstrate a standard of living that is considerably higher than their average

level of consumption during the rest of the year. The image they project of their home society is thus distorted and further magnifies the great gap between their living standards and those of the majority of the host country's population". Also, tourism can have a negative impact on the host country's environment by contributing air, water, and noise pollution destruction of flora and fauna, degradation of landscape and historic sites and monuments and traffic congestion (see OECD,1980:24-25). In considering these effects, however, one must recognise that other industries, especially manufacturing, can also cause a deterioration in a country's environment.

McIntosh (1973:2-4) in his article 'Some Tourism Economics' reveals the economic advantages from tourism: for the country, as a whole, tourism may prove to be a valuable source of foreign exchange; within a country, it may have a marked effect on the distribution of incomes between different regions, acting as an injection of spending power to underdeveloped areas. Employment opportunities may also be increased by tourism. Again, for underdeveloped parts of the country, the creation of employment through tourism may be a particularly important factor in the local labour market. Tourism may also support conservation. This will be mainly indirect, a proportion of the increased incomes of local inhabitants, businesses, and the local authority being channelled through taxes into conservation work.

A particular characteristic of tourism is that it is a highly technical and specialised branch in which a rational co-ordination of private and public sectors, together with continuous stimulus from government, is absolutely essential. Tourism offers some countries greater scope for economic, social, cultural and regional development programmes than any other sector.

Tourism can, however, benefit a host country in various ways, including the generation of income and employment. For example , Witt (1987:306) mentioned " with regard to income, in 1985 in Wales, British tourists staying at least one night spent £500 million and overseas tourists staying at least one night spent £100 million....With regard to employment, tourism sustains, directly or indirectly, over 90000 full-time job equivalents in Wales". But at the same time tourism brings problems such as price rises, land speculation and distortions in the labour market. In this context Al-Rawi (1982:58) points out "the larger the scale of the development and the faster the take-off the more likely it is that such negative effects will come about".

There is no doubt that tourism has major effects on the economy of a country. In 1988, the level of international tourist arrivals were up by 8.5 per cent to 389 million, whilst the spending of these travellers amounted to US$ 193790 million, an increase of 22.1 per cent on the

previous year (See WTO, 1989:271-9; and TIQ, 1988:5).

Ohakweh (1983:16) summarises the relationship between tourist spending and the economy as follows " there are two links between tourist spending and the economy : (1) broad consumption items, which have a direct effect, and (2) the links between the sectors directly involved with tourists and those sectors and industries which supply the tourist related sectors with goods and services".

Countries with both reasonable reserves of physical resources and substantial manpower might well be in a position to choose their own tourism development approach, but for small countries, with few positive assets other than an attractive climate and picturesque scenery, the temptation is often to develop too rapidly. An added problem relates to the fact that in a number of Third World countries, which have experienced a rapid growth in tourism within the last few decades, many government polices have favoured foreign investment, and more by default than intention, have discouraged the indigenous tourism sector (See Bryden,TheTraveller:50-52).

The purpose of this chapter is to consider and evaluate the role of tourism as an economic activity, so that a practical methodology might be devised to produce information for objective evaluation of the economic impact of tourism, in particular, in the balance of

payments, in comparison with other productive sectors.

It is desirable to use this chapter with other chapters to achieve an evaluation of performance in the micro and macro levels (enterprise and state economy).

3.2 Assessment of comparative advantage:

Exports of petroleum have been, by far, Iraq's most important source of revenue, providing more than 95% of the country's earnings of foreign exchange. Receipts from these exports rose sharply in the mid- and late 1970s, partly because of higher production, but mainly because of the rise in prices.

In spite of the substantial growth of Iraqi exports (mainly in petroleum) during the period 1976-1985, tourism receipts increased its own contribution relative to visible export from 0.93 per cent in 1976 to 1.34 per cent in 1985. If we consider the visible exports excluding the petroleum revenue, the significance of tourism receipts is very substantial as can be seen from the following table:

Table (3.1) Visible Export and Tourism Receipts (Million I.D.)

Year	Visible export (excluding petroleum)	Tourist receipts	%
1976	46.5	25.5	54.8
1977	42.7	25.3	61.6
1978	63.9	32.0	50.1
1979	83.7	48.8	58.3
1980	122.0	50.2	41.1
1981	16.6	50.2	297.1
1982	15.5	53.0	341.9
1983	81.8	36.2	44.3
1984	82.7	47.4	57.3
1985	46.9	51.4	109.6

I.D. = Iraqi Dinar

Source: Compiled table,
Annual Abstract of Statistic, Iraq, 1985:165.
WTO, year-book of tourism statistics.

The growth in the number of tourist arrivals in 1985 (see table (3.2)) resulted in a substantial rise in the contribution of tourism to the services sectors of the economy and consequently to the economy as a whole. Earning from tourism increased by 8.4 per cent in 1985 and furnished the country with I.D. 51.4 million in foreign exchange (equal to US$ 165 million), compared with an increase of 30.9 per cent a year earlier.

Table (3.2) Number of Foreign Tourists, Length of Visits and Average Expenditure in Iraq from 1976 to 1985

Year	No. of (000's) foreign visitors	Average length of visit in days	Average exp.(ID) by foreigner
1976	630	3.0	40.5
1977	722	3.0	36.4
1978	720	3.0	44.4
1979	1098	3.3	44.4
1980	1213	4.0	41.4
1981	1564	4.0	32.1
1982	2020	4.0	26.2
1983	1377	3.5	26.3
1984	1811	3.5	26.2
1985	2153	3.5	23.9

Source: WTO year-book of tourism statistics, different volumes.

The tourist sector constituted an important source of foreign exchange with earnings exceeding the income obtained from export of visible goods excluding petroleum in some years (i.e. in 1985, 1982 and 1981). It is a fact, however, that if a country generates more tourists than it receives, or there is a tendency for nationals to stay abroad for a longer period (and normally spend more) than foreign visitors staying in a country, the result is a negative travel account balance and a worsening of the balance of payments (see table 3.10).

In 1985, the number of foreign visitors shows an increase of 18.9 per cent in comparison to the previous year. Foreign tourists to Iraq are attracted mainly by its archaeological sites and religious shrines. Some of them, particularly business visitors, remain in their own campus (i.e. foreign companies). The government supports and encourages the State Organisation of Tourism to increase the number of hotels, motels, and restaurants and to build new summer resorts. The capacity and distribution (by Governorates) of hotels in 1984 and 1989 are shown in table (3.3), while the distribution of guests within the hotels (by nationality) is shown in table (3.4).

Great attention has been given to develop the transport and communication sectors as part of the basic infrastructure which plays a vital role in developing the tourism sector. However, the absence of coastal resorts and the undevelop character of Iraqi organised entertainment discourage lengthy stays by foreign tourists and hence reduced their spending.

3.3 Conditions relevant to Iraq

A particular problem could be seen in the tourism sector in Iraq which is related to political instability. Problems between Arabs and Kurds, Iraq and Iran war and recently the Gulf Crisis. These problems affected the development of tourism sector in the country. In addition

Table (3.3) Number of hotels, distributed by governorates in 000s

Governorate	No. of guests		Occupied beds (b/d)		No. of beds		No. of rooms		No. of hotels	
	1984 000	89 000	84 000	89 000	84 000	89 000	84 000	89 000	84	89
Nineveh	304	611	1068	1545	5	7	2	3	108	121
Salah Deen	59	83	550	1010	3	5	1	2	43	63
Ta'meem	147	152	496	653	2	3	1	1	38	53
Diala	20	40	329	502	1	2	1	1	29	35
Baghdad	1749	2348	11306	12167	47	54	22	24	713	736
Anbar	96	341	679	2308	3	9	1	4	54	106
Babylon	68	78	1399	1461	5	6	1	2	72	85
Kerbela	67	72	132	358	2	3	1	1	30	58
Najaf	79	99	500	500	3	3	1	1	62	62
Qadisia	79	119	580	874	2	3	1	1	26	41
Mothanna	16	42	218	492	1	2	1	1	19	30
Thi-Qar	65	66	1201	1370	4	5	2	2	85	90
Wasit	51	62	730	1022	3	3	1	1	52	53
Maysan	70	78	573	780	2	3	1	1	53	71
Basrah	195	376	1043	1845	7	9	4	5	156	177
Autonomous Region:										
D'hok	44	50	107	95	2	1	1	1	32	23
Arbil	161	192	304	378	3	3	1	2	56	69
Sulaimaniya	57	84	138	232	1	2	1	1	25	33
TOTAL	3327	4893	21353	27592	96	123	44	54	1653	1906

Sources: Anuual Abstract of Statistic, 1985 and 1990.

Table (3.4) Distribution of guests in the hotels by nationality in 000's

Governorate	Iraqis		Arabs		Foreigners		Total	
	1984	89	1984	89	1984	89	1984	89
Nineveh	216	406	81	183	7	23	304	612
Salah Deen	19	38	39	44	2	2	60	84
Ta'meem	119	117	24	30	5	5	148	152
Diala	8	20	12	20	-	-	20	40
Baghdad	940	1289	634	884	175	174	1749	2347
Anbar	54	248	40	87	2	6	96	341
Babylon	13	21	55	57	-	1	68	79
Kerbela	45	32	20	36	2	4	67	72
Najaf	54	65	24	32	1	2	79	99
Qadisiya	52	67	26	52	2	-	80	119
Muthanna	6	15	10	26	1	-	17	41
Thi-Qar	16	14	48	52	1	-	65	66
Wasit	19	26	32	35	1	-	52	61
Maysan	37	31	32	36	1	-	70	67
Basrah	100	189	88	170	6	17	194	376
Autonomous Region:								
D'hok	40	46	4	3	1	-	45	49
Arbil	141	183	16	7	4	2	161	192
Sulaimaniya	51	78	4	6	2	1	57	85
Total	1930	2885	1189	1760	213	237	3332	4883

Source: Annual Abstract of Statistics, 1985 and 1990.

to other circumstances such as, absence of seascapes, beaches and organised entertainment.

From the above, the investors or multinational companies are hesitant to invest in this sector, in particular, in the north of Iraq. There is a need, therefore, to rebuild business trust and relationship between local and international investors on one hand and between domestic and foreign tourists on the other hand in future.

3.4 The Contribution of Tourism to the Balance of Payments

Most countries, and in particular the developing countries, have significant difficulties from time to time with their balance of payments. Many countries have, therefore, given much attention to the tourism sector because of its important contribution to the economy by earning foreign currency. Dube (1987:17) states that " the basic source of information regarding receipts of a country from tourist arrivals is its balance of payments. This information is shown in the travel account of the balance of payments statement, which shows the overall position of inflows and outflows and the final outcome arising from financial transactions of a country with the rest of the world".

The net financial value, however, either positive or negative, is the monetary balance between tourist receipts and tourist expenditure. The latter refers to the amount spent abroad by a country's nationals. This can be explained in terms of balance of payments. The analogy is with exports and imports, tourist receipts providing obvious "Travel Credit" (a term used in the standard reporting from the International Monetary fund)- 'invisible' exports which can and do make vital contributions to a country's economic growth - whilst tourist expenditure (the IMF's "Travel Debit") is registered as a deficit. In other words exports of goods and services are comparable to exports of foreign tourism (or receipts) on account of foreign tourists visiting the host country and money spent by them during their stay. While imports of goods and services are comparable to imports of foreign tourism (or expenditure in other countries by the residents of a country going abroad).

The determination of the balance between tourist receipts and tourist expenditure requires a large number of tourism generated transactions. Some of these transactions are obvious, such as accommodation, food, transportation, entertainment and purchasing souvenirs. Other expenditures have been listed by Burkart and Medlik (1974:64) which reduce the net value of such traffic. Peters (1969:242-3) notes that "certain imports associated with tourism expenditure must be deducted:

1- The importation of materials and equipment for constructing hotels and other amenities, and the necessary supplies to run them.

2- Foreign currency costs of imports for consumption by international tourists.

3- Remittance of interests and profits on overseas investment in tourism enterprises, mainly hotel construction.

4- Foreign costs in conducting a tourism development programme including marketing expenditure overseas".

Dube (1987:17) indicates that " the travel account in the balance of payments statements incorporates:

a- The credit side:

This side showing the receipts arising from expenditure of tourists coming from other countries to the host country.

b- The debit side:

The debit side showing the payment arising from expenditure incurred by the residents of the concerned country in other countries".

Singh (1984:41) points out that " Tourism is supposed to be a new and increasingly important source of foreign exchange earnings. But tourism also affects imports. One

obvious example is that of residents going abroad as tourists. As, in the tourist centre, the tourist-generating countries are also the important tourist-receiving ones, there is a temptation to relate the two, compare the receipts and payments on account of tourist outflow and inflow and find the net travel".

However, the majority of such transactions are not easily identifiable in a country's national budget, which means it is difficult to evaluate in precise terms the direct economic benefits of tourism. The travel account indicates only how much foreign exchange was earned. It does not indicate the outgoing expenditure (leakages) of foreign exchange due to attempts made to attract the tourists (see Dube,1987:18). These, however, are usually presented as the tourism balance - the difference between incoming receipt and outgoing expenditure by a country's nationals abroad - and are used as a comparative measure of the industry's economic significance, particularly in terms of its "invisible" earnings contribution to the balance of payments.

WTO (1976) has carried out a study in twenty-two countries concerning the analysis of the contribution of tourist receipts to the trade balance. The conclusion was that tourism may provide a stabilising influence on the country's export earnings in particular to countries depend on primary commodities with widely fluctuating

prices in world market. It is instructive to amplify the above conclusion by considering briefly the contribution of tourism in some developed and developing countries the United Kingdom, India, and Cyprus and finally explaining the situation in Iraq.

3.4.1 UK

Table (3.5) refers to the balance of payments and travel account for the UK. Tourism receipt as a proportion of total visible exports has increased from 6.99 per cent in 1976 to 7.33 per cent in 1989. The lowest proportion was 5.74 per cent in 1982. The years 1976-80 and 1985 were positive in tourism balance and reduced the deficit of the trade balance, the other years were negative in tourism balance and increased the deficit in the trade balance. It seems from table (3.5) that there is an increasing propensity for British people to travel abroad. This could be as a result of either higher incomes or the spectacular growth of economical, all-inclusive package tours. Robinsons (1976:236) concluded "it is interesting to note that the percentage of British visitors who travel abroad on such packages is considerably greater than the percentage of foreigners visiting Britain who take advantage of similar facilities".

The above trends of an increasingly negative tourism

Table (3-5) Balance of payments and travel accounts for the U.K. for the period 1976-1989

Year	Total visible exports (£ m)	Total visible import (£ m)	Trade balance (£ m)	International tourism receipts (£ m)	International tourism expenditure (£ m)	Tourism balance (£ m)	Col. 5 as % of Col. 2
1976	25277	031084	- 05807	1768	1068	0700	6.99
1977	31990	036219	- 04229	2352	1186	1166	7.35
1978	35380	039533	- 04153	2507	1549	0958	7.09
1979	40637	046925	- 06288	2797	2109	0688	6.88
1980	47366	049773	- 02409	2961	2738	0223	6.25
1981	50988	051169	- 00171	2970	3272	-0302	5.82
1982	55558	056978	- 01420	3188	3640	-0452	5.74
1983	60684	066101	- 05417	4003	4090	-0087	6.60
1984	70488	078967	- 08479	4614	4663	-0049	6.55
1985	78392	085027	- 06635	5442	5871	0571	6.94
1986	72988	086176	-13188	5553	6083	-0530	7.61
1987	79849	094026	-17177	6260	7280	-1020	7.83
1988	81655	106571	- 24916	6184	8216	-2032	7.57
1989	93771	121699	- 27928	6877	9290	-2413	7.33

Source: Overseas trade statistics of the U.K. (several years), Statistical yearbook, United Nation, Business Monitor MQ6.

balance has continued from the year 1978, with an exception of 1985 . Witt (1987:308) comments, " although overseas visits to the UK in 1985 were only at the level of 11 per cent of domestic trips, expenditure by overseas visitors to the UK was at the level of 86 per cent of domestic expenditure. Hence, foreign inward tourism is almost as important as domestic tourism in terms of impact of the UK economy".

International tourist expenditure by British tourists has increased in 1989 to more than eight times its 1976 figure from £1068 million to £9290 million. The rapid growth in Britain of people having more than one overseas holiday can be considered as an important factor contributing to the sharp increase in the average per capita tourist expenditure, particularly after 1982. The UK is regarded as one of the main international tourist generating countries. Therefore, tourism in the UK resulted in (a) increasing expenditure; (b) increasing income; and (c) increasing negative balance, but small compared to total UK trade as shown in table (3.5).

Table (3.6) compares tourism spending with total consumer spending in the UK economy. All tourism spending represents about 5 per cent of all consumer spending. This proportion reached its lowest share in 1982 at 4.5 per cent, but since then has risen to 5.5 per cent in 1985 and 5.4 per cent in 1986.

Table (3.6) Tourism spending and total consumer spending in the UK

Year	International tourism receipt £ M	Domestic tourism £ M	Total tourism £ M	Consumer spending £ M	Share of tourism %
1976	1768	2400	4168	75818	5.5
1977	2352	2625	4977	86679	5.7
1978	2507	3100	5607	99873	5.6
1979	2797	3800	6597	118426	5.5
1980	2961	4550	7511	137234	5.5
1981	2970	4600	7570	152549	4.9
1982	3188	4500	7688	167362	4.5
1983	4003	5350	9353	183068	5.1
1984	4614	5975	10589	195912	5.4
1985	5442	6325	11767	213720	5.5
1986	5553	7125	12678	234167	5.4

Source: Business monitor MQ6- International Passenger survey, British tourism Market (BTSM), Economic trends, and Tourism Intelligence Quarterly.

It appears from the table the rate of growth in tourism spending is very similar to the rate of growth in all consumer spending. Thus, for example between 1976 and 1986 tourism spending increased by 204 per cent and consumer spending increased similar amount 205 per cent.

3.4.2 Cyprus

Table (3.7) shows the balance of payments for Cyprus for the period between 1980 and 1988, while table (3.8) shows the travel account for the same period. Tourism has an important role in the Cypriot economy. Since 1987 the surplus of tourism balance offset the country's visible trade deficit. In other words, a small surplus has been recorded despite the increasing of visible trade deficit. Visible trade deficit during 1988 reached £C 476.6 million, compared with deficit of £C 365.8 million in 1987 and £C 357.5 in 1986.

Since 1986, income from tourism has in fact exceeded that from the country's visible exports. i.e. without tourist receipts, visible imports would have had to be held back more than 60 per cent to maintain an overall trade balance. Tourist expenditures are mainly for business and education reasons. Wilson (1987:228) states that "The increase in tourism earnings has therefore occurred at an opportune time for the Island's balance of payments. It has helped offset the visible trade deficit, and produce an overall modest balance of payments surplus throughout the 1980 and 1985". The importance of tourism, however, is not only its direct effect upon the economy, but also the way in which it allows natural resources such as labour, food and beaches to be converted into machine

Table (3-7) The Balance of payments for Cyprus from 1980-1988 (£C Million)

Year	Visible exports	Visible imports	Balance	Invisible receipts	Invisible expenditure	Balance	Net balance
1980	172.7	381.0	- 208.3	245.7	120.3	125.4	- 082.9
1981	179.8	369.2	- 189.4	311.4	150.2	161.2	- 028.2
1982	238.1	518.3	- 280.2	390.8	182.7	208.1	- 072.1
1983	227.9	519.1	- 291.2	455.4	213.7	241.7	- 049.5
1984	307.5	720.7	- 413.2	534.6	238.1	296.5	- 116.7
1985	255.4	678.2	- 434.8	538.8	249.2	334.6	- 097.2
1986	234.0	591.5	- 357.5	601.6	245.6	356.0	- 001.5
1987	272.5	638.3	- 365.8	689.2	274.2	415.0	049.2
1988	301.2	777.8	- 476.6	790.2	307.4	482.8	006.2

Source : Commercial industrial and Tourist Guide of Cyprus 1988-1989 and 1989-1990.

tools and chemical feedstock, by way of the international market (See Al-Rawi, 1982:62).

The Commercial Industrial and Tourist Guide of Cyprus (1989-1990:308) points out that "As a result, tourism was not only the major force behind the growth of the tertiary sectors of economy but also the most important foreign exchange earning activity of the economy". Tourism, therefore, is one of the sectors which has an important role in improving the Cypriot economy.

Table (3.8) Travel Account and the Share of tourist receipt_to Visible Exports in Cyprus (1980-1988)

Year	Travel Account		Tourist Receipt to Visible export %
	Credit £C M	Debit £C M	
1980	71.7	N/A	41.5
1981	102.4	N/A	56.9
1982	138.7	N/A	58.3
1983	174.8	N/A	76.7
1984	212.0	N/A	68.9
1985	232.0	47.5	90.8
1986	256.6	51.0	109.7
1987	320.7	56.2	117.7
1988	386.0	63.6	128.2

Credit: Tourist Receipt; Debit: Tourist Expenditure

Source: Commercial Industrial and Tourist Guide of Cyprus 1989-90

3.4.3 India

Table (3.9) shows the balance of payments account and travel account for India from 1976 to 1986. Tourist receipt (or credit side of travel account) recorded an advance from US$ 449 million in 1976 to US$ 1412 million in 1986. International tourism,therefore, has an important role in offsetting the country's trade deficit. The surplus of travel account in 1984, for instance, amounted to US$ 981.5 million and reduced the visible balance of payments by about 25 per cent. It may be noted also that although 1981 had the largest trade gap in the visible account, tourism remained to play a successful role in reducing the overall deficit. In addition to the remittances of the Indian workers in the Middle East as mentioned in the following quotation:

"In recent years the net deficit on transactions in goods and services has been partly offset by a substantial net inflow of private unrequited transfers from abroad. A substantial part of this consists of remittances repatriated by Indian emigrant workers in petroleum-exporting countries of the Middle East" (see the Far East and Australasia, 1989:407)

Kurian (1987:883) points out that "India is one of the 49 low-income countries of the world, and it is also one of 45 countries considered by the UN as most serious

Table (3-9) Balance of Payments and travel accounts for India from 1976-1986 (US $ Millions)

Year	Visible export	Visible imoprt	Balance	Tourist receipts	Tourist expenditure	Balance	Net balance	Col. 5 as a % of Col. 2
1976	05410	04623	0787	0449	05.8	443.2	1230.2	08.2
1977	06249	05317	0932	0556	05.1	550.9	1482.9	08.9
1978	06518	07402	- 0884	0688	07.4	680.6	- 0203.4	10.6
1979	07597	09819	- 2222	0818	08.1	809.9	- 1412.1	10.8
1980	08303	13947	- 5644	0953	07.8	954.2	-4689.8	11.5
1981	08437	14149	- 5712	0976	11.1	964.9	- 4747.1	11.6
1982	09226	14046	- 4820	0942	13.2	928.8	- 3891.2	10.2
1983	09770	13868	- 4098	0962	16.4	945.6	- 3152.4	09.8
1984	10192	14216	- 4024	1000	18.5	981.5	- 0342.5	09.8
1985	09465	15081	- 5616	1252	-----	-----	-----	13.2
1986	10248	15686	- 5438	1412	-----	-----	-----	13.8

Source : Statistical Year-book, United Nation, International Fianance Statistics (IFM) , Reserve Bank of India Bulletin, Bomby and World Tourism Organisation.

affected by recent adverse economic condition".

It notes, however, from the table that tourism receipts constituted between 8-14 per cent of the country's visible export. The report of the National Committee on Tourism (1988:44) concluded that, " the percentage of foreign exchange outflow in the case of tourism hovers around the level of 6-7 per cent, and in any case does not exceed the incentive quota of 10 per cent being permitted by the Government".

Since 1978 the visible trade balance has shown a negative situation and increased by 355 per cent in 1984 and 535 per cent in 1985 compared with 1978. Meanwhile the travel account balance remained positive and had increased, in 1984, by 44 per cent compared with 1978. However " this growth in the current deficit did not imply that India's external economic position was worse in the early 1980s that it had been a decade earlier. Because of the continued increase in imports (they increased at an average rate of 9.5 per cent per year during 1980-85), the overall deficit rose to US$ 5616 million in 1985" (See the Far East and Australasia, 1989:407).

3.4.4 Iraq

The contribution of tourism to the Iraqi balance of payments for the period 1976-1989 is shown in table (3.10). Some information regarding tourist expenditure from 1980-85 is not available, but for the first four years tourist receipts were substantially below the figures for tourist expenditure. That means that the balance of the travel account for the period 1976-79 had a negative impact on the Iraqi balance of payments. Many reasons caused that negative position and might be related to one or more of the following:

1- The increase in the incomes of Iraqi people.
2- The rules of the Central Bank, which allowed tourists to change large amounts of foreign currency when they travelled abroad.
3- The number of Iraqi tourists travelling abroad and their length of stay has been increased because of the limitation of tourist resort capacity in Iraq.

However, a number of factors (such as shopping, beaches, etc.) explain this situation and relate not merely to the obvious imbalance between incoming and outgoing tourist numbers but more particularly to their average lengths of stay and average daily expenditure within and outside Iraq (see table 3.2).

Table (3-10) Balance of Payments and travel accounts for Iraq from 1976-1989 (I.D. Millions)

Year	Visible export	Visible import	Trade balance	Tourist receipts	Tourist expenditure	Tarvel account balance	Col. 5 as a % of Col. 2
1976	2738.1	1150.9	1587.2	25.5	64.6	- 039.1	0.93
1977	2849.6	1323.2	1526.4	26.3	99.6	- 073.3	0.92
1978	3266.4	1473.6	1792.8	32.0	102.2	- 070.2	0.98
1979	6329.0	1738.9	4590.1	48.8	165.6	- 116.8	0.77
1980	7760.4	2208.1	5552.3	50.2	------	------	0.65
1981	3109.7	2333.8	0775.9	50.2	------	------	1.61
1982	3055.7	2942.4	0113.3	53.0	------	------	1.73
1983	3041.8	2062.8	0979.0	36.2	------	------	1.19
1984	3577.3	2080.7	1496.6	47.4	------	------	1.32
1985	3827.4	2266.0	1561.4	51.4	------	------	1.34
1986	3377.6	1977.2	1400.4	------	------	------	------
1987	3271.3	1198.1	2073.2	------	------	------	------
1988	3316.8	1852.8	1464.0	------	------	------	------
1989	3184.8	1766.9	1417.9	------	------	------	------

Source : Annual Abstract of Statistics, 1985, 1990. The Middle East and North of Africa, Statistical Survey, 1989, WTO, Year-book of Tourism statistics, Vol. 35, 1981, and Vol. 1 1986.

It can be concluded that the Iraqi balance of travel account is further dependent on a number of variables as well as the actual number of tourists to or from the country. These variables include the type of visitors, their comparative length of stay and their propensity to spend. In late 1980 instructions were issued by the government, because of the war, which restricted changing hard currency to travel abroad. Tourist expenditure was thus reduced to the minimum level in travel account and in the balance of payments as well.

3.5 Tourism and the GNP and GDP

" Gross Domestic Product (GDP) is arrived at by adding the total value of a country's annual output of goods and services. GDP equals private consumption plus government expenditure plus the change in stockbuilding plus (exports minus imports). It is normally valued at market prices; by subtracting indirect taxes and adding subsidies" (See Rupert and Emmott, 1983:83). In other words it can be defined as the aggregate of the values added of different sectors of an economy, which means, the market value of total output of goods and services produced during the year. It can be calculated at factor cost, or it can be expressed in constant prices to eliminate the effect of inflation.

GDP can be measured in three ways (See Rupert and Emmott) :

1- By adding incomes of resident, both individuals and firms, derived directly from the production of goods and services.
2- By adding the output contributed by different sectors
3- By adding expenditure on the goods and services produced by residents, before allowing for depreciation or capital consumption.

Gross National Product (GNP) is a comprehensive measure of a nation's output. It includes both the results of domestic activity (GDP) and the results of its economic relationship with the rest of the world. "It is the value of all goods and services produced in the economy during a specified period of time; it is the national income of that country" (See Stiegeler, 1985:175)

It may be measured in two ways (See Gilpin, 1986:104):

1- From the demand side : as the sum of consumer expenditures, private investment, government purchase, and net export.
2- From the supply side : as the sum of employee earnings, proprietors' earnings, corporate profit, net interest, rental income, capital consumption allowances and indirect taxes".

In short, the value of GNP, which is one of the most revealing indicators, of a country's global economic activity, can be expressed by the following relationship:

GNP= GDP + (all revenues from abroad) - (all payments abroad).

Although the tourism sector has not been specifically

given a place in the sector-wide statements of the GDP of a country, there is, however, a specific relationship between net foreign receipts from tourism and GDP of a country. This relationship can be shown by the following sequence of steps in which the expenditure incurred by foreign tourist is converted into domestic income (See Dube, 1987:18):

i- Receipts of foreign exchange by the tourist servicing sectors which are equal to the value of final output sold to these tourists ;

ii- Expenditure or payments made on import content of the output, from meeting the import requirements of the tourist servicing sector, excluding factor-payment abroad;

iii- GDP generated by the tourist servicing sectors, at market prices (i minus ii (a));

iv- GDP generated by the tourist servicing sectors, at market prices (i minus ii (b));

v- Indirect taxes less subsidies including those paid/received by the tourist servicing sectors;

vi- GDP generated by the tourist servicing sectors at factor cost (iii minus v); and

vii- GDP generated by the tourist servicing sectors at factor cost (iv minus v)".

He comments that items iii and iv constitute income generated and remaining in the country, which is equivalent to the net revenues in foreign exchange receipts from tourism without any deduction for the foreign exchange cost of investments. The gross product at factor cost generated at the tourist servicing sectors is distributed in the form of wages and other labour charges, profits, rent, interest and provision for depreciation. Gross foreign exchange earnings from tourism, therefore, can be expressed as a percentage of GDP or GNP.

In most developed countries, in particular the industrialised ones, tourist receipts are a very small percentage of GDP, see table (3.11).

It can be seen from the table that the low values for Canada, the UK, and West Germany contrast with those for countries such as Cyprus, Austria and Greece whose tourist receipts play more vigorous roles in the structure of GDP. For example, in the UK the total tourism receipts and the GDP for the period 1976 to 1986 are shown in table (3.12).

Table (3.11) International tourism receipts as a % of GDP comparison of various countries from 1981 to 1986

Country	Tourism receipts / GDP as a (%) 1981	1982	1983	1984	1985	1986
UK	1.5	1.4	1.6	1.8	1.9	1.8
W. Germany	0.9	0.8	0.8	0.9	0.9	0.8
Canada	-	-	-	-	1.0	1.2
Austria	8.6	8.5	7.6	7.8	7.6	7.6
Spain	3.6	3.9	4.3	4.8	-	-
Switzerland	3.2	3.1	3.3	3.5	3.4	-
Greece	5.1	4.0	3.4	3.9	4.3	4.7
Turkey*	0.7	0.7	0.8	3.7	2.8	1.6
Cyprus	-	-	-	-	15.7	16.1
India	-	-	-	0.7	0.6	0.6

*: New series from 1984

Source: Compiled table from different sources.

From table (3.12), it is interesting to note that tourism as a proportion of GDP has remained between 3.1 and 3.8 per cent. In 1982 the proportion reached 3.1 per cent, but after that it has gone up to 3.7 per cent.

There is a question to address here: why is the contribution of tourism to the GDP in developed countries, which have a well organised tourism sector, lower than in

Table (3-12) Total tourism receipts as % of GDP in the U.K.

Year	International tourism			Domestic tourism	Total torurism	GDP	Share of tourism
	Overseas earing £M	Fares £M ***	Total £M	£M	£M	£M	%
1976	1768	350	2298	2400	4698	126600	3.7
1977	2352	624	2976	2625	5601	145800	3.8
1978	2507	653	3160	3100	6260	167800	3.7
1979	2797	745	3542	3800	7342	197400	3.7
1980	2961	792	3753	4550	8303	230600	3.6
1981	2970	788	3758	4600	8538	254100	3.3
1982	3188	849	2037	4500	8537	277500	3.1
1983	4003	1020	5023	5350	10373	301500	3.4
1984	4614	1210	5824*	5975	11799	322700	3.7
1985	5442	1375	6817	6325	13142	354300	3.7
1986	5553	1310	6745	7125	13870	378700	3.7

Source : Business Monitor MQ6- International Passenger survey- British Tourism Market- Statistical year-book, United nation- And Economic Trends.

*** Fare payments to British carriers in recent years or BTA/ETB estimates based on CSO Figures.

* New basis from 1984 onwards.

developing countries where the tourism sector is not generally well organised? The answer depends on the level of other sectors in an economy, such as agriculture, manufacturing, energy and water supply, construction, and financial and business services. The contributions of these sectors to GDP are larger than in developing countries, accordingly the share gained by tourism is reduced. In other words, where production sectors are weak, the contribution of tourism to national income and GDP significantly increase.

The situation in Iraq is shown in table (3.13), which demonstrates the contribution of tourism to GDP and National Income. In fact, the major component of national income is petroleum revenue, therefore, the low value of tourism does not reflect a highly developed economy. If we exclude petroleum revenue, tourism will constitute a modest percentage of GDP because of the low economic performance of the other productivity sectors, i.e. agriculture, manufacturing, etc. (see table 3.14).

It is, however, worthwhile to indicate the effect of the war on national income and GDP. The national income decreased from I.D. 15323.0 million in 1980, the year when the war started with Iran, to I.D. 10064.9 million in 1981 a decrease of 34.3 per cent in one year. In the following years the national income increased

Table (3.13) Share of tourism receipt to GDP and National Income in Iraq

Year	Tourism receipt ID M	GDP ID M	%	National income ID M	%
1976	25.5	5271.5	0.48	4843.5	0.53
1977	25.3	5775.9	0.43	5405.4	0.47
1978	32.0	7057.7	0.45	6555.6	0.48
1979	48.8	10405.4	0.46	9816.0	0.50
1980	50.2	15824.8	0.32	15323.0	0.32
1981	50.2	11013.0	0.46	10064.9	0.50
1982	53.0	12616.5	0.42	10321.2	0.51
1983	36.2	13096.1	0.28	10619.6	0.34
1984	47.4	14922.4	0.32	12407.1	0.38
1985	51.4	15493.8	0.33	12798.9	0.40
1986	na	15063.0	-	12494.4	-
1987	na	17900.6	-	15311.3	-
1988	na	17356.1	-	14704.2	-
1989	na	20811.0	-	17290.0	-

Source: Compiled table (mainly from Annual Abstract of Statistics, 1985 and 1990).

slightly to reach ID 17290 million in 1989, an annual rate of 4.4 percent during the period 1981 to 1984 and about 18 percent increase in 1989 from 1988. GDP decreased from I.D. 15824.8 million in 1980 to I.D. 11012.6 million in 1981, a fall of 30.4 per cent in one year, and then increased at an average rate of 6.2 per cent to reach I.D. 15493.8 million by 1985. And increased rapidly to reach ID 20811 million in 1989 with an increase about 20 percent from 1988. Appendix (1) shows the calculation of GDP and National Income and National Product in current prices.

Table (3.14) Average contribution to Gross Domestic Product of selected Economic Activities in Iraq for the periods (1970 - 80), (1981-84) and (1985-88)

Sector	1970-80 %	1981-84 %	1985-88 %
Agriculture	10.8	10.9	14.3
Mining	49.6	24.7	18.7
Manufacturing	7.3	7.7	10.9
Construction	4.0	13.9	7.8
Electricity & Water	0.6	0.9	1.6
Finance & Trade	7.1	15.5	24.0
Tourism	0.31	0.37	0.48

Source: compiled table from different sources.

3.6 The Multiplier Effect of Tourist Expenditure

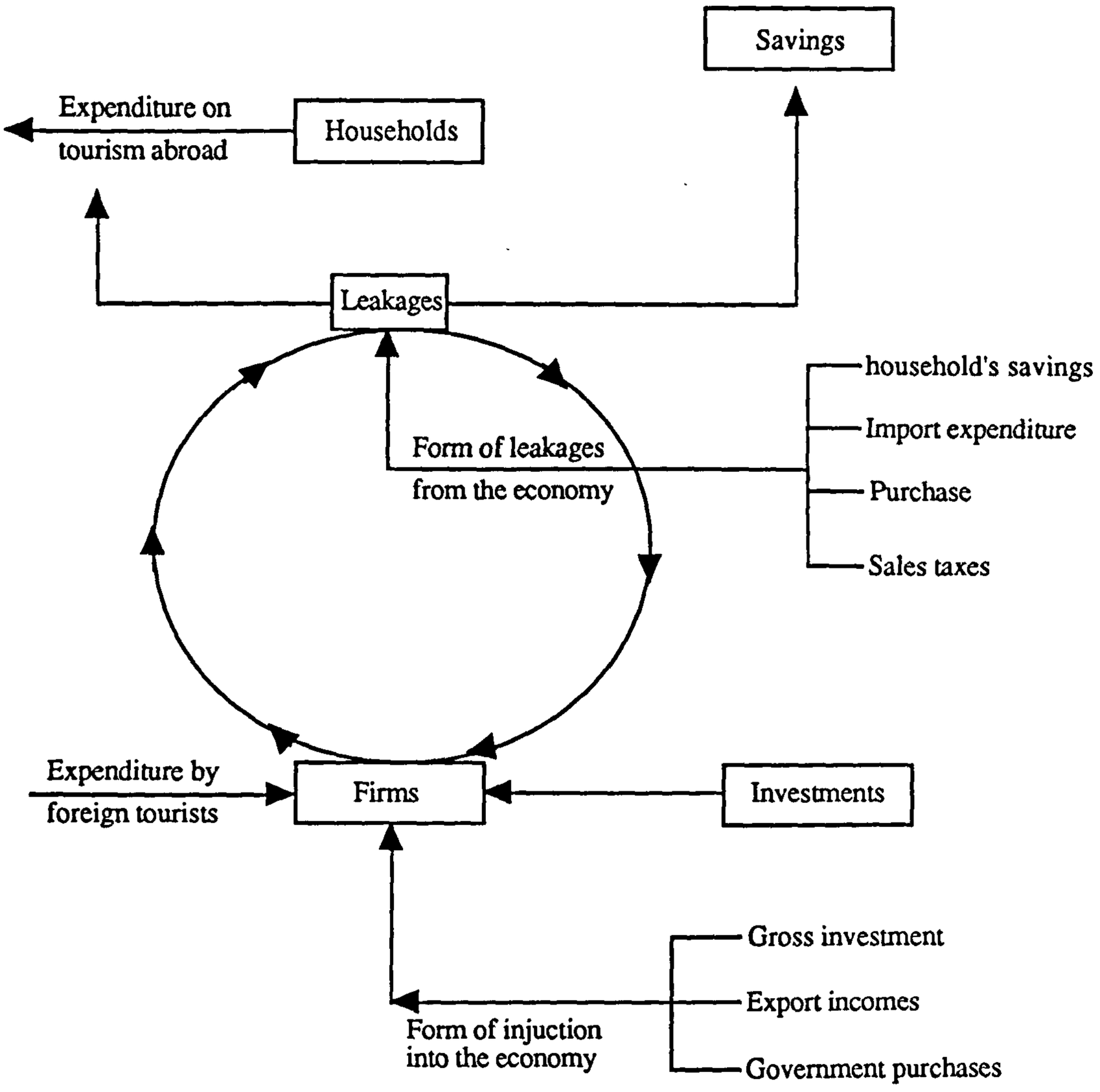
The "tourist multiplier" is a tool for the economic analysis of tourism used by many researchers. This simple ratio has been found to range from 0.58 to 4.3. (see Singh, 1984:43).

The tourist multiplier is an attempt to go behind tourist receipts and find out the expenditure profile of tourists, the nature of their preferences and the volume of their transactions. Archer (1977) in his definition of multiplier says " a multiplier measures the relationship between an autonomous injection of expenditure into an economy and the resultant change in incomes which occurs". He added "Autonomous injections of expenditure can take many forms including, for example, increases in export trading, additional foreign investment within the economy, increases in government investment, and tourist spending. Each of these forms of expenditure creates a stimulus to economic activity within the affected area which, provided that sufficient resources are available, generates additional business turnover, household incomes and employment. Increase in tourism expenditure, therefore, are merely one form of autonomous injection". Multiplier effect can be defined as " the sequence of further incomes created in an economy out of one unit of tourist spending" (see IUOTO, Economic Review of World Tourism, Geneva, 1970:30).

Dube (1987:13) points out that, " the multiplier effect of tourist expenditure on the economy of the destination country is well known, whereby every unit of money spent on tourism circulates in the economy, and brings about an increased area of benefit to the people concerned". In other words, money spent by tourists may be used several times and spread into different sectors of the economy. Tourist expenditure supports not only the tourism sector directly but helps indirectly to support many other sectors which supply tourism with goods and services. Robinsons (1976:126-8) states that, " every time the money changes hands it provides "new" income, and the continuing series of conversions of the money spent by the tourist forms what the economist terms "the multiplier effect". The more times the conversion of money occurs, the greater is its beneficial effect on the economy". But the circulation of money does not go on ad infinitum due to the leakages which occur. For example, as domestic goods and services do not satisfy all tourist requirements imported foreign goods and services will reduce the amount of cash in circulation which, as result, reduces the multiplier effect. Interest on foreign investment and savings which withdraw money from circulation have a similar effect to imported goods and services.

Ohakweh (1983:16) stated that, " several factors affect the size of the multiplier. Income which accrues to local residents depends upon the size of tourist spending. Generally, the more tourists who visit an area and the more money they spend, the greater the local income". However, the importance of the multiplier effect is determined by a country's economic diversity and the extent to which tourism is integrated into the national economy, that is, the level to which backward linkages have been developed with other sectors such as agriculture, manufacturing and other services (see United Nation, 1976:133). Thus, countries which are strongly dependent on imports will have a lower multiplier value than those countries which have enough domestic goods and services to satisfy tourist's requirements, thus, reducing the amount to be spent abroad. This can be seen as a distinction between tourism in developed and developing countries. The value of the multiplier for developed countries is higher than the value for developing countries. This is because of the high level of economic diversity and inter-linkages in developed countries where the economy is well established.

A model illustrating the circular flow of money in the economy is shown in figure (3.1). It illustrates that the households' savings, import expenditure, purchases and sales taxes are examples of withdrawals of money from the



Adopted from Dube, 1987 : 14

Figure (3-1) Circular flow of money

circular flow; gross investment, export incomes and government purchases on the other hand are additions to the circular flow of money. Whereas expenditure on tourism abroad represents a "leakage" in the national economy, expenditure by foreign tourists form an invisible export and so represents an "injection" into the economy (see Dube, 1987:15).

Peters (1969:240) points out that " The calculation of tourism multiplier is by no means easy and such estimates as have been made in the case of a number of economies show very wide variations". The value of tourist multiplier for various countries is shown in the table below:

Table (3.15) Tourist Multiplier Estimations

Country	Value of Multiplier
United Kingdom	2.95
Greece	1.2 - 1.4
Hawaii	0.9 - 1.3
Hong Kong	1.015
Ireland	2.7
Pakistan	3.3
Pacific and the Far East	3.2 - 4.3
Bahamas	1.36
India	3.2 - 3.6
Iraq	1.7

Source: Compiled table (from different studies).

In these particular studies some of the multipliers are too high i.e. Pakistan, Pacific and the Far East, and Ireland, while others are probably too conservative i.e. Hawaii and Greece. It seems from the table that there is an overestimate of the value of tourist multiplier. It is difficult, therefore, to accept these value for some countries, for instance, Pakistan and the Pacific and the Far East. This is because the structural characteristics of these countries are unable to generate and explain the very high value.

Archer (1977), in his paper, discusses the probability of tourism multiplier reaching the value of 2.5, even for the larger developing countries of the Third World. An extensive literature exists on the use of, and problems of calculating, the tourist multiplier and there can be little doubt that unorthodox methodologies have been responsible for misleading values at either end of the scale.

The size of the multiplier naturally depends on the import-dependence of the economy in general, unless one unrealistically assumes that the propensity of the income receivers in the tourist sector to import is markedly different from that in the rest of the economy (see Singh, 1984:43).

The current tourist multiplier for Iraq of 1.7 seems valid. This value is taken from previous study carried out by the Omninum Technique de I'Urbanisme (OTH-OTU) for the early seventies and repeated in the eighties. And is likely to remain at that level for some years because of the continuing need to import commodities such as foodstuffs, beverage (including alcohol) and tobacco which are considered as essential items by tourists. Investment in the tourist sector has an obvious foreign exchange cost. Iraq has imported some building materials and all building equipment. The importation of foreign goods to build hotels and other resorts (including the furniture) is one of the main ways in which money is withdrawn from the national circulation and such leakages reduce the flow of expenditure which, in consequence, limits the efficiency of the multiplier effect. In this situation cutting imports might be seen as one method of increasing Iraq's multiplier coefficient to a reasonably high level. Thus, imported goods such as foodstuffs, beverage and construction materials (including furniture) should be changed to home-made products to enable Iraq to increase its tourist multiplier and gain the maximum benefits from its tourism sector. In other words co-ordination programmes between different sectors, such as industrial, agricultural, construction and tourism should be encouraged to minimise the foreign exchange leakages from tourist expenditure and thereby maximise the local

multiplier effect.

3.7 Tourism and Employment

Tourism is regarded as a labour-intensive service sector, and hence is a valuable source of employment. It employs large numbers of people and provides a wide range of jobs which extend from unskilled to highly specialised. Dube (1987:12) points out that "In many of the developing countries, where chronic unemployment and disguised employment often exists, the promotion of tourism can prove to be an encouragement to economic development and especially employment". Ohakweh (1983:21) in his study mentions "In a sense, tourism helps to put some wealth in the hands of some people who otherwise might not be receiving any. Moreover, any job is better than no job at all when multipliers are considered. For the unemployed perhaps with self-esteem at low ebb, tourism jobs may provide a needed opportunity".

Medlik (1972:18) says, "tourism as a source of employment is particularly important for areas with limited alternative sources of employment, as is often the case in non-industrial areas deficient in natural resource other than scenic attractions and climate". Some of the employees are directly involved in tourism establishment such as hotels and motels, airways companies, railways,

travel agents and other services directly used by the tourists. Others are indirectly involved, such as in the entertainment sector, construction firms, souvenir trade, etc. Moreover tourism is also responsible for creating employment outside the sector in its narrowly defined sense and in this context McIntosh (1986) mentions " It scores noticeably over other forms of new industry". The supply of goods and services for the tourism sector induces extra employment in the construction industry, in furnishing, in decoration, in farming and in food supply.

Blake and Lawless (1972:148-52) have concluded in their study of Algerian tourism "....one job will be directly created for every six new hotel beds, and more indirectly. This is particularly important fact for some of the less favoured parts of the country.... where employment opportunities are severely limited. Thus tourism can be an essential feature of regional economic development at least in respect to creating work".

According to an estimate more than a million people are directly employed in the tourist sector in the UK. In the United State, for every 1000 guests in hotels the total jobs created are 386 in the hotel and ancillary industries. In India, it is estimated that 54 per cent of expenditure by tourist goes directly as wages and salaries to personnel in the tourist sector. One room in

an Indian hotel is estimated to create three direct jobs and nine indirect jobs (see Dube, 1987:13).

The indirect employment which is created by tourism is highly influenced by the degree to which tourism has been linked with other sectors in the economy, e.g. the degree to which goods and services are provided by local sectors. The report of the UNCTAD (United Nations Conference on Trade and Development) concludes that " indirect employment generated by tourism might be twice that of the employment generated directly". Archer (1977) in his study on the Bahamas calculates that " tourism accounted for over 28800 jobs of which 14800 were the direct result of the industry and the remaining 48.6 per cent were attributed to its indirect effect".

In Iraq, the extent to which the tourism sector, in particular the hotel sector, has been capable of providing employment for both the semiskilled and the unskilled is a clouded issue. This is because most Iraqi hotels are small or modest, and in addition most of them are privately owned and the employees are relatives. Since 1975, the number of hotels, usually funded by government, has increased. These hotels, multinational such as Hilton and Sheraton, chiefly in Baghdad, Basrah and Mosul, have caused a marked increase in employment in the hotel sector (see table 3.16).

The employment potential has been affected by tourism in two way:

1- it has increased and expanded the activities of producing sectors of local economy, which enhance local producing capacity, and this in turn, has resulted in expanding the local employment potential.

2- It has generate additional consumption capacity which required additional employment in local producing sectors.

The employment opportunities in an area's economy can be direct or indirect in nature. Direct jobs are generated, such as those of hotel staff, workers at resorts and guides, and indirect jobs in the transport and handicraft sectors. Those indirectly employed in the tourism sector create employment in other sectors through demand for goods and services. To sustain this additional demand, more people are employed in production of those goods and services. The chain of increased income and employment continues at a declining rate, until it is exhausted. This phenomenon, as Dube (1987:88) has pointed out, is the employment multiplier effect.

Table (3.16) Number of Hotel Employees compared with those in main Manufacturing Establishment, for 1979, 1984 and 1989 in Iraq

	1979	1984	1989
Number of Hotels	1485	1652	1925
Hotel employees:			
Permanent	6853	11281	15028
Temporary	693	1206	1931
Total	7546	12487	16959
Industrial establishments employees:			
Main industrial establishments	161211	169994	154101
Medium industrial establishments*	43372	6297	4459
Total	204583	176391	158560
Hotel employees as a % of:			
Main industrial establishments	4.7	7.3	11.0
Medium industrial establishments	17.4	198.3	380.3

Source:Compiled table (Annual Abstract of Statistics, 1980 1985, and 1990), Statistical Survey - the Middle East and North Africa 1990:482)

* Starting from 1983 industrial establishments which employ between 11 and 29 persons and invest less than I.D. (100,000) have been considered as a 'medium establishment'.

Table (3.16) indicates that the total number of employees in hotels, permanent and temporary, rose from 7546 in 1979 to 12487 in 1984 and to 16959 in 1989 - an increase of 65.5 and 35.8 percent respectively. While, temporary employees increased by 74 percent in 1984 compared with 1979 and 60 percent in 1989 compared with 1984. The low number of temporary employees is partly related to the reason that most of small hoteliers used to employ their relatives.

Another important aspect demonstrated by table (5.16) is the increasing ratio of hotel employees to main industrial establishments employees from 4.7 percent in 1979 to 7.3 percent in 1984 and to 11.0 percent in 1989. The high increase ratio of hotel employees to medium industrial establishment employees from 17.4 percent in 1979 to 198.3 percent in 1984 and to 380.3 percent. The main reasons for these increases are:

1- The priority placed on increasing the number of hotels in the government's national plan.
2- Some medium industrial establishments are reclassified as being small, and others are reclassified to be a main establishment according to new system of classification adopted in 1983. In addition, due to the war, some small/medium businesses closed because most of their employees were on military services.

"Main" refers to those factories employing 30 persons or more and investing more than I.D. 100,000. Whereas, "Medium" refers to those factories employing 11-29 persons and investing less than I.D. 100,000.

Table (3.17) shows the number of employees and the number of establishments in the main industries in 1984 and 1989.

Table (3.17) Number of Main Industrial Establishments and their Employees in 1984 and 1989

Sector	No. of Employees		No. of Establishments	
	1984	1989	1984	1989
Mining and Extraction	3955	1904	7	6
Foodstuffs Manufacturing	25248	18776	149	123
Beverage Manufacturing	6448	12679	20	18
Tobacco & Cigarette Manuf.	4870	4131	2	1
Textiles Manufacturing	24915	27178	90	86
Tailoring of Clothes	3778	8497	14	33
Leather Products (except shoes)	120	85	2	2
Shoes Manufacturing	5357	4740	6	5
Wood Products & Furniture Industry	1978	1374	21	16
Paper Products & Printing	8387	10431	39	42
Chemical Industry & Oil Products	29571	24307	154	143
Non-Metallic Mineral Products	31678	26352	215	119
Basic Metallic Industries	3110	988	2	22
Metallic Product Industry	1937	4187	30	11
Manuf. of Electric Machinery, Apparatus & Appliances	9712	7785	14	11
Others	1711	16	7	1
Total	169994	154101	782	640

Source: Annual Abstract of Statistic, 1985 and 1990.

Until the 1970's Iraq had few large industries apart from petroleum. There was a large number of smaller - unit industries concerned with food and drink processing (date packing, brewing, etc.), cigarette-making, textiles, chemicals, shoes-making and various metalworking trades. In recent years great priority has been given to industrial development and Iraq now has some major industrial plants, with others under construction, and compared with their total combined employees the increasing share of hotel sector in the labour force is readily obvious (see tables 3.16 and 3.17).

Although a high percentage of the hotels in Iraq are small and most of them have no restaurant or other form of facilities (i.e. swimming pools, sports court,...etc.), a number of large hotels have been built in major cities and these offer a good opportunity for employment. Another change which has boosted demand for hotel accommodation and led to increased employment was the government's rejection of the old system whereby most Moslem pilgrims, visiting religious shrines, used to remain inside the shrine after midnight. Now, most, if not all, will need accommodation for the period of religious festivals. In addition many resorts and tourist cities have been built , which offer further opportunity for employment.

3.8 Impact of Tourism on the Agricultural and Industrial Sectors

Detailed studies of the impact of tourism on the agricultural sector are few and difficult to compare. The conclusions of these studies, into the economic and environmental impact of tourism are different from country to country and it is difficult to generalise from the results. It is known that the income generated by tourism reaches the agricultural sector through the multiplier effect. Archer (1977:78) notes in his study that " £ 120 accrued to Anglesey agriculture for every £10000 spent by tourists on the island". While Lewis et al (1970:236-40) have indicated in their study that "the employment opportunities generated in Devon and Cornwall through the indirect effects of tourism was equivalent to 4 per cent of the total labour force".

In contrast, the local agriculture of some countries received very little benefit from tourism. For example, Jamaica used to import food from the United State for its visitors, and Tunisian farms supply only 43 per cent of hotels needs (see Bazier, 1971:25). In Tunisia's case, this was mainly the result of agriculture's low ability, both quantitatively and qualitatively, to emulate imported foodstuffs. Tourism sometimes has a negative effect on agriculture: Al-Rawi (1982:88) notes " in some parts of the Italian Alps tourism has led to a rapid decline in the

farming population which has necessitated the importation of dairy produce and vegetables from the Po valley and delta".

In Iraq, the agricultural sector is of special importance to the economy and plays a fundamental role in supplying foodstuff for the people. It is now the third most important sector after the industrial and oil sectors. It still remains the major source of employment, employing about half a million people in registered agricultural cooperatives in 1985. It contributed about 14 per cent to the GDP at factor cost in 1985 (see Annual Abstract of Statistics, 1985: 80 and 119). However, the activity of this sector of the economy is inefficient for many reasons, such as poor management, inadequate communications and inefficient methods of irrigation and distribution and agricultural production is unable to satisfy national demand, resulting in items including milk, eggs, meat, fruits and cereals being imported in increasing amounts annually. Iraq's main suppliers are the United States, Jordan, Bulgaria, Hungary, Sri Lanka, Turkey, India, Brazil, Australia and New Zealand.

The aim of the Iraqi government is self-sufficiency in agricultural products. To develop the future relationship between the tourism and agricultural sectors, as being one of mutual encouragement, it is necessary for

agriculture to produce the foodstuff requirements of the tourism sector in sufficient quantity. The country already suffers severely from rural problems, i.e. the high incidence of rural-urban migration, and as tourism expands, new employment opportunities in the towns might well lead to a further rural exodus, decline in output and increased agricultural imports. Al-Rawi (1982:90) remarks, "There are many who argue,.., that Iraqi agriculture is currently over-manned and that a decline in numbers, provided some alternative employment is available, can be nothing but beneficial to agriculture and the country as a whole".

Some recent developments can be cited to illustrate the impact of tourism on agriculture and the rural areas: with the completion of a new hotel at an historical site called Aqar Quf, a new road of 32 Kilometres has been built to link the ancient site with Baghdad (the capital). Direct contact between local farmers and visitors to this site could be seen in the selling of vegetables, eggs and fruits. At the same time, the farmers share the advantages of electricity and piped water supplies, telephones, post office and a modern road to Baghdad.

Similarly improved rural life-styles stem from the tourism developments at Al- Habbaniya Lake (80 Kilometres west of Baghdad), and at Al-Madain (35 Kilometres south-

east of Baghdad) where the ruins of Parthian and Sassanian Ctesiphon are located. Another example comes from the north of Iraq, where the summer resorts are located in the mountains, and many farmers are selling directly to the hotels, tourist resorts, and tourists as well as serving local markets.

Generally, the impact of tourism in developing countries on national industry is also not easy to measure. Construction sector might be seen as the main sector which benefits from tourism, but in many countries where foreign investments are involved, building materials and furniture are often imported. Investment in the tourist sector has an obvious foreign exchange cost. Cyprus, for example, has its own construction companies, but has no capital industry and all construction equipment is imported. Building supplies, on the other hand, including cement and tiles are produced locally (see Wilson, 1988:230). Large-scale tourism developments, however, require an extensive and specific infrastructure in the form of water and power supplies, roads, sewage, etc. Costs are usually borne by the government of host country.

Despite Iraq having its own construction companies, there are no statistics available to indicate the involvement of these companies in the tourism sector. The

production of bricks and cement were not enough to meet national demand. Imported raw material increased rapidly after 1976 but also many factories for producing bricks and cement have been established to meet the demand.

Craft and souvenir industries have gained great benefit from tourism. Iraqi crafts and souvenirs vary from pottery to brass goods to traditional rugs and other textiles. It is estimated craft and souvenir sales in 1985 reached to I.D. 2.5 million. The government is now actively encouraging indigenous and co-operatively managed craft shops specialising in authentic goods which link the culture of modern Iraq with the historical tradition of Mesopotamia, i.e. Suqe Al-Safafer in Baghdad.

3.9 Summary

In this chapter, seven main sections regarding the importance of tourism as an economic activity have been considered. These are as follows:

1- Assessment of comparative advantage:

Explanation of the main sources of foreign exchange in Iraq, in general, and comparison between tourism and other sectors have been reviewed.

2- Conditions relevant to Iraq

Many problems should be considered in developing the tourism sector in Iraq Some of these problems have been mentioned in this section.

3- The contribution of tourism to the balance of payments:

The situation of four different countries has been examined to highlight the importance of this effect on the economy. These countries are the UK, India, Cyprus, and Iraq. The latest data was collected from different available sources. It shows the effect of tourism on the country's trade balance and travel accounts.

4- Tourism and the GDP and GNP:

Definitions and methods of measuring GNP and GDP have been reviewed. It is noticeable that the contribution of international tourist receipts to GDP of developed countries has a low value. This is because of the high economic performance of other productive sectors, whereas, in other countries, such as Cyprus, tourist receipts play a more important role in the structure of GDP (see table 3.7 and 3.8).

In Iraq, the low value of tourism does not reflect

high efficiency in the economy. This is because Iraq depend on oil revenue which constitutes a major component of its national income.

5- The multiplier effect of tourism expenditure:

The effect of the tourist multiplier comes from the circulation of the money spent by tourist into different sectors of the economy. Sectors such as agriculture and industry can benefit from tourist expenditure. The simple ratio has been found to range from 0.58 to 4.3 . The value of the multiplier for developed countries is generally higher than the value for developing countries. This is because of the high level of the economic diversity and inter-linkages for developed countries which are well established.

6- Tourism and employment:

Tourism is a labour- intensive service sector. It employs large number of people and provides a wide range of jobs which extend from unskilled to the highly specialised. Indirect employment generated by tourism may be twice or more that of employment generated directly. The amount of indirect employment generated by tourism is highly influenced by the degree to which the tourism

sector has been linked with other sectors of the economy.

In Iraq, the opportunities for generating employment in tourism sector may be increased according to the stability of the work force in general and the high attention from government to this sector (see table 3.16).

7- The impact of tourism on agriculture and industry:

Tourism has the ability to change the habits, customs and life-styles of people living and working in both rural or urban areas. Some of these changes have a negative impact and some of them may have a positive impact. Examples have been given in this chapter.

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CHAPTER (4)

FINANCING THE TOURISM SECTOR

Chapter (4)

Financing the Tourism Sector

4.1 Introduction

The methods and procedures used by tourism enterprises (public and private) to acquire funds needed in their operations vary with the type and size of tourism projects. Thus, the success of investment of the tourism sector in any country depends on the level of how it is organised in the economy, and the necessary finance available to it. This finance is required by different parties such as hoteliers, carriers, tour operators, travel agents, and also for destinations. The latter need funds for developing the important infrastructure and superstructure and consume a big amount of what can be called "tourism finance". Tourism finance, therefore, deals with raising, administering and disbursing funds from public and private sectors (see Prather and Wert, 1971; and Foster, 1985).

Financing of the tourism sector is a very wide subject, therefore, it is important to examine the implication for the macro and micro considerations of the different objectives of the public and private sectors involved in a tourism project. Public sector includes

government and government agencies, local authorities, and international financial aid institutions. Private sector includes both the financing institutions providing loan finance and equity investors (see Bodlender, 1982).

The public and private sectors are not seeking the same goals. The private sector investors are primarily interested in making a high profit on the money they invest in a project. The public sector is seeking economic development, increased foreign currency revenues, and improved amenities. All these factors, however, can affect the method of financing.

The level of involvement by public and private sectors for tourism projects depends on the size of the project. If the project is a large one (i.e. infrastructure) and requiring a high provision of money then the public sector will play an important role. At this level of the economic activity further involvement of the public sector might be required. However, if the project is a small one (i.e. a hotel) the main role is given to the private sector. The involvement of public sector in this case might be shown through offering some grants and other assistance. Additionally, while the private sector seeks to make a profit to continue and grow (according to going-concern convention), the public sector has an assured future income in the form of fiscal

revenues which it will receive as a result of the development.

The purposes of this chapter are to examine and evaluate: the sources of funds, the efficiency criteria for investment including public and private criteria, the project appraisal methods and the capital structure theories available to tourism enterprises. In addition to highlight the efficiency of investment with some consideration of Iraq.

4.2 The Funding Sources

In the literature, different sources of funds for tourism investments identified available (see Prather and Wert, 1971; WTO, 1973; ETB, 1983; Foster, 1985; Peake, 1988; and Keiser, 1989). These sources can be classified as public and private or internal and external.

The method which will use to classify these sources in this study is the public and private sources. Private sector financing may be provided either by the non financial sectors or through financial institutions. The types of finance available through the non financial sectors (or equity finance) might be classified as common stock, preferred stock and retained earning. In some segments of the tourism sector, equity financing is also

provided through limited partnership interests (e.g. small transport companies), some of which are public and may be traded in financial markets. Loans can be obtained from banks, insurance companies, pension funds, and mutual funds.

Governments may finance tourism investments in a variety of ways, i.e. through direct ownership of facilities and provision of services, leasing of government-owned facilities, government loans or loan guarantees or direct subsidies and incentives.

4.2.1 Financing by government and National Tourism Organisation as a public sector

This can be at national, regional and local levels. There is awareness of the net economic benefits that can occur either directly or indirectly to the region developed and to the country as a whole. Tourism projects can enhance the prosperity and standard of life of local residents when careful planning and control together with the requirements and hopes of the local population have been taken into account.

In general, major investments in tourism, such as infrastructure, is financed by governments because of the high costs and the hesitancy of private sector to invest

in these needs. Such guarantees and support can be offered by government and N.T.O. to private sector for tourist projects such as:

- grants and loans,
- tax concessions and subsidies,
- low interest loans for purchasing equipment for working capital, and,
- by increasing the co-operation through the confidence in financing such projects.

They may also contribute to the cost of marketing research and promotional campaigns in co-operation with other member of the sector.

Government presents financial assistance more easily to the development areas whether in general or in particular for tourism purposes. Therefore, the improvement of superstructure and infrastructure of a region is the main objective of financing by government.

Leasing is another form of funds which is defined as " a grant by one party (lessor) to a second party (lessee) of an interest in a property that permits the second party to use it for a period of time" (Prather and Wert, 1971). This means that lease comprises a rental hiring agreement covering the usage of an asset for a specific period which

is normally matched to the prime working life of that asset. The beneficial ownership of the asset is retained by the lessor throughout and will therefore not appear as an asset in the lessee's balance sheet. Depreciation, in this case, is claimed by the lessor. The lease does not classify as borrowing, therefore, it does not increase the firm's gearing.

4.2.2 Financing by funding institutions and equity

Tourist projects obtain funds from banks to finance their seasonal needs, to reduce debt and increase net worth, to purchase hotels, restaurants and the acquisition of further firms. In other words, sources for the capital structure may be different than sources of funds for short term or medium financing. Capital financing usually involves large amounts of money committed for long periods. One major principle in borrowing is that the maturity of a loan should correspond to the useful life of the asset being financed.

This kind of fund can be classified as secured and unsecured, or as short term, medium term, or long term. Weaker enterprises are required to pledge assets, therefore, banks' interest rates on unsecured loans tend to be higher than on secured loans. Repayment is usually by monthly instalments that cover principal and interest.

Commercial banks may take a share of the equity and representation on the board if this is possible.

A moratorium of one or two years may be agreed, especially with medium and long term loans, when the asset purchased has a long life or the borrower can show temporary decline in profitability due to the need for reorganisation around the asset purchased. Rates are varied and depend on the size and length of loan.

A firm may want to borrow money for non-capital purposes. A seasonal resort may want money to finance expenses before the opening of the season. A hotel may want money to make non-capital improvements. Thus, a firm may need more money for working capital, which is defined as the difference between the current assets and current liabilities. Therefore, short term loans are those that must be paid back within three years; medium term extends from three years to ten years; and long term extends for at least ten years (see Keiser, 1989:274).

Other financial organisations such as insurance companies, finance houses and finance corporations may offer loans in this regard. However, such loans are limited and depend on the situation in an individual country. Therefore, it is necessary to distinguish between long-term and short-term loan.

Tourism enterprises may be involved in financing investments and this depends on the extent of their involvement in the project. However, retained earning - is net profit not distributed as dividends - can be used for this purpose. Retained earning, therefore, is an important source of funds in meeting the requirements of new investment; it can make a significant contribution to the enterprise's future profitability, as well as its ability to maintain and improve the competitive position.

4.2.3 Other financing sources

Other methods of financing tourism investments are available.

i- Tourists themselves may contribute. Their contribution comes through the different tourists' taxes and fees they pay. Generally these funds are relatively limited, but they can be used for investment.

ii- In recent years, franchising has been developed as an important source of funds especially with well-known tourism organisations. It means, in simple terms, a contract permitting the holder to sell services in a specified area. In other words, the franchiser permits the franchisee to use the

former's expertise, skills and name, in exchange for an initial payment followed by annual fees based on turnover or revenue or some other basis, i.e. Hilton, Sheraton, etc. Franchising is advantageous to both parties. The advantages accruing to the new firm include the use of a well-knowing brand name, international advertising by the parent company, and managerial guidance. For the franchiser, it is not necessary to find all the capital. In this situation projects can be developed more quickly. Management contract is also a formal franchising. Thus, the important vital element for success is the availability of a standard product or service which has wide recognition amongst customers, (see Prather and Wert, 1971: 26-27; and Foster, 1985: 293).

4.3 Efficiency criteria for investment:

Some countries may have their reasons for development in addition to various political considerations such as helping economically poor areas through granting aid to a region, trying to redistribute wealth or improve earning potential of local residents and labour. For example, the development of a tourist resort may require the building of an international airport which may be seen as a further improvement in the country.

The headings of this section are as follows:

4.3.1 Public and private criteria for financing tourism projects

As the public and private sectors have different objectives, the financial criteria considered by both investors to evaluate tourism projects are also different.

4.3.1.1 Public sector criteria

The basic criteria for the public sector can be summarised as follows (see Chib, 1980; Bodlender, 1982; Foster, 1985; and Terry, 1989):

1- Employment.
2- Increased income from taxation and other dues or fiscal activities.
3- Foreign currency.
4- Improved amenities through additional infrastructure and superstructure.

The first criterion improves the potential earnings of residents, while the others increase the government's ability to boost economic improvement.

1- Employment:

The benefits and potential of tourism for creating

employment has already been discussed in chapter (3). However, tourism offers that opportunity at relatively low cost. For instance, it should be realised that the once and for all cost of creating a job in tourism in the UK is about £7000 a year (two studies were carried out in 1980 - one by ETB in the Highlands, and the other by Horwath & Horwath in Northern Ireland). This figure was substantially less than the cost of job creation in agricultural and manufacturing sectors. In addition, the cost of supporting an unemployed person can be high (see Bodlender, 1982:279; and Foster, 1985:286). The figures, normally, in the developing countries should be lower.

From the economic point of view, two aspects of creating new employments are of importance for a developing country:

1. The cost of fixed employment required for creating a new job (capital/employment ratio).
2. The operating turnover and the salary distributed for each new job.

In Iraq, therefore, the capital employment ratio was at an average of 7800 ID for a new job created in the tourism sector (Master Plan; 1985:199). In relation to the main tourist employment sub-categories, the capital employment ratios are as follows:

Permanent employment

- business and commercial	6200 ID
- transit facilities	6220 ID

Seasonal employment

- summer holiday	8100 ID
- short vacation	7780 ID
- thermal	10800 ID
- wildlife, cultural	13200 ID

This amount must be compared with the capital employment ratios in order to create new job in other sectors of the economic field.

For the turnover of employment the average of a new job will amount 2100 ID. In relation to the main tourist categories, for direct employment, the turnover ratios are as follows:

- business	3350 ID
- summer holiday	1385 ID
- short vacation	925 ID
- thermal	990 ID
- wildlife	3700 ID
- transit	2200 ID

From the view point of social and economic

development, the most important impacts are related to investment in business facilities, wildlife facilities, transit facilities, summer holiday facilities, and last, in the thermal and short vacation facilities.

When a country can get a substantial reduction in its unemployment, it will gain, many benefits relatively quickly, in particular economic ones. Whereas, if it depends too much on foreign labour, that gain will be absorbed in different ways. On the other side, the effect of different multipliers (i.e. income multiplier, employment multiplier) can enhance the benefits gained. Bodlender (1982) points out "... All industries do have multipliers, but there is no doubt that the tourism multiplier is particularly rapid and material in its effect ..... investment does not have to be confined to grandiose projects. It is easier, and cheaper to construct, for example, a series of chalet or bungalow development than a steel works or a car factory". This could assist to improve the employment situation quite quickly. Thus, Foster (1985) remarks " the greater the number of modest project developed, the greater will be this improvement".

2- Increased income from taxation and other dues or fiscal activities:

The tourism sector can realise a substantial income for countries. Normally, a country can increase its income from taxes and other dues. There are different kinds of taxes utilised in a country such as:

- taxes on profit,
- payroll and income taxes,
- sales taxes,
- excise duties (normally on alcohol and tobacco),
- property taxes,
- import taxes.

Foster (1985:286) points out "All these (revenues) are soon increased as tourism development progresses, especially if many modest projects are involved. Even when a host government invests in the projects either directly or by grants, it is usual for the pay-back period to be relatively short. With the economic multiplier effect this period can be a mere two or three years, much shorter than for other capital projects". Government income, therefore, could be raised from the above sources.

3- Foreign currency:

As mentioned in chapter 3, the tourism sector can offer an important source of foreign currency to a country. There are, however, different leakages which erode the gross foreign currency earning, such as:

- Interest payments charged for the servicing of foreign investment, on either a loan or equity capital.
- Imported goods and services necessary for tourists not available in the host country.
- Management fees, including skilled labour to supplement local labour.

Jenkins and Henry (1982) noted " It is generally recognised that most developing countries need to attract foreign investment to support their development efforts. Scarcity of domestic capital or a reluctance to use what is available for investment in tourism often results in governments having to specifically encourage foreign investors by making investment incentives available".

In general, developing countries can gain a high potential foreign currency earning from their tourism sector. However, some countries might prevent tourism development because of the limitation of foreign currency they need. Therefore, careful consideration from many

countries to the benefits and disadvantages of tourism projects has been increased. Many countries recognise that even a reduction in net gain is better than nothing.

4- Improve amenity:

The government seeks dual benefits, direct and indirect, from establishing a new tourist project. The direct one is by improving the infrastructure and super-structure of the area, while the indirect benefits is by providing the essential basis to attract, support and develop other related sectors to the region. For example, by establishing a new tourist project, new roads, electricity, sewerage and telephone services will be constructed, as well as new industries may be attracted to the area. Therefore, further development including transportation and commercial centres will increase and improve the amenities of the region.

Governments (as a public sector) now give much attention to the above considerations before taking any steps to invest in a project. Also much thought is given to tourism pollution. In this context, Bodlender (1982) states ".... tourism may in some cases have caused tourism pollution. But tourism has provided either the catalyst or the financial justification in many other cases for infrastructure which has helped raise local living

standards, and for desirable amenities".

4.3.1.2 Private sector criteria

There are two kinds of investors in the private sector regarding the funding of tourism projects. These are equity investors and funding institutions. The equity investor, for instance, would wish to see the potential for profit of the project in addition to the repayment of his funds, while the funding institution which provides loans might require the ability to meet a stated interest rate and repayment schedule together with the provision of adequate security.

The main criterion, however, for the private sector is that the project should be profitable. Other criteria might be considered such as (see Bodlender, 1982; and Foster, 1985):

1. The project's anticipated ability to meet a predetermined repayment schedule or pay-back period.
2. The need to attain, hold and improve the return on capital invested.
3. The ability of the project to make prompt payment of loans and grants from the public sector.
4. The ratio of the investor's interest by the anticipated cash flow and discounted cash flow return should be high.

Tourist projects fail to achieve financial viability when market research and regional planning have been done without much consideration to the market feasibility. Therefore, a full economic feasibility study to project appraisal and sources of funds should be considered (see section related to the case study below).

4.3.2 Project appraisal methods

Different methods can be used to appraise the projects such as (see Prather and Wert, 1971; Brealey and Myers, 1986; and Keiser, 1989):

1. Payback period.
2. Average return on book value.
3. Internal rate of return.
4. Profitability index.
5. Net present value.

4.3.2.1 Payback period

It is an easy method for describing investment projects that recover the initial capital invested in a project. This is especially important when the cash flow situation is critical or the risks surrounding the future of cash flow is to be high. Thus, a rapid recovery of capital invested is very important. In order to use this

method it is necessary to decide on an appropriate cut off date. In other words, a short payback period is determined and this orients investment decisions. Normally, projects are rejected if they do not meet this criterion. It suffers from different defects such as:

- It does not take into account consideration of the economic life of the project and earnings that would be achieved after the end of the required period.
- It ignores the taxation effect.
- It is difficult to find a sound basis for comparing competing possibilities among different projects.
- It requires an assumption to be followed that no profit is earned until the capital invested has been recovered.

4.3.2.2 Average return on book value

It is calculated by dividing the average income forecasted after depreciation and taxes by the average capital invested and compare it with the project's target return. The disadvantage of this method, in addition to the problems mentioned in the previous method, is that it allows for the recovery of capital at an even rate over the life of the project and overstates the return. As it considers only the average income on average capital

invested, there is no allowance for the fact that immediate receipts are more valuable than distant ones.

4.3.2.3 Internal rate of return (IRR)

It is defined as the rate of discount at which a project would have zero net present value. The rule of this method is to accept investments offering rates of return in excess of their opportunity cost of capital. The advantage of this method include the fact that the timing of the earnings is taken into account as are tax allowance and payments. But it suffers from many pitfalls such as (see Brealey and Myers, 1986:80):

- Mutually exclusive projects, it is difficult to add rate of return of different projects. For example, if we tack a bad project onto a good project, the combined project may have a higher IRR than the good project on its own.
- Multiple rate of return, if there is more than one change in the sign of the cash flows, the project may have several IRRs or no IRR at all.
- Short-term interest rates may be different from long-term rates. As the IRR rule requires to compare the project's IRR with the opportunity cost of capital, therefore, sometimes, for example, there is an opportunity cost of capital for 1 -year cash flows, a

different cost of capital for 2 -year cash flows, and so on. In these cases there is no simple yardstick for evaluating the IRR of a project.

4.3.2.4 Profitability index

It is calculated by dividing the present value of forecasted future cash flows by the initial capital. The project should be accepted when the index is greater than (1). The only drawback with using this method is that it cannot add ratios up in the same way as values being added when different projects are compared.

4.3.2.5 Net present value (NPV)

It is based on the principle that the value of money earned at some future time is of less value than that earned at earlier times. In other words the value of an amount earned next year, for example, is less than the value of the same amount today. It estimates the net gain over the capital invested. The advantages of this method are it covers the earning of the project, the value of the residual assets and the full recovery of the capital invested over the expected life of the project.

4.3.3 Capital Structure Theories

Capital structure is described in terms of equity and debt capital. Thus, a capital structure of an enterprise is comprised of all long term financing, usually represented by common stock, preferred stock, retained earnings, and long-term debt. Brealey and Myers (1986:255) described capital structure term as "the firm's mix of different securities".

There are three alternative theories regarding the financial structure of an enterprise. These are as follows:

1- Optimum capital structure theory.

2- Leverage tax clienteles theory.

3- Traditional financial analysis theory.

The main point of all these theories is to determine what mix of capital from debt and equity is desirable, and how leverage relates to the value of the firm. Leverage is measured as a ratio of total debt to total assets, to total equity or as a ratio of long term debt to equity.

4.3.3.1 Optimum capital structure

Two points of view are valid in relation to this theory. The first is referred to in Modigliani and

Miller's (M&M) study in 1958. They concluded that debt finance is immaterial to the value of the firm. In other words, leverage has no impact on the firm's value. They stated that no combination of optimum capital structure exists,and the firm's overall market value (the value of all its securities) is independent of capital structure (see Brealey and Myers,1986:372).

The second view debates that additional costs lead to an optimal capital structure for the individual firm. These cost have relaxed the restriction of M&M assumptions such as taxes, the potential of bankruptcy, and market imperfection (see Peake, 1987:12). The result, however, of the second view that combines taxes, and risk cost elements is to predict an optimum capital structure for the firm. The tax shield provides a direct relationship between firm value and debt. Whereas the risk cost elements imply a reduction in firm value at higher levels of debt. Thus, the optimum capital structure is that level of mix between debt and equity as a leverage ratio at which the marginal benefits of taxes shield are balanced to the marginal cost of other variables.

Financial managers, according to this theory, are being more aware to use debt finance because of a higher expected return on assets before interest and taxes. But, debt might be discouraged because of risk.

4.3.3.2 Leverage tax clienteles

This theory of capital structure has a different approach from the previous one. It depends on the situation of personal tax (see Kim, 1982,301-316). He states that investors whose tax rate exceed the corporate rate will prefer firms with zero leverage because they get greater tax benefit from personal leverage. While investors with tax rates less than the corporate rate will prefer firms with high leverage. Thus, firms' managers have to decide regarding leverage policy that appeals to the tax clienteles they wish to serve. Peake (1987) notes that "the distribution of firms' debt ratios will tend to be bi-modal, with one mode centred on zero and the other centred on relatively high debt ratio". Thus, this theory predicts a direct relationship between dividends and leverage (see Peake,1987:13).

4.3.3.3 Traditional financial analysis

This theory is similar to the optimum capital structure theory. The existence of an optimum capital structure, which management seeks to achieve, has been accepted. Therefore, this optimum balances the cost of additional debt against the marginal return from additional debt. In this analysis lenders and managers have given much attention to traditional measures of risk

and returns rather than the variance of earnings (as in optimum capital structure theory). These measures have been mentioned previously such as: profitability, liquidity, operating leverage, efficiency and credit policy.

The analysis should be concerned with the financial characteristics of tourism enterprises. It needs to have data about the sources and uses of finance, and the ratio analysis according to the classification mentioned previously.

In our case, all enterprises under investigation have no debt in their capital structure as a leverage. This means that all of them depend on their own capital and did not get the advantages from using debt in their capital. This may lead us to conclude that they are either support Modigliani and Miller's point of view or are working in different ways (e.g. under instructions from the government).

4.4 Efficiency in investment- some considerations Case Study of a Tourist Project

4.4.1 Introduction

This case study will examine the economic and financial profitability of the tourist projects proposed in Hatra. The analysis follows the logical scheme of the SOT model. This model simulates the functioning of a tourist unit and calculates the return of the investment in relation to the different criteria of basic parameters (opening period, level of prices, financing of the project, etc.). The model is applicable in various environments (mountain, sea city, etc.), and makes possible an extremely rapid examination of the different criteria. The model is divided into five main categories.

- estimate of investments;
- estimate of operating income;
- estimate of operating expenses;
- economic balance sheet; and,
- economic and financial profitability.

In accordance with the financial and economic data of the above project, the values are given in Iraqi Dinars. The foreign exchange component of the project is calculated on the basis of 1 ID= 3.5 U.S.$.

4.4..2 Investment and financing of the project

The first category of SOT model is the estimate of the capital requirement for the implementation of the 400 beds of the Hatra village club, for accommodation facilities, including all the goods and services required to obtain a finished equipment (building costs, furniture, technical and management fees), as well as all the complementary facilities (sport, desert excursions, etc.), and infrastructures (access road, water supply, etc.) that are indispensable to the development and utilisation of the village club.

4.4.2.1 Investment estimates

According to the analysis of construction costs made in the frame of the National Tourism Development Plan, and the particular conditions of building in the region of Hatra (major transportation costs, lack of skilled labour, etc.), the capital requirements for the village are assessed in the following table. The table shows the minimum foreign exchange component for the purchase of goods and services from abroad which amount to approximately 2 million Iraqi Dinars (7 million US $), corresponding to some 60% of the investment.

Table (4.1) Capital requirements and the Minimum foreign exchange component

Investment item	ID	in FC
Land acquisition	Nil	Nil
Accommodation	2730000	1719900
Complementary facilities	301000	180600
Infrastructure	329000	115150
Planning & development	105000	78750
Total Fixed Assets	3465000	2094400
Pre-opening expenses	77000	46200
Working capital	98000	29400
Total capital	3640000	2170000

The following table estimates the detail of accommodation facilities in ID and their proportion in foreign currency:

Table (4.2) Detail of accommodation facilities

Accommodation items	ID	in FC
Site work and foundation	161000	56350
Building construction	798000	399000
Electrical and mechanical equipment	588000	352800
Air conditioning	308000	261800
Fixed equipment	105000	84000
furniture	231000	138600
furnishing	126000	88200
Additional Facilities	98000	49000
Contingencies	126000	69300
Technical and management fees	189000	113400
Total cost	2730000	1719900

i. Investment phasing:

The following table outlines the timing, year by year, of the investment: from 1976 to 1981 and according to the procedures and time-schedule of implementation:

Table (4.3) Timetable of the investment

Investment item	in 000's Iraqi Dinar 976	977	978	979	980
Land acquisition	-	-	-	-	-
Accommodation:					
- Site work	85	77	-	-	-
- Building construction	-	399	399	-	-
- Electrical equipment	-	112	238	238	-
- Air conditioning	-	-	-	308	-
- Furniture	-	-	-	462	-
- Additional facilities	-	-	-	98	-
- Contingencies	-	35	35	56	-
- Technical,management fees	63	35	35	28	28
Total accommodation	148	658	707	1119	28
Complementary facilities	-	63	126	112	-
Infrastructures	-	140	140	49	-
Planning cost	42	14	7	21	21
Pre-opening expenses	-	-	-	-	77
working capital	-	-	-	-	98
Total	189	875	980	1372	224

ii. Financing of the project:

According to the policy choice of the Iraqi government, the project will be financed entirely by the

SOT. Following the above time schedule, the payments of capital will be as follows:

1977	189000	ID	5.2%
1978	875000	ID	24.0%
1979	980000	ID	27.0%
1980	1372000	ID	37.5%
1981	224000	ID	6.3%
Total	3640000	ID	100.0%

4.4.2.2 Estimated income of the project

The second category of SOT model analyses the probable income of the project. The annual receipts of the project can be estimated at about 910000 ID per annum, and at 548800 ID and 728000 ID in the first two years of operation as shown in the the following table:

Table (4.4) Income estimation of the project in ID

		1981	1982	1983-
Fullboard				
High season:	double room	224000	298200	372400
	single room	116200	154000	193200
Low season:	double room	70000	92400	115500
	single room	40600	53200	66500
Extra expenditures:		67200	89600	112000
Excursions, visits, etc.		30800	40600	50400
Total income		548800	728000	910000

4.4.2.3 Estimate yearly operating expenses

The third category of SOT model calculates the operating expenses for the management of the project, year by year, according to the level of services offered, the capacity in tourist beds, local conditions, etc., for the main spending categories:

1. Payroll and related costs, including wages, salaries, social security schemes, vacations and absences, travel of personnel, bonuses, etc.
2. Food and beverages costs for restaurant, bar, nightclub including consumption by employees.

3. Other departments expenses: laundry, cleaning, etc.
4. Leisure, sport, excursion and complementary activities.
5. Heat, light and power costs.
6. Repairs and maintenance.
7. Advertising and promotion.
8. General and administrative expenses.
9. Governmental taxes.

The operating expenses will amount to about 72.5% of total sales once the operation has reached its optimal pace. The following table estimates the operating expenses:

Table (4.5) Operating expenses estimation in ID

Expense item	1981	1982	1983-
Payroll & related costs	218400	245700	273000
Food & beverages costs	70000	91000	115500
Other departments costs	35000	46900	58800
Leisure	30240	34020	37800
Heat & power	25900	29400	32200
Repairs & maintenance	35000	35000	35000
Advertising	33600	33600	33600
Administration & general	29400	33320	37100
Taxes, insurance, etc.	10500	14700	18200
Total operating expenses	488040	563640	641200

4.4.2.4 Economic balance sheet

On the basis of the above estimate, the SOT model calculates the main economic and financial ratios of Hatra project. In this specific case, and taking account of the particular structure of project financing (100% equity without debentures) and of the management contract, the outputs of the model are constituted as follows:

- The operating profit (gross operating profit less management fees and incentives), which corresponds to the sum that will be paid to the owner as the rent of the project.
- The depreciation and amortisation, calculated as being equal to 5% of the investment, and that be spent in time, in order to renew the buildings and equipment.
- The net profit, from which is deducted the depreciation and the administrative expenses for the control of the management, these latter being estimated at 12600 ID per year.

The following table shows the estimated economic balance sheet of Hatra project.

Table (4.6) Estimated economic balance sheet of Hatra Project in ID

	981	982	983-85	986-
Sales	548800	728000	910000	910000
Operating expenses	488040	563640	641200	641200
Gross operating profit	60760	164360	268800	268800
Management fees	29400	49000	78400	78400
Operating profit (rent)	31360	115360	190400	190400
Depreciation	179200	179200	179200	163800
Cash available	(147840)	(63840)	11200	26600
Tourism administrative expenses	8400	9800	12600	12600
Net profit	(156240)	(73640)	(1400)	14000

According to the above estimates, the project of Hatra would have a positive result of some 11000 ID yearly, starting with the third or fourth year, and about 26000 ID starting with the sixth year of operation.

4.4.2.5 Economic profitability of the project

According to the above calculations, the internal rate of return of the project is less than 1%, and has a very long period of capital recovery (100 to 120 years).

From an economic point of view, the project of Hatra represents an equilibrated management result, but practically no economic profitability. This result depends mainly on four variables:

- the amount of investment;
- average occupancy rate;
- level of prices; and
- operating expenses and gross operating profit.

It should be noted that two of these variable are actually fixed:

. The average occupancy rate, which is determined by the period of operation (8 to 9 months), and which, in the light of experience of tourist villages having seasonal operational periods, can hardly exceed 220 days for the rooms and 160 to 180 days for beds. This result could besides be achieved only with a policy of very strong commercialisation of the village on the international market.

. The level of prices, which is determined by the competitive offer.

For other variables, one can note that:

. The investments, that have been assessed at about 3.5 million ID, could evidently be reduced, even if the

unit investment of 8750 ID per bed seems to be quite realistic. A reduction of investment by 10% (which could be obtained by reducing by 15-20% the room floor area and public space of the village) would induce an increase in profitability of 1.3% of the invested capital. A control of the project and of the related investment would thus result, but with secondary importance to that of the increase in the profitability.

. The gross operating profit, which has been assessed at about 29.5% of the receipts could be increased by reducing the operating expenses. This solution obviously requires experienced management; this does not seem likely during the first years of operation.

However, according to the data available about the Middle East area, the gross operating profit represents, on average, 34% of the income for city hotels (open year-round and having an occupancy rate of 210 to 220 days) and about 20% for the tourist resort facilities.

The solution could be found in the long term: Hatra project would be directly in charge of management after an initial period of external management. Taking into account the above assumptions, the economic profitability of the project could reach some 3.5% per annum as shown in table (4.7) below.

Table (4.7) Economic balance sheet with the assumptions of reducing village investment by 10% and with direct management

	981	982	983-5	986-
Sales	548800	728000	910000	910000
Operating expenses	483000	560000	637000	637000
Gross profit	65800	169400	273000	273000
Depreciation	161000	161000	161000	145000
Cash available	-95200	8400	84000	127000
Percent of return on equity	-	.25	3.6	4.0

4.4.3 Conclusions and suggestions

Several conclusions and suggestions may be drawn from the above results:

1. At the level of the project, it seems necessary that there should be a continuous control of the stages of the programme, volumes of buildings and implementation costs.
2. At the level of management, two points appear important:

   i. A strong commercialisation of the village on the international tourist market is necessary.

ii. Management should be confined to a firm having international experience, or Iraqi management with external expert consulting during the first years of commercial launching of the village.

Attention to (1) and (2) above should ensure equilibrium of the economic balance sheet and repayment of the yearly depreciation.

3. At the medium term, the management should be directly provided by the developer, a solution that would also allow for an economic profitability of about 3-4% of the investment.

The fact is that the justifications for the village project are those of putting into practice certain policies, rather than achieving economic profitability:

1. There is the social target of creating jobs in the tourism trade in Hatra.
2. Hatra is one of the most important archaeological sites in Iraq and one which would certainly be well worth developing to the full. Together with Palmyre in Syria and Petra in Jordan, Hatra could make one of the most interesting tourist circuits in the Middle East.
3. Finally, the international tourism market would be attracted to Hatra, making a touristic "name" for Iraq and at the same time promoting international goodwill at the cultural and human level.

4.5 Summary

In this chapter, three main sections concerning the financing of tourism enterprises have been discussed.

1. Sources of funds

In this section, the sources of financing are discussed regarding each group (e.g. by government, by banks, etc.).

2. Efficiency criteria for investment:

The situation of public and private criteria for financing of tourism projects has been examined to highlight the importance of these criteria on the finance. Different project appraisal methods such as pay-back period, internal rate of return, net present value, etc., have been reviewed. Finally, three theories have been reviewed in this section. These are; optimum capital structure, leverage tax clienteles, and traditional financial analysis. Unfortunately we could not relate these theories to the enterprises' data under investigation, as they have no debt in their capital, and they dependent totally on government financing. In this case they lost a chance to improve their capital structure and derive potential benefit from that.

3. Case study of a tourist project in Iraq:

Five main categories, within the case, have been examined. These are;

- estimate of investment and finance,
- estimate of operating income,
- estimate of operating expenses,
- economic balance sheet, and,
- economic and financial profitability.

All the above categories should be applied according to the model of the Tourism Authority in Iraq in any project.

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CHAPTER (5)

EFFICIENCY IN TOURISM ENTERPRISES - PERFORMANCE EVALUATION

Chapter (5)

Efficiency in Tourism Enterprise - Performance Evaluation

5.1 Introduction

State-owned enterprises are visible in Iraq since the establishment of the State, but uneasiness about performance evaluation of these enterprises is endemic. Most of the information media and the public's accusations, and management's justifications, are often impressionistic, not leading to a rational judgement on performance or not creating scientific measures to improve it.

The purposes of this chapter are as follows:

1. to highlight the problems mentioned previously in chapter one,

2. to give some answers to the general research question addressed in chapter one, such as the meaning and objectives of performance evaluation, and,

3. to specify criteria which is required for this study.

5.2 The meaning of performance evaluation and its objectives

5.2.1. Definition and meaning of performance evaluation

"The term 'performance' in the context of organisational behaviour is highly ambiguous. Indeed its frequent use suggests that it may more often be used to avoid precise definition of what is meant." (Emmanuel, 1986:25). But Redfern (1986:4) defined 'performance' as "The process of carrying out a programme or service". While Carley(1988:2) defined 'performance measurement' as "Attempts to appraise the performance of government agencies in service delivery in a quantitative fashion, usually undertaken by developing known output or performance indicators"

The aspects which are relevant to performance evaluation definition in Redfern's judgement might be summarised as follows:

1. Adequacy: how far along the way towards a target* did we get?
2. Effect: how did we satisfy needs?

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*The concept target or objective in this study is referred to both accounting (i.e. rate of return) and non-accounting (i.e. foreign exchange, visitor arrivals). But much consideration will be given to accounting objectives in evaluation the performance of tourism enterprises. Kempner (1971:369) says "it is important that the target figure should be verifiable - i.e. that is possible to determine unequivocally that the target figure has or has not been achieved by the target date".

3. Efficiency: could the same effect have been achieved by different means at least cost?
4. Effort: why did some aspects of performance succeed and others fail?

Performance evaluation of tourism enterprises, therefore, might be defined as an approach to ascertain how far the resources committed to an enterprise are effectively and efficiently utilised.

The meaning of effectively and efficiently in this study is as follow:

i. The term effectiveness is concerned with the achievement of objectives (i.e. rate of return); an action is effective to the extent that it achieves what it was intended to achieve.

ii. The term efficiency is concerned with achieving a given result (output) with a minimum use of resources (input). For example, if a country wants to build a hotel, then it needs an initial amount for investment and other resources, such as, management, employees....etc., which are also necessary to carry on its operations. Normally, main objective of this investment is to be profitable. Therefore, if the revenue is more than expenditure (input resources) the hotel will achieve it objective.

In tourism projects an action may be effective, but

inefficient in that the result could have been achieved more economically. For example, it might be the hotel (in the above example) employ foreign management, in this case, the hotel could achieve its objective but by spending more money (input resources) than if it employed local management.

However, effectiveness is referred, in the above example, to the achievement of the objective. While the achieving of the objective with a minimum cost is referred to an efficiency.

Hirist (1981:771) says that " Accounting information is often used, alone, or in conjunction with other information, as a basis for evaluating subordinate performance". This means that the main idea of management control of tourism enterprise, through the use of accounting (i.e. Iraq used the unified accounting system), is the provision of financial and other information essential to its activities. Thus, performance evaluation is considered as a basic managerial activity which must be placed firmly between policy decisions about objectives of the enterprise to be measured and judgmental processes leading to rational decision making.

In order to measure the performance, therefore, it is necessary to look for what the tourism enterprises

(including, public sector and NTO) are attempting to achieve. However, the performance of tourism enterprise is closely connected with effectiveness and efficiency, as explained above. This means that performance evaluation is regarded as a vital part of the control process.

5.2.2 Role of National Tourism Organisation (NTO)

In general, tourism is considered as an important economic activity. Most countries, therefore, create a governmental organisation to be responsible for development and promotion of tourism at national level.

In formulating tourism policy, it will be required first to decide, for example, the appropriate rate of growth it wishes to see in tourism sector. It will have to determine what should be the respective roles of the public and the private sector in developing tourism, and similarly, of domestic and foreign investment.

NTO's main role is to maximise tourism's contribution to economic and social development. Other roles can be done by NTO to support tourism activities such as:

1. NTO provides guidance in information, policy, and information feedback.
2. NTO can use its influence and knowledge of market

conditions to promote the optimum development of the country's tourist resources.

3. NTO can help the various government departments to present their tourist activities successfully abroad.

4. NTO can draw attention to the need for abolishing or reducing travel formalities that may act as an obstacle to the growth of tourist traffic.

In developing countries, government has a vital role to develop the tourism sector. This is because the private sector is small and also lacks financial, managerial and technical experience to seize the opportunity to develop this sector. Therefore, government has set up an organisation to develop and promote domestic and international tourism.

Tourism involves a number of considerations that are non-economic in nature such as culture, aesthetic, social and political implications. These considerations, however, are simply a few of many alternatives among which the government must choose in deciding the objectives for which it intends to allocate its budget. These are primarily social objectives and must be costed, therefore, the determination of how much of the national resources should be devoted to them is essentially a matter of social policy.

In order to evaluate, however, it is necessary to look to the objectives and nature of tourism in a country. The NTO's role is concerned with growth and maximising tourism's contribution to economic and social development. It is important that in formulating tourism policy, NTO's should clarify their thinking as to the objectives of tourism development. Therefore, to evaluate NTO's polices it is necessary to determine the economic and social conditions of tourism in the country (see chapter 3).

Proper criteria, however, should be used which are normally different from those used to evaluate profit-making enterprises in the tourism sector (see chapter 6, section an non-financial criteria).

5.2.3 Objectives of performance evaluation

The immediate objective of performance evaluation is to differentiate and rank tourism enterprises in terms of their achievements. Other objectives might be stated as follows (see Glautier and Underdown, 1986:705):

1. to assess how effectively the responsibilities assigned to tourism enterprises have been carried out from the quantitative point of view,

2. to identify areas where corrective action should be taken,

3. to ensure that managers are motivated* towards organisational goals, and

4. to enable comparisons to be made between the performance of different sectors of an organisation and to discover areas where improvement may be made.

It seems from the above that the ultimate objective of the tourism sector is to suitably combine the environmental and managerial resources of tourism enterprises with other productive resources to obtain the development of tourism (desired objectives). This provides a basis for maintaining the efficiency level of enterprise, or improving its performance, or improving the performance of other enterprises through comparison.

5.3 Levels of analysis of performance evaluation

The study of Grimwood and Tomkins (1986:251-272) might be regarded as a useful framework for examining the progress of the firm, which suggests three levels of the analysis of performance:

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* As far as tourism enterprise is concerned, a manager will be motivated into carrying out the duties assigned to him in order to achieve his goals. However, financial rewards are important in motivating managers and staff to strive towards these goals. Thus, measurement of motivation is very difficult and depend on the plan and objectives.

Level 1; Financial and Compliance:

An examination of financial transactions, accounts and reports, including an evaluation of compliance with applicable laws and regulation (purpose: an evaluation whether operations and resources are properly accounted for and presented in reports and whether legal requirements are being met).

Level 2; Economy and efficiency:

A review of efficiency and economy in the use of resources (purpose: to evaluate whether the management operates with due regard to conserving its monetary, property and human resources).

Level 3; Plan results (or Budgetary control):

A review to determine whether desired results or objectives are being achieved (purpose: to evaluate the extent to which statutory or other goals are being achieved and whether alternative methods of operation - i.e. foreign management - should be considered).

An important point which arises here is the quality audit of the service activities from the customer's point of view (more details about quality audit see chapter 6). The purpose of the quality audit is to get the best situation and to achieve the desired objectives or results

which traditional financial statements may obscure.

It might be useful to add to the above levels another which is relevant to management information systems and might be considered as level 4 of the analysis. While Henderson (1980) has noted that "all performance evaluation systems must take into account consideration of government requirements and a number of other external factors. Validity and reliability issues must be faced at each step in system design and development".

5.4 Features of performance evaluation

The study of performance evaluation related to tourism enterprises needs to include the following features:

1. The kinds of indicators which can be used in conducting performance evaluation such as single indicator, multiple indicators, or composite indicators.
2. The method of forming these indicators can be accounting, non-accounting or both.
3. The source of these indicators can be internal, external or both. Also, international sources of indicators will be considered.

Two major comparisons will be taken into account in conducting performance evaluation of tourism enterprises:

- the performance of the same enterprise in previous periods, and,
- the performance of similar enterprises operating in the tourism sector.

4. The level of conducting performance evaluation such as at departmental level or enterprise level.

5.5 Challenges of performance evaluation

In general, the main challenges to performance evaluation of public service might be summarised as follows (see Carley, 1988:4-5):

1. unresolved political and professional debates over the appropriate role of services, that is, how best to respond to perceived needs;
2. conflicting and sometimes irreconcilable expectations and demands on service by various client groups;
3. endemic resource constraints; and,
4. methodological problems in quantifying objectives and measuring performance in meeting objectives.

5.6 The unified accounting system (UAS)

In practice, accounting information is not only required for tax purposes and financial reporting but also, with other information, for planning, control and

decision-making. These could be at the enterprise, sector and economy levels. Accordingly the UAS has being created to meet those needs in Iraq.

5.6.1 Background of UAS

Prior to 1978, there were five or six unified sectorial accounting systems applied in ministries such as Trade, Industry, Oil and Agriculture (see UAS, 1985:9). The above systems were designed in accordance with the speciality of each sector. Therefore, different treatments and terminology, and moreover many opinions, in particular at the time of balance sheet preparation, resulted. This means many systems were practised instead of one UAS. The government was not convinced of the value of those unified systems because of their producing irrelevant information for the economic planner and controller.

A special committee was set up according to resolutions issued by government. The duty of this committee was to develop a UAS which was to be prepared and introduced within three years. Therefore, the UAS became compulsory for all the enterprises in the public sector in Iraq (i.e. including tourism enterprises).

5.6.2 Objectives of UAS

The UAS seeks to achieve the following objectives (UAS, 1985:11):

1. To facilitate the classification and sorting of accounting information by enterprises and state-owned organisations, so that they can supply the data required by different parties at the appropriate time. The data supplied by each organisation would be reported in standard format and in terms of standard treatment.
2. To provide the necessary accounting information for planning and control at all levels of the economy.
3. To help link financial accounting with national accounting in order to prepare figures of Gross National Product and other statistical data which are required for analysing the economy and controlling its direction.

The UAS has been designed through a concern for standardisation of accounting principles, methods and practices in sectors. It has been introduced on the following basis:

1. A unified financial year: starting on 1st January and ending on 31st December.
2. A standard code of accounts.
3. A standard format for financial statements and final accounts.

4. Standard principles, concepts, terminologies and definitions.
5. Standard principles of assets' valuation and depreciation (see appendices 2 and 3).
6. Standard accounts for reserves and provisions.
7. Standard budgets.

Theoretically, the UAS is more in the nature of an accountancy guide as is shown above.

5.6.3 Characteristics of UAS

The main characteristics of UAS are:

1. Comprehensiveness:
   - Comprehensive to all public sector enterprises (profit making enterprises, e.g. tourism enterprises. SOT is not included because it used another system called governmental accounting which applied to all non-profit making organisations).
   - Comprehensive to all capital expenditures irrespective of financing sources.
   - It rearranges the traditional financial accounts, costing and national accounting in order to provide the relevant data for planning and control, with particular reference to these accounts:
     . salaries and wages,

. interests and rents of lands,

. depreciation, and,

. transformation expenses (which mean any expenses spend by the unit without getting anything e.g. pension, landing expenses, bad debts, contribution, etc.).

2. Flexibility and simplicity in practice:

The UAS has been prepared in such away as to be simple and flexible in order to provide the relevant information to the national accountant and to planning and control bodies.

- Data taken from out side the system is available to provide some statistical information to different departments which they need, for example customs duty paid.
- It is possible to prepare statistical schedules as an appendix, in order to serve the requirements of the national planners, controllers and decision-makers.
- Accrual accounting methods are used during the financial year.

5.6.4 The accounts code

The accounts code is the key to the accounting system and its construction will affect the extent and type of information that can subsequently be extracted

conveniently from the books. Therefore, great care was given during the design of UAS to the financial classification. Other classification, e.g. cost accounting, were left to the enterprise to design what is most suitable to its operation.

The code of UAS analyses the accounts into nine main classes (1 to 9), and the same is used for sub-classes. These nine classes reflect the classification of financial and cost accounting transactions.

The code of accounts is considered to be the main element of UAS. It is based on "The Statistics and Accounts Code of the Arab League" and "A system of National Accounts of the Statistical Office of the United Nations in 1968". The earlier was developed by the "Expert Committee of Industrial Development Centre of the Arab Countries" in 1967.

The first four classes represent financial accounting. The classes (1 and 2) concern the Balance Sheet, while the classes (3 and 4) concern the Resulting (Operation) Accounts, as shown in tables (5.2 and 5.3) below.

These classes are divided into sub-classes, further sub-classes and may reach six levels (UAS, 1985:17), e.g. the assets account analysis as shown in the following

table.

Table (5.1) Analysis of the Assets Accounts

Accounts	Code and Sub-code
Assets	1.
Fixed assets	1.1.
Lands	1.1.1.
Agriculture lands	1.1.1.1.
Acquisition cost	1.1.1.1.1.
(Blank)	1.1.1.1.1.1.

This analysis is valuable particularly in the accounting records, preparing the set accounts and for statistical purposes.

Table (5.2) Balance Sheet Accounts Framework of UAS

Code	Accounts	Code	Accounts
1.	Assets	2.	Liabilities
1.1.	Fixed assets	2.1.	Capital
1.2.	Project in progress	2.2.	Reserves
1.3.	Inventory	2.3.	Allowances (accumulated dep. provision for bad debts and general)
1.4.	Long-term awards	2.4.	Long-term loans
1.5.	Investments	2.5.	Credit banks (overdraft)
1.6.	Debtors	2.6.	Creditors
1.7.	(Blank)	2.7.	(Blank)
1.8.	Cash	2.8.	Current operation results*
1.9.	Opposite debt accounts	2.9.	Opposite credit accounts

* Remaining balance of profit for the year after deducting 85 per cent of the profit that must be paid to the Ministry of Finance. The balance ultimately is transferred to Reserves.

Table(5.3) Resulting Accounts (or Profit and Loss Account)

Code	Accounts	Code	Accounts
3.	Uses	4.	Revenues
3.1.	Salaries & wages	4.1.	Rev. from manufacturing activities
3.2.	Commodity input	4.2.	Rev. from commercial activities
3.3.	Non-commodity input	4.3.	Rev. from service supplied
3.4.	Contracts & services	4.4.	Rev. from work with others
3.5.	Goods for sale	4.5.	Rev. from internal manuf. assets
3.6.	Interest & rents	4.6.	Interest & rents
3.7.	Depreciation	4.7.	Subsidies
3.8.	Transformation expenses	4.8.	Transformation revenues
3.9.	Other expenses	4.9.	Other revenues

The last five classes (5 to 9) are for management and cost analysis purposes, but the UAS does not, however, specify how departmental or product cost are to be calculated. The structure of costing system is left to each organisation.

Code*	Sets
5.	Production Centres Control
6.	Production Services Centres Control
7.	Marketing Services Centres Control
8.	Administration Services Centres Control
9.	Capital Operation Centres Control

* No further subclasses are given to the above sets.

5.6.5 The importance of UAS to tourism

The UAS is relevant to tourism for this study because:

1. It provides financial data, as a main source of financial information, which are necessary for the purpose of evaluating the financial performance of tourism enterprises.
2. It has been applied by tourism enterprises according to a government resolution. Therefore, it became compulsory, as well as for other enterprises in the public sector, irrespective of being suitable to these enterprise or not.
3- It covers the financial transactions of tourism enterprises and data is supplied according to the standard code of accounts.

5.6.6 The weaknesses of the UAS

The UAS is regarded as an accounting information system for the state-owned firms including tourism enterprises. It contains information of several levels such as the main accounts and their subgroups. It does not satisfy all information needs on which to plan, control or evaluate performance. Other Information will be helpful.

i. The UAS does not reflect fully the economic objectives set by government, such as in the field of tourism, better

communication, foreign currency, employment, etc.

ii. Accounting figures, therefore, do not reflect wider and longer term relationship within tourism.

iii. These deficiencies of the UAS would to some extent be compensated for by statistical and market information on tourism. This might be available promptly in contrast to the UAS reports which may be two or more years delayed. Statistics are, therefore, brought in to help where financial reporting is dilatory. This could benefit plans and development at both entity and national levels. In other words, data collection becomes a crucial problem of the accounting system for the planners. UAS in itself is unable to stimulate efforts to overcome these deficiencies and to develop the necessary information.

We need, therefore, to adopt additionally the tourism accounting system suggested by W.T.O. to be combined with UAS. The system has the same characteristics, as shown in appendix (4).

5.7 The state of performance evaluation and the needs for specific criteria

Tourism enterprises have become important tools of social and economic policy in Iraq. The use of tourism enterprises as a tool of public policy and the resulting conflicts between these enterprises and private firms on the one hand and government and other controllers on the

other, are causing concern. For example, State Organisation of Tourism (SOT), as the NTO, could use its influence on banks through government. Hence, specific criteria for loans could be applied to private companies in the tourism sector different from normal criteria which the bank needs such as profit, assets, debts...etc. This may not be acceptable by some private firms, therefore it can create a conflict. Another example, when SOT wants private firms to invest in specific areas, this might create a problem about the infrastructure in the area or what kind of investment incentives could be offered.

Performance indicators, therefore, can play an important role in management accounting and in financial reporting of any tourism enterprise. Thus, this section will divide into two headings.

5.7.1 The situation of performance evaluation of the tourism sector in Iraq

In Iraq, each state organisation, which is responsible for controlling a number of enterprises, evaluates the performance of its affiliated enterprises (i.e. the State Organisation of Tourism) through the investigation of certain criteria such as profit, volume of sales, return on capital employed, etc. In practice, however, performance evaluation reports, which usually

contain criteria, have a limited use and often are either disregarded by the management or the ministry or not done at all. Indeed these deficiencies in planning and evaluation are bound to affect the development of these organisations and their affiliated enterprises. In the tourism sector the state-owned enterprises were to play a particularly dominant role in order to encourage tourism activities, and to achieve objectives set up by the government such as social and economic objectives (e.g. improve amenity, lifestyle and saving foreign currency) and to acquaint the people of the world with Iraq's past and present.

The issues relating to performance evaluation were still very limited in the tourism sector, and no formal framework has been developed to systematically measure the performance of these enterprises, despite a number of attempts concerning their structure, were carried out several times. It is not easy to examine these previous attempts (because there are too many).

However, as there is no proper system to measure performance, this may result that inefficiencies are hidden further by the existence of other factors such as:

1. the ambitious governmental development programme which enables these enterprises to receive large financial

resources, which are sometimes greater than their actual needs;

2. the possibility of the state enterprise management transferring funds from one item in its estimated budget to another. Therefore, this procedure will influence negatively the development of the planning and estimation process, and indeed may encourage some defects in the financial management;

3. the unsystematic intervention of higher authorities in the process of planning and operation of the economic unit, even after the budget was agreed, obstructs any attempt to establish a proper evaluation system.

Although most of the state organisations avoided evaluating the performance of their affiliated enterprises, some reports of performance evaluation were carried out by individual enterprises and were presented to state organisations which awards compensations and benefits to the managers and the staff for their achievement of the plan. These evaluations were characterised by the following insufficiencies:

1. most of the indicators of performance were given to the manager in advance, and as a state enterprise is a monopoly it could achieve its financial objectives simply by raising prices, e.g. particularly in domestic tourism.

2. neither economic nor social evaluation was done at all,

with only concentration on financial evaluation.

Another stage for performance evaluation was done by the students at universities as a part of their studies. Most of these studies were concentrated in the industrial sector, while a few researchers were interested and tried to focus on the performance of state enterprises at the macro level, e.g. the Institute of National Studies.

In 1985, the Diwan of Financial Control (or the Board of Supreme Audit) had completed the first serious work on performance evaluation of state-owned enterprises. More than 200 state organisations and their affiliates have been investigated (including tourism enterprises). In the process of analysing the complex interaction of political and economic variables involved in the creation and operation of state enterprises, D.F.C. looked at how these state organisations and their affiliated enterprises were doing in terms of popular criteria such as profit, financial ratios, production capacities, etc. All the reports of performance evaluation must be compared over not less than three years to show and explain the failure or success of their plans. DFC did not specifically develop any performance criteria, or mathematical model and did not attempt to measure the performance of enterprises and rank them accordingly. Despite the limitations, DFC's work was regarded as an important step

in the domain of performance evaluation to all economic sectors in Iraq.

5.7.2 The importance of specific indicators for performance evaluation

A number of ratios can be drawn from financial reports. The profusion of information or ratios can become confusing and may be interpreted in different ways. The absence, therefore, of any well specified performance indicators will lead to confusion and render meaningless the term performance. For example, a tourism enterprise may have a high level of profitability, but at the same time is in a bad situation concerning its liquidity. The problem is then to decide what weight to attach to each of the variables. This might be interpreted in different way, one would regard the profit as an important achievement, while the other could concentrate on the bad liquidity and attempt to decry this situation by saying that the enterprise might not be able to carry on its activities in the future, and so on. The situation becomes more complicated if non-financial indicators are taken into account.

This need to assess enterprise performance has also been felt by financial researchers. Many articles suggesting different criteria of enterprise performance

have been published in the accounting and other journals, i.e. financial, tourism, etc. This will be explained in detail in the next chapter. These studies, however, can be classified into three categories:

1. Single indicator.
2. Set or multiple indicators.
3.Composite indicators.

Having the performance criteria in advance will minimise the degree of such subjective and often confused judgement. If the managers knows the objectives of their enterprises clearly they are indeed required to move towards them, and their achievement can be objectively measured, while the absence of preconcerted criteria could help other managers whom failed to achieve their plans to look for several excuses. This often subject to costly and wrong decisions concerning their activities.

5.8 Summary

In this chapter the following points have been considered:

1. The meaning of performance evaluation including the definition, its objectives, and the levels of analysis.

2. The unified accounting system as a major part of financial data. Also an explanation to its objectives, characteristics, the code, and its weaknesses. It was suggested that a special accounting system should be applied to tourism enterprises to overcome its deficiencies.

3. The need for specific criteria and the situation of performance evaluation of tourism sector in Iraq.

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CHAPTER (6)

PERFORMANCE EVALUATION - INDICATORS

Chapter 6

Performance Evaluation - Indicators

6.1 Introduction

There has been an increase in monitoring the performance of different parts of the public sector through quantitative performance indicators. In general, performance evaluation of enterprises has been represented by both financial and non-financial criteria.

Witt and Moutinho (1989:151) have noted that "accounting and operating expenses ratios are friendly barometers of how a tourist business is doing". However, more measures have been introduced in analysing the data available from published accounts. Measures of company solvency were used by Taffler(1983). Dambolena and Khoury(1980) generalised the use of stability measures to the entire set of ratios employed in representing company financial profiles. Measures of assets decomposition associated with structural changes were used by Lev(1974) to predict bankruptcy. Recently some academic studies were carried out related to measuring financial performance, such as, Hart(1982); Belhoul(1983); Husain(1988); and Babaei(1988).

However, from the few studies listed above we can conclude that even though ratio analysis remains the centre of any performance evaluation analysis, other measures (non-financial) can complement and reinforce it.

The purpose of this chapter is as follows:

1- To review the literature on performance evaluation.
2- To choose suitable indicators for measurement of the performance of tourism enterprises.
3- To direct attention towards the quality audit as a best evaluation procedure of tourism services.

6.2 Literature review of performance indicators:

Many groups are interested in the performance of tourism enterprises. Performance indicators may be developed from the point of view of the information needs of different groups. Among these groups the most important are:

1-The governments / owners.
2-The management.
3-The employees.
4-The consumers.
5-The banks / creditors.
6-Other.

However, each of the above groups may have different

interests and will certainly appraise the performance of the enterprise according to its own interest. For example, governments are interested in a wide range of aspects of micro and macro-economic performance (e.g. levels of prices, employment and investment) as well as non-financial measures of performance. The owners would show more interest in the return for their invested capital. Therefore, return on shareholders fund and dividend paid will be their criteria of performance.

Management are interested in profitability, achievement of their plans and a well balanced financial structure; employees are interested in remuneration, security, condition of employment and future prospects.

The consumers are interested in price, quality and availability of the services. But, the creditors or banks look for a specific criteria which are related to the ability of the firm to pay-back loans. In other words, solvency and the level of profitability would be their criteria for evaluating performance which clearly reflected the ability of enterprises for repayment of loans.

Finally, other groups may show their interest in the performance, i.e., the society as a whole. Its interest criteria may be related to bringing the maximum benefits

to the community (e.g., employment, higher standard of living, etc.) at a minimum social cost, such as, pollution, stresses on the community, etc. These social criteria are very difficult to measure, therefore, to keep the study manageable we shall leave them to further studies.

Many researchers have attempted to measure performance by using different methods. These methods suggested different criteria of performance evaluation. However, as one of the objectives of this study is to select criteria that can be acceptable to most of the groups, therefore, we will discuss them according to classification which is the financial and non-financial criteria. But before turning to that classification, let us first consider these types of methods of performance indicators.

6.2.1 Types of indicators:

Different methods to measure performance have been used by researchers. These methods can be classified into three categories :

6.2.1.1 Single indicator and measures of growth

Despite the researchers following this method using an indicator which reflects the performance in one

particular aspect of the enterprise only, they still debate on whether to use value added instead of profit related ratios (see Ball, 1968; Beattie, 1970; Belhoul, 1983, and Emmanel and Otley, 1986). The single ratio as a mean of evaluating performance is very common practice among managers, and normally accompanied by some measures of growth.

Belhoul (1983:5) has noted that some researchers recommended the selection of specific financial ratios and then compare them to those of other firms in order to identify the areas of weakness or strength.

The main problem faced by this method is that no single indicator can reflect every aspect of the performance of enterprise. Emmanuel and Otley (1986:25) have mentioned that," A single performance measure is initially used, but is seen as increasingly inadequate as a representation of overall performance". These analyses often result in conflicting signals being emitted by the different financial ratios considered. Some may indicate areas of strength while others may indicate the opposite.

6.2.1.2 Multiple indicators

Followers of this method consider different aspects of enterprise operations, therefore, the purpose of this

method is to overcome the problem related to a single indicator. Husain (1988:58) points, "advocates of multiple indicators think that no single indicator adequately captures the complexities of corporate existence; nor are various aspects of enterprise life amenable to quantification". However, multiple indicators allow the controlling authority to exploit the strength and to take necessary action at the weak points. This means that multiple indicators promote competition among internal departments of an enterprise and remedial measures may be initiated for weaker departments. But that does not leave this method without any criticism. These are(see Husain, 1988:61):

1- This method often violate the basic principle of accounting that, each relevant item should be counted at least once and at most once.

2- The difficulty in quantifying each of the indicators and, also no precise comparison of enterprise performance is possible with this class of indicators.

6.2.1.3 Composite indicator

Emmanuel and Otley(1986:26) have defined composite indicator as, "that performance measure which is constructed by weighting the multiple measures and

combining them into a single overall measure". The composite indicator concentrates the interaction of several variables into a single number, it has a more complex structure than the other two varieties of indicators. However, Emmanuel and Otley(1986:26) have noted that, "even if the composite indicator initially represents an acceptable approximation, the relative priority of goals will change over time and other goals will be added, so that the composite indicator become subject to the same pressure as the original single indicator". Another problem faced by this method is, composite indicators are difficult to formulate, but they have a much wider coverage. It is ideally suited for performance evaluation of productive units (see Husain, 1988:63).

Therefore, the failure of the composite indicator to be sufficiently comprehensive is more dangerous than the failure of single indicators because no one has any illusion about the narrow coverage of the single indicators, but the composite indicator, by definition, gives the impression of being complete.

Despite the criticisms of multiple indicators, it is strongly favoured to use this method for tourism enterprises, both in financial and non-financial evaluations for the following reasons:

1- Multiple indicators covers a wide area of enterprise's activities. Also, they give a more comprehensive view of the enterprise services.

2- Multiple indicators, by explicity recognising the interdepartmental (intra-firm) differences in performance, promote competition among internal departments of an enterprise. This opportunity may be lost through choosing a single indicator.

6.2.2 The nature of performance indicators

Studying different areas of the tourism sector, such as, hotels and catering industry, transport, leisure projects, etc., reveals that much attention is required to identify and relate their performance indicators according to the nature of activities. For example, an airline company, specially British Airways, has made long term and continuing efforts to generate performance indicators, for instance, level of service, regularity and punctuality, in addition to financial measures.

Perks and Glendinning (1981:23) claimed that, "in general it is probably undesirable to allow management to select for themselves the criteria by which they are assessed - especially if they are in a position to change these criteria from year to year so as to highlight the more favourable aspects of their performance". In

contrast, Hornsey and Dann (1984:137) reviewed that "the management may wish to use measures and indicators of efficiency produced solely within their own organisation over a period to assist in the monitoring of the effects of change and innovation". But Redfern (1986:13) has noted that "the identification of indicators of service activities is necessary if management is to be able to analyse the situation, but the description of "what is", is not substitute for deciding what "should be". The one may quite reasonably precede the other and is helpful in part in monitoring activities". In short, the differences in approach and coverage by different industries shows that there were very different interpretation on what was meant by performance, even taking into account the differences in the nature of the activities.

However, there is a need for a minimum data for those looking for options in resources allocation and stresses the need for indicators to be relevant to the service as generally operated . For example, when a successful tourism project becomes established, the construction of additional facilities often take place. Thus, further economic stimulation results from well planned and managed tourism projects (see McIntosh, 1973:4).

Jowet and Rothwell in their study show the classification of the framework for performance indicators, related

to the White Paper 1978, and represented both financial and non-financial indicators. The indicators in the classfication (as shown below) could be related to profit-making enterprises e.g., Iraqi Airways. Performance indicators might be used as alarm signals for an enterprise. Thus, in order to fulfil this role, there is a need to build performance indicators in an explicit way.

For international comparison: In general, the validity of comparison may be affected by such factors as the different accounting policies (e.g. different accounting systems applied, different depreciation methods and rates, and valuation of assets), which normally provide different figures. But such comparisons can be achieved by, for example, airline companies or multinational hotels through non-financial figures to see the performance of these enterprises. These comparison may provide much useful and interesting information, despite the limitations of the validity of such comparisons; the results have to be interpreted with care. The differences revealed may be due to the efficiency of management or other factors.

The Classification of the Framework for performance indicators, White Paper, 1978

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i- Financial target:

The factors influencing this will include the expected return from effective cost - conscious management of existing and new assets ; market prospects ; the opportunity cost of capital ; the implications for the public sector borrowing requirement ; counter-inflation policy; and social or sectoral objective - for example, the transport industry.

ii- Real rate of return (RRR):

A RRR of 5 per cent before tax on new investment for an industry as a whole. This was fixed by reference to levels of pre-tax returns achieved by private companies.

iii- Non-fiancial performance indicators:

To enable the public to be better informed on the industries' success in controlling costs and increasing efficiency.

Source: Adopted from Jowett and Rothwell ,1988 :87

6.3 Framework of indicators of tourism enterprise performance

6.3.1 Financial ratios classification:

Review of the financial literature indicates that no authoritative source on the utilisation of specific financial ratios can be found. Although financial ratios have been extensively used, generalisation of the results of previous studies has not been possible due to a lack of understanding of financial ratios inter-relationships and the specificity of the phenomena under study.

The major objective of financial ratios analysis is to reduce the large number of financial statements items to a number of measures, therefore, to facilitate the interpretation of financial statements. For example, the White Paper (1978) in the U.K. recommended the introduction of performance indicators in the following terms,"The government has ....asked each industry...to select a number of key performance indicators, including valid international comparisons, and to publish them prominently in their annual reports. They would be supported by an explanation of why they had been choosen and of significant trends....." (see Likierman, 1979; Perks and Glendinning, 1981; and Jowett and Rothwell, 1988). However, publish performance indicators provides an

opportunity for the people outside an enterprise, and enables them, to evaluate the position of that enterprise. The data from published accounts are not, in themselves, very indicative of enterprises' financial characteristics, except for their size. This is because of the fact that financial statements items are expressed in absolute values.

In general, financial ratios can be classified in two ways. The classification can be;

i- either by the source of data which is as follows:

1- Balance sheet ratios.

2- Resulting accounts (profit and loss account) ratios.

3- Mixed ratios.

The last category consists of ratios whose numerator and denominator are derived from different sources (e.g. net profit to total assets). However, this classification faces the main obstacle that it does not indicate which financial dimensions are investigated.

ii- or, they are classified according to the different economic aspects of the firms' operations (Lev,1974):

1- Profitability ratios.

2- Short-term solvency ratios.

3- Long-term solvency ratios.

4- Efficiency (turnover) ratios.

This classification is oriented to the needs of users; e.g. management will be mainly concerned with profitability ratios, lenders with solvency ratios, and so on.

This classification presents the usefulness of clearly defining four financial dimensions. But it has been challenged, and new dimensions have been found to be measured by financial ratios (see Courtis, 1987, his framework illustrated in figure 6-1 , below).

In choosing financial ratios for investigation we must ensure that the chosen set covers all the aspects of the firm. It is generally argued in the financial literature that items in the numerator and the denominator should be logically related

Three kinds of logical relationship have been reviewed by Lev (1974:34):

1- Ratios should relate matching components, such as, profit to capital. In other words , it is an economic relationship between the two values.

2- Ratios should be formed only from elements based on common values. For example, inventory should be related to cost of sales as they are valued at cost.

3- Ratios should be formed only if the components are functionally related, this means, the ratio components should vary in the same fashion. For example, the usefulness of the ratio of net profit to sale was questioned because the fixed expenses do not vary with sale.

However, he found these criteria inadequate because:

i- the requirement for an economic relationship between ratio components is self-evident;

ii- the need for common value-basis of ratio components is logically unsupported ; and,

iii- the relationship to be investigated is not only between the numerator and denominator of ratio, but between the ratio and some other economic indicator.

If any financial dimension is not considered the overall conclusions will not be reliable, because the ratio profile is not complete. In private sector profitability (i.e. return on capital employed) is generally seen as the primary ratio and further

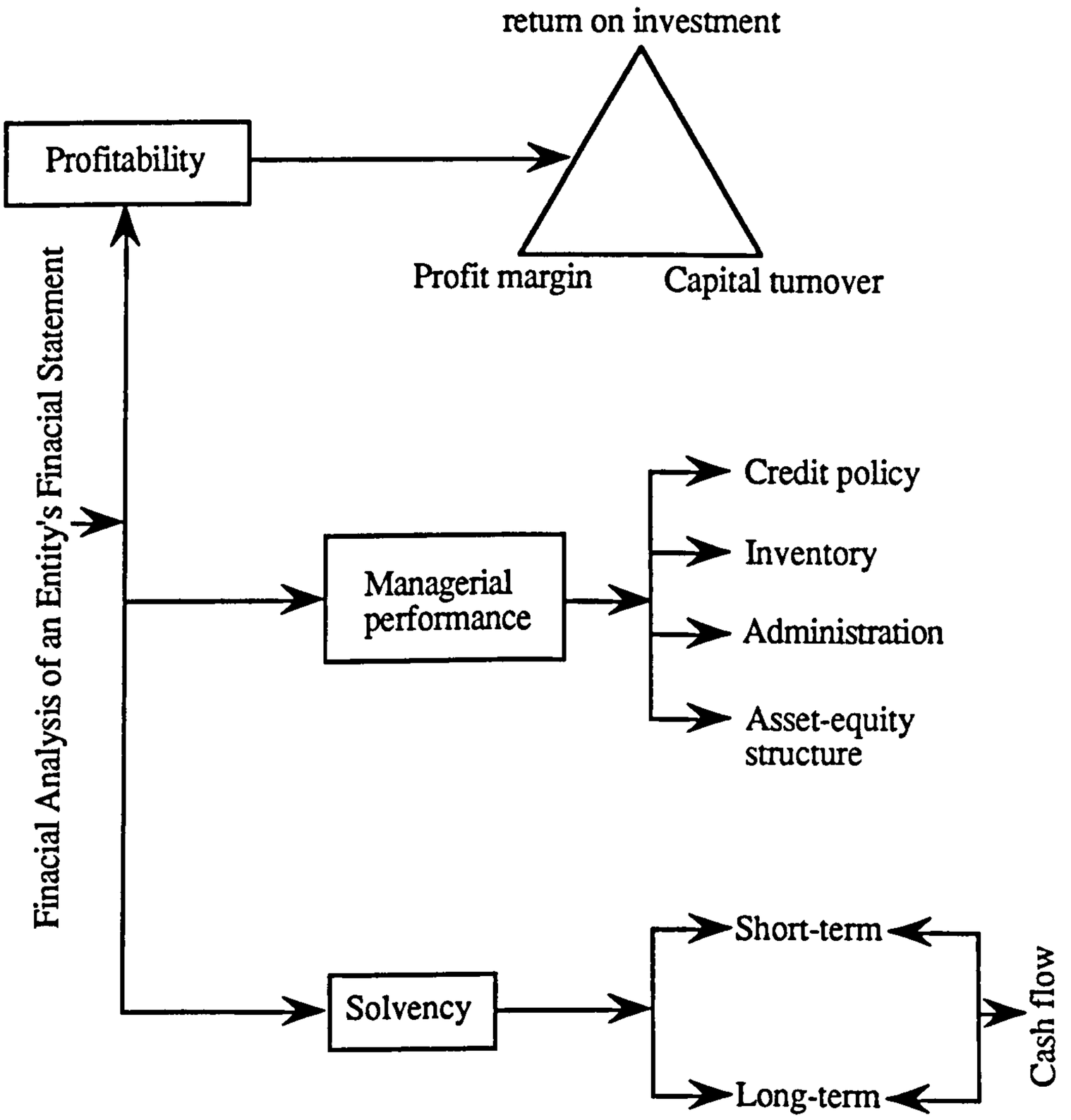


Figure (6-1) Finacial ratios categoric framework developed by J. Courtis/ 1978

explanatory ratios contribute to it. In the public sector profitability may be incomplete and potentially misleading measure of performance, but the explanatory ratios which contribute to it may provide useful indicators.

One of the earlier efforts to identify these ratios, as previously mentioned, was prepared by Courtis (1978). Identification of financial ratios which have been found to be more significant are summarised below:

1- Profitability ratios.

2- Managerial performance ratios.

3- Solvency ratios.

In general, when the aim of an enterprise is primarily economic, to make profit or at least breakeven - performance indicators will be ancillary to profitability measure. Performance indicators are likely to be useful in management accounting where they either; (Perks and Glendinning, 1981:23):

i- explain changes in profitability, or,

ii- assess aspects of performance which are deemed to be important although they do not affect profit-ability.

6.3.1.1 Profitability ratios

Profitability ratios are designed for the evaluation of the firm's operational performance. The numerator of the ratios consists of periodic profits, while the denominator represents the investment. The ratios thus yield an indicator of the firm's efficiency in using the capital committed by investors and lenders. In other words, it measures management's overall effectiveness as shown by the profit generated on sales and investment. The following ratios are widely used for this group:

A- Return on investment:

1- Net profit to total assets.

2- Net profit to net worth (equity).

3- Net profit to working capital.

4- Earnings Per Share (EPS).

5- EPS to price per share.

6- Earning Before Interest and Taxes (EBIT) to total assets.

7- Net profit minus preference dividends to common Ordinary Equity (OE).

8- Gross profit to total assets.

9- Dividends to net profit.

10- Dividends to cash flow.

11- Dividends per share.

12- Net profit to total debt.

B- Profit margin:

13- Net profit to sales.

14- Gross profit to sales.

C- Capital turnover:

15- Sales to total assets.

16- Sales to net worth.

17- Sales to working capital.

18- Sales to fixed assets.

6.3.1.2 Managerial performance ratios

"Although it may be argued that all ratios in some way help to assess the efficiency of management's actions, there are specific management functions which can be investigated directly by ratios" (Courtis ,1978:380). However, this area is a new concept in ratio classification and is rarely mentioned in the financial literature. They includes the following:

A. Credit policy:

19- Accounts receivable to average sales per day.

20- Sales to accounts receivable.

21- Accounts payable to average purchases per day.

B. Inventory:

22- Sales to inventory.

23- Inventory to current assets.

24- Inventory to total assets.

25- Inventory to working capital.

26- Cost of sales to average goods inventory.

27- Current liabilities to inventory.

28- Days in period to inventory turnover.

C. Administration:

29- Operating expenses plus cost of sales to sales.

30- Operating expenses to gross margin.

31- Cost of sales to sales.

32- Operating expenses to total assets.

D. Asset-equity structure:

33- Debt to working capital.

34- Current liabilities to working capital.

35- Each current assets to total assets.

36- Net worth to total assets.

37- Fixed assets to net worth.

38- Fixed assets to debt.

39- Fixed assets to total assets.

40- Book value per share.

41- Debt to total debt.

42- Working capital to net worth.

43- Retained earnings to total assets.

44- Total debt plus preferred stock to total assets.

45- Current liabilities to total assets.

46- Retained earning to net profit.

47- Debt to total assets.

6.3.1.3 Solvency ratios

A. Short-term liquidity ratios:

The major objective of these ratios is to indicate the firm's ability to meet its short term obligations. These measures are believed to be of prime interest to short-term lenders such as , banks and suppliers (Lev, 1974:22). This subgroup includes the following ratios:

48- Current assets to current liabilities.

49- Current liabilities to net worth.

50- Working capital to total assets.

51- Cash to total assets.

52- Cash to sales.

53- Quick assets to current liabilities.

54- Cash to current liabilities.

55- Quick assets to total assets.

56- Current assets to total assets.

57- Current assets to sales.

58- Quick assets to sales.

B. Long-term solvency ratios:

The key objective of these ratios is to indicate the firm's ability to meet both the principal and the interest payments on long-term obligation. In other words these ratios measure the extent to which the firm has been financed by debt. It includes the following ratios:

59- Total debt to net worth.

60- Net worth to fixed assets.

61- EBIT to interest.

62- Total debt to total assets.

C. Cash flow ratios:

63- Cash flow to current liabilities.

64- Cash flow to total debt.

65- Cash flow to sales.

66- Cash flow to net worth.

67- Cash flow to total assets.

68- Cash flow to working capital.

Courtis (1978:375) has noted that " for empirical research into the predicative ability of financial ratios has been concerned only with preselected phenomena, for example, specific such as, loan defaults, corporate bankruptcy, corporate rate of return rankings, and corporate take-overs. Generalising the predicative ability of these ratios beyond the context of their specific studies ought to be tempered with caution. Nevertheless, the analyst has available a battery of financial ratios with some experience in filtering corporate financial characteristics".

The above three ratios, profitability, managerial performance, and solvency, will give direct answers to the vital three questions; (see Courtis,1978; Belhoul, 1983; and Babaei, 1988). These questions are:

1- Is the enterprise making any money ?

2- Is the management any good ?

3- Is the enterprise going to stay in business?

6.3.2 Final selection of financial measures:

It seems from above that the number of ratios are very large and not all of these ratios are required for tourism enterprises, because of their specialty in services. Some of the ratios used in special studies, such as, Rogers and Phipps, 1977; Caballero, 1980; Olsen et al, 1983; Witt and Moutinho, 1989. But these studies did not take into account the above classification which is regarded as the best classification to measure the financial performance , and give direct answers to the above questions.

If we consider the previous classification and the ratios required for tourism enterprises, the following selection of ratios can represent the final list of financial ratios that were found useful for these enterprises. Thus, the final list contains a number of ratios under each category as below:

6.3.2.1 Profitability ratios

A. Return on investment:

1- Earning Before Interest and Tax (EBIT) to total assets.
2- Net profit to total assets.
3- Net profit to net worth (total equity)

B. Profit margin:

4- Net profit to sales.

C. Capital turnover:

5- Sales to total assets.

6- Sales to net worth.

7- Sales to working capital.

6.3.2.2 Managerial performance ratios

A. Credit policy:

8- Sales to accounts receivable.

B. Inventory:

9- Inventory turnover rate = cost of sales to average inventory.

10- Inventory to working capital.

11- Inventory to revenue.

C. Administration:

12- Operating expenses to total assets.

13- Cost of sales to sales.

D. Asset-equity structure:

14- Net worth to total assets.

15- Debt to working capital.

16- Fixed assets to net worth.

17- Fixed assets to total assets.

18- Working capital to revenue.

6.3.2.3 Solvency ratios

A. Short-term liquidity ratios:

19- Current assets to current liabilities.

20- Working capital to total assets.

21- Quick assets to current liabilities.

B. Long-term solvency ratios:

22- Total debt to net worth.

C. Cash flow ratios:

23- Cash flow to current liabilities.

24- Cash flow to total assets.

25- Cash flow to working capital.

The following is a classification of the above ratios.

Classification of final selection of financial ratios

I- profitability:

ROI=Return on investment.
PM=Profit margin
CT=Capital turnover
R=Ratios

(A) ROI
- R1 EBIT/TA
- R2 NP/TA
- R3 NP/NW

(B) PM
- R4 NP/Sales

(C) CT
- R5 Sales/TA
- R6 Sales/NW
- R7 Sales/WC

II-Managerial performance:

CP=Credit policy
Inv.=Inventory
Adm.=Administration
AES=Assets-equity structure

(A) CP
- R8 Sales/Acc.Rec.

(B) Inv.
- R9 Inv.TR=C. of sales/ave.inv.
- R10 Inv./WC
- R11 Inv./Rev.

(C) Adm.
- R12 Op.Exp./TA
- R13 C.of sales/sales

(D) AES
- R14 NW/TA
- R15 Debt/WC
- R16 FA/NW
- R17 FA/TA
- R18 WC/Rev.

III- Solvency

STL=Short-term liquidity
LTS=Long-term solvency
CF=Cash Flow

(A) STL
- R19 CA/CL
- R20 WC/TA
- R21 Quick A/CL

(B) LTS
- R22 T debt/NW

(C) CF
- R23 CF/CL
- R24 CF/TA
- R25 CF/WC

For a public tourism enterprise and for its wider social objectives, it is necessary to consider the non-financial indicators as well as financial indicators. Perks and Glendinning (1981:22) says," Given their wider social responsibilities and the use governments make of them in carrying out macro-economic policies (both of which are likely to conflict with profitability) it is unsatisfactory to assess their performance solely or even mainly in terms of profitability....it is important to get away from the idea that it is possible to encapsulate an industry's performance as a whole in a single figure for profitability. This is especially true in an organisation which has a number of different objectives and constraints which it is supposed to attempt to satisfy"

6.3.3 Limitation of financial ratios:

Financial ratios are important to measure the financial situation of tourism enterprises, but they still suffer from some limitations. The following are some of these limitations:

1- They are derived from traditional financial statements, that means from accounting figures. These figures are subject to different interpretation and even to manipulation, because different methods used and different accounting systems applied which provide different

figures, e.g. depreciation methods, valuation of assets and inventory, treatment of research and development expenditures, and bad debt reserves.

2- They are influenced by seasonality and using different standard years when comparison of financial ratios for tourism enterprises have been considered.

3- They reflect information regarding events occurred in the past. This sometimes means that several month's might pass before management thinks to take an action to correct a problem.

4- They do not reflect data which are not quantifiable. In other words, they do not evaluate the relationship between tourism enterprises and their customers, however;

i- They only show that something is wrong, but do not specify what is wrong. For example, the lost sale may not be reflected in the enterprise's financial statements for several additional months.

ii- They do little for the manager in terms of highlighting the problems affecting his customers. This means without an indication of the factors that caused the customer's dissatisfaction, the manager will not know what action to take.

iii- They do not show the influence of intangible assets (e.g. goodwill, trade mark), which are normally omitted, because the value utilised in the tourism project regarding these assets is uncertain.

Therefore, it requires consideration of non-financial measures by studying the evaluation process from the customer's point of view as well as the financial ratios and the traditional financial statements, to achieve the ideal situation, and to overcome the above limitations. Also it helps the managers to solve the problems which faced them.

6.3.4 Non-financial indicators:

Financial results alone can be misleading in appraising how well tourism enterprises are doing. Non-financial performance indicators determined, according to the White Paper (1978) in the U.K., the framework, " to enable the public to be better informed on the industries' success in controlling costs and increasing efficiency" Jowett and Rothwell (1988:87). But this part of the indicators can not easily be reconciled with the others two parts (see the classification of the White Paper above). For example, as Likierman mentioned, if quality of service has to be increased, this may require investment, but such investment may not yield a 5 % (RRR) real rate of return (because a RRR determined of 5 % before tax on new investment for an industry as a whole). Perks and Glendinning (1981:29) have confirmed that," there is also the problem of conflict between standards of service and financial targets. it is usually possible to improve the quality of service at a cost".

Non-financial indicators need to be interpreted with care, specially where profitability is the main objective. Thus, we can say that non-financial indicators have an influence on the results of financial indicators. The exception from this is the monopoly situation because sales revenue can be maintained even though the quality of service deteriorate. Mayston (1986:40) has noted that, "financial targets provide readily measurable objectives, they are ones which may be achievable by simply exploiting the monopoly power of the industry, through either high prices or lower quality of services. Therefore proposed performance indicators as one solution to this problem". However, as public tourism enterprises are publicly owned, it is necessary from the point of view of society (e.g. consumers and the controlling authority) to see whether financial results are being achieved or even whether services are being improved at the expense of financial performance. This can be done through studying financial results and the reasons of that progress (i.e. quality audit and measuring the satisfaction to these services).

Tourism public enterprises are increasingly cognizant of social dimensions of their activities which may act as constraints on the pursuit of profitability, if not as an objective alongside it. However, the quality of service, as a non-financial indicator, may show an improvement although profitability declines. For example, a salesman

may make more calls on customers each day but emphasis on the quantity rather than the quality of such calls could actually result in less profitable sales. Another example, British Airways and British Rail gives information about their improvement of non-financial indicators such as, regularity and punctuality of passengers services, although their financial results were positive and negative in (1978) respectively (see Perks and Glendinning, 1981:23 and 29).

Jowett and Rothwell (1988:92) have cited the case of British Rail's London and South East Commuter Services in 1980. They mentioned that four important criteria have been investigated by the Monopolies and Mergers Commission as follows,"First, it considered the correlation between efficiency and deficiency in the quality of service; second, manpower productivity and the scope for improving efficiency in those areas where manpower saving had already been made; third, the efficiency of the board in adjusting services to match demand; finally, the board's use of investment funds".

However, the overall measure of quality of service may not be possible but there is still further scope for developing appropriate measures of this important aspect of performance. Most measures, therefore, might be used as non-financial indicators for tourism enterprises' services and could be summarised as follows:

1- General level of service:

It can be measured by the number of hotels, rooms, beds, transportation,....etc.

2- Punctuality:

It can be measured by checking the timetables and the frequencies delays.

3- Regularity:

It can be measured by conducting the number of cancellation and timetables.

4- Safety performance:

It can be measured by compare it with other services, (i. e. international airlines), alarms system, fire policy,....etc.

5- Cancellations:

It can be measured by the reasons for these cancellations with a possibility to compare that with similar international services.

6- Tourist information centres:

It can be measured through the number of centres opened to people or tourists, and to the services or calls offered to them.

7- Cleaning performance:

It can be measured by checking the number of complaints for different enterprises.

8- Comfort of the facilities:

It can be measured by checking the capacity and kind of these facilities, and the number of complaints about them.

9- Truth in advertising:

It can be measured by comparing actual services with meeting standards or what suppose to offer.

10- Manpower turnover:

It can be measured by checking the records of employees and required qualifications.

However, it seems clear that tourism enterprises in general require a more efficient means of measuring customer satisfaction. Smith (1987:86) remarks "The only way to identify the customer's requirements is to see it through his eyes. Watch a product/service in use and talk to people about it. Sometimes you have to go to the customers need to understand the requirements fully". Therefore, best measure of non-financial indicators of tourism services is by the quality audit and from the customer's point of view. Thus, the quality audit of the

services is an important tool for improving the performance of tourism enterprises, which should be considered.

6.4 Quality service assessment:

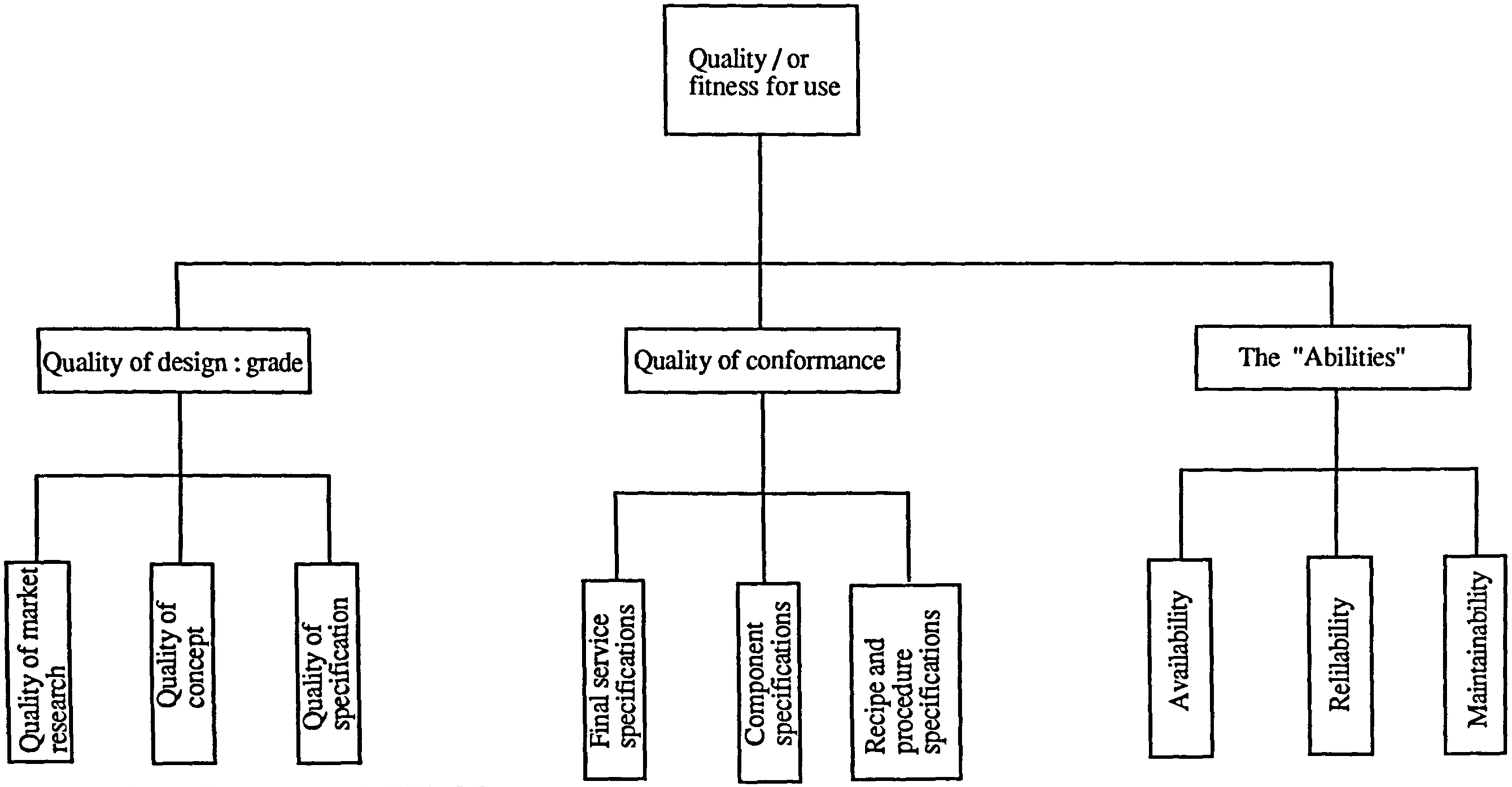
Quality is defined as," the totality of features and characteristics of service that bear on its ability to satisfy a given need" (Stebbing, 1986:4). The term "quality" is subject to some misunderstanding, one may be interpreted according to the properties and the physical performance characteristics of service, while another interpretation may be regarded as the value of service judged by the users. For instance, the quality (or fitness for use) of hospitality service as suggested by Juran and et al (1974) means that a hotel must serve the needs of its guests during the time it is servicing their needs. Thus, the characteristics and feature of a hotel's services must respond to the overall needs and wants of customers in terms of price, accessibility and quality.

Haywood (1983:166) reviewed," the guest determines quality by assessing the features of the hotel that are important to him or how well these features fit pattern of his preference". In other other words, Juran et al (1974:2-10) says," the quality is the entire collection of activities through which we achieve fitness for use, no matter where these activities are performed".

The characteristics of quality are covered very well in many articles, such as, Juran et al (1974); Borth(1982); Haywood(1983); and Stebbing(1986). The researcher, therefore, believes that it is not necessary to go in details through these characteristics, but giving a summary is useful and enough for this research, as shown in figure (6-2). This means the explanation of these characteristics could be a part of further studies.

Haywood (1983:169) has noted," services are performed and consumed simultaneously. Unlike manufacturing businesses that can institute quality control systems during the production process, hotels generally lack this luxury. They can not send back, rework or scrap a defective service. If there is a problem it must be corrected immediately; otherwise the customer will leave unsatisfied". However, as customers are buying services from a firm, then, their satisfaction is derived from performance rather than possession. Service firms, therefore, are evaluated on the basis of their personnel, their skill, knowledge and their ability to make the client feel wanted, important, safe, and comfortable. This means that there are aspects of the service employee's job that can not be standardised. Thus, customer evaluation is based on the ability of the employee to perform a service or correct a problem in a way which is most satisfactory as far as the client is concerned. It is, then,

Figure (6-2) Quality or fitness for use parameters



Source : Adopted from Juran et al, 1974 : 2-9

management's responsibility to ensure the suitable delivery of service by:

i- choosing the best employee for each job,
ii- providing them with good training and knowledge to do their job properly, and,
iii- anticipating any problem from customers before they happen.

For hotel accommodation, guest satisfaction is obtained when expectations are fulfilled by the possession, consumption or use of the hospitality service. As Haywood (1983:170) mentioned, "these factors are vital to the realisation of satisfaction : a customer with expectations, the desired of hotel service, and the fulfilment of expectations". Two kinds of attitudes, for example, can emerge from the point of view of guests when they enter a hotel. The first one is related to prior experience or patronage which is called attitude-based expectations, while the second is referred to a new hotel experience which called expectation-based attitudes.

However, the guest's attitudes are either positive or negative towards the evaluation of these services. Normally, not all customers like to complain by shouting because of such problems. Some management, therefore, prefer to use special comment cards for these complaints.

These cards contain a scale of rating from unsatisfactory to very good of different aspects of services. This means that management have to take an action against very poor or unsatisfactory ratings and correct these problems. But this kind of managerial control suffer from some lack of sufficient information, and also some customers may be overstated in their complaints. In other words, complaint methods used by management have been criticised as shown in the following quotations:

1- Dalats (1977:74) has noted, " complaint or suggestion programmes are inadequate because they only tap the opinions of the most flagrant abuse or the most highly satisfied customers, ... complaint systems also tend to produce negative information with "halo" effects i.e. "every thing's wrong". Thus, the complaint may be only the culmination of other issues which remain hidden, and the relative importance of the issues may also remain unknown. Conversely, suggestion programmes can produce innovative ideas but seldom point out real weakness....even local consumer panels, though helpful, are often unrepresentative and provide subjective feedback, usually only to managers.

2- Cadotte (1979:70-72) has noted the following,

i- "most firms monitor customer satisfaction on the basis of personal contact, customer correspondence,

consumer surveys, and market trends, but these sources have many drawbacks. They often provide unreliable or ambiguous information, and they often generate it so long after the fact that it is of little utility to management".

ii- He added, " although these forms of information allow guests to express their opinions in a prompt and detailed fashion, they represent a very small percentage of all customers. Moreover, they tend to be provided by guests who are highly motivated by either exceptionally good or exceptionally bad performance - and their comments are seldom recorded in any systematic manner".

iii- He added," when guests do complain, most often it is to an employee of the hotel rather than a manager, the complaint often goes no further, and the management has no objective documentation of performance".

It seems from above that the best determination to the level of satisfaction should be achieved by conducting a quality audit of tourism services.

6.5 Quality audit of tourism services:

The quality of services of tourism enterprises differs from one to another. Also, it is difficult to overcome the problems associated with measuring customer evaluation for services offered by these enterprises. These problems relates to:

1- The number of variables in tourism services are very large.
2- The abilities and skills of the management and staff may not be enough to carry out these evaluations.
3- The limitation of time to do these evaluations.
4- The progress of self audit could carry some risk because of the absence of an auditor's independence.

Therefore, a comprehensive auditing programme for the services of tourism enterprises is preferable.

Juran et al (1974:21-6) has defined quality audit as," an independent review conducted to compare some aspect of quality performance with a standard for the performance". This means that the auditor, which is the person who examine or evaluate the services of an enterprise, should be an independent person and not working at that enterprise under investigation. In Iraq, for example, the auditor for tourism enterprises should be

a member of the staff of the Diwan of Financial Control (DFC) and however has at least a higher qualification (Charter degree). They emphasise that, " many failures to meet quality standards are management- initiated, due largely to the problem of meeting multiple standards. Self-audit is known to carry a high risk of repeating its original errors. Audit by one's subordinates carries the risk of suppressing the finding due to dominance by rank".

An important evaluation of the services should be done through the customer's point of view rather than management's point of view because the standards set of management may be different from that by customers, they might be higher or lower. Smith (1987:86) suggested "In order to measure quality, it must be defined ..... a good working definition is 'quality is continually satisfying customer requirements'. This ensures that quality is looked at from the customer's viewpoint: after all, the less a customer perceives a product/service as being of high quality, the less attractive it becomes. Management must understand the customer's requirement and meet them. Management may think it is providing a superb product or service, defined in internal quality terms, e.g. defect rates, but if it does not meet the customer's needs at any time, then it is of little value".

In this context Haywood reviewed that "hotel management does not always see or understand the

dimensions of service that are evaluated by their customers....[they] do not come to the service situation or service entity with the same mind set, problems or needs. Management may even be blinded by its own assessment of the internal systems, processes and the like, feeling that it actually has its finger on the pulse of business. But regardless of how efficient a service system may appear to management, if it victimises customers it is totally dysfunctional" (Haywood,1983:171).

However, when tourism enterprises undertake this kind of audit together with a financial audit, their performance evaluation will be more effective. Normally each enterprise in Iraq, in any sector, must present its financial statements to the DFC. (see appendix 5 of the DFC). But it is not necessary to do the quality audit and evaluate its service. Management of these enterprises may be done by some survey of their services and measure the reaction of customers to these services.

The following is an explanation of the common steps and features of audit to the quality services of tourism enterprises (see Juran,1974; Haywood,1983; Wyckoff,1984; Stebbing,1986; Willborn,1986; Witt and Moutinho,1989).

Step 1: Audit planning and preparation.

Step 2: Audit execution and procedures.

Step 3: Preparation of audit report.

6.5.1 Step 1: Audit planning and preparation:

Since the auditor, whose main qualifications are independence, experience and adequate technical knowledge, has been selected to audit the services of tourism enterprise, co-operation between the auditor and management should be considered to finish this evaluation. Thus, in order to be successful in generating the desired information, audits need to be well prepared and documented in all the stages. In an audit plan the objectives, audit takes, applicable standards, and audit schedules are outlined by the auditor, whereas the audit plan is approved by the manager of the tourism enterprise. Therefore, this step divides to the following:

i- Preparation by tourism enterprise.

ii- Preparation by auditor.

i- Preparation by tourism enterprise:

Management of tourism enterprises must do preparation work before the audit of the services begins. These are the following:

<u>1- Pareto analysis:</u>

This kind of analysis is used by the management to identify major causes of dissatisfaction with the quality

of service of a tourism enterprise. Such information which is provided from performance reports, customers complaints, salesmen reports, safety and liability cases, management observation, etc., can serve to identify the vital quality problems and indicate what may be right or wrong. This analysis usually is done by selecting particular areas of the business which require much attention or suffer from severe problems or being unable to attract more investment. Juran et al (1974:14-4), however, points that, " some of this analysis is made of the alarm signals resulting from specific field failures", while Haywood (1983:172) emphasises that, " since management can only justify improvement expenditure on a few projects, the cost of conducting an audit can then be justified".

Pareto analysis can be shown in different forms such as: accounts, services, processes, defect cost and failure type (see Juran, 1974:16-4,5).

2- The legitimate role:

It is necessary to distinguish between the two kinds of audit, internal and external. If internal, it is clearly authorised by the responsible managers. If conducted externally, it authorised by agreement. This

agreement of external audit, which is relevant to this study, should contain the following:

i- Establishment of the aims or goals of the audit and highlight the reasons for this audit.

ii- The audit should be compared between standard measures (or good practice) and actual practice.

iii- As the audit is external, therefore, auditor should be independent, trained, knowledgeable, and have experience to evaluate the activities under investigation.

iv- It is important to schedule and pin-point or estimate sufficient time in advance to the activities being under evaluation.

v- It should mention in the agreement whether or not the audit to the departments and its activities are being secret or known to the staff.

vi- Finally, a report should be presented to the other partner of the agreement (management), containing the findings and recommendations.

Juran et al (1974:21-8) have noted, " in many companies the internal controls, even though not "independent", are nevertheless highly dependable. As this fact is discovered from independent audits and surveys, the extent of independent auditing can be reduced to take advantage of this dependability".

3- Management-auditor relationship:

This relationship has been governed by the sort of business between the two parties and the co-orporation should cover this relation. Also management should provide enough information or allow the auditors to move easily to those areas to finish its task and evaluate the services in time scheduled for that purposes. However, management should be satisfied with the progress of the auditor according to the agreement between them.

ii- Preparation by auditors:

The purpose of a quality audit to the services of a tourism enterprise is to ensure that these services are in "good practice". The person who carry out this evaluation is called the auditor. Like the financial audit, the enterprise expects the auditor to be independent, qualified and experienced. A quality audit to tourism services is not as simple as may sound. The auditors must have the right background to perform the audit. However, the auditor must do the following before applying the evaluation to tourism enterprise services:

1- Determination of good practices:

The first major step to be considered by the auditor is to determine what is required to comprise "good

practice" from a customer's point of view.

Haywood (1983:172) emphasises that, " before the appropriate methodology can be determined for evaluating service quality the auditor must first adopt an appropriate frame of reference". The reference normally available include (see Juran,1974:21-8):

1- The written policies of the enterprise as they apply to quality.
2- The stated objectives in the budgets, programmes, contracts, etc.
3- The customer and enterprise quality specifications.
4- The published guides for conduct of quality audits.
5- The general literature on auditing.

Witt and Moutinho (1989:348) points that, " Quality standard is a reference value for the economic action of the tourism enterprise".

In short, this means that the auditor must be familiar with the services and facilities of an enterprise. The auditor may consider the services offered by the competitors and this may assist him to identify an appropriate rating system for these services. Also, the auditor should become familiar with the typical events and activities that a typical customer might pursue prior to

or during or after using these services. This required information which management should provide them to the auditor (i.e. type of customers, length of stay , typical activities... etc.).

2- Scheduling audit activities:

Audits of quality services are usually conducted on a programmed scheduled basis, because they consume much time not only of the auditor but also the managers. Therefore, it is required from the auditor to allocate enough time of his daily work to build his own experience for a particular services as a customer, and to evaluate these services from the customer's point of view simultaneously. In other words, enough time should be given to check the activities and to be familiar with the services as a user. In addition, consideration should be given to such factors as: (see Juran et al,1974:21-9):

1- Performance of the service.

2- Feedback from customers and other sources.

3- Finding of previous audits.

Therefore, a proposed schedule of audits is drafted by the audit group, discussed with the managers and finally approved. Therefore, this schedule is followed except as special conditions require addition or deletion.

6.5.2 Step 2: Audit execution and procedures:

The audit execution can obtain much valid and reliable information. As time is limited to carry out a comprehensive audit to all services, however, it is necessary for the auditor, if he want to evaluate the services from customer's point of view, to conduct evaluation by actually observing how customers deal with the enterprise services performance. Therefore, the best procedure to be followed by the auditor is to be a customer and auditor at the same time. Thus, actual result of services' evaluation will be obtained. Haywood (1983:173) points "the consequence of this personal involvement is that the auditor plays a role, perhaps a dominant role, in defining quality standards from the customer's viewpoint".

Interviews, observation, checking documents and other evidence are suggested by Willborn as a basic audit techniques (see Willborn, 1986:299). Thus, the approach to evaluate tourism services from customer's point of view may include the following (Juran et al, 1974; Haywood, 1983; Stebbing, 1986; and Willborn, 1986):

1- Participant observation:

The auditor might be either known or unknown observer to evaluate tourism services, and that depends on the

nature of services. If the auditor wants to be effective as an observer, then specific attempts (i.e. holding a camera, take notes as writing letters, wearing typical dress, etc.) has to be followed when he chooses the manner of evaluation, known or unknown, to accomplish his task.

2- Recording observation:

The auditor is able to evaluate and analyse the wide dimensions of tourism services by taking sufficient notes (e.g. writing keywords or using a pocket tape-recorder) during his daily auditing according to the choosen manner. Taking into consideration the actual performance to the services comparing with what suppose to be (the standard list), and notice time scheduled to accomplish the activities.

3- Observing by asking:

The auditor, according to his auditing and checking of services from the customer's point of view needs to ask the staff or carry on conversations with customers using the services. By looking, listening and asking, the auditor can get important and reliable information, which will assist him in obtaining an answer to questions vital to his task, such as " How far customers are satisfied with the quality of services?".

4- Variances:

The auditor has to check the sources of recording information and review all documents relative to the audit. This should be accurate. Also, the auditor has to consider such situations and problems which are almost recurrent. Some reasons may relate to the employees, because of their insufficient training, and others may relate to the system of that service as a whole (i.e. pricing policy). Therefore, it needs the auditor to verify the reasons for these variances. And to be able to evaluate the quality of services in an appropriate manner and suggest corrective actions.

5- Develop an audit checklist:

In developing a checklist, the auditor must give attention and read all relevant documents and previous auditing report in depth. Although a checklist is not a compulsory exercise, it is strongly recommended (see Stebbing, 1986:177). The International Hotel Association (IHA), for example, published in 1984 a list of services and attractions likely to be offered by hotels and which include the following elements (Witt and Moutinho,1989: 348):

1- Staff in uniform.

2- Business service (i.e. secretarial office, transl-

ation, copying machine, etc.).

3- Sports installation.

4- Rooms.

5- Private bathrooms (with hairdryer and suitable light for make-up).

6- Bathroom products and installations.

7- Buying services (newspapers, souvenirs and various items).

8- Room service and others.

Normally, the auditor in conducting checklists to tourism services should consider two things (see Haywood, 1983:174; and Stebbing, 1986:177):

1- typical list is related to or attributed to the kind of service. This means that all dimensions of quality of service, relevant to an organisation, which affect levels of satisfaction should be included.

2- checklists should be developed utilising the system or procedural criteria. Thereby, when developing checklists for the audit of procedural activities, care should be taken not to include items which would not produce objective evidence.

However, in general the procedure for auditing should give the auditor the flexibility to determine whether an activity is acceptable or not.

6- Quality scale used:

Although different methods of evaluation scales are available, the score system is preferred to evaluate the quality of services. Also it is used as one of the inputs for the executive reports on quality. Juran et al (1974:12-20 , 21-17) indicates that, a seriousness classification scale into several levels, to all the activities mentioned in the checklist, is very important to show the variances from the ideal quality characteristics.

However, the following classification scale with weighting and description may be suitable for quality audit for tourism enterprise services:

Table 6.1

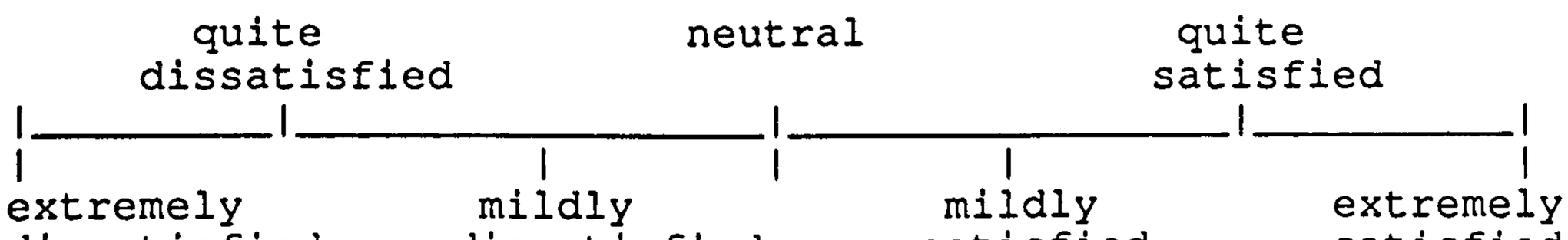
Seriousness classification scale

Seriousness classification	Weight	Description
very good	80-100	better than standards
good	60-79	higher than standards
fair	50-59	meets usual standards
poor	30-49	less than standards
very poor	0-29	unacceptable by any standards

Haywood (1983:175) emphasises that, " a rating sheet for each area.... of service is provided indicating the

numeric rating and appropriate descriptor words to specify the major deficiencies". Also, continuing attention should be given to those area with high scores to ensure that existing standards are maintained.

Therefore, a meaningful approach from a customer's point of view is to use extremely, quite, mildly satisfied or dissatisfied and with neutral in the middle of the scale as shown below (the scale adopted from Pearce, 1980:14):



The satisfaction to an individual service and the overall evaluation from customer's point of view for the quality could be achieved by this scale. Thus, as Haywood (1983:175) suggests that, "a more detailed account of the quality scores, degree of conformance and explanation of the final audit report" is required.

6.5.3 Step 3: Preparation of audit report:

This is the last step in the quality audit programme.

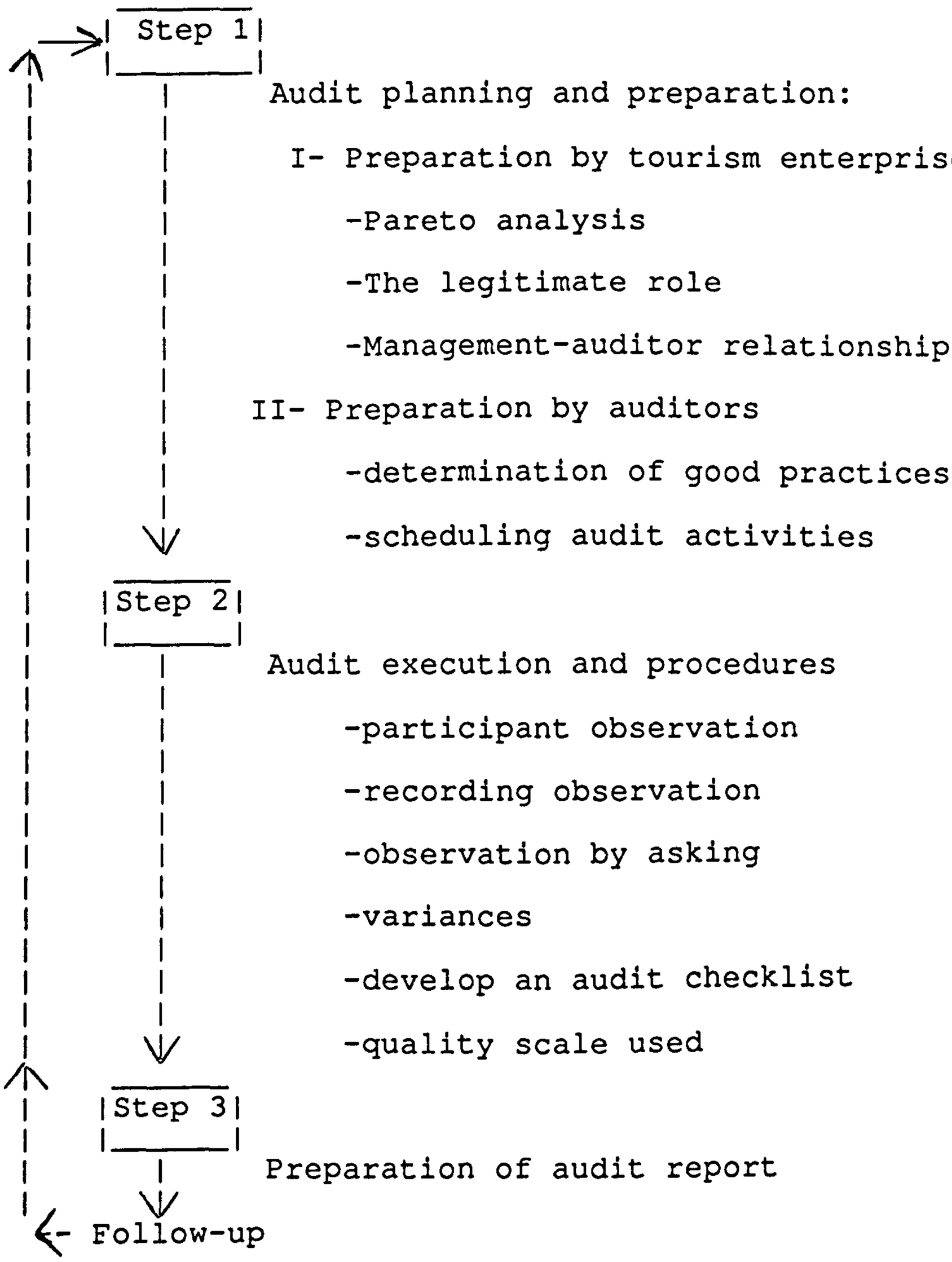
The report should be prepared in a uniform manner. It should begin by stating the purpose of the audit, the methodology used and the time taken. The main part of the report is the results which identified the areas which need improvement or consideration. Also, it should highlight the good results as well as the bad.

The auditor's evaluation and reporting should be submitted to the management, including his recommendations to improve the quality of services from the customer's point of view. This means that the auditor does not interfere with the on going operations or management responsibilities. Finally, if the management is satisfied with the result of the report, then, the auditor should undertake the follow-up to the activities to verify from the completion of the actions to correct the deficiency and the actions be taken to prevent their recurrence.

The quality audit cycle is shown below in figure 6-3:

Figure 6-3

Quality audit cycle



6.6 Summary

Three main points have been reviewed in this chapter. These are as follows:

1- Review the literature on performance indicators and the type of methods which are used to measure performance (single, multiple, and composite indicators). The multiple indicators method has been choosen to follow for the reasons mentioned previously, which are:

i- Multiple indicators covers a wide area of enterprise's activities. Also they give a more comprehensive view of the enterprise services.

ii- Multiple indicators, by explicity recognising the interdepartmental differences in performance, promote competition among internal departments of an enterprise. This opportunity may be lost through choosing a single indicator.

Also the nature of performance indicators has been reviewed.

2- Build a suitable framework of indicators of tourism enterprise performance. This has been done by:

i- Financial ratios , considering the following classifications:

- Profitability ratios.
- Managerial performance ratios.
- Solvency ratios.

These main classification groups are divided to sub-groups and each of these subgroups contain some ratios.

ii- Non-financial indicators; different indicators have been identified. The best method of measuring non-financial indicators is by the quality audit and from the customer's point of view. In other side, measuring of financial indicators and analysis can be achieved by ratios. Therefore, both financial and non-financial measures, when they carefully considered, will create the ideal situation of performance evaluation to the services of tourism enterprises.

3- Setting a comprehensive programme or procedures to evaluate and audit the quality of these services, from the customer's point of view. Three main steps should be followed to achieve the quality audit. These steps are:

- Audit planning and preparation.
- Audit execution and procedures.
- Preparation of reports and follow up for further audit and evaluation.

These steps are shown in figure 6-3 quality audit cycle.

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CHAPTER (7)

COMPARISON OF PERFORMANCE EVALUATION INDICATORS

Chapter (7)

Comparison of Performance Evaluation Indicators

7.1 Introduction

Different methods to measure performance have been used in analysing the data available from published accounts. Therefore, the purpose of this chapter is to construct a mathematical model to measure the financial performance. Also to test the strength of the model by using plotting procedure to the actual and calculated results for different enterprises acting in tourism field in Iraq. Factor analysis technique has been applied to carry out the calculation by using the facilities of the computer centre at the University of Strathclyde.

7.2 Sources of data

As the selection of the ratios has been achieved in chapter SiX , then the next step is to measure the financial performance empirically for different enterprises which are operating in the tourism sector in Iraq. Normally, the data are obtained from the archives of DFC and the following enterprises for the period 1977-1988, during the field survey:

1. Iraqi Airways.
2. Iraqi Railways.
3. General Establishment for the Management of Tourist Utilities.
4. General Establishment for Hospitality.
5. General Establishment for Travel and Tourism Services.
6. General Establishment for Carrying Passenger (Coach Company).
7. State Organisation for Cinema and Theatre.
8. State Company for Fairs and Art Galleries.

The main sources of the necessary data to compute the financial ratios are collected from the balance sheets and profit and loss accounts for the above enterprises.

To measure mathematically the financial performance, it is necessary to know the components. The total performance divided into three main groups, namely; profitability, managerial performance and liquidity (or solvency), therefore, we have the following relation:

Financial Performance= the average of (Profitability + Managerial Performance + Liquidity)

Or $FP(Y) = Pt + MP + L$ .....(1)

Where:

FP(Y)= Financial Performance.

Pt= The average of profitability of relevant ratios.

MP= The average of managerial performance of relevant

ratios.

L= The average of liquidity of relevant ratios.

To solve the above relation it is necessarily to use the statistical package for social science (SPSS). One of the important technique in SPSS is called "Factor Analysis". It is a technique for analysing the interrelationships of a set of variables using different multivariate methods. Norusis (1985:125) has defined factor analysis as "a statistical technique used to identify a relatively small number of factors that can be used to present relationships among set of many interrelated variables".

However, the mathematical model for factor analysis might be expressed as:

$$FP(Y) = c_1r_1+c_2r_2+c_3r_3+.....+c_{25}r_{25}+C \quad .....(2)$$

Where;

Y= financial performance.
c1= raw coefficient score for ratio 1.
r1= ratio 1.
C= Constant.

7.3 The objectives of factor analysis

The objectives of factor analysis can be summarised as follows;

1. It can help investigators to define their variables more precisely, and decide which variables they should study and related to each other.
2. It can help investigators to gain a better understanding of the complex and poorly defined interrelationships among a large number of variables.
3. It can help the investigators to test the effect upon obtained results produced by a variation in the factor analytic procedures used.

7.4 Steps of factor analysis technique

Four major steps used in factor analysis (Comrey, 1973:4; Norusis, 1985:127):

1. Computing the matrix of correlations among the ratios.
2. Extracting the unrotated factors.
3. Rotating the factors.
4. Interpreting the rotated factor matrix.

The following is a summary explanation of the major steps. After the selection of different ratios has been achieved, factor analysis begins with a matrix of correlation coefficients between ratios that are being studied. Therefore, one of the important results emerged from studying the ratios is the significant degree of correlation between different ratios.

When the correlation matrix has substantial correlation coefficients in it, this indicates that the ratios involved are related to each other, or overlap in what they measure. With a large number of ratios and many substantial correlations among the ratios, it becomes very difficult to keep in mind or even to contemplate all the intricacies of the various interrelationships. Factor analysis provides a way of thinking about these interrelationships by positing the existence of underlying "factors" that account for the values appearing in the matrix of intercorrelations among these ratios.

Factor analysis is based specifically on intercorrelations. It examines the effect of the general factors which are present in more than one ratio at the same time. One common objective of factor analysis, however, is to provide a relatively small number of factor constructs that will serve as satisfactory substitutes for a much larger number of ratios. These factors themselves are variables that may prove to be more useful than the original ratios from which they were derived.

As the selection of different ratios has been achieved, and also after the correlation matrix R has been computed, the next step is to determine how many factors are needed to account for the pattern of values found in R. There are many methods of extracting a factor but they

all end up with a column of numbers, one of each ratio, that represent the "loadings" of the ratios on that factor. For most factor extraction methods, these loadings may be thought of as correlations between the ratios and the factor. After the first factor is extracted, the effect of this factor is removed from the correlation matrix R to produce the matrix of first "residual" correlations. If all other first factor residuals were very small, then it would probably be unnecessary to extract a second factor. If substantial values remain in the first factor residual correlation, however, it is necessary to extract a second factor. If substantial values remain in the second factor residual correlations, a third factor must be extracted, and so on, until the residuals are too small to continue.

Once the factors that are needed to account for the correlations in the R matrix have been extracted, the values are arranged in a table that is referred to as the "matrix of unrotated loadings".

Most factor analysts agree that the unrotated factors do not generally represent useful factor constructs, and that it is usually necessary to rotate when they are two or more extracted factors, if useful and meaningful factors are to be identified. The reason for this is that most methods of factor extraction are designed to extract

approximately as much variance as possible with each successive factor, resulting in a sharp drop off in factor size from the first to the last factor. Therefore, all factor analysts agree that all rotated solutions, are mathematically equivalent to each other and to the unrotated solution in that all of them account for the original correlation matrix equally well.

The final step is interpreting the rotated factor matrix. The usual procedures followed in factor interpretion are deceptively simple. Those ratios with high factor loading are considered to be "like" the factor in some sense and those with zero or near-zero loadings are treated as being "not like" the factor, whatever it is. Those ratios that are like the factor, that is, have high loadings on the factor, are examined to find out what they have in common that could be the basis for the factor that has emerged. High loadings in both the positive and negative direction are considered. If a ratio were to correlate perfectly with a factor, it would ordinarily be considered identical with the factor in what it measures. Since ratios are not perfectly reliable, they can not correlate perfectly with a factor, of course, but with a factor loading of 0.90 would indicate a total overlap in true variance between the ratio and the factor.

A question that frequently arises is that of how high the correlation between a ratio and a factor must be

before it can be regarded as significant for interpretive purpose? There can be no answer to this question in any precise statistical sense since there is not available at the present time any statistical test that can establish the significant level of a rotated factor loading. The loading of a given ratio on a factor can be altered easily by rotating the factor a little closer to or a little farther away from the particular ratio vector in question. A crude index of the usability of a given ratio for interpretive purposes is the square of the correlation between the factor and the ratio.

A fairly commonly used cut-off level for orthogonal factor loading is 0.3; that is, no ratio with a factor loading below 0.3 is listed among those ratios defining the factor. A squared value $(0.3)^2$ gives 0.09, which indicates that a ratio correlating with the factor less than 0.3 has less than 10 percent of its variance in common with the factor. The other 90 plus percent lies elsewhere, in specific and common factors plus error. Whereas loading of 0.3 and above have commonly been listed among those high enough to provide some interpretive value, such as loadings certainly can not be relied upon to provide a very good basis for factor interpretation. The following table can be used to give a rough idea of the value of ratio-factor correlations (orthogonal factor loadings or structure coefficients) for factor interpretation purposes.

Table (7.1) Scale of ratio-factor correlation

Orthogonal factor loading	Percentage of variance	Rating
0.71	50	Excellent
0.63	40	Very good
0.55	30	good
0.45	20	Fair
0.32	10	Poor

7.5 Computation of financial performance

To carry out the computation of financial performance of different enterprises, which are operating in the field of tourism in Iraq, it needs to solve the formula which is mentioned previously:

$$FP(Y) = c_1r_1 + c_2r_2 + \ldots\ldots\ldots + c_{25}r_{25} + C \quad \ldots\ldots(2)$$

the researcher, therefore, by turning the above steps (mentioned in previous section) to the case under investigation, considered the following procedures to compute the total value of financial performance for each enterprise as follows:

7.5.1 Calculating of the real ratios

As the selection of different ratios (r1 to r25) has been achieved in chapter six, therefore, the next step of calculating the values of these ratios is possible. The figures which are used were in 000's ID to do the calculation of the ratios. The collected data from the field work, of select enterprises for the period 1977 to 1988, are fed into the computer to carry out the calculation of these ratios. By computing the result of these ratios, one component (r1 to r25) to the above formula is being achieved. Whereas the other components, raw coefficient scores and the constant (C) are explained in detail in the following steps.

7.5.2 Computing the correlations between ratios

Factor analysis is based on the assumption that there are a number of general factors which cause the different relations between the ratios to arise. Thus, one of the important results to have emerged from studying the ratios is the significant degree of correlation between them. When the correlation matrix of r1 to r25, as shown in table (7.2), has substantial correlation coefficient in it, this means that the ratios (1 to 25) are related to each other. This large number of ratios and interrelationships between ratios might be difficult to

Table (7.2) CORRELATION MATRIX

	R1	R2	R3	R4	R5	R6
R1	1.00000					
R2	.87336	1.00000				
R3	.85170	.98867	1.00000			
R4	.55493	.62007	.55682	1.00000		
R5	.21673	-.04584	-.08866	.33103	1.00000	
R6	.13787	-.08328	-.13438	.32485	.97676	1.00000
R7	-.03886	-.08544	-.08518	.05315	.16246	.15710
R8	.31052	.13049	.11057	.24273	.33331	.28924
R9	-.11759	-.10747	-.13035	.15730	.44662	.41420
R10	-.13046	-.16038	-.14808	-.13644	-.00086	.00769
R11	-.21972	-.21995	-.16090	-.67150	-.48221	-.47270
R12	.27899	.03978	.01118	.16304	.68330	.64436
R13	-.68818	-.69472	-.63208	-.94162	-.26075	-.23879
R14	.13033	.05884	.12513	-.17864	-.17970	-.35601
R15	-.11656	-.11696	-.11246	-.01973	.05954	.06767
R16	-.37892	-.28663	-.29044	-.36319	-.38266	-.36590
R17	-.32607	-.25183	-.22489	-.41481	-.43804	-.47269
R18	.09288	.09979	.13598	-.16623	-.22822	-.24792
R19	.31139	.19608	.20600	.15506	.17917	.05964
R20	.41247	.29623	.30231	.34383	.36797	.31250
R21	.27880	.22672	.23340	.20727	.14572	.03967
R22	-.12035	-.04833	-.11765	.17158	.16098	.33992
R23	.33547	.29307	.28944	.24581	-.05771	-.12762
R24	.40194	.36519	.34839	.34903	-.07784	-.07259
R25	.14591	.12763	.14271	.13293	-.01766	-.02523

	R7	R8	R9	R10	R11	R12
R7	1.00000					
R8	.19992	1.00000				
R9	.11197	.12796	1.00000			
R10	.86116	.10124	-.08328	1.00000		
R11	-.17597	-.21834	-.59834	.12795	1.00000	
R12	.29850	.49316	.30308	.14784	-.35838	1.00000
R13	-.03571	-.27420	-.02727	.14256	.53911	-.11078
R14	-.00909	.22409	.09057	-.01688	.22740	-.04482
R15	.90080	-.07723	.02766	.88772	-.08647	.13797
R16	.12857	.12586	.03836	.14814	.04104	.07883
R17	.13291	.18067	.04480	.15076	.13193	.01528
R18	-.14684	-.26617	-.30133	-.06656	.52036	-.31904
R19	-.12420	.08360	.21805	-.14771	-.01360	.12945
R20	-.14489	-.07305	.00214	-.16783	-.02023	-.03978
R21	-.12367	-.01114	.31401	-.17278	-.12011	.07959
R22	-.01960	-.21758	-.07945	-.00347	-.19826	.03325
R23	-.14015	.20374	.03184	-.14729	.00419	-.09129
R24	-.17745	.12979	-.20790	-.17859	-.02415	-.21076
R25	.68366	.11175	-.09359	.74013	-.01484	.01513

	R13	R14	R15	R16	R17	R18
R13	1.00000					
R14	.10179	1.00000				
R15	.04774	-.08097	1.00000			
R16	.44663	.04262	.08323	1.00000		
R17	.47304	.35003	.06694	.94100	1.00000	
R18	-.01922	.25630	-.06795	-.52497	-.41082	1.00000
R19	-.21055	.54122	-.13735	-.49426	-.33843	.36417
R20	-.44538	.15425	-.11275	-.96943	-.87132	.56682
R21	-.24596	.46992	-.11785	-.50094	-.37034	.35623
R22	-.09532	-.98605	.05054	-.06573	-.36486	-.22876
R23	-.35777	.39095	-.16432	-.43226	-.32825	.33701
R24	-.50320	-.02881	-.19455	-.60602	-.59153	.38927
R25	-.20844	.04544	.73554	-.23392	-.18318	.17268

	R19	R20	R21	R22	R23	R24
R19	1.00000					
R20	.64399	1.00000				
R21	.97016	.64123	1.00000			
R22	-.47706	-.13137	-.41299	1.00000		
R23	.76315	.55638	.76822	-.34845	1.00000	
R24	.35906	.60965	.37568	.03914	.73435	1.00000
R25	.08312	.21683	.08679	-.06513	.21060	.31154

	R25
R25	1.00000

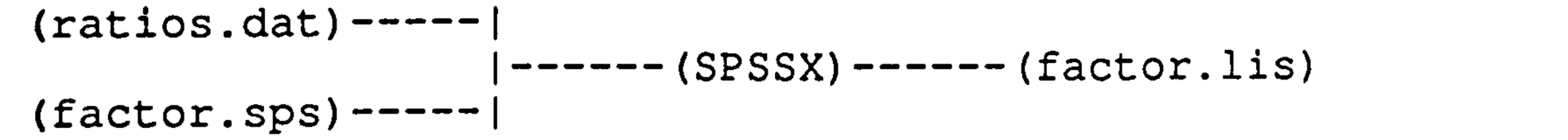
keep control on. Therefore, factor analysis technique provides a comprehensive method to solve this difficulty, by assuming the existence of a number of factors that account for the values appearing in the matrix of intercorrelations among ratios. These factors constitute the main part of the next step and to calculate the required coefficients namely (c1 to c25) to solve the formula (2).

7.5.3 Extraction of factor matrix (unrotated matrix)

The goal of the factor extraction step is to determine the unrotated factors. From the initial statistics of the correlation matrix (r1 to r25), twenty five factors are available by using the Principal-Components analysis (the default method). In principal-components (P.C.) analysis, linear combinations of the observed ratios are formed. The first P.C. is the combination that accounts for the largest amount of variance in the sample. The second P.C. accounts for the next largest amount of variance and is uncorrelated with the first , and so on. Therefore, seven factors are extracted in this process, because the residual values are not enough to extract any more factors.

In addition to PC, there are many methods can be used to do the extraction. Most of them lead to similar

results. PC for extraction and varimax for rotation would come automatically if we forget to specify the method. This is called by default. However the input of this process are the ratios data (r1 to r25) and the factors (25 one).



Where;

ratios.dat= data of real ratios r1 to r25.

factor.sps= command file.

SPSSX= using extraction process from statistical package for social science.

factor.lis= list of factors extracted from the initial statistical.

The results of this step in factor analysis are seven unrotated factors for each ratio (r1 to r25) as shown in table (7.3). The coefficient values in any factor, ranged between -1 and +1. In general as there are many methods for extracting, therefore, to do the comparison between them reasonably, it is necessary to transform these unrotated values to rotated values by the rotation process.

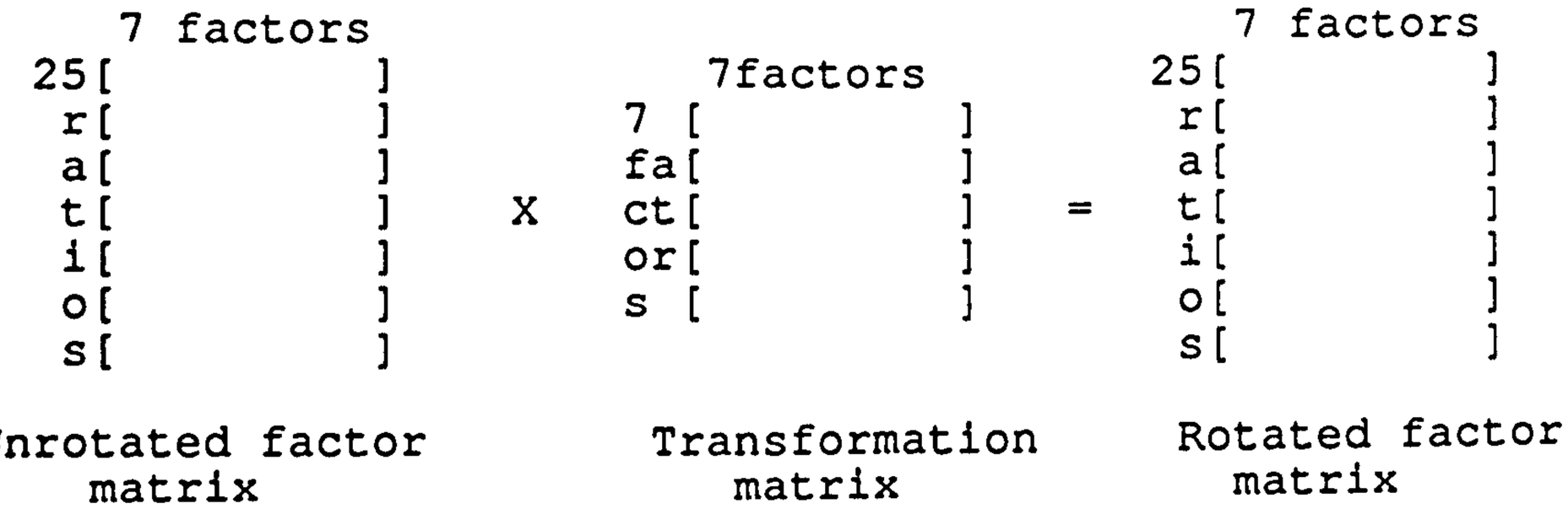
7.5.4 Rotation process

The next step is to do the "rotation". As mentioned

TABLE (7-3) UNROTATED FACTOR MATRIX

Ratio	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
R 1	0.72741	0.12161	0.01092	- 0.07641	0.49237	0.31890	- 0.14601
R 2	0.65689	0.02185	- 0.03910	- 0.23599	0.63268	0.07316	- 0.25067
R 3	0.63565	- 0.04202	0.00084	- 0.22263	0.63052	0.09856	- 0.28546
R 4	0.66334	0.45269	- 0.13968	- 0.13497	0.33384	- 0.25939	0.03133
R 5	0.33848	0.71142	- 0.11854	0.33565	- 0.37848	0.26538	- 0.07534
R 6	0.27360	0.76073	- 0.18696	0.20700	- 0.42469	0.24096	- 0.02730
R 7	- 0.15007	0.51118	0.79027	- 0.09829	0.01507	- 0.04691	- 0.03097
R 8	0.17272	0.33734	0.14145	0.39915	0.34314	0.37063	0.56694
R 9	0.07779	0.39958	- 0.05485	0.59792	- 0.13400	- 0.46616	- 0.16964
R10	- 0.25739	0.32128	0.83925	- 0.22280	- 0.05533	0.05282	0.00391
R11	- 0.29008	- 0.68765	0.18287	- 0.20804	- 0.18287	0.48623	0.00528
R12	0.11072	0.64296	0.06793	0.43972	0.01788	0.41193	- 0.00837
R13	- 0.76015	- 0.31893	0.07017	0.20218	- 0.35286	0.13958	0.08523
R14	0.14578	- 0.51109	0.41851	0.62440	0.22378	0.09065	- 0.11127
R15	- 0.19083	0.40747	0.79702	- 0.25112	- 0.09060	- 0.14392	- 0.16471
R16	- 0.79936	0.04815	0.00392	0.22473	0.48643	- 0.08474	0.09886
R17	- 0.72983	- 0.12122	0.14414	0.36721	0.53186	- 0.03981	0.04088
R18	0.35629	- 0.59271	0.20814	- 0.22825	- 0.33493	0.20849	- 0.15124
R19	0.66737	- 0.30588	0.23317	0.48904	- 0.20592	- 0.09085	- 0.04799
R20	0.84742	- 0.14044	0.06793	- 0.05817	- 0.44454	0.08668	- 0.09957
R21	0.68201	- 0.28067	0.20013	0.44711	- 0.20743	- 0.25323	- 0.09627
R22	- 0.11941	0.47429	- 0.42682	- 0.60640	- 0.23816	- 0.09659	0.11545
R23	0.68732	- 0.37091	0.22235	0.20648	- 0.02169	- 0.19398	0.39559
R24	0.69859	- 0.23839	0.03313	- 0.30111	- 0.05773	- 0.08713	0.51499
R25	0.19963	0.18916	0.81446	- 0.33795	- 0.03483	- 0.07640	0.12798

previously that most factor analysts agree that the unrotated factors (from the above step) do not generally represent useful factors and that it is usually necessary to rotate, if useful and meaningful factors are to be identified. Norusis (1985: 140) remarks that "the purpose of rotation is to achieve a simple structure. This means that we would like each factor to have non zero loading for only some of the variables. This help us interpret the factors". Most factors are correlated with many ratios. Therefor, the total unrotated factor matrix values are transfer to the total values of rotated factor matrix, which is easier to interpret, as shown in the following figure;



Transformation matrix, which is shown in table (7.4) contain values of sine and cosine (see Comrey 1973), where;

sin= is the sine of angle of the centroid axis with the x axis.
cos= is the cosine of angle between vector and centroid vector.

Table (7.4) FACTOR TRANSFORMATION MATRIX

	FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4
FACTOR 1	.69345	.59221	-.08995	.21122
FACTOR 2	-.15805	.14078	.35190	-.46483
FACTOR 3	.03345	-.04129	.88685	.42725
FACTOR 4	-.21303	-.25532	-.26840	.71638
FACTOR 5	-.66024	.70105	-.03801	.14451
FACTOR 6	-.03200	.11221	-.08384	.03925
FACTOR 7	-.10344	-.24190	-.03254	-.14545

	FACTOR 5	FACTOR 6	FACTOR 7
FACTOR 1	.14034	.16256	.26379
FACTOR 2	.64929	.43944	-.02462
FACTOR 3	-.06569	-.13140	.08097
FACTOR 4	.42868	.34599	.02680
FACTOR 5	-.18151	-.00320	.13165
FACTOR 6	.58065	-.79919	-.04419
FACTOR 7	.02352	-.06902	.95039

After the rotation, the seven factors will tend to become "orthogonal",that is, independent of each other. Table (7.5) shows the values of rotated factor matrix. In table (7.5), where the factors have been rotated, groups of high valued coefficients appear. The rotated factors might be interpreted as measuring the following;

1. assets-equity structure and liquidity,
2. return to investment and profitability,
3. capital turnover (credit or cash to working capital),
4. long-term solvency,
5. administration policy (operating expense to total assets),
6. inventory turnover and inventory to revenue, and
7. cashflow and credit policy.

7.6 Factor score

Since one of the goals of factor analysis is to reduce a large number of variables to a smaller number of factors, it is often desirable to estimate factor scores for all the ratios. The factor scores can be used in subsequent analyses to represent the values of the factors.

Factor scores can be estimated in different methods. Each has different properties and results in different scores (see Norusis, 1985:148). SPSS used to calculate

Table (7.5) Rotated Factor Matrix

	FACTOR1	FACTOR2	FACTOR3	FACTOR4	FACTOR5	FACTOR6	FACTOR7
R1	.18166	.88324	-.03314	.15195	.23993	-.10254	.09969
R2	.10690	.96635	-.04476	.07359	-.07047	-.00332	.00508
R3	.10497	.94947	-.03440	.13117	.09750	-.05336	-.02983
R4	.19717	.69415	.02002	-.19317	.12787	.48250	.23410
R5	.29600	.00247	.01928	-.10271	.88211	.29367	-.06198
R6	.29465	-.04009	.01856	-.27535	.84971	.28564	-.04865
R7	-.14273	-.01165	.92498	.00276	.18609	.10197	-.01619
R8	-.31090	.18703	.05892	.20772	.57134	-.04059	.62702
R9	-.01748	-.15329	-.02582	.22261	.27994	.78701	-.13600
R10	-.11929	-.11877	.93784	-.01124	.06265	-.13033	-.01972
R11	.06260	-.29795	-.03187	.17935	-.27274	-.83372	-.09091
R12	-.14036	.10179	.12358	.08851	.85278	.11507	.00686
R13	-.28012	-.76067	-.03141	.12939	-.08861	-.30753	-.31520
R14	-.07628	.03165	-.00189	.94656	-.06181	-.10534	.02136
R15	-.03511	-.06426	.95566	-.06387	.00679	.08310	-.16467
R16	-.93837	-.21654	.01684	.02377	-.11997	.02788	-.04402
R17	-.91446	-.19048	.03405	.29619	-.15187	-.03651	-.05740
R18	.62644	.00242	.00540	.25796	-.26807	-.46397	-.07773
R19	.55859	.07473	-.07513	.70676	.07288	.18922	.14685
R20	.92553	.21630	-.03691	.18527	.12701	-.01399	.07395
R21	.58376	.09141	-.07039	.65441	-.01965	.32562	.10739
R22	.10553	-.03722	-.02473	-.91745	.04914	.10527	-.01135
R23	.47831	.16025	-.04636	.49221	-.16986	.11875	.59566
R24	.57500	.28083	-.04379	-.02986	-.21600	-.06545	.67046
R25	.21998	.13356	.86518	.03347	-.08257	-.05604	.22532

factor score. Some researchers such as Comrey (1973:229), and by Babaei (1988:137), which have employed "multiple regression" to achieve estimated factor scores. The formula was;

$$z_{fi}= ß_1z_{1i}+ß_2z_{2i}+.....+ß_nz_{ni}.....(3)$$

Where:

z_{fi}=is a standard score in factor f for subject i.

z_{1i}=is a standard score in ratio 1 for subject i.

z_{2i}=is a standard score in ratio 2 for subject i.

$ß_i$=is the standard regression coefficient for ratio i.

Table (7.6) shows the estimated factor score coefficients.

7.7 The mathematical model

The mathematical model for factor analysis appears somewhat similar to a multiple regression equation. Each variable is expressed as a linear combination of factors which are not actually observed. Therefore, in our case the model might be expressed as:

$$Y= F_1+F_2+F_3+F_4+F_5+F_6+F_7.....(4)$$

Where F= total factor which is equal to; for example F1:

$$F_1=f_1z_1+f_2z_2+f_3z_3+.....+f_{25}z_{25}.....(5)$$

Where;

f=estimated factor score coefficient (or standard score)
z=standardised ratio which equal to

$$z = (\text{ratio} - \text{mean of ratio})/\text{standard deviation of ratio}$$

Then $F_1=(-.03391)z_1 +(-.04323)z_2 +.....+.04443z_{25}$

$F_2= .25679z_1+ .29979z_2 +.....+(-.00061)z_{25}$

.
.
.
.
.

$F_7=(-.08916)z_1 +(-.17147)z_2 +.....+ .13705z_{25}$

Therefore,

$$F_j=\sum_{i=1}^{n} f_{ij}\ z_i.....(6)$$

Where, j=1 to 7
n=25

In our case the financial performance Y will be

$$Y = \sum_{i=1}^{25}\ \sum_{j=1}^{7} f_{ij}\ z_i.....(7)$$

To simplify the above equation to be equal to equation (2) which mentioned previously, we carry on the following substitution and simplification to the equation:

$$Y = \sum_{i=1}^{25}\ \sum_{j=1}^{7} f_{ij}\ z_i = \sum_{i=1}^{25}\ \sum_{j=1}^{7} f_{ij}(r_i-m_i)/sd_i$$

Where m=mean

sd=standard deviation

$$Y = \sum_{i=1}^{25} \sum_{j=1}^{7} f_{ij}\, r_i /sd_i - \sum_{i=1}^{25} \sum_{j=1}^{7} f_{ij}\, m_i /sd_i$$

Lets assume that

$$-\sum_{i=1}^{25} \sum_{j=1}^{7} f_{ij}\, m_i /sd_i = C \quad \text{and} \quad \sum_{j=1}^{7} f_{ij} /sd_i = c_i$$

Therefore we have:

$$Y = \sum_{i=1}^{25} c_i r_i + C \ldots\ldots\ldots(8)$$

To simplify the above formula we get

$$Y = c_1 r_1 + c_2 r_2 + \ldots\ldots + c_{25} r_{25} + C \ldots\ldots\ldots(2)$$

Therefore,

$$Y = 2.48454 r_1 + 5.61277 r_2 + \ldots\ldots + .30697 r_{25} + (-3.41377)$$

However, computer programmes are used to obtain the values of the standard scores in each factor and ratio.

Table (7.6) ESTIMATED FACTOR SCORE COEFFICIENTS

	FACTOR1	FACTOR2	FACTOR3	FACTOR4	FACTOR5	FACTOR6	FACTOR7
R1	-.03391	.25679	-.01237	.04667	.12686	-.16438	-.08916
R2	-.04323	.29979	-.00105	.02309	-.03163	-.03783	-.17147
R3	-.04044	.30363	.00294	.04298	-.02979	-.05788	-.20245
R4	-.01530	.14034	.01404	-.07361	-.07148	.20542	.07052
R5	.07270	-.03086	-.01947	.00164	.30438	-.03107	-.08366
R6	.07996	-.04710	-.02015	-.05590	.28588	-.02861	-.04832
R7	-.01804	.00899	.26612	.02144	.02029	.03521	.01544
R8	-.16667	-.02111	-.01996	.03893	.26343	-.18092	.51531
R9	.00793	-.06763	-.00252	.10345	-.04943	.40924	-.13519
R10	-.00166	-.01299	.27044	.00829	.01965	-.06586	.00559
R11	.04312	-.03677	-.01207	.04017	.08342	-.40284	-.02510
R12	-.05709	.03199	.00125	.06727	.34163	-.13178	-.01392
R13	.00748	-.15241	-.01724	.06689	.04800	-.10746	-.12049
R14	-.05269	.02441	.00478	.29664	.03466	-.03754	-.06612
R15	.03293	.01090	.28596	.00385	-.05755	.07268	-.13728
R16	-.22173	.00402	-.00975	.03541	-.04265	.05697	.08364
R17	-.22383	.01846	-.00180	.12047	-.03239	.02959	.04155
R18	.16494	-.00237	.02004	.05343	-.00847	-.20280	-.13589
R19	.10067	-.04618	-.00689	.19766	.00871	.09303	-.01107
R20	.20856	-.00763	.00447	.02867	.05141	-.04911	-.07670
R21	.11294	-.04334	.00185	.18241	-.06524	.19365	-.04902
R22	.05843	-.02982	-.01152	-.28999	-.03833	.04030	.07052
R23	.04242	-.08369	.00169	.08026	-.08990	.08740	.39023
R24	.06877	-.05790	-.00084	-.09847	-.08970	-.02473	.48059
R25	.04443	-.00061	.26206	-.01474	-.06262	-.01070	.13705

These computer programmes are shown in appendix (6). The total value of all the factors is represent the value of financial performance. The results which obtained by either rfm or fscm figures are very similar. The standard-ised ratios can be achieved by the following formula;

(ratio - mean of ratio)/ standard deviation of ratio

the estimated factor score coefficients are shown in table (7.6).

The inputs at this process when we used fortran programme are the following:

1. Run fortran getrfm;

(factor.lis).....(getrfm).....(rfm.dat)

2. Run fortran getfscm;

(factor.lis).....(getfscm).....(fscm.dat)

Where:

rfm.dat= the values or data of rotated factor matrix.

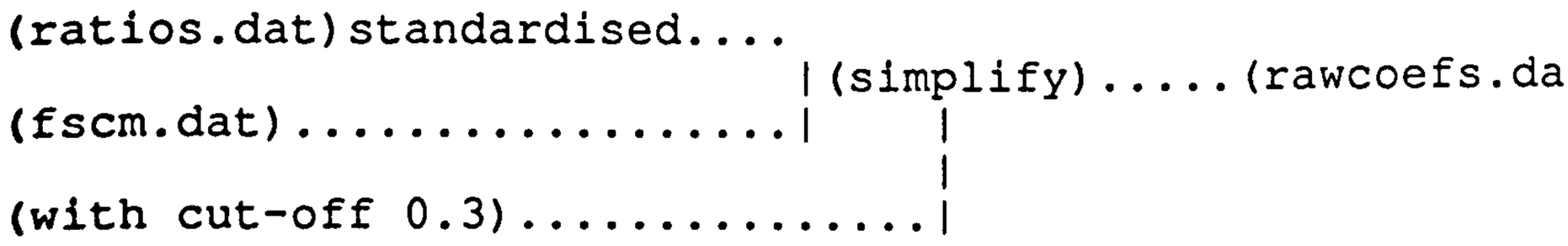
fscm.dat= factor score coefficient matrix data.

Another fortran programme has been run to simplify the calculation of raw coefficient scores (c1 to c25) and one constant (C) to solve the formula (2). The input are fscm and standardised ratios and the output are raw coefficient scores and a constant. These raw coefficient

scores are shown in table (7.7). Another results can be obtained when we reject any factor less than 0.3, or in other words when we cut-off the level of factor loading by 0.3, these results are shown in table (7.8).

The final stage in calculation formula (2) can be achieved by run another fortran programme to obtain the total value of financial performance as shown in table (7.9). However, the inputs at this stage are the following

1. Run fortran programme "simplify" calculation 25 coefficients and one constant;



2. Run "testequation" fortran programme to obtain total factor scores (Y values);

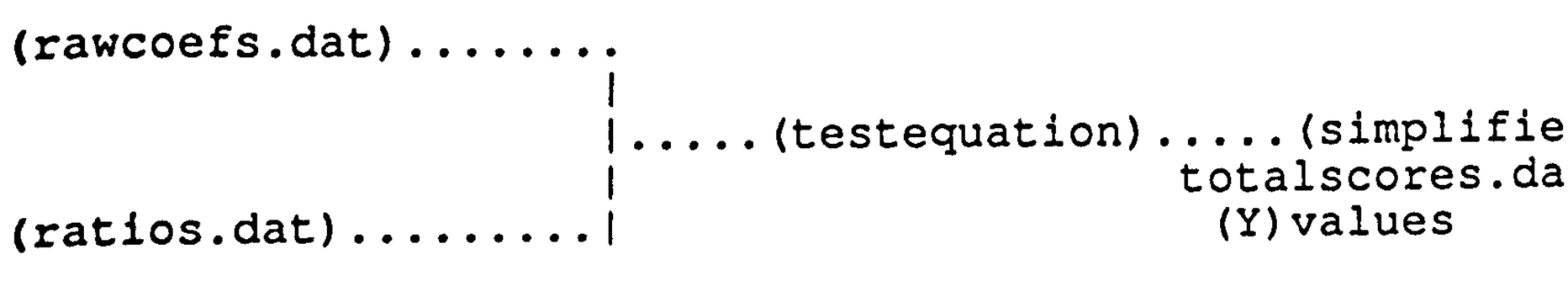


Table (7.7) Raw Coefficient Scores

c1	2.48454
c2	5.61277
c3	4.51179
c4	1.28913
c5	0.75129
c6	0.53727
c7	0.04355
c8	0.30550
c9	0.10215
c10	0.23615
c11	-1.32927
c12	2.77953
c13	-1.17297
c14	2.59903
c15	0.14483
c16	-0.80515
c17	-0.97022
c18	-0.03847
c19	0.08548
c20	0.94866
c21	0.16845
c22	-1.43788
c23	0.23931
c24	3.11009
c25	0.30697
C	-3.41377

Table(7.8) Financial Performance Values With 0.3 Cut-off Level

Co.	Year	Value	Co.	Year	Value
1	77	7.10177	5	77	-2.93455
1	78	7.59539	5	78	-3.14797
1	79	4.61338	5	79	-3.37318
1	80	1.82183	5	80	0.07745
1	81	1.29984	5	81	-1.62504
1	82	1.10294	5	82	3.03239
1	83	0.19479	5	83	2.97661
1	84	2.07643	5	84	2.90839
1	85	1.86389	5	85	-1.04087
1	86	1.67989	5	86	3.04300
1	87	1.28233	5	87	1.02526
1	88	1.36410	5	88	1.28913
2	77	-6.67078	6	77	1.71397
2	78	-4.75038	6	78	2.35511
2	79	-5.21759	6	79	1.33234
2	80	-4.85076	6	80	0.70717
2	81	-5.04629	6	81	0.97671
2	82	-6.07348	6	82	1.33676
2	83	-4.53120	6	83	1.86936
2	84	-6.26007	6	84	1.80205
2	85	-7.71406	6	85	5.67770
2	86	-9.64400	6	86	7.71920
2	87	-4.96343	6	87	7.93510
2	88	-4.64927	6	88	8.19790
3	77	3.35881	7	77	6.20325
3	78	0.37601	7	78	6.77665
3	79	1.48050	7	79	10.11676
3	80	-5.25199	7	80	5.80193
3	81	-5.98605	7	81	4.81628
3	82	0.06570	7	82	1.75014
3	83	1.37670	7	83	-3.15794
3	84	0.26098	7	84	-2.28746
3	85	-2.14623	7	85	-1.93356
3	86	0.17225	7	86	2.97823
3	87	-5.61089	7	87	2.16969
3	88	-1.86679	7	88	1.70886
4	77	2.43661	8	77	1.53079
4	78	3.86528	8	78	0.53334
4	79	2.59123	8	79	-0.56636
4	80	0.73118	8	80	-0.43313
4	81	-2.65360	8	81	-1.54638
4	82	-3.19138	8	82	-2.28297
4	83	-3.56447	8	83	-1.76927
4	84	-2.92896	8	84	-1.64399
4	85	-2.20912	8	85	-1.08140
4	86	-0.89206	8	86	-2.85874
4	87	-2.89455	8	87	-3.37764
4	88	-1.37056	8	88	-3.07311

Table (7.9) The Value of Financial Performance

Co.	Year	Value	Co.	Year	Value
1	77	5.44301	5	77	-1.74639
1	78	5.59898	5	78	-1.67138
1	79	2.85656	5	79	-1.47200
1	80	0.88204	5	80	0.46280
1	81	0.39098	5	81	0.15216
1	82	0.32708	5	82	1.66589
1	83	-0.24355	5	83	1.59197
1	84	0.91086	5	84	2.13100
1	85	0.65879	5	85	1.13906
1	86	0.50706	5	86	2.23066
1	87	0.18167	5	87	0.03758
1	88	0.22567	5	88	0.23753
2	77	-5.74281	6	77	0.82781
2	78	-3.41504	6	78	1.31820
2	79	-3.58491	6	79	0.62826
2	80	-3.41047	6	80	0.21479
2	81	-3.35406	6	81	0.36166
2	82	-3.88668	6	82	0.61254
2	83	-2.52393	6	83	0.95486
2	84	-4.05281	6	84	0.89522
2	85	-4.94503	6	85	3.65916
2	86	-6.02956	6	86	5.17276
2	87	-3.17254	6	87	5.18650
2	88	-2.95710	6	88	5.26569
3	77	3.94230	7	77	3.63801
3	78	1.24712	7	78	4.05679
3	79	3.29146	7	79	6.81245
3	80	-4.61449	7	80	4.40014
3	81	-3.63235	7	81	3.30463
3	82	0.22188	7	82	1.39473
3	83	1.04017	7	83	-2.23269
3	84	0.22665	7	84	-1.73371
3	85	-1.39347	7	85	-1.28083
3	86	-0.27512	7	86	2.64630
3	87	-4.39063	7	87	1.64445
3	88	-1.94300	7	88	1.34929
4	77	1.59295	8	77	0.51561
4	78	2.67892	8	78	-0.10987
4	79	1.75447	8	79	-0.45533
4	80	0.79266	8	80	0.10569
4	81	-1.41134	8	81	-0.99423
4	82	-1.98551	8	82	-1.45774
4	83	-2.31260	8	83	-1.70372
4	84	-1.45117	8	84	-1.70523
4	85	-0.89202	8	85	-1.19859
4	86	0.09283	8	86	-2.45359
4	87	-1.79621	8	87	-2.47491
4	88	-1.09116	8	88	-2.28042

7.8 Testing the strength of the model

As the model was applied to the studied enterprises which are operating in Iraq, it should be noted that the mean value of the financial performance (Y) is zero. This means that any enterprise Y value above zero is classified as above average, and vice versa to the enterprise which has Y value less than zero which is classified as below average.

An important method to test the strength of the model is to use the plotting procedure. However, we plotted the actual values of the three groups, namely profitability, liquidity, and managerial performance, against time, and compare them with the calculated financial performance. The aim of this procedure is to demonstrate the strength of the model in measuring financial performance, and to see how it responds when changes occur to these three important financial groups.

Four graphs for each enterprise are shown in the following pages; the first one shows the calculated financial performance, the second one shows the profitability of the company. While the third one shows the managerial performance, and finally, the fourth one shows the liquidity position of the company. All these groups are plotted over the same period. The results for the calculated financial performance are positively demonstrated the actual results for the three main groups.

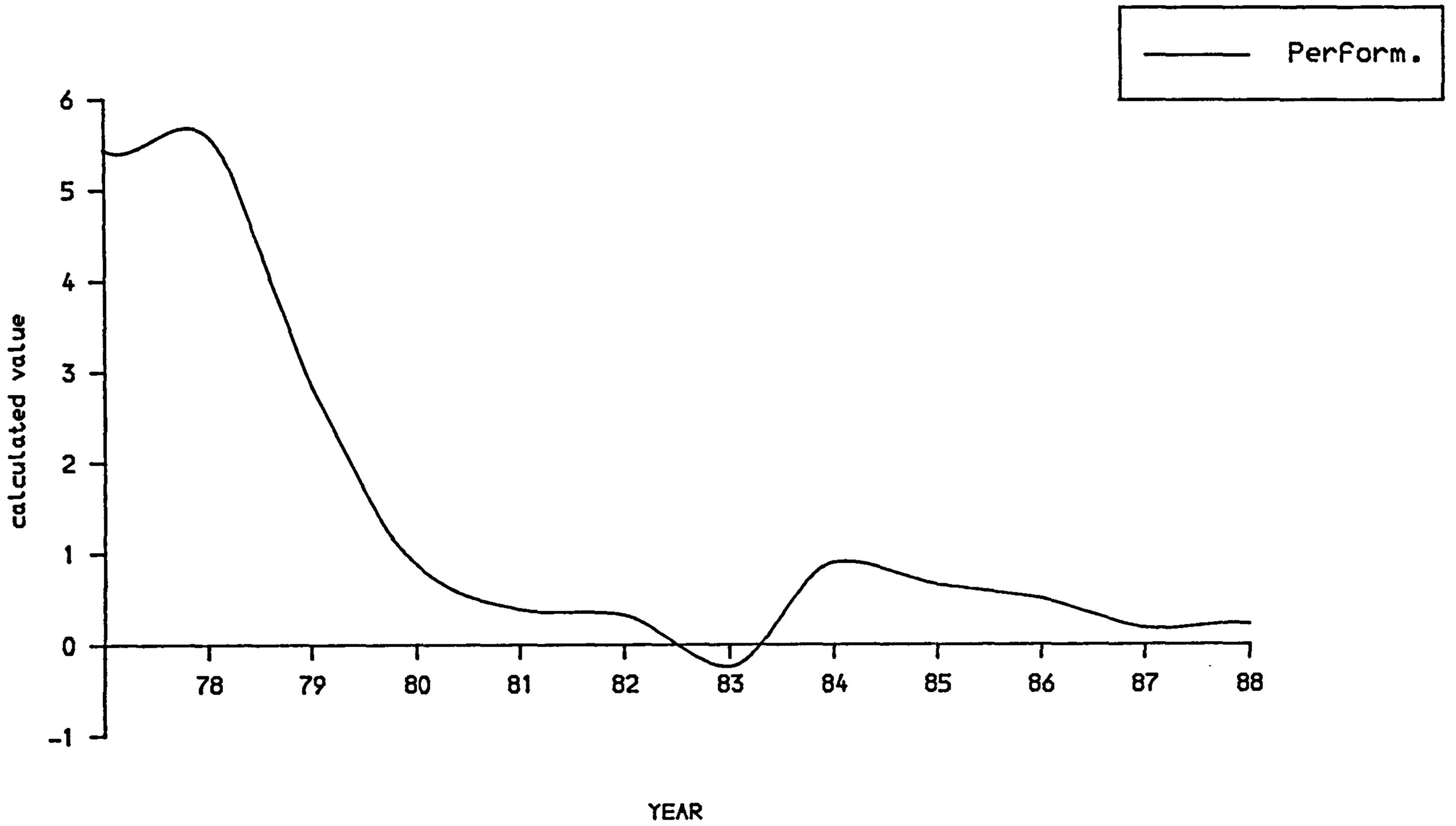


Fig.(7.1) Company1 / Financial Performance

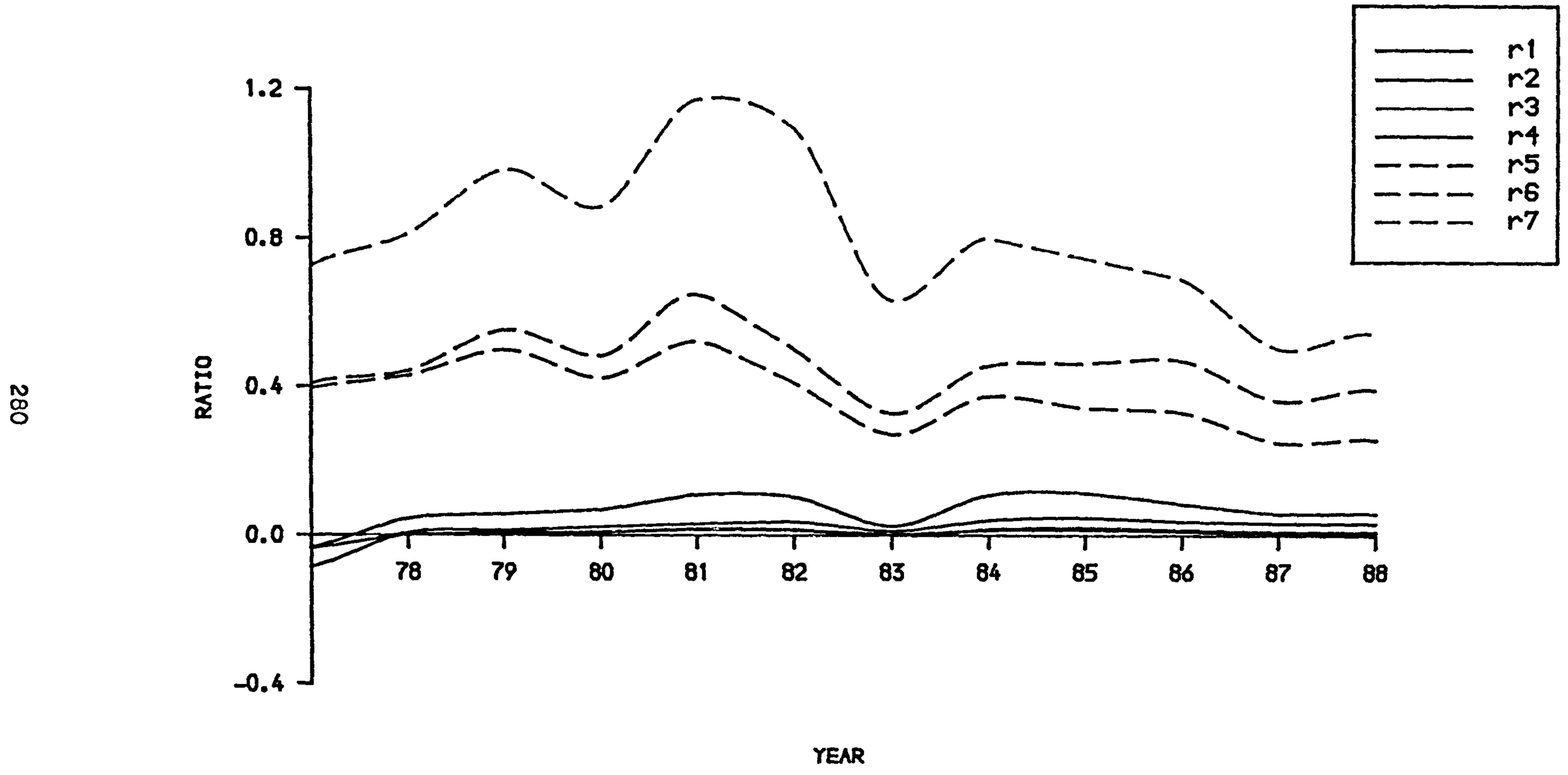


Fig.(7.2) Company1 / Profitability

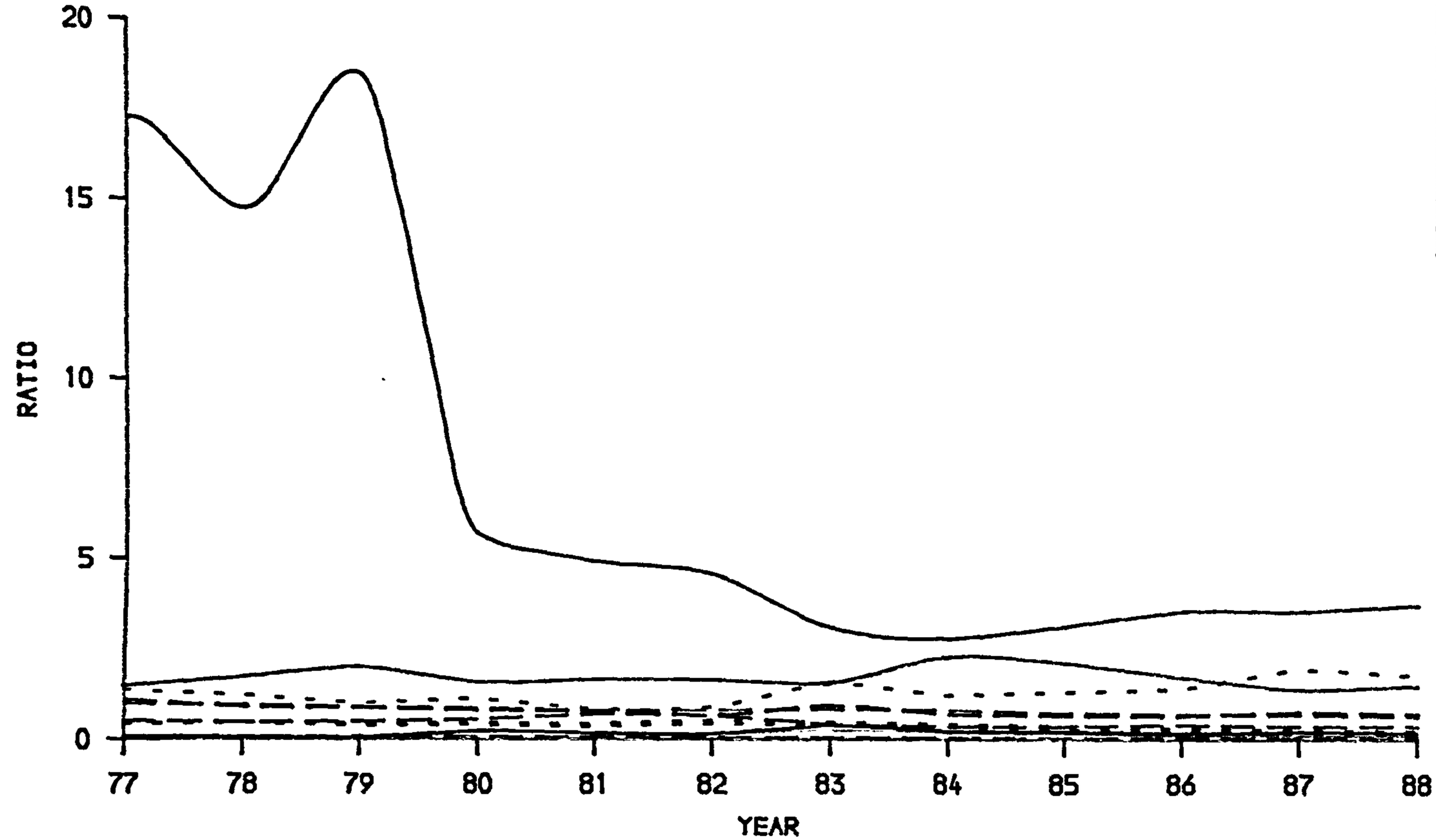


Fig.(7.3) Company1 / Managerial Performance

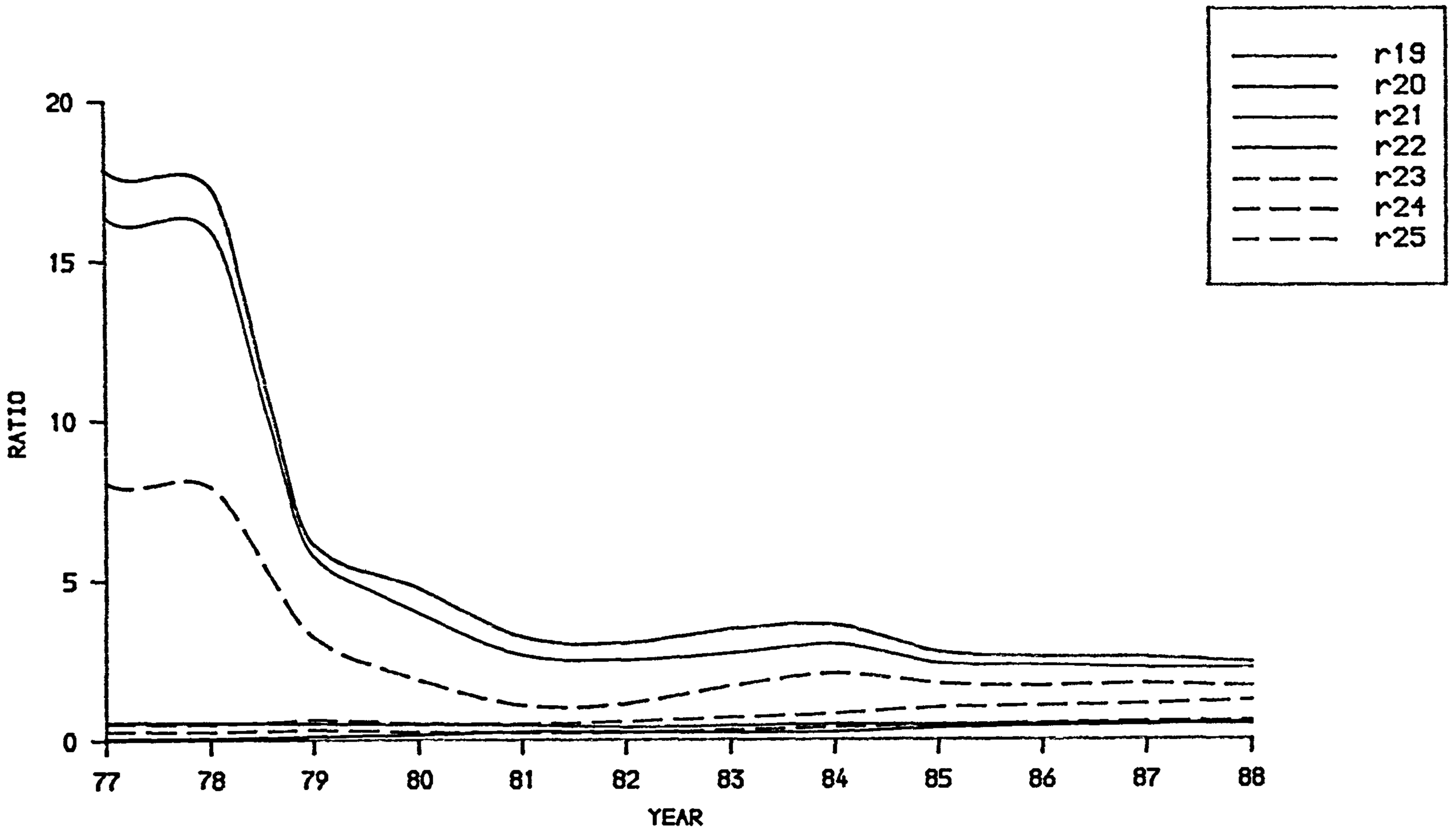


Fig.(7.4) Company1 / Liquidity

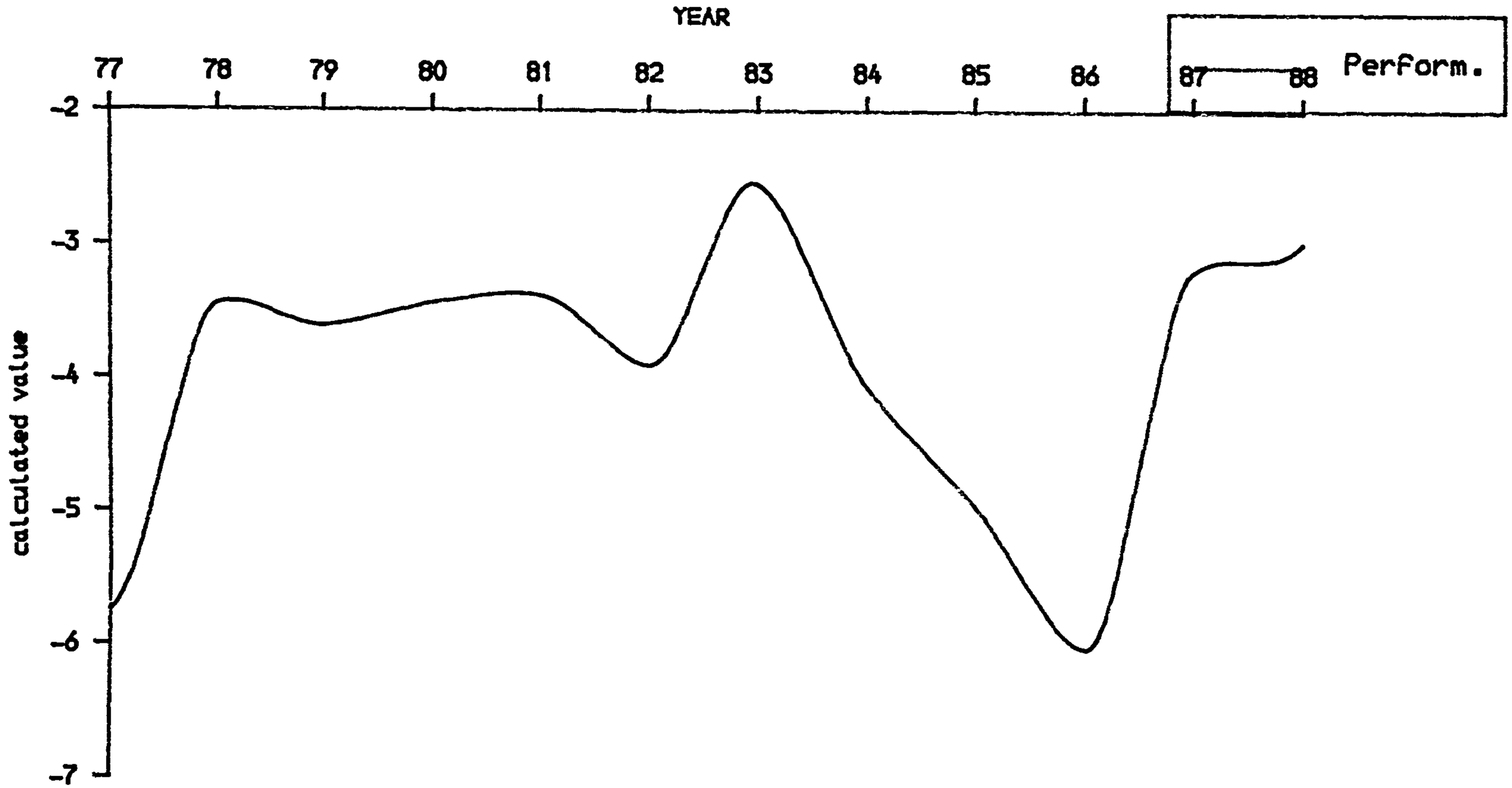


Fig.(7.5) Company2 / Financial Performance

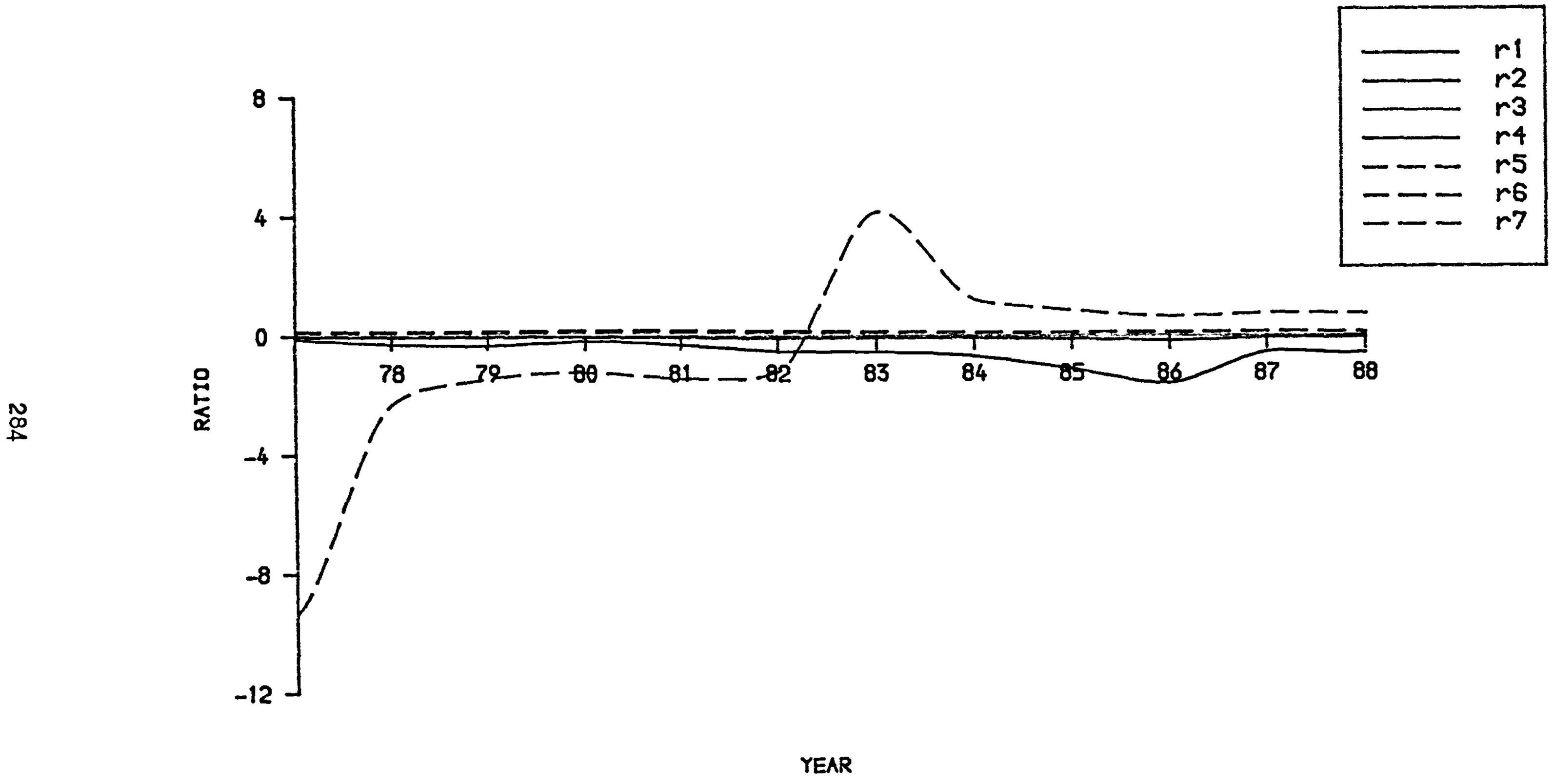


Fig.(7.6) Company2 / Profitability

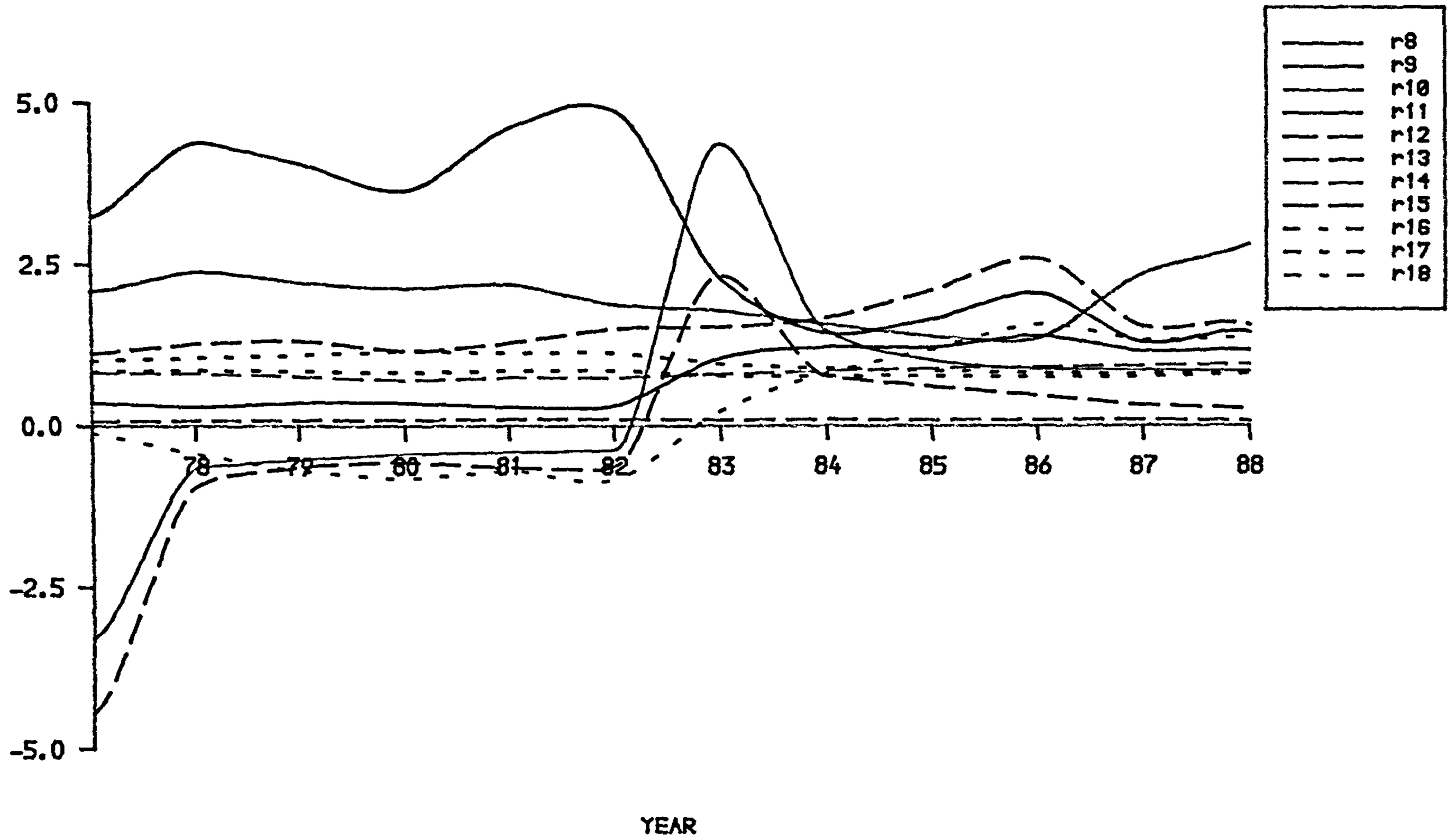


Fig.(7.7) Company2 / Managerial Performance

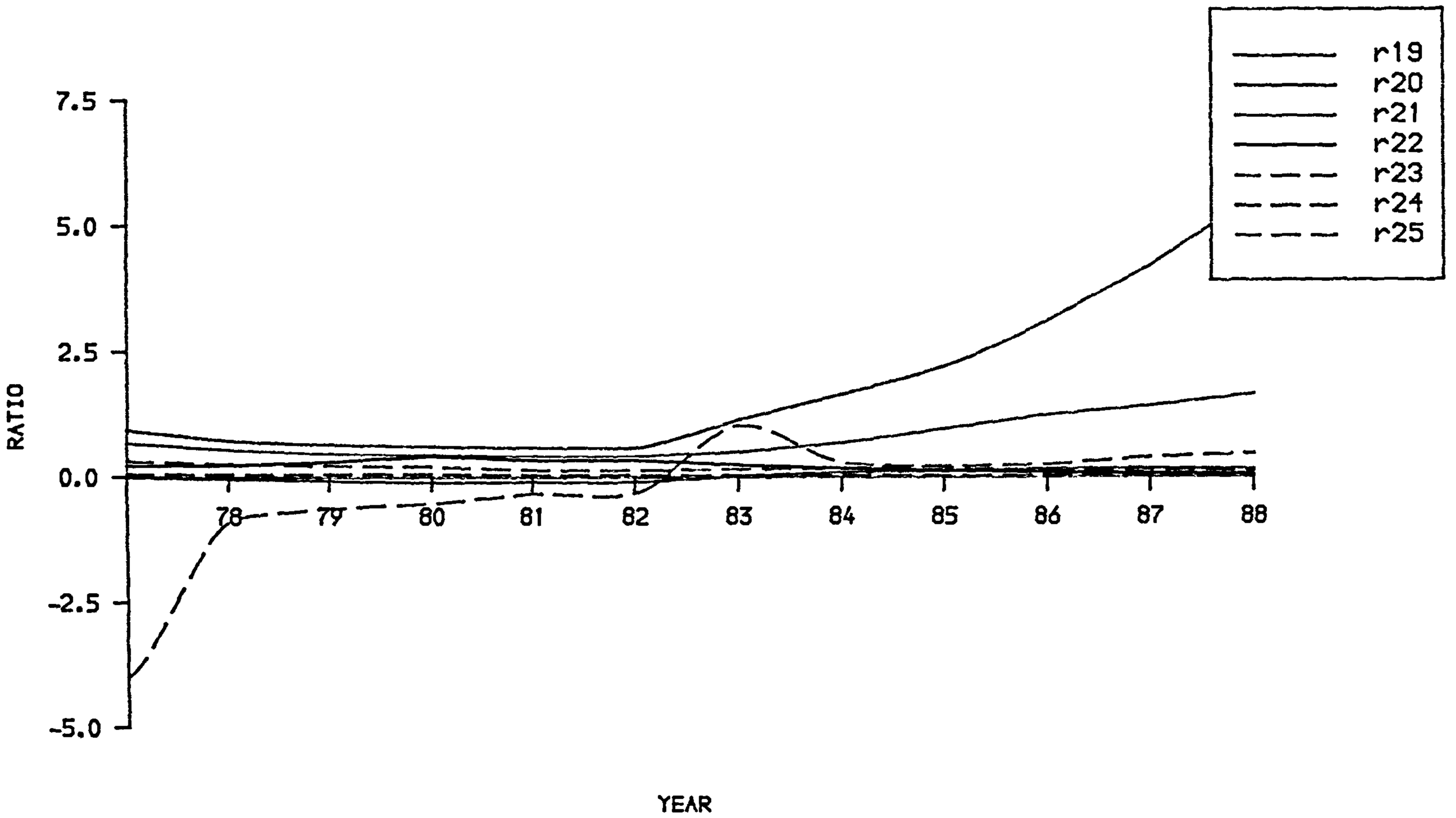


Fig.(7.8) Company2 / Liquidity

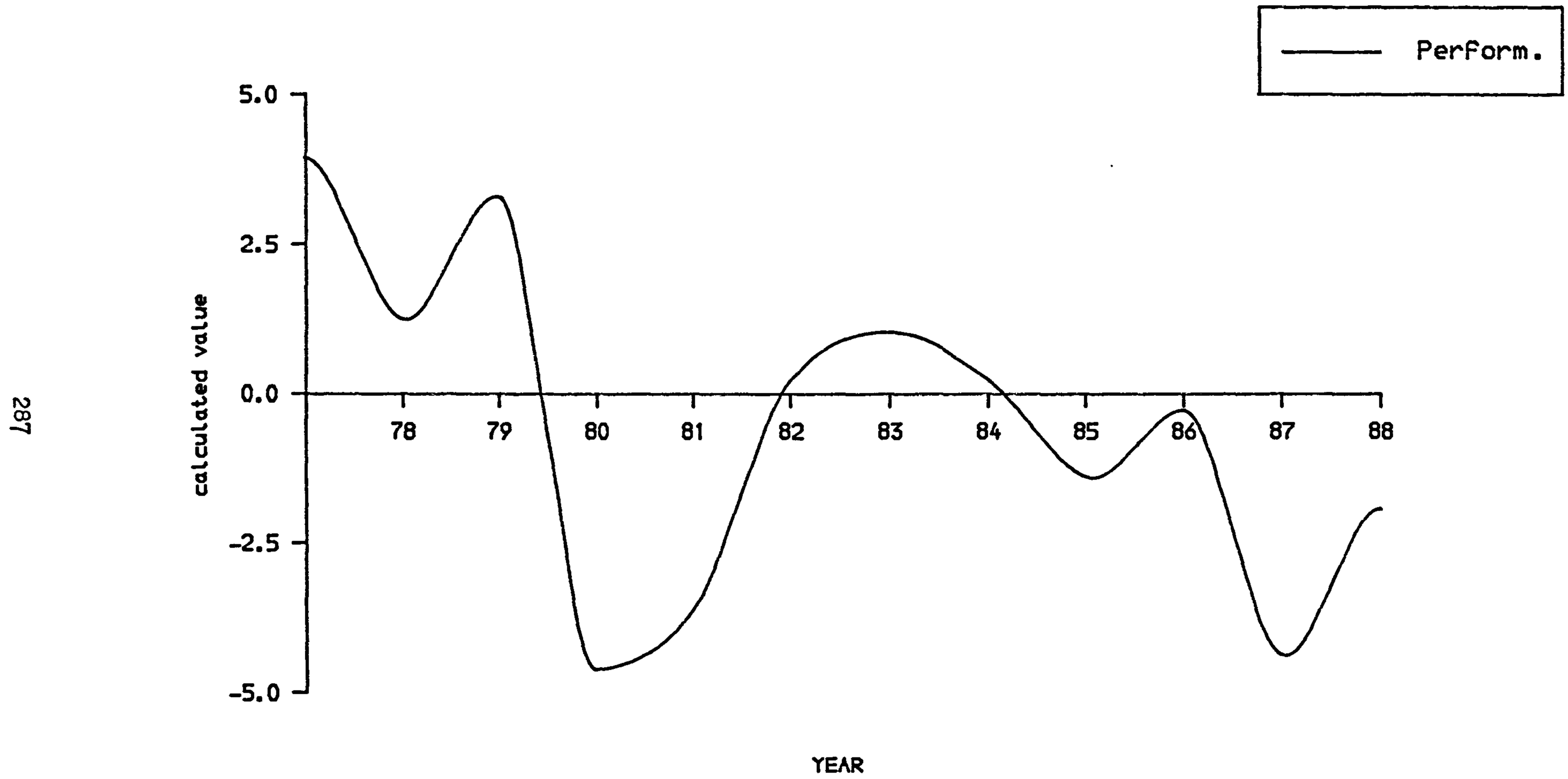


Fig.(7.9) Company3 / Financial Performance

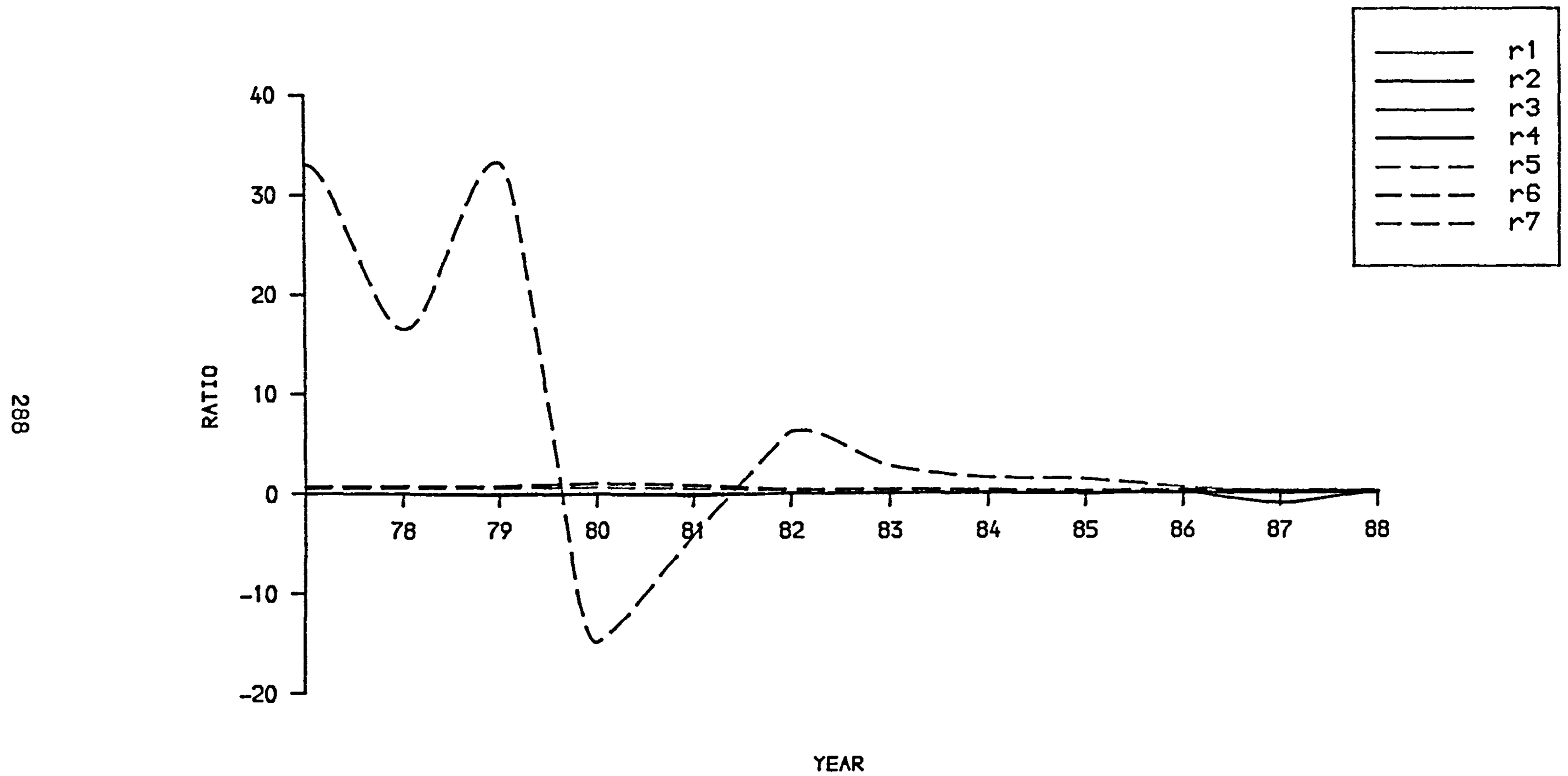


Fig.(7.10) Company3 / Profitability

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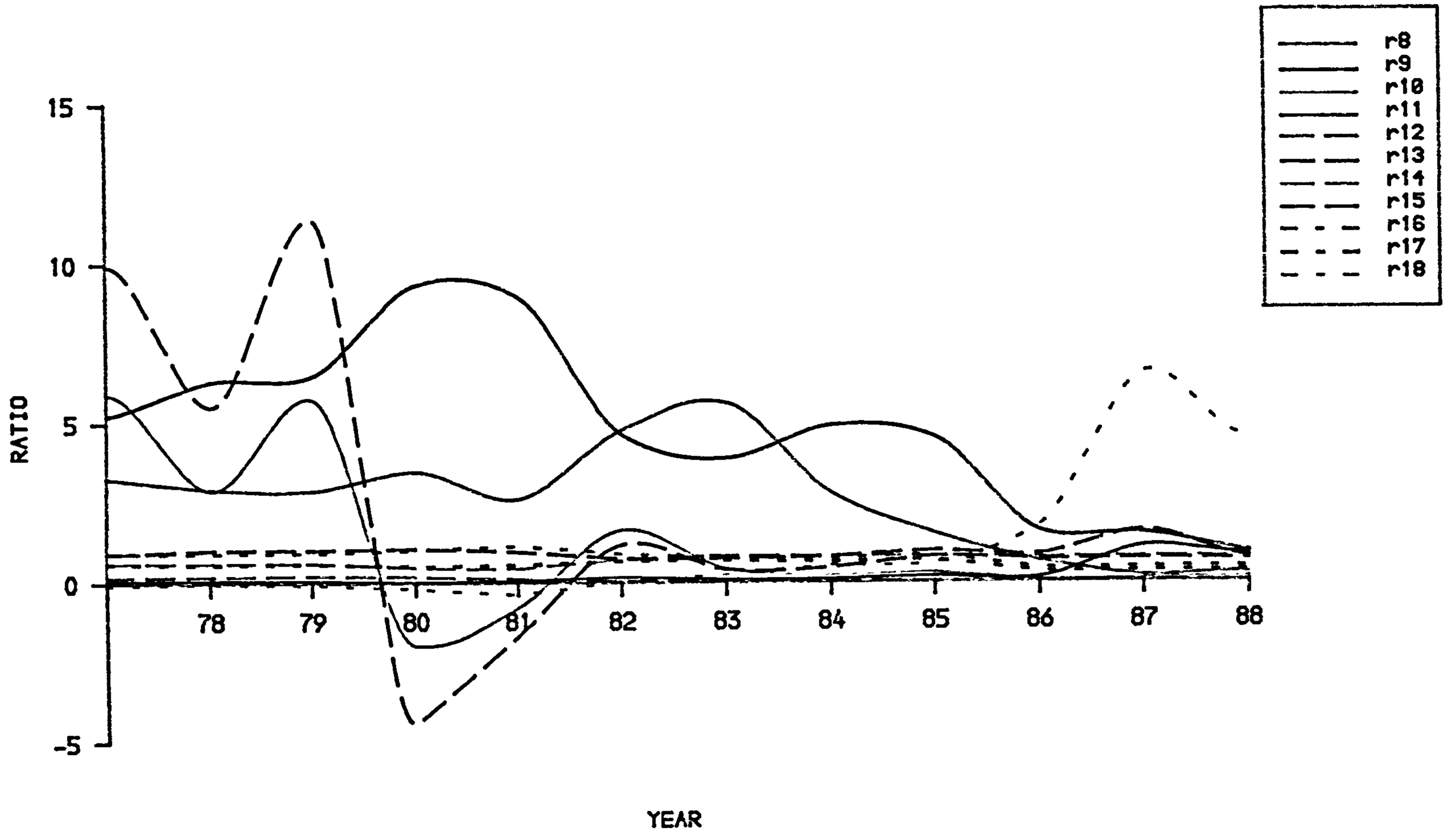

Fig.(7.11) Company3 / Managerial PerFormance

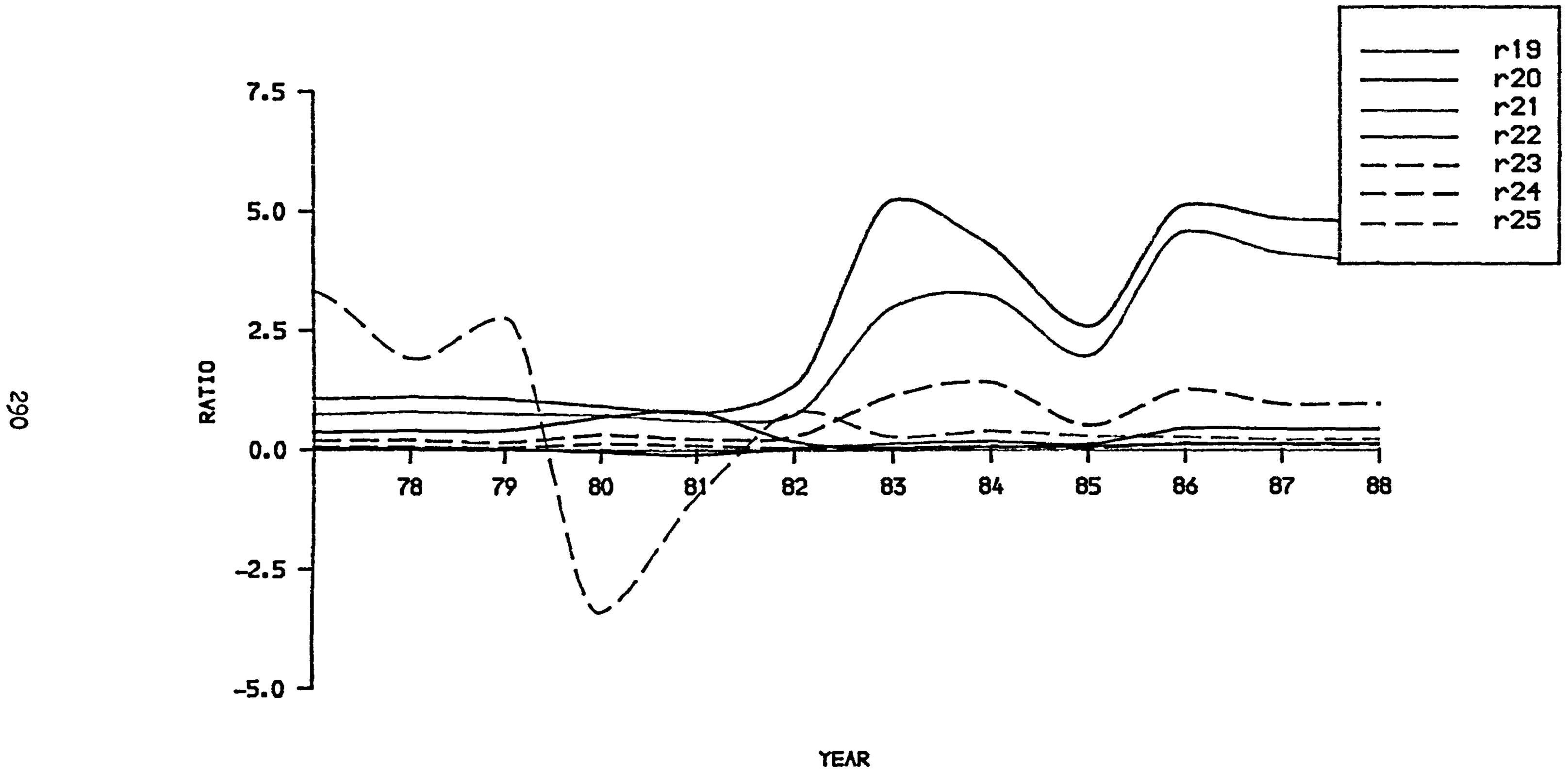

Fig.(7.12) Company3 / Liquidity

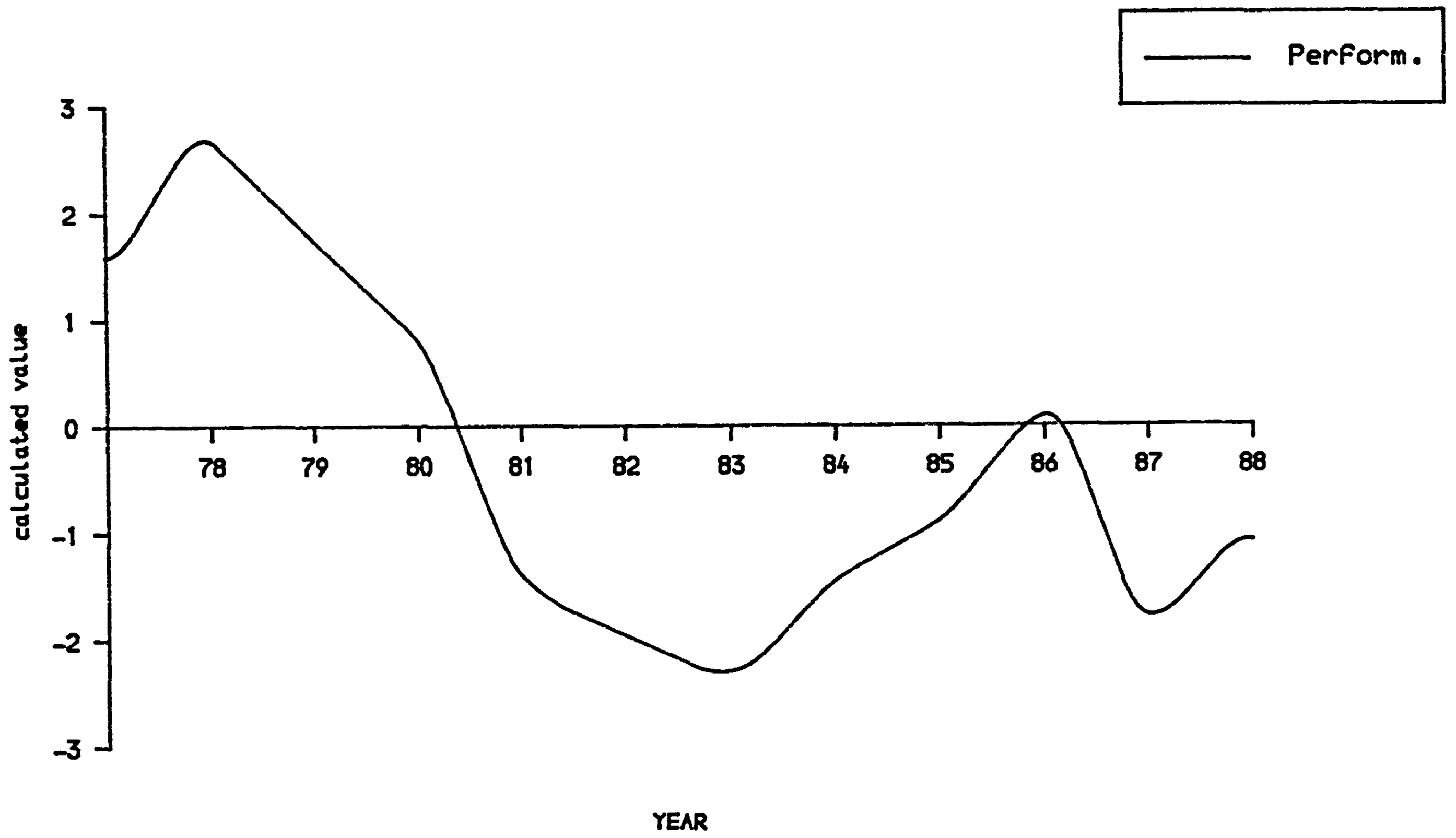

Fig.(7.13) Company4 / Financial PerFormance

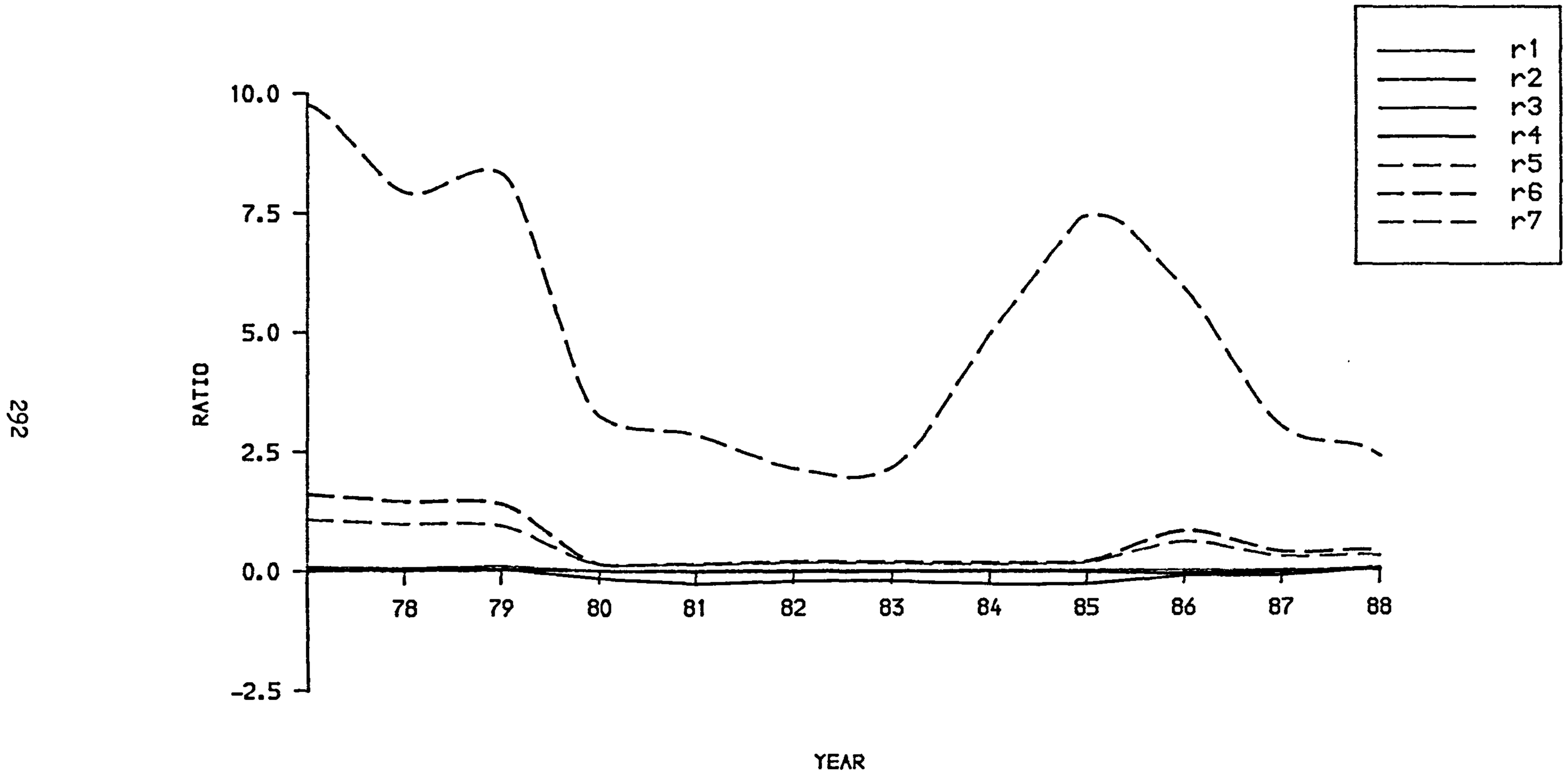

Fig.(7.14) Company4 / Profitability

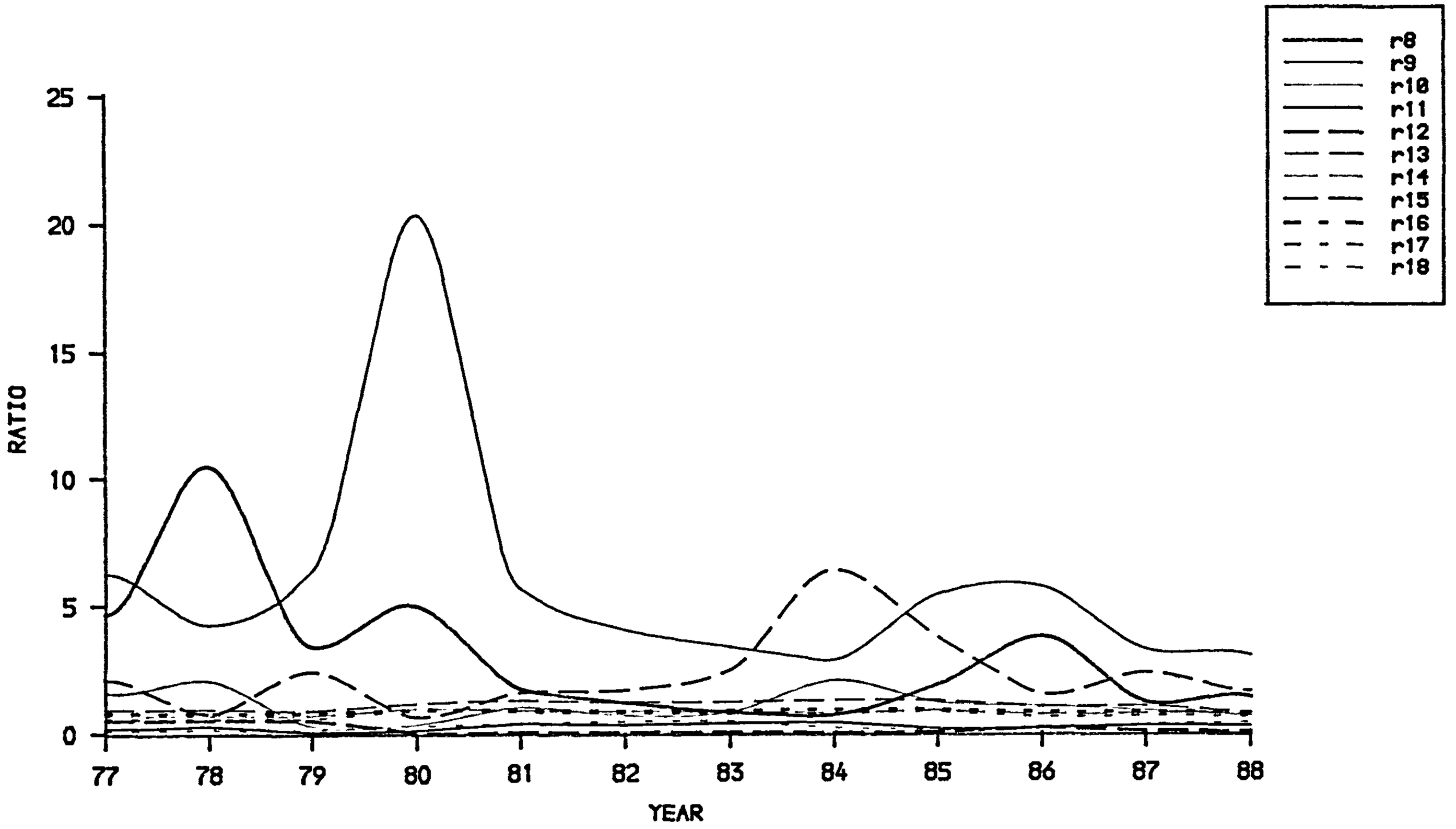

Fig.(7.15) Company4 / Managerial Performance

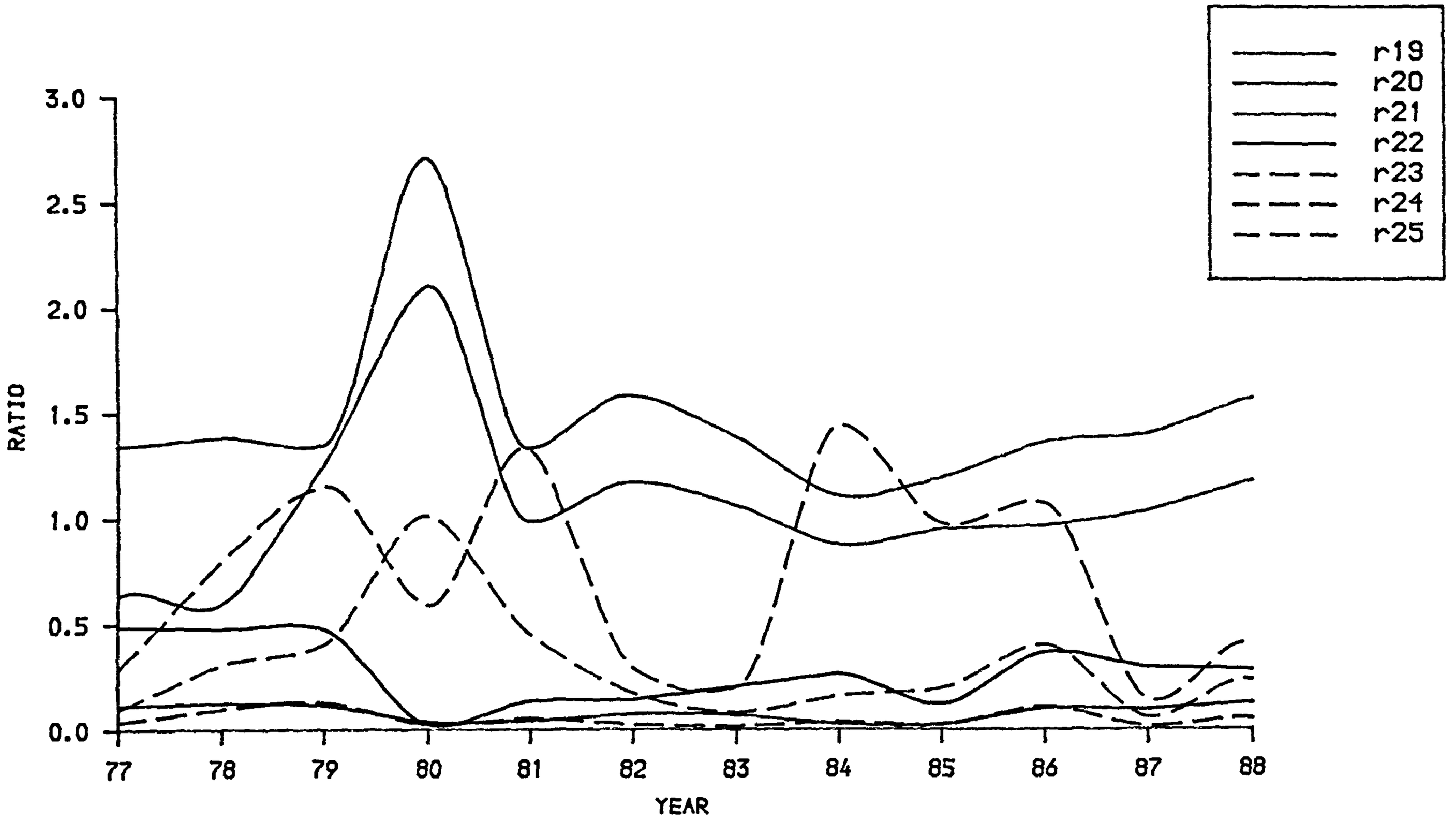

Fig.(7.16) Company4 / Liquidity

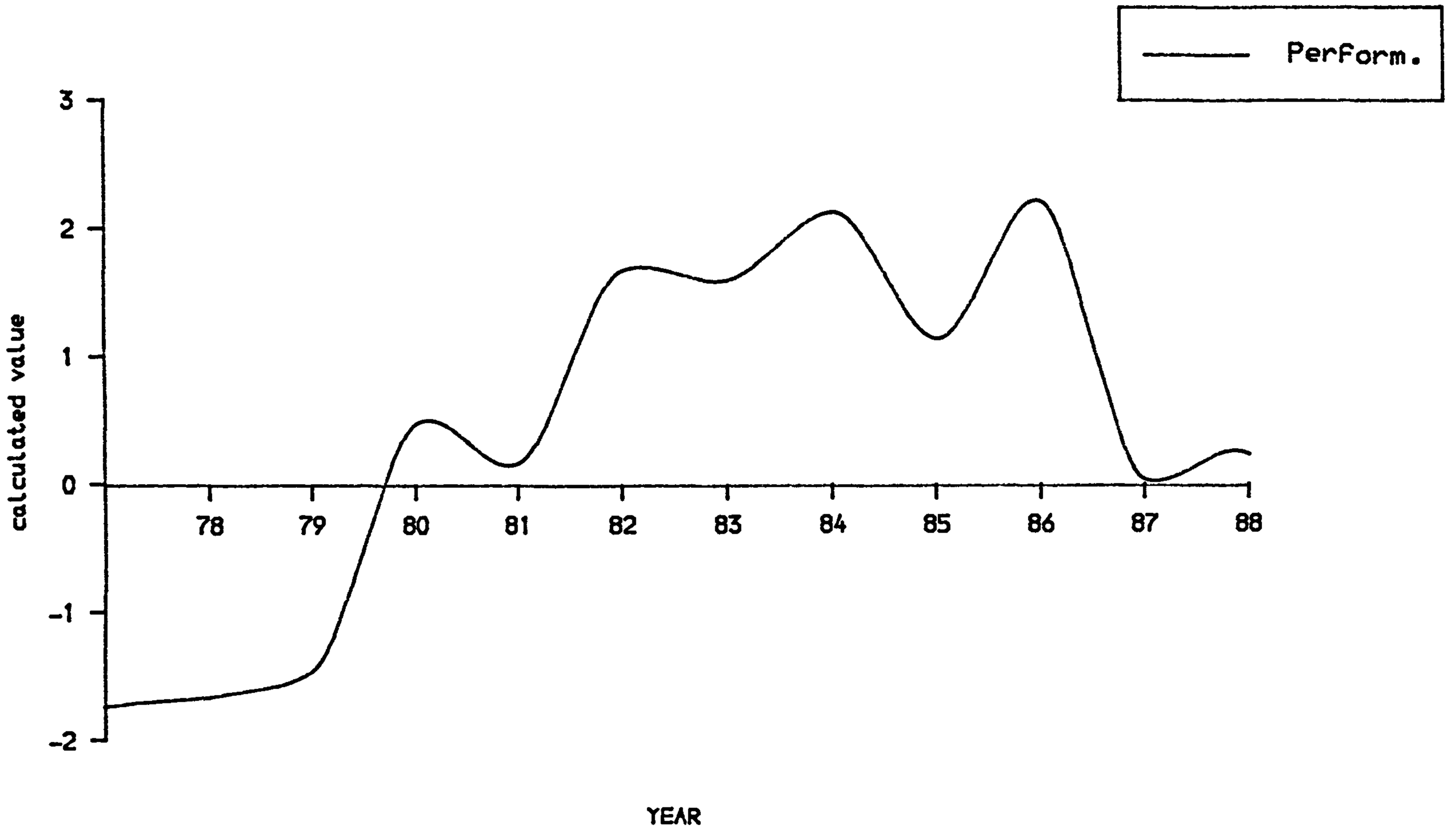

Fig.(7.17) Company5 / Financial PerFormance

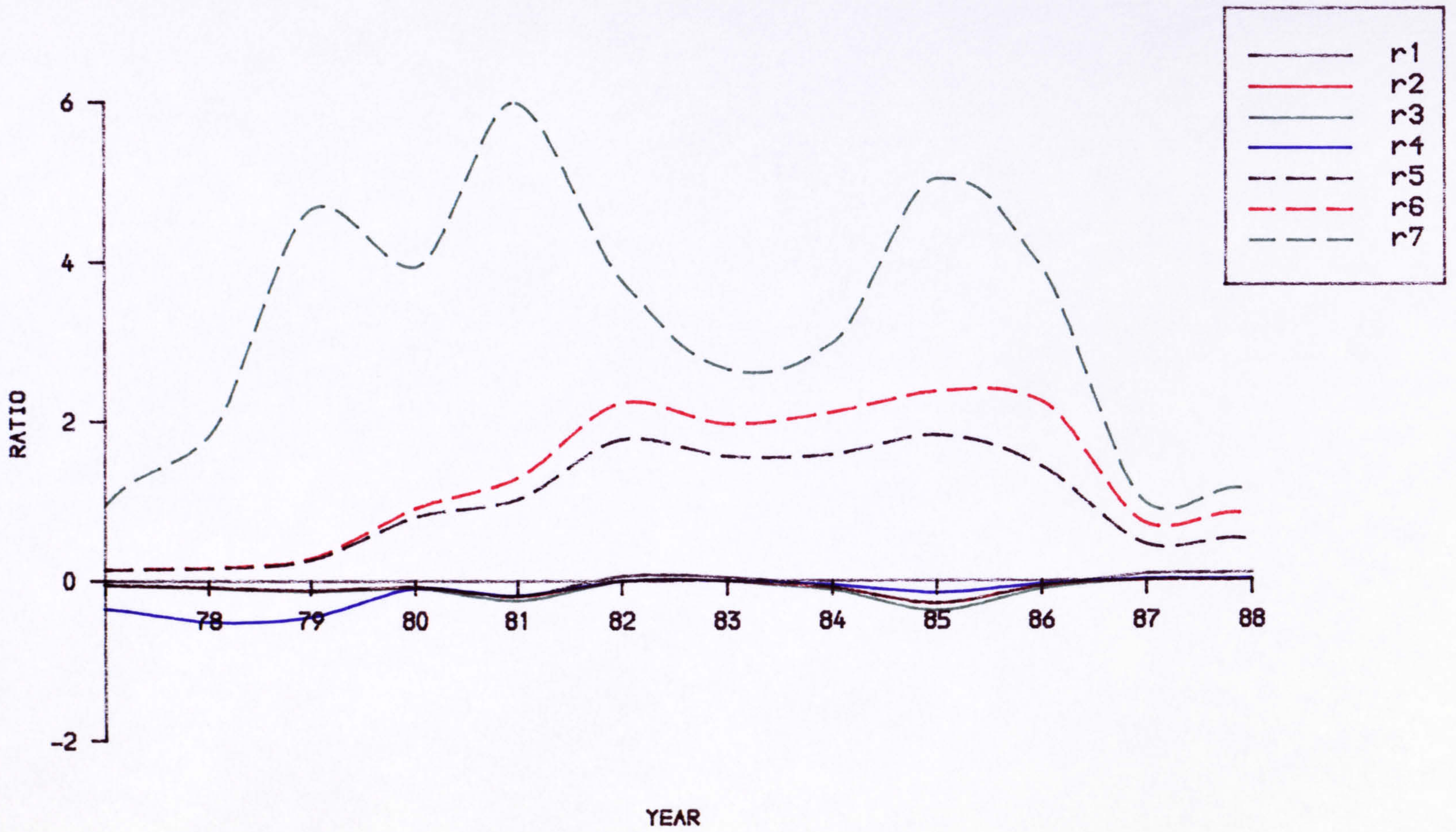

Fig.(7.18) Company5 / Profitability

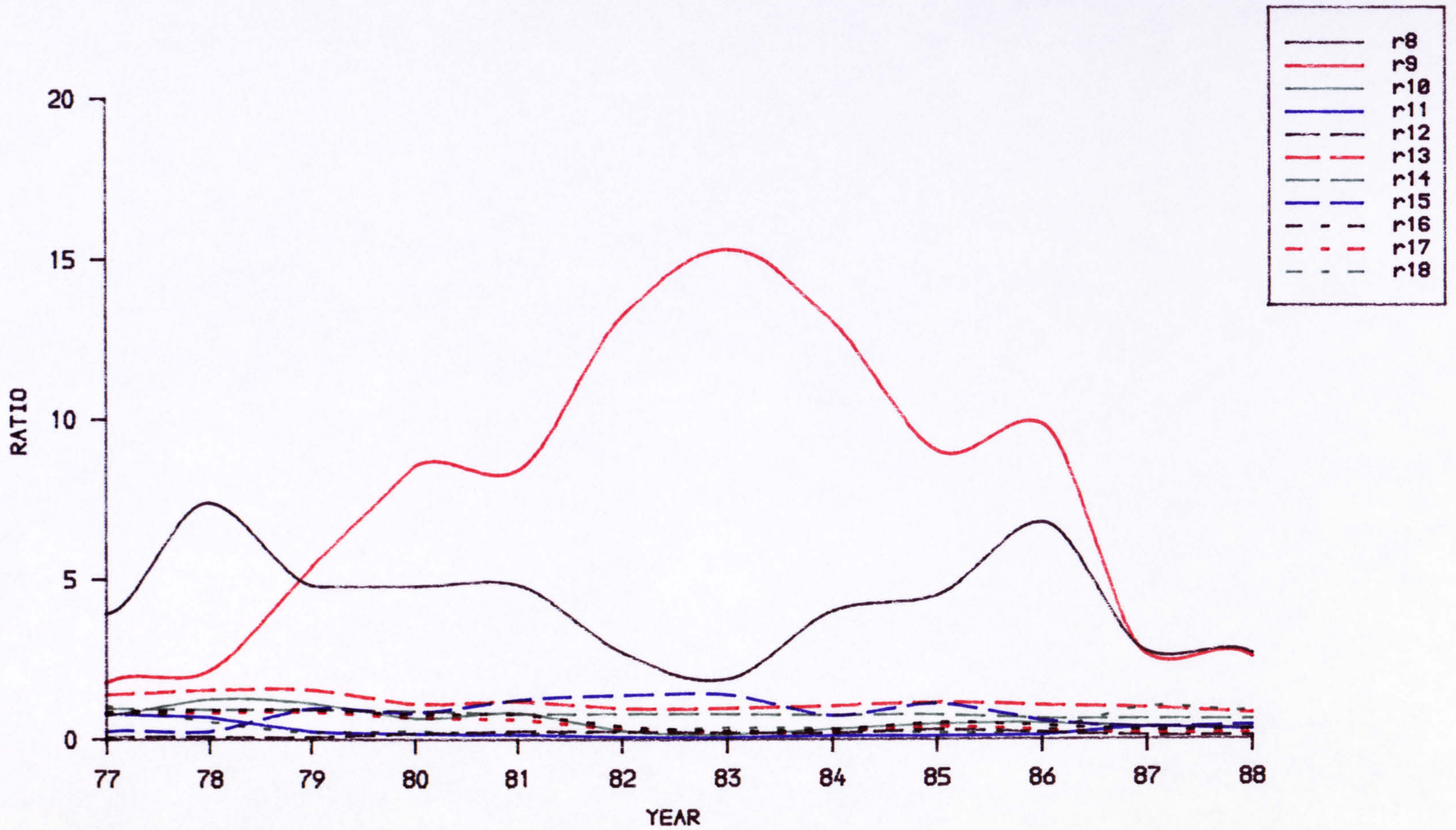

Fig.(7.19) Company5 / Managerial Performance

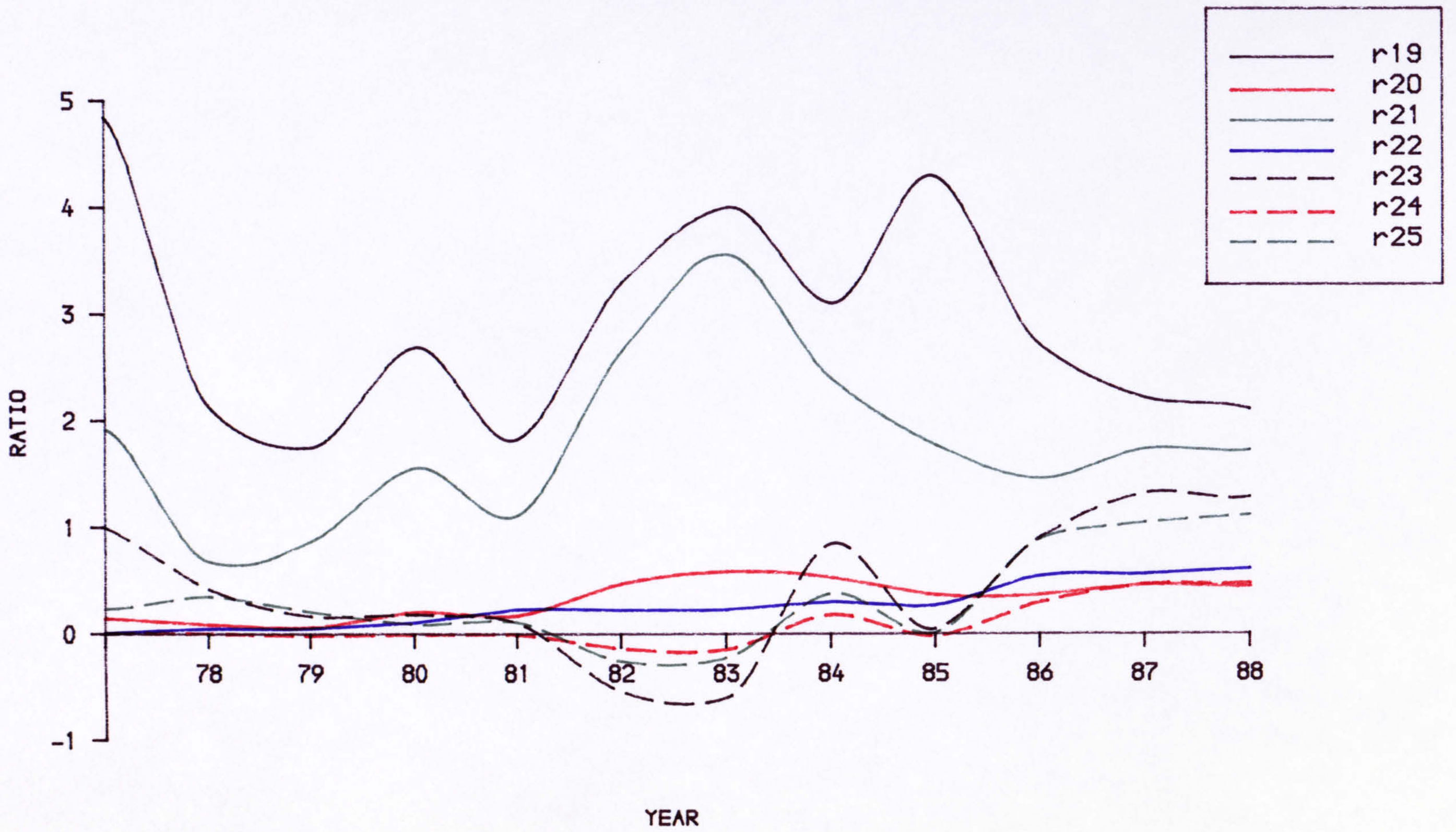

Fig.(7.20) Company5 / Liquidity

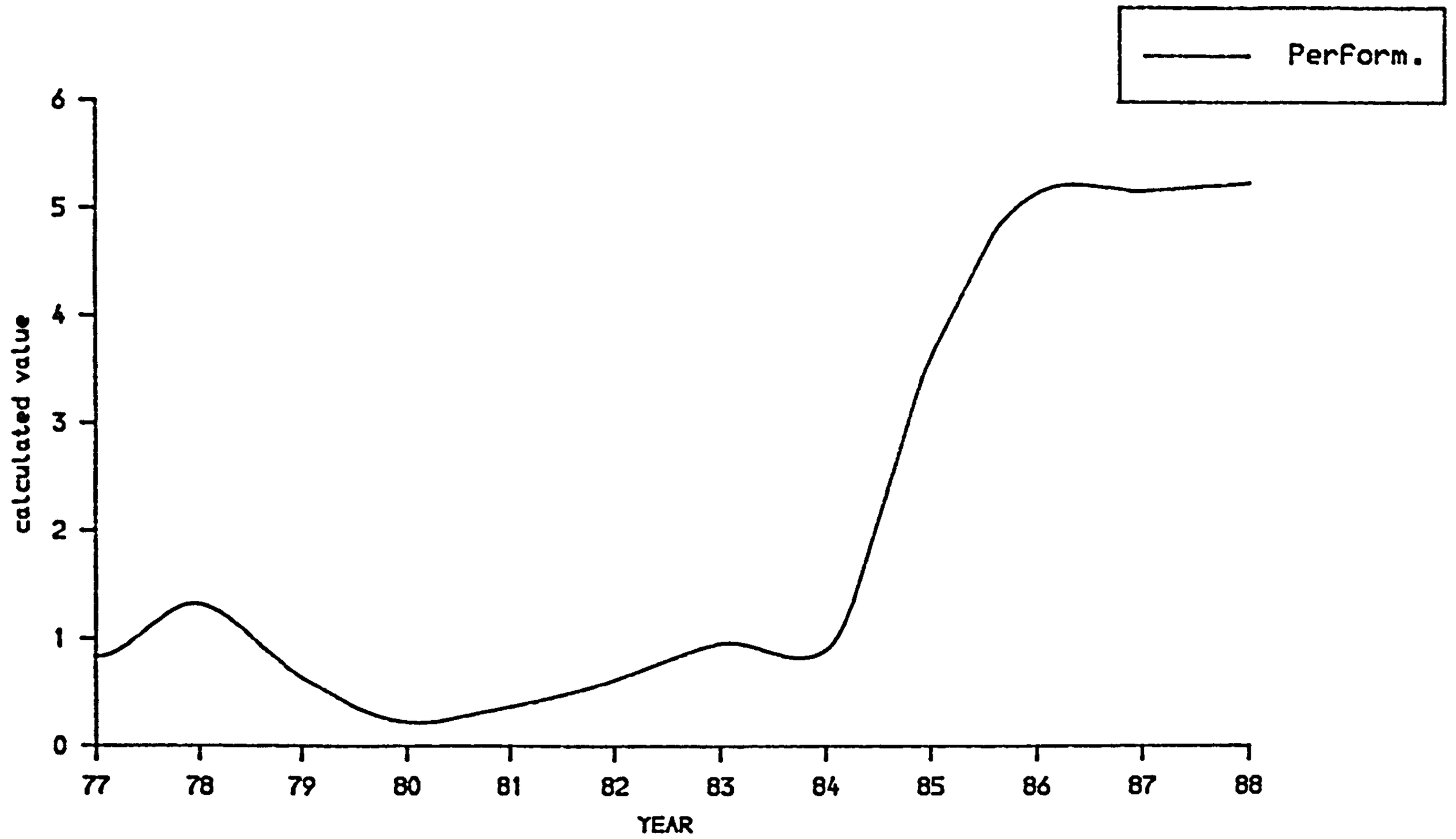

Fig.(7.21) Company6 / Financial Performance

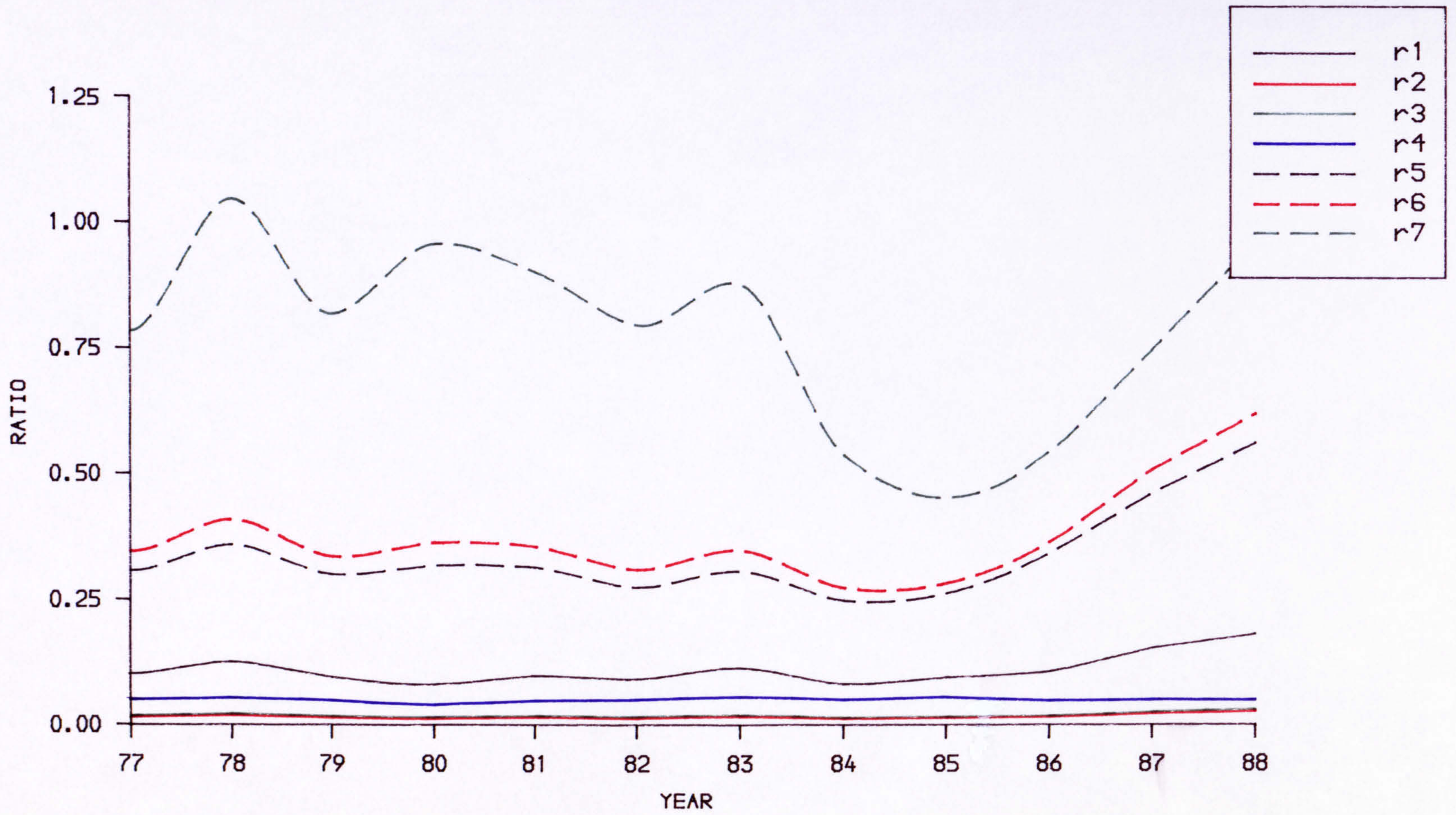

Fig.(7.22) Company6 / Profitability

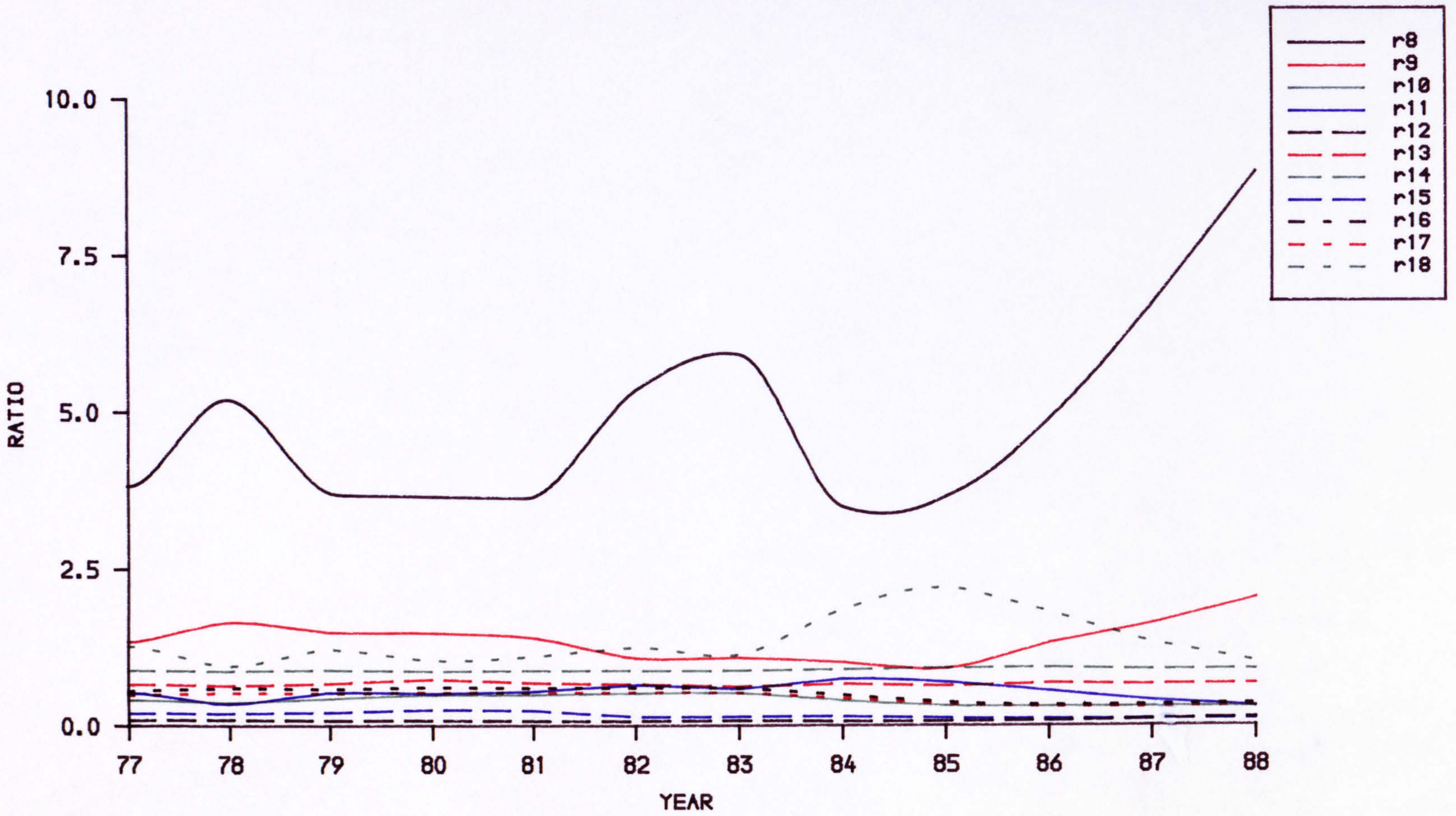

Fig.(7.23) Company6 / Managerial Performance

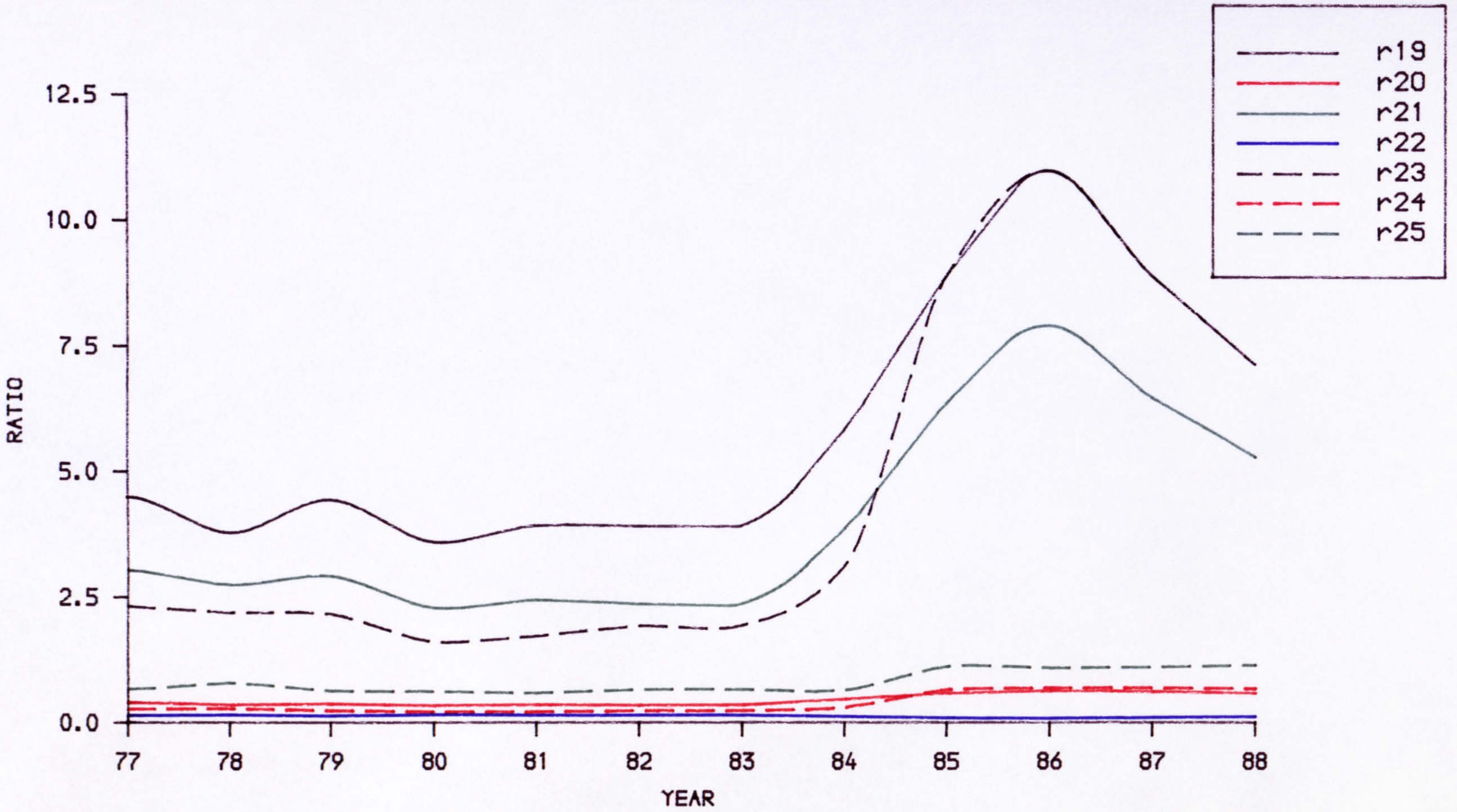

Fig.(7.24) Company6 / Liquidity

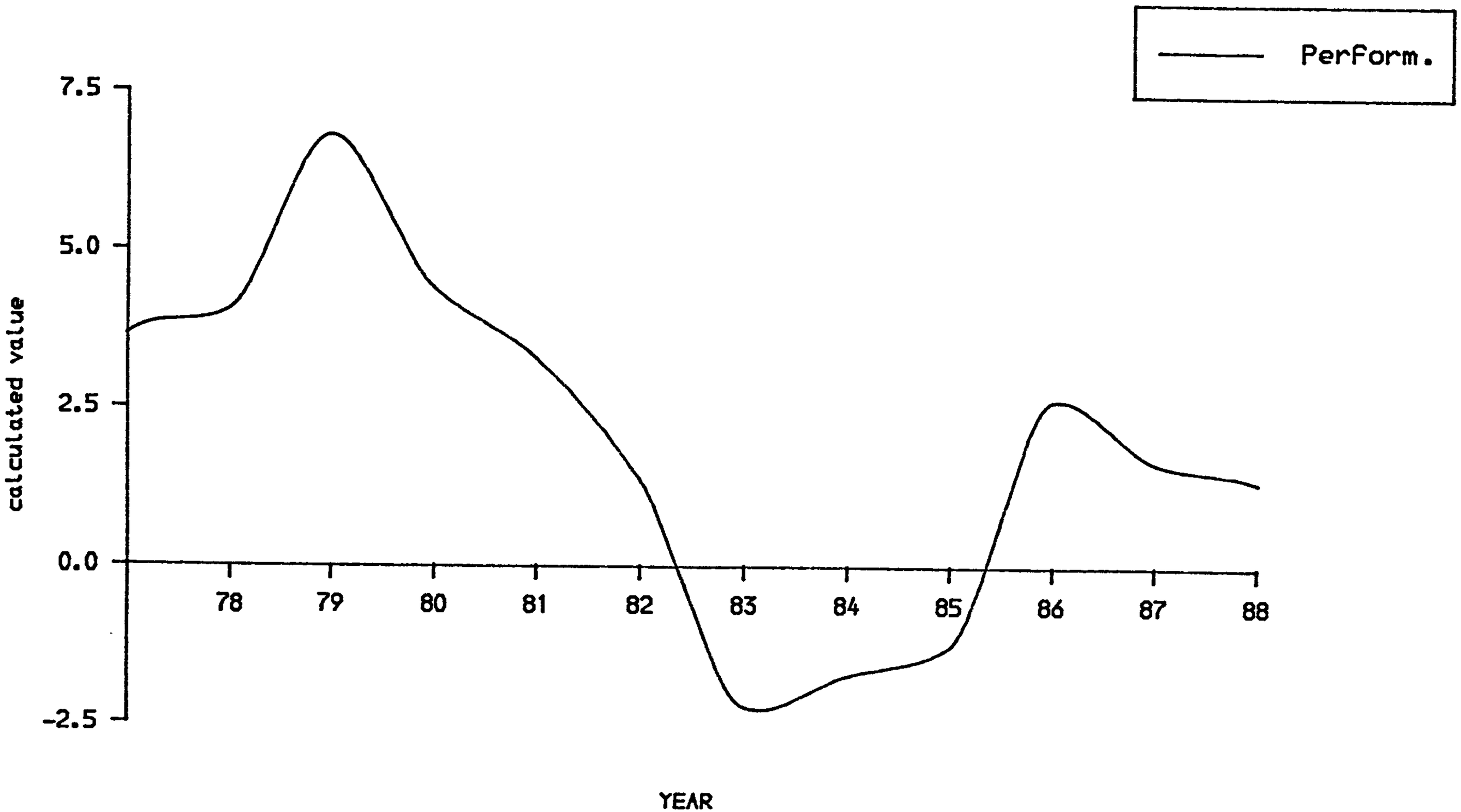

Fig.(7.25) Company7 / Financial Performance

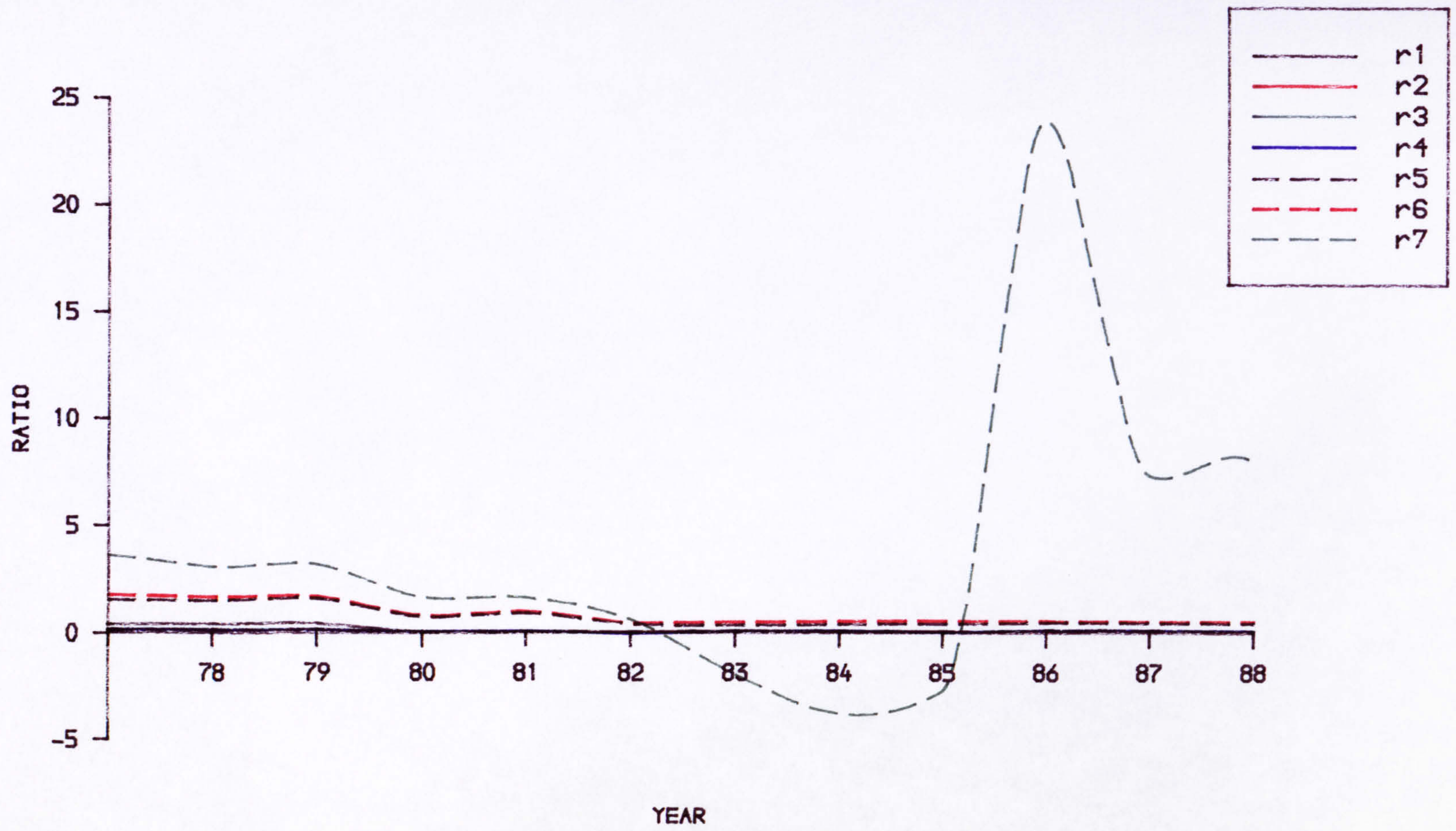

Fig.(7.26) Company7 / Profitability

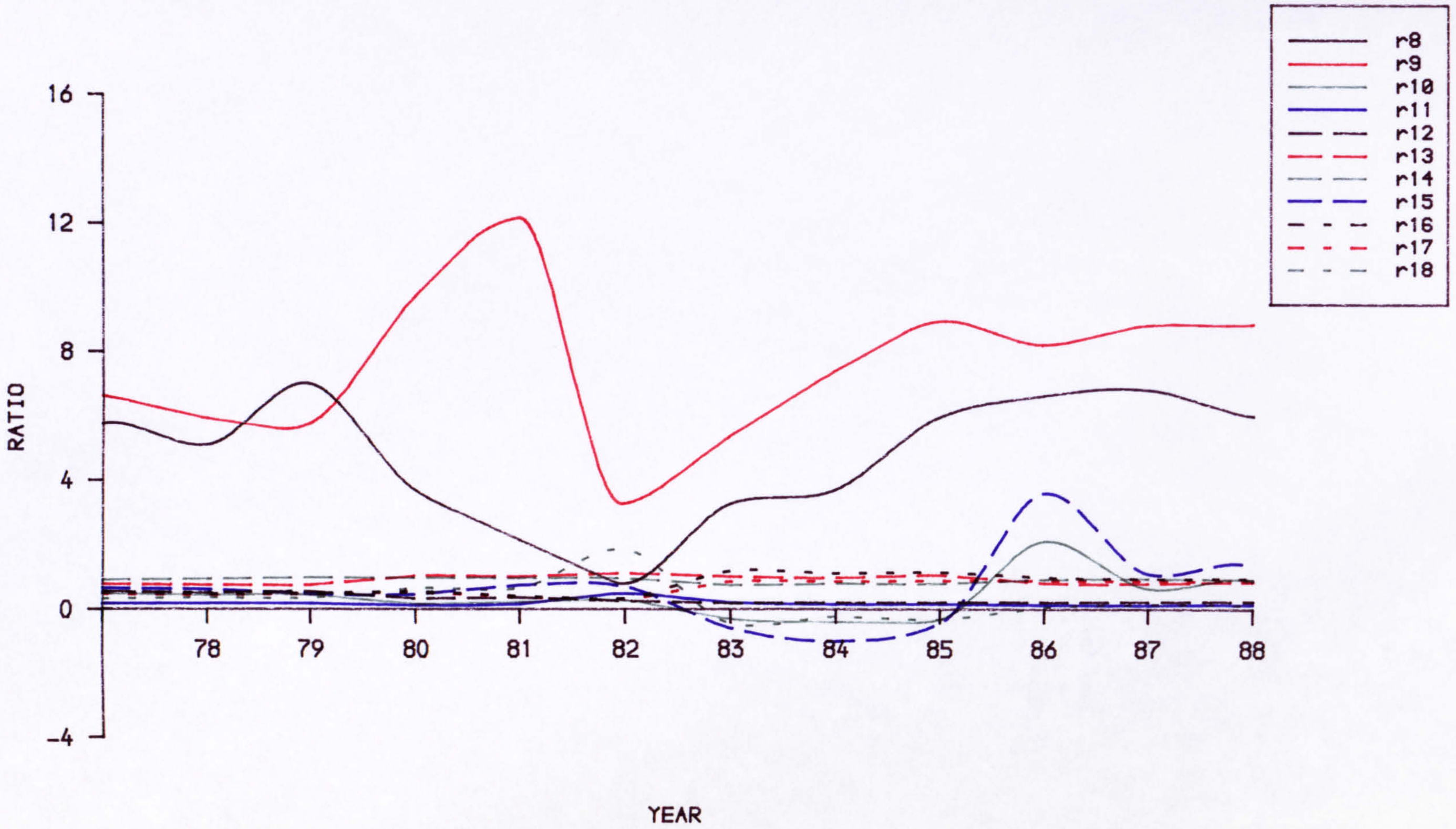

Fig.(7.27) Company7 / Managerial Performance

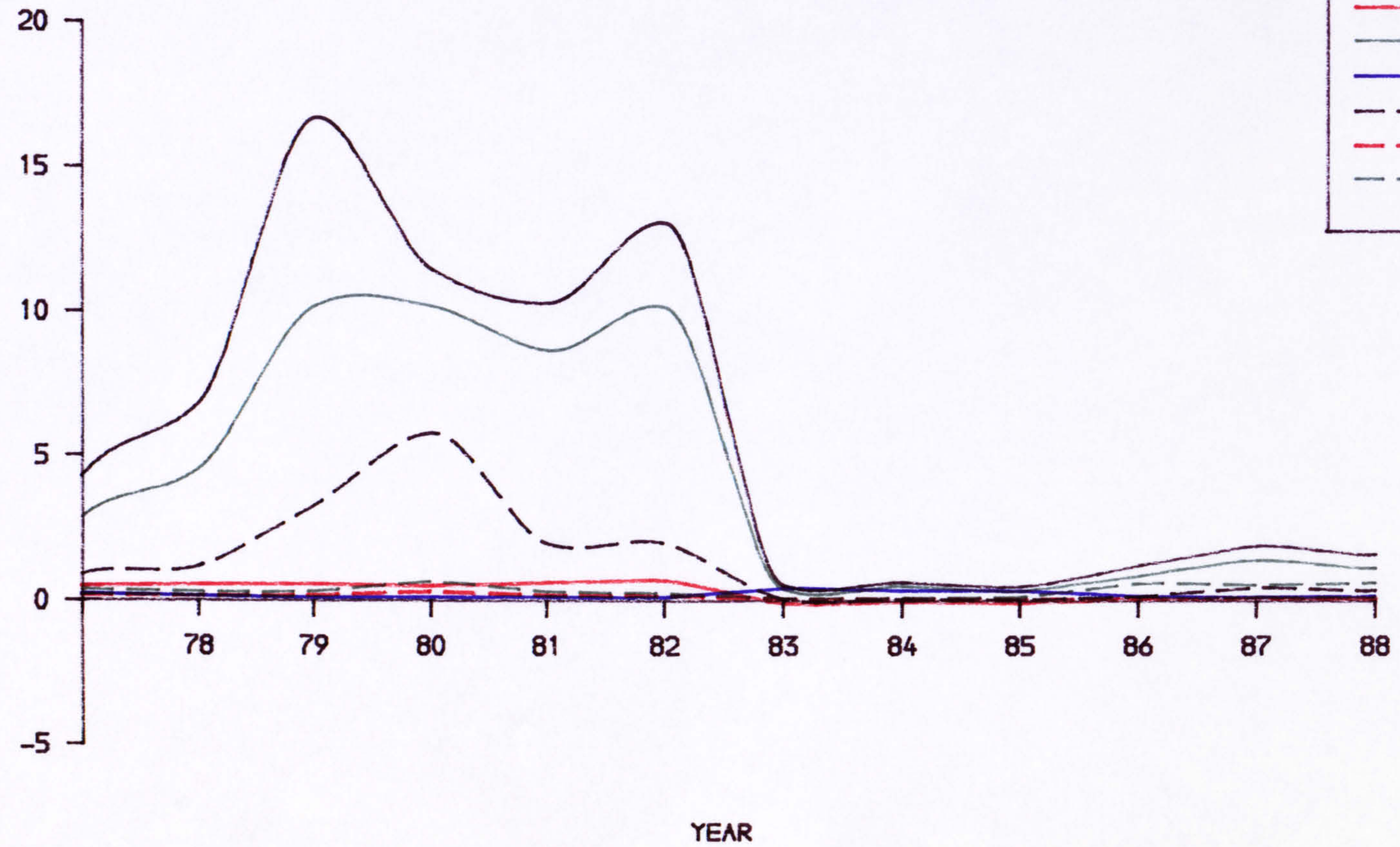

Fig.(7.28) Company7 / Liquidity

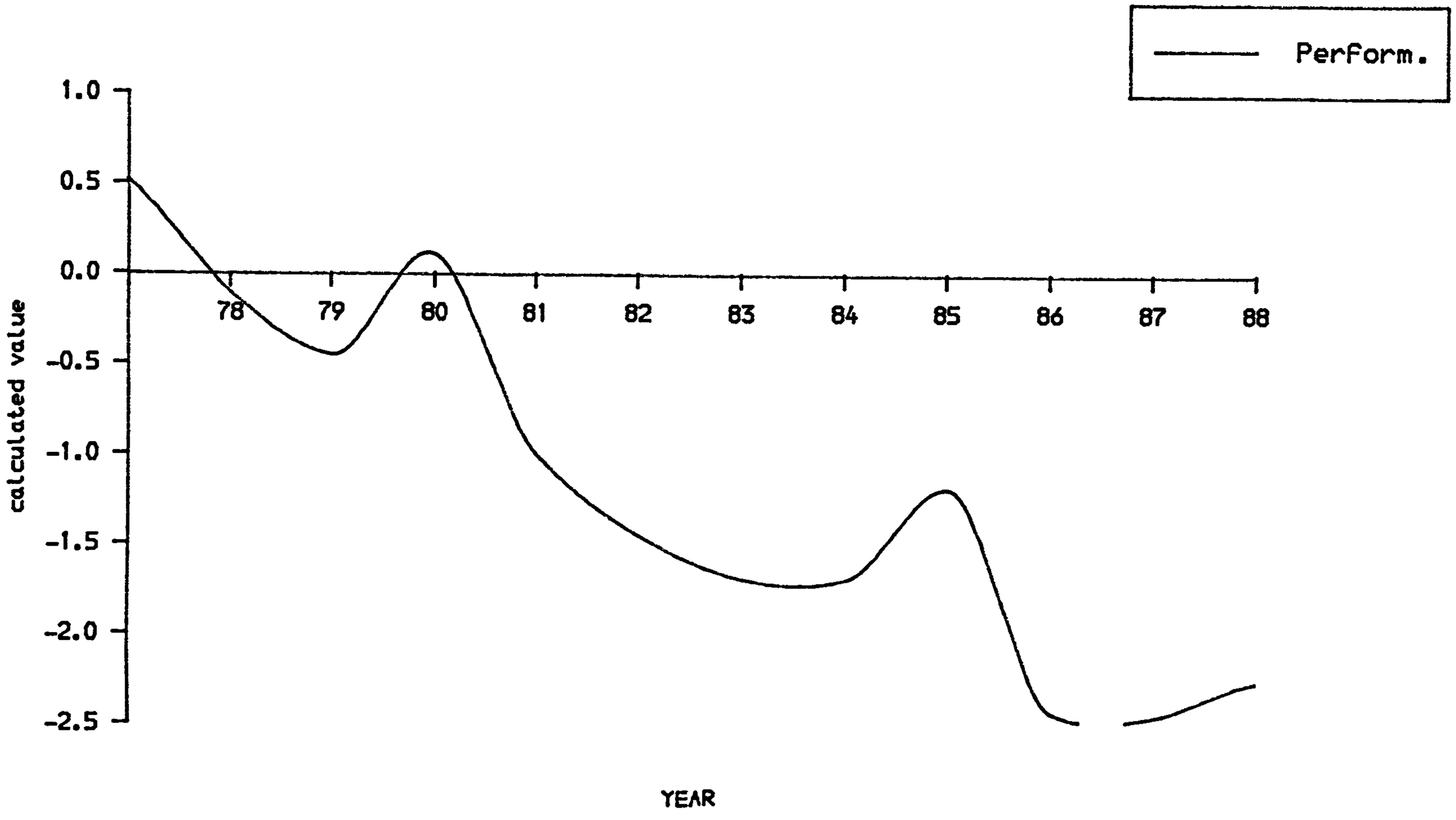

Fig.(7.29) Company8 / Financial Performance

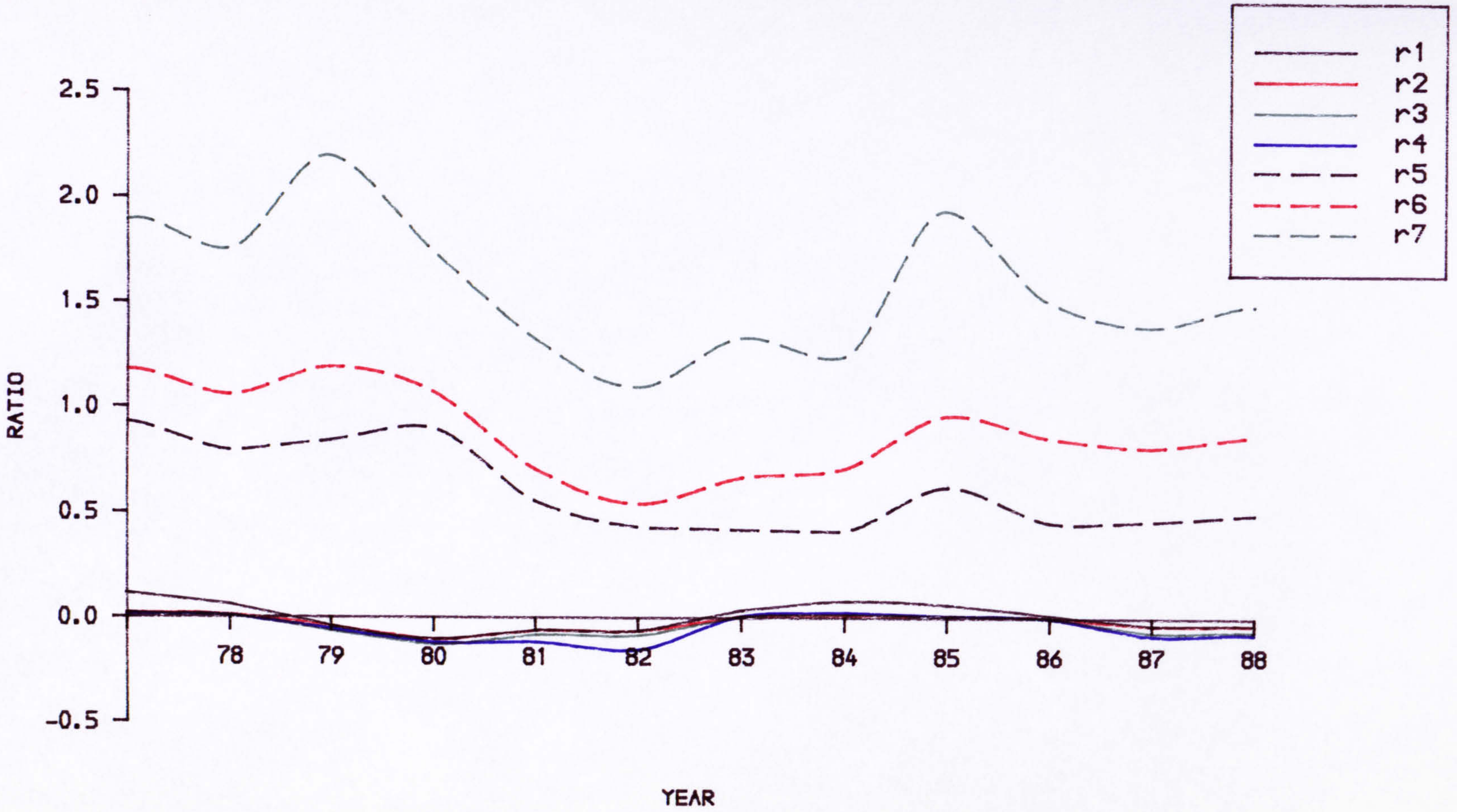

Fig.(7.30) Company8 / Profitability

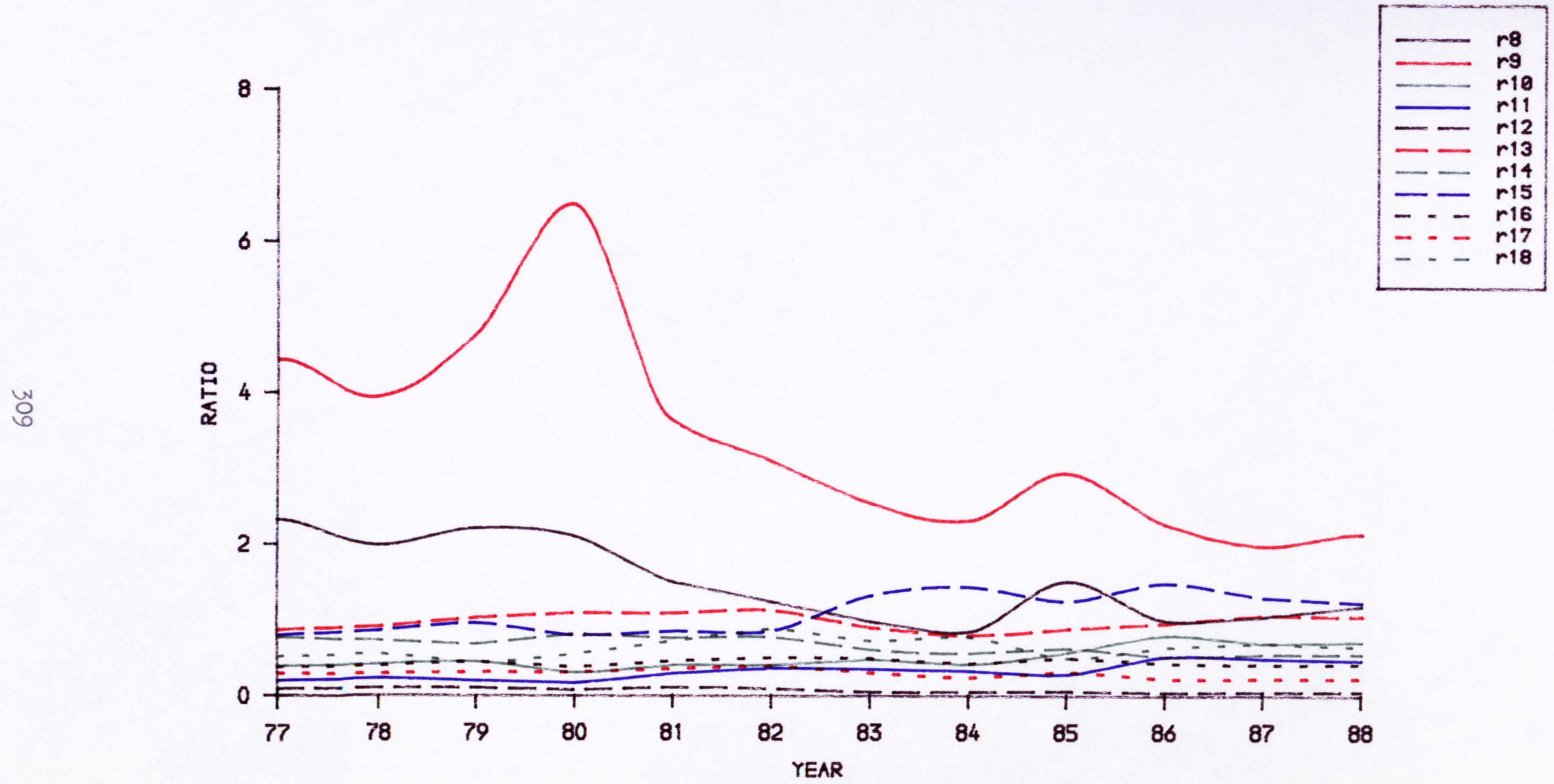

Fig.(7.31) Company8 / Managerial Performance

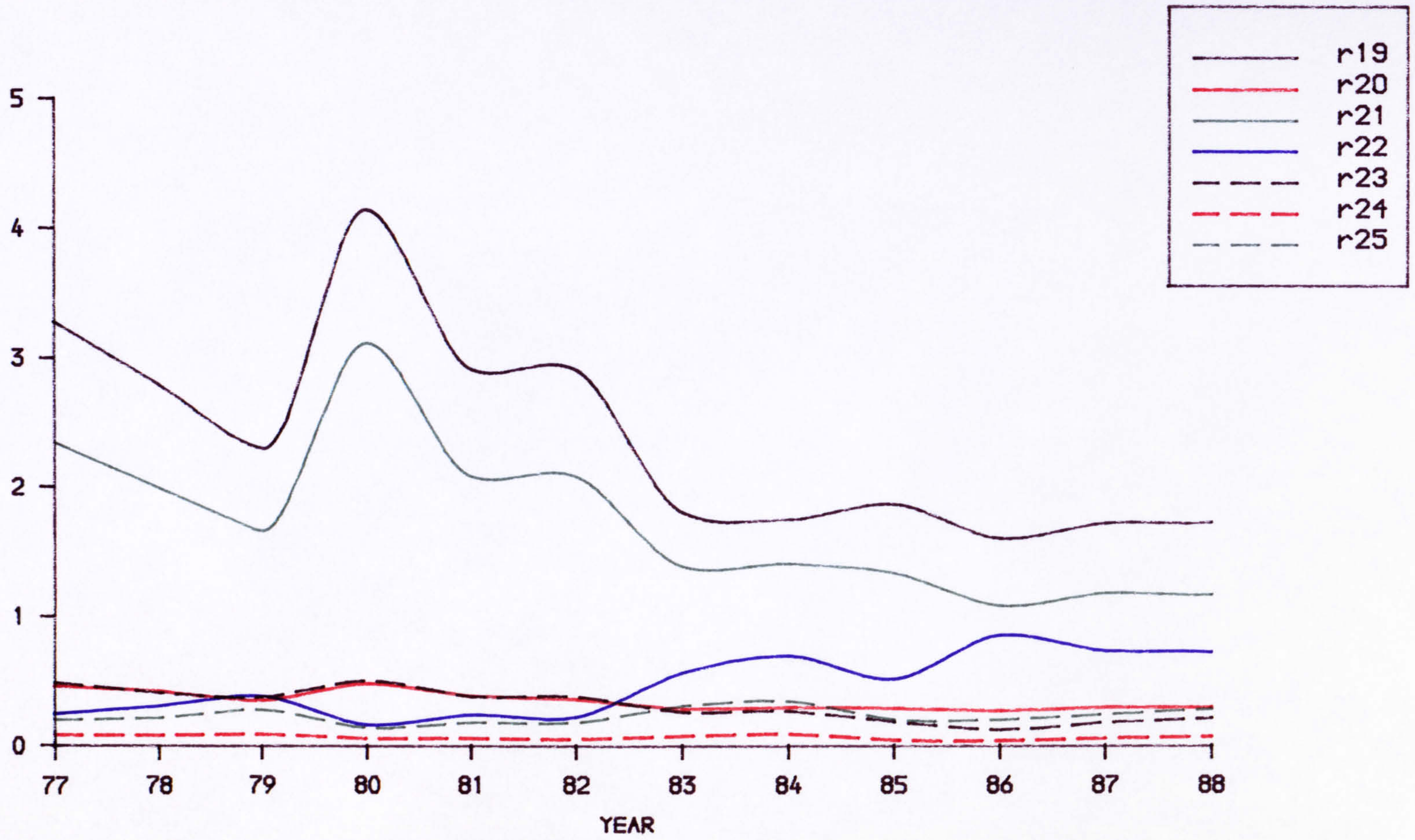

Fig.(7.32) Company8 / Liquidity

7.9 The application of statistical tests for performance improvement

From the plotting we can identify the above-average, average and below-average performance enterprises.

7.9.1 Above-average performance enterprise

Coach company (number 6) is the only company considered as an above-average performance enterprise. The financial performance value as well as profitability and managerial performance is rising. While the cash flow (from the liquidity) is static over the period. This means that the financial performance is responding quickly to any changes occurring in the profitability and credit policy (from the managerial performance) if the cash flow remains unchanged.

7.9.2 Average performance enterprises

Iraqi airways (number 1) is one of those companies regarded as an average performance enterprise in spite of it having a good return on investment. It starts as above average up to 1980. After that, the financial performance graph shows a decline. In 1983, the enterprise fell below the average. The company's financial performance rises again in 1984, and from 1985 it remains over the safety level.

The main reasons for this is the difficulty of having direct flights from Baghdad up to 1982, and the high cost of the transferring all the aircraft to Jordan because of the war with Iran. At the same time managerial performance and liquidity groups were declining which affected the total financial performance.

From 1980 some of the financial groups (profitability, managerial performance and liquidity) remained static over the following periods. In fact the financial performance has been affected mainly by the credit policy position (from managerial performance) and short term liquidity. Other variables remain static without much effect. While, it has a positive effect from profitability, due mainly from capital turnover. However, it has a safety level of financial performance and it seems to be going well, if one considers the effects of the above variables.

Other companies classified in this group are namely, "state organisation for cinema and theatre" and "general establishment for travel and tourism services".

7.9.3 Below-average performance enterprises

Iraqi railways (number 2) is one of the enterprises which suffered from below-average performance. From the graphs related to Iraqi railways, it seems there might be

attempts to improve its financial situation. Any improvement might not be achieved unless they deal with the right variables. Thus, unfortunately "Y" values remain in the negative. This is because all the components of three main groups (profitability, managerial performance and liquidity) were in bad positions too. This means that, the enterprise should increase its prices to improve profit margin and cash position. Also, it is necessary to improve its working capital (the ratio of current assets and current liabilities) to the standard level (2:1). This is because the ratio was negative up to 1983, then increased to more than standard level from 1986. It will have a bad level of financial performance in the future if it does not consider the effects of the above variables.

The government gave subsidies to this enterprise and other enterprises which are classified under this group. These are, general establishment for the management of tourist utilities, general establishment for hospitality, and state company for fairs and art galleries. Without these subsidies most of them, if not all, would be bankrupt.

In general, if we look to the trends of the graphs, we find all the results demonstrate the strength of the model. The main conclusion, therefore, is that, due to its financial performance, the above-average performance

enterprise is thriving. Secondly, the financial performance of the average category fluctuates although still remaining within safety levels. While the performance of below-average enterprises also fluctuates but always below the safety level.

From the results we find that nine ratios might have much effect on the calculated financial performance. These are as follows:

r7= sales to working capital.

r8= sales to account receivable.

r9= inventory turnover rate.

r10= inventory to working capital.

r15= account receivable (debt) to working capital

r19= current assets to current liabilities.

r21= quick assets to current liabilities.

r23= cash to current liabilities.

r25= cash to working capital.

This means that the analysis of financial performance assists financial management and top management of each enterprise under investigation to give much attention to the above ratios. It is also helpful to improve their policies by adopting the standard levels such as current assets to current liabilities to be (2:1), decreasing current liabilities, change policy regarding customers by

reducing credit policy, and collect debt from customers within short periods. In addition to improve their profit margin by increasing their prices which are normally below the cost. This might lead the enterprises to safeguard their financial performance and move to an improved position.

The rank and classification of the enterprises are shown in the following table.

Table (7.10) Model classification and rank

Co	Graphs FP	Prof.	MP	Liq.	Model Classification	Rank
1	ave.	above	ave.	ave.	ave.	2
2	below	below	ave.	below	below	8
3	below	below	below	ave.	below	7
4	below	below	below	ave.	below	6
5	ave.	ave.	ave.	above	ave.	3
6	above	above	above	above	above	1
7	ave.	ave.	ave.	ave.	ave.	4
8	below	ave.	below	below	below	5

above= above-average performance,

ave. = average performance,

below= below average performance.

FP= Financial performance,

Prof.= Profitability,

MP= Managerial performance,

Liq.= Liquidity

7.10 Previous studies

Different studies have been carried out in the field of financial performance in general, but very few of them for tourism enterprises in particular.

7.10.1 In general

As there are many studies in this regard, most of them dealing with manufacturing industry and the failure of these companies. The failure of business can be attributed to circumstances that were known prior to making any major financial commitments and could be easily identified. For some reasons, whether enthusiasm or ignorance, management simply failed to recognise the importance or existence of these failures.

Altman (1968) in his study, attempted to assess the analytical quality of ratio analysis- a set of financial ratios was combined in a discriminant analysis approach to the problem of corporate bankruptcy prediction, by the use of multiple discriminant analysis. Discriminant analysis aims at distinguishing between two or more different populations on the basis of some characteristics of their members, and the classification of individual companies into one or other of the classifications, in this case "failing" and non-failing".

Five ratios from the set have been selected which appeared to be most effective in predicting failure, and these ratios were used to discriminate between solvent and failed companies, using data from one to five years before failure. The predicative ability of his five-ratio model decline in proportion to the number of years prior to failure but was to predict fairly accurately up to two years ahead.

Altman's model as follow:

$$z = 0.0012(A) + 0.013(B) + 0.033(C) + 0.996(D) + 0.999(E)$$

Where:

A= ratio of working capital/total assets

B= ratio of retained earnings/total assets

C= ratio of EBIT/total assets

D= ratio of market value of equity/book value of total debt

E= ratio of sales/total assets

z= z-score

According to Altman, a minimum z-score of 1.8 is necessary to avoid failure, but only with a z-score of 3.0 or more is the company fairly safe.

Taffler (1983) used the z-score model to measuring company solvency among UK companies which has the following characteristics:

$$z = C + C_1(PBT/CL) + C_2(CA/TL) + C_3(CL/TA) + C_4(NCI)$$

Where:

z= z-score

C= constant

$C_1 \ldots C_4$= the ratio coefficients

PBT/CL= ratio of profit before tax/current liabilities

CA/TL= ratio of current assets/total liabilities

CL/TA= current liabilities/total assets

NCI ('no credit' interval)= it measures the short term liquidity position (cash and market securities- current liabilities). The ratio indicates the time in days for which company can continue to finance its operations from its own resources if its revenues are cut-off.

The coefficients C1 to C4 contributed 0.53, 0.13, 0.18, and 0.16 respectively, to the models operation. If z-score is above a cut off (i.e. z=0) the company will not fail in the next year.

Belhoul (1983) in his research attempted similar analysis that used by Altman and Taffler by using discrimination analysis to British companies. While Husain

(1988) used both financial and economic profitability with shadow prices in his research to some public enterprises (sugar mills) in Bangladesh.

7.10.2 In the tourism field

Very few studies have been done in this regard. One of the important studies was done by Hart (1982). He approaches in his research "A theoretical model of the financial performance of timeshare projects" to the problem of potential growth in the number of distressed projects by addressing the factors that affect the financial performance of timeshare projects. The study identifies and describes important variables that influence closing percentage and average number of intervals per sale, two factors with a critical impact on financial performance. He developed a model to provide (1) a basis for empirically testing a general theory of financial performance; (2) a theoretical framework that can be used by those interested in performing future research in the field; and (3) a tool for improving the decisions made by industry practitioners.

He tested the model by using multiple regression which support its structure and form. The study can be regarded as an exploratory effort. Nonetheless, it represents a promising first step in a new area in which there has been little previous research.

Olsen et al (1983) have attempted to test the applicability of failure prediction studies to food service industry. As Altman and Taffler studies were concentrated in industries following the multivariate approach which is the z-score, the restaurant industry is dissimilar from manufacturing, where the bulk of the work has been done to date. Consequently, their article "improving the prediction of restaurant failure through ratio analysis" will report one of the first exploratory efforts to identify predictors of failure for small and medium sized restaurants utilising the univariate approach. Therefore, their study does not have the large sample sizes and the statistical sophistication of earlier studies, yet it represents the only practical way to improve the applicability of failure prediction to the restaurant industry. A major drawback to accepting the results of their study is the sample size and the lack of sophisticated statistical analysis. They concluded that a major benefit is the results can be easily applied in a real life situation. This easy method is called the "graph analysis", which can use the comparison over different period to monitor those ratios that recognised as the best indicators of impending failure.

Caballero (1980) in his article "how to analyse hotel/motel financial statements" explained the necessary ratios for the analysis from the balance sheets and profit and loss accounts.

Other studies were concerned with the quality of the services related to tourism, mainly with hospitality (hotel, restaurant) services; or with tourist centres; or with transportation services; or with budgetary control within hotel sector. All these studies examined the situation of particular service to improve the performance of that sector.

7.11 Summary

In this chapter six main steps have been considered. These are as follows:

1. Source of data:

All the data regarding different enterprises operating in the tourism sector in Iraq are collected during the field work for the period 1977 to 1988.

2. Factor analysis and SPSS:

Factor analysis technique has been followed. It is one of the comprehensive statistical technique in SPSS. An explanation to the required steps of factor analysis has been discussed.

3. Computation of financial performance:

A mathematical model is built to carry out the calculation which is;

$$FP(Y) = c_1r_1 + c_2r_2 + c_3r_3 + \ldots\ldots + c_{25}r_{25} + C$$

Fortran programmes have been applied to simplify the calculation of the model.

4. Testing the strength of the model:

In this step, plotting procedure has been used. The actual results with the calculated one have been shown in four graphs for each enterprise over the same period. All the trends of the graphs for each enterprise are classified to be either above-average, or average, or below-average as shown in table (7.10).

5. The application of statistical tests for performance improvement:

In this step, an explanation to the effects influence the above classification. We find nine ratios have much effect on the calculated financial performance. Finally, the rank and classification of the enterprises under investigation are shown in table (7.10), with suggestions to improve their performance.

6. Previous studies:

Different studies have been mentioned in this section related to both;

i. in general field, and

ii. in the tourism field.

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CHAPTER (8)

CONCLUSIONS AND RECOMMENDATION FOR FURTHER STUDIES

Chapter (8)

Conclusions and Recommendation for Further Studies

8.1 Introduction

In chapter one, several objectives and expected contributions were formulated to provide a clear focus for the research project, which attempted to achieve the following results:

1. To assist in identifying the government economic and social objectives to tourism at the macro and micro levels.
2. To define the performance criteria which were relevant to the study (state-owned enterprises in tourist sector) and measure them empirically.
3. To link the accounting and non-accounting evaluations, in order to provide a broader view of the factors which lead to performance improvement in tourism enterprises. This required to take into account the quality audit programme from the customer's point of view for tourism services as well as the traditional financial measures.

This chapter highlighted the main conclusions regarding the evaluation of the performance of tourism in Iraq, to make an overall assessment of the research (in

financial, non-financial and economic evaluations), and to give suggestions for further study.

8.2 Contributions of the study

The study accomplished the tasks it purported to do. The study achieved the following contributions:

1. The study broadens the research frontier by probing into factors that affect the performance of tourism sector, as in chapters 3, 6 and 7.
2. The study applies a new tool (mathematical model) to measure financial performance, see chapter 7.
3. The evaluation of the tourism services from the customer's point of view regarded as an essential and primary step in the evaluation process. A programme was developed in chapter 6; in combination with the financial evaluation it will create a more comprehensive assessment of the enterprise
4. The study will contribute to a better understanding of performance evaluation in the tourism sector. Both financial and non-financial characteristics which can assist management in decision-making and problem-solving are considered. Chapters, 2, 3, 4, 5, 6, and 7 highlighted the most important problems faced in perfo-rmance evaluation in the tourism sector in Iraq and how to improve on it.

5. The study could provide both accounting and tourism researchers with the necessary background to encourage them to conduct further research into the link between accounting and tourism theory, see chapter 2, 3, 4, 5, 6, 7, and 8 (section further studies).

8.3 Summary

The study systematically reviewed and identified the financial, non-financial indicators and the role of tourism in development. The financial indicators, when built succinctly, showed what the enterprise required from the set of ratios in different aspects (i.e. profitability, managerial performance and liquidity). The non-financial evaluation was represented through the quality audit programme from the customer's point of view as suggested in chapter six. The economic evaluation of the tourism sector showed the role of tourism in development and the impact on the economy in for example, the balance of payments, the tourist multiplier effect, and employment. The methods of financing both the public and private sectors as well as the capital structure and project appraisal were systematically investigated at micro and macro levels. All the enterprises under investigation were totally dependent on government finance and did not include loans (medium or long term) in their capital. The enterprises have lost the benefits from debt

policy to improve their financial situation.

A mathematical model was built in the form of a linear equation, to measure the financial performance of the enterprises which were operating in the tourism sector in Iraq. The model was built by using the factor analysis technique and tested by using the plot procedure to the actual and calculated data for the period under consideration. The trends of results were matched with the actual results of the ratios and showed that the model was completely workable to rank and classify them accordingly.

8.4 Main Conclusions

The study was carried out according to the research plan. The main conclusions of the study cover the following aspects:

- Financial performance evaluation.
- Non-financial performance evaluation.
- Economic performance evaluation.

8.4.1 Financial performance evaluation

1. The set of financial ratios which covered all aspects of financial performance to tourism enterprises under investigation were represented by profitability, manag-

erial performance and liquidity ratios. They were used as tools for determining the weakness inside an enterprise. They also gave meaningful and quantitative indicators to the results relating to the effects of the external situation. In other words, they can assist management in the decision-making and the problem-solving process.

2. The use of a set of financial ratios as a measuring tool provided the means of controlling the success and stability of the enterprises. Thus, a single ratio cannot reflect every aspect of an enterprise's performance.
3. A model was constructed and used to measure mathematically the financial performance of tourism enterprises in the tourism sector. By using a comprehensive statistical technique, factor analysis, together with regression and testing the results by using the plot procedure, we classified and ranked the enterprises empirically into three groups:

   - above average performance,
   - average performance,
   - below average performance.

The model was a useful tool for financial planning and control of the enterprises for example, to review price policy, policy regarding credit to customers and

debt collection, adjusting the ratio to fit a standard level (current assets to current liabilities to be 2:1), and improve cash flow position.

4. The U.A.S. suffered deficiencies and not enough information was sent to the National Accountant or Planner regarding tourism activities. Therefore it was useful to adopt another accounting system (as suggested by the WTO) with the UAS to facilitate the role of the national planner.

8.4.2 Non-financial performance evaluation

The indicators of non-financial performance were not easy to measure. The purpose of this evaluation was to enable the public to be better informed on the enterprises' success in controlling costs and increasing efficiency. The method to evaluate these kinds of indicators in tourism services will be through the quality audit and from the customer's point of view. It is suggested that a comprehensive programme, which was constructed for this purpose, was required to be used by the auditor in addition to the financial checking. This would provide a broader view of the factors which lead to performance improvement in tourism enterprises as well as to those from financial evaluation.

8.4.3 Economic performance evaluation

The tourism sector played an important role in the socio-economic development in Iraq. It showed an increasing effect on the GDP and employment positions. It also positively affected all those sectors related to tourism. It showed a negative effect before 1980 in the travel accounts in the balance of payments, because Iraq was considered to be a generating country like other Arab States in the Gulf region. The reason behind this was the fact that the Iraqis have had surplus disposable income and seek to travel abroad. Additionally, there were certain factors that encouraged outbound travel, such as shortage of clustered attractions, and unstable political environment in the country. Although the Government was actively involved in the development of tourism i.e. tourist resorts, the war between Iraq and Iran and the recent Gulf crisis were halted the general momentum. The restrictions on travel abroad, therefore, supported and encouraged the development of such projects.

Earnings from foreign exchange in tourism for several years exceeded earnings from other export sectors (excluding petroleum). This means that future tourism developments could be used as a tool to improve the local, regional and national economies in Iraq. The present study will lead to a better understanding of the planning and

administration of performance evaluations, and should contribute to further research in tourism.

8.5 Further studies

Some ideas for further research may be taken up from this study. It is possible to extend the research to include the evaluation of the cost-benefit relation of the national economy in shadow rather than market pricing. Because the real cost is in fact the shadow prices, therefore, any tourist project that cost less than its shadow price is economically advantageous. A number of developed and developing countries could be examined to highlight the above situation. This might require adding one or more factors related to the degree of economic development or nature of economic system. In general, the more countries that are included the more interesting the results would be. However, such research would require intensive work, data collection and project appraisal.

One might conduct research regarding the quality of tourist services. Research into this area might be valuable for tourism enterprises. Different procedures, format and classification are required for the different companies. In addition, multinational companies as well as the national ones could benefit from such research.

A further possible study may be extended from this research by using the budgetary control with cost centres to evaluate tourism enterprises, in addition to measure the benefits from using debt in its capital structure.

Further research could be focused on developing the performance dimensions of the managers in hotels or resorts or airlines etc. The success of an organisation, hotel, etc., is to a large extent dependent upon the effectiveness of their managers. Such instruments, therefore, should be used to help firms to improve their managerial performance.

In spite of the previous considerations and limitations, the study, in identifying important determinants of performance evaluation of tourism sector in Iraq, provides investors, developers and management with information that can help them in understanding the role of tourism in development as well as providing those already involved in tourism enterprises with a diagnostic and prescriptive tool that can be used to understand and improve the performance of their existing operations. Finally, the study suggests some topics that can be used as a foundation for further study in this field.

APPENDICIES AND BIBLOGRAPHY

Appendix (1)

Table (1) National income and National product at current prices in Million I.D.

Details	1980	1981	1982	1983	1984	1985	1986	1987	1988
Compensation of employees	2802	3637	4345	4395	4765	4890	5152	5697	5725
Operating surplus	12047	6428	6701	6814	8112	8621	8036	10319	9777
Domestic factor income	14849	10065	11046	11209	12878	13511	13187	16016	15502
National income	15323	10065	10321	10620	12407	12799	12494	15311	14704
Net indirect taxes(plus)	178	(203)	63	635	372	482	411	301	321
Net national product at market prices	15501	9862	10384	11255	12779	13281	12905	15612	15025
Consumption of fixed capital (plus)	798	1151	1508	1252	1673	1501	1465	1584	1533
Gross national product at market prices	16299	11013	11892	12507	14452	14782	14370	17196	16558

Sourse: Annual Abstract of Statistic, 1985 and 1990.

Table (2) Gross domestic product at market prices for 1980-1988

Details	1980	1981	1982	1983	1984	1985	1986	1987	1988
Compensation of employees }	2802	3637	4345	4395	4765	4890	5151	5697	5725
Operating surplus	12047	6428	6701	6814	8112	8621	8036	10319	9777
Consumption of fixed capital } (plus) }	798	1151	1508	1252	1673	1501	1465	1584	1533
Net indirect taxes(plus) }	178	(203)	63	635	372	482	411	301	321
Gross domestic prodict at market prices	15825	11013	12617	13096	14922	15494	15063	17901	17356

Source: Annual Abstract of Statistics, 1985 and 1990.

Appendix 2

Schedule No. 1

Depreciation rates for general fixed assets used in public sector (including tourism)

Code	Fixed Assets	Yearly Rate
112	Buildings & roads	
1121	Buildings	4%
	Building ready-made	7.5-10%
1122	Storehouses & dams	
	Storehouses normal-made	4%
	Storehouses ready-made	7.5-10%
	Concrete storehouses	4%
	Iron storehouses	7.5-10%
	Dams	4%
1123	Residential camps	
	Fixed units & Buildings	3-5%
	Caravans	25%
1127	Roads & Bridges	
	Roads	5%
	Bridges	4%
11282	Harbours	5%
1141	Transport	
	Passenger vehicles	15%
	Goods vehicles	12.5%
	Other vehicles (carriages)	10-15%
	Motor-cycles	25%
	Bicycles	50%
115	Tools & Equipment	
1151	Tools	15%
1152	Equipment	20%
1153	Tents	50%
116	Furniture	
1161	Furniture, including that for houses	10%
1162	Air-conditioning fixture	10%
1163	Computers	15%
1164	Calculators,typewriters & photocopy machines	20%
1165	Office equipments (i.e. Telex)	10%
1166	Curtains	25%
1167	Books and scientific references	10%
118	Deferred prelinary expenditure	20%
1181	Establishment expenditure	20%
1182	Sunk costs	20%
1183	Exploration & survey expenditure	10%
1184	Research & development expenditure	20%
1185	Intangible assets	20%
1186	Decoration & movable walls	20%
1187	others	20%

Appendix 3

Schedule No. 15

Depreciation Rates for profit-making enterprises of tourism

Code	Fixed assets	Yearly rate
1121	Building	
	Hotel building	2%
	Habbaniya tourist city	5-8%
	Building ready-made	5-8%
	Tourist camps ready made} (wooden, caravans..etc.)}	10-15%
113	Theatre and cinema equipment	10%
114	Transport	
	Tourist boats	10%
	Tourist buses	20%
116	Furniture & equipment of Hotels and houses	
	Furniture	20%
	Air-conditioning fixtures	20%
	Central air-conditioning	8%
	Equipment of typing & ovens	25%
	Refrigerator and making ice machine	20%
	Bed & bed Sheets	50%
	Crystals	(Revaluation method)

Appendix 4

The Tourism Accounting System

The tourism accounting system is applied within the UAS and the national accounting system (NAS) schemes. It is based on the functional view of the economy as well as the institutional perspective which helps to show the role of the tourist institution in the national economy.

Basic Elements

From the functional view of tourism, and through the economic functions of tourism such as production, consumption, gross fixed capital formation and relation with the rest of the world, this accounting system is built with the following elements:

1. Some definitions.
2. Tourism units and their combination.
3. Tourism economic transactions and their classifications.
4. Accounting scheme; accounts and charts.

The concepts, definitions and classifications of the elements of the tourism accounting system are those suggested in the study prepared by the WTO; these are integrated and co-ordinated with their counterparts in the NAS and also with the UAS. On the other hand, there are the general concepts, definitions and classifications of the NAS and UAS that remain valid without having to be especially adapted to tourism activity.

1. Some definitions:

The following definitions are adopted (see WTO, 1983: 5-45) which are relevant to the system:

Resident agent (company)

Agents carry out economic operations for more than one year in the economic territory of the country.

Economic territory

It refers to geographic territory which goods circulate freely, duty free zones, national air space, territorial and international waters over which the country has exclusive rights, territories locate elsewhere in the world and used by the state i.e. Embassies.

Application of the definition above to tourism gives rise to the following types of tourism:

i. International tourism: tourism in the country's economic territory by non-resident tourism agents and in the rest of the world by resident tourism agents. It includes two categories;

- foreign tourism: i.e. tourism within the country's economic territory by non-resident agents, and,

- tourism abroad : i.e. tourism in the rest of the world by resident tourism agents.

ii. National tourism: tourism in the country's economic territory and the rest of the world by resident tourism agents.

iii. Domestic tourism: tourism with country's economic territory by resident and non-resident agents.

Tourism economic activity has been determined according to goods and services consumed by institutional tourism agents-visitor, tourist and excursionist. Therefore, it is necessary to define, classify and evaluate the economic operation called "production of goods and services" or "tourism production".

Tourism production

It is the result of the various economic activities of resident agents who obtain tourism goods and services.

Tourism goods and services

They are the goods and services that make up domestic expenditure, either in the final consumption or in domestic tourism gross fixed capital formation.

Tourism consumption

The value of goods and services utilised for the direct satisfaction of tourism agents. This definition can not be directly integrated with that used in the national accounting, for partly identified with the concept of private, public and international consumption.

Tourism gross fixed capital formation

It covers fixed assets located in the economic territory and owned by resident units of production.

2. Tourism units and their combination:

The units employed in the tourism accounting system are the functional and institutional.

Functional units

Units of production exercising a principal or exclusive activity with respect to a product or group of products. The units of analysis called "branches of activity" are combined according to a classification of products. The functional tourism units are defined in table (1) "Tourism classification of economic activities of production".

Institutional units

Resident units with a complete accounting system and autonomous decision-making power in the exercise of their principal function. Chart (1) show these units. Households are always regarded as institutional units even though they do not have a complete accounting system. Institutional units are of dual origin:

i. They adopt the institutional units of the national accounting system and are classified as;

1. enterprises (non-financial enterprises and financial institution of the system of national accounts),
2. government agencies,
3. households, and,
4. rest of the world.

ii. Categories of institutional tourism units appropriate to tourism are created which are not identified in the national accounting system (see WTO, 1983:29), but have been defined in terms combination thereof: visitor, tourist and excursionist, classified as

foreign, national, abroad and domestic tourist and grouped under "types of tourism". They defined according to the national accounts: foreign tourism, domestic, national tourism and abroad.

Not all the types in (i) above are related to the UAS, but just public enterprises and government agencies because of their applying the UAS.

Chart (1)

Tourism units and combination

Tourism units	Component elements
1. Functional	See table 1 (tourism classification of the economic activities of production).
2.Institutional	i. Institutional units of the NAS: a. Enterprises - private - public b. Government agencies c. Households d. Rest of the world
	ii. Types of tourism: a. Foreign tourism b. Domestic tourism c. National tourism d. Tourism abroad.

3. Tourism economic transactions and their classification

" All the economic relations carried out between functional and institutional units are grouped in categories of transactions called economic transactions" (see WTO, 1983:29). They are classified according to their nature or objective, beginning with: i) transactions involving goods and services; ii) distributive transactions, which involve the distribution of value added by units of production; and, iii) financial transactions which designate the variations of financial assets and liabilities of various sectors. Financial transactions will not be considered here in their relation to tourism because they have already been covered by the UAS.

Chart (2) below shows a classification of tourism transactions, and also in tables (1, 2 and 3) which show tourism classifications relating to production, consumption and gross fixed capital formation respectively. The proposed classifications are broken down to a degree permitting the integration and application of tourism activities with the remaining activities of the national economy in the framework of the NAS and UAS. Normally, a more detailed breakdown based on strictly sectorial tourism analysis would be possible, especially with regard to some characteristic activities involving tourism production, some consumption functions involving demand and even tourism fixed capital goods.

Chart (2)

Tourism transactions

Transactions	Source of Classification
1. Tourism goods and services	
-Production of tourism goods and services .Goods .Services	Table 1
-Tourism intermediate consumption	
-Tourism final consumption: .Tourism consumption (1) .Tourism public consumption	Table 2
-Tourism fixed gross capital formation	Table 3
-Export of tourism goods and services .Goods .Services	UAS
-Import of tourism goods and services .Goods .Services	
2. Distributive	
-Compensation of employees (2) .Gross wages and salaries .Employers contribution to social security .Other social outlays	
-Taxes affecting tourism production and imports	UAS
-Tourism subsidies	
-Income from property and enterprises	
-Current transfers	
-Capital transfers	

(1) Tourism consumption

Flows	Types
a- Tourism consumption in the economic territory of the country of resident tourism units.	Domestic tourism consumption (a+b) c National tourism consumption (a+b)
b- Tourism consumption in the rest of the world of resident tourism units.	Tourism consumption abroad (b) Foreign tourism consumption (c)
c- Tourism consumption in the territory of non-resident tourism units.	

(2) Compensation of employees

Flows	Types
1.Remuneration of resident employees by resident employers.	Remuneration of employees- (1+3) (domestic)
2.Remuneration of resident employees by non-resident employers.	Remuneration of employees- (1+2) (national) Recorded under employment of the rest of the world (2)
3.Remuneration of non-resident employees by resident employers.	Recorded in resources of the rest of the world account (3).

Table (1)

Tourism classification of economic production activities*

Code	Title (Branches of activity)
5.	Construction
5.1.	Houses and apartment for tourism use.
5.2.	Hotels and other tourism facilities.
5.3.	Tourism-related public works.
5.4.	Transport equipment.
5.6.	Other.
6.	Hotels, restaurants and drinking places
6.1.	Hotels, motels, hostels and boarding houses with restaurant
6.2.	Hotels, motels, hostels and boarding houses without restaurant.
6.3.	Holiday camps, centres and villages.
6.4.	Private tourism accommodation.
6.5.	Restaurants.
6.6.	Cafe's, bars and other drinking places with entertainment.
6.7.	Cafe's, bars & other drinking places without entertainment.
6.8.	Others.
7.	Transports
7.1.	Passenger rail transport.
7.2.	Passenger car transport.
7.3.	Passenger air transport.
7.4.	Services allied to transport (travel agencies).
7.5.	Others.
8.	Publishing, printing and medical care
8.1.	Books, periodicals and other publications.
8.2.	Medical care and health.
8.3.	Other.

* Classification codes of the international standard industrial classification (ISIC), 1968, U.N., modified to apply with UAS and to serve NAS.

Table (2)

Classification of tourism consumption of goods and services

Code	Goods and services
9.	Hotels and restaurants
9.1.	Hotel accommodation
9.1.1.	Expenditure in hotel, motel, hostel and boarding houses with restaurant.
9.1.2.	Expenditure in hotel, motel, hostel and boarding houses without restaurant.
9.1.3.	Expenditure in other accommodation facilities.
9.2.	Private tourism accommodation.
9.3.	Restaurants.
10.1.	recreation and entertainment
10.1.	Cafe', bar and other drinking places with entertainment.
10.2.	Cafe', bar & other drinking places without entertainment.
10.3.	Sports
10.4.	Purchase of recreational equipments.
10.5.	Other recreational and entertainment.
11.	Transport and communication
11.1.	Purchase of transport services.
11.1.1.	Rail
11.1.2.	car
11.1.3.	Air
11.2.	Motor vehicle fuel and lubricants.
11.3.	Tyers, parts, accessories and repairs.
11.4.	Other transport costs.
11.5.	Communication.
12.	Publishing, cultural services and medical care
12.1.	Cultural events
12.2.	Books, periodicals and other publications.
12.3.	Medical care and health expenses.
12.4.	Other goods and cervices.

Table (3)

Classification of branches of activity concerning gross fixed tourism capital formation

3.1. Classification of branches of activity producing tourism fixed capital goods:

Code	Productive branches of activity
5.1.	Construction of houses and apartments for tourism use
5.2.	Construction of hotels and other tourism facilities
5.3.	Tourism-related public works
5.4.	Transport equipment
5.5.	Other tourism fixed capital goods

3.2. Classification of proprietary branches of activity involving tourism fixed capital goods:

Code	Proprietary branches of activity
6.	Hotels, restaurants and drinking places:
6.1.	Hotels, motels, hostels, and boarding houses with restaurants.
6.2.	Hotels, motels, hostels, and boarding houses without restaurants.
6.3.	Holiday camps,centres and villages.
6.4.	Private tourism accommodation.
6.5.	Restaurants.
6.6.	Cafes, bar & other drinking places with entertainment
6.7.	Cafes and other drinking places without entertainment
6.8.	Others.
7.	Transport:
7.1.	Passenger rail transport.
7.2.	Passenger car transport.
7.3.	Passenger air transport.
7.4.	Services allied to transport (Travel agencies).
7.5.	Others.
8.	Other branches of activity.

4. The accounting scheme: accounts and charts:

The accounts: each account refers to an aspect of the economic circuit. They are presented in balanced form, either by definition or through an accounting balance

which has significance from the economic analysis point of view.

The charts: they are referred to partial transactions or aspects and are presented in open form so that they can include the available statistical information, either breaking down transactions that appear in the accounts or explaining some phase of the process whereby the basic available statistics are fed into the accounting system.

The tables, accounts and charts can offer the necessary information to prepare the input-output table which provide a picture of the economy for one time-period. This part is very important to the NAS, but it is outside the purpose of this study, so we shall leave it to further studies in the future.

There are three main characteristics in tourism accounting scheme:

1. It presents accounts and other charts from the functional standpoint of tourism activity.

2. It is integrated with the NAS and UAS, because their definitions, classifications and accounting standard have been respected.

3. It is open-ended in the sense that it can be expanded with new accounts and charts as required for tourism analysis as more tourism statistics become available.

The tourism accounts included in the proposed accounting scheme are only related to economics, however,

not all the branches of tourism activity permit direct quantification of their transactions. The following accounts are considered:

1. Tourism goods and services account:

This account covers tourism products and is balanced by definition. Under resources it records the production of tourism goods and services, the importation of equivalent tourism goods and services, and the taxes on imported goods and services. Under uses it records intermediate consumption, final consumption, fixed gross capital formation, changes in inventory and exports goods and services (see chart 3 below).

Chart 3
Tourism goods and services account

Uses	Resources
Tourism intermediate consumption.	Production of tourism goods and services.
Domestic tourism final consumption.	Importation of tourism goods and services.
Tourism gross fixed capital formation.	Taxes on imported tourism goods and services.
Changes in inventory.	
Exports of tourism goods and services.	
Tourism demand	Tourism supply

2. Tourism production account:

This account keeps track of domestic tourism production and associated costs. It includes transactions

that make up the tourism production process proper. Under resources it records tourism production and under uses it records intermediate tourism consumption. Its balance is gross tourism value added at market prices (see chart 4).

Chart 4

Tourism production account

Uses	Resources
Tourism intermediate consumption. Tourism gross value added at market prices.	Production of tourism goods and services.
Total	Total

3. Tourism transactions account:

This account shows the formation of tourism income based on tourism production. It includes distributive transactions directly related to the process of tourism production. Under the resources it records the tourism gross value added at market prices and operational subsidies to tourism, and under uses it records the compensation of tourism to employees and taxes connected with tourism production. Its balance is surplus of tourism transactions (see chart 5 below).

Chart 5

Tourism transactions account

Uses	Resources
Compensation of tourism employees.	Tourism gross value added at market prices.
Taxes connected with tourism production.	Operational subsidies to tourism.
Gross surplus from tourism transactions.	
Total	Total

Charts (6) and (7) below provide an initial indication of the nature of the charts that should accompany the tourism accounts. Other charts can be added to the list as tourism information becomes available and as dictated by the needs of tourism analysis. In the scheme of charts proposed, the classifications are generally indicated only at the first level but they can be extended as information becomes available. The preparation of these charts requires more appropriate statistical sources and estimating methods permitting the the development of comparable tourism economic figures from the domestic and international points of view.

Chart (6)

Charts concerning tourism consumption

6.1. Tourism consumption of goods and services:

Code	Tourism Consumer goods & services	Tourism consumption*				
		a	b	c	Domestic (a+c)	National (a+b)
	Table 2, subject to availability of information					
	Total					

* a. Tourism consumption in the economic territory of the country of resident tourism units.

b. Tourism consumption in the rest of the world of resident tourism units.

c. Tourism consumption in the economic territory of the country of non-resident tourism units.

6.2. Tourism consumption in the economic territory by branches of tourism activity and by consumption functions (Tourism and services)*

Code	Branches of tourism activity	Tourism goods & services (codes of table 2)				Total
		9	10	11	12	
	Table (1) (To the level permitted by available information)					
	Total					

* This gives rise to three charts covering domestic tourism consumption, foreign tourism consumption and tourism consumption of resident tourism units.

Chart 7
Charts concerning tourism gross fixed capital formation

7.1. Tourism gross fixed capital formation by productive branches of activity

Code	Tourism fixed capital goods	Total current prices
	Table (3.1.)	
	Total	

7.2. Tourism gross fixed capital formation by proprietary branches of activity

Code	Proprietary branches of activity	Total current prices
	Table (3.2.)	
	Total	

7.3. Tourism gross fixed capital formation by products and by proprietary branches of activity

Code	Proprietary branches of activity	Tourism fixed capital goods (codes of table 3.1.)					Total
		5.1.	5.2.	5.3.	5.4.	5.5.	
	Table (3.2.)						
	Total						

Appendix 5

The Diwan of Financial Control (DFC):

" Diwan " is an arabic term, which can mean "office " or " Ministry ", etc. It is very common in Iraq and Arab countries.

The date of its foundation was 1927, when the first Iraqi state audit department was established. In 1968, Law No. 42 was issued to establish the DFC as an independent department of the executive, and to give it powers to act on behalf of the legislature to audit the accounts and review the systems, and to act as a financial controller of the state enterprises. The phrase, " financial controller" as applied to the DFC does not mean that they are engaged in the day to day management of the state enterprise. Their role is that of an outside monitoring body examining such matters as the budget.

In 1980, a new Law No. 194 was issued superseding Law No. 42. The new law gives the DFC more power and authority to execute its activities and to play a bigger role in the economy. It is the department responsible for financial control in Iraq, therefore, its chairman has been directly linked to the President of the Revolution Command Council (RCC). It issues financial and accounting instructions which have to be followed by the accountants in state enterprises, mixed capital companies, and all foreign companies. It is the department responsible for

the practice and control of the Unified Accounting System (UAS), according to to the resolution of RCC No. 1260 in 1982. Also, it has the ability to penalise offenders and prosecute them.

The objectives of the DFC are (Law No. 194, 1980):

1- To evaluate the financial and economic plans, and the policies which are formulated to ensure the realisation of the state objectives, and their application.

2- To put into practice laws and instructions which are related to the financial and economic field.

3- To approve (which in reality means audit) the final accounts, reports and financial position of state enterprises and companies under State control.

4- To evaluate the performance and efficiency of state enterprises and proposed projects and to ensure the correct procedures in using their economic resources.

5- To provide technical assistance to all state enterprises in the fields of accountancy, administration and organisation.

There are nine sectors at the DFC, as follows:

1- Industry and oil sector.

2- Agriculture and irrigation sector.

3- Transport and construction sector.

4- Companies sector.

5- Tourism and information media sector.

6- Finance and planning sector.

7- Trade sector.

8- Local government sector.

9- Central offices sector.

Each sector is responsible for the external financial assessment of the enterprises in its field (e.g. tourism and information media sector), and has groups of officials to carry out its duties.

Performance evaluation was applied in 1985, when the President of the RCC ordered the DFC to evaluate the performance of about 200 state organisations and their affiliated enterprises (i.e. tourism enterprises were included) within 4 months. Therefore, after many meeting with a particular committee constituted for that purpose, DFC management issued instructions and standard formats which had to be followed by the staff of DFC in order to evaluate the enterprises. This is the first time that DFC executed this evaluation, in spite of the fact that it was one of the main objectives of its establishment. However, reports have been submitted for each enterprise through DFC to the president of RCC. These reports included numerous items and figures, such as, financial ratios analysis, actual costs, production and capacities, sales, profits and losses. All these reports must be compared over not less than three years, to show and explain the failure or success of their plans.

DFC did not specifically develop any performance criteria to evaluate performance against them, and did not

attempt to measure the performance of enterprise and rank them accordingly. Although the limitations, however, DFC's work was regarded an important step in the domain of performance evaluation to all economic sectors in Iraq.

Appendix (6)

COMPUTER PROGRAMMES:

```
      program getrfm

c   read "FACTOR.LIS"
c   find the rotated factor matrix.
c   write the rotated factor matrix to RFM.DAT
c   assume that there will be 7 factors and 25 variables.

      real rfm(25,7)

      open(20,file='factor.lis',status='old',readonly)
      open(21,file='rfm',status='new',carriagecontrol='list')

      call findheading(isuccess)

      if (isuccess.eq.0) then
         print *,'failed to find the factor score coefficient matrix'
         stop
      end if

      call readrfm(rfm)

      call findheading(isuccess)

      if (isuccess.eq.1) then
         print *,'more than one factor score coefficient matrix'
         print *,'this is too difficult for my little mind'
         stop
      end if

      write(21,701) ((rfm(i,j),j=1,7),i=1,25)
701   format(1x,7f11.5)

      print *,'getrfm: success'

      end
      subroutine findheading(isuccess)

      character*60 line

1     read(20,100,end=99) line
100   format(a)

      if (line.ne.' ROTATED FACTOR MATRIX:') GOTO 1

      isuccess=1

      return
```

```
99      isuccess=0

        return

        end
        subroutine readrfm(rfm)

        real rfm(25,7)

        character ch
        character*132 line

        ifunny=0

        do iratio=1,25

1       read(20,100) line
100     format(a)

        if (line(1:2).ne.' R') then
           ifunny=ifunny+1
           if (ifunny.lt.13) goto 1
           print *,'This is beyond a joke'
           stop
        end if

        inp=3

        jratio=0

2       ch=line(inp:inp)
        if (ch.ge.'0'.and.ch.le.'9') then
           jratio=jratio*10+ichar(ch)-48
           inp=inp+1
           goto 2
        end if

        if (jratio.ne.iratio) then
           print *,'jratio.ne.iratio'
           stop
        end if

        do ifactor=1,7
3          if (ch.eq.' ') then
              inp=inp+1
              if (inp.gt.132) then
                 print *,'talal'
                 stop
              end if
              ch=line(inp:inp)
              goto 3
           end if
           inp1=inp
4          inp=inp+1
           if (inp.gt.132) then
```

```
            print *,'al-kassar'
            stop
         end if
         ch=line(inp:inp)
         if (ch.ne.' ') goto 4
         iwidth=inp-inp1
         read(line(inp1:inp-1),200) value
200      format(f<iwidth>.0)
         rfm(iratio,ifactor)=value
      end do

      return

      end
```

```
 PROGRAM GETSEVENSCORES

 REAL FSCM(25,7),RATIOS(96,25),Z(96,25),COMP(96),YEAR(96)
 REAL FACTORSCORES(96,7),TOTALFACTORSCORE(96)

 OPEN(20,FILE='FSCM',STATUS='OLD',READONLY)
 OPEN(21,FILE='RATIOS',STATUS='OLD',READONLY)
 OPEN(22,FILE='STANDARDIZEDRATIOS',STATUS='NEW',
&         CARRIAGECONTROL='LIST',RECL=500)
 OPEN(23,FILE='FACTORSCORES',STATUS='NEW',CARRIAGECONTROL='LIST')

       READ(20,*)  ((FSCM(I,J),J=1,7),I=1,25)
       READ(21,*)  (COMP(I),YEAR(I),(RATIOS(I,J),J=1,25),I=1,96)

       CALL STANDARDIZE(RATIOS,Z)

       WRITE(22,701)  (COMP(I),YEAR(I),(Z(I,J),J=1,25),I=1,96)
701    FORMAT(2F6.1,25F9.5)

       CALL COMPUTEFACTORSCORES(FSCM,Z,FACTORSCORES)

       DO ICASE=1,96
          SUM=0
          DO IFACTOR=1,7
             SUM=SUM+FACTORSCORES(ICASE,IFACTOR)
          END DO
          TOTALFACTORSCORE(ICASE)=SUM
       END DO

        WRITE(23,702)  (COMP(I),YEAR(I),(FACTORSCORES(I,J),J=1,7),
      &         TOTALFACTORSCORE(I),I=1,96)
702    FORMAT(2F6.1,7F10.5,3X,F10.5)

        END
        SUBROUTINE STANDARDIZE(RATIOS,Z)
        REAL RATIOS(96,25),Z(96,25)
        REAL SUM,MEAN,SUMSQ,VARIANCE,SDEV
        DO IRATIO=1,25
           SUM=0
           DO I=1,96
              SUM=SUM+RATIOS(I,IRATIO)
           END DO
           MEAN=SUM/96
           SUMSQ=0
           DO I=1,96
              SUMSQ=SUMSQ+(RATIOS(I,IRATIO)-MEAN)**2
        END DO
        VARIANCE=SUMSQ/96
        SDEV=SQRT(VARIANCE)
        DO I=1,96
           Z(I,IRATIO)=(RATIOS(I,IRATIO)-MEAN)/SDEV
        END DO
END DO

RETURN
```

```
END
SUBROUTINE COMPUTEFACTORSCORES(FSCM,Z,FACTORSCORES)
REAL FSCM(25,7),Z(96,25)
REAL FACTORSCORES(96,7)

REAL SUM

DO IOBSERVATION=1,96

   DO IFACTOR=1,7

      SUM=0
      DO IRATIO=1,25
         SUM=SUM+Z(IOBSERVATION,IRATIO)*FSCM(IRATIO,IFACTOR)
      END DO

      FACTORSCORES(IOBSERVATION,IFACTOR)=SUM

   END DO

END DO

RETURN

END
```

```
      program simplify

      real fscm(25,7),rfm(25,7)
      integer worthusing(25,7)
      real standardcoefs(25)
      real ratios(96,25),means(25),sdevs(25),rawcoefs(25)

      print 100
100   format(/' Kindly enter tolerance, e.g. 0.3: ',$)

      read *,tol

      open(20,file='fscm',status='old',readonly)
      open(21,file='rfm',status='old',readonly)
      open(22,file='ratios',status='old',readonly)
      open(23,file='rawcoefs',status='new',carriagecontrol='list')

      read(20,*) ((fscm(i,j),j=1,7),i=1,25)
      read(21,*) ((rfm(i,j),j=1,7),i=1,25)
      read(22,*) (comp,year,(ratios(i,j),j=1,25),i=1,96)

      call getmeansandstandarddeviations(ratios,means,sdevs)

      do ifactor=1,7
      do ivar=1,25
         if (abs(rfm(ivar,ifactor)).ge.tol) then
            worthusing(ivar,ifactor)=1
         else
            worthusing(ivar,ifactor)=0
         end if
       end do
       end do

       do ifactor=1,7
          call printusage(ifactor,worthusing)
       end do

       do ivar=1,25
          standardcoefs(ivar)=0.0
          do ifactor=1,7
             if (worthusing(ivar,ifactor).eq.1) then
                standardcoefs(ivar)=standardcoefs(ivar)+
     &             fscm(ivar,ifactor)
             end if
          end do

          print 301
301       format(/' Here come the "standard" coefficients'/)

          print 303
303       format(/' Please press the return key')
          read 304,nutcase
304       format(a1)
```

```
      do ivar=1,25
         print 302,ivar,standardcoefs(ivar)
      end do
302   format(1x,i7,f12.5)

      constant=0

      do ivar=1,25
         aaa=standardcoefs(ivar)/sdevs(ivar)
         rawcoefs(ivar)=aaa
         constant=constant-aaa*means(ivar)
      end do

      write(23,302) (ivar,rawcoefs(ivar),ivar=1,25),0,constant

      end
      subroutine printusage(ifactor,worthusing)
      integer worthusing(25,7)

      integer list(25)

      nused=0

      do ivar=1,25
         if (worthusing(ivar,ifactor).eq.1) then
            nused=nused+1
            list(nused)=ivar
         end if
      end do

      print 100,ifactor,(list(i),i=1,nused)
100   format(/' variables used for factor',i2,': ',25i3)

      return

      end
      subroutine getmeansandstandarddeviations(ratios,means,sdevs)
      real ratios(96,25),means(25),sdevs(25)

      real sum,mean,sumsq,variance,sdev
      do iratio=1,25
         sum=0
         do i=1,96
            sum=sum+ratios(i,iratio)
      end do
      mean=sum/96
      sumsq=0
      do i=1,96
         sumsq=sumsq+(ratios(i,iratio)-mean)**2
      end do
      variance=sumsq/96
      sdev=sqrt(variance)
```

```
      means(iratio)=mean
      sdevs(iratio)=sdev

    end do

    return

    end
```

```
 program testequation

 real rawcoefs(26),ratios(25)

 open(20,file='rawcoefs',status='old',readonly)
 open(21,file='ratios',status='old',readonly)
 open(22,file='simplifiedtotalscores',status='new',
&      carriagecontrol='list')

 read(20,*)  (dummy,rawcoefs(ivar),ivar=1,26)

        do icase=1,96
           read(21,*) icompany,iyear,ratios
           score=0
           do ivar=1,25
              score=score+ratios(ivar)*rawcoefs(ivar)
           end do
           score=score+rawcoefs(26)
           write(22,201) icompany,iyear,score
201        format(i4,i4,f12.5)
        end do

        end
```

Appendix (7)

List Of Important Intreviewees And Organisations

1. Mr. DAHAM ABD AL-RASHID, Chairman of the Board of Supreme Audit Or the Diwan of Financial Control.
2. Mr. ABDULLAH MEHMOUD AMIN, General Manager at DFC.
3. Mr. MUHANA, General Manager at DFC.
4. Mr KHALID AL-AMIRI, General Manager at DFC.
5. Mr KHALID ABDUL JABBAR, Deputy of General Manager at DFC.
6. Mr. ARAS M. SAID, Manager and Head of Group at DFC.
7. Mr. SALEM P. IBRAHIM, Manager of Statistic and Research Dept. at DFC.
8. Mr. ABDUL RAHIM MOHAMMED, Manager of Planning at Tourist Board.
9. Mr. MAJID AL-DEARI, General Manager of Iraqi Airways.
10. Mr. FALAH MERZA, General Manager of State Company for Fairs.

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