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CRITICAL UNDERSTANDING OF PERCEPTION OF HOTEL MANAGEMENT TOWARDS ABC SYSTEM

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ABSTRACT

The focus is shifting from standardisation to customization in this age of intense price and quality competition. Traditional costing methods have become obsolete due to the incorrect allocation of various expenditures, especially overheads. When it comes to determining true and fair prices, the activity-based costing system is a fresh innovation. Given that activities and cost drivers are the primary emphasis of activity based costing, it makes sense to begin by defining those activities. The purpose of activity-based costing is to provide a more precise accounting of hotel service costs. Effectiveness and profit margins may both improve as a result of charging prices that are closer to what they really cost to produce. Activity based costing is essential in the hospitality industry because it reveals the true profitability of your customers through hotel industry services, pinpoints opportunities to reduce costs and/or increase efficiency in all hospitality industry services, and provides actionable information to negotiate price reductions and cost reductions for various activities. It has been argued that using activity-based pricing to determine hotel service prices is the most accurate way to do it. To conduct this analysis, the researcher focused on 75 hotel managers working in Gujarat and asked them about their thoughts on ABC.

KEYWORDS: Activity Based Costing, Hotel Industry, Costing, Pricing.

INTRODUCTION OF HOSPITALITY INDUSTRY:

Over the course of the past few decades, the hospitality business has undergone significant expansion. The evolution of technology that make travel less difficult and more accessible, for individuals has had a significant impact on the occurrence of this phenomena. Another cause is the rise in the percentage of people's personal incomes, which gives them more discretionary income to spend on vacations and other trips. As a result, there has been an increase in demand for places to stay, such as hotels, guest house, and even stay facility available for short-term stays.

The growth of the internet is another factor that adds to the rising demand in this sector of the economy. People have been accustomed to utilising the internet in recent years if they are planning a trip so that they can find acceptable lodging for their needs. When customers wanted to reserve a hotel room in the days before the internet, they either had to call the hotel directly or go to a travel agent. They also have very little knowledge on the costs associated with similarly situated accommodations. However, in the modern era, more people are using the internet to find and book accommodations. As a result, more online travel intermediaries such as agoda.com, booking.com, or priceline.com have appeared to provide customers with convenience in terms of finding suitable accommodations and comparing the prices offered by various establishments.

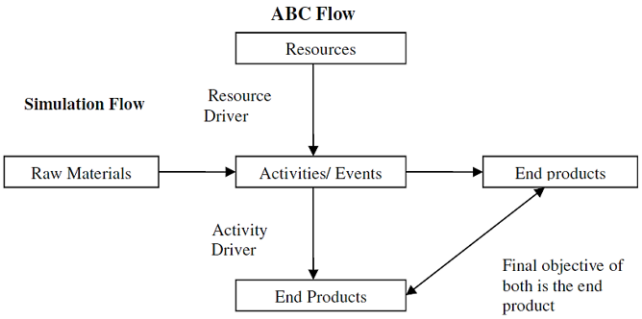
When it comes to pricing, the use of the internet for marketing and online sales in the hospitality business results in greater openness. Customers are now able to evaluate a variety of items as well as their costs across a variety of marketing channels, which results in a greater degree of price transparency. Customers are consequently benefiting from an improved market position to an increasing degree (Egger and Walters, 2008). As a result, companies in the hospitality business ought to think about being transparent regarding their pricing in order to compete effectively in today's highly fragmented market. Customers need to be able to comprehend why they are eligible for a discount and what they would be giving up in exchange for the discount. This is what is meant by the term "transparency" when it comes to the hospitality industry. Organizations in this sector should be logical and rational when setting the prices of their products (Nand, 2013).

ACTIVITY BASED COSTING:

The use of management accounting as a tool to aid managers in decision-making, the creation of plans, and the operation of controls is well established. The traditional management accounting system (MAS) had some shortcomings in terms of validity, completeness, consistency, relevance, and understanding. These shortcomings were remedied by dynamic changes in the business environment and vigorous global competition, which created a demand for modern management accounting tools such as activity-based management, activity-based costing, activity-based budgeting, benchmarking, balance scorecard, total quality management, and other similar tools.

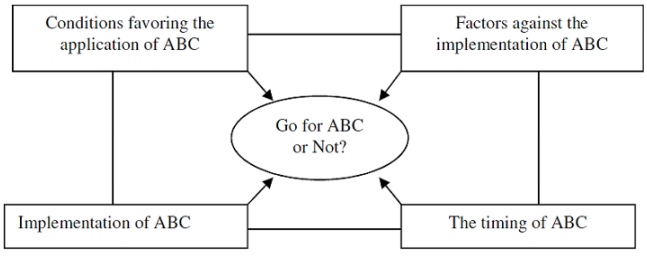
Activity-based costing (ABC) is a method that was established and has been supported as a means of addressing the systematic distortions that are associated with traditional cost accounting and for bringing relevance back to managerial accounting. A typical system records where and by whom money is spent, but it does not record the costs of the activities and processes that consume that money (Miller 1996). The new approach of costing has been used at a significant number of businesses in the manufacturing sector. According to Aranoff et al. (1998), activity-based costing can serve two different functions. The first goal is to stop price distortions from occurring. The traditional method of costing lumps all indirect costs into a single pool of expenses, which results in cost distortion. ABC eliminates the risk of experiencing cost distortion by utilising several cost pools (activities) and cost drivers. The second objective is to provide a picture of the process in order to cut down on tasks that do not bring value as much as possible.

The view that the financial accounting information is almost entirely useless to managers who are interested in analysing the efficacy of resource allocation decisions in their firms is the driving force behind activity based costing (ABC). This traditional information is instead targeted toward appeasing auditors or other outsiders who are interested in some evidence of financial accountability.



Source: Ostrenga et al (1992)

Figure 1: Interaction of ABC and Simulation Model Flow Adapted from Ostrenga et al (1992)



Source: Ishter Mahal et. al. (2015)

Figure 2: ABC Implementation

The consensus among industry professionals is that a successful Activity-Based Costing deployment must include a number of key qualities. To begin, the initiative to introduce activity-based costing needs to have the full backing of upper management in order to be successful. Second, the design and implementation of an ABC system should not be the duty of the accounting department but rather of a team comprised of members from a variety of functional areas. According to Cooper and Kaplan (1991), prior to the creation of an ABC system, the following six significant decisions need to be made: Should the system be connected with the cost system that is already in place, or should it function as a separate system? Before beginning implementation, should a formal design be given the go-ahead? Who ought to accept responsibility for the completed system? To what degree of precision should the system operate? Should the system report cost information for the past or for the future? Should we start with a complicated or a straightforward design?
When one has the answers to these significant questions, they are able to begin the process of developing an ABC system that is suitable for the purposes for which it is required. It has been demonstrated that ABC is relevant in both manufacturing and service businesses by using the conceptual model that is presented in the figure 1 and 2.

LITERATURE REVIEW:

The authors Vazakidis and Karagiannis (2011) carried out a case study about the application of ABC in hotels located in Greece. Following the deployment of ABC, the case study's findings suggested that cost information had improved in terms of its degree of precision. The premise that incorrect knowledge about costs could lead to poor decision making served as the foundation for the case study. As a result, there is a want for a cost system that is capable of enhancing the information regarding costs. Vazakidis and Karagiannis (2011) centred their research on the use of activity-based management, also known as ABM, which is founded on the cost information that was produced by ABC.

After performing an investigation of the hotels' expenses using both conventional costing and activity-based costing (ABM), they discovered that the cost per room varied depending on which technique was used. If traditional costing system were utilised instead of ABM, the cost of three different types of rooms would often be underestimated, while the cost of one type of room would be inflated. In addition, the traditional method of costing results in expenses that are more variable for each type of space, but the ABM method results in costs that are more consistent across all types of rooms. According to Vazakidis and Karagiannis (2011), the difference in the results was due to the fact that when ABM was applied, the parameters in the process of assigning costs were better examined.

One other piece of evidence in favour of this claim comes from Tsai and Hsu (2004), who conducted a case study at a traditional inn in Taiwan. They used traditional costing methods in conjunction with the ABC method to conduct an analysis of the unit cost per client. The findings were compared to determine whether or not implementing ABC had an impact on the outcomes. The findings of the research indicate that the unit costs of each product are significantly different when viewed from the perspective of individual customers (lodging, hot spring, and dining). The conventional method of costing resulted in an inaccurate estimation of the cost per unit of dining. On the other hand, it turns out that standard methods of costing considerably underestimate the unit cost of housing and hot springs, which is a serious problem. The more in-depth investigation of the costs associated with each activity is what contributes to the disparity in the unit cost. According to Tsai and Hsu (2004), the use of ABC not only results in a more accurate product cost, but also a clearer and more reliable information such as the proportion of activities cost in every product and which activities consume the greatest cost. This information can be used to determine things like how much each activity contributes to the overall cost of the product.

Ardiansyah et al. (2017) investigated the implementation of Time-driven activity-based costing (TDABC) in an Indonesian hotel for customer profitability analysis. Ardiansyah computed the total cost used by each customer group by multiplying the time required to complete each activity by the capacity rate. The case study's findings suggest that the standard costing system is erroneous in terms of customer costs. It also suggests that TDABC has been shown to deliver more accurate data on overall costs incurred by each client category. One group of customers overestimated total costs consumed, whereas the other group's total costs were determined to be underestimated using the usual costing system. The discrepancies arise because costs are assigned more precisely utilising the time equation in TDABC. Ardiansyah also discovered that TDABC not only produces more accurate product costs, but also provides more accurate information on unused capacity in all major activities.

Basuki and Riediansyaf conducted another case study concerning the usage of TDABC in an Indonesian hotel to obtain improved cost information (2014). The findings of the study reveal that traditional costing considerably overestimates the expenses of all room types. There are significant variances between the two types of rooms as well (more than 40 percent differences). The disparities arise because some activities absorb more indirect labour than they should under standard costing. Basuki and Riediansyaf (2014) asserted that the TDABC technique of cost calculation and allocation utilising unit time and capacity cost rate is more accurate than the traditional costing approach based on the results of the case study. Furthermore, the cost calculation was based on the projected income per room using the typical costing method. Based on management's judgement, the rate was changed for each type of room. The TDABC technique, on the other hand, produces a more precise cost calculation base, which is the cost driver rate.

RESEARCH OBJECTIVE:

1. The purpose of this project is to learn about the ABC system.

2. To investigate hotel management's attitudes of hotel management and staff toward the ABC system.

Sample Size:

In this study, the researcher focused on 75 managers in the Gujarat hotel business.

Data Analysis Technique:

Chi-square techniques were used to analyse the primary data collected.

DATA ANALYSIS:

1. **$H_0$1:** Respondents do not believe that the existing cost system did not offer management with valuable information.

"One-Sample Test"

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
"Do you believe, existing cost system did not provide useful information to management "	-10.277	74	.000	-1.120	-1.34	-.90

Interpretation:

The significance value is 0.000, which is less than the usual value of 0.05, as stated in the table above. As a result, the null hypothesis is rejected, and respondents believe that the existing system did not give useful information to management.

2. **$H_0$2:** After applying Activity-based costing, respondents' age has no significant impact on their sense of enhanced cost control information.

"Crosstab"

Count

		"The adoption of GST over indirect taxes changes business processes and operations"				Total
		Strongly Agree	Agree	Neutral	Strongly Disagree	
AGE	18-25 Years	3	3	0	0	6
	26-50 Years	25	27	2	2	56
	51-65 Years	6	2	2	0	10
	More than 65 Years	2	0	1	0	3
Total		36	32	5	2	75

"Chi-Square Tests"

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	11.368[a]	9	.251
Likelihood Ratio	11.418	9	.248
Linear-by-Linear Association	.006	1	.938
N of Valid Cases	75		

Interpretation:

X2 = 11.368, as shown in the Pearson Chi-Square statistic table above. The null hypothesis is accepted since the p value is greater than 0.05. As a result, there is no correlation between respondents' age and their sense of improved cost control information following the implementation of Activity-based costing.

3. **$H_0$3:** The current cost method, according to respondents, does not assist in cost reduction.

"One-Sample Test"

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
"Current cost system help in reducing costs"	-3.954	74	.000	-.587	-.88	-.29

Interpretation:
The significance value is 0.000, which is less than the conventional value of 0.05, as shown in the preceding table. As a result, the null hypothesis is rejected, and respondents believe that the current cost system aids in cost reduction.

4. **$H_0$4:** After implementing Activity-based costing, respondents' experience and perceptions of enhanced cost control information had no meaningful impact.

"Crosstab"

Count

		"The adoption of GST over indirect taxes changes business processes and operations"				Total
		Strongly Agree	Agree	Neutral	Strongly Disagree	
"Work Experience"	Less than 3 Years	4	5	2	0	11
	3 to 5 Years	13	12	1	1	27
	6 to 10 Years	6	8	1	0	15
	More than 10 Years	13	7	1	1	22
Total		36	32	5	2	75

"Chi-Square Tests"

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5.906[a]	9	.749
Likelihood Ratio	5.947	9	.745
Linear-by-Linear Association	.438	1	.508
N of Valid Cases	75		

Interpretation:
X2 = 5.906. This may be seen in the Pearson Chi-Square statistic table above. The null hypothesis is accepted since the p value is greater than 0.05. As a result, respondents' experience and perceptions of enhanced cost control information after applying Activity-based costing had no meaningful impact.

CONCLUSION:

In order for businesses to maintain their standing in the global market and remain competitive, they need to continually develop new services, food products, technologies, processes, and models through the process of creating. Companies are coming to the realisation that the production of a wide variety of goods, food products and the provision of a wide variety of services places a diversified set of demands on their available resources. If, on the other hand, managers use faulty averages in order to evenly distribute the cost of resources across a variety of services and goods, manager will end up with product costs that are inaccurate and misleading. Even though it is practically impossible to build a faultless accounting system in a single company, certain industries have one-of-a-kind characteristics that can only be matched by a select few accounting solutions. This presents a challenge for companies operating in those industries.

In the world of business and finance, activity-based costing has already established itself as a cutting-edge concept of the next generation. People's perspectives on cost and management accounting have been fundamentally altered as a result. When compared to other volume-based cost systems, it provides a measurement of costs that is more precise. As a result of more precise overhead cost allocations, there are less distortions, which means that this can be used as a tool for performance evaluation. The system was responsible for the implementation of a number of performance assessment tools, including TQM, activity-based management, balance score cards, and benchmarking. Eliminating product lines or departments that are not profitable through the use of segment reporting and related costs in conjunction with the ABC system is possible.

A shift in the management structure ought to take place concurrently with the implementation of an ABC system in order to make it easier to make use of ABC. In manufacturing operations that involve a lot of capital, it has become an absolute necessity. However, after analysing the factors that facilitate the implementation of an ABC, the factors that impede the implementation of an ABC, and the amount of time required for implementation, a compromise should be reached between the financial benefits of adopting an ABC and the costs associated with doing so.

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