

**NEDA PETROSKA-ANGELOVSKA \***  
**MARIJA ACKOVSKA \*\***

**COST MANAGEMENT IN HOSPITALITY INDUSTRY IN THE  
REPUBLIC OF MACEDONIA**

**Abstract**

The aim of this paper is to notify which cost management tools are used by hospitality enterprises in the Republic of Macedonia and to clear that managers need cost management tools in order to make right decisions.

Having on mind that tourism industry is becoming one of the rapid growing industry in the world, Macedonia has to be in trend with those changes as small and open economy. Hospitality enterprises should stress their attention on many questions, but very important one is the question related to managing of financial resources on optimal level to survive and to reach their main goals. Lack of cost control or lack in implementation of different possible tools for cost management in hospitality enterprises leads to unfavorable performance results especially in those industries where costs are on a very high level, or they are important part of the final price of products and services.

For that purpose, theoretical and empirical questions will be treated in this paper. For the empirical research, for gathering data, structured questionnaire has been used. Conclusions will shed light on hospitality enterprises and contribute to their performance improvement.

**Key words:** cost management, hospitality industry, cost, enterprises, Republic of Macedonia.

---

\* Ph.D,associate professor, Institute of economics-Skopje, University "St. Cyril and Methodius",  
e-mail:neda@ek-nst.ukim.edu.mk

\*\* Ph.D,associate professor, Institute of economics-Skopje, University "St. Cyril and Methodius",  
e-mail:marija@ek-nst.ukim.edu.mk

**JEL Classification:** M21; G32;Z3

## **Introduction**

One of the rapid growing industries in the recent period is tourism industry. With the attendance of alternative tourism, the boom of mass tourism becomes a widespread. “Destinations around the world welcomed 956 million international tourists between January and September 2016, according to the latest UNWTO World Tourism Barometer. This is 34 million more than in the same period of 2015, a 4% increase.”<sup>1</sup> This data emphasizes the importance of tourism industry, worldwide. At the last decade tourism is one of the rapid growing industries in Macedonia, also.

So, general and special conditions of the Republic of Macedonia are forcing tourism enterprises, for challenging, on one hand and on the other hand, there is very big competition pressure affecting the choices and activities of such enterprises. In that context, it is necessary to utilize resources in more efficient and effective way, or enterprises should more emphasis on cost management system.

Cost management can be generally considered as a set of techniques and methods for controlling and improving an enterprise activities and processes, its products and services, in order to achieve cost effectiveness (cost reduction, substitution and value improvement) by collecting, analyzing, evaluating and reporting cost information for budgeting, estimating, forecasting and monitoring costs, in order to assist decision making.

Having on mind that, there is a little research papers for identifying of cost management systems among hotels or limited number of studies about the case of Macedonian hospitality industry related to cost management issues, the purpose of these paper is to determine traditional and contemporary cost management systems utilized by Macedonian hotel enterprises.

---

<sup>1</sup> <http://mkt.unwto.org/barometer> (14.02.2017)

## **1. COST MANAGEMENT, FINANCIAL ACCOUNTING SYSTEM AND COST MANAGEMENT SYSTEM**

Taking into account literature that threatened cost management question, it can be summarized that there are ongoing differences about the definition of cost management, having on mind that cost management systems are being used for cost indicators and performance evaluation. In that context, cost management could be defined as “improving and using cost management information within a value chain”<sup>2</sup>. Another opinion is that “cost management emphasizes on organizing the enterprising process and activities in order to manage costs”<sup>3</sup>. Whatever the definition of cost management is, it is important to summarize what are the goals of such a system in general. The main goal of cost management system is to provide to enterprise managers timely, accurate, reliable and convenient information for decision making. This means that not only financial, but also non-financial information and subjects are included in cost management system in order to use resources efficient and productive for producing goods and services. Aims of cost management system could be listed as follows:<sup>4</sup>

- Costing the goods as far as possible by the cost factors,
- Evaluating the life cycle performance of goods and services,
- Realizing and evaluating the process and activities accurately,
- Determining the efficiency and productivity of activities,
- Controlling and managing costs,
- Facilitating performance evaluation,
- Supporting for performing organizational strategies.

Opposite of financial accounting system that generally provides information for external users, the purpose of cost management system is to provide information for internal users, especially for managers and those who are involved in decision making process. “Cost management identifies, collects, measures, classifies and reports information that is useful for managers for determining the cost of products, customers and

---

<sup>2</sup> Chadez S., Guilding C: An exploratory investigation of an integrated contingency model of strategic management accounting, *Accounting, Organizations and society*, 33 (7-8), 2008, p. 836.

<sup>3</sup> Rosslender R., Hart S.J.: In search of Strategic management accounting : Theoretical and field study perspectives, *management accounting research* 14(3), 2003, p. 255.

<sup>4</sup> Rosslender R., Hart S.J.: In search of Strategic management accounting: Theoretical and field study perspectives, *management accounting research* 14(3), 2003, p. 263.

suppliers, and other relevant objects and for planning, controlling, making continuous improvements, and decision making.”<sup>5</sup> Namely, cost management is not only concerned with how much costs the enterprise is dealing, but also with factors that drive costs, such as cycle time, quality and process productivity. Thus cost management requires a very deep understanding of an enterprise’s cost structure that could be very different and complicated.

## **2. TYPES OF COST MANAGEMENT SYSTEMS THAT COULD BE USED BY ENTERPRISES IN HOSPITALITY INDUSTRY**

Having on mind the crucial role of cost management system and their implementation for further enterprise performance, enterprises in hospitality industry could utilize different types of cost management systems, as follows: activity-based costing system, activity-based budgeting system, life cycle costing system, target costing system, benchmarking system, balanced scorecard system, value chain analysis system, transfer pricing system, kaizen costing system etc. In next few paragraphs a short theoretical overview of some of the above mentioned systems is done.

Activity-based costing system (ABC) is a cost accounting system focused on enterprise’s activities and collects costs on the basis of nature and extent of those activities. The system attaches costs to products and services based on activities conducted to produce, perform, distribute and support such products and services. Underlying assumption is that activities consume resources and products and other cost objects consume activities. “The ABC system boasts the potential of generating more accurate product costs than functional-based costing system.”<sup>6</sup>

Activity based –budgeting system (ABB) is similar to zero-based budgeting. When the whole costs per activity is calculated, drivers are to be established that link support activities to the primary enterprise’s activities. ABB allows managers to create very clear nexus between workload and costs, or they can exercise control in different directions as: uncover waste and hidden costs, identify activities or places to

---

<sup>5</sup> Hansen D. R., Mowen M. M.: Cost management: Accounting and control. Mason, Ohio, Thomson South-Western, 2006, p. 76.

<sup>6</sup> Guan L., Hansen D. R., Mowen M. M: Cost management. Mason, Ohio: South-Western Cengage Learning, 2009, p. 124

decrease spending, identify activities that are too much expensive and review such activities, create a cost baseline to be influenced through process or technology changes etc.<sup>7</sup>

Life cycle costing system (LCC) is used to forecast project costs. According to this system all parts of cost are taken into account in order to have a spend profile of goods and services while their life cycle. This approach helps managers in decision making process. Another method is known as target costing system (TCS) that means “reverse costing”, i. e. estimation of attainable selling price and required profit margin are used for determination of allowable costs for a new product or service in the enterprise.<sup>8</sup> Value chain analysis (VCA) is noted as important tool in managing process of supply chain relationships as it gives the opportunity to analyze and optimize the relationships between such activities with stress to their interdependence. Namely, it is “a linked set of value-creating activities from basic raw material sources for component suppliers through ultimate end-use product delivered to consumer”.<sup>9</sup> Furthermore we can talk about the transfer pricing system (TPS) is focused on the point to find the price calculation that is nearest to efficient level of trade between two separate parts of an enterprise.

We can talk also about other cost management methods but it is a dilemma whether those systems are to be used in enterprises of hospitality industry in the Republic of Macedonia or either at enterprises in hospitality industry as general. More or less above mentioned cost management systems are more familiar to these industry enterprises, or hospitality industry enterprises are more familiar to them, because contemporary cost management system has more contribution for cost information and decision making process. In a rapid changing environment, enterprises of hospitality industry in the Republic of Macedonia should be oriented to: cutting costs, planning and control that is a critical question for such companies. Therefore, in order to survive, be efficient and effective, be profitable or either permanent improvement of enterprise performance, contemporary cost management systems are to be utilized. So, the aim of the paper is to investigate the real situation

---

<sup>7</sup> Shane J. M.: Activity based budgeting: creating a nexus between workloads and costs, [www.johnmshaneassociates.com](http://www.johnmshaneassociates.com) (access date 10.10.2016)

<sup>8</sup> Dekker H. C., Smidt P.: A survey of the adoption and target costing in Dutch firms. *International journal of production economics* 84(3):293-305, 2003.

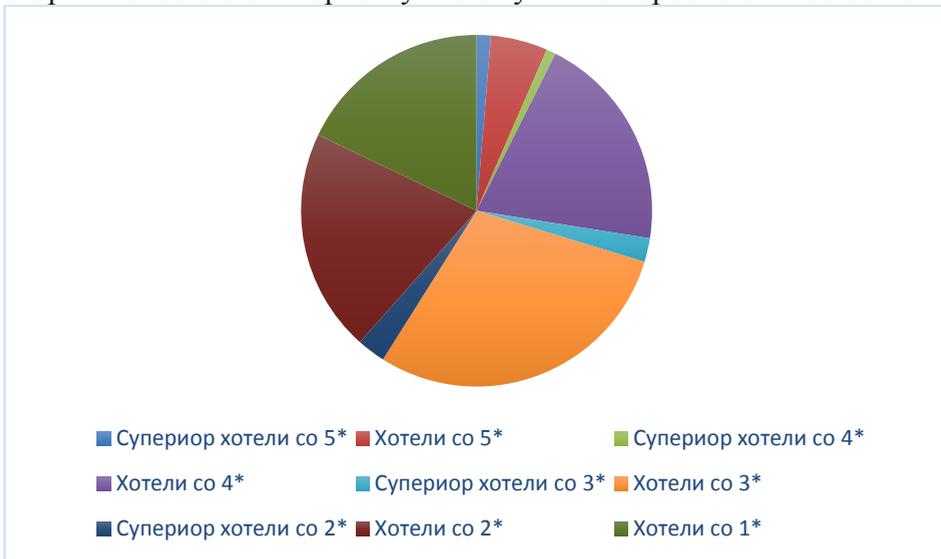
<sup>9</sup> Dekker H. C., Value chain analysis in intrafirm relationship: a field study. *Management accounting research* 14 (1): 1-23, 2003.

about using cost management systems by Macedonian hospitality industry enterprises.

### **3. STRUCTURE OF HOSPITALITY INDUSTRY IN THE REPUBLIC OF MACEDONIA**

According to the Sector tourism review done by Ministry of economics of the Republic of Macedonia, by the end of 2015 year there were at total 229 categorized hotels in the Republic of Macedonia.<sup>10</sup> Only 5 of them are a part of world hotels chain, from which two hotels belong to hotel consortium and others 224 hotels are independent. There is still no official information about that how much of 224 hotels are small independent hotels and how much are independent hotels. Namely, the structure of hospitality industry in the Republic of Macedonia is shown in Graph 1.

Graph 1. Structure of hospitality industry in the Republic of Macedonia



Sector tourism review 2015, [www.economy.gov.mk](http://www.economy.gov.mk) (15.12. 2015)

<sup>10</sup> [www.economy.gov.mk](http://www.economy.gov.mk) (15.12. 2015)

From the above graph, it can be summarized that although the total number of hotels in the country is quite large (satisfactory), however the presence of international chains absents or it is less than 3% of total. In particular, in Macedonian hospitality industry there are present precision 6 hotels from famous international chains such as:

- Hotel Princess (5\*S)- part of Ramada Worldwide Inc chain;
- Hotel Holiday Inn (5\*)- part of Holiday Inn chain(IHG-InterContinental Hotels Group);
- Hotel Best Western Tourist (4\*S) – part of best Western chain;
- Best Western Hotel Bellevue (4\*) – part of best Western chain;
- Hotel Continental (4\*) – joint venture co International Hotels;
- Ibis Skopje City Center (4\*) – par of Ibis Hotels chain, group Accor

During the period of year 2016, this list of hotels is expanded with two more hotels, one of them is a part of Hilton chain and the other one is a part of Merriott chain.

Hotels chain means that organizations compete hotel industry at local, national, regional or international level and consist of several hotels with similar concepts or themes. Advantages of hotel chains are numerous, but with special meaning are: savings from financial and marketing aspects, technical savings, savings in procurement of raw materials, diversification of risk, etc. From that point of view, implementation of contemporary cost management systems is a very important question for this hotels, as more as they have to be a example for the other high categorized hotels in the Republic of Macedonia in systems and policies of cost cutting and control.

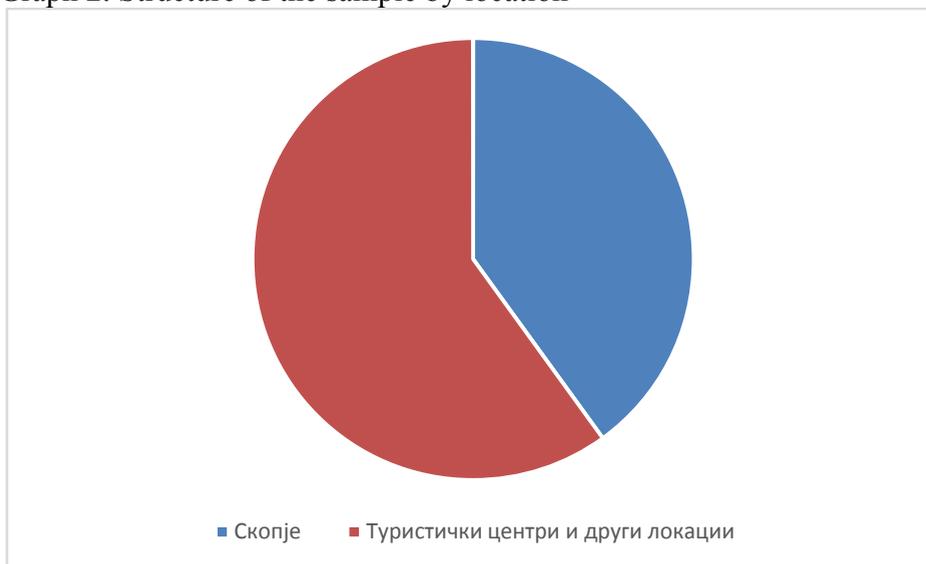
#### **4. ANALYSIS OF COST MANAGEMENT SYSTEM IMPLEMENTATION AT ENTERPRISES IN HOSPITALITY INDUSTRY IN THE REPUBLIC OF MACEDONIA**

Taking into account the main purpose of this paper, notifying which cost management tools are used by hospitality enterprises in the Republic of Macedonia and clearing that managers need cost management tools in order to make right decisions, there was a need of empirical data. The most convenient way for gathering data was conduction of structured questionnaire separated in 2 parts. First part of questionnaire refers to general information of hospitality enterprise and

the second one is oriented to questions related to identifying: are there any implementation of cost management systems in such enterprises and/or which cost management tools are used by hospitality enterprises in the Republic of Macedonia. By gathering general information, it can be acquired knowledge about the status of the hotel as: location, categorization, ownership, type of service, number of employees etc.). Furthermore, by collecting and analyzing data from the second part of the questionnaire one can acquired knowledge about the implementation of traditional cost management systems as: financial analysis, standard cost, break-even analysis) *visa vie* contemporary cost management systems (above mentioned methods/ systems)

With the aim to collect more representative data for the purpose of the paper, in conduction of questionnaire during the 2016 year, main focus was on hotels that belong to lower category *visa vie* hotels that are highly ranged (scaled), with a full focus on hotels that are part of hotels chain. The structure of the sample, is according to the structure of the hospitality industry (Graph 1). Mainly, attention is given to the percentage dullness of hotels categorized according to their ranking and their blunted in the structure of the hospitality industry in the Republic of Macedonia (except the hotels that are part of hotels chain, which are covered at all). Approximately, all other categories of hotels are included in the research with around 20%. At total, 44 hotels were covered with the research. Most of hotels, about 60% are located in touristic destinations and other, and about 40% are located in Skopje as capital city (Graph 2). On the other hand 75, 3% of hotels are running whole year and the rest 24, 7% of them are working on seasonal basis.

Graph 2. Structure of the sample by location



Source: Conducted empirical research during 2016 year.

After collecting and analyzing data there are summarized the following results. According to the findings, most of the analyzed hotels are familiar with traditional cost management systems and only 5 hotels that are a part of international hotels chain are implementing contemporary cost management systems for cost control and decision making.

The most well-known and preferred technique is break-even analysis, around 80% of the hotels are implementing this system. Having on mind that implementation of one technique/system of cost management doesn't exclude the implementation of the other one. Other traditional techniques are utilized in less than 45% or respectively: standard costing 34%, financial analysis 60%, product/service profitability approximately 55% and other techniques around 23%. A part of the responders, mostly lowly categorized hotels appointed that they are not familiar with none of the techniques. As the results show we can argue that modern, contemporary techniques are not well known or welcomed by hotel managers (83). Some of them are a little familiar with one or two contemporary cost management systems, but have not enough knowledge for their implementation.

What refers to hotels included in the research and at the same time are a part of international hotels chain, they have a different approach in cost control systems. All of them are implementing contemporary cost management techniques, and they prefer utilizing of: activity-based costing method with 80 % of them, combining with value chain analyses (40%) and 40% of them with total quality cost system. Rest of the hotels are using target costing in combination other contemporary techniques as target costing method. None of the responders' states that managers are utilizing kaizen costing method, life-cycle costing method or activity –based budgeting method. Managers could be unfamiliar with these techniques or maybe such techniques are not preferred.

All of responders appointed that cost management techniques they are implementing, are very important factor in managers decision making process, either they are of traditional or contemporary approach. Experience shows that implementation of contemporary techniques, stressed managers of hotels that are a part of hotels chain, have a better contribution in decision making and performance of such hotels.

## **Conclusion**

In this paper we discussed the implementation of different, traditional and contemporary cost management techniques in enterprises of hospitality industry in the Republic of Macedonia. For that purpose, empirical research was done, by conduction of questionnaire.

The main conclusion is that either contemporary techniques have a better contribution in decision making and performance of hotels, most of the hotels included in the research are not familiar or have some poor knowledge of them and for their opinion, there is still not time for implementation of contemporary techniques. Long period of time they are oriented to traditional cost management systems and there will be need of a long period of time for them to introduce with other techniques and much more period for their implementation in most of them.

Acquired results from the research direct to the recommendation for better awareness of managers of hotels that are not a part of hotels chain for benefits of contemporary cost management techniques in decision making and making different efforts for being more familiar with them from theoretical and practical aspect.

## **References:**

1. Block S., Hirt G, Fundamentals of financial management, McGraw-Hill Irvin, 2008.
2. Chadez S., Guilding C: An exploratory investigation of an integrated contingency model of strategic management accounting, *Accounting, Organizations and society* , 33 (7-8), 2008.
3. Dekker H. C., Smidt P.: A survey of the adoption and target costing in Dutch firms. *International journal of production economics* 84(3), 2003.
4. Dekker H. C., Value chain analysis in intrafirm relationship: a field study. *Management accounting research* 14 (1), 2003.
5. Guan L., Hansen D. R., Mowen M. M: Cost management. Mason, Ohio: South-Western Cengage Learning, 2009.
6. Hansen D. R., Mowen M. M.: Cost management: Accounting and control. Mason, Ohio, Thomson South-Western, 2006.
7. Ричард А. Бејли, Стјуард Ц. Мајерс, Френклин Ален, Принципи на корпоративни финансии, Арс Ламина,Превод од Влада на РМ, 2011.
8. Rosslender R., Hart S.J.: In search of Strategic management accounting: Theoretical and field study perspectives, *management accounting research* 14(3), 2003.
9. Shane J. M.: Activity based budgeting: creating a nexus between workloads and costs, [www.johnmshaneassociates.com](http://www.johnmshaneassociates.com).
10. [www.economy.com.mk](http://www.economy.com.mk)

