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Hotel property performance: The role of strategic management accounting

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ABSTRACT

In the current study, we contend that to enhance their competitiveness and performance, hotel properties need to develop and implement internal policies and procedures such as strategic management accounting that are consistent with their business strategies and account for changing competitive demands. We employ a sample composed of 80 hotel properties to investigate the key precursor of hotel property strategic management accounting use and its impact on hotel property customer and financial performance. The results highlight that market orientation business strategy is a key determinant of hotel property strategic management accounting use and illuminate the mediating influence of hotel property strategic management accounting use and hotel property customer performance on the relationship between hotel property market orientation business strategy use and hotel property financial performance. Recommendations are provided for both researchers and hotel managers concerning their future study of, or use of, strategic management accounting.

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1. Introduction

Scholars have highlighted that to enhance their competitiveness and performance, hotel properties must develop and implement internal policies and procedures that are consistent with their business strategies and account for competitive demands (cf. Tracy et al., 2008). Although prior studies highlight hotel property size (Pavlatos, 2015) and business strategies (cf. McManus, 2013; Pavlatos, 2015) as potential precursors of hotel property strategic management accounting (SMA) use and the potential positive influence of hotel property market orientation business strategy (cf. McManus, 2013; Wang et al., 2012) and SMA use (cf. McManus, 2013) on hotel property customer and financial performance, there is a dearth of empirical evidence that illuminates these effects (see Carlsson-Wall et al., 2015). Hence, the aims of this study are to investigate the determinants of hotel property SMA use and its impact on hotel property customer and financial performance.

Hotels have an active interest in hotel management accounting practices (e.g. Alsoboia et al., 2015; Anderson and Guilding,

2006; McManus, 2013; Pavlatos, 2015; Pavlatos and Paggios, 2009a, 2009b), which suggests a potential for SMA to play an important role in hotels (Pavlatos, 2015). The current study builds on Cadez and Guilding's (2008) contingency examination of SMA usage among large Slovenian corporations but is distinctive in several ways. First, this study focuses on a specific industry, the hotel industry. Industries with a high degree of competition are more conducive to SMA (Cadez and Guilding, 2008) and the hotel industry has a high degree of competition (Mia and Patiar, 2001). Second, while corporate-level hotel studies (e.g. Collier and Gregory, 1995) have documented the increasing use of SMA, at the hotel property-level the use of SMA has not been high even though hotel executives have expressed a strong 'intention' to want to make higher use of SMA (Pavlatos and Paggios, 2009a). Third, the corporate-level strategies (Enz, 2010; Hodari and Sturman, 2014) and management control systems (Cruz et al., 2011) of hotel groups are often customized at the hotel property-level.

We use a sample composed of 80 hotel properties to investigate key determinants of SMA use and its influence on hotel property customer and financial performance. The results highlight hotel property market orientation business strategy use as a key determinant of hotel property SMA use and illuminate the mediating influence of hotel property SMA usage and customer performance on the relationship between hotel property market orientation business strategy use and financial performance.

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Recommendations are provided to both researchers and hotel managers concerning their future study of, or use of, strategic management accounting.

2. Literature review

2.1. Contingency theory: management control systems, strategy, and performance

The central tenet of contingency theory is that there is an optimal structural design that best fits a given strategy and therefore results in optimal performance (Gerdin and Greve, 2004). Relationships between management control systems and strategy have been one of the focal points of contingency theory research (Langfield-Smith, 2008). It is argued that management control systems need to be tailored to support business strategy to enhance competitiveness and performance (Widener, 2004). Management control systems are designed to provide a firms' managers with information to aid in decision-making (Simons, 1995). While the management control systems of corporate hotel groups are often reproduced at the hotel property-level, they tend to go through a process of localization. As Cruz, Scapens and Major (2011, p. 412) explain, hotel property managers can make "the global system 'work' for them" by engaging in a variety of heterogeneous practices which allow the local to differentiate itself from the global, thus overcoming the homogenizing tendencies of globalization.

2.2. Strategic management accounting

As management control typically involves extensive measurement, it is often related to and requires contributions from accounting (Maciariello and Kirby, 1994), and SMA is part of a firms' management control system (Nixon and Burns, 2012). SMA evolved from a failure of traditional management accounting techniques to provide sufficient information to enable managers to externally monitor customers and competitors (Guilding et al., 2000). SMA provides for a more external, long-term, forward-looking, and strategic focus (Guilding et al., 2000) and includes customer accounting, attribute and strategic costing, competitor accounting, benchmarking and integrated performance measurement, and strategic pricing and decision-making (Cadez and Guilding, 2008).

While there remains no agreed definition of SMA (Nixon and Burns, 2012), Simmonds (1981) was the first to use the term 'strategic management accounting', which was determined as "the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy" (p. 26); thus suggesting a link between strategy and SMA. Ward (1993, p. 36) demarcated SMA as "An approach to management accounting that explicitly highlights strategic issues and concerns. It sets management accounting in a broader context in which financial information is used to develop superior strategies as a means of achieving sustainable competitive advantage." Hence, Ward (1993) explicitly delineated SMA as including links with strategy and performance.

The gap which this current study seeks to address stems from the literature on SMA and its constituent techniques being wide-ranging. Indeed "the number of publications, in both the professional and academic literatures, that address SMA runs into the thousands" (Langfield-Smith, 2008; p. 213). However, and despite the definitional bounds of SMA (e.g. Ward, 1993), there has been a relative neglect for research examining the linkages among business strategies, SMA usage, and performance (see Carlsson-Wall et al., 2015). Research of this nature is warranted, however, because despite the potential benefits of SMA, the results of studies con-

ducted across multiple-industries indicate that practitioners' use of SMA has been relatively limited (Langfield-Smith, 2008).

SMA implementation requires a shift in focus to the external environment (Shields and Young, 1989) and it has been viewed as riskier than adhering to conventional management accounting (Ingram and Baum, 1997). This led some commentators to question whether SMA is something of "a figment of academic imagination" (Lord, 1996; p. 364). Such concerns would be quelled if research can illustrate the circumstances in which SMA usage improves the competitiveness and financial performance of organizations.

The current study builds on the prior work of Cadez and Guilding (2008) who used contingency theory to examine the impact of strategic choices, market orientation, and company size on the use of SMA by large Slovenian corporations as well as the mediating effect of SMA use on the influence of strategic choices, market orientation, and company size on corporate financial performance. The other poignant study in the field was also conducted by Cadez and Guilding (2012) who used configurational theory to investigate the effectiveness of different configurational archetypes of strategy and SMA and to appraise how SMA's horizontal and vertical alignment with strategy could facilitate performance. Configurational theory, however, has been deemed inappropriate for use in this current study because: 1) it carries a problem whereby conflicting contingencies can make interpretation and theory building difficult; 2) it does not lend itself well to providing insight with respect to which accounting practices positively influence performance; and 3) the simultaneous testing of multiple fits excludes the use of rigorous statistical methods, such as regression or structural equation modeling (see Cadez and Guilding, 2012).

2.3. Hotel property customer focused business strategies

In the hotel industry, a hotel property's long-term survival often depends on its capacity to efficiently and readily attend to the changing needs and expectations of its customers (Sin et al., 2005). Hence, hotel properties often pursue customer focused business strategies (Pizam and Ellis, 1999). Hotel managers often have a relatively high degree of autonomy in tailoring the business strategy of their hotel property to best suit their needs (Hodari and Sturman, 2014) and this autonomy can improve hotel performance (Hodari et al., 2017). Selection of a competitive strategy, for example, and the specific tactics needed to carry it out are one of a hotel manager's major strategic responsibilities (Enz, 2010). Although several generic taxonomies of customer focused business strategies have been advanced,¹ the focus of the current study is on the market orientation and quality leadership business strategies.

2.4. Market orientation business strategy

A market orientation involves a distinct philosophy of business that places the customer at the center of an establishment's strategic and operational thinking (Deshpande et al., 1993). According to Ruekert (1992), the degree of market orientation in a business unit is the degree to which the business unit: 1) obtains and uses information from customers; 2) develops a strategy which will meet customer needs; and 3) implements that strategy by being responsive to customer needs and wants. A market orientation business strategy can be used to create superior customer value and enhance competitiveness (Kohli and Jaworski, 1990).

¹ Product differentiation strategy, defender-prospecter-analyzer strategies, et cetera.

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