



Budgeting practices in the Turkish hospitality industry: An exploratory survey in the Antalya region

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ABSTRACT

The present study aims to explore budgeting practices of Turkish hotels in the Antalya region which is the most prominent tourism center of the country. The results indicate that having a budget committee and budget manual are common for Turkish hotels. Secondly, participative budgeting is advocated within the industry. Furthermore, budget period seems dynamic, because hotels state that they revise budgets and make periodic reporting within the budget period. Profitability and cost control are the primary reasons in budget preparation. Finally, budgets are viewed as one of the primary performance indicators.

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1. Introduction

Empirical studies demonstrate that budgeting appears to continue to be one of the most important and widely used planning and control tools for organizations (Abdel-Kader and Luther, 2006; Uyar, 2009). However, there is an ongoing debate about usefulness of traditional budgeting. While proponents state that it is well in place and, therefore, should be continued to be utilized, opponents claim that it should be eliminated altogether, or transformed to new budgeting approaches such as better budgeting and beyond budgeting approaches (Neely et al., 2003; De Waal, 2005; Player, 2003; Hope and Fraser, 2000; McVay and Cooke, 2006; Rickards, 2006; Bishop, 2004; Libby and Lindsay, 2007; Uyar, 2009). Although, these approaches have different solutions, they share many of the concerns of traditional budgeting (Jones, 2008b). Despite this recent debate over budgeting, evidence suggests that 'traditional budgeting' is still very much alive in industry, and it will continue to be important in the future with organizations reporting a commitment to continue the annual budgeting process (Jones, 2008b). The important point is that there is a need to make the budgeting process more effective to derive most the desired benefits.

Horngren et al. (2006, p. 181) defines budget as the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinating what needs to be done to implement that plan. Blumentritt (2006, p. 73) posits budgeting as "the process of allocating an organization's financial resources to its units, activities and investments".

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Organizations use budgets for various reasons. Among the most prominent benefits of budgeting are forecasting the future, assisting in profit maximization, providing the management a means of communication, performance evaluation, calculating rewards, motivating employees, controlling performance by investigating variances, pricing decisions and control (Joshi and Com, 1997; Joshi et al., 2003; Ahmad et al., 2003; Cruz, 2007; Oak and Schmidgall, 2009).

Although, budgeting has been one of the frequently studied subjects by academicians due to its importance for practitioners, in the authors' opinion, it needs to be investigated more extensively especially in service industries. Since budgeting is often investigated among the management accounting practices of manufacturing companies, research studies have focused on the latter rather than on service organizations. This study aims to contribute to the existing budgeting literature on service organizations. For this purpose, we conducted a questionnaire survey in Turkey. This article reports key findings obtained from that comprehensive survey concerning budgeting within Turkish hotels.

The scarcity of budgeting related research studies in service industries has been emphasized by Cruz (2007) and Chenhall (2003). In a recent study, the need for research studies on management accounting, particularly on budgeting and forecasting in the hospitality industry was also reiterated (Steed and Gu, 2009).

Furthermore, the hospitality industry is one of the most important service industries for many countries, including Turkey. Turkey is among those countries that attract millions of tourists every year, and tries to increase the share of tourism income within the Gross Domestic Product (GDP). The following numbers indicate the important role of tourism in the Turkish economy (TTYD, 2008). In 2008, the number of tourists who visited Turkey was 26,336,677; and tourism revenues reached \$21.9 billion, constituting 2.9% of

GDP. Turkey is ranked 8th and 9th in the world, respectively, in terms of international tourist arrivals and tourism revenues; tourist arrivals and tourism revenues constitute respectively, 2.7% and 2.3% of the world totals. Turkey accommodates 3338 establishments carrying a tourism investment and operation license with a bed capacity of 825,557. Antalya region, in which the study was conducted, is the most prominent tourism destination being visited by 8,564,595 tourists constituting 32.5% of the total number of tourists who visited Turkey. Antalya region has 812 establishments with 346,517 bed capacity. These numbers are indicative of Antalya region's importance in the country's hospitality industry, hence deserving investigation.

Another motivation is the lack of budget-related research studies in the hospitality industry in developing countries. Most of the previous budget-related research studies in the hospitality industry have been conducted in developed countries such as UK (Jones, 1998, 2008a) and US (Schmidgall and DeFranco, 1998; Schmidgall and Ninemeier, 1986, 1987; Steed and Gu, 2009). Hence, the need for similar studies in developing countries has activated the basic motivation for this study.

The remainder of this study is organized as follows. In Section 2, previous studies are reviewed. Section 3 explains the scope and methodology of the study. In Section 4, research findings are provided. Finally, concluding remarks and discussion will be presented.

2. Literature review

Although most of the management accounting practices studies have been conducted in developed countries, there are studies investigating implementation of those practices in developing countries as well. Wu et al. (2007) investigated the implementation of 40 management accounting practices in China, and they found that ownership type affects the kind of management accounting practices adopted. Moreover, budgeting practices (i.e. budgeting for cost control, profit budgeting, sales budgeting and production budgeting) are perceived to be highly beneficial to the organizations. Szychta (2002) conducted a survey on 60 Polish enterprises, and she found that short-term budgeting, in the form of master budgets and budgets for individual responsibility centers, is the most widely used method of accounting. However, she concluded that the implementation of management accounting tools in Polish enterprises is far from satisfactory. In their literature review, Sulaiman et al. (2004) examined the extent to which traditional and contemporary management accounting tools are being used in four Asian countries: Singapore, Malaysia, China and India. Overall, the evidence suggests that the use of contemporary management accounting tools is lacking in those countries. The use of traditional management accounting techniques, including budgeting, remains strong. Haldma and Laats (2002) carried out a mail questionnaire survey among 62 largest Estonian manufacturing companies. They found that most of the smaller companies prefer to prepare and use budgets for the company as a whole (92%); only 47% of these companies prepared budgets for internal business units. Larger companies use more sophisticated budgets, and they all compose budgets for internal business units.

Survey studies provide sufficient evidence that budgets are one of the most commonly used accounting tools for planning and controlling functions of organizations in both developed and developing countries (Ahmad et al., 2003; Joshi et al., 2003; Joshi and Com, 1997; Wijewardena and Zoysa, 1999; Szychta, 2002; Ghosh and Chan, 1997; Dugdale and Lyne, 2006). Australian and Japanese companies perceive budgets respectively, as the most important and the second most important management accounting tools (Wijewardena and Zoysa, 1999). Another survey conducted in Singapore demonstrated that the budget usage is 97% among

responding enterprises (Ghosh and Chan, 1997). The survey conducted by Ahmad et al. (2003) in Malaysia proved that companies use budgets, to a large extent, as part of their planning and control mechanisms. Joshi et al. (2003) found in their research on 146 listed and non-listed companies in Bahrain that the usage of operating budget is 100%. A survey of 12 banks revealed that the budget usage rate is 100% among banks (Joshi and Com, 1997).

In the hospitality industry, some empirical studies have been conducted about budgeting practices as well. However, most of these studies have been conducted in developed countries, such as UK, US (Jones, 1998, 2008a; Oak and Schmidgall, 2009; Schmidgall et al., 1996; Schmidgall and DeFranco, 1998; Steed and Gu, 2009).

Jones (1998, 2008a) conducted two surveys in the UK. Both surveys indicated that the key reasons organizations produce budgets are to aid control, evaluate performance, and aid planning. According to the first study (Jones, 1998), 54.6% of respondents use bottom-up approach in budgeting. However, the second study (Jones, 2008a) showed that neither of the top-down, bottom-up or combination approaches to budgeting was dominant in the UK. In both studies, budgets are viewed as the main performance indicator in hotel organizations. Another common finding is the little use of flexible budgeting in the industry. Meanwhile, the use of zero-based budgeting differs in both studies. In the first study, 52% of the sample stated that they use zero-based budgeting, whereas the second study indicated a smaller percentage. Pyhrr (1976) developed zero-base budgeting while he was at Texas Instruments, and then it gained popularity in the 1970s and 1980s. Pyhrr states that "with it, managers can reassess their operations from the ground up and justify every dollar spent in terms of current corporate goals" (Pyhrr, 1976, p. 5). Both surveys showed that firms prepare one-year budgets, and reforecast during the budgetary period, the majority on a monthly, or quarterly basis.

There are some US-based survey studies in the field as well. According to the findings of the work of Schmidgall and DeFranco (1998), all surveyed hotels use an operations budget. Majority of the respondents declared that operations budget is used for budgetary control. Budgets are primarily used as standards for comparison to actual performance figures and as a planning tool. At the majority of hotels, interdepartmental effort is generally used to prepare budgets. A recent survey by Oak and Schmidgall (2009) about budgeting practices in clubs indicated that over 90% of the respondents used participative budgeting at their club. Major reasons for having an operations budget at clubs appear to be their function as a standard (60%) and planning tool (32%). Managerial compensation was linked to budgetary control at many clubs. The operating budget is used for control purposes at 96% of the clubs. Use of the operating budget to monitor all operations of a club is reported by 90% of the clubs. Clubs' actual results are compared to several standards. 80% of club executives reported that the original budget numbers are used for comparison purposes. In addition, 71% of the respondents compared the actual results for the current accounting period with the prior accounting period's actual numbers. Steed and Gu (2009) found similar results in previous studies. A very strong practice among all hotel management companies was that senior company officers established budget guidelines. Senior company officers typically include executives responsible for sales and marketing, accounting/finance, human resources, rooms and food and beverage operations, energy and property operations. Bonus is linked to budget achievement. Budget is used as a standard for actual performance, and it is linked to the strategic plan. Combination of top-down and bottom-up approach (78.6%) is adopted by hotels, and regional economy influences budget guidelines the most (64.3%).

Pavlatos and Paggios (2009) surveyed Greek hotels about the utilization of 30 management accounting practices including budgeting practices. In this study, budgeting practices were found to

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