
HOW PREMIUM AND LUXURY HOTELS PUT ENVIRONMENTAL MANAGEMENT ACCOUNTING IN PRACTICE: EVIDENCE FROM INDONESIA

Elisabeth Ria Viana Praningtyas¹⁾, Yulita Suryantari²⁾

¹⁾ Accounting Study Program, Faculty of Economics and Business, Universitas Terbuka, Indonesia

²⁾ Tourism Study Program, Faculty of Economics and Business, Universitas Terbuka, Indonesia

Corresponding author: elisabethria@ecampus.ut.ac.id

Abstract

Environmental Management Accounting (EMA) has gained popularity as public awareness of environmental degradation rises due to human activities. The fight over this issue is no longer an option for any type of business, including tourism. The aim of this study is to deep dive into how EMA is applied in premium and luxury hotels. These hotels offer the best services, which can become a source of conflict in the spirit of sustainable tourism. We interviewed accounting five-star hotel managers in developing countries throughout 2023 to capture the phenomenon at its finest. This study found that EMA has been installed, trained, and applied to all their Standard Operating Procedures (SOPs) unconsciously. The need to give the best service didn't hinder them from putting EMA into practice but supported them instead. This study also showed that awareness of the sustainability issue of people in developing countries is still low, hence the EMA application will help to shape the awareness better. This study is among a few studies that explore the practice of EMA in premium and luxury hotels located in developed countries.

Keywords: Environmental Management Accounting, Premium and luxury hotels, Developing countries, Post COVID-19 pandemic

Introduction

The level of tourism is at a rate we have never achieved nor seen during the pandemic, some even above pre-pandemic levels. Based on data gathered by World Tourism Organization, estimated as much as 235 million tourists travelled internationally in Quarter 1 of 2023, or almost triple the same quarter in 2022 (UNWTO, 2023). This can be best explained due to the post covid-19 era that makes people want to chase moments in two pandemic years that have gone with nearly zero travel. While this is good for our economy, bringing the forecast that tourism industries will contribute to 9.5% of the global GDP at the end of 2023 (Statista, 2023) hence out passing many other industry sectors (Azam et al., 2018; Lenzen et al., 2018), some real sustainability consequences must be addressed. It is undeniable that tourism relies heavily on oil-processing, construction, electricity, water, steel, and carbon emissions (Gunawardena & Dissanayake, 2021; Yang et al., 2022) to provide goods and services such as transportation, food, and accommodation for the guests.

Among all tourism industry, the premium and luxury travel market is the fastest growing and promising subsector of the travel industry worldwide (Pereira et al., 2021). The premium and luxury travel market is an epitome of wealthiness and fanciness that shows distinct status for whoever uses the service. The guests are more willing to pay more to get the best. Hence, premium and luxury travel has two key elements in providing the services: the high level of comfort and exclusivity (Peng & Chen, 2019; Pereira et al., 2021). However, it is regrettable that what to sacrifice to support those two key elements is the environment and basically our sustainability as human. Premium and luxury hotels, as part of the main player in the premium and luxury travel market, account for carbon emissions at the highest level compared to others. At this point, premium and luxury hoteliers must deal with environmental sustainability issues while also trying to perform best practices for their guests.

In handling the issue, previous studies have stated that Environmental Management Accounting (EMA) is often used in hotel sectors (Gunarathne, 2013; Gunarathne & Lee, 2015; Gunawardena & Dissanayake, 2021; Nyahuna, 2022; Nyide, 2019; Nyide & Lekhanya, 2016; Parker & Chung, 2018; Putu et al., 2022). EMA that is part of the corporate internal control helps companies to manage and control the environment-related cost, such as energy, electricity, water, construction, and other resources efficiently. Managers can incorporate concern over sustainability or environment while also taking into account the conventional management accounting system by using EMA (Gunawardena & Dissanayake, 2021), thus they can accommodate all the stakeholders' interests.

However, despite numerous studies showing the satisfaction of EMA use in hotel industries, it is still unclear how premium and luxury hotels apply this strategy due to the scarcity of academic attention on it (Pereira et al., 2021). One circumstance of this business that needs to be noted is that they have a hotel chain which provides a considerable number of rooms along with the most excellent service, making them produce carbon-related emissions and toxic waste excessively. However, operating in a more environmentally concerned manner will jeopardize their perceived premium and luxury value and brand image (Peng & Chen, 2019). On the other hand, this type of business indeed has various stakeholders, from governments to the public, that will demand them to operate in a sustainable way. Thus, we believe that they certainly manage somehow to apply EMA to balance these contrasting requests, but scholars have not yet explored it in an adequate number of studies.

The aim of this study is to narrow the gaps of EMA application in premium and luxury hotels, especially those located in developing countries. Previous studies in EMA mainly focused on developed countries (Gunarathne & Lee, 2015), hence leaving a gap in research of the application of EMA in the developing ones. Some preceding studies try to compare the practice in these two categories. They found that institutions in developing countries, starting from the government to the private ones, have weaker intentions and lower pressure to enforce EMA compared to developed countries (van der Poll, 2022) and thus such practice was found low in this area (Elhossade et al., 2022). This is disillusioning knowing that developing countries are exposed to higher threats of climate change, water pollution, and biodiversity loss (Qian et al., 2021). Even if EMA was already introduced two decades ago, the lack of awareness and high accountability of environmental responsibility disclosure in developing countries make them not taking the environmental and sustainability earnestly.

Moreover, in the limitedness of existing studies about EMA application in developing countries, some existing studies tend to use large samples of unit of analysis to replicate studies in the developed countries, hence neglecting the qualitative information that we need to explore regarding the issue (Qian et al., 2021). Quantitative method in research is indeed using advanced statistical tools and engaging in generalization. However, this method leaves several questions about the real practice that remain unanswered. Therefore, for some gaps in research that have not been fully conceived by scholars, it will be better to conduct exploratory studies.

Research Method

In response to the criticism regarding the methodology, this study used qualitative research design with an objective to explore how the premium and luxury hotels in developing countries manage to practice EMA in their business. We chose to use case study to gather deeper information from the respective respondents where the researcher has little control over the details provided by respondents (Pereira et al., 2021). Instead, the researcher tries to dig deeper from the respondents' answer in order to get the full picture of the information. Previous studies regarding EMA conducted using the same approach (Nyide, 2019; Nyide & Lekhanya, 2016; Pereira et al., 2021).

We applied for a semi-structured interview for this case study. This type of interview can accommodate the organic response of the informant better than the close-structured interview. It gives space for the researcher to arrange questions following the answers from the respondent without losing points or questions that should be answered by the respondent. Due to its flexibility, it suits best to amplify certain points in a study while also adding some value-added matters that are found out in the interview session (Galleta, 2013). Moreover, semi-structured interview provides insight into individual experience that makes the researcher can explore respondent's factual information as well as their arguments to be added to the study (Galleta, 2013).

Our unit of analysis is several premium and luxury hotels located in Surabaya, Indonesia with a respondent who is Senior Manager of Accounting who oversaw. Her team, along with her, were responsible for the Financial Statement reporting each month and each year, as well as providing valuable management information regarding financial numbers for related stakeholders. The premium and luxury hotels that are grouped under the same hotel franchise, Marriott International, are Sheraton Surabaya, Four-Points Tunjungan, Four-Points Pakuwon Trade Center, and The Westin Surabaya. The group that is based in America is known as the largest hotel chain in the world, operates more than 1.4 million rooms across 31 different premium and luxury brands. In addition to reporting the Financial Statement, her job was also to make sure that the hotels operate under a quite strict cost control management regarding environment as the company aware that their long-term sustainability goal highly depends on the sustainability of the environment. Our complete set of questions is attached later in this article.

Results and Discussions

We sat down with our respondent for the interview session for nearly two hours. To begin, we asked her to explain about the company's business and the hotel industry in general. As mentioned before, Marriott Group operates several hotels in Surabaya, Indonesia, where this respondent is responsible for the accounting

division for four hotels: Sheraton, Four-Points Tunjungan, Four-Points Pakuwon Trade Center, and The Westin Surabaya. All of them are premium hotels except the latter is a luxury hotel. These hotels mainly provide their services for business workers and expatriates who stay less than a month.

“Our objective to have properties in Surabaya is to provide services for business workers who often travel to Surabaya. We did some research in the beginning, and we found that most people travel to Surabaya for work occasion, not for entertainment or relaxation. We understand that they need professional and reliable services to support their work.”

We then asked about why they built their business in the first place.

“From my experience working at Marriott Group for more than 10 years, I can say that our main goal is to keep our business in long term. It is that simple, really. We do not build these hotels just to quit a few years later like our competitors do. We, of course want to ripe profits as long as we can.”

They do their business by not taking as much as they can from the customers, but to survive playing in the field as long as they can. Too much capital and energy pour into building the business just to quit in a few years. They want to sustain. This is a great start to initiate our topic related to environment and sustainability, as company sustainability is highly related to environmental sustainability in the long term. Many companies overlook this concern since it is not a short-term issue, but rather a long-term one which the work to embody will take years. Next, we started to ask them about their daily business and if they are aware of the sustainability issue around it.

“We have a very high concern on sustainability, because again, our main purpose is to keep our business in the long term, and thus to achieve that we must... simply give back to the environment what we take from. We work in hospitality; we cannot neglect that our business will directly impact our environment. Thus, our concern over sustainability has started since the planning, like what materials we use to build the building, what type of construction we can install to lessen the environmental impact, who are the right vendors that have the same concern about sustainability and thus supply the best materials/services that does not carry weight on our environment, which market is potential to our brand concern and how we provide services to them, what type of management system and performance measurement that we use to make sure that everything runs in according to our concern.”

From her answer, we can conclude that Marriott Group are aware of the impact they may contribute to the environment. She explained in more detail about the specific actions the hotels take in order to lessen the impact, which was understandable since they got better and greater funding due to their equity structure. Moreover, big companies tend to have environmental concern more than the small ones (Nurulizzah et al., 2021; Praningtyas et al., 2023; Zbucnea & Pinzaru, 2017), thus what Marriott Group does is obvious.

There was part of the answer that we are interested in, where she explained the potential market for their brand that suited best to their concern of sustainability. They specifically chose the premium and luxury market with the hope that the people who enjoy the service had already understood the sustainability issue and thus knew how businesses were trying to solve the issue while also conducting their business profitably. Their preference is understandable because the lower market has small chance to be aware of the issue and hence it will be difficult to make them grasp why the hotel does their business the way they do.

Our next questions were about her role as a Senior Manager in the Accounting Division. She had been in this position for three years now. We see this as a great opportunity to dig deep into the accounting practices at premium and luxury hotels and also to understand whether they apply EMA in their business.

“Environmental Management Accounting... I’ve certainly heard about that. But I’m not sure whether our practices here fulfill the definition of it. We have daily reports that track our energy consumption day by day, followed by the monetary amount. We compare, review, and analyze the report day to day, month to date, and year to date. The data includes the consumption of water, electricity, and carbon monoxide by the guests and by our internal staff. We use this data in our financial report, and thus should be able to explain to our top management why consumption on certain days, for example, is high yet has no special event/occasion/low occupancy. Our hotel has special tools too to manage our waste so that we left waste as little as possible.”

Even though the respondent was not sure whether they had practiced EMA, her answer drew conclusion that the hotel had started applied EMA in their accounting practice. While the definition of EMA is still at an infancy stage, some have concluded that EMA includes system that is designed to track information related to environmental costs, pollution, and energy consumption with aim to achieve better economic and

environmental performance for company sustainability (Gunarathne & Lee, 2015; Gunawardena & Dissanayake, 2021; Nyide, 2019; Nyide & Lekhanya, 2016; Pertama et al., 2022), similar to what these four hotels were doing. Therefore, it can be inferred that premium and luxury hotels had mixed EMA with their traditional accounting practices. This practice that had been performed correspond with their main objective to stay relevant and accountable in the business as long as they can. Having concern over the sustainability issue is one of the great ways to achieve the objective while also gaining positive return.

Moreover, her answer implied that even the accountant herself did not acknowledge whether the accounting practice she was in charge of has already applied EMA. It is safe to say that the concern over environmental and sustainability was there, but the hotels had not realized that management accounting systems have the potential and foremost control tool to direct the business towards a sustainable business that put environmental issue as something to be solved. We see this as a call for the accounting community to undertake the responsibility in introducing the EMA to the practitioners, as well as the scholars and academics in universities to have a special course regarding EMA, so the accounting graduates understand and can apply it in the business they will work in.

We then asked if they applied specific action to handle the guests regarding the environmental concern. If they did, what were the challenges in applying the system.

“Regarding this concern, we apply a different approach to our internal staff and to the guests. To our guests, we do not provide any form of plastic and paper anymore, including in restaurants, meeting rooms, and hotel rooms. However, we are still trying to explain this to our customers because not all of them accept the way we provide services to them. For instance, they ask to have paper bill instead of e-bill. Sometimes, even long explanations will not be adequate because this is all about habit. Even the wealthiest ones are still struggling to understand why we do the way we do. They expect that they can get whatever they want with their money or power, which sometimes is against our rules. I mean... you know, if we talk about luxury services, the customers do not care about the price anymore. They can buy whatever they want. So, in my opinion, the wealthiness of a person does not necessarily affect their concern on sustainability. I can say that this is our dilemma in providing luxurious services.”

Her answer depicted some challenges that premium and luxury hotels must deal with when it comes to their guests. It turned out that their expectation about premium and luxury market was wrong. The wealthier a person does not guarantee they have the sensitivity over the environmental issue. Sometimes, the high profile of the guests hinders the hotel’s initiative and thus, for the sake of the brand name, they need to succumb. This finding correlates with previous studies that revealed similar challenges (Chen, 2019; Nyide & Lekhanya, 2016; Peng & Chen, 2019) who found similar difficulties in their hotel. Furthermore, the behavior and awareness of people who live in developing countries towards the environment is still relatively low (Elhossade et al., 2022; van der Poll, 2022). This explains why even the wealthiest ones who live in developing countries do not have moderate conception about sustainability issues. The fact above lead us into a question: How to have environmental initiatives like EMA when the guests do not support such actions due to their unfamiliarity with the issue, while also having the pressure to perform the best services to the guests?

Next, we ask how they cope with the aforementioned challenges.

“We realized that we must balance between the need to provide the best services and maintain the environmental issues. We cannot pick which one should be left behind because we know that without environmental care, we cannot stay long, and in reverse, decreasing our services is not an option as it may harm our brand value. It will eventually affect our costs and hence the net profit. So, we take this seriously. We apply cost control related to the environment tightly. It includes the improvement of capturing the energy consumption, both in monetary and physical information. We do deep analysis and encourage each division to look at our monthly report and thus initiate a change, if needed. There is a certain team in charge to monitor and report if there’s any deviation in the pattern. Even in every morning briefing with our CFO, we discuss energy consumption because it sensitively affects our costs. So far, these actions have helped us in maintaining consumption below the line. Therefore, our cost regarding the environment is still in control.”

From the answer above, we can deduce that even though they were not able to control the guests’ spending, they control the work of the internal staff by practicing EMA gradually without even realizing it. The constant track, review, analyze, and follow ups showed that EMA has been applied to outgrow the challenges. This is an interesting finding to understand that EMA can be used to help companies, or specifically hotel industry, in addressing any confrontation of having environmental concern, or to stay with the sustainability initiatives amidst the pressures that come from the guests.

She then continued with the answer below,

“What I am so sure about this company is that our management will make sure that there is no re-do regarding everything. If we do not do something to preserve the environment and hence make the company pay more in the future due to what we have not done in the past, then our top managers will be indignant, to be honest. It will take so much effort and double the cost. Therefore, it is important for us to prevent anything from the re-do or rework. If we can preserve today, why not? We are willing to try any suggested tool or strategy to lessen the environmental impact we made and thus ensure our sustainability.”

Conclusion

EMA is still relatively new to the premium and luxury hotels built in developing countries despite the energy consumption being the highest compared to their peers. Even though the initiative is there, the correct practice needs to be considered. It is understandable since the definition and the practice are still changing into something more rigid to be followed. However, such hotels have enough awareness of the environment and how the business they are doing will have an impact for our sustainability. It can be inferred that they conduct EMA with the goal to sustain their business in the long term once the practice is well realized by the legal accounting community such as Ikatan Akuntan Indonesia and introduced to the accounting students across universities.

Besides the work that needs to be articulated soon, education and awareness regarding environmental and sustainability are also important for people in developing countries since they have low knowledge about them. The effort to actualize EMA needs cooperation not only from the hotels but also the customer who enjoy their services. They need to mind their use of water, electricity, plastic, paper, and any unrenewable resources during their stay in hotels. We suggest the government give help through some recommendation or even regulation regarding environmental care. It is a long work indeed but needs to be started promptly.

Appendix

Below were the questions we asked to our respondent that were gathered through several prior studies:

1. Does the hotel run its activities with concern on sustainability issue?
2. What drives the hotel to become a green hotel? What are the main objectives?
3. What are the specific practices adopted regarding the sustainability issue? Does your hotel implement renewable energy sources / advise on less water and electricity / the minimum use of plastic / waste management?
4. Does the hotel notify its guests that it follows strict sustainability protocol?
5. What are the accounting practices adopted? Does the hotel continuously track information related to energy, water, waste, etc?
6. How do these practices evolve the hotel?
7. What were the challenges encountered?
8. How did you overcome the challenges?
9. What are the benefits (cost savings and other) obtained by becoming a green hotel?
10. What is your current level of adoption of green practices?
11. How do you sustain these practices? What are the systems/mechanisms in place?
12. What are the strategies pursued to convince various stakeholders especially employees and guests to be involved? Who else is involved?
13. How do you report environmental practices internally and externally?
14. What sorts of costs are collected now?
15. Is there anyone who has ever requested any environmental cost information from you?
16. Have you ever requested any environmental cost information from accounting, or environmental management related administrative divisions? If yes, what is the purpose of requesting such information? If not, why not?
17. What are the challenges you face now?

References

- Azam, M., Alam, M. M., & Haroon Hafeez, M. (2018). Effect of tourism on environmental pollution: Further evidence from Malaysia, Singapore and Thailand. *Journal of Cleaner Production*, 190, 330–338. <https://doi.org/10.1016/j.jclepro.2018.04.168>
- Chen, L. F. (2019). Hotel chain affiliation as an environmental performance strategy for luxury hotels. *International Journal of Hospitality Management*, 77, 1–6. <https://doi.org/10.1016/j.ijhm.2018.08.021>

- Elhossade, S. S., Zoubi, A. A., & Zagoub, A. A. (2022). Barriers of environmental management accounting practices in developing country. *Risk Governance and Control: Financial Markets and Institutions*, 12(1), 8–20. <https://doi.org/10.22495/rgcv12i1p1>
- Galleta, A. (2013). *Mastering the Semi-Structured Interview and Beyond: From Research Design to Analysis and Publication*.
- Gunarathne, N. (2013). *Environmental Management Accounting: A travel through tourism*. <https://www.researchgate.net/publication/283541614>
- Gunarathne, N., & Lee, K. H. (2015). Environmental Management Accounting (EMA) for environmental management and organizational change An eco-control approach. *Journal of Accounting and Organizational Change*, 11(3), 362–383. <https://doi.org/10.1108/JAOC-10-2013-0078>
- Gunawardena, Y., & Dissanayake, K. (2021). Triple Bottom Line (TBL), Monetary Environmental Management Accounting (MEMA), Physical Environmental Management Accounting (PEMA). 54 *International Journal of Accounting & Business Finance*. In *International Journal of Accounting & Business Finance* (Vol. 7, Issue 1).
- Lenzen, M., Sun, Y. Y., Faturay, F., Ting, Y. P., Geschke, A., & Malik, A. (2018). The carbon footprint of global tourism. *Nature Climate Change*, 8(6), 522–528. <https://doi.org/10.1038/s41558-018-0141-x>
- Nurulizzah, S., Puji, S., & Warsidi, L. (2021). *THE EFFECT OF PROFITABILITY, LIQUIDITY, AND COMPANY SIZE ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE*. 2(2), 187–204. <https://journal.maranatha.edu/index.php/jafta>
- Nyahuna, T. (2022). The Choice of Environmental Management Accounting Practices Adopted by Managers: Evidence from the Hotel Sector in KwaZulu Natal, South Africa. *Indonesian Journal of Social and Environmental Issues (IJSEI)*, 3(2), 154–158. <https://doi.org/10.47540/ijsei.v3i2.618>
- Nyide, C. J. (2019). BETTER RESOURCE MANAGEMENT: A QUALITATIVE INVESTIGATION OF ENVIRONMENTAL MANAGEMENT ACCOUNTING PRACTICES USED BY THE SOUTH AFRICAN HOTEL SECTOR. *African Journal of Hospitality, Tourism and Leisure*, 8(4). <https://doi.org/10.20472/bmc.2019.010.004>
- Nyide, C. J., & Lekhanya, L. M. (2016). Environmental management accounting (EMA) in the developing economy: A case of the hotel sector. *Corporate Ownership and Control*, 13(4), 575–582. <https://doi.org/10.22495/cocv13i4c4p7>
- OECD. (2023). *Economic Outlook for Southeast Asia, China and India 2023*.
- Parker, L. D., & Chung, L. H. (2018). Structuring social and environmental management control and accountability: Behind the hotel doors. *Accounting, Auditing and Accountability Journal*, 31(3), 993–1023. <https://doi.org/10.1108/AAAJ-04-2016-2513>
- Peng, N., & Chen, A. (2019). Luxury hotels going green—the antecedents and consequences of consumer hesitation. *Journal of Sustainable Tourism*, 27(9), 1374–1392. <https://doi.org/10.1080/09669582.2019.1622710>
- Pereira, V., Silva, G. M., & Dias, Á. (2021). Sustainability practices in hospitality: Case study of a luxury hotel in Arrábida Natural Park. *Sustainability (Switzerland)*, 13(6). <https://doi.org/10.3390/su13063164>
- Praningtyas, E. R. V., Subekti, R., & Agustina, P. A. A. (2023). Does COVID-19 Pandemic Crisis Affect CSR Costs? Case of Indonesia. *Journal of Accounting Auditing and Business*, 6(1), 41–57. <https://doi.org/10.24198/jaab.v6i1.43331>
- Pertama, S. P. E., Astawa, I. P., & Mudana, I. G. (2022). The Implementation of Environmental Management Accounting and Sustainable Tourism in Tourism Villages in Bali. *International Journal of Glocal Tourism*, 3(1), 28–37. <https://ejournal.catuspata.com/index.php/injogt>
- Putu, S., Pertama, E., Putu Astawa, I., & Gede Mudana, I. (2022). *The Implementation of Environmental Management Accounting and Sustainable Tourism in Tourism Villages in Bali*. <https://ejournal.catuspata.com/index.php/injogt>
- Qian, W., Tilt, C., & Belal, A. (2021). Social and environmental accounting in developing countries: contextual challenges and insights. *Accounting, Auditing and Accountability Journal*, 34(5), 1021–1050. <https://doi.org/10.1108/AAAJ-03-2021-5172>
- Saputra, K. A. K., Subroto, B., Rahman, A. F., & Saraswati, E. (2023). MEDIATION ROLE OF ENVIRONMENTAL MANAGEMENT ACCOUNTING ON THE EFFECT OF GREEN COMPETITIVE ADVANTAGE ON SUSTAINABLE PERFORMANCE. *Journal of Sustainability Science and Management*, 18(2), 103–115. <https://doi.org/10.46754/jssm.2023.02.008>
- Statista. (2023). *statistic_id233223_total-contribution-of-travel-and-tourism-to-gdp-worldwide-2019-2023*. <https://www.statista.com/statistics/233223/travel-and-tourism--total-economic-contribution-worldwide/>
- UNWTO. (2023, May 9). *TOURISM ON TRACK FOR FULL RECOVERY AS NEW DATA SHOWS STRONG START TO 2023*.

- van der Poll, H. M. (2022). The barriers and drivers of environmental management accounting practices' adoption in developed and developing countries for sustainable development. *Sustainable Development*.
- Yang, S., Hao, Q., Wang, Y., & Zhang, C. (2022). Impact of the Participation of the Tourism Sector on Carbon Emission Reduction in the Tourism Industry. *Sustainability (Switzerland)*, 14(23). <https://doi.org/10.3390/su142315570>
- Zbucea, A., & Pinzaru, F. (2017). Tailoring CSR Strategy to Company Size? *Management Dynamics in the Knowledge Economy*, 5(3), 415–437. <https://doi.org/10.25019/MDKE/5.3.06>