

Budgeting within the hospitality sector in the aftermath of the financial crisis – a summary of initial findings

Background to the research project

The purpose of this research project was to find out more about budgeting and how the budgeting process was affected by the financial crisis within the UK hospitality sector. The initial findings suggest that in the period following the financial crisis, budgeting has proved to be very helpful and very useful with the management control process, and it would appear that within the hospitality sector we are not yet 'beyond budgeting'.

This project was in part inspired by a relatively recent North-American academic paper (Libby & Murray Lindsay, 2010) which carried out an extensive web-based survey of North American accounting practitioners, with a target sample of more than 16,000 senior finance managers employed by 'for-profit' organisations in the United States or Canada. The survey considered the forceful case made against traditional budgets by the American management consultants Hope and Fraser (2003), which can be summarised as follows:

1. Budgeting consumes a lot of management time making it a costly process
2. Budgets inhibit firms from adapting to changes in a timely manner
3. The budgeting process is disconnected from strategy
4. The use of the budget as a fixed performance contract leads to unreliable performance evaluation and promoted budget gaming

Libby and Murray Lindsay concluded from their survey that budgets were still being widely used for control purposes, and were widely perceived by the survey respondents to be value-added. The authors did, however, identify the need for further research into companies operating in unpredictable environments. It is also important to bear in mind that the North American survey was carried out before the full impact of the financial crisis affected operations (i.e. from late September 2008 onwards). There seems to have been little or no research carried out about budgeting in times of crisis, hence this project has attempted to ascertain a more contemporary view about the budgeting process.

Objectives of the research project

This research project involved carrying out face-to-face interviews in order to find out more about the budgeting process and to review the extent to which Financial Directors (FD's) and Financial Controllers (FC's) made use of an annual budgeting cycle, and the extent to which the budgetary control process was seen as useful and adding value within their organisation, assisting the overall management control process. Additional questions were also asked about forecasting, and also the extent to which comparative information and benchmarking was used to compare the performance of their hotels against competitors.

Focus upon the hospitality sector

The significant contribution made to the UK economy by the hospitality sector makes this a very interesting context within which to consider management control issues. The characteristics of services, with a very significant emphasis upon the customer makes management control issues even more relevant in contrast with say conventional product costing. The service sector itself is highly diverse and includes tourism, financial services, retail businesses, healthcare, hospitality and catering. Analysis of the UK Office for National Statistics data (Great Britain, Office for National Statistics, 2012) indicates that accommodation alone accounts for approximately 0.85% of Gross Domestic Product (GDP), and food, beverage and service activity account for approximately 2.15% of GDP, from the full-year 2012 data. Hence it can be approximated that hotels and restaurants accounted for approximately just over 3% of the UK GDP in 2012.

The research approach

The complexity of the issues addressed by this project should not be underestimated, and in focusing upon the budgeting process it has not been the intention to find a “technical solution” to the many challenges and problems faced by the hospitality industry in the post-financial crisis years in the UK. The business environment has been characterised by uncertainty and conservatism, and there is no doubt that the economic crisis has put enormous pressure on the functioning of management accounting systems

The main focus for this study became apparent quite soon as the concept of survivability, or ensuring a future. The preconceptions about evaluating budgeting practice soon became less of a focus in the interviews rather than considerations of what course of action was required in order to survive. It became clear from the interviews that budgets were continually being set aside and reformulated, but the annual budget itself appears to be a useful framework within which this was happening. What needs to be taken into consideration is that the interviews were conducted with practitioners who had survived the financial crisis and who were willing to talk about their experiences, which therefore impacts significantly upon the representativeness of the findings of this project.

What emerges nevertheless is a very interesting picture of adaptability and diversification in the context of a very challenging business environment. Several examples of best practice can be identified, suggesting that the annual budgeting process would appear to be alive and well within the hospitality sector. Perhaps more than anything else, however, this project presents findings about survivability rather than a more detailed critique of budgeting practices. A recurring theme throughout all of the interviews was that of ‘we did what we had to do’, and it would appear to be the case that the annual budgeting process proved to be a very useful framework within which survivability was facilitated.

Interview process

The interviews took place in the summer of 2013 with either the Financial Director of the Financial Controller for three separate UK-based hotel groups which together had a combined total turnover of approximately £177 million. The identities of the three groups will not be revealed, and the three organisations were quite different in background, geographical location and also in terms of the markets within which they operate. The interviews took place on a face-to-face basis at the place of work of the practitioners (with one exception), and the interviews were recorded and the interview transcripts were subsequently professionally transcribed. The interviewer also made notes during the interviews and additional notes at the end of each of the interviews. All of the interviewees had extensive experience of management control within the hospitality sector and all had been working within their current role for a fairly lengthy period (i.e. longer than five years).

Summary of the initial findings

A number of best practice indicators emerged from the interviews, including a very participative ‘bottom-up’ style approach to the budget setting process was identified where divisional managers were extensively involved in the budget-setting process, hence allowing for motivation towards target-setting in a very challenging environment

Regarding an annual budget cycle, one of the interviewees commented as follows:

“Well the (annual) cycle works quite well for us because...it all goes very quiet in January and the managers have got the time to spend on thinking carefully about their budgets in January, it is the quietest month of the year in terms of the hotels.”

There also seems to be quite extensive use made of comparative data and benchmarking of occupancy rates and pricing through the various databases available, and all of the interviewees made reference to the use of comparative statistics. The use of comparative data in a recessionary environment allows for some interesting reflections in so far as rather than using comparative statistics to aspire to best practice, it was commented upon by one interviewee that there was almost an ironic confirmation of ‘the way things were’ in using the statistics as follows:

“We use it [hotstats] to see where we are against the competitors...(as) that’s a good benchmark to say well actually we are not as good as we want but we are doing better than the competitors, or we are not doing as well as our competitors, so we need to up our game.”

The interviewees also confirmed that they made use of external forecasting guidance, such as the annual PwC (2012) forecast, which was useful at the strategic stage in trying to estimate medium-term trends within the sector. All the interviewees talked about the need for adaptability and diversification in order to respond to the loss of corporate business following the financial crisis. ‘Growth’ per se, however, was acknowledged as being very difficult in a declining market, and hence survivability was the main focus.

Whilst budgeting remains to be a complex and perplexing process, the underlying message from this brief project undertaken within the hospitality sector is that the annual budgeting process has continued to be useful in facilitating management control, providing a reporting channel for owners, and also for motivating and ultimately helping to ensure the continued existence of the businesses and continued employment for staff.

Conclusions & acknowledgments

The initial interviews have generated some interesting findings which is part of an on-going research project looking at management control and performance measurement within the hospitality sector.

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