Introduction

Ward[1] refers to strategic management accounting as “accounting for strategic management” where strategic management is an integrated management approach that draws together all the individual elements involved in planning, implementing and controlling business strategy. Thus, strategic management accounting serves strategic decision makers by providing information on the financial implications of alternative business strategies. The concept was defined more narrowly by Bromwich[2] as “the provision and analysis of financial information on the firm’s product markets and competitors’ costs and cost structures and the monitoring of the enterprise’s strategies and those of its competitors in these markets over a number of periods”. However, this definition focuses purely on financial information and ignores the use of non-financial data, which are crucial focuses of interest in the hotel sector. Bromwich and Bhimani[3] have argued strongly that strategic management accounting is extremely important, and cite the example of a billion dollar per year US market in strategic cost analysis consultancy services. However, the authors acknowledge[3, p. 129] that in the UK strategic management accounting is in its infancy and there is little information on its use or on what practitioners understand by the term. The purpose of this article is to examine the use of strategic management accounting by UK hotel groups through a detailed examination of practices in six head office finance departments.

Choice of hotel sector

According to Bromwich and Bhimani, strategic management accounting reflects increasing competition globally. Therefore, a major objective was to choose an industry where competition is intensive and there is overcapacity. It would also assist in the comparison of approaches if the product offered was relatively homogeneous. Although a number of industries may fit this profile, the hotel sector was chosen as an area for study for three reasons. First, hotel groups have certain unusual characteristics as businesses because of the dual nature of their activities involving property and management. These characteristics give rise to some interesting implications for the development of strategies. Second, hotel groups are capital-intensive businesses where the assets are long-lived and this means that investment must be planned strategically over a wide planning horizon. Third, the hotel sector is a key component of the important (and expanding) hospitality and tourism industries[4].

It is also felt that service-sector industries in general are seriously under-researched, which contributed to the choice of the hotel sector, a major component of the hospitality industry. The research was conducted as part of an initiative by the Chartered Institute of Management Accountants to explore management accounting in the service sector[5]. This initiative reflected the growing importance of this sector in terms of national income and employment[6].

It is also the case that little research has been carried out into management accounting in hotel companies; exceptions are Brignall et al.[7], who used a hotel chain as one example of a service industry in an investigation of product costing in service organizations, and Harris[8] who used a hotel group to carry out a statistical analysis of departmental cost behaviour. Although there are various texts (for example see [9-13]) which cover management accounting within a hotel in some detail, apart from Brignall et al. and Harris there is no accounting literature on management accounting and its contribution to the management of groups of hotels.

Research method

The approach adopted for exploring investment appraisal in hotel groups was to undertake field study research.
Ryan et al. [14] identified five classes of case/field study: descriptive; illustrative; experimental; exploratory; and explanatory. The field-study approach used in this research is mainly descriptive in that it documents the use of investment appraisal methods in a number of cases. However, it is hoped that the cases will permit exploration and explanation of the uses of the appraisal methods which are discovered. Thus, as well as reporting investment appraisal practices there will be an attempt to generate hypotheses about the reasons for them and to explain them by reference to theory.

Field study research by its nature raises questions about its external legitimacy. However, the merits of the approach have been well established by a number of authors (e.g. [15-17]). For example, Mohr [16] argues that, although the method has little statistical value, it is marked by a depth or richness of detail and the ability to obtain insights into how the perceptions of interviewees have influenced the shape and use of management accounting information. Given this, it is not surprising that case/field study approaches have found support and been applied in numerous research projects (e.g. [18-22]). Generalizability, as discussed by Scapens [23], was not the main objective of the research; rather the field study was viewed as a means of discovering what was happening in practice in a limited number of organizations and to assist in the development of hypotheses which might explain the management accounting systems that were found. However, in interpreting the results it must be remembered that, although the cases represent a significant portion of the 22 hotel groups which fell within the selection criteria (see below), they are not necessarily representative because, for example, of difficulties in gaining access to hotel groups which were experiencing financial difficulties. Thus, if it is assumed that a link exists between good management accounting practices and financial success, it is possible that the cases are biased towards companies with best practice. Alternatively, the willingness of some finance directors to divert scarce resources in co-operating with the research may reflect a strong personal interest in the promotion of management accounting in the industry.

Our case companies were selected by identifying the population from the UK Hotel Groups Directory 1992/93 [24], which details the holding companies of UK hotel groups. In order to limit the size of the population, a minimum turnover of £25 million per annum was set. The companies approached were selected on the basis of obtaining a mix of the following three characteristics: status – a mix of public limited companies, limited companies (private companies), and subsidiaries with examples of UK and foreign ownership; size – cases which vary from groups of under 20 hotels to over 100 hotels; and spread of operations – a mix of groups that operate both nationally and internationally.

Ten hotel groups were selected intuitively, with the overall aim of selecting a group with a mix of the above characteristics, and their finance director contacted by letter. Six hotel groups responded positively. Table I gives details of the status, size and spread of operations of the

### Table I. Summary of the main characteristics of the field study companies

<table>
<thead>
<tr>
<th>Designation</th>
<th>Status</th>
<th>Sizea</th>
<th>Spread</th>
<th>Parent business</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>UK-based limited company</td>
<td>Medium</td>
<td>UK</td>
<td>Hotels</td>
</tr>
<tr>
<td>B</td>
<td>UK-based plc</td>
<td>Large</td>
<td>International</td>
<td>Hotels</td>
</tr>
<tr>
<td>C</td>
<td>Subsidiary of overseas company</td>
<td>Small</td>
<td>International</td>
<td>Leisure and tourism</td>
</tr>
<tr>
<td>D</td>
<td>Subsidiary of overseas company</td>
<td>Large</td>
<td>UK</td>
<td>Conglomerate</td>
</tr>
<tr>
<td>E</td>
<td>Subsidiary of UK plc</td>
<td>Medium</td>
<td>UK</td>
<td>Brewing</td>
</tr>
<tr>
<td>F</td>
<td>Subsidiary of UK plc</td>
<td>Small</td>
<td>UK</td>
<td>Brewing</td>
</tr>
</tbody>
</table>

*aBased on number of hotels: small - up to 25 hotels, medium - 25 to 75 hotels, large - over 75 hotels*
The one deficiency in the spread of cases across the criteria was that only one public limited company which specializes in hotels was prepared to grant an interview. Two additional public limited companies, beyond the three originally approached, were written to, but without success. One obvious explanation for this lack of success was the financial difficulties that a number of listed hotel groups were experiencing over the period of the research. The most widely publicized problems were with Queen’s Moat Houses plc; but a number of smaller groups were also in severe difficulties and naturally may not have viewed discussing control systems as a priority or even as desirable, given the belief that poor control systems might have contributed to the difficulties experienced by Queen’s Moat Houses plc.

Interviews were carried out with the management accountants, chief accountants or finance directors of hotel companies between May 1993 and September 1993. The initial interviews used a protocol developed from the example given in Yin[17] and lasted between one-and-a-half and two-and-a-half hours, with two interviewers being present throughout. Immediately following the interview, summaries were written up independently by both researchers, and the results compared. Where possible, copies of internal documentation used in the appraisal and post-audit processes were also obtained. Any differences, or issues raised by going through the summaries, were addressed in a second visit or further telephone interviews. A copy of the final summary was then sent to the interviewee to be checked for accuracy, with amendments being made until a final version was agreed. Yin[17] discusses the need for case studies to be reliable so that a later investigator would find the same results as the first investigator if the study were to be repeated. The issue of reliability is especially relevant to multiple case designs like the subject of this article. To minimize problems of reliability, the interviews were structured around a protocol containing a standard list of questions centred on the overall issue of whether strategic management accounting was employed. The working definition used was obtained from the Chartered Institute of Management Accountants (CIMA)[25], and describes strategic management accounting as “the provision and analysis of management accounting data relating to business strategy: particularly the relative levels and trends in real costs and prices, volumes, market share, cash flow and the demands on a firm’s total resources”. The definition was chosen in preference to the alternatives, like that provided by Bromwich[2] and discussed in the introduction, because it is wider and recognizes that data relevant to business strategy may well be non-financial.

The findings
Discussions at the case-study companies revealed that interviewees identified two main strategic management accounting areas: the provision of information that assisted in the development of strategic plans; and monitoring the market, competitors’ price structures and competitors’ costs.

The provision of information to assist in the development of strategic plans
Strategic planning was formalized through the preparation by the finance department of long-term budgets in all the case-study companies except D. In D, the tight personal control exercised by the managing director resulted in the strategy of the hotel group being developed by the managing director in liaison with the parent company.

The period covered by the long-term budgets varied, but all were updated annually. In A, B and C the planning exercise looked five years forward, whereas in E and F the process was limited to three years forward. In all cases the starting-point was the budget for the following year. The scope of each long-term budget was limited to the balance-sheet, the profit and loss account and cash flow statement. In A the planning system was based on a spreadsheet model developed by external consultants. In the other four case studies the long-term budgets were developed from the existing budget system. E was typical of the level of detail. A hotel level the most important elements were occupancy percentage multiplied by average room rate to give room yield. Food and bars contributions were accounted for by a given percentage margin, and expenses were analysed into wages and salaries and other overheads, with a fixed adjustment made for rents. In all cases the interviewees pointed out that forecasts beyond one year forward inevitably become increasingly subjective and dependent on various assumptions. Nevertheless, strategic planners needed a longer time horizon, as one year forward is insufficient for planning the future structure and funding of the business and how they can be achieved.

The interviewees consistently stated that the objectives of the long-term budgets were: to provide a framework within which management could consider the future and explore the effects of alternative strategies; to provide an indication of the future shape of the business; and to highlight the future financial structure of the group and to identify and schedule future financing requirements. However, the emphasis varied between companies because of their individual circumstances. Thus, in A, where there was little acquisition and disposal activity, the exercise was specifically aimed at providing information in a form suitable for presentation to the financing institutions which were interested in medium-term progress. In contrast, in E, which had a more active approach to acquisitions and disposals, the long-term budget and its review with head office were integral both.
to planning the cash requirements and funding of the company by the parent, and to the evaluation of strategic alternatives. In C, where there was a move to expand through management contracts and joint ventures as well as acquisitions, the long-term budgets focused on the impact of changes in the mix of hotels and the mix of ownership schemes. The mix of hotels will change as planned developments come on stream. The assumption was that new hotels will take time to reach a steady earning position and that at any point in time the group will consist of a portfolio of hotels in varying states of maturity. The mix of ownership schemes reflects possible new investments, joint ownership schemes and new management contracts that might come on stream over the period to provide a second dimension to the portfolio. The principal objective of long-term plans is to consider the impact of different maturity and ownership mixes and to plan finance requirements which reflect the chosen mix in conjunction with the parent.

At F, the input by the accounting function into the development of strategic plans included a formal “strengths, weaknesses, opportunities and threats” (SWOT) analysis of the hotel group’s “competitive capabilities” against “business sector attractiveness”. A range of business sectors was examined (for example food, drink, accommodation and leisure) and the position of the company compared with competitors was determined using a range of measurable variables collected by in-house staff and external consultants. The exercise was deemed useful but deficient in one respect in that it did not take account of the relative costs of changing competitive position in the various business sectors.

Monitoring the market, competitors’ price structures and competitors’ costs

Bromwich[2] stressed that there is a need for accountants to consider the cost structure not only of their own firms but of all enterprises in the relevant market and of potential entrants, and that cost cannot be considered in isolation from demand factors. This aspect of strategic management accounting relies on the availability of relevant information. The hotel sector meets these requirements because of the open nature of the industry and the availability of price and some cost data.

Several interviewees described the industry as being fairly open, especially for the interchange of ideas on different approaches to solving common problems like automated booking systems, valuation practices and yield management systems. The common forum for such discussions is the British Association of Hotel Accountants (BAHA), which has over 600 members and a number of the interviewees, especially those who had spent most of their working lives in the industry, were members.

There is a degree of visibility about prices and cost structures in the industry as the nature of the industry makes it difficult for companies to be secretive. Rack rates and other standard terms are publicized and it is possible to pose as a customer to ascertain discounts off the published rates. On the cost side, major components of costs may be determined with a degree of accuracy. For example, the valuation of hotels, site costs and building costs can be monitored, and rateable values are publicly available.

As with strategic planning, major consultants specializing in the field offered services which were relevant to strategic management accounting. For example, Howarth Consulting produces an annual survey of hotels throughout the UK with detailed summaries that act as a basis for interfirm comparison. The 1992 Statistical Report was based on returns from 293 hotels and included data analysed across four regions (London, Provinces, Scotland and Wales) and across a variety of average room rates. The terminology used and the accounts’ titles conformed to the Uniform System of Accounts for Hotels[27].

The report covered:

- Average room occupancy and rates – average annual room occupancy; average number of guests per room; average daily room rate; and four categories based on average rate per guest night.
- Market information – guest analysis by country; percentage of repeat business; percentage of guests with advance reservations; and account settlement method.
- Operational data – percentage composition of sales split by rooms, food, beverage, and other; cost of sales data; gross operating profit; and employee statistics.
- Revenue per guest night – rooms; telephone and telex; minor operating departments; and rental and other income.
- Payroll and other expenses – in terms of amount per available room and percentage of total revenue with a split across rooms, food and beverages, administrative and general; marketing; and property operations and maintenance.
- Food and beverage statistics – analysed by facility; percentage of total food sales, amount per seat, and per cover.
- Departmental revenues and expenses – in total and analysed by room across rooms, food, beverage, telephone, minor operated departments; and rental and other income.

In this environment, it is not surprising that in all but two of the case studies (A and F) the accounting function monitored to some degree the cost structures and pricing
policies of competitors. In A, where there was no strategic management accounting in the accounting function, competitor price review and market data assessment were the responsibility of the marketing function. In F, although the accounting function took an interest in competitors’ actions, no detailed studies were undertaken using published accounts, brokers’ reports, analysts’ reports or other data sources. A gain, the marketing function had the responsibility of monitoring market conditions and the actions of competitors. The absence of any strategic management accounting in these cases is perhaps explained by special circumstances. In both cases, the groupings had only recently been formed and were focusing inwards on developing a market niche rather than being concerned with the actions of competitors.

In another two case studies, strategic management accounting was carried out irregularly by the accounting function. In D, although no formal analysis was made of competitors’ cost structures, a keen interest was taken in competitors’ actions. Further, the performance of the company against competitors was compared regularly at a return on sales level and information was gleaned from brokers’ reports. However, in line with the less formalized control approach in this company, reliance was placed mainly on senior management’s experience in the hotel sector and the steps they take to keep in touch with their hotel general managers. The accounting function in E followed up their competitors’ actions through an examination of published accounts, brokers’ reports and analysts’ reports.

The most wide-ranging exercises in strategic accounting were found in B and C. The finance department at B regularly undertook ad hoc strategic management accounting exercises. The exercises focused on competitor performance and market data assessment. At one level, statistical information was obtained from the published accounts of major competitors and their performance compared with that of the company. In particular, performance was compared on a monthly basis with that of another group which was felt to be the closest to the business areas of the company. At another level, brokers’ reports on the hotel and leisure sector were reviewed and, if deemed necessary, individual companies were monitored through the use of specially commissioned consultancy reports. The company regularly tracks its performance against market surveys prepared by consultants specializing in the industry. In C, the assessment of position relative to those of competitors was undertaken through an examination of published accounts and the use of some base data on rooms which was exchanged with other hotel chains in a similar class of business. This “inter-firm comparison” type of exercise enables a crude comparison of room performance against competitors’ performance at a regional level.

One common result of strategic management accounting activity was suspicion about the performance of Queen’s Moat Houses plc, which was shown to be the clear market leader in the sector. Generally, the view was that the results were highly suspicious and “too good to be true”. One case-study company was sufficiently interested to commission a consultant’s report on the company to identify how it produced the results. However, none of the companies was able to understand fully the processes that had led to the apparently excellent results revealed in the published report and accounts. Following the publication of the results for 1992, the lack of basic financial controls was revealed when it was alleged that unlawful dividends had been paid and that the records used to construct the 1992 interim results were non-existent. The £1.2 billion debt and a £1.1 billion difference in property valuations led to severe problems and suggest that competitors’ knowledge of the position of a major player in the market was deficient[28].

The overall position for the six case-study companies is summarized in Table II, which shows considerable interest in formalized forward planning in all the companies but one. The assessment of competitive position is more variable in depth, but there is still considerable evidence of management accounting involvement.

### Table II. Summary of the uses of strategic management accounting

<table>
<thead>
<tr>
<th>Reference</th>
<th>Development of long-term strategic plans</th>
<th>Time horizon (years)</th>
<th>Monitor competitors’ price and cost structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td>B</td>
<td>Yes</td>
<td>5</td>
<td>Yes</td>
</tr>
<tr>
<td>C</td>
<td>Yes</td>
<td>5</td>
<td>Yes</td>
</tr>
<tr>
<td>D</td>
<td>No</td>
<td>n/a</td>
<td>Irregular</td>
</tr>
<tr>
<td>E</td>
<td>Yes</td>
<td>3</td>
<td>Irregular</td>
</tr>
<tr>
<td>F</td>
<td>Yes</td>
<td>3</td>
<td>No</td>
</tr>
</tbody>
</table>
Summary
The results of the study demonstrate that the finance functions in hotel groups are becoming increasingly involved in strategic management accounting, both in planning and in ad hoc exercises on the market conditions and competitor analysis. The findings suggest that in this sector at least, strategic management accounting is no longer in what Bromwich and Bhimani [3] described as its “infancy”, but is becoming an integral part of the services provided by the finance function to decision makers.

The widespread adoption of strategic management accounting is consistent with the open and relatively homogeneous nature of the industry and the high degree of competitiveness among the hotel groups in the market.

Notes and references
4. The hospitality and tourism industry are among the largest industries in the UK, providing employment and a large contribution to invisible earnings. Hotels constitute a diverse sector, ranging from small hotel chains like Forte plc to a plethora of small independent units. At 31 March 1994, hotel and leisure companies comprised 2.2 per cent of the FT all share index in terms of market capitalization and at least four companies in the FTSE 100 Index have substantial hotel interests. These figures ignore the fact that several major brewers and other companies outside this sector own hotel chains (although, similarly, not all companies in the hotels and leisure sector have major hotel interests). Further, in 1993 consumer expenditure on hotels and catering accounted for 7.6 per cent of all consumer expenditure.
5. Service industries comprise those included in sections 6 to 9 of the Standard Industrial Classification.
6. In terms of GDP at constant factor cost, the percentage of national income derived from the service sector rose from 51.7 per cent in 1981 to 69.6 per cent in 1992 (UK National Accounts Blue Book, CSO, 1993, Table 2.1). Between 1971 and 1993, the proportion of the total workforce in the service sector rose from 32.5 per cent to 69.9 per cent (Employment Gazette, April 1994, Table 1.4, s.9).

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