

Performance Measurement Systems in Tanzanian Tourism SMEs: An Integrated Mixed-Methods Study

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ABSTRACT

This research examines how performance measurement systems are utilized by small and medium-sized enterprises (SMEs) in Tanzania's tourism sector, particularly within the accommodation subsector. The study focused on three objectives: 1) analyzing the impact of factors such as environmental uncertainty, ethnic ownership, business size, and strategic orientation on the use of performance measurement systems; 2) investigating the methods these SMEs use to implement these systems; and 3) exploring how these systems influence key organizational capabilities like resource teaming, strong routines, entrepreneurial spirit, and innovativeness as well as overall performance. A mixed-methods approach was employed, utilising semi-structured interviews and surveys, with analysis conducted using NVivo software and Structural Equation Modelling (PLS method). The findings showed that the contextual factors significantly influenced the adoption of performance measurement systems and their relationship with organizational performance through enhanced capabilities. This research provides valuable insights to the management accounting literature, particularly for SMEs in developing nations, and offers practical recommendations for business management and policymaking to support SME growth in the tourism sector.

Keywords: Performance measurement systems; SMEs; Business management

INTRODUCTION

Emerging economies are increasingly acknowledging small and medium enterprises (SMEs) as crucial contributors to social and economic progress. The SME sector is essential for economic development, job creation, and poverty reduction (Israel, 2025). In Tanzania, SMEs make a notable contribution to the economy, accounting for around 35% of the Gross Domestic Product (GDP) and employing more than 20% of the labour force. They play a crucial role in various sectors, including agriculture, manufacturing, trade, and services, by fostering economic growth and reducing poverty through initiatives that support self-employment and microfinance.

Nonetheless, Tanzanian SMEs encounter obstacles, including limited access to financing, inadequate technical skills, and constrained market opportunities, which impede their growth potential (Lambin & Nyssölä, 2024). With over 3 million enterprises, SMEs are crucial, representing approximately 90% of businesses in Tanzania and employing over 5 million individuals. The agricultural sector is a key area for SMEs, particularly with female entrepreneurs managing more than half of these enterprises. However, 66% of micro and small enterprises generate annual revenues below USD 2,000, reflecting their difficulty in scaling up. Challenges such as high interest rates, inadequate collateral, short repayment periods, and insufficient transparency regarding loan information further complicate access to essential funding.

The Tanzanian government recognises the crucial role of SMEs in driving economic development and has implemented several policies to support this sector. The SME Development Policy, which is part of Tanzania's Development Vision 2025, focuses on fostering SME growth as a means of economic progress and poverty alleviation. The formation of the Small Industries Development Organisation (SIDO) in 1973 has been instrumental in delivering services like training and hire purchase programs. The government has also partnered with commercial banks to provide loans to Micro, Small, and Medium Entrepreneurs, addressing funding

shortages. International collaborations are significant, with the European Union offering grants and the European Investment Bank providing loans to Tanzanian banks for SME support. There is a particular emphasis on startups and enterprises run by youth and women, with new regulations from the Capital Markets and Securities Authority aimed at enhancing access to venture capital.

Moreover, the government is focusing on sectors such as the blue economy in Zanzibar. Recent statistics indicate a substantial rise in tourism, with 409,082 visitors recorded in the first quarter of 2023, exceeding previous records and suggesting a recovery following the COVID-19 pandemic.

According to the latest figures on international tourists visiting Tanzania, Kenya topped the list with 44,588 arrivals, followed by France (31,636), Italy (25,145), and Burundi (23,829). The USA contributed 23,274 tourists, while Germany, Poland, and the UK brought in 21,755, 15,203, and 14,652 visitors, respectively. Rwanda accounted for 11,870 arrivals (Buzohera, 2025). A press release from the National Bureau of Statistics (NBS) for January and February 2023 noted that this influx of visitors was spurred by eased lockdown restrictions and Tanzania's successful marketing of its tourist attractions. Most visitors came for leisure purposes, underscoring the country's appeal as a vacation destination. (<https://www.tanzaniainvest.com/tourism/tourist-arrivals-q1-2023>)

Research Objective

This research aims to address gaps in the existing literature on tourism SMEs in Tanzania, a country with notable growth potential in this sector. It is based on contingency theory, examining how four variables, environmental uncertainty, ownership ethnicity, size, and strategy, impact the adoption of performance management systems. The study advances understanding of management accounting practices by investigating how SMEs in Tanzania's accommodation sector use these systems to enhance their operations. It also evaluates how these systems influence four key organisational capabilities: resource teaming, routines, entrepreneurship, and innovation, as well as overall performance. The primary objectives are to assess how these factors influence the adoption of performance measurement systems by tourism SMEs in Tanzania, to understand how these businesses implement such systems, and to explore their impact on organisational capabilities and performance.

LITERATURE REVIEW

The body of literature focusing on management control and performance management systems underscores their essential contribution to fostering effective organisational governance. Numerous studies reveal that these systems serve as indispensable mechanisms that empower organisations to not only articulate their strategic objectives but also to systematically pursue, track, and evaluate their progress toward these goals. This is particularly critical in dynamic environments that are subject to rapid change and uncertainty, where the ability to adapt and realign strategies becomes increasingly vital. Notable researchers, such as Simons (2000), emphasise the transformative impact these systems can have on organisational success and accountability.

Performance management systems serve several fundamental purposes that are essential for organisational success. First and foremost, they focus on measuring business performance. This involves a rigorous process of tracking and evaluating progress toward performance targets, ensuring that organisational goals are effectively met. Moreover, these systems play a crucial role in integrating strategic management philosophies within an organisation. They aid in the development, formulation, and execution of strategies, ensuring that daily operations align with broader objectives.

Alongside strategic integration, performance management systems support communication. They improve both internal and external interactions, encouraging constructive engagement within the organisation as well as with external stakeholders. This also enables benchmarking against various performance criteria. Furthermore, performance management systems greatly influence employee behaviour. They establish and oversee reward and compensation structures, effectively motivating individuals to align their performance with organisational expectations. Lastly, these systems foster a culture of learning and continuous improvement. Through systematic feedback processes, they aim to refine and enhance future performance outcomes, creating an environment where learning is valued and ongoing development is pursued.

Purbey et al. (2007) emphasise that performance management systems are essential organisational processes that help evaluate progress towards objectives, recognise both strengths and weaknesses, and support continuous improvements in performance. They allow managers to strategically balance key factors such as growth, control, and performance (Simons, 2000). Consequently, scholars from various fields, including accounting, business strategy, and operations management, have undertaken extensive research on these systems (Spanò & Zagaria, 2022).

Neely et al. (2005) delineate the distinctions between performance measures, performance measurement, and performance management systems: a performance measure quantifies the efficiency and effectiveness of an action, performance measurement is the process of quantifying these attributes, and a performance management system encompasses the metrics employed in this evaluation. This study aims to explore how these systems support management in the essential areas of planning, control, and decision-making, particularly within the services industry in Tanzania, with a specific emphasis on small and medium-sized enterprises (SMEs) in the tourism sector.

Use of performance management systems in SMEs

Despite the recognised significance of small and medium-sized enterprises (SMEs) in the global economy, the intricacies of their management control structures and performance management systems remain poorly understood. A substantial amount of existing research has predominantly centered on manufacturing industries, leaving a considerable gap in studies focused on service-oriented SMEs (Watts et al, 2009). While performance management systems have the potential to facilitate managerial growth and strategic development within SMEs (Garengo et al., 2005), there is a striking underutilization of these systems and a lack of investigation into the underlying reasons for this phenomenon (Garengo & Bititci, 2007). Formal management controls are critically important for the survival of small firms, as their long-term viability often hinges on the effectiveness of performance management practices (Davila & Oyon, 2009).

Current literature suggests that an optimal approach would involve a hybridisation of formal and informal control systems, integrating both non-financial and financial performance measures. However, in practice, these systems often operate at suboptimal levels, failing to deliver their full potential benefits (Sousa et al., 2006). Research conducted on French family-owned SMEs by Oriot et al. (2010) highlighted the effective use of strategic scorecards, which can guide organizations in assessing their performance. Conversely, Sousa et al. (2006) pinpointed a critical gap between the acknowledgment of the importance of performance management systems and their actual implementation within English SMEs. This is echoed in the experience of Indian SMEs, which, despite recognising the necessity of efficient systems, struggle significantly with their operationalization (Sharma et al., 2005). Moreover, the existing lack of empirical studies on the evolution of performance management practices in SMEs, as compared to larger firms, exacerbates this underutilization issue (Spanò & Zagaria, 2022; Varma, 2023).

The literature also reveals a notable disparity in the application and development of performance management systems between developing and developed nations (Andersen et al., 2006; Georgise et al., 2013). For many developing countries, challenges such as limited research findings, lack of specialized expertise, cultural disparities, and insufficient technological infrastructure further compound the difficulties they face. Georgise et al. (2013) specifically underscore the dearth of studies within regions like Africa, a sentiment mirrored in research findings from Malaysia (Amir, 2011) and Indian SMEs (Sharma & Bhagwat, 2007). Alarming, there is a complete absence of studies examining performance management systems within the tourism sector in developing countries, particularly in nations like Tanzania.

The adaptation of management frameworks from developed countries poses additional challenges, primarily due to the complexities involved in selecting relevant key performance indicators that resonate with the unique cultural contexts of developing nations (Georgise et al., 2013). While there is a gradual increase in research on performance management across diverse contexts (Nepoti et al., 2024), a persistent deficiency in IT infrastructure continues to complicate data collection and analysis efforts (Andersen et al., 2006). This study aims to serve as a crucial bridge between theoretical constructs and practical applications of performance management systems within tourism-focused SMEs in developing countries, seeking to enhance their operational efficiency and competitive advantage.

Application of performance management systems in small and medium-sized enterprises in the tourism sector.

As hospitality and tourism industries continue to rise in prominence within the global economy, the demand for comprehensive research in these dynamic fields is becoming increasingly critical (Sharma, 2002). The intense competition on an international scale (Altin, 2018) has compelled organisations to finely hone their services to cater to the evolving needs of sophisticated travellers who seek unique and memorable experiences. As a result, the ongoing monitoring and enhancement of service quality and operational efficiency have transformed into indispensable priorities for organisations striving to maintain their competitive edge (Altin, 2018). While there has been substantial academic exploration into performance management systems within the tourism sector, particularly among large hotels, there remains a significant oversight regarding small and medium-sized enterprises (SMEs), especially those situated in developing countries. The majority of existing research has predominantly focused on developed regions such as the United States and Europe, rendering a notable absence of insights from emerging markets a gap that necessitates further investigation.

Research on performance management in tourism SMEs has the potential to yield valuable insights. Taking as an example the study conducted by Bergin-Seers and Jagos (2007) on successful small motels in Australia, they revealed a balanced management approach that incorporated both financial and non-financial indicators. Their findings highlighted that a select few critical performance measures served as guiding frameworks for management activities, allowing owner-managers to proactively monitor their businesses and respond swiftly to emerging challenges. Furthermore, their research indicated that the most effective practices often emerged from a combination of experiential learning and formal training, underscoring the importance of continuous development in a competitive landscape (Spanò & Zagaria, 2022; Varma, 2023).

Travel Sector and Environmental Instability

Environmental uncertainty has a significant impact on the performance of service-oriented firms, particularly in the hotel sector (Suleiman, 2023). Key factors include competition, government regulations, political and economic stability, global economic fluctuations, and natural disasters, all of which notably affect the tourism industry. The hotel sector faces intense competition, making reliable performance data essential for effective decision-making (Suleiman, 2023; Buzohera, 2025). This study focuses on the environmental uncertainties faced by tourism small- and medium-sized enterprises (SMEs) in Tanzania. It examines factors such as competition, customer demands, political stability, economic conditions, government regulations, tourism policies, global trends, and natural disasters. Addressing these uncertainties can help SMEs improve their performance.

Ownership type affects how Owner-Managers implement performance management systems, particularly in family-owned versus non-family firms. Many tourism SMEs, particularly in Glasgow and rural Finland, are family-owned and rely on informal and social controls (Reijonen & Komppula, 2007). The impact of ethnicity on ownership has been less explored, especially in Tanzania's multicultural society. Management styles are also influenced by cultural backgrounds, defined by shared values and beliefs (Hofstede, 2001). Critical cultural dimensions include power distance, individualism vs. collectivism, masculinity vs. femininity, and uncertainty avoidance.

In Tanzania, which has distinct cultures such as Bantu, Nilotic, and Swahili, ethnicity is vital in cross-cultural accounting research. Studies show that managers from different cultural backgrounds respond differently to management practices (Tsui, 2001; Etemadi et al., 2009). For example, Chinese managers, who have a collectivist background, engage differently in budget participation than their Western counterparts. This suggests that management accounting theories from Western economies may not apply universally, which may also affect the use of performance management systems among Tanzania's ethnic groups.

Research has examined the link between culture and management control systems, focusing on how national culture influences control system design across countries (Tsui, 2001). Additionally, the impact of organisational culture on management control and performance systems has been explored. Differences in practices among firms from various cultural backgrounds underscore the need for further research on the impact of owner-manager ethnicity on management control systems (Hosen et al., 2011). Critiques suggest that national

culture should be examined more deeply within multicultural societies, advocating for a focus on organisational and within-national cultural differences. Silva et al. (2024) emphasise that multiculturalism is crucial in international accounting research and the interpretation of International Financial Reporting Standards (IFRS) (Ismail, 2024). This study examines the impact of ethnic ownership on the use of performance management systems among tourism SMEs in Tanzania. It aims to clarify the role of "ownership by ethnicity" in the tourism industry's performance management practices.

The Theories

Contingency theory

The contingency theory of management accounting posits that there is no one-size-fits-all approach to management control systems; the choice of control techniques depends on the specific circumstances of an organization (Otley, 1999). It highlights how accounting systems should be tailored to certain defined conditions, indicating that effective designs are context-dependent (Otley, 1980). Various key contextual variables have been studied, including external environments, technology, organisational structure, size, strategy, and national culture (Chenhall, 2003; Krishnan et al., 2022).

Research generally supports a correlation between these variables and management control systems (Chenhall, 2003). Chenhall and Chapman (2006) emphasize that seeking a good fit is a dynamic process. This study aims to add to the contingency literature by exploring how contextual variables relate to the use of performance management systems in SMEs within the Tanzanian tourism sector.

The levers of control Framework

Simons (1995) identifies four types of management control systems: belief systems, boundary systems, diagnostic control systems, and interactive control systems. Belief systems convey core values and guide employee behaviour, while boundary systems define acceptable behaviours and limit waste through explicit rules (Simons, 1995).

Diagnostic control systems focus on achieving goals by monitoring outcomes and correcting deviations using financial metrics (Barros & Ferreira, 2022; Kuruppu et al., 2024). They motivate managers to meet targets, although they may constrain behaviour (Emsley, 2001). Effective design of these systems requires an understanding of key performance variables (Simons, 1995).

Interactive control systems engage managers in subordinates' decision-making and foster innovation by balancing creative efforts with predictable outcomes (Davila et al., 2009; Barros & Ferreira, 2022). Key characteristics include a focus on important agendas, regular management engagement, face-to-face discussions, and facilitating debates around plans. Though time-consuming and costly, interactive systems help share information and reduce knowledge gaps (Baird et al., 2019).

This review emphasises the diagnostic and interactive use of controls, particularly regarding performance management systems in Tanzanian SMEs within the tourism sector. The next section will examine the impact of these systems on capabilities and organisational performance in relation to resource-based theory.

Resource-Based Theory

Resource-based theory suggests that a firm's sustained competitive advantage arises from its valuable, rare, inimitable, and non-substitutable resources (Barney, 1991; Barney et al., 2001). These resources include all assets, capabilities, and knowledge essential for developing effective strategies (Barney, 1991; Daft, 1983). Henri (2006a) states that competitiveness derives from distinctive resources and capabilities, with some theorists arguing that a unique resource bundle forms the basis for sustained competitive advantage (Conner & Prahalad, 1996; Mehmood et al., 2023; Agrawal et al., 2024; Duarte Alonso et al., 2025).

Grant (1991) differentiates between resource inputs into production (e.g., equipment, skills) and capabilities, which are the capacity to utilise these resources effectively. While resources contribute to capabilities, it is the

capabilities, such as innovation and entrepreneurship, that drive competitive advantage (Duarte Alonso et al., 2025). This study focuses on two capabilities from Henri's (2006a) research: innovativeness and entrepreneurship, particularly relevant to the Tanzanian SME tourism sector. Due to the narrow customer base of SME tourism firms, capabilities such as market orientation and organisational learning are less applicable, as they are often limited by the owner-manager's decision-making role (Dewangan et al., 2024). In contrast, innovativeness and entrepreneurship emerge as crucial for competitive advantage.

Additionally, the study introduces two more capabilities: resource teaming and organisational routines. The Owner-Manager's ability to mobilise and manage resources through established processes is vital for business performance. Each of the four capabilities will be explored in detail, with justifications for their relevance in this research context.

Research hypotheses

H1a: Tourism SMEs in Tanzania experiencing high environmental uncertainty tend to employ performance management systems interactively instead of diagnostically.

H1b: Tourism SMEs in Tanzania facing low environmental uncertainty are more inclined to use performance management systems diagnostically rather than interactively.

H2a: Indigenous-owned tourism SME firms tend to utilise performance management systems in a diagnostic manner rather than interactively.

H2b: Tourism SME firms owned by Indo-Tanzanian and European individuals are more inclined to use performance management systems interactively rather than diagnostically.

H3a: Small Tanzanian tourism firms tend to utilise performance management systems in an interactive manner rather than a diagnostic one.

H3b: Medium-sized Tanzanian tourism firms are more likely to use performance management systems diagnostically instead of interactively.

H4a: Tanzanian tourism SMEs employing a cost leadership strategy tend to utilise performance management systems in a diagnostic manner rather than interactively.

H4b: Tanzanian tourism SMEs adopting a differentiation strategy are likely to employ performance management systems interactively instead of diagnostically.

H5: The diagnostic application of performance management systems is likely to hinder the utilisation of SME capabilities related to resource teaming, organisational routines, entrepreneurship, and innovation.

H6: The interactive application of performance management systems is expected to enhance the deployment of SME capabilities in resource collaboration, organisational routines, entrepreneurship, and innovation.

RESEARCH METHODS

The research utilised a sequential mixed-methods approach, effectively combining both qualitative and quantitative methodologies to comprehensively gather and analyse data related to tourism accommodation in Tanzania.

The research unfolded in two distinct phases:

1. Qualitative Phase:

The initial phase employed a multiple case study design that centered on three unique tourism accommodation businesses in Tanzania.

Data Collection: The primary method of data collection involved conducting in-depth, semi-structured interviews with owner-managers and key members of the management teams at each selected establishment. This approach enabled the researcher to delve deep into their insights, experiences, and operational challenges that characterize the Tanzanian tourism landscape.

Data Analysis: The qualitative data garnered from interviews were meticulously analyzed using thematic analysis, facilitated by NVivo software. This enabled the identification of recurring themes and patterns within the data, offering rich narratives and insights into the operations of each business.

2. Quantitative Phase:

Building on the findings of the qualitative analysis, the second phase involved disseminating a comprehensive survey to capture the broader population of tourism SMEs within Tanzania's accommodation sector.

Data Collection: The survey was primarily distributed online to ensure accessibility and convenience; however, a postal mail option was made available for participants lacking internet access. Ultimately, a total of 65 usable responses were collected, providing a robust dataset for analysis.

Data Analysis: The quantitative data were scrutinised using IBM SPSS software for preliminary assessments, including tests for non-response bias. For the main hypotheses testing, Partial Least Squares Structural Equation Modelling (PLS-SEM) was employed, allowing for rigorous examination of the relationships among variables.

Sample Assessment and Collection:

The researcher implemented a multi-stage process to both gather and assess the sample for the qualitative and quantitative phases of the study.

Quantitative Survey Sample:

1. **Initial Gathering:** The process commenced with the creation of an extensive database that included 422 tourism accommodation operators across Tanzania. This comprehensive master list was developed by aggregating information from various credible sources, including public tourism websites such as the Tanzania Tourist Board, official government records, and valuable insights obtained through informal networking with industry officials and consultants.

2. **Assessment and Refinement:** The initial pool of 422 businesses underwent a systematic filtering process to ensure alignment with the study's focus on Small and Medium Enterprises (SMEs).

First, larger establishments with over 100 rooms were excluded, reducing the list to 397 SMEs. Additionally, the three firms selected for the qualitative case studies were removed from the sample, resulting in a refined frame of 394 businesses. A crucial verification step followed, where a research assistant contacted all 394 businesses by phone to confirm their operational status and update contact details. This step revealed that 149 businesses were unreachable. Consequently, the final verified survey sample comprised 245 businesses, ensuring that the survey targeted operational entities.

Qualitative Case Study Sample:

For the qualitative phase, three case study businesses were chosen based on strategic criteria to facilitate a thorough and relevant analysis:

Business Size: A careful mix of small and medium-sized enterprises was ensured, providing a holistic view of the sector.

Operational History: Each selected business had to demonstrate a robust operational history, being in existence for a minimum of five years. This criterion was vital to capture experienced insights.

Existing Systems: It was essential that each business had a performance measurement system in place, indicating a structured approach to operational efficiency and effectiveness.

Ownership by Ethnicity: The selected businesses represented the three major ethnic groups prevalent in the Tanzanian business landscape: Indigenous Tanzanian, Indo-Tanzanian, and European, thereby enriching the study's cultural perspective.

Through this carefully structured approach, the research aimed to present a comprehensive picture of the tourism accommodation sector in Tanzania, highlighting the interplay of various factors that impact SMEs in this vital industry.

RESULTS

Below is a summary of the thesis results organised by the study's three main research objectives.

Summary of Thesis Results

The dissertation's results can be understood in three stages: 1) how external and internal factors influence the use of Performance Measurement Systems (PMSs); 2) how PMSs are then used to develop organisational capabilities; and 3) how those capabilities ultimately affect overall organisational performance.

Part 1: Factors Influencing the Use of Performance Measurement Systems (PMS)

This section addresses the first research objective, which examined how four key contingent factors, environmental uncertainty, ownership by ethnicity, size, and strategy, influenced whether firms used PMSs in a diagnostic (monitoring) or interactive (dialogue-focused) manner.

Hypothesis Group	Research Hypothesis	Result	Explanation of Results
H1: Environmental Uncertainty	Firms in uncertain environments will use PMSs more interactively, while firms in stable environments will use them more diagnostically.	Rejected	The quantitative analysis found no significant relationship between perceived environmental uncertainty and the style of PMS use. The qualitative data explained this by showing that the business environment was perceived as only moderately uncertain. Factors like government regulation and global trends were unpredictable, but customer demands and competition were stable. This mixed environment did not push firms to one extreme, and they ended up using a combination of both diagnostic and interactive controls.
H2: Ownership (by Ethnicity)	Firms, regardless of their owner's ethnicity, will use PMSs interactively.	Rejected	The quantitative results showed no statistically significant difference in PMS use among Indigenous-owned, European-owned, and Indo-Tanzanian-owned firms. However, the qualitative case studies revealed that ethnicity strongly influenced management style. All three ethnic groups fostered informal, hands-on, and relationship-based management styles, which naturally favoured interactive dialogue. This suggests that different cultural paths led to a similar interactive management outcome, masking any statistical difference between the groups.
H3: Business Size	Firms, regardless of their size, will use PMSs interactively.	Rejected	The quantitative analysis found no significant link between firm size (measured by employees or rooms) and the style of PMS use. The study's sample consisted overwhelmingly of small firms (94% by room count), which limited the statistical power to detect size-based differences. The

			qualitative data indicated that both small and medium-sized firms used informal, personal controls due to their flat organisational structures and the owners' direct involvement in daily operations, which supports an interactive style regardless of minor size differences.
H4: Strategy	Firms with a low-cost strategy will use PMSs diagnostically (H4a), while firms with a differentiation strategy will use them interactively (H4b).	Partially Accepted	- Low-Cost → Diagnostic Use (H4a): Rejected. The relationship was not significant. - Differentiation → Interactive Use (H4b): Accepted. A significant positive relationship was found. - Unexpected Finding: A significant positive relationship was also found between Differentiation Strategy and Diagnostic Use. Explanation: The firms overwhelmingly used a differentiation strategy focused on high-quality service. To achieve this, they needed interactive methods (e.g., direct customer feedback, staff meetings) to ensure service quality, confirming H4b. However, they also needed diagnostic tools to monitor costs and key metrics to ensure their high-quality service was delivered profitably, explaining the unexpected positive link to diagnostic use.

Part 2: The Influence of PMS Use on Organisational Capabilities

This section addresses the impact of diagnostic and interactive PMS use on four key capabilities: Teaming of Resources, organisational Routines, Entrepreneurship, and Innovativeness.

Hypothesis Group	Research Hypothesis	Result	Explanation of Results
H5: Diagnostic Use	Diagnostic use of PMS will limit the deployment of organisational capabilities.	Rejected & contradicted	- Teaming of Resources: No significant relationship found. The hypothesis was rejected. - organisational Routines: A significant positive relationship was found with Planning & Control routines and Sustainability routines. This contradicts the hypothesis. - Innovativeness: A significant positive relationship was found. This also contradicts the hypothesis. Explanation: The study suggests that because the SMEs operated in a stable environment and used diagnostic controls informally, these controls did not stifle capabilities. Instead, they provided a necessary structure for effective planning and control, which in turn supported innovation rather than hindering it.
H6: Interactive Use	Interactive use of PMS will promote the deployment of organisational capabilities.	Partially Accepted	- Teaming of Resources: Accepted. Interactive use was significantly and positively related to the ability to combine physical, relational, and communication resources. - organisational Routines: Partially Accepted. A significant positive relationship was found with Operational Routines only. - Entrepreneurship & Innovativeness: Rejected. No significant relationship was found. Explanation: Interactive methods like regular meetings and open dialogue directly facilitate the coordination required for combining resources and managing daily operational routines. The lack of impact on entrepreneurship and innovation was attributed to the firms' small size, limited resources, and a "lifestyle entrepreneur" mindset, which constrained their ability to pursue major innovations regardless of management style.

Part 3: The Influence of Capabilities on Organisational Performance

This final section addresses the third research objective by testing the indirect effect of PMS use on organisational performance, mediated by the four capabilities. The key test is whether the capabilities themselves are linked to performance.

Hypothesis Group	Research Hypothesis	Result	Explanation of Results
H7: Indirect Effect on Performance	The four organisational capabilities will positively influence organisational performance.	Partially Accepted (with a major contradictory finding)	- Teaming of Resources → Performance: Partially Accepted. Only the "Owners' Experience and Relational Resources" dimension had a significant positive impact on performance. - organisational Routines → Performance: Mixed Results. - Planning & Control Routines had a significant positive impact. - Operational Routines had a significant negative impact. This is a major counterintuitive finding that contradicts the hypothesis. - Entrepreneurship & Innovativeness → Performance: Rejected. No significant impact was found. Explanation: The positive findings are logical: experienced owners and good planning lead to better performance. The major unexpected finding is that better operational routines were linked to worse performance. The dissertation suggests this could be because the informal systems led managers to focus too heavily on daily tasks at the expense of long-term strategy, or that the routines themselves were inefficient. The lack of impact from entrepreneurship and innovativeness on performance reinforces the idea that these capabilities were too constrained by limited resources to drive tangible results in this sample.

Contingency Factors and Use of Performance Management Systems

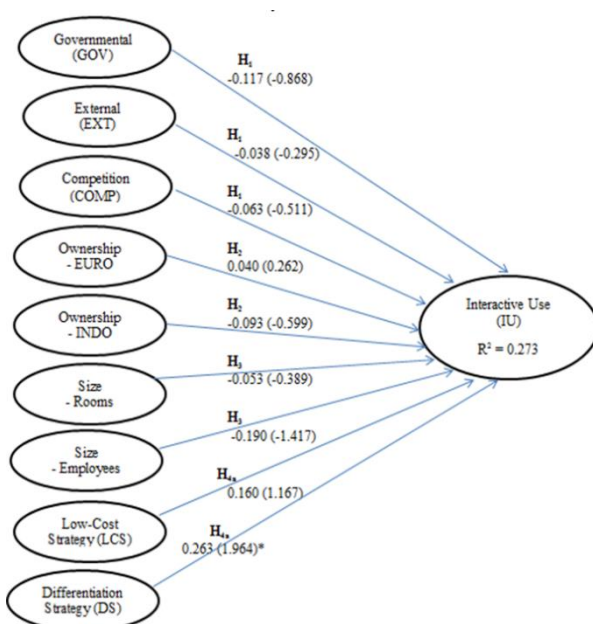


Figure 1 Model A (i) – Hypothesis 1–4

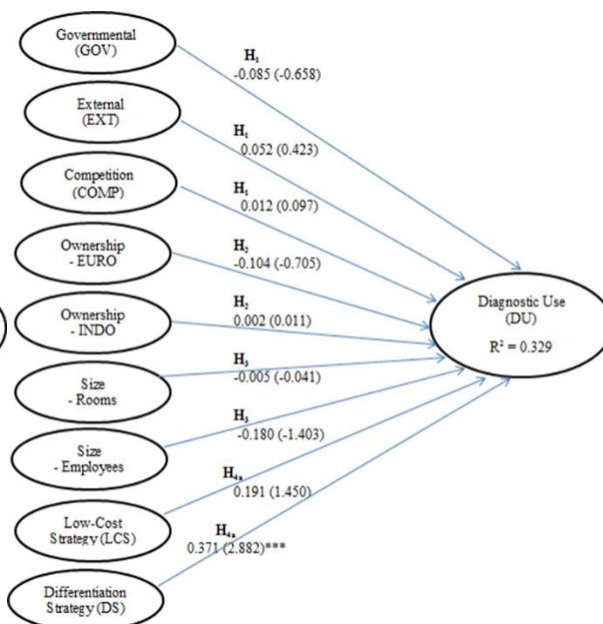


Figure 2 Model A (ii) – Hypotheses 1–4

Table 1 Contingency Factors and Use of Performance Management Systems: Results of Hypotheses Testing H1, H2, H3, & H4

Hypothesis	Path	Path Coefficient	t-value	p-value	Sig. Level	Result
1a) Effects of Environmental Uncertainty on Interactive Use of performance management systems						
H ₁	GOV→ IU (+)	-0.117	-0.868	0.389	-	Reject
	EXT→ IU (+)	-0.038	-0.295	0.769	-	Reject
	COMP→ IU (+)	-0.063	-0.511	0.611	-	Reject
b) Effects of Environmental Uncertainty on Diagnostic Use of performance management systems						
H ₁	GOV→ DU (-)	-0.085	-0.658	0.513	-	Reject
	EXT→ DU (-)	0.052	0.423	0.674	-	Reject
	COMP→ DU (-)	0.012	0.097	0.923	-	Reject
2a) Effects of Ethnicity on Interactive Use of performance management systems						
H ₂₁	EURO→IU (+)	0.040	0.262	0.794	-	Reject
	INDO→IU (+)	-0.093	-0.599	0.551	-	Reject
b) Effects of Ethnicity on Diagnostic Use of performance management systems						
H ₂₁	EURO→DU (-)	-0.104	-0.705	0.484	-	Reject
	INDO→DU (-)	0.002	0.011	0.991	-	Reject
3a) Effects of Size on Interactive Use of performance management systems						
H ₃	SIZE _{erm} ² →IU(+)	-0.053	-0.389	0.699	-	Reject
	SIZE _{em} ³ →IU(+)	-0.190	-1.417	0.162	-	Reject
b) Effects of Size on Diagnostic Use of performance management systems						
H ₃	SIZE _{erm} ² →DU(-)	-0.005	-0.041	0.968	-	Reject
	SIZE _{em} ³ →DU(-)	-0.180	-1.403	0.166	-	Reject
4a) Effects of Strategy on Diagnostic Use of performance management systems						
H _{4a}	LCS→DU (+)	0.191	1.450	0.153	-	Reject
	DS→DU (-)	0.371	2.882	0.006	0.01	Partially Accept
b) Effects of Strategy on Interactive Use of performance management systems						
H _{4b}	LCS→IU (-)	0.160	1.167	0.248	-	Reject
	DS→IU (+)	0.263	1.964	0.055	0.10	Accept

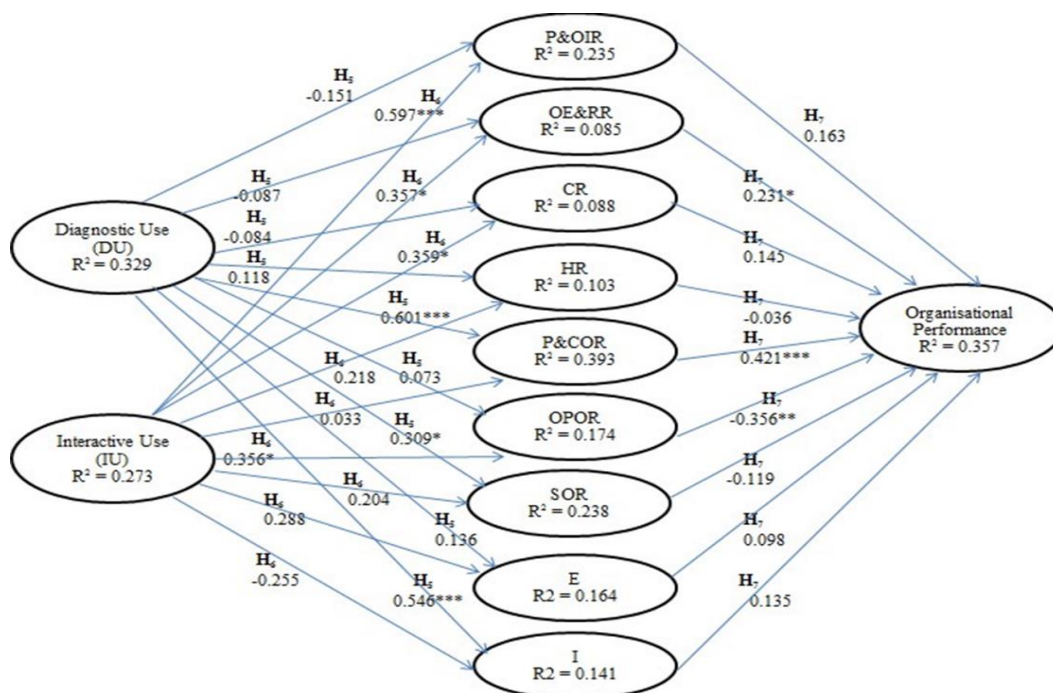


Figure 3 Model B – Hypotheses 5-7

Table 2 Contingency Factors and Use of Performance Management Systems: Results of Hypotheses Testing _
H5 & H6

Hypothesis	Path	Path Coefficient	t-value	p-value	Sig. Level	Result
1a) Effects of Diagnostic Use of performance management systems and Teaming of Resources						
H ₅	DU→ P&OIR (-)	-0.151	-0.817	0.417	-	Reject
	DU→OE&RR(-)	-0.087	-0.432	0.667	-	Reject
	DU→ CR (-)	-0.084	-0.416	0.679	-	Reject
	DU→ HR (-)	0.118	0.588	0.558	-	Reject
b) Effects of Diagnostic Use of performance management systems and Organisational Routines						
	DU→P&COR (-)	0.601	3.643	0.001	0.01	Partially Accept
	DU→ OPOR (-)	0.073	0.378	0.707	-	Reject
	DU→ SOR (-)	0.309	1.674	0.099	0.10	Partially Accept
c) Effects of Diagnostic Use of performance management systems and Entrepreneurship						
	DU→ E (-)	0.136	0.702	0.485	-	Reject
d) Effects of Diagnostic Use of performance management systems and Innovativeness						
	DU→ I (-)	0.546	2.784	0.007	0.01	Partially Accept
2a) Effects of Interactive Use of performance management systems and Teaming of Resources						
H ₆	IU→ P&OIR (+)	0.597	3.223	0.002	0.01	Accept
	IU→OE&RR(+)	0.357	1.763	0.083	0.10	Accept
	IU→ CR (+)	0.359	1.776	0.081	0.10	Accept
	IU→ HR (+)	0.218	1.088	0.281	-	Reject
b) Effects of Interactive Use of performance management systems and Organisational Routines						
	IU→P&COR (+)	0.033	0.199	0.843	-	Reject
	IU→ OPOR (+)	0.356	1.851	0.069	0.10	Accept
	IU→ SOR (+)	0.204	1.103	0.274	-	Reject
c) Effects of Interactive Use of performance management systems and Entrepreneurship						
	IU→ E (+)	0.288	1.486	0.142	-	Reject
d) Effects of Interactive Use of performance management systems and Innovativeness						
	IU→ I (+)	-0.255	-1.300	0.198	-	Reject

Table 3 Contingency Factors and Use of Performance Management Systems: Results of Hypotheses Testing _
H7

Hypothesis	Path	Path Coefficient	t-value	p-value	Sig. Level	Result
1a) Effects of Teaming of Resources and Organisational Performance						
H ₇	P&OIR→ OP (+)	0.163	0.993	0.325	-	Reject
	OE&RR→OP(+)	0.231	1.814	0.075	0.10	Accept
	CR→ OP (+)	0.145	1.141	0.259	-	Reject
	HR→ OP (+)	-0.036	-0.290	0.773	-	Reject
b) Effects of Organisational Routines and Organisational Performance						
	P&COR→OP(+)	0.421	2.709	0.009	0.01	Accept
	OPOR → OP (+)	-0.356	-2.306	0.025	0.05	Partially Accept
	SOR→ OP (+)	-0.119	-0.826	0.413	-	Reject
c) Effects of Entrepreneurship and Organisational Performance						
	E → OP (+)	0.098	0.749	0.457	-	Reject
d) Effects of Innovativeness and Organisational Performance						
	I → OP (+)	0.135	1.132	0.262	-	Reject

CONCLUSION

The central conclusion is that Performance Measurement Systems (PMSs) enhance the organisational performance of Tanzanian tourism SMEs indirectly, by improving specific organisational capabilities. Rather than a direct link between measuring performance and achieving better results, the thesis concludes that the value of a PMS lies in its ability to strengthen the underlying functions of the business. The study's findings are synthesised into a comprehensive conclusion that addresses its three main research objectives.

1. The Use of PMS is Nuanced and Context-Dependent

The study concludes that tourism SMEs in Tanzania do not use Performance Measurement Systems in a purely diagnostic (monitoring) or interactive (dialogue-focused) way. Instead, they employ a flexible blend of both approaches.

1. **Influence of Strategy:** The most significant factor influencing PMS use was the firm's strategy. Businesses pursuing a differentiation strategy (focusing on high-quality, unique services) were found to use PMSs both diagnostically to control costs and interactively to ensure service quality and customer satisfaction.
2. **Limited Influence of Other Factors:** Other factors like environmental uncertainty, ownership by ethnicity, and business size did not show a statistically significant relationship to the *style* of PMS use. The research concludes this is because the business environment was only moderately uncertain, and the small size and informal management style of most firms naturally fostered an interactive approach regardless of other factors.

2. The Impact of PMS on Capabilities is Specific and Sometimes Contradictory

The thesis concludes that the way a PMS is used has a direct and specific impact on different organisational capabilities, though not always in the way that was initially hypothesised.

1. **Interactive Use Boosts Collaboration:** The interactive use of PMS (e.g., frequent meetings, open dialogue) significantly enhances a firm's ability to combine and utilise its resources, a capability the study terms "resource teaming".
2. **Diagnostic Use Strengthens Planning:** Contrary to the initial hypothesis that diagnostic use would limit capabilities, the study found it had a significant positive impact on organisational Routines, particularly those related to planning and control. It also positively influenced Innovativeness. The conclusion is that in a stable environment, these formal checks provide a necessary structure that supports, rather than stifles, organised innovation.
3. **Entrepreneurship and Innovativeness Remain Constrained:** The study concludes that neither diagnostic nor interactive PMS use significantly boosted the capabilities of entrepreneurship or innovativeness. The author attributes this to overriding constraints such as limited financial resources, the small scale of the businesses, and a "lifestyle entrepreneur" mindset, which were more powerful than the influence of the PMS.

3. The Path to Improved Performance is Indirect and Mediated

The final and most critical conclusion of the thesis is that the link between PMS use and overall organisational performance is not direct. Performance improves only when the PMS successfully enhances specific, value-creating capabilities.

Key Capabilities Driving Performance: The study concludes that two capabilities were the primary mediators through which PMSs improved performance:

1. **Teaming of Resources:** Specifically, the "Owners' Experience and Relational Resources" dimension, which includes industry experience and professional networks.
2. **Organisational Routines:** Specifically, the "Planning and Control" routines, which provide structure and strategic direction.

A Major Contradictory Finding: The study uncovered a significant negative relationship between *operational routines* and organisational performance. The thesis concludes that this may be because the informal systems led managers to become too focused on daily, short-term tasks, potentially at the expense of strategic, long-term activities.

By integrating these findings, the study concludes that for a Tanzanian tourism SME, the most effective path to better performance is to use a PMS to leverage the owner's experience and industry relationships while establishing strong planning and control processes. Simply measuring outcomes is not enough; the measurement system must be used to build these specific internal strengths.

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