

Controllers' Perceptions of the Importance of Accounting Skills to Lodging Managers

James W. Damitio
Assistant Professor
and

Arthur R. Kagle
Associate Professor

Department of Marketing and Hospitality Services Administration
Central Michigan University

Are managerial accounting skills important to all managers? Which of the common managerial accounting skills are the most important to the non-accounting manager? The authors report on their descriptive research gathered from controllers in the hospitality industry which provides guidelines for managers in these areas.

Few would argue that tools such as capital budgeting, break-even analysis, and financial statements are unimportant to controllers in the hospitality industry. However, how important are tools such as these to the manager who is not an accountant? Historically, the basic responsibilities of managers have been planning, organizing, staffing, directing, and controlling. The controller, the head of the accounting department, is typically in a staff relationship to a manager, providing useful information for decision making.

Since controllers play such a strategic role in the control function, their assessment of the importance of certain managerial accounting skills to managers was therefore deemed valuable. The controllers surveyed were randomly selected from the current membership list of the International Association of Hospitality Accountants (IAHA); 135 responses were received in usable condition from the 400 questionnaires mailed, a 34 percent response rate.

The questionnaire consisted of two parts. Part I posed questions of a demographic nature with the intent of developing a profile of the interviewees. Subjects were asked to identify their job titles, years of experience, amount of formal education, professional certifications, and the size of their establishment both in terms of annual sales and number of rooms.

Part II of the survey dealt with the respondent's perceptions of the importance of managerial accounting skills for the non-accounting manager's decision-making process. Controllers in the lodging segment of the hospitality services industry were asked to rate the importance of these skills on a five-point scale ranging from not important to extremely important.

The desired skills evaluated by controllers were as follows:

- break-even analysis
- capital budgeting
- cash budgeting
- flexible budgeting
- operating budgeting
- variance analysis
- understanding of the balance sheet
- understanding of the income statement
- use of a statement of cash flow
- financial forecasting techniques
- internal auditing
- inventory management
- payroll accounting
- pricing theory and practice
- ratio analysis of financial statements

These skills were obtained from a review of college level textbooks on managerial accounting. The validity of the skill list was verified by 10 controllers who reviewed the list and confirmed that they believed it to be appropriate. Further confidence in the reliability of the list was derived from a review of the content of syllabi of several educators who teach managerial accounting for the hospitality industry.

Of the respondents, 117 (86.7 percent) held the title of controller or assistant controller; the rest held a variety of positions, including treasurer, vice president of finance, or financial planning director, but functioned as controllers. Fifty-five (40.7 percent) of the controllers who responded had between 0-5 years experience as controllers; almost 30 percent had over 10 years experience.

All but one of the 135 respondents had at least some college education, most between two and four years (46.7 percent); more than 88 percent had at least two to four years of college education.

Forty-seven (34.8 percent) of the respondents worked for establishments having annual sales of \$1 to 12 million; 35 (25.9 percent) worked for establishments having annual sales of \$13 to 24 million, and 53 (39.2 percent) for firms with over \$25 million in annual sales dollars.

The largest number of controllers were employed by facilities with 251-500 rooms (61 out of 135 or 45.9 percent). Fewer than 10 percent of the controllers were employed by small establishments, that is, 0-250 rooms (13 out of 135 or 9.8 percent), and a small number worked for operations with over 1,000 rooms (20 out of 135 or only about 15 percent).

The most common certification found among the controllers who responded to the survey was Certified Public Accountants (20.7 percent), with Certified Hotel Accountant Executives being the

Table 1
Rating of Managerial Accounting Skills by Controllers

| Managerial accounting skill | NI | | SI | | I | | VI | | EI | | M | | T | |
|-----------------------------|----|-----|----|------|----|------|----|------|----|------|----|-----|-----|-------|
| | N | % | N | % | N | % | N | % | N | % | N | % | N | % |
| Break even analysis | 5 | 3.7 | 24 | 17.8 | 53 | 39.3 | 33 | 24.4 | 16 | 11.9 | 4 | 3.0 | 135 | 100.0 |
| Capital budgeting | 1 | .7 | 8 | 5.9 | 23 | 17.0 | 62 | 45.9 | 37 | 27.4 | 4 | 3.0 | 135 | 100.0 |
| Cash budgeting | 1 | .7 | 10 | 7.4 | 24 | 17.8 | 39 | 28.9 | 59 | 43.7 | 2 | 1.5 | 135 | 100.0 |
| Flexible budgeting | 9 | 6.7 | 18 | 13.3 | 49 | 36.3 | 26 | 19.3 | 22 | 16.3 | 11 | 8.1 | 135 | 100.0 |
| Operating budgets | 0 | 0.0 | 4 | 3.0 | 14 | 10.4 | 52 | 38.5 | 63 | 46.7 | 2 | 1.5 | 135 | 100.0 |
| Analysis of variance | 3 | 2.2 | 5 | 3.7 | 23 | 17.0 | 41 | 30.4 | 59 | 43.7 | 4 | 3.0 | 135 | 100.0 |
| Balance sheet | 6 | 4.4 | 22 | 16.3 | 28 | 20.7 | 34 | 25.2 | 42 | 31.1 | 3 | 2.2 | 135 | 100.0 |
| Income statement | 0 | 0.0 | 4 | 3.0 | 10 | 7.4 | 45 | 33.3 | 75 | 55.6 | 1 | .7 | 135 | 100.0 |
| Cash flow statement | 9 | 6.7 | 19 | 14.1 | 31 | 23.0 | 39 | 28.9 | 34 | 25.2 | 3 | 2.2 | 135 | 100.0 |
| Financial forecast | 2 | 1.5 | 5 | 3.7 | 26 | 19.3 | 46 | 34.1 | 52 | 38.5 | 4 | 3.0 | 135 | 100.0 |
| Internal auditing | 7 | 5.2 | 10 | 7.4 | 46 | 34.1 | 42 | 31.1 | 29 | 21.5 | 1 | .7 | 135 | 100.0 |
| Inventory management | 1 | .7 | 13 | 9.6 | 44 | 32.6 | 49 | 36.3 | 26 | 19.3 | 2 | 1.5 | 135 | 100.0 |
| Payroll accounting | 5 | 3.7 | 12 | 8.9 | 43 | 31.9 | 38 | 28.1 | 35 | 25.9 | 2 | 1.5 | 135 | 100.0 |
| Pricing | 0 | 0.0 | 9 | 6.7 | 42 | 31.1 | 48 | 35.6 | 32 | 23.7 | 4 | 3.0 | 135 | 100.0 |
| Ratio analysis | 9 | 6.7 | 29 | 21.5 | 57 | 42.2 | 25 | 18.5 | 12 | 8.9 | 3 | 2.2 | 135 | 100.0 |

NI=Not important, SI=Somewhat important, I=Important, VI=Very important, EI=Extremely important, M=Missing, T=Totals, N=Number

second most common (13.3 percent). Two (1.5 percent) of the controllers were Certified Management Accountants, while the majority held no certification.

Controllers Rate Budget Skills Highly

Table 1, which presents the ratings of the managerial accounting skills by the 135 controllers who responded to the survey, reveals a number of interesting things. None of the controllers believed that facility with operating budgets, the income statement, or pricing were unimportant to the lodging managers; 88.9 percent of the controllers indicated that the income statement was either extremely important or very important.

Controllers also feel very strongly about the importance of operating budgets; 85.2 percent reported that operating budgets were either extremely important or very important. Controllers' responses also reflected the importance of analysis of variances from budgets; 74 percent of the respondents rated this skill either extremely important or very important.

Cash budgeting is a skill considered to be key to lodging managers' performance, since 72.6 percent of the respondents rated this skill either extremely important or very important. Only 27.4 percent of the controllers rated ratio analysis as either extremely important or very important. Perhaps ratios which are seldom used, such as debt to equity rather than liquidity ratios, such as the current ratio or acid-test, came to mind as controllers rated this skill.

Mean values for the skills were determined by asking respondents to rank answers on a five-point scale where one is not important and five is extremely important. Table 2 reveals that all of the 15 skills had a "3" rating or above, indicating that controllers believed that all of the skills involved in the study were at least important to lodging managers. The 15 accounting skills could be divided into three groups of five skills, ranging from the top to bottom third as follows:

- understanding of income statements
- operating budgets
- variance analysis
- cash budgeting
- financial forecasting techniques

All of the skills in this first group had an overall rating of "4" or above, indicating that the controllers felt that these skills were the ones that were very important to the lodging managers.

- capital budgeting
- pricing theory and procedure
- payroll accounting
- understanding of the balance sheet
- inventory management

Table 2
Ranking of Skills by Mean Value

| Number | Skill | Mean Value |
|--------|-----------------------|------------|
| 1. | Income statements | 4.425 |
| 2. | Operating budgets | 4.308 |
| 3. | Analysis of variance | 4.130 |
| 4. | Cash budgeting | 4.090 |
| 5. | Financial forecasting | 4.076 |
| 6. | Capital budgeting | 3.962 |
| 7. | Pricing | 3.786 |
| 8. | Payroll accounting | 3.647 |
| 9. | Balance sheet | 3.636 |
| 10. | Inventory management | 3.647 |
| 11. | Internal auditing | 3.567 |
| 12. | Cash flow statement | 3.530 |
| 13. | Flexible budgets | 3.274 |
| 14. | Break even analysis | 3.237 |
| 15. | Ratio analysis | 3.015 |

Although considered to be less important by the controllers than the skills in the top third, these skills still had mean ratings of 3.647 to nearly 4, indicating that they are still key to the manager's performance.

- internal auditing
- use of statement of cash flow
- flexible budgeting
- break even analysis
- ratio analysis of financial statements

Although considered by the controllers to be categorized in the bottom third, the mean values for the skills indicate that they are still considered to be important to the lodging managers.

In terms of the three financial statements included in the list of skills, controllers rated the income statement highest, followed by the balance sheet, and then the statement of cash flow.

Statistical Tests Reveal Some Significances

Statistical tests were then performed on the data in order to determine if the controllers' ratings of the skills varied significantly based on the demographics in Part I of the questionnaire. Tests indicated that years of experience did not have a significant effect on the controllers' ratings of 14 of the 15 skills. However, in the case of the pricing skill, the means varied significantly based on experience. The

greater the number of years of experience, the higher the pricing skill was rated. This could perhaps reflect the fact that as controllers gain more experience, they see pricing as a very strategic management tool.

With regard to level of formal education, statistical tests performed provided no indication that years of formal education had a significant effect on the controllers' rating of these skills.

When the mean values of the skills were analyzed relative to the three different categories of sales volume, no significant differences were found for 13 of the 15 skills. In the case of most of the skills, size in dollar volume does not appear to be a key factor in the determination of the importance of these skills.

However, in the case of two of the skills, namely, cash flow statement and ratio analysis, significant differences were found. Controllers of medium-sized firms (annual sales volume - 13 to 24 million) rate the cash flow statement skill significantly lower than the controllers of the large firms (annual sales over 25 million) and small firms (annual sales between 1 and 12 million).

When rating the ratio analysis skill, once again the controllers of the medium-sized firms rated this skill significantly lower than the controllers of the large and small firms.

Responses to questions involving size in number of rooms and certifications held did not appear to have a statistically significant effect on the controllers' ratings of the importance of the skills.

Since none of the 15 managerial accounting skills were consistently rated not important by the controllers as a group, it appears that controllers in this segment of industry perceive managerial accounting skills to be very useful to lodging managers.

Perhaps controllers are indicating that the control function is being handled properly when all lodging managers have a facility with the basic managerial accounting skills. Managerial accounting skills are critical to general managers, not just the accounting manager. Since all the skills were rated high in importance, these skills appear to be a critical part of the non-accounting control function.

Managerial accounting skills should therefore be emphasized throughout the general hospitality curriculum. An integration of essential managerial accounting skills should be included whenever possible in courses such as management and marketing of hospitality facilities. In addition, undergraduate non-accounting majors should pursue graduate studies where accounting skills can be further developed.

Further research should be done to examine the importance of the managerial accounting skills to the non-accounting manager in other segments of the hospitality industry besides the lodging segment.