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Accounting and the management of outsourcing: An empirical study in the hotel industry

Dawne Lamminmaki [a,b,*]

[a] *Griffith University, Gold Coast Campus, Department of Accounting, Finance and Economics, Australia*
[b] *Centre for Tourism, Sport and Service Innovation Research, PMB 50 GCMC, Queensland 9726, Australia*

Abstract

Interview and survey data have been collected to study the nature and antecedents of accounting systems involved in hotel outsourcing decision-making and control. It has been found that there is considerable cross-hotel variation in the degree of accounting system involvement in outsourcing management. Performance and whether outsourcing decisions are made in the context of a long-term strategic agenda, appear to be variables affecting both the nature of accounting involvement and the degree of accounting sophistication in hotel outsourcing management. Hotel quality was also a significant factor affecting the degree of accounting sophistication in hotel outsourcing. It appears that accounting appraisal of outsourcing proposals rarely include long-term oriented sophisticated techniques such as the discounting of future cash flows. It is conjectured that this may be because outsourcing decisions are not conducted in the context of the formal capital budgeting process.

Keywords: Outsourcing; Subcontracting; Management accounting; Hotels

1. Introduction

Langfield-Smith and Smith (2003) note that “Over the past decade, there has been increasing interest in the opportunities provided by strategic alliances, and outsourcing in particular (Ring and Van de Ven, 1994; Nooteboom et al., 1997; Das and Teng, 2001)” (p. 282). Outsourcing carries several important implications for management accounting. Firstly, the fact that cost relativity is a fundamental issue in the outsourcing decision highlights the potentially significant role for management accounting in facilitating decisions about whether to outsource. Secondly, the decision to outsource has long-term implications (Domberger, 1998), signifying analytical challenges that parallel the type of issues confronted in capital budgeting, which is widely acknowledged as constituting a significant management accounting decision-making area (Dempsey, 2003). Thirdly, the need to develop management control systems for subcontracting places demands on management accounting and its broadening influence in terms of financial as well as non-financial accountability.

It is in this context that this study concerning the nature and role played by management accounting in hotel outsourcing has been conducted. The study seeks to:

* Correspondence address: Department of Accounting, Finance and Economics, Gold Coast Campus, Griffith University, Queensland 4222, Australia.

E-mail address: d.lamminmaki@griffith.edu.au.

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1. Examine the nature of accounting departments' involvement and sophistication with respect to hotel outsourcing decision-making;[1] and
2. Identify factors affecting accounting departments' involvement and sophistication with respect to hotel outsourcing decision-making.

Both objectives have been pursued by conducting a two phased empirical study. The first phase involved the collection and analysis of qualitative interview data. The second phase involved the administration of a survey questionnaire.

Degree of accounting involvement in hotel outsourcing decision-making refers to the degree to which the accounting department participates and contributes to the decision-making process in determining whether to outsource. It appears to be a construct worthy of attention as hotel outsourcing has grown in importance in the recent past (Lam and Han, 2005). When appraising accounting's involvement in outsourcing, it appears as a natural corollary to also consider accounting sophistication in outsourcing decision-making. This aspect of the study's focus can be seen to build on an established contingency research tradition of determining factors relating to facets of accounting sophistication (e.g., Bruns and Waterhouse, 1975; Merchant, 1981).

Selection of the hotel industry for the study was motivated by several factors suggesting outsourcing is particularly pertinent to hotels. Firstly, there appears to be a high need for hotel managers to avoid being distracted from attending to core activities (Domberger, 1998; Lamminmaki, 2006). A distinctive feature of hotel management concerns the complexity arising from the range of diverse activities undertaken (e.g., rooms, food and beverage, laundry, etc.) in a building where service provision coincides with customer service consumption. The hotel manager is often criticised for trying to wear "too many hats" (Rowe, 1993) and problems with poor performing hotel restaurants are often attributed to differing core competencies required in hotels and restaurants (Hemmington and King, 2000). Outsourcing represents a way to manage this diversity problem. A second factor motivating the study's focus concerns the hotel sector's labour intensity. This characteristic suggests a tension between a significant incentive to outsource (to reduce labour management demands), and a need to monitor subcontracted activity outcomes due to a high propensity for performance variability. Thirdly, the hotel industry experiences significant sales volatility. Guilding (2002) cites four hotel sales volatility dimensions: economic cycle-induced volatility, seasonal sales volatility, weekly sales volatility and intra-day sales volatility. One way in which volatility can be managed is to outsource volatile activities to specialist suppliers who, as a function of their size, can better manage the volatility.

Although there has been attention directed to hotel outsourcing management issues in professional-oriented periodicals (e.g., Hotel and Motel Management, Lodging Hospitality), and recently greater interest shown by hospitality researchers (Goldman and Eyster, 1992; Hallam and Baum, 1996; Hemmington and King, 2000; Paraskevas and Buhalis, 2002; Espino-Rodríguez and Padrón-Robaina, 2004, 2005; Lam and Han, 2005; Lamminmaki, 2005, 2006, 2007), to date, there has been limited accounting research interest shown in hotel management issues. The few exceptions to this observation include Brignall et al. (1991), Collier and Gregory (1995a,b), and Guilding (2003). Chenhall (2003, 2007) notes a growth in the importance of service industries and specifically cites the hospitality and tourism sectors as providing opportunities for future research.

The remainder of the paper is organised as follows. The next section provides a theoretical context for the study by drawing on prior literature to develop propositions concerned with factors affecting accounting's sophistication and involvement with respect to outsourcing decision-making. Following this, the research method employed is outlined. The study's findings are then presented followed by a conclusion that discusses the implications and limitations of the study, as well as areas for future research.

2. Literary context of study and proposition development

There have been signs of a growing research interest with respect to management accounting for outsourcing (see, for example Seal et al., 1999; Widener and Selto, 1999; Van der Meer-Kooistra and Vosselman, 2000; Mouritsen et al., 2001; Tomkins, 2001; Langfield-Smith and Smith, 2003; Sartorius and Kirsten, 2005; Lamminmaki, 2006;

[1] The term "outsourcing decision making" is used in this paper to refer to the organisational process associated with determining whether to outsource various hotel activities.