

The use of Accounting Information System as a tool in Strategic Decision Making: Evidence from the Sri Lankan Accommodation Industry

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Abstract: *Organizations use information generated from the accounting information system extensively in strategic decision making. In this study, the relationship between strategic decision making and the use of accounting information system in the Sri Lankan accommodation industry is analysed. Specifically, this study analyses the use of accounting information in marketing, investment, and human resource related strategic decisions in the Sri Lankan accommodation sector. Sample for the study are all five star hotels in the country i.e. approximately 18 hotels. The main data collection instrument used in this study was a structured questionnaire. The questionnaire was distributed to Chief Financial Officers in the sample hotels. Findings from the study revealed that accounting information system is used extensively by firms in Sri Lanka's accommodation industry. Further, findings also revealed that accounting information system is used mainly in marketing and investment related strategic decisions, followed by decisions related to the strategic direction, and human resources.*

Key Words - *Accounting Information, Accommodation Industry, Five Star Hotels, Marketing, Strategic Decisions*

1.0 Introduction

One industry which has benefited significantly from the end of the civil war in Sri Lanka in 2009 is the accommodation industry. Occupancy rates in the Sri Lankan accommodation industry which was 43.9% in 2008 has increased by 70.29% over the last eight to 74.76% in 2016, whilst guest nights has increased by 402% during this same period from 4,165,511 guest nights to 20,918,846 nights in 2016 (Sri Lanka Tourism Development Authority, 2016). The main factor for this increase in occupancy levels in the accommodation industry is the massive increase in tourist arrivals to the country over the last eight years (ibid). Tourist arrivals to the country has increased by 368% from 438,475 arrivals in 2008 to 2,050,832 arrivals in 2016 (ibid). This exponential increase in tourist arrivals to the country has also had a positive impact on the foreign exchange earnings of the accommodation industry. Foreign exchange earnings of the accommodation industry increased by 20.2% from U.S. \$ 1,937.1 million in 2015 to U.S. \$ 2,321.5 million in 2016, and has resulted in the industry becoming the third largest contributor to the foreign exchange earnings of the country in 2016. The robust growth and earnings has resulted in a large number of new entrants into the accommodation industry over the last eight years, which has increased accommodation capacity. Accommodation capacity has increased from 20,190 rooms in 2008 to 33,871 rooms in 2016 (ibid). In addition, another 76 hotels and resorts are currently under construction which will result in accommodation capacity increasing by an additional 5,183 rooms over the next three years (International Finance Corporation, 2013). This robust growth in accommodation capacity is likely to increase competition, whilst reducing turnover and profitability in the industry in the medium to long term (ibid).

2.0 Statement of the Problem

Competition in Sri Lanka's accommodation industry will increase in the medium to long term on account of the robust growth in industry capacity. Effective decision making is likely to be a key success factor in this highly competitive landscape. Effective decision making necessitates extensive use of accounting information as a tool in the decision making process (Anderson, 2010; Royae, Salehi and Aseman, 2012). Findings from research indicate a strong positive correlation between effective strategic decision making and the use of accounting information system as a tool in the decision making process (ibid). In order to make effective decisions, organizations in Sri Lanka's accommodation industry needs to have information on human resource costs, marketing and promotional costs, food and beverage costs, infrastructural costs, etc. However, an extensive review of literature indicates that there is a dearth of research on the use of accounting information system as a tool in strategic decision making in the Sri Lanka's accommodation industry.

3.0 Main Objective of the Study

Use of accounting information is critical for effective strategic decision making. Research on the extent to which accounting information system is used as a tool in the strategic decision making process in Sri Lanka's accommodation industry is extremely limited. The main objective of this study is to address this research gap by analysing the extent to which firms in Sri Lanka's accommodation sector use accounting information system as a tool in strategic decision making.

4.0 Literature Review

Benjamin et al (1978) posits that accounting information system is an absolute necessity in order to understand the performance of a firm, regardless of its ownership status or scale. As per Needles et al (1981) the accounting information system of an organization supports the strategic decision making process as the quantitative data generated from it enables effective evaluation, planning and control. The accounting information generated by a firm can be segmented into two types of information, i.e. information used for decision making and control within a firm, and information which facilitates organizational coordination and strategic decision making within a firm (Kren, 1992). The accounting unit is the main source from which a firm obtains its accounting information. The accounting unit systematically records, analyses, and summarises the accounting information of a firm through a process of preparing source documents, and entering accounting data via a ledger into subsidiary accounts. The accounting data of a firm is generated from its financial activities. The source documents of these financial activities are used to enter these financial transactions into the records of the firm. Cash receipts, cashbook, and invoices are some of the key source documents used by a firm to enter financial transactions into its records

Strategic decision making is defined by Eisenhardt and Zbaracki (1992, p.4) as “infrequent decisions made by the top leaders of an organization that critically affect organizational health and survival”. As per Sikavica, Skoko, and Tipurić (1994) strategic decision making is the most important decision making process of a firm. Strategic decision making is critical for the long term success and viability of an organization on account of the fact that it establishes the long term strategic direction of a firm i.e. its vision, mission and tactics, which in turn influences the marketing, investment, human resources and other activities of a firm. Poor strategic decision making can significantly impact the long term success and viability of a firm.

Accounting information system is a vital tool in strategic decision making as it provides a detailed description of the financial position of a firm. This information is critical for the firm to understand its strengths and weaknesses, and the opportunities and threats it faces from the external environment. This in turn helps the firm to make informed decisions and mitigate the risk associated with strategic decision making (Chong, 1996). Findings from previous research indicates that the use of accounting information system as a tool in the strategic decision making process, enhances the effectiveness of strategic decision making. In today’s highly competitive dynamic business environment, accounting information plays a pivotal role in organizational success and viability as it provides decision makers with comprehensive accounting information which enables them to make informed, timely, and effective decisions. Accounting information system also facilitates strategic decision making in a number of other ways i.e. generates information which cannot be detected from the day-to-day activities of the firm, and enables the development of a quantitative picture of a firm’s perform over a period of time (Hall, 2001). As per Schar (1995, p.11) accounting information system is a critical tool for strategic decision making as it “brings light, order, and control to all corners of an enterprise”. IASB (2011) states that in order for the accounting information system of a firm to be a useful tool in strategic decision making it needs to be intelligible i.e. comprehended by individuals who are knowledgeable of business and accounting terms and concepts, relevant i.e. enables the user to develop a comprehensive picture of the historic and current performance of a firm, reliable i.e. should be unbiased and accurate, and comparable i.e. should facilitate the comparing of information over different time periods.

5.0 Hypothesis of the Study

H₁₀: There is no relationship between accounting information system and strategic decision making in Sri Lanka's accommodation industry

H₁₁: There is a relationship between accounting information system and strategic decision making in Sri Lanka's accommodation industry

6.0 Population and Sample

Population for the study consisted of all companies operating in Sri Lanka's accommodation industry i.e. approximately 1,943 companies (382 hotels and 1,558 supplementary establishments (Sri Lanka Tourism Development Authority, 2016)). Sample selected for the study was all five star hotels in Sri Lanka i.e. approximately 18 five star hotels.

7.0 Research Methods

Research approach employed in the study was a deductive research approach, whilst the research method employed was a mono quantitative method. Primary data obtained for the study was quantitative data. The research strategy employed was a survey research strategy, whilst the time horizon of the study was a cross-sectional time horizon. The primary data for the study was obtained through a structured self-administered questionnaire which was distributed to the Chief Financial Officers of the sample hotels. Quantitative data obtained from the interviews was analysed using Statistical Package for Social Sciences (SPSS). Pearson correlation was used to analyse the relationship between accounting information systems and strategic decision making in the accommodation industry in Sri Lanka. Simple statistical methods such as mean and standard deviation was used to measure the frequency at which accounting information is used in strategic decision making by firms in Sri Lanka's accommodation industry.

8.0 Findings

The frequency at which firms in Sri Lanka's accommodation industry use accounting information system is shown in Table 1. As shown in this table, whilst all firms in Sri Lanka's accommodation industry use accounting information systems, the frequency at which accounting information system is used varies. 22% sometimes use accounting information system, 38% frequently use accounting information system, and 40% always use accounting information system in their hotels

Table 2 shows the frequency at which firms in Sri Lanka's accommodation industry use accounting information system as a tool in strategic decision making. As shown in this table, a majority of firms in the industry (50%) always use accounting information system as a tool in strategic decision making, 22% frequently used accounting information system as a tool in strategic decision making, and 28% sometimes use it as a tool in strategic decision making.

The types of strategic decisions in which accounting information system is used as a tool by firms in Sri Lanka's accommodation industry is shown in Table 3. As indicated in this table, accounting information system is used extensively as a tool in marketing and investment related strategic decision making, followed by strategic decisions relating to the long term direction of the firm, and human resource related strategic decision making. 83% of firms in the accommodation industry use accounting information as a tool in

marketing and investment related strategic decision making, 78% use accounting information system as a tool in strategic decisions relating to the long term strategic direction of the firm, and 56% of the firms in the Sri Lankan accommodation industry use accounting information system as a tool in human resource related strategic decision making.

The key investment related strategic decisions in which accounting information system is used a tool by firms in Sri Lanka's accommodation industry to facilitate the decision making process is shown in Table 4. As shown in this table, all firms use accounting information in investment decisions pertaining to the raising of capital, sale of assets, and investment in new projects. In addition, 83% of firms in the Sri Lankan accommodation industry use accounting information system as a tool in dividend related payment decisions, and 78% of the firms use accounting information system when borrowing funds from banks and other external financial sources.

Table 5 shows the key marketing related strategic decisions in which accounting information system is used as a tool by firms in Sri Lanka's accommodation industry to facilitate the decision making process. As shown in this table, all firms use accounting information system as tool in the decisions pertaining to the pricing of products and services, and in the development of advertising and promotional campaigns, In addition, 83% of the firms in the industry use accounting information system to establish its marketing objectives, and 78% of firms use accounting information system in decisions pertaining to the payment of incentives and commissions to influencing agents.

The key human resource related strategic decisions in which accounting information system is used as a tool to facilitate the decision making process in shown in Table 6. As shown in this table, accounting information system is used as a tool by all firms in the accommodation industry in recruitment and retrenchment, remuneration, bonus and incentive related strategic decisions. The correlation between strategic decision making and use of accounting information system is shown in Table 7. As shown in this table, accounting information system has a strong positive statistically significant correlation with strategic decision making in firms in Sri Lanka's accommodation industry. Further, given that level of significance in this table is less than 0.05, the null hypothesis H_{10} is rejected and the alternate hypothesis H_{11} is accepted.

9.0 Tables and Figures

Table 1: Frequency at which firms in Sri Lanka's accommodation industry use accounting information system

Frequency	Percentage of Respondents
Sometimes (25.1% - 50% of strategic decisions)	22%
Frequently (50.1% - 99.9% of strategic decisions)	38%
Always (100% of strategic decisions)	40%

Table 2: Frequency at which firms in Sri Lanka’s accommodation industry use accounting information system as a tool in strategic decision making

Frequency	Percentage of Respondents
Sometimes (25.1% - 50% of strategic decisions)	28%
Frequently (50.1% - 99.9% of strategic decisions)	22%
Always (100% of strategic decisions)	50%

Table 3: Types of strategic decisions in which accounting information system is used as a tool in the decision making process

Type of strategic decision	Strongly disagree	Disagree	Neither	Agree	Strongly agree	Mean	SD
Strategic direction	----	----	22%	61%	17%	3.94	0.6391
Marketing	----	----	17%	66%	17%	4.00	0.5940
Human Resources	----	----	44%	39%	17%	3.72	0.7519
Investment	----	----	17%	66%	17%	4.00	0.5940

Table 4: Key investment related strategic decisions in which accounting information system is used as a tool to facilitate the decision making process

Type of strategic investment decision	Percentage of Respondents
Borrowing	78%
Payment of dividends	83%
Raising capital	100%
Investment in new projects	100%
Sale of assets	100%

Table 5: Key marketing related strategic decisions in which accounting information system is used as a tool to facilitate the decision making process

Type strategic marketing decision	Percentage of Respondents
Decisions relating to commission payments	78%
Establishment of marketing objectives	83%
Pricing of products and services	100%
Development of advertising and promotional campaigns	100%

Table 6: Key human resource related strategic decisions in which accounting information system is used as a tool to facilitate the decision making process

Type of strategic human resource decision	Percentage of Respondents
Recruitment and retrenchment of employees	100%
Remuneration	100%
Bonus and other incentive payments	100%

Table 7: Correlation between strategic decision making and use of accounting information system

		Accounting information System	Strategic decision making
Accounting information system	Pearson Correlation	1	.719**
	Sig. (2-tailed)		.000
	N	18	18
Strategic decision making	Pearson Correlation	.719**	1
	Sig. (2-tailed)	.000	
	N	18	18

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

10.0 Conclusion

This study was conducted in order to analyse the extent to which accounting information system is used in strategic decision making by firms in Sri Lanka's accommodation industry. Findings from the study reveal that use of accounting information system has a strong positive statistically significant correlation with strategic decision making by firms in Sri Lanka's accommodation industry. Findings from the study also indicated that accounting information system is mainly used by firms in the industry when making investment and marketing related strategic decisions, followed by decisions pertaining to the long term strategic direction of the firm, and human resource related strategic decisions. Accounting information system is mainly used by firms in the accommodation industry in investment decisions pertaining to new projects, sale of assets, and the raising of capital. In terms of marketing related strategic decisions, accounting information system is mainly used by firms in the industry in strategic decisions pertaining to the establishment of long term marketing objectives, pricing of products and services, and in the development of advertising and promotional campaigns. In terms of human resources related strategic decision making, accounting information system is mainly used in recruitment and retrenchment, bonus and incentive payment, and remuneration decisions.

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