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# 13 Getting the information we need

## Why do we need financial information?

Information is essential to all managers if we are to be effective. If we consider any management function, such as planning, organizing or controlling, we need information in order to make informed decisions.

We are all involved in decision making; we have to make choices when alternatives exist. The choice may be simply between taking action and not taking action in a given situation, but we would need to consider the benefits of each alternative. It would be difficult for us to be effective without utilizing information to aid the decision-making process.

It is simple to say we need information, but the practicalities of determining the appropriate information are not so straightforward:

- ◆ What is information?
- ◆ What volume is most useful?
- ◆ Is the information relevant to the situation?
- ◆ Does the user understand the information?
- ◆ Did the information arrive in time to be useful?

If we are to receive and give others good quality information that aids the decision making process these questions need to be considered.

## What is information?

Anything that adds to the knowledge of the receiver is information. Information is data that has been processed into a form that is meaningful and relevant to the user (Figure 13.1).



**Figure 13.1:** Source of information

In operations, there are numerous financial data available. What we are concerned with is processing the data in such a way that it becomes useful information to the user. In order to do this we must understand the characteristics of good quality information. These are as follows:

- ◆ **Accuracy:** If we make a decision based on inaccurate information it could lead to the wrong decision being made. It rests with the provider of the information to make sure it is accurate before it is communicated to the user but, as a user, consider if the information comes from a reliable source that you trust.
- ◆ **Understandable form:** Financial information can be numerically or graphically communicated, for instance through cost-volume-profit graphs, bar graphs, line diagrams and pie charts. We can communicate information in many ways, for example through word of mouth, in printed form, electronically or on screen. We may consider a summary form might be appropriate for some users, but a full report in another. We need to consider the format most appropriate to the information user.
- ◆ **Frequency:** The frequency with which the information is produced must relate to users' needs. Information that is reported to certain managers daily may only be required weekly, or monthly, by others. We need to ensure it matches the individual's operational information needs.
- ◆ **Scope:** Too often organisations ignore the importance of the scope of information and produce broad standard reports which are sent to various managers with differing roles. As a result, they may not relate directly to the managers' responsibilities. A unit manager needs a report giving details of the individual unit, while an area manager may require the same, or similar, details in modified form for many units (properties), in a single summary report. We should ensure information matches the decision making needs of the individual.
- ◆ **Authoritative origin:** Information can come from many internal and external sources. It is important we feel comfortable with the origin of the information in that we believe it is reliable and valid. Generally, there are numerous examples where we question the validity of information, such as in some newspapers – we need to ensure we are confident about the source of information before using it for decision making.
- ◆ **Relevance:** Information has to be relevant to the current situation. As the situation changes the information should be reviewed in order to ensure it remains relevant. This is important because, as an organisation and the economic climate changes so do the decisions being made – the information used should keep pace with these kinds of changes and be relevant to the current situation.
- ◆ **Completeness:** Information provides knowledge in order for us to make decisions. Unless the information is complete, decisions are made with a degree of conjecture. It is essential the information is as complete as

possible, but the completeness will need to be judged against other factors, such as timeliness.

- ◆ *In time to be of use:* Timeliness of information is an essential factor. Information which arrives after the decision has been made is of little use! So planning information needs in advance is important.

In the hospitality industry the sources of raw data are vast. Computerized reservation and accounting systems provide significant access to internal data. As we mentioned earlier, data and information are different – the availability of raw data does not always lead to the supply of good quality information. It is important that the attributes mentioned above are considered when we contemplate information requirements.

Information should focus on the key aspects associated with managers' roles. The above are the ingredients for useful information, but where do we start in planning a financial information system that will give us useful information? Indeed, should we be focusing just on financial information at all or having an integrated management information system that goes beyond financial information?

## Foundation for an information system

There are many places to start when reviewing or setting up a management information system. However, we should consider the effects of using different bases as the foundation for a system and make sure we start at the right point. A number of alternative starting points exist and in considering these we should take into account both the producer and the receiver of information. Management reports should be market driven in terms of relating to the end user. So, let's consider the main bases for developing a management information system:

- ◆ *The system:* In the short term, the existing system may restrict the frequency and type of information available. When reviewing a system, however, we should not feel restricted by what the system can produce in the short-term. We need to plan for the future, but recognise the current system may restrict implementation in the short term.
- ◆ *The accountant:* In many operations the main source of management reports and information preparation is in the accounting department, so there is some logic in the accountant deciding the information. However, if the accountant is left to determine what information we need, the information may be too financially oriented and not operationally related, so may not fulfil the full operational needs of managers.
- ◆ *The manager's boss:* When a more senior manager decides what information an individual should receive, subjectivity must be considered. We may consider what we would like if employed in that role, or consider what we need to know about that area of the business