

The Impact of Usage of Strategic Decision Making Techniques on Jordanian Hotels' Performance

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Abstract

The current study examines the impact of usage of strategic decision making techniques on Jordanian hotels' performance. It is the first study to examine such questions. A survey on four and five star hotels was conducted for data collection. A questionnaire was designed for this purpose and the response rate was about 85.7%. Descriptive statistics showed that Jordanian hotels achieved good performance relative to competitors. One-sample t-test showed that ABC system strategic decision making techniques were used by Jordanian hotels. The results of multiple regressions showed that ABC system and all of strategic decision making techniques, except of AMB technique, have a statistically significant positive effect on Jordanian hotels' performance. In context of cost-benefit approach, this study recommends Jordanian hotels to adopt all of SMA techniques in the future.

Keywords: Strategic management accounting, activity based costing, strategic decision making, performance, Jordanian hotels

1. Introduction

Jordan has some natural characteristics such as geographic, historic, culture, civilization and politic which lead to attract tourists. Due to these advantages, tourism organizations, including hotels, have been increased throughout the tourist areas. This makes tourism sector in Jordan one of the most important source of national income. For Jordan, tourism is a strategic industry. It is the largest sector in the economy, contributing over 14% of GDP. It is also the second largest earner of foreign exchange after remittances (generating \$3.4 billion in 2010) and is the largest generator of private sector employment in the kingdom (USAID, 2013).

The competitive environment, where hotels exist, plays a vital role in demand for financial and operational information to achieve and improve competitive advantages.

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This information contribute to motivate and guide the management towards adoption of advanced accounting techniques, which provide accurate data about the organization's operations and to achieve its improvement in operational and financial performance.

Strategic Management Accounting (SMA) has a set of techniques that provide accurate information for various aspects in the organization including strategic costing, competitors accounting, consumer accounting, strategic decision, and planning, control and performance management. Tillmann and Goddard (2008) define SMA broadly as being the use of management accounting systems in supporting strategic decision-making. The survival of companies in today's highly competitive global markets may depend partly on a management accounting function that allows for the successful assessment of strategic situations. SMA can provide such a function.

Given the importance of the strategic decision for the hotels in achieving multiple objectives such as reducing costs, improving performance and building competitive advantages, this study examines the impact of usage of strategic decision making techniques on the performance of four and five stars Jordanian hotels. In addition, Activity-Based Costing System (ABC) contributes significantly in achieving the requirements of strategic decision techniques. This study also investigates the adoption of this system by Jordanian hotels.

The importance of this study comes from addressing the strategic decision techniques as emerging techniques within the concept of strategic management accounting. Further, it has a special importance in being the first study that addresses this topic on Jordanian hotels.

2. The Aims of the Study Are

- a. To examine the extent of Activity Based Costing (ABC) system used by Jordanian hotels
- b. To examine the extent of strategic decision making techniques used by Jordanian hotels.
- c. To examine the impact of ABC system and strategic decision making techniques on the performance of Jordanian hotels.

3. Literature Review

Various surveys have been conducted about the essence of SMA techniques and to what extent these techniques have been used. Cinquini and Tenucci (2006) pointed out that the usage of SMA techniques in Italy appears to be greater than what might have been presumed. Santini (2013) refers that SMA diffusion in SMEs is higher than expected. In addition, Santini found that the SMEs which operate in high-complexity environment use SMA tools more extensively to achieve higher financial performance. In an international comparison study of SMA practices in New Zealand, UK and USA, Guilding et al. (2000) reported 12 SMA practices. The study reveals that there is wide range of application rates for the 12 practices appraised. Most of these 12 practices were not widely used exception of competitor accounting and strategic pricing. Ramljak and Rogosic (2012) referred that ABC and COQ represent most widely used SMA techniques in Croatian companies.

Erbasi and Unuvar (2012) referred that the levels of using SMT in five star hotels in Turkey are high, but satisfactions with them are low. However, In the Croatian hotel industry, most of the hotels are under state proprietary, so they do not practice the new approach to management (Vrdoljak and Bukvic, 2004).

With respect to practices of management accounting in hotels, Sunarni (2014) indicated that management accounting practices in hospitality business are still dominated by "traditional practices". Collier and Gregory (1995) demonstrate that the finance functions of hotel groups are becoming increasingly involved in SMA, both in planning and in *ad hoc* exercises to analyze market conditions and competition. Santos et al. (2012) supported the fact that management accounting is a tool incorporated in the daily management practice of hotels and useful to support the decision-making process. Nachaillit et al. (2011) found that SMA effectiveness in hotel business in Thailand is positively related to operational strategic success; they also found that technology capability, inter-functional coordination, and team management competency are positively related to SMA effectiveness.

Pavlatos and Paggios (2009) found that the adoption rates for many recently developed practices were very satisfactory, but traditional management accounting techniques were found to be more widely adopted than recently developed tools. However, many hotels intend to place greater emphasis on newer techniques in the future; particularly in activity based costing techniques (ABC, ABB and ABM), balanced scorecard, benchmarking and target costing (Pavlatos and Paggios, 2007).

Regarding to the adoption of ABC system in tourism sector, Vaughn et al (2010) pointed out that ABC approach can be applied to support kitchens and total cost (ABC) can be estimated. This approach allowed the casino to eliminate traditional allocation methods based solely on food cost. Most of the respondents in a study conducted by (Madhu, 2012) believed that good management and cost accounting practices are associated with the financial success of hotels. It is concluded that the adoption rate of this system is considered rather satisfactory (Pavlatos and Paggios, 2007; Pavlatos, 2011a). Pavlatos (2011b) referred that the adoption of ABC system is positively associated with the extent of use of SMA techniques and with cost structure. No association was found between the adoption of ABC systems and the importance of cost data, level of price competition, and size. Vazakidis and Karagiannis (2011) referred that data acquired from implementing traditional costing and ABM models in a high level hotel enterprise can feed management with information for the organization structure, and help overtake current bottlenecks and boundaries. In addition, it provides information related to budgeting or benchmarking. In general, ABC diffusion in hospitality industry is increasing (Tai, 2000).

With respect to the relationship between strategic decision making techniques and hotels' performance there is lack of direct studies in this regard. In general, Mutindi et al. (2013) found that strategic management drivers had a positive influence on hotel performance. In Jordan, different studies conducted in the context of hotels. With respect to the performance, Al-Manasra et al. (2013) found that there is a strong positive relationship between the entrepreneurial marketing and the performance indicators. Zeglat and Zigan (2014) found that all dimensions of intellectual capital have a positive and significant impact on business performance. AL-Nuiani et al. (2014) found that environmental turbulence has a significant positive effect on innovation performance at five star hotels in Amman capital of Jordan.

4. Theory Framework

4.1 Activity Based Costing

ABC has become a well Known system since it initially introduced in the mid of 80's. Blocher et al. (2012) defined ABC as a costing approach that assigns resource costs to cost objects such as products, services, or customers based on activities performed for the cost object. The core idea in this system is that the products consume activities and activities consume resources. Based on this idea, the activities should be analyzed based on the cause-and-effect relationship with cost. Thus, Cooper and Kaplan (1991) stated that ABC can give managers a clear picture of how products, brands, customers, facilities, regions, or distribution channels both generate revenues and consume resources.

Several benefits could be achieved using ABC system including: increasing the accuracy of cost allocation to products (Ittner et al., 2002), improving the ability of an analyst to estimate the cash flow (Hilton, 2011), and enhancing its usefulness to strategic decision-making (Gupta and Galloway, 2003). The benefits of ABC cannot be overemphasized and these include among others greater accuracy in product costing, greater involvement of production managers, improved management information and improved profitability (Adamu and Olotu, 2009).

4.2 Strategic Decision Making

There is limited consensus on what constitutes SMA conceptual framework. So a degree of subjectivity is bound to be involved when attempting to develop a listing of SMA techniques (Cadez and Guilding, 2007). Guilding et al. (2000) proposed that the themes highlighting the non-strategic orientation of traditional management accounting be used as criteria for determining what qualifies as SMA technique. They conclude that techniques qualifying as "Strategic Management Accounting" should exhibit degrees of one or more of the following orientations: environmental, competitive, marketing, or long-term, forward-looking orientation. In general, SMA covers five themes in accounting including strategic decision making, strategic costing, competitor accounting, customer accounting, and planning, control and measurement systems.

Strategic decision making is a major choice of actions concerning allocation of resource and contribution to the achievement of organizational objectives (Raju and Parthasarathy, 2009). One of the essential parts of creating and running a business is creating a mission or vision for the business and a set of goals the company aims to achieve. Strategic decision making, or strategic planning, describes the process of creating a company's mission and objectives and deciding upon the courses of action a company should pursue to achieve those goals (Hamel and Media, 2014).

In the context of SMA, the previous literature referred that strategic decision making process contains three techniques, which are strategic cost management, strategic pricing, and brand valuation. In addition, based on criteria proposed by Guilding et al. (2000), we could add further two techniques, namely, Environmental Management Accounting (EMA) and Activity Based Management (ABM).

4.3 Strategic Cost Management

SCM is a consequence of mutations that occur in the current environment and requires a permanent adaptation of tools and techniques so as to improve the strategic position of organizations (Miculesc and Miculescu, 2012). Shank and Govindarajan (1993) define SCM as the managerial use of cost information explicitly directed at one or more of the four stages of strategic management: formulating strategies, communicating those strategies throughout the organization, developing and carrying out tactics to implement the strategies, and developing and implementing controls to monitor the success of objectives.

4.4 Strategic Pricing

This technique is the coordination of interrelated marketing, competitive, and financial decisions to set prices profitably. Strategic pricing requires that management take responsibility for establishing a coherent set of pricing policies and procedures, consistent with its strategic goals for the company (Micu and Micu, 2006). The corner stone in strategic pricing process is value creation to the customers (Hogan and Nagle, 2005).

4.5 Brand Valuation

Brands defined as intangible assets of the company act as a tool to be used by managers for implementing marketing techniques that are useful for informing and educating customers (Day, 2011). Brand valuation refers to the technique includes a combination of multiple factors gained over the brand through strategic factors like planned brand gains, brand position in the market and level of marketing support of the brand (Şener and Dirlik, 2012).

4.6 Environmental Management Accounting (EMA)

Environmental accounting and, more specifically, Environmental Management Accounting (EMA), has developed significantly during the last two decades (Burritt et al., 2002), so as to compliance to the ideas and growing environmental trends. Environmental accounting techniques have been directed to serve different purposes summarized by Bebbington (1997) in support of decision-making and performance measurement and recognition of liabilities and contingent liabilities and recorded reactions capital markets for taxes and accounting disclosures. EMA represents a combined approach that provides for the transition of data from financial accounting, cost accounting and mass balances to increase material efficiency, reduce environmental impacts and risks and reduce costs of environmental protection (Jasch, 2003).

4.7 Activity Based Management (ABM)

ABM is defined as "a discipline that focuses on the management of activities within business processes as the route to continuously improve both the value received by the customer and the profit earned in providing that value" (Dierks and Cokins, 2001:35). The essence of ABM is applying the insights gained during ABC fact gathering and analysis to improve decision making at both operating and strategic levels (CIMA, 2001). ABM applications can be classified into two categories: operational ABM and strategic ABM. Operational ABM enhances operational efficiency and asset utilization and lowers costs; its focuses are on doing things right and performing activities more efficiently. Operational ABM applications use management techniques such as activity analysis, business process improvement, total quality management, and performance measurement. Strategic ABM focuses on choosing appropriate activities for operation, eliminating nonessential activities, and selecting most profitable customers. Strategic ABM applications use management techniques such as process design, customer profitability analysis, and value-chain analysis, all of which can alter the demand for activities and increase profitability through improved activity efficiency (Blocher et al., 2012).

5. Business Performance

Improving business performance has been one of the central tenets of management and remains fundamental to organizational success (Neely 1999). It has been argued that organization performance is a multi-dimensional concept that cannot be sufficiently reflected in a single performance dimension (Randolph and Dess, 1984).

Kaplan and Norton (1992) highlighted that financial management alone is not sufficient in assessing an organization's competitive position or explaining an organization's trends.

Reviewing the related literature indicates that different approaches and methods have been utilized to measure and conceptualize organization's performance (Venkatraman and Ramanujam, 1986; Kaplan and Norton, 1992; Harris and Mongielo, 2001; Neely et al., 2002; Phillips and Parry, 2006; Ottenbacher, 2007). Sink and Tuttle (1993) argue that the performance of an organizational system is made up of a complex of various interrelated criteria including effectiveness, efficiency, quality, productivity, quality of life on job, innovation, and profitability. However, there is a rich variety of performance initiatives and debates taking place within the hospitality sector (Phillips and Parry, 2006). The financial and nonfinancial indicators that could be used to operationalize performance systems in hotels include: infrastructure, prices, sales growth, occupancy, room yield, market share, financial ratios, profitability, cost efficiencies, growth of existing customers, customer lifetime value, and customer satisfaction.

6. Methodology

The aim of this study is to explore the extent of usage of ABC and strategic decision making techniques of four and five star Jordanian hotels. Total of 49 questionnaires were distributed to managers or financial managers in these hotels. Out of this number, only 42 were returned and used. Response rate is about 85.7%, which is considered to be high.

The questionnaire consisted two main parts. The first part contains 38 items aimed to examine the extent of ABC usage and strategic decision making techniques implemented by four and five star Jordanian hotels. The Likert scale was used to measure the usage of variables, ranging from minimum of 1="not used at all" to the maximum of 5= "greatly used". Part two includes 10 items adapted primarily from Brown and Gulycz (2002) and AbuKasim and Minai (2009) to measure the hotels' performance. The responses to the ten items were made on a five-point Likert scale from 1="extremely poor" to 5="extremely good".

The methods of analysis employed in the study were descriptive statistics, test of homogeneity of variance, the variance inflation factor test (VIF), one sample t-test, and multiple regressions. In addition, Cronbach's alpha test of internal consistency of ABC and strategic decision making techniques was used to test reliability of instrument.

7. Reliability of the Study Instrument

Cronbach's alpha was used to test stability of the measuring instrument. The values exceeded the level of 70%, which is an acceptable ratio (See Table 1).

Table 1: Cronbach's alpha Reliability Coefficients for Variables

variables	dimensions	alpha
ABC	8	.84
ABM	8	.78
SCM	5	.70
Strategic pricing	4	.76
Brand valuation	8	.74
EMA	5	.79
Performance	10	.73

8. Hotels Performance

As it was mentioned earlier, the respondents were requested to indicate their performance relative to that of their competitors on the ten items listed in Table 2 by using the 5-point Likert score. In general, good performance was evidenced in all the ten items but the top one (mean score=4.14) is for percentage of growth of existing customers.

Table 2: Descriptive Statistics for Hotels Performance Indicators Relative to Competitors

		Mean	SD
1-	Improvement in sales revenue	3.57	1.31
2-	Improvement in occupancy levels	3.50	1.38
3-	Improvement in room yield	3.93	1.30
4-	Growth of repeat sales (percentage).	3.88	.86
5-	Increase in profitability	3.88	1.31
6-	Overall improvement in performance relative to that of the hotel's competitors.	3.62	1.30
7-	Growth of existing customers (percentage).	4.14	1.22
8-	Growth in market share (percentage).	3.76	1.16
9-	Higher ratings from customer surveys	3.88	1.02
10-	Improvement in customer lifetime value.	3.60	1.21

Relative performance: 1=extremely poor; 2=slightly poor; 3=poor; 4=good; 5=extremely good

9. Hypotheses Testing

In this study, one-sample t-test was conducted for testing hypotheses H_01 and H_02 to know whether ABC system and Strategic Decision Making techniques were used by Jordanian hotels or not. Multiple regression analysis was conducted for testing hypotheses H_03 to know whether impact of ABC system and strategic decision making techniques on the Jordanian hotels' performance exists or not.

H_01 : The ABC system is not used by Jordanian hotels

In Table 3, one-sample t-test show that ABC system was used by Jordanian hotels; $t(41) = 3.91$, $P < 0.001$. In addition, the descriptive statistics support one-sample t-test, where results show that using ABC system achieved (mean score=3.47); which exceeds the general mean in this study, which is moderately used (mean=3).

Table 3: H_01 ; Descriptive Statistics and One-Sample t-test for ABC System

Variable	Descriptive statistics		One-sample t-test	
	Mean	SD	t	Sig.
ABC	3.57	.94	3.91	.000

Extent of use: 1=not used at all; 2=slightly used; 3=moderately used; 4=frequently used; 5=greatly used.

H_02 : The strategic decision making techniques are not used by Jordanian hotels.

One-sample t-test, in Table 4, indicated that all of strategic decision making techniques addressed in this study were used by Jordanian hotels. Taking together all these techniques as a group, it can be seen that there is a significant usage of strategic decision making techniques, $t(41) = 7.74$, $p < 0.001$.

Regarding the descriptive statistics, the overall descriptive results in Table4 show that using ABM and strategic pricing (mean score=3.83) achieved the highest mean score, followed by SCM (mean score=3.75) and Brand valuation (mean score =3.74). EMA achieved the lowest mean score (mean score=3.63). Overall, these results indicate that the usage of strategic decision making techniques was evidenced in all the five items.

Table 4: H_02 ; Descriptive Statistics and One-Sample t-test for Strategic Decision Making Techniques

Variables	Descriptive statistics		One-sample t-test	
	Mean	SD	t	Sig.
ABM	3.83	.71	7.60	.000
SCM	3.75	.86	5.61	.000
Strategic Pricing	3.83	.97	5.55	.000
Brand Valuation	3.74	.75	6.42	.000
EMA	3.63	1.00	4.08	.000
The group	3.72	.60	7.74	.000

Extent of use: 1=not used at all; 2=slightly used; 3=moderately used; 4=frequently used; 5=greatly used.

H_03 : There is no impact of ABC system and strategic decision making techniques on the Jordanian hotels performance.

Regression analysis was used to predict the Jordanian hotels performance. The basic assumptions of regression test have been met. For normality test, the scatter plot scheme showed that 95% of the errors (standardized residuals) fall within the range (2, -2), indicating that these errors are distributed normally (Anderson et al., 2008). Variance Inflation Factor test was used to test multicollinearity between independent variables. VIF for all variables, as in Table 5, were less than 10, which indicates no real problem in this regard in this study (Kohler, 2000).

The results of regression analysis in Table 5 show that both ABC system and strategic decision making techniques contribute significantly ($F(6, 35) = 26.01$; $p=0.000$) and explain ($R^2 = .785$) of the variation in the Jordanian hotels' performance. The results in Table 5 also show that there is a significant and positive relationship between these variables and Jordanian hotels' performance at 1% level of significance.

The regression results in Table 5 show that explanatory variables such as ABC system, SCM, strategic pricing, brand valuation, and EMA have a statistically significant positive effect on Jordanian hotels' performance, where P-value for these variables .02, .01, .01, .02, and $p<0.001$ respectively. Accordingly, the null hypothesis was rejected with regard to these variables. On the other hand, the ABM technique does not have a statistically significant effect on Jordanian hotels' performance ($P=0.86$). Therefore, the null hypothesis was accepted with regard to this variable.

Table 5: H_03 Regression Results

Independent variables	Coefficients^a				VIF
	B	t	p	Correlations*	
ABC	.143	2.395	.022	.61	1.38
ABM	.013	.178	.860	.42	1.42
SCM	.175	2.741	.010	.60	1.33
Strategic pricing	.170	2.862	.007	.61	1.43
Brand valuation	.193	2.371	.023	.63	1.63
EMA	.243	4.355	.000	.70	1.37

$R^2=.785$; $F=26.01$, $P<.001$

a. Dependent variable: performance

* Correlation is significant at the 0.01 level (2-tailed).

10. Findings

Based on the descriptive statistics for hotels' performance indicators presented in Table 2, it is clear that Jordanian hotels achieved good performance relative to competitors. The results presented in Table 3 show that the ABC system was used by Jordanian hotels. These findings are consistent with the studies by Pavlatos and Paggios, 2007; Pavlatos, 2011a; Pavlatos, 2011b. Whereas the adoption rate of ABC system considered rather satisfactory and positively associated with the extent of use of SMA techniques.

As presented in Table 4, all of strategic decision making techniques were used by Jordanian hotels. The overall descriptive results in Table 4 show that using ABM and strategic pricing achieved the highest mean score, followed by SCM and brand valuation, whereas EMA achieved the lowest mean score.

The results in Table 5 have shown that both ABC system and strategic decision making techniques contribute significantly and explain high percentage of the variation in the Jordanian hotels' performance. There was a significant positive correlation between these variables and Jordanian hotels' performance. On the other hand, all variables, except of AMB technique, have a statistically significant positive effect on Jordanian hotels' performance.

11. Summary and Conclusions

There is a lack of direct studies on the relationship between strategic decision making techniques and hotels' performance. However, the aims of this study are to examine the extent of usage of ABC system and strategic decision making techniques of four and five star Jordanian hotels and to examine the impact of these techniques on hotels' performance.

The study reveals that Jordanian hotels achieved good performance relative to competitors. It is also found that ABC system and strategic decision making techniques were used by Jordanian hotels. This result is consistent, generally, with the studies conducted in the area of SMA techniques. The results also reveal that both ABC system and strategic decision making techniques contribute significantly and explain high percentage of variation of Jordanian hotels' performance. All variables, except of AMB technique, have a statistically significant positive effect on Jordanian hotels' performance.

However, prior studies revealed that many benefits could be derived from adoption of SMA techniques which cover strategic costing, strategic decision making, strategic planning, control and performance management, competitor accounting and customer accounting. In context of cost-benefit approach, this study recommends Jordanian hotels to adopt all of SMA techniques in the future.

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