

# DOCTORAL DISSERTATION SUMMARY: Quality cost accounting in the hospitality industry

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*Source / Izvornik:* **Tourism and hospitality management, 2020, 26, 249 - 252**

**Journal article, Published version**

**Rad u časopisu, Objavljena verzija rada (izdavačev PDF)**

*Permanent link / Trajna poveznica:* <https://um.nsk.hr/um:nbn:hr:191:596947>

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*Download date / Datum preuzimanja:* **2025-02-22**



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## QUALITY COST ACCOUNTING IN THE HOSPITALITY INDUSTRY

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Business Economics in Tourism and  
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*Date of defense* 15 May 2020

### SUMMARY

#### **Purpose**

Changes in strategic management have affected management accounting as a support for strategic management. The primary strategic elements that differentiate an organisation from its competition are based on quality, cost and time. To respond to emerging environmental conditions and requirements, companies should implement new management accounting techniques, procedures and information that are turning to new measurement and control facilities, with quality costs playing a significant role. Emphasis is placed on the development of financial reporting that aims to meet information needs and increase the transparency of enterprise performance reports, especially considering the evaluation and presentation of quality-related costs as key factors of performance and competitiveness. Although quality assurance requires adequate costs, a lack of quality improvement activities results in much higher costs and losses due to poor quality, which can have serious consequences, such as damaged reputation, market share, productivity and profitability. Quality cost management seeks to optimise quality costs such that, with optimal investments in quality assurance, costs due to low quality are minimised. Accounting aims to build a concept that will provide preconditions for quality cost management to improve firm performance. Accordingly, the application of the concept of quality cost accounting will significantly contribute to the improvement of accounting information as a basis for business decision-making. In this context, identifying, evaluating and monitoring quality costs are prerequisites for managing quality costs and thus among the factors of a successful business. Quality cost accounting influences the successful implementation of a quality management system by ensuring adequate quality planning and quality control, which enable the detection and elimination of errors. Consequently, business process quality and overall efficiency are increased.

Therefore, this study explores the methodological basis and relevant theoretical insights and factors of quality cost management to determine the impact of quality cost accounting on improving the business processes of hotel companies.

This research is based on the hypothesis that hotel companies do not sufficiently implement quality cost accounting. However, hotel companies that implement quality cost accounting as a quality management tool have an improved information base for decision-making, which reduces non-quality costs and improves business processes by increasing service quality.

Previous studies have identified a high level of awareness of the importance of quality costs and an increase in the number of companies managing quality costs, but the implementation of the quality cost accounting concept is mainly established in manufacturing companies. Service companies execute quality cost accounting to a lesser extent. Therefore, there was a need to examine the level of awareness of the importance of quality costs in the hotel industry to understand the issues of quality cost management.

This research primary aimed to explore and analyse the possibilities of enhancing accounting information by implementing a quality cost management model, which can influence business performance improvement by enhancing the information base for business decision-making. In other words, the purpose was to propose solutions that would provide guidance for comprehensive quality cost management in the hospitality industry.

### **Methodology**

This study on the quality costs in the hotel industry was conducted in medium and large hotel companies in the Republic of Croatia. Small and micro-hotel companies were excluded, given the limited resources and insufficient managers' knowledge of this issue. This study sought to determine the level of quality cost accounting development and the extent to which medium-sized hotel companies implement this concept in their internal accounting.

Triangulation, a mixed approach combining quantitative and qualitative approaches, was applied. The data were collected from questionnaires, interviews and secondary sources. The response rate to the questionnaire requesting for participation in the survey was 45%. The survey participants accounted for 21% of the total hotel capacity in the Republic of Croatia (162 of 768 hotels and aparthotels), that is, at least 38.6% of the hotel accommodations in the Republic of Croatia (23.133 accommodation units out of a total of 59.936). The respondents' interview data were statistically analysed using descriptive and inferential statistics. Non-parametric tests, namely, Fisher's, Mann-Whitney U, Kolmogorov-Smirnov Z, Kruskal-Wallis H and Spearman correlation tests, were used due to sample-related limitations.

## Findings

The research results indicate that the Croatian hotel industry generally remains at a low level of quality cost management development. Nevertheless, a high level of awareness of the importance of quality cost in the hotel industry was identified. Likewise, preconditions for improving accounting information by implementing quality cost accounting were found.

Therefore, large hotel companies use quality costs as indicators of quality system efficiency and effectiveness to a greater extent than do medium-sized hotel companies. However, certain entities should improve their accounting system by executing strategic approaches.

Strategic approaches to quality cost management emphasise a preventative quality-cost-oriented approach while considering the opportunity cost of reputation losses. In this way, quality costs are reduced by diverting costs resulting from errors and deficiencies in prevention and testing activities. In addition, information about the consequences of non-quality becomes the basis for assessing the impact of the business processes on the overall performance and competitive position of a company. Quality costs should be monitored at each value chain stage to identify those that contribute to the fulfilment of customer desires and needs. With the monitoring of quality costs at certain stages of the product or service life cycle, error prevention and timely responses will be ensured before the product or service reaches the guest. Furthermore, since human resources are a key factor of service quality in the hospitality industry, they should be developed and stimulated to improve quality. These costs should also be counted as quality costs. The implementation of a modern integrated information system with fully integrated quality costs into an accounting system is a prerequisite for a strategic approach to quality cost management. Moreover, a process approach and full implementation of the USALI system (Uniform System for the Lodging Industry) are required. The highest level of development of quality cost accounting certainly requires a high level of awareness of the importance of these costs at all levels of a company. Quality cost reporting should also be targeted at all levels of users in a hotel (both heads of departments and heads of activities and processes) and should be conducted on an all-time basis (weekly, monthly, quarterly, semi-annually and annually), with a comprehensive approach to monitoring the impact of quality costs on hotel performance (revenue and EBITDA). Consequently, continuous business improvement should be achieved. The studied hotel companies have a high level of awareness of the importance of quality cost accounting and have created preconditions for its implementation. However, they need specific knowledge on how to monitor, measure, categorise and report quality costs to raise the practical application level of the quality cost accounting concept in the hotel industry, which remains low.

The most significant limitations of this research are an insufficient knowledge of quality costs application and consequently a poor application of the quality cost accounting concept in the hotel industry. The researcher attempted to work around this limitation by excluding micro and small hotel companies from the sample, that is, by selecting exclusively large and medium-sized hotel companies that are likely to be implementing quality cost accounting to secure and prepare information for strategic management purposes (according to existing research and available literature). Furthermore, hotel

companies were not willing to provide internal financial information (because of professional secrecy), hence it was not possible to analyse the behaviour and interrelation of certain categories of hotel quality costs. Therefore, the following are recommended for further research: 1) to examine the interrelation and behaviour of individual cost components related to quality in different hotel segments, 2) to measure the impact of quality cost components on hotel financial performance, such as RevPAR, TRevPAR and GOP per available room, and 3) to explore the impact of hotel staff quality costs on hotel performance (given that human resources are a key factor in achieving competitive advantages in the hotel business).

### **Originality of the research**

The contribution of these research results in applicative terms is reflected on the dissemination of knowledge about the possibility of applying the concept of quality cost management in hotel companies based on the identification, evaluation and monitoring of quality costs. Costs that can be linked to hotel quality costs for individual segments (such as accommodation, food and beverage, and wellness) were derived from the available information about quality costs. Moreover, this study contributes to economic science by suggesting the implementation of quality cost accounting methods and techniques to enhance the quality of accounting information as a basis for making effective business decisions. This work also advances economic science by developing scientific thoughts on the implementation of the quality cost accounting concept to improve the quality of business processes (and thus increase the business success of a hotel). Such thoughts are particularly provided on quality investment monitoring and reporting, emphasising a comprehensive approach to specifying quality costs by specific hotel segments/processes.

**Keywords** quality costs, quality cost accounting, hotel industry

Citation: Ribarić Čučković, E. (2020), Quality Cost Accounting in Hospitality Industry, Doctoral Dissertation Summary, *Tourism and Hospitality Management*, Vol. 26, No. 1, pp. 249-252.