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## The Choice of Environmental Management Accounting Practices Adopted by Managers: Evidence from the Hotel Sector in KwaZulu Natal, South Africa

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### ABSTRACT

To understand the ways that 5-star hotels in Kwazulu Natal use to select environmental management accounting (EMA) practices to implement, the study assists hotel managers in better understanding and effectively formulating other mechanisms for improving EMA. The paper ascertains the manner applied by managers in 5-star hotels in Kwazulu Natal province when selecting EMA practices to adopt for their business activities. To attain the key aim objective of the research, 21 interviews and observations were conducted on three 5-star hotels among hotel managers, accountants, and administration managers. The study identifies that meeting international customers' expectations plays a dominant role in pushing hotels to select EMA practices that can be easily identified by the customers such as water and energy efficiency. 78% of the interviewees endorse that international clients choose hotels that promote environmental initiatives hence the choice of current EMA practices. In addition, this is critical because it also affects the financial performance of the hotels. The paper provides further empirical evidence in extant literature that financial performance remains the key factor influencing a decision on EMA practices to be applied by hotels in emerging markets.

### INTRODUCTION

As environmental impacts become more evident, corporate decision-makers are compelled to find sustainable and long-term solutions both in the interests of the broader stakeholders and the business itself. To achieve this, managers have been forced to incorporate environmental accounting into their business activities to cater to its environmental activities. This system that allows the incorporation of environmental accounting is known as environmental management accounting (EMA). EMA is defined as a system that allows the corporate sector to identify, collect and analyze financial and non-financial related environmental information (Mokhtar et al., 2016) to enhance the financial and environmental ability of the company.

EMA emerged due to the conventional management accounting systems' incapacity to capture environmental issues. So, in this regard, EMA is considered a bridge between management accounting and environmental management (Gunarathne & Lee, 2015). Scholars argue that the key aim of EMA information is to support internal

decision-making by identifying environmental costs (Jamil et al., 2015). But, it still remains unknown how the corporate sector decides and identifies the EMA practices to adopt in addressing sustainability challenges (Ong et al., 2018; Azizi et al., 2013). So, to achieve environmental and financial sustainability simultaneously, it is critical to identify how corporate managers decide or make decisions on EMA practices to use.

As such, this research study wishes to contribute to South African literature. Precisely, this paper tries to offer a snapshot of how managers in South African hotels make decisions on EMA practices to adopt within their business activities. Put differently, the study wants to understand what pushes managers to adopt certain EMA practices instead of other practices. Additionally, the study answers the call by Christ and Burrit (2013) to evaluate the basis of sustainability for win-wins and trade-offs as a way to establish policies and approaches that produce corporate contributions to sustainability. This generates a new conceptual mind set for managers.

However, EMA studies in developing countries are still in the embryonic phase. Thus, EMA research has been dominantly focused on industrialized countries (Gunarathne & Lee, 2021) and less on developing countries like South Africa (Nyide, 2019). Empirically, a scarcity of studies on how corporate managers decide on EMA practices to adopt within their business activities exists (Ong et al., 2018; Fuadah et al., 2021). Instead prior studies (such as Jamil et al., 2015) have mainly focused on factors obstructing EMA adoption. This suggests that based on its embryonic development, little is known about how managers make decisions on EMA practices to apply within their business activities (Azizi et al., 2013; Fuadah et al., 2021). This still remains a knowledge gap in contemporary literature. This, of course, creates uneasiness among organizations and policymakers in trying to promote EMA implementation. Given this, this study focuses on identifying the mechanism for selecting EMA practices used by hotels in South Africa. Therefore, the research objective acknowledged for this study is to identify how managers in the South African hotel sector select EMA practices to adopt within their business activities.

## **MATERIALS AND METHODS**

This study applies an exploratory case study method. Seif (2014) argues that case studies maintain real-life experience in the field. This method helps “develop a rich understanding of real-life practices and problems” (Qian et al., 2015). Three 5-star hotels were chosen in the KwaZulu Natal province that had previously been confirmed using EMA practices. In addition, the hotel sector was chosen because is a key pillar in the development of South Africa’s economy (Nyide, 2019).

For ethical purposes, the companies studied would be named A, B, and C. Interviews and observations were data collection tools. In total, 21 interviews were undertaken mainly with hotel managers, accountants, and administration managers. Observations were conducted in each stage. This included attending meetings focusing on environmental management matters.

## **RESULTS AND DISCUSSION**

The major theme emanating from the hotel sector in Kwazulu Natal is the adoption of EMA practices that is focused on satisfying clients such as energy and water efficiency. 78% of the respondents confirm that their clients are international customers who value hotels adopting environmental initiatives such as water management. This implies that hotels entirely rely on international clients. Adoption of EMA practices in this case is viewed as a business strategy to entice clients. Similar observations were reported by Omune et al. (2021) in a study in Kenya’s hotel sector. So, in emerging markets such as South Africa, the customers’ expectations of environmental practices play a fundamental role in EMA practices being adopted by hotels. Customers of hotels in Kwazulu Natal are mostly international tourists (Sucheran, 2018). This reiterates the statement that environmental management practices are most popular in developed and industrialized nations (Ekundayo & Odhigu, 2021; Sucheran (2018). Hence, tourists from international countries prefer hotels implementing EMA practices that can be easily identified by them.

Another key basis for formulating EMA practices to be implemented in 5-star hotels is a financial improvement. In this scenario, hotels are prompted to select EMA practices that in not so long advance financial benefits. 69% of the respondents confirmed that EMA practices adopted by their hotel company are mostly hinged on short-term financial benefits and return. This supports evidence in contemporary literature that EMA is mostly adopted by the corporate sector for financial purposes (Chaturangani & Madhusanka, 2019; Ekundayo & Odhigu, 2021; Gunarathne & Lee, 2015). The respondents explain that the central objective of their business is to attain and increase corporate profitability. This denotes that any practices perceived as not adequate enough to increase profitability are discarded.

Educational levels and employment background of the management influences EMA practices applied by the hotels. Interestingly, 56% of the interviewed respondents confess that with their period of employment within their company, the educational level has had an impact on deciding on the corporate’s EMA practices. Further, it was revealed that managers with a technical educational

background and experience tend to promote the adoption of advanced EMA practices. However, the respondents further unearthed that management filled with other professions such as accountants, marketing, and hotel management tend to opt for less complicated EMA practices such as environmental training and audits.

Previous studies contend that EMA provides companies with opportunities for decreasing environmental impacts while enhancing financial performance through improved decision-making (Qian et al., 2015; Kelsall, 2020; Burrit et al., 2019). This can be achieved with the implementation of the right EMA practices in place (Fuadah et al., 2021). Companies have been applying different EMA practices to help overcome environmental challenges. But, in some studies, the adoption of EMA practices has not produced positive environmental and financial performance. Hence, a lot of studies have been conducted to investigate the primary aspects impeding EMA practices from promoting environmental and financial performance within corporate sectors.

However, based on its embryonic development, little is known about how managers make decisions on EMA practices to apply within their business activities (Azizi et al., 2013; Fuadah et al., 2021). This still remains a knowledge gap in contemporary literature. This, of course, creates uneasiness among organizations and policymakers in trying to promote EMA implementation.

Besides limited use of EMA, company size, the composition of directors, and environmental management system (EMS) were found to have no statistically significant correlation to influence EMA decision-making (Mokhtar et al., 2016). In contrast, a research study establishes that laws and regulation influence EMA practices implementation (Nathaniel & Adedoyin, 2020) due to the environmental fine distorting the reputation of the company. In addition, factors such as company size, lack of adequate skills, and lack of management commitment were also cited as majorly contributing to the implementation of EMA practices. These differences create an opportunity for this study to further examine the key constructs underlying decisions to adopt EMA practices' application within South Africa's hotel sector.

More importantly, pressure from customers is central in deciding on EMA practices to use. For

instance, Jamil et al. (2015) report that their business customers based in Europe demand that they apply EMA practices as part of their condition of protecting the global environment. Specifically, the customers are at a minimum requesting that supplier companies should at least maintain an EMS. This is because the adoption of EMS ensures that processes are being operationalized. Efficient adoption of EMS calls for the "quantification of environmental information through EMA" (Ong et al., 2018).

A study undertaken by Azizi et al. (2013) notes that stakeholder and shareholder pressure was instrumental in motivating the sector to adopt practices that improve environmental performance. This implies that when deciding on the EMA practices to implement in the face of stakeholder and shareholder pressure, managers are forced to select practices that shareholders will immediately notice their operationalization as opposed to practices that invest a length of time to mature.

This study is built up on Sucheran (2018) and Nyide and Lekhanya (2016) studies of 5-star hotels in KwaZulu Natal, South Africa that empirically confirmed that these hotels are applying EMA practices to their business activities. But, in this case, it is still unknown how the hotel managers to design or decide their decision-making to arrive at the adoption of certain EMA practices at the expense of others. This is necessitated by scant literature explaining how EMA practices are chosen (Ong et al., 2018). The absence of knowledge in the development of EMA among emerging economies like South Africa has inspired the research to understand further the evolution of EMA and how South Africa's hotel managers decide practice on EMA practices to implement in face of current environmental impacts. This is important because the way EMA is currently used does not provide guidance to managers on how to use EMA and what EMA practice to proceed in a given situation or a "real world decision on hand" (Chaturangani & Madhusanka, 2019.). Therefore the study's main objective is to understand how South African hotel managers arrive at decisions on EMA practices to use within their day-to-day business activities.

A key focus on the results shows that satisfying clients' expectations remain a significant deciding factor on EMA practices to implement in hotels in Kwazulu Natal. This remains a main

source of EMA practices to be adopted because it is indirectly linked to financial performance. In this context, satisfying clients' expectations on environmental management are perceived to improve financial performance because low hotel occupancy signifies a low financial performance (Nathaniel & Adedoyin, 2020). This is inconsistent with findings by Bananuka et al. (2021) in Uganda that hotels to remain competitive and carry on capturing international clients need to maintain a certain level of environmental management initiatives. Without this, revenue is lost for the hotel sector in developing countries (Hsieh, 2012).

The issue of achieving profitability remains a key theme on factors compelling Kwazulu Natal 5-star hotels to adopt certain EMA practices. Some scholars like IFAC (2005), De Beer and Friend (2006), and Le et al. (2019) believe that EMA can be applied to enhance financial performance. This school of thought is most popular in a literature reviews. Porter (1991) termed this a "win-win" hypothesis. He opined that effective EMA practices lead to improved organizational performance. In addition, some empirical studies such as by Christine et al. (2019) and Pratiwi et al. (2020) have established a positive relationship between EMA practices and financial performance. This is because the benefits of EMA practices offset the cost (Tung et al., 2014).

The level of education increases management's commitment to EMA practices adopted. In this study, it has been identified as one of the basis contributing to the selection of EMA practices within 5-star hotels. In addition, without sufficient educational knowledge, managers are likely to select EMA practices that might be detrimental to the well-being of the organization. In one study Li et al. (2017) argue that managers with better qualifications and experience are more likely to use EMA practices that protect the environment in the long term.

## CONCLUSION

Literature survey reflects that studies that identify how organizations select EMA practices to apply within their business activities remain missing. Thus, it becomes relevant to examine the corporate sector's approach in selecting EMA practices to adopt within their business activities. In this matter, South African's 5-star hotels were

sampled in KwaZulu Natal province. In conclusion, the research could provide managers with a better opportunity to improve the mechanisms of formulating EMA practices to be implemented within the hotel sector. The study is limited to 5-star hotels in KwaZulu Natal and therefore should be viewed with caution. Further research should employ other research methods to overcome the challenges of a qualitative approach possibly in a different geographical local.

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