COMPARATIVE ANALYSIS OF BUDGETING IN THE SLOVENE HOTEL INDUSTRY

Gordana Ivankovič
Mateja Jerman

Abstract
The main purpose of the presented research was to investigate whether Slovene hotels that have a business strategy and strategic management accounting are more successful in comparison with those that still do not have a long-term business strategy and strategic management accounting. Hotels that have a business strategy and strategic management accounting are expected to be more successful in comparison with those that still do not have a long-term business strategy.
Questionnaires were distributed to the management of selected Slovene hotels. The Slovene budgeting practices were assessed in Slovene large hotels, which have more than 100 rooms. The analysis was performed at the beginning of the years 2004 and 2008, respectively. Budgeting practices in Slovene hotels were assessed by analyzing the extent to which managers used strategic management accounting and the extent to which business strategies were implemented. The analysis provides evidence that hotels with a long-term business strategy are more successful than those that that have a short-term strategy, or are even without one. Although an improvement in the field of continuous budgeting in the five-year period can be ascertained, only a minority of Slovene hotels uses standard cost as a basis for budgeting. This was the first study that ascertained discrepancies between Slovenian budgeting practice and foreign best practices, which is undoubtedly of great interest for decision-makers on the level of individual hotel.
Keywords Performance Evaluation, Management Accounting System, Hotel Industry, Budgeting

INTRODUCTION

Considering the fierce economic conditions in today's business environment, the right decisions that have to be taken on the basis of "proper" information have never been so important. Information needed for decision making lies in the domain of the management accounting system (MAS), which has to be appropriately developed and organized. Undoubtedly in the hotel industry the MAS differs substantially in comparison with other industries. Hotel enterprises have unique characteristics of their operations, as they bring together many activities that are essential for guest satisfaction. Corresponding particularities are, according to several authors (Kotas 1975, Jones and Lockwood 1998, Harris 1992): fixed facilities, direct contact with the guest, volatile customer demand, the level of supply, diversifications, effective operational time, service and consumption, the location, the critical human factor, capital intensity and the cost structure.

The characteristics of accounting theory in the hotel industry have already been specified by American authors and further tested mainly by American, British, Scandinavian and Australian researchers (Geller 1984, Brander Brown and Atkinson 2001, Collier and Gregory 1995), but still no one has attempted to upgrade the established standards USALI (System of Accounts for the Lodging Industry) with supplementary non-financial measures and more high-quality measures.

Slovene hotels unfortunately still do not monitor their performance on the basis of USALI, which provides a basis for detecting the existing state of performance and moreover renders possible a comparative analysis with international competitors. A step forward towards more efficient strategies and greater income growth was supported also by the ISO (International Organization for Standardization) standards, which are focused not only on financial results, but also on factors that affect the growth. Unfortunately in Slovenia there are still no organized and continuous activities to attain a methodical unity for recording and monitoring the economic categories in the Slovene hotel industry, and to achieve a basis for international comparison with entities that report in accordance with USALI. The importance of USALI as internationally comparable standards for the hotel industry was accentuated also by Jankovič (2005).

1. MANAGEMENT ACCOUNTING SYSTEM (MAS) IN HOTEL ENTERPRISES

Many authors emphasise that the hotel industry still does not have a properly developed MAS (Phillips 1999, Mia and Patiar 2001, Banker et al. 2000, Kavčič and Ivankovič 2006) that could provide useful information for decision making. A developed MAS is useful in meeting the needs of guests and furthermore in achieving the business objectives (Damonte et al. 1997). Chenhall and Morris (1986) and moreover Mia and Chenhall (1994) state that the information of MAS is required for high-quality decisions and for utilization of comparative advantages (Downie 1997). That is why MAS has to provide information required for management decision taking (Dent 1996, Govindarajan 1984, Mia and Chenhall 1994, Simons 1990).

For long-term effective and efficient performance, especially in hotel enterprises, the information related to service quality, introduction of additional supply, entrance on new markets, the maintenance of equipment and the human relations is vital. The development of an adequate MAS has to be primarily grounded on business objectives and business strategies. In the continuation, crucial variables (to achieve the goals) have to be identified, i.e. critical success factors (CSF).

Geller (1985 a,b,c) was the first author to analyze CSF in the hotel industry. On the basis of his findings he additionally formatted MAS for hotels. A performance measurement model of goal-oriented CSF for the hotel industry was evaluated also by Ivankovič (2004). Brotherton and Shaw (1996) linked together CSF that have to be action-oriented, measurable and manageable with key performance indicators (KPI) and critical performance measures. Furthermore, they evidenced the connection between three elements: objectives, CSF and KPI that provided in addition a basis for a

three-dimension model. Croston (1995), on the other hand, studied the impact of CSF on financial performance (as the monetary indicator-gross operating profit per available room was used). He compared 10 hotels in European capitals that were similar in size and quality. Many authors, including Geller (1985 a,b,c) and Jones (1995), provided evidence that CSFs differentiate even within the same industry and depend on the company's position, e.g. single hotel. Furthermore, he evidenced a gap between information provided by MAS and information that would be actually necessary for different levels of management (arising from CSF). Employees are the most important CSF for management of the major selected hotels (Jones 1995). This was already discovered also by Geller (1984).

2. HYPOTHESES DEVELOPMENT

Strategic management accounting is focused on value added for guests, market share and long-term strategic budgets or long-term accepted strategy. Since the effectiveness of a company depends on its capability to achieve the goals, its performance can not be left to chance, but has to be planned. We believe that:

H_1 = Hotels that have a business strategy and strategic management accounting are more successful in comparison with those that still do not have a long-term business strategy.

For a successful future performance, directed business operations should be performed. For this purpose management has to be in possession of high-quality information, which is in the domain of budgeting. We therefore presume that:

H_2 = Hotels use continuous budgeting on the basis of standard costs, which permits update actions.

Continuous budgets provide information about deviations between planned and realized categories. The hypothesis is related to the cost aspect, since its monitoring is more complex in comparison with the revenues. We expect that hotels would implement continuous budgets on the basis of standard cost, occurring from current literature and best practice. The use of dynamic (continuous) budgets provides information about costs for different scales of operation.

Continuous budgeting has three principal merits (Kavčič 1996, 10):
- it can be used independently of the scale of operation,
- we can determine the costs for different scales of production, and when we define the cost, we can assess the deviation between realized and expected costs, and
- it helps management in defining the expected costs for different scales of operation and defines the profit or loss for different scales of operation.

In the case of continuous budgeting the target level of costs is adapted to the scale of operation. In such a way the costs are comparable with the realized scale of operation. These new budgets are the basis for valuation of realized goals and monitoring the results and calculation of deviations by divisions or persons in charge.

Standard costs are theoretically eligible costs for production of the required quality of products. In dependence on eligibility, the following standard cost can be defined:

- fundamental standard costs (are defined for a longer period and are not subject to changes that occur),
- current standard costs (are subject to changes considering the changing circumstances),
- ideal standard costs (these costs take into consideration ideal circumstances, which are in practice never achieved) and
- real standard costs (the correction of ideal standard costs).

3. RESEARCH DESIGN AND DATA COLLECTION

For the purposes of this study, questionnaires were distributed to top and middle management of hotel companies in Slovenia, i.e. middle-size and large hotels (with at least 100 rooms). The questionnaires were distributed at the beginning of the years 2004 and 2008, respectively. The year 2004 was undoubtedly a landmark since Slovenia had entered into the European Union. The acceptance of the Euro followed in 2007. Therefore, this study was designed to compare 2004 (as the year before the changes in the business environment occurred) and 2008 (as the year after major changes as a consequence of integration within the European Union occurred). A secondary purpose of the study was to examine whether the environmental changes, as a consequence of a major integration within the EU, somehow impacted the development of MAS in Slovenia. The authors would like to point out that this was not a time series of comparable data, but just cut-off data.

The questionnaire was divided into two parts. The first part included general information about the hotel, while the second part included questions about the use of budgeting in Slovene hotels. The latter was assessed by analyzing the extent to which managers used strategic management accounting and the extent to which business strategies were implemented (the appropriate variables were selected in accordance with Chenhall and Morris, 1986; Mia and Clarke, 1999).

In 2004, 26 questionnaires were correctly completed, while 39 completed questionnaires were received in 2008. Hotels in both survey years were similarly geographically disposed, of similar size and there were no significant differences in their quality (star ratings). The data were collected from hotels that had more than 100 rooms. Hotels with 100 rooms or more represented 76% of the total sample in 2004 and 85% in 2008. Hotels with more than 200 and less than 250 rooms represented just 15% in 2004 and 4% in 2008. The largest hotels (more than 250 rooms) represented 8% in 2004 and 11% in 2008. In comparison with previous research (for more details see Ivankovič 2004), the share of small hotels (more than 100 and including 200 rooms) and the largest hotels (more than 250 rooms) increased. On the other hand, the share of medium-sized hotels included in the sample decreased.

In 2004 the survey included 52% four-star hotels, 38% three-star hotels and 10% five-star hotels. The data from the 2008 survey included 54% four-star hotels, 38% three-star hotels and 8% five-star hotels.

4. DATA ANALYSES AND RESULTS

4.1. Implementation of long-term strategies

We tested whether Slovene hotels that have a business strategy and strategic management accounting are more successful in comparison with those that still do not have a long-term business strategy and strategic management accounting. For this purpose two groups of hotels were formed. According to the responses, the hotels that have a business strategy and consequently a business budget were separated from those that still do not have them (hotels with a business strategy are those that have a business plan for a period of more than 3 years).

Due to a lack of appropriate financial measures in the case of the first hypothesis, testing the effectiveness of a hotel was measured by the occupancy of accommodation. We neglected the analysis of the cost structure as a parameter of strategic management accounting. In Slovenia, unfortunately, the Horwarth analyses on the basis of USALI are still not being implemented, on the basis of which the cost structure could be legible (Ivankovič 2004).

On the basis of completed questionnaires (year 2008) 20 hotels have a long-term implemented business strategy. The second group comprised 6 hotels. As can be seen, the majority of hotels have already implemented a business strategy. The results of the first group show that the most successful are hotels in the free-star category (52.4 % occupancy of accommodation), followed by four-star hotels (49% occupancy of accommodation) and five-star hotels (23.1 % occupancy of accommodation). The most successful in the first group are hotels with a three-year strategy (58.8 % occupancy of accommodation), followed by hotels with at least a five-year strategy (47.7 % occupancy of accommodation) and those with a four-year strategy (47.3 % occupancy of accommodation). The average occupancy of accommodation in the first group was 49.1%.

In the second group of hotels (hotels that do not have a long-term business strategy), the more successful hotels are those with a short-term strategy; i.e. a one-year strategy (46.7 % occupancy of accommodation) in comparison with hotels that do not have a strategy at all (42.7 % occupancy of accommodation). The average occupancy of accommodation in the second group of hotels was 44.1 %. On the basis of our results we can confirm our first hypothesis and conclude that hotels with a long-term business strategy are actually more successful in comparison with hotels that have just a short-term business strategy or are even without one.

The results of the previous research did not demonstrate a positive relation between implemented long-term strategies and the effectiveness of hotels. In the previous research (Ivankovič 2004), hotels without a long-term business strategy were more numerous (just 5 out of 15 hotels did have a long-term strategy).

4.2. Budgeting in Slovene hotels

The analysis of answers shows that all respondents monitor the realization of budgets (100% of hotels), where 96.15 % of respondents monitor the realization monthly. The majority of hotels adapt costs to the changing scale of operations monthly (38.46%). Quarterly adapted costs are present in 23.08 % cases, daily 18.38% and semi-annually and weekly around 11%. In the previous period (Ivankovič 2004), the most frequent adaptions were made quarterly (in the recent research monthly). A notable improvement is ascertained. Figure 1 presents the basis for budgeting used by Slovene hotels.

Figure 1: The share of hotels that use a particular basis for budgeting
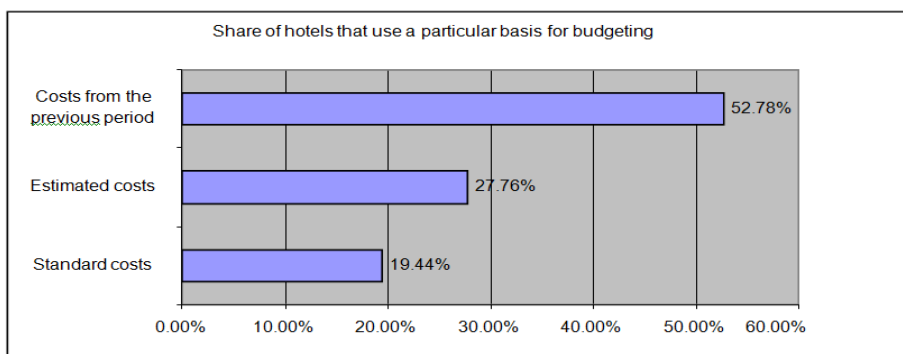
Source: Author's research

On the basis of our results, Slovene hotels most frequently use costs from the previous period as the basis for budgets in the following period (52.78%), followed by estimated costs (27.76%) and standard costs (19.44 %). The results clearly show that Slovene hotels rarely use standard costs as the basis for budgeting.

Hotels that prepare budgets on the basis of standard costs, most frequently define standard costs as modified costs in accordance with changing circumstances (57.14%), followed by those who use standard costs for a longer period; i.e. costs are not subject to changes for a few years (42.86 %).

On the basis of our results we can reject the second hypothesis. Just a small part of Slovene hotels actually use standard costs in monitoring the costs. If we compare the results with the previous analysis we can recognize that the situation has not changed significantly. Also in the previous five-year period the share of hotels that used standard costs was negligible. Just 10 out of 51 hotels indicated the use of standard costs. Just 8 hotels adopted the standard costs to changing circumstances in the period that was shorter than 3 months. According to the results, Slovene hotels still do not pursue foreign best practice and the recommendations of current literature, which emphasise the merits of this type of budget for the hotel industry.

On the basis of theoretical knowledge and best practice in the hotel industry, the continuous budgeting on the basis of standard costs appeared to be the best way to achieve the budget (Ivankovič 2004). Furthermore we were interested in the extent to which hotels achieve their budgets. The questions captured the perspective of profit and loss, revenues and the occupancy of accommodation separately. The achievement of each of these goals was evaluated separately in the following way:

- less than average achieved budgets (LP); under 90 %,
- a basic performance in achieving the goals (AP); between 90 % and 105 %
- more than average achieved budgets (MP); beyond 105 %.

The goals were specified as follows:

- the realized profit or loss in comparison with the budget of the hotel (A),
- realized revenues in comparison with the budget (B),
- the realized occupancy of the hotel in comparison with the budget (C).

Table 1: Weighted values of performance

Obje-ctives	LP (1 point)		AP (2 points)		MP (3 points)		Weighted average. Σ P%H	Weighted average %	Deviation Weight.=3 3,33
	% H	P%H	% H	P%H	% H	P%H			
A	19.23	19.23	53.58	107.16	26.92	80.76	207.15	34.53	1.20
B	0.00	0.00	73.08	146.16	26.92	80.76	226.92	37.82	4.49
C	11.54	11.54	65.38	130.76	23.08	69.24	211.54	35.26	1.93

Source: Author's research

Where:
% H – the share of hotels that provided an answer about the performance of the individual category that was subject to the analysis,
P%H – the share of hotels that was weighted on the basis of achieved objectives (1 point for LP, 2 points for AP or 3 points for MP),
LP- less than average performance,
AP- average performance,
MP- more than average performance.

The average performance is a result of variances in each category (variance upon an average performance, divided by three objectives – 33.33 %):
average performance: (1.20+4.49+1.93): 3 = 2.54.

If the hotels were to achieve average results in achieving the individual category, the average performance would amount to 2 (concerning the weight average performance). The result is higher than 2 (on average), therefore we can conclude that the selected hotels did comply with the budgets better than on average.

The results are better than average in the case of achieved revenues (variance 4.49). In comparison with the previous budget, the hotels did attain higher revenues. In the case of profit or loss (variance 1.20) and the accommodation occupancy (variance 1.93), the budgets were achieved less frequently. In the case of these indicators, hotels were less successful. On average the results exceeded the budget i.e. the average performance.

In continuation, we analyzed the most frequent modality of budgeting:
- the use of botton-up methods (A),
- the use of top-down methods (B),
- the combination of two of them (C).

In the case of the modality of budgeting, the same method of calculation in comparison with hotel achievements was used. The presence of a particular modality of budgeting was designed in the following way:
- the least present modality (LM)-weight 1,
- medium present modality (MM)-weight 2 and
- the most present modality (MPM)-weight 3.

Table 2: The modality of budgeting in Slovene hotels

Objectives	LP		MM		MPM		Weighted average % Sum	Weighted average%	100% coef. 0.91
	% P	P%H	% P	P%H	% P	P%H			
A	30.00	30.00	30.00	60.00	40.00	120.00	210.00	35.00	31.94
B	31.60	31.60	47.40	94.80	21.10	63.30	189.70	31.62	28.86
C	0.00	0.00	42.30	84.60	57.70	173.10	257.70	42.95	39.20

Source: Author's research

Where:
% H – the share of hotels that provided an answer about the modality of budgeting,
P%H – the share of hotels that was weighted on the basis of modality of budgeting.

Selected hotels most frequently use (39.2 %) the combination between botton-up and top-down methods. The budgeting on the basis of botton-up methods is performed in 31.94 % cases. Least present is the top-down method (28.86 %).

In 33.33 % of Slovene hotels, the lower levels of hierarchy propose feasibility, while the objectives are coordinated at the higher decision making levels. In the majority of selected hotels (53.33 %) the feasibilities are proposed by the higher levels of hierarchy, but are subsequently coordinated at the lower levels. Just 13.33 % of hotels use both methods.

The most frequently used method in the previous period was a combination between the botton-up and top-down methods (60 %) of budgeting, where in 30 % of cases budgeting was conducted "top-down" and in 10 % "botton-up".

CONCLUSION

The research provides evidence about the implementation of long-term strategies and characteristics of budgeting in Slovene hotels. Furthermore, the comparison with the previous research provides evidence about improvements that were made in the five-year period.

In the case of the first hypothesis, testing the results provided evidence about the implementation of long-term business strategies. More hotels implemented long-term strategies in the last five-year period. Current results demonstrate that hotels with an already implemented long-term business strategy are more successful in comparison with those that have a short-term strategy, or are even without one. To that end we can confirm the first hypothesis.

Further, the results demonstrate that just a minority of Slovene hotels use standard costs for budgeting. Although an improvement in this field in the five-year period is noticeable, we have to reject the second hypothesis.

The results will undoubtedly provide useful information for the future development of national touristic guidelines and decision taking on the level of individual hotels. The results furthermore demonstrate the main points of discrepancy between national and foreign best practice.

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Gordana Ivankovič, PhD, Associate Professor
University of Primorska, Faculty of Tourism Studies Portorož–Turistica
Obala 11a, 6320 Portorož, Slovenia
e-mail: gordana.ivankovic@turistica.si

Mateja Jerman, MSc, Senior Lecturer
University of Primorska, Faculty of Management Koper
Cankarjeva 5, 6000 Koper, Slovenia
e-mail: mateja.jerman@fm-kp.si