IMPACT OF MANAGEMENT ACCOUNTING PRACTICES ON PERFORMANCE OF HOTEL BUSINESSES IN SRI LANKA

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ABSTRACT

Management Accounting Practices (MAPs) are used by organizations in order to make proper decisions and to compete in the current competitive environment. Since the problem of lack of information for decision making in Hotel sector businesses, the study approached to explore the impact of management accounting practices on performance of Hotel businesses in Sri Lanka. Descriptive survey design was used to achieve the objective of this study. The target population was classified and unclassified 389 hotels in Sri Lanka and 105 hotels were selected as sample using stratified sampling method. Five categories of management accounting practices were identified as costing management practices, strategic analysis, information for decision making, performance evaluation system and budgeting management practices. Primary data were collected from the respondents via a questionnaire. Collected data was analyzed using a correlation and regression analysis. The findings revealed that the Information for decision making category is the most highly used MAP among hotels in Sri Lanka. Budgeting management practices, Performance evaluation system, Costing management practices and Strategic analysis were also used as second highest to lowest respectively. The study further found that there are high significant positive correlations between selected variables and performance of hotels. While regression analysis revealed that all the selected MAPs have a significant positive impact on Performance of Hotel businesses in Sri Lanka.

Keywords: *Budgeting, Decision Making, Hotel Businesses, Management Accounting Practices, Strategic Analysis*

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1 INTRODUCTION

1.1 Background of the Study

In the recent globalized environment, each organization regardless of their size, structure and nature must compete in a very competitive business environment because of the development in Information Technology. Since the decision taking body or the management have to take effective managerial decisions in order to survive in the business world. Management Accounting is the branch of accounting that deals with supply of information in order to managers make business decisions.

Recording as the third largest foreign remittances earner after the apparel exports and foreign worker remittances, Hotels & Tourism sector had an impressive growth after the peace obtained in 2009 and Sri Lanka currently considered as the best country to visit by the global travel publisher 'lonely planet'. As a desired area which can make profits, Sri Lankan government with collaboration of Board of Investment (BOI) have attracted many international Hotel Brands such as Marriot, Shangri-La, Banyan Tree, Movenpick etc. (BOI Sri Lanka, 2016). As a growing sector it always faces challenges. Kelegama, (2014) highlighted some issues hotels faced at the Annual General Meeting of the Institute of Hospitality Sri Lanka. First one is the broadening of tourism data. With the development of social media, informal sector hotel establishment had an impressive growth. Those firms are not recording data properly. Established hotels also failed due to the lack of information communication. To uplift overall sector, that information must properly recorded and analyzed to a solid database. The second issue was attracting foreigners to Colombo hotels with the development of condominium apartments in Colombo. Since the need of proper estimation is highlighted to avoid either over-supply or under-supply of facilities. Next issue was seasonality effect and decisions regarding accommodation of guests in those special incidents. Then the adoption of realistic Price-Quality ratio issue has been highlighted as the customers didn't get the value for money paid with the effect of minimum price legislation for Hotels. Final issue mentioned is the Branding & Marketing. With the diminishing returns of former brands as "Paradise Island", "Land like no other" up to "Wonder of Asia" Sri Lanka has to go for a new brand.

1.2 Problem Statement

According to Ministry of Tourism Development, (2017), hotels as a sector, is backward due to lack of comprehensive data. Prior Research study by Fonseka, Manawaduge, & Senaratne, (2005) analyzed MAPs in different sectors in which they expected a greater scope of MAPs in Hotel & Tourism sector disappointingly display a narrow application. Ineffective use of MAPs such as

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budgets, performance measurement tools, forecasts, industry analysis and strategic analysis tools not only informal establishments but also well-established hotels have failed in their decisions. Since the researcher developed the problem as lack of information for decision making in Hotel sector businesses cause business performance and ultimately hotel failures because of this issue. Thus, the study sought to establish impact of MAPs on Hotel business performance in Sri Lanka.

1.3 Research Objectives

Most of the problems that hotel businesses face arise because of the core issue lack of important information. So it's clear that management accounting information is a solution to overcome those mentioned issues by creating budgets, forecasts, industry analysis, environmental analysis, cost analysis and performance evaluations. Accordingly, following research aims were set by the researcher.

1. To explore the extent to which MAPs are used by Hotel businesses.
2. To examine the relationship between the use of MAPs and the performance of Hotel businesses.
3. To examine the impact of MAPs on performance of Hotel businesses.

1.4 Significance of the Study

This study will empirically contribute to the existing literature on Management Accounting in developing countries by focusing on the practices of hotel businesses in Sri Lanka. On the other hand, the study will benefit the decision makers in hotels as they will understand the methods and tools available for them as far as controlling costs and make effective decisions finally this will improve their MAPs. Again it will benefit scholars interested in this area as it will form a foundation for further research.

2. LITREATURE REVIEW

2.1 Theoretical Background

An oldest theory of Management Accounting approached was the Contingency Approach in which built on the premise that there is no universally accepted accounting system which can be applied to all the organizations in all circumstances. In 1977, with the theory of New Institutional Sociology which is introduced by Rowan & Meyer, the economic base contingency approach came to a socialistic approach which considered institutionalized environments deals with organizational structures within the organizational environment.After those main theories some other theories like Giddens'

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structuration theory, Bourdieu's theory of practice, The Theory of Communicative Action have been developed. But the actual application of management accounting systems expands from decision making matched with organizational strategic objectives.

2.2 Empirical Review

Since the 19th century, management accounting has been focused as a main concern of businesses because of the importance of MAPs for a better management and performance in the organization. Accordingly, many researchers conduct survey studies focused on adoption, stages, usage, and importance of MAPs with regard to different industries and firms. Some other researchers have analyzed the impact or the relationship of certain MAPs to the performance of businesses in several sectors. Among those studies MAPs in hotel business has been a research interest in many countries since it has been an emerging trend in many countries as well as nowadays economies are shifting to production sector development to service sector development(Siriwiwattanakul & Nitirojntanad, 2016 and Downie, 1997). Gichaaga, (2013)based on Manufacturing Companies in Kenya found that ROE has increased as a result of application of MAPs & recommend the enhancement of Information for Decision Making Practices. Shah & Pradhan, (2016) said that there is a direct significant relationship between cost management practices and firm's profitability. Further, Wang & Huynh, (2014) found that there is good corporate governance in the organization that will lead to adoption of Management Accounting Practices and that will finally result in better financial performance. Indian researchers, Pradhan, Swain & Dash, (2018) conducted a research to understand the impact of Management accounting techniques on improving the supply chain performance as well as the overall performance of the firm and that study proved that there is a positive impact on the performance of supply chains with the adoption of management accounting techniques.

2.3 Theoretical Gap

There are less no of studies focused on service sector since traditionally MAPs have been generated and solely connected to the Manufacturing organizations. As views placed by Zounta & Bekiaris, (2009) tourism and hotels sector should have a proper investigation on MAPs since the costing of hotel products (part of service costing) aims at controlling costs (in order to reduce them while improving quality) and using them for making strategic and tactical decisions. One of the researches done by Fonseka, Manawaduge, & Senaratne, (2005) states that re-examination of MAPs is needed while there is a less attention to MAPs in Tourism sector though the researchers expected to have a better implementation and adoption. Overall it can be concluded that there is a blank

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in contribution to Management Accounting Literature in Sri Lankan context thus the researcher motivated to research on this behalf.

3 METHODOLOGY

3.1 *Conceptual* Framework

MAPs have been categorized under five categories while each category represent many dimensions which have been derived from past researchers Ahmad & Zabri, (2013); Pavlatos & Paggios, (2009); Maziriri & Mapuranga, (2017); Sunarni, (2014) and Gichaaga, (2013). Some of the dimensions were added after the discussion held with few Hotel Managers and studying Hospitality Management Accounting related books and articles in Sri Lankan context (Figure 1).
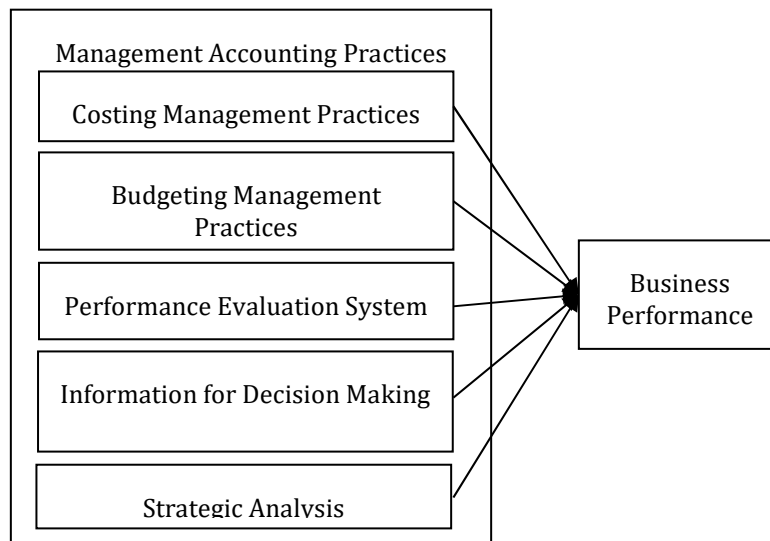
Figure 1: Conceptual Framework

3.1.1 Costing Management Practices

In order to control costs, separate identification is needed for full cost on each category as variable costs, fixed costs and mixed costs. Furthermore, a hotel structure is based on their main activities since Usage of Activity Based Costing is important (Azam, 2018). Complaints by customers, compensation given to customers, cost beard on maintaining service quality and quality audits,

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inventory purchase systems and specially allots separate section or a separate person responsible regarding the key item food & beverage also considered under Costing management.

3.1.2 Budgeting Management

This is depicted by Preparation of separate sales, operational budgets for each department or activity, special revisions in budgets for sales peaks and rush periods (weekly peaks, time of Dine etc.), flexible scheduling of staff in a special event (weddings, parties, meetings, outdoor caterings) beforehand since the usage of flexible budgeting, preparation of aggregate budget for certain items such as cutlery, furniture and fittings, tableware, wallpapers, decorations etc., and evaluation of major capital projects costs and benefits (renovations, restaurant expansions, refurbishments).

3.1.3 Performance Evaluation Systems

Normally every organization measures their performance from profits and sales as financial measures. Other than that, daily or weekly calculation of performance basically on rooms occupied, dishes sold in each dine time, other services to guests etc., performance measured via customer satisfaction survey, performance measured on employees point of view (skills, effort, responsibility, working condition) and identification of the overall industry ratings and scales for the purpose of benchmarking dimensions taken under performance evaluation practices used in Hotels.

3.1.4 Information Systems for Decision Making

Various dimensions were used as ratios related to Hospitality accounting (average room rate, average occupancy, revenue per available room, food cost percentage etc.), variances analysis (maintenance of standard costs, recipes and portions) and revision of prices/ search of cost reduction methods and evaluation of menus and preparation on the combination of high cost covered by cost effective items.

3.1.5 Strategic Analysis

Dimensions were industry analysis, external sales agents analysis (consider the online sales agents like Agoda, Booking.com, Expedia, Traveloka etc.), SWOT, new product development plans, competitive position analysis and possible integrations in value chain have been developed.

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3.1.6 Business Performance

To identify the business performance of the hotels, sales growth and profit growth are considered as financial measures for the study and under the non-financial aspect speed of obtaining the stars and increment in online rating considered to be matched with the context.

3.2 Sample Selection

The target population was classified and non-classified Hotel Businesses in Sri Lanka which was 389 establishments classified by Sri Lanka Tourism Development Authority (SLTDA) as at 31st March 2019. Since the population comprises of differently classified hotel establishments, the researcher selected Stratified Random Sampling in order to obtain a well representative sample from the population since "The idea of stratified random sampling is to ensure that every stratum gets an appropriate representation". (Ahmad, 2012). The sample size was 194 based on the developed formula by Krejcie & Morgan, (1970) which aimed at simplifying obtaining sample size for a finite population.

3.3 Data Collection

The primary data were gathered from the respondents (staff in the finance department who handle management accountancy issues) by a questionnaire. The questionnaire comprises of three sections.

Section A for general information. Section B for questions on the application of management accounting practices categorized under main headings of Costing Management, Budgeting, Performance Evaluation, Information for Decision Making and Strategic Analysis where the respondents were asked to mention the extent to which MAPs are used in their organization using a 5 point likert scale (1-Never, 2-Rarely, 3-Occasionally, 4-Frequently and 5-Very Frequently)

Final Section for the opinion on Business Performance aspects considering past 3 years, where the respondents were asked to indicate in a 5 point likert scale (1-Significantly Decreased, 2-Decreased, 3-No change, 4- Increased and 5-Significantly increased). In order to make sure that the questionnaires content was easily able to understand a pilot distribution was undertaken using 8 hotels accounts staff. After that few formulations were made and delivered to the sample respondents.

4 DATA ANALYSIS AND RESULTS

The completed 105 respondent's data were analyzed using several statistical tools. Validity and reliability of collected data were analyzed first using Cronbach's Alpha Value and KMO Value and results revealed that all the alpha

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values are more than 0.8 implying higher reliability while all the KMO values are significant emphasizing sample adequacy and data were valid for further analysis.

Descriptive Analysis was conducted to identify the level of usage of MAPs. The results showed that Information for Decision Making Practices (80%) are the mostly used practice followed by Performance Evaluation Practices (73%) and Cost Management Practices, Budgeting Management Practices and Strategic Analysis score an equal of 71% coming after. As dimensionally considered higher usage represents the usage of ratio analysis, maintaining reports of cost of quality, usage of separate budgets, usage of financial measures for performance evaluation, usage of variance analysis, usage of menu planning and SWOT analysis while a lower usage represents by concern on value chain integrations, usage of product development planning and usage of life cycle analysis and industry benchmarking, capital projects considerations and evaluations.

Correlation Analysis is used to identify the association between MAPs and Hotel Business performance where Correlation is a bivariate analysis that measures the strength of association between two variables and the direction of the relationship. According to the results, there is a strong positive correlation between Costing Management Practices and Business Performance (0.917), Budgeting Management Practices and Business Performance (0.935), Performance Evaluation Practices and Business Performance (0.924), Information for Decision Making and Business Performance (0.939) and Strategic Analysis and Business Performance (0.939) at 0.05 significant level.

To estimate how (MAPs) independent variable is numerically related to the dependent variable (Business Performance), the regression analysis is used (Table 1). The R squared of the model was 0.951 which shows that the independent variables accounted for 95.1% of the variance on performance of Hotel Businesses. According to ANOVA the Probability of F statistic is less than 0.05 since the overall model is significant. That means all the variables (Costing Management Practices, Budgeting Management Practices, Performance Evaluation Practices, Information for Decision Making and Strategic Analysis) explain a variation in business performance. According to the coefficient results there's a significant positive impact of selected variables on business performance.

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Table 1: Coefficient Table of Regression Analysis

	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Costing Management Practices	.203	.065	.188	3.123	.002
Budgeting Management Practices	.153	.076	.148	2.022	.046
Performance Evaluation Practices	.234	.061	.217	3.864	.000
Information for Decision Making	.247	.066	.240	3.719	.000
Strategic Analysis	.229	.066	.228	3.449	.001

5 DISCUSSION OF THE FINDINGS

According to Sevim, (2014); Pavlatos & Paggios, (2009) and Sunarni, (2014), organizations are more familiar with well-known traditional practices like usage of standard costing, break-even analysis, variation analysis, product/service profitability and SWOT, JIT and only less than half of the sample use contemporary practices like activity-based budgeting, life cycle costing and transfer pricing. This study results also shows that those by making high scores while contemporary practices Value Chain Integrations, Product Development Planning and Life Cycle Analysis have a lesser usage. With regard to ABC Analysis, Mashayekhi & Ara, (2017) mentioned ABC as an essential practice in Hospitality Sector. According to this study ABC technique scores a 78% among respondents, this depicts a frequent usage among Sri Lankan Hotels. On the other hand, usage of reports on Cost of Quality has a higher score among firms since the hotel engage in service sector considers quality of their services because of the highly competitive environment. This concept proved by Ankur, (2018). Similarly, researchers like Ahmad & Zabri, (2013) found a positive relationship between the use of MAPs and the performance of firms. Further, AlKhajeh & Khalid, (2018) stated that there is a significant relationship between the productivity and performance of firms and MAPs. A research done by Maziriri & Mapuranga, (2017) on SME sector revealed that the Management Account Practices positively influences the business performance of SMEs. Furthermore, the study validates that management accounting practices such as costing system, budgeting, performance evaluation, information for decision making and strategic analysis are instrumental in stimulating the SMEs business performance within the Gauteng Province of South Africa.

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6 CONCLUSION & CONTRIBUTIONS

Highest Usage of MAP is information on decision making. Overall it can be concluded that there is a significant positive impact of MAPs on Business Performance as per the results. Thus, this study suggests there should be an improvement in the management accounting practices related with Strategic Analysis considering Product Life Cycle analysis and New Product Developments, Possible Value Chain Integrations, Industry Analysis and the Long range and Medium range Project Evaluations rather than depending on the traditional MAPs. Because of the highly competitive environment information need is broadening day by day, tasks of Management Accountant also rise. So, this emerging needs to be fulfilled by the responsible parties adapting to the needs.

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