

## THE IMPACT OF ACCOUNTING INFORMATION ON MANAGERIAL DECISIONS – THEORETICAL APPROACHES

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**Abstract:** *The hospitality industry is one of the most dynamic sectors of contemporary society with a pronounced role in the globalization process. Nowadays, hospitality industry does not only face the challenges of the economic crisis, but also the changes of the market, in consumer's behavior and in technological trends. Accounting, as a language of business, must keep pace with developments in the areas investigated, and the need to promote universally recognized concepts proves its usefulness more and more. When an entity's management team is facing difficult problems such as the economic and financial ones, a situation frequent in the hospitality industry given the complexity of these activities, a need is naturally felt, for a set of accounting principles which are not similar with the immutable laws of nature from physics and chemistry.*

*The contribution of accounting to the fulfillment of the strategic objectives of the managers in hospitality and tourism industry is manifested also in the form of providing the information necessary for monitoring, for determining the degree of liability and the effect produced at various work places, which allows detection of internal reserves, of unnecessary and uneconomic spending and of losses. Also, accounting has developed the capability of knowing the economic and financial situation, so that it can provide, in optimal conditions, the information necessary to make the most appropriate decisions. Moreover, the purpose of accounting is to make the information and its methods a targeting tool, a "dashboard", an advisor, in order to determine the conditions in which the economic entity operates at both micro- and macroeconomic level.*

*These were the reasons that led to the start of our scientific approach, aiming at a radiography of the impact of accounting information on managerial decisions in the hospitality industry in Romania. This article is primarily a theoretical one in which we intend to review the literature on the topic of accounting information in the hospitality industry and of management accounting practices in this sector.*

**Keywords:** *accounting information; accounting management; managers; hospitality industry*

**JEL classification:** *M 41.*

## 1. Introduction

The world today would not be what it is, if the human mind would not have created thousands of years ago the writing, this formidable means of communication. Nowadays an axiomatic truth has been promoted: the future of a company is determined essentially by the production and possession of a fundamental resource: Information (Horomnea 2008:148).

The impact of information and of computer science on the global economy in general and on the economic entities in particular is a subject analyzed both by sociologists, economists and specialists in technology.

Nowadays, an economic entity can no longer be regarded only as a producer of goods and services, but also as a producer, owner and user of knowledge and information from different fields. Economic and financial power of the most important entities lies in their ability to control and use the information to achieve the desired objectives. Global competition is now held in the realm of the best use of knowledge, information and new communication technologies (Briciu and others 2003:29).

But how can information be defined? Why is it so valuable?

The term "information" is a polysemantic one, being perhaps one of the most frequently used and "abused" words. The term is taken from the Latin *information* and can sometimes have different or contradictory meanings, meanings given by the contexts and the areas where it is used, in human activity.

According to the dictionary Le Petit Larousse information is the action of informing to keep up with events, the indication of the details regarding someone or something, every event, every fact, the decisions made known to a smaller or larger audience, in the form of images, texts, speeches, sounds, elements of knowledge to be stored, processed and communicated.

Regardless of the definition of the concept of information, we note that its analysis, as well as that of its impact and its importance for the decision making process, has represented and still represents a challenge for researchers from different fields. The information is the result of thought, a process of the mind, a property of consciousness (Belkin 1978), it is characteristic data or material data (Mingers 2003), it is knowledge, communication (Gelepithis 1997, Callaos and Callaos 2011, Floridi 2012, Vakarelin 2012).

The term information is used in many areas, but in our case we will focus on accounting information and its impact on managerial decisions in the hospitality industry.

## 2. Literature reviewed – accounting information in the hospitality industry

Analyzing the local literature on the topic of accounting in hospitality and tourism industry, we can conclude everything as "lights and shadows", i.e. while in what financial accounting is concerned there is some light, with respect to the management accounting there persists a shadow in this sector, a darkness. The issue of accounting in the hospitality and tourism industry in Romanian literature has a general character, without tackling different cases, or without a central topic, the authors being: Dumbravă and Pop 1995, Dumitrana and Negruțiu 1996, Sabău and others 2000, Ivanof 2007, Dumitrana and others 2008.

Major works on this topic of the hospitality industry are numerous in foreign literature, they addressing both general organizational and management issues, and specific questions on financial accounting and management accounting and control in this sector: (Hales 2005), (Dobson and Hayes, 2009; Rutherford and O'Fallon, 2007; Barrows and Powers, 2009; Weygant and others, 2005; De Franco and Lattin, 2007; Guilding, 2002; Demski, 2008).

The review of foreign literature addressing various subjects on the topic of cost calculation and management accounting in terms of hospitality and tourism industry reveals that these issues are of interest to various researchers. The issues analyzed are many and complex such as: issues relating to information technology in the hospitality industry (O 'Conor and Murphy, 2004), the difference between theoretical and practical aspects of management accounting in various industries, presenting even arguments on the causes of this difference (Torrecilla et al., 1996; Shields, 1998; Williams & Seaman, 2001; Jones, 2008), issues regarding the role of financial accounting and management accounting (Zubac, 2012), the structure of cost accounting system (Brignall and others 1991), the importance of knowing the accounting techniques in hospitality management (Damitio & Schmidgall 1990), the use of the information provided by management accounting in the process of decision making (Downie 1997; Santos and others 2010), the importance of planning and of budgetary practice in the sector and the importance of determining deviations (Cruz, 2007; Pavlatos and Paggios, 2008), the profile of the management controller and his role in hotel management activities (Burgess 1996), cost accounting and the relation with price setting practices (Pellinen 2003), acceptance and use of uniform systems of accounts for the accommodation industry (Kwansa & Schmidgall, 1999).

### **3.Accounting information – a source of information for the managerial process in the hospitality industry**

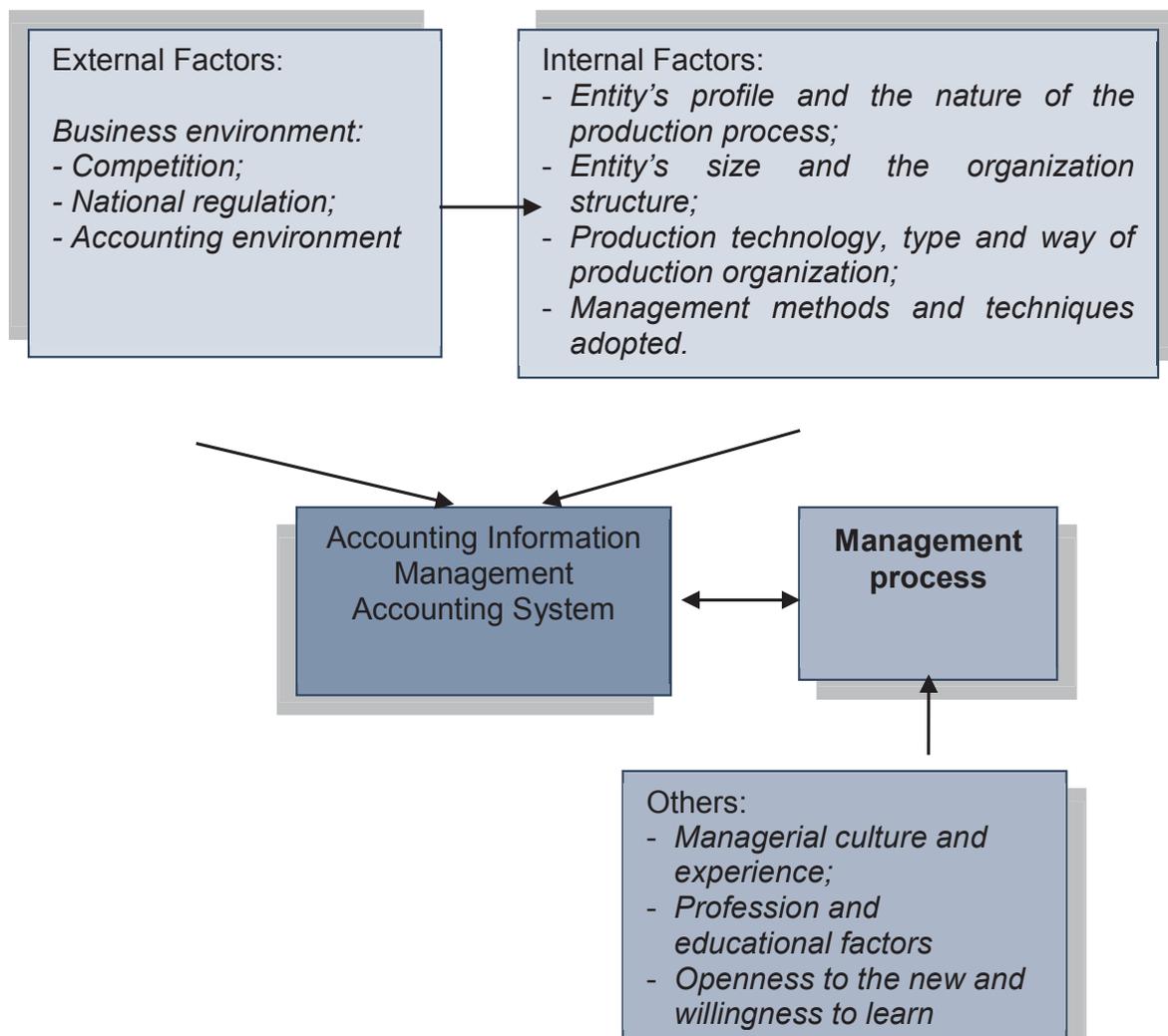
A particular importance in the category of the information circulating in an economic entity, has been given to the economic information that represents the main sources used in the management process, it allowing analysis and critical examination of the use of resources in order to sustain the necessary decisions. In 1895 Frederick W. Taylor referred to the importance of accounting information: comparative accounting information available at the right time should serve to: determine monthly the complete costs of finished goods or of goods in progress, evaluate performance, set the prices by establishing a monthly account per product, ensure protection of assets and prevent fund diversion (Chen and Pan, 1980, pp 20-21).

It is important to note that not all economic information that is provided and runs in an entity is useful to the operational or the decision-making process. The managerial team of management is forced in many cases to face the challenge of selecting and refining the information in order to make it useful. So, in the management process, actors should pay attention both to qualitative aspects that make information be useful and to the quantitative ones that ease the process of measuring information. To be useful, it must be *consistent, relevant, accurate, complete and sufficient, timely and accessible*, and, not least, *concise*, which is to have the level of aggregation necessary for the decision-making process.

The accounting framework issued by the International Accounting Standard Board defines also the limits of the relevant and reliable information. They are given by:

- Opportunity - the information should be timely so that it can be used optimally in the process of decision-making;
- The cost / benefit ratio – the benefits from the information have to be bigger than its costs; Accounting information is a resource that has a cost. It is important to recognize that organizational resources are expended collecting and analyzing cost information. We should not spend more money on collecting and analyzing cost information than the decision making or control benefit that will derive from the costing information (Guilding 2002:83). The cost of information is an important element when choosing alternative sources of information.
- The balance between the qualitative characteristics of the financial information.

According to the literature the way of organizing an entity's accounting system, as well as the way it exploits the accounting information in the management process is influenced by many factors that can be grouped into two categories: external factors and internal factors.



**Figure 1:** General factors of influence of the accounting information and of the management accounting system

Source: Own elaboration

So that the accounting information can be useful in the process of management, one should keep in mind that, in addition to the qualitative aspects and the general factors of influence, it is also influenced by some specific features of each area.

In the hospitality industry, as this is the area on which we focus, there are both factors of influence that are actually some general particularities of the tertiary sector, as well as some features specific to the industry.

The features common to all components of the tertiary that may influence the accounting information and also the decision-making process are:

- The intangible nature of the touristic service, package or provision;
- Lack of storage potential of touristic service because of the simultaneity of production and consumption;
- Impossibility of separating service from provider;
- Large share of human resources in the provision of services in hospitality industry and of employment costs.

The specific features which can affect to some extent the accounting information and the management process are:

- The complementary nature of supply - (participation of a large number of providers due to the complexity of the activities in hospitality industry i.e. accommodation, meals, transportation, entertainment, services related to the organization of tourism);
- High seasonality of demand for the hospitality industry's offer;
- Heterogeneity and interchangeability (dependence of the quality of the touristic services on the material and human resources available to the provider and the possibility of combining and substituting the elements that constitute the touristic offer);
- Ability and sometimes need to personalize the offer due to the different behaviors of visitors, regarding various components of the tourist services.

Given these features of the hospitality and tourism industry, we believe that each of these influences to a greater or lesser extent the organization of the accounting entities in this sector of activity.

But we believe that, in addition to the general influence and the specificities of each sector, the managers' perception about the accounting information is also influenced by other factors such as: occupation and experience as a manager, organizational and managerial culture, willingness to learn and openness to the new, cultural and sometimes religious factors.

We also know that sometimes the managers' perception concerning the financial accounting information is influenced by the results obtained and also by the relationship with the accountant. Because it is more often than not that a professional accountant reports one thing while the management team wants something else. Nowadays, accounting has been given new tasks, it is no longer sufficient to provide information about the entity's past activity (how much a certain product or service cost me) but there is a need to provide information about the future (how much these products or services will cost me in the future). So there is a change of roles as financial accounting has lately lost the informational war within the business, being considered far too slow and irrelevant (Briciu et al 2010:13), while managerial accounting with its reliable components, management accounting and control, has been given increasingly more importance.

#### **4.The relevance of financial information for managers in the hospitality industry**

As a provider of specialized information, accounting as a whole has a certain offer and targets certain "customers". Therefore, we need to know the users of information, i.e. "customers", to know their expectations, their requirements and the purpose for which the information will be used. We can say that in this area of accounting, as well, the slogan "Our client, our master" may be applied. And the slogan must also be respected, as there is too often a difference between the accounting "product" and the demand of the "customers".

While the information provided by financial accounting is public and its main recipients are external users (investors, financial and credit institutions, employees, business partners, government and its institutions, potential investors and the public), management accounting provides confidential information, to internal users (investors, the management team).

Given the above condition, we wanted to see the perception of managers in the hospitality and tourism industry, regarding the importance and usefulness of accounting information, but also about other specific aspects of the sector. So, we started with an empirical study, the total population consisting of 146 entities in Bihor authorized to operate in this sector. The sample was composed of 91 entities and the response rate achieved was 62.33%. Managers of these entities were given a questionnaire consisting of 38 questions, by which we wanted to target certain aspects of accounting information, its utility as well as how it can be exploited in the decision making process.

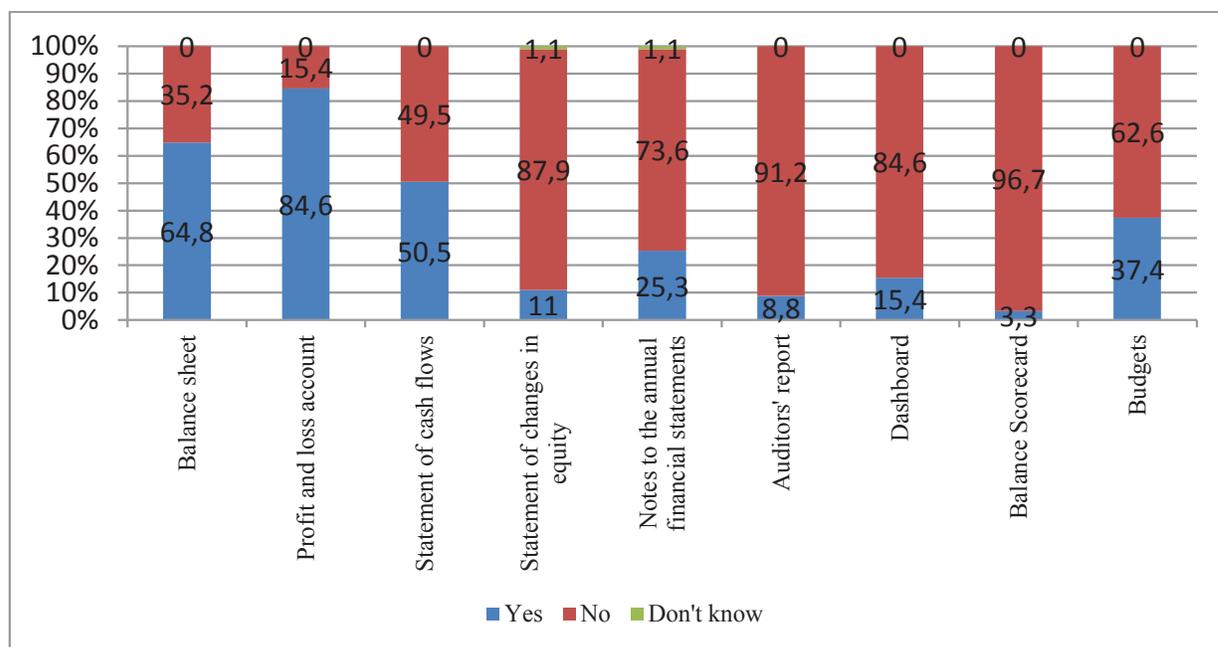
62.63% of respondents stated that the information provided by financial accounting is very useful in decision-making while, in what the managerial accounting was concerned, 65.63% of them stated that the information provided is very useful for decision making.

We tried to see if these responses are confirmed by another question in the survey, namely the usefulness of accounting reports, knowing that some of them contain only information provided by financial accounting, while others contain or may contain information provided both by financial accounting and by management accounting.

This question was the following:

II7. What are the accounting reports most commonly used in your work?

- Balance sheet
- Profit and loss account
- Statement of cash flows
- Statement of changes in equity
- Notes to the annual financial statements
- Auditors' report
- Dashboard
- Balance Scorecard
- Budgets
- Other (specify)



**Figure 2** Distribution of accounting reports used most frequently in the activity of the managers in the sample

Source: own elaboration based on responses from questionnaires

Managers in our sample most frequently use information provided by the profit and loss account respectively by the balance sheet while they least appeal to the information derived from the Balance Scorecard. From the research done in the field we found that very many managers do not know the term Balance Scorecard. Regarding the Dashboard we found that there are some entities that use this tool of reporting and performance evaluation, but do not use this term for identification. From processing the data in the questionnaire, it appears that the balance sheet (64.8%) and the profit and loss account (84.6%) are the two statements most used by managers in the hospitality industry in Bihor, but another question arises, which we seek to give an answer to, in our future research, namely: do managers use frequently these reports in the management process or in relation to third parties? The balance sheet expresses the entity's past heritage status at the moment of the year-end while the profit and loss account is the summary document that shows the performance of the entity. But performance can be defined differently depending on the interests of users of accounting information. We are witnessing today, without minimizing the informational value of the balance sheet and of the profit and loss account, a "cosmeticizing" of economic reality, reflected through them. (Cotleț, Megan, Pistol, 2007: 241). If the reports specific to financial accounting address past aspects of entity's management, the reports specific to managerial accounting consider, on the one hand, the past activity of the entity, in more details, but they constitute, at the same time, a basis for elaboration of *future decisions* of strategic, tactical and operational nature (Berheci, 2010: 198). Our study shows that, although 65.63% of the managers surveyed said that information provided by management accounting is very useful in the management

process, the reports specific to accounting and management control are less commonly used (Dashboard 15.4 %, Balance Scorecard 3.3%, Budgets 37.4%).

### **5. Conclusions and future research directions**

The challenges that any economic entity has to face as well as the effects of the global crisis require from all factors involved in the management process to give greater consideration to the internal and external information that concerns the activity of the economic entity.

From the category of accounting information, more attention should be given to that provided by managerial accounting, as financial accounting refers to "valuation" while managerial accounting refers to "creating value" by making good decisions (Cokins and others 2012:32).

Information, regardless of its nature, cannot produce the expected impact without the existence of an information system grafted on the informational needs of the entity, for there is no accounting system that can be universally applied, without any customization, to all entities, in all circumstances. On the contrary, an efficient informational system will take into account the particularities of the economic entity that can facilitate grounding and implementing of proper decisions which shall bring a new pulse to the activity of the economic entity.

Given the multitude of information circulating within an economic entity, that may negatively influence the management process, we believe that it should be synthesized and presented to the decision makers by means of a performance monitoring tool, namely the Balanced Scorecard or the Performance Dashboard. Whatever the performance monitoring tool is, it will not achieve its objectives unless it provides the management team not only with financial information but also with information from the perspective of customers, employees, suppliers, and, not least, from the perspective of shareholders (Scorțe 2012: 180) .

As aforesaid, in this paper we wished to review the literature of specialty that addresses the issue of accounting information and of management practices in the hospitality industry. This paper is meant to be just a preamble of an empirical study conducted on a sample of 91 entities in the hospitality and tourism industry in Bihor county that undertook to identify the perception of Romanian managers concerning the accounting information, particularly that provided by accounting management, the way of exploiting it in the decision making process, but also regarding different management practices applied in this sector of activity.

Although the study undertaken brings new and original elements to the research in managerial accounting in Romanian hospitality industry, it has limitations, one of which is given by the fact that the research has been performed only on entities in Bihor. We are also aware that there are still questions that we seek to answer, questions that were born after processing the responses collected by applying the questionnaires.

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