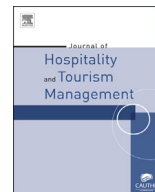




Contents lists available at ScienceDirect

Journal of Hospitality and Tourism Management

journal homepage: <http://www.journals.elsevier.com/journal-of-hospitality-and-tourism-management>

Costs allocation practices: Evidence of hotels in Australia



Anoop Patiar*

Department of Tourism, Sport and Hotel Management, Glyn Davis Building (N72) 0.31, Nathan campus, Griffith Business School, Griffith University, Brisbane, Australia

ARTICLE INFO

Article history:

Received 24 April 2015

Accepted 17 September 2015

Available online 18 November 2015

Keywords:

Cost sharing practice

Hotels

Uniform System of Accounts for the Lodgings Industry

ABSTRACT

The purpose of this research is to provide an insight into the practice of costs allocation in hotels. Data for the study were collected through semi-structured interviews with 19 Directors of Finance (DF) in the first stage and five DFs in the second stage. The results indicated that while overwhelming numbers of the DFs perceived their hotels were being operating in a competitive environment, there was little evidence of accurate apportioning of indirect costs, and instead, they allocated costs to aggregated revenue. In addition, it was noted that hotels treated various food and beverage outlets as a one unit of operation where indirect costs and some of the key direct costs were also aggregated. The results imply that the eleventh edition of the Uniform System of Accounts for the Lodgings Industry (USALI) does not support hotels in managing accurate cost figures. The contribution of this research is amplified by the fact that managers operating in competitive environments do not have access to accurate cost information which may hamper their ability to make effective decisions.

© 2015 The Authors.

1. Introduction

In competitive environments managers require timely and accurate cost accounting (CA) information in order to calculate true costs, so that correct product and service prices can be established (Chen, Wang, & Qiao, 2013; Kocakulah, 2007). The hotel industry is also operating in a competitive environment (Patiar, Davidson, & Wang, 2012; Patiar & Mia, 2008), and its products and services are subject to some unique characteristics (i.e., perishability, intangibility, seasonality and time boundedness) (see, Mia & Patiar, 2001). These features increase the degree of complexity in managerial decision making. However, such complexities can be effectively managed by implementing appropriate strategies which require decision makers (i.e., managers) to obtain customised, detailed and timely cost information (Kostakis, Boskou, & Palisidis, 2011; Raab, Shoemaker, & Mayer, 2007). The outcome of such strategies can help hotels acquire larger market share through penetration into new markets and/or introducing new products and services, and improving profitability (Cooper & Kaplan, 1991; Horngren et al., 2014).

Our literature search reveals that hospitality industry managers, and more specifically managers in the hotel sector, prefer using

traditional CA system when dividing various costs (i.e., direct and indirect costs) (Kostakis et al., 2011; Pellinen, 2003). Several researchers argue that the current CA system used in hotels lacks costing accuracy which can result in managers making erroneous decisions (Raab & Mayer, 2003, 2007; Rivero & Emblemavag, 2007). Hence, the relevance of traditional cost accounting practices in current competitive and complex environments is questionable (Cooper & Kaplan, 1991; Maelah & Ibrahim, 2007; Mitchell, 1994).

One specific aspect of CA, namely activity-based costing (ABC) promotes a fairer means of costs allocation, particularly in regard to the indirect costs of products and service (Horngren et al., 2014). In particular, ABC assists in tracing overheads (generally those costs that are indirect and somewhat untraceable) through activity centers and, with the use of cost pool rates, makes the representation of overheads more accurate, and allows equitable allocations to particular products (Kennett, Durler, & Downs, 2007; Kocakulah, 2007). Hence, ABC can ensure the elimination of resource wastage, the promotion of less profitable products and services, and the cross subsidisation of inefficient operating departments.

Following the idea that increasing competition in the market place has exerted pressure on organisations to effectively control costs and continually improve the quality of their products and services, this study aimed to assess the level of market competition perceived by Directors of Finance (DF) and the need for a fairer

* Tel.: +61 7 3735 4104; fax: +61 7 3735 6743.

E-mail address: a.patiar@griffith.edu.au.

means of indirect cost allocations for the food and beverage operations in luxury hotels in Queensland, Australia.

2. Theoretical framework

2.1. Rationale for the study

There is a body of ABC literature suggesting that when market competition intensifies, organisations tend to adopt more accurate means of allocating indirect costs to reduce waste and remain competitive (Banker & Johnson, 1993; Cooper & Kaplan, 1991; Maelah & Ibrahim, 2007). There is sufficient evidence of ABC related research in the manufacturing industry, healthcare and financial institutions (Cannavacciuolo, Illario, Ippolito, & Ponsiglione, 2015; Filman, 2000; Innes & Mitchell, 1995; Kennedy & Affleck-Graves, 2001; Kocakulah, 2007; Maiga & Jacobs, 2003), whereas a similar level of evidence in the tourism and hospitality industry is lacking, despite this industry's increasingly competitive market and its growing social and economic importance reported in the literature (Kocakulah, 2007; Maelah & Ibrahim, 2007).

Geller and Schmidgall (1997) argue that there is a need to proportion indirect costs to various products and services using an appropriate and agreed basis. For instance, a case study which implemented a system of indirect costs allocation to a hotel's food and beverage operations provided accurate financial information related to each outlets' performance and prompted management to intervene in order to make improvements (Turkel, 1998). Similarly, there is also evidence of indirect cost allocation in the restaurant sector. Raab and Mayer (2003) found that while several restaurant managers were aware of the importance of allocating indirect costs to dishes to determine accurate prices, one establishment applied ABC to better understand its indirect cost structure. Further, Raab and Mayer (2007) and Raab et al. (2007) applied the ABC technique to a number of small of restaurants where labour costs and other key overheads were allocated to individual dishes, furnishing managers with timely and accurate cost information to determine dish selling prices. Thus, this ABC technique helped reduce wastage and improve profits.

In the context of hotels Pavlatos (2011) reported that a small number of hotels adopted ABC in some form in Greece and highlighted that while its application in the rest of world is lacking, Greece has started to make advances in this area. Moreover, Ebimobowei and Binaebi (2013) found the absence of ABC application in hotels in Nigeria and gauged that senior management commitment and investment in systems and employee training is necessary to bring the acceptance of such an innovative technique.

While ABC related research in the hospitality sector has primarily focused on small case studies and mail surveys, more in-depth studies of major hotel companies have been lacking, despite Kotas (2014) arguing that the CA needs of managers in the hotel industry are quite different to other industries. For instance, the success of luxury hotels is dependent upon the delivery of personalised and customised service, often undertaken by the lowest ranking employees. In addition, hotel product and service orders, production, delivery and consumption involve short lead times with higher task interdependency than in the manufacturing industry. Also, finished goods in the manufacturing industry can usually be stored and sold at a later date so at the very least, a certain portion of the total cost can be recovered. In contrast hotel products and services are highly perishable and demand for them fluctuates. As a result, the need for indirect cost allocation in the hotel sector is considered to be high.

Given that there is limited ABC related research in the hotel industry context and the issues associated with the transferability of results from other industries, it is justifiable to conduct this

research in hotels. This line of argument is supported by several researchers (Grover, 1987; McGhan & Porter, 1997; Patiar & Mia, 2008). Hence, by making a contribution to fill the current gap in the ABC related research in the hotel sector.

2.2. Market competition and hotels

Managers feel the effect of market competition when rival businesses begin to offer similar products and services with a view to outperform them in terms of increasing their share of the existing market and sales revenue (Khandwalla, 1972; Kocakulah, 2007; Patiar & Mia, 2008). Furthermore, hotels are affected by changes in the market, such as seasonality (Kriegel, 2000; Mattila, 2000), and increased supply of or decreased demand for hotel rooms, due to social, economical or political interventions (Wearne & Baker, 2002). Under these circumstances, managers need to use detailed and accurate information to allocate resources, in order to determine competitive prices and offer customers value for money (Chen et al., 2013; Chen, 1996; Enz & Potter, 1998; Pavlatos, 2011).

Research shows that intense market competition creates competitive threats and decreases product life cycles, increases the number of competitors in the market place and results in declined revenue and profitability (Kocakulah, 2007). To overcome such threats, managers are compelled to increase their existing product range, arrange new distribution channels which affects the customer supply chain, penetrate into new markets and target products to specific customer segments (Porter, 1980). Furthermore, it is possible to manage a competitive threat by offering keener prices than industry rivals (Chen et al., 2013; Chen, 1996; Enz & Potter, 1998; Pavlatos, 2011).

Researchers have recognised the high levels of competition in the hotel industry (Patiar & Mia, 2008; Patiar et al., 2012) and some argue that even in a relatively stable environment, hotels are affected by seasonality (Kriegel, 2000; Mattila, 2000) and the effects of the Global Financial Crises (Munro, Tippet, & Hyland, 2012). Hence, these external environmental forces can impact on the demand for hotel products and services, since several hotels may be chasing fewer visitors. Consistent with previous literature, we argue that the level of competition in the hotel industry, as suggested in proposition one below, is high. Proposition one formally presents the following argument.

Proposition 1: The intensity of market competition perceived by hotel DFs in Queensland, Australia is high.

2.3. ABC application in hotels

2.3.1. Complexity of managing hotels

Management of luxury hotels is a challenging task, as these hotels operate in a competitive environment (Mia & Patiar, 2001; Patiar & Mia, 2008; Pavlatos, 2011) and are subject to a high degree of complexity due to large capital investment, seasonality, the labour intensive nature of hotel products and services and the short production and consumption cycle. Indeed, the issue of capacity management and profitability adds to the complexity of managing hotels. Under these circumstances, hotel managers' understanding of cost behaviour is vital to accurately determine the feasibility of offering different products and services, concentrating on a certain customer base and developing appropriate strategies to attain desired goals (Horngren et al., 2014; Kocakulah, 2007; Rivero & Emblemavag, 2007).

2.3.2. Current hotel accounting practices

Despite the need for accurate cost information, the hotel sector largely depends on the Uniform System of Accounts for the Lodgings Industry (USALI). This system recommends organising

Download English Version:

<https://daneshyari.com/en/article/1011387>

Download Persian Version:

<https://daneshyari.com/article/1011387>

[Daneshyari.com](https://daneshyari.com)