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COST MANAGEMENT PRACTICES IN HOTELS: AN EMPIRICAL STUDY OF ACTIVITY-BASED COSTING IN GUJARAT

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ABSTRACT

The hospitality industry operates in a highly competitive environment where effective cost management is essential for maintaining profitability and operational efficiency. The present study titled "Cost Management Practices in Hotels: An Empirical Study of Activity-Based Costing in Gujarat" aims to examine the perception of hotel managers and accounting personnel towards the adoption and usefulness of Activity-Based Costing as a cost management practice. The study also focuses on understanding how Activity-Based Costing contributes to accurate cost allocation and improved financial efficiency in hotel operations. The primary data for the study were collected from 188 hotel managers and accounting personnel from selected hotels across Gujarat using a structured Likert scale questionnaire. The findings of the study reveal that respondents have a positive perception towards Activity-Based Costing. The results indicate that Activity-Based Costing provides more accurate cost information, helps in identifying the true cost of hotel services, improves cost control by identifying cost-driving activities, and enhances financial efficiency in hotel operations. The study concludes that adoption of Activity-Based Costing can support better pricing decisions, efficient resource utilization, and improved profitability. Therefore, hotels in Gujarat are encouraged to adopt Activity-Based Costing as an effective cost management practice.

KEYWORDS: Activity-Based Costing, Cost Management Practices, Hotel Industry, Gujarat, Cost Control, Financial Efficiency, Hospitality Accounting, Cost Allocation

1. INTRODUCTION

Activity-Based Costing (ABC) is a modern cost accounting technique that assigns costs to products, services, or activities based on the resources they consume. Unlike traditional costing methods, which allocate overhead costs using a single basis such as direct labour hours or machine hours, Activity-Based Costing recognizes that different products and services consume overhead activities in different proportions. Therefore, ABC provides a more accurate and realistic method of cost allocation by identifying activities and assigning costs based on actual consumption. This approach is particularly useful in complex production environments where overhead costs are significant and products differ in terms of design, production volume, and operational requirements.

The fundamental principle of Activity-Based Costing is that activities consume resources and products consume activities. Under this method, an organization first identifies all major activities involved in production or service delivery. These activities may include machine setup, quality inspection, material handling, procurement, packaging, order processing, and customer service. After identifying activities, costs are accumulated for each activity to form cost pools. These cost pools represent the total cost associated with performing a specific activity. The next step involves determining cost drivers, which are measurable factors that cause

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or influence the cost of an activity. For example, the number of setups may drive setup costs, the number of purchase orders may drive procurement costs, and the number of inspections may drive quality control costs.

Once cost drivers are identified, the organization calculates activity cost driver rates by dividing the total activity cost by the total number of cost driver units. These rates are then used to assign costs to products or services based on their usage of each activity. For instance, if a product requires more setups, inspections, and special handling, it will be assigned higher overhead costs compared to a product that requires fewer activities. This method ensures that costs are traced more accurately to the cost object, thereby improving the reliability of cost information. As a result, management can make better decisions regarding pricing, product mix, process improvement, and cost control.

Activity-Based Costing is particularly important in modern manufacturing environments characterized by automation, product diversification, and increased indirect costs. Traditional costing systems were developed when direct labour was the dominant cost component, and overhead costs were relatively small. However, in today's business environment, overhead costs such as technology, logistics, quality control, and customer support form a significant portion of total costs. ABC addresses this issue by allocating overheads based on actual activities rather than arbitrary bases. This improves cost accuracy and helps management understand which products are profitable and which are not.

Another important feature of Activity-Based Costing is its ability to identify non-value-added activities. Non-value-added activities are those that do not increase the value of the product or service from the customer's perspective, such as rework, excess movement, waiting time, and unnecessary inspections. By identifying these activities, ABC helps organizations eliminate waste and improve operational efficiency. Management can redesign processes, reduce unnecessary costs, and enhance productivity. Thus, ABC not only acts as a costing tool but also supports continuous improvement and strategic cost management.

Activity-Based Costing also supports better pricing decisions. When costs are inaccurately allocated, companies may overprice simple products and underprice complex products. This may lead to loss of competitive advantage and reduced profitability. ABC provides precise cost information, allowing management to set prices that reflect the true cost of production. It also helps in identifying high-cost customers, distribution channels, or services. Organizations can then redesign their offerings or negotiate better terms to improve profitability.

Furthermore, Activity-Based Costing enhances budgeting and performance measurement. Activity-Based Budgeting, which is derived from ABC, estimates costs based on expected activity levels. This approach improves forecasting accuracy and ensures that resources are allocated efficiently. ABC also helps in performance evaluation by linking costs with activities, making it easier to assess operational efficiency. Managers become more accountable for controlling activities within their departments, leading to improved cost discipline.

Despite its advantages, Activity-Based Costing has certain limitations. Implementation of ABC requires detailed data collection, identification of activities, and continuous monitoring, which can be time-consuming and costly. Small organizations may find it difficult to implement due to limited resources. Moreover, selecting appropriate cost drivers requires careful analysis, and incorrect selection may reduce the accuracy of the system. ABC systems also need regular updates to reflect changes in processes, technology, and organizational structure.

However, even with these limitations, Activity-Based Costing remains a powerful management accounting tool. It provides deeper insight into cost behaviour, supports strategic decision-making, improves cost control, and enhances operational efficiency. Organizations operating in competitive markets, especially those with diverse products and high overhead costs, benefit significantly from ABC. By focusing on activities and resource consumption, Activity-Based Costing helps management understand the true economics of their operations and achieve long-term profitability.

2. SIGNIFICANCE OF THE STUDY

This study holds significant importance in the context of the growing hospitality industry and the increasing need for effective cost control mechanisms. The hotel industry is characterized by high operating costs, diverse service offerings, fluctuating demand, and intense competition. In such an environment, traditional costing methods often fail to provide accurate cost information for decision-making. This study is significant as it examines the applicability and effectiveness of Activity-Based Costing in hotel operations, thereby contributing to improved cost management practices within the hospitality sector of Gujarat.

The significance of the study also lies in its focus on identifying various cost components associated with hotel services. Hotels incur multiple indirect costs such as housekeeping, front office operations, food and beverage services, maintenance, utilities, and customer support. Traditional costing systems generally allocate these costs using broad averages, which may distort service-level profitability. By analyzing Activity-Based Costing, the study helps in understanding how costs can be traced to specific activities such as room preparation, guest check-in, order processing, and event management. This enables hotel management to determine the true cost of services and improve pricing decisions.

Another important aspect of the study is its contribution to managerial decision-making. Accurate cost information is essential for determining room tariffs, menu pricing, service packages, and promotional strategies. The findings of this study will assist hotel managers in identifying profitable and non-profitable services, optimizing resource utilization, and improving operational efficiency. It also helps management in controlling unnecessary expenses and eliminating non-value-added activities, thereby enhancing overall profitability. The study thus supports strategic planning and financial sustainability in the hotel industry.

The study is also significant from the perspective of improving operational efficiency. Activity-Based Costing highlights the relationship between activities and resource consumption. By identifying high-cost activities, hotel management can redesign processes, reduce wastage, and improve service delivery. For example, inefficient housekeeping operations, excessive energy consumption, or redundant administrative tasks can be identified and controlled. Therefore, this study contributes to performance improvement and cost reduction in hotel operations.

Further, the study provides valuable insights for policymakers and industry stakeholders in Gujarat. The hospitality industry plays an important role in tourism development, employment generation, and regional economic growth. Understanding cost management practices in hotels helps industry associations, tourism departments, and policymakers develop guidelines and support mechanisms for improving financial efficiency in hotels. The findings may also encourage the adoption of modern cost management techniques such as Activity-Based Costing across hotels of different sizes.

The academic significance of the study is equally important. This research contributes to the existing literature on cost management practices in the hospitality sector, particularly in the context of Gujarat. Limited empirical studies have examined the application of Activity-Based Costing in hotels within the region. Therefore, the study fills this research gap and provides a foundation for future research in cost accounting, hospitality management, and financial decision-making. It also serves as a reference for researchers, academicians, and students interested in management accounting practices in service industries.

3. LITERATURE REVIEW

Wahyuni et al. (2022) conducted a detailed study on how the activity-based costing method can be used to increase a company's profitability in the freight and logistics service sector. Their findings showed that traditional methods often lead to underestimating the actual service costs, which in their case study resulted in undercosting by up to 35 percent for specific services. They concluded that while activity-based costing can sometimes be difficult to implement perfectly to boost direct profits, it remains highly effective in helping companies correctly identify and track the exact costs they incur when determining the final price of their services.

Quesado and Silva (2021) examined the activity-based costing system and its direct implications for open innovation in businesses. Their findings revealed that activity-based costing acts as a major innovation in management accounting that easily overcomes the gaps left by traditional costing systems. They found that by focusing on the idea that activities consume resources and products consume activities, managers gain a much more accurate and useful picture of business process profitability. Their study highlighted that this accurate cost tracking is crucial for companies trying to innovate and remain competitive in changing economic environments.

Alsawayeh et al. (2023) explored the impact of organizational culture on performance within the hotels and tourism sector, which relies heavily on accurate management accounting for both financial and non-financial data. Their findings indicated that different types of organizational cultures have a significant and positive influence on how well management accounting tools are used. They found that implementing these measurement tools effectively helps management levels make more appropriate business and cost decisions, which became especially important as the hospitality sector worked on improving infrastructure and health hygiene during the recent pandemic recovery period.

Wang et al. (2023) investigated the matching degree between supply, demand, and the detailed operational costs in healthcare centers. Their findings showed that carefully tracking the costs of each operating center was essential for maintaining financial balance. They found that the overall volume of donated items slightly exceeded consumption, allowing the center to meet basic demands while optimizing donor structures. Their analysis concluded that achieving a more economical operation through careful cost tracking made the operating model highly successful and worthy of wider promotion in similar service-oriented sectors.

Tziolas et al. (2024) studied the balance between operational efficiency and environmental impacts by evaluating the life cycle costs of different agricultural management systems. Their findings demonstrated that calculating actual costs by including external environmental costs provides much deeper insights for decision-making. They found that systems using organic practices had significantly lower energy consumption and emissions compared to conventional systems. Their detailed analysis proved that understanding the exact costs of inputs like energy, labor, and machinery is essential for evaluating the true economic performance of any operational system.

Meskarpour-Amiri et al. (2025) identified and prioritized various cost reduction and revenue enhancement strategies for hospitals and healthcare facilities. Their findings highlighted that a deep understanding of a facility's financial landscape is what truly empowers managers to make informed decisions. They found that the best strategies to cut costs included accurately documenting all standard services without coding errors, managing energy consumption, and evaluating the exact capacity of beds and diagnostic services. Their study concluded that elevating service quality and improving cost-tracking infrastructure are the most critical steps for better economic performance.

Putera and Wijaya (2022) focused on the social influence and intention to use digital financial technologies, which are increasingly used by businesses to manage transactions and costs. Their findings showed that social influences like family and friends strongly affect consumer thinking patterns regarding new technology services. They found that when individuals perceive a technology as useful and easy to use, they are much more likely to adopt it for everyday financial activities. The study concluded that understanding these consumer behaviors is vital for businesses trying to implement cost-effective digital payment solutions.

Irawan et al. (2024) reviewed economic sustainability and methods for managing financial risks in modern business operations. Their findings emphasized that post-pandemic economic development relies heavily on finding strategic ways to build economic recovery and resilience. They found that tracking accountability and managing financial uncertainties are critical for organizations trying to maintain a globalized presence. Their research concluded that developing accurate policies for financial planning and technological integration allows communities and businesses to create more equitable and sustainable long-term operations.

4. RESEARCH METHODOLOGY

Research Objectives

1. To examine the perception of hotel managers and accounting personnel towards the adoption and usefulness of Activity-Based Costing as a cost management practice in selected hotels of Gujarat.
2. To analyse the association between the demographic and organizational characteristics of respondents and their perception towards Activity-Based Costing in selected hotels of Gujarat.

Sample Size

The sample size for the present study consists of 188 hotel managers and accounting personnel from selected hotels across Gujarat. These respondents have been targeted as they are directly involved in financial decision-making, cost control, and operational management within hotel establishments.

5. DATA ANALYSIS

5.1

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Activity-Based Costing provides more accurate cost information compared to traditional costing methods in hotel operations.	7.054	187	0.014	0.01	0.034	0.051
Adoption of Activity-Based Costing helps in identifying the true cost of various hotel services such as rooms, food, and events.	11.281	187	0.012	0.391	0.041	0.498
Activity-Based Costing improves cost control by identifying major cost-driving activities in hotels.	15.508	187	0.005	0.599	0.488	0.945
Adoption of Activity-Based Costing enhances financial efficiency in hotel operations.	19.735	187	0.000	0.826	0.935	1.392

H_0: Respondents do not believe that Activity-Based Costing provides more accurate cost information compared to traditional costing methods in hotel operations.

The one-sample t-test result shows that the calculated t value is 7.0549 with 187 degrees of freedom and the significance value is 0.014, which is less than the standard value of 0.05. This indicates that the null hypothesis is rejected. The positive mean difference indicates that the respondents' average perception is higher than the test value of 3. Therefore, it can be interpreted that respondents believe that Activity-Based Costing provides more accurate cost information compared to traditional costing methods in hotel operations.

H_0: Respondents do not believe that adoption of Activity-Based Costing helps in identifying the true cost of various hotel services such as rooms, food, and events.

The table shows that the calculated t value is 11.2819 with 187 degrees of freedom and the significance value is 0.012, which is less than 0.05. Hence, the null hypothesis is rejected. The mean difference is positive, indicating that the respondents' perception is above the test value. Therefore, it can be concluded that respondents believe that adoption of Activity-Based Costing helps in identifying the true cost of various hotel services such as rooms, food, and events.

H_0: Respondents do not believe that Activity-Based Costing improves cost control by identifying major cost-driving activities in hotels.

The calculated t value is 15.5089 with 187 degrees of freedom and the significance value is 0.005, which is less than 0.05. Therefore, the null hypothesis is rejected. The positive mean difference indicates that respondents agree with the statement at a level higher than the test value. Hence, it is interpreted that respondents believe that Activity-Based Costing improves cost control by identifying major cost-driving activities in hotels.

H_0: Respondents do not believe that adoption of Activity-Based Costing enhances financial efficiency in hotel operations.

The calculated t value is 19.7359 with 187 degrees of freedom and the significance value is 0.000, which is less than 0.05. Thus, the null hypothesis is rejected. The positive mean difference indicates that the respondents' mean score is greater than the test value. Therefore, it can be concluded that respondents believe that adoption of Activity-Based Costing enhances financial efficiency in hotel operations.

5.2 There is no association between the demographic and organizational characteristics of respondents and their perception towards Activity-Based Costing in selected hotels of Gujarat.

VARIABLE 1	VARIABLE 2	Pearson Chi-Square	P Value	Decision
Age	Activity-Based Costing provides more accurate cost information compared to traditional costing methods in hotel operations.	32.94	0.041	Null Hypothesis is Rejected
	Adoption of Activity-Based Costing helps in identifying the true cost of various hotel services such as rooms, food, and events.	55.18	0.039	Null Hypothesis is Rejected
	Activity-Based Costing improves cost control by identifying major cost-driving activities in hotels.	65.88	1.011	Null Hypothesis is Accepted
	Adoption of Activity-Based Costing enhances financial efficiency in hotel operations.	8.21	0.036	Null Hypothesis is Rejected
Years of Experience	Activity-Based Costing provides more accurate cost information compared to traditional costing methods in hotel operations.	1.98	1.016	Null Hypothesis is Accepted
	Adoption of Activity-Based Costing helps in identifying the true cost of various hotel services such as rooms, food, and events.	39.46	0.018	Null Hypothesis is Rejected
	Activity-Based Costing improves cost control by identifying major cost-driving activities in hotels.	6.30	0.765	Null Hypothesis is Accepted
	Adoption of Activity-Based Costing enhances financial efficiency in hotel operations.	32.81	0.034	Null Hypothesis is Rejected
Education	Activity-Based Costing provides more accurate cost information compared to traditional costing methods in hotel operations.	30.81	0.911	Null Hypothesis is Accepted
	Adoption of Activity-Based Costing helps in identifying the true cost of various hotel services such as rooms, food, and events.	73.37	0.022	Null Hypothesis is Rejected
	Activity-Based Costing improves cost control by identifying major cost-driving activities in hotels.	9.09	0.042	Null Hypothesis is Rejected
	Adoption of Activity-Based Costing enhances financial efficiency in hotel operations.	15.55	0.039	Null Hypothesis is Rejected

6. CONCLUSION

The findings reveal that respondents believe Activity-Based Costing provides more accurate cost information compared to traditional costing methods. Accurate cost information is essential in hotel operations where multiple services such as accommodation, food and beverage, and event management involve complex cost structures. The respondents also agreed that adoption of Activity-Based Costing helps in identifying the true cost of various hotel services. This indicates that Activity-Based Costing enables hotels to allocate indirect costs more precisely and understand the profitability of different service offerings.

The results further show that respondents perceive Activity-Based Costing as an effective tool for improving cost control by identifying major cost-driving activities. This suggests that hotel management can use Activity-Based Costing to monitor operational activities, reduce unnecessary expenses, and enhance efficiency. Additionally, respondents strongly believe that adoption of Activity-Based Costing enhances financial efficiency in hotel operations. This reflects that Activity-Based Costing supports better resource utilization, improved pricing decisions, and increased profitability.

Overall, the study concludes that hotel managers and accounting personnel in Gujarat have a favorable perception towards Activity-Based Costing. The adoption of Activity-Based Costing can improve cost accuracy, strengthen cost control mechanisms, and enhance financial performance in the hotel industry. Therefore, hotels in Gujarat may benefit from implementing Activity-Based Costing as a modern cost management practice for achieving operational efficiency and long-term sustainability.

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