

Improving hotel budgetary practice—A positive theory model

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Abstract

Budgeting is the most widely used management accounting technique. This research considered contemporary hotel sector practice and theory concerning budgeting. The rationale for existing practice was further explored through qualitative research. This led to the development of recommendations concerning budgetary processes within the hotel sector.

The results identified some aspects of practice that can be improved, particularly participation in the budgeting process at lower management levels in organizations and the financial training needs of non-financial managers. These findings have implications for management in the industry and recommendations for how current budgeting practice in hotels can be enhanced are given.

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1. Introduction

In considering the generic and hospitality-applied literature related to budgeting, a number of questions were raised, such as: Is budgetary ‘normative’ (textbook) theory of practical use within the hotel industry; what is the budgetary practice in the hotel industry; and is there a need to develop new ‘positive’ theory in relation to budgeting in hotel organizations? If so, what should this be? Drawing on the argument that ‘normative’ budgetary theory, designed for manufacturing industries, may not be applicable in practice within today’s hotel industry, this research aimed to build a bridge between management accounting textbook (normative) theory and industry practice. As an outcome, it has developed theory informed by practice (‘positive budgetary theory’), which is applicable specifically in a hotel sector context.

2. Rationale

Management accounting developed rapidly during the nineteenth and early twentieth centuries to meet the changing needs for accounting information within the management hierarchy of organizations (Johnson and

Kaplan, 1987). They believe that by the 1920s most of the management accounting techniques used today had been developed and that it was originally developed to meet the needs of the manufacturing industry during industrialization. Since the 1920s theory continued to be developed but, in general, it moved away from industry development to being developed in an academic environment. The increasing complexities of organizations made such theories difficult to implement and the theory itself became questioned (Johnson and Kaplan, 1987).

Substantial management accounting literature during the 1980s and 1990s debated the gap between management accounting theory and practice (for discussion see Scapens, 1983; Drury and Dugdale, 1992; Dugdale, 1994; Ashton et al., 1995; Drysdale, 1996). As Drury and Dugdale (1992) identify that the perceived gap between theory and practice was however based on mainly anecdotal evidence. Although not *all* evidence is anecdotal (Drury et al., 1993), additional evidence concerning the nature of such a gap, and its implications are important in advancing theory. This project considered the existing theory, ‘as portrayed in textbooks’ alongside budgetary practice in the hotel industry.

An issue raised by the theory/practice debate is whether the textbook theory, or the practice, is ‘right’. Scapens (1983) argues that such discussions can imply textbooks are right and that practice is wrong. Ashton et al. (1995)

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recognized a shift from this ‘prescribing practice’ to research focusing on a better understanding of practice. This view is supported by Drury and Dugdale (1992, p. 334) who recommended a move from normative theory (what ought to be) to positive theory (what is). This highlights how industry is important in developing theory and practice has a role in *informing* theory development. Within this study, the rationale for current industry practice was investigated in order to establish where ‘textbook theory’ was not appropriate in a hospitality industry context and where current industry practice could be improved. Thus, the outcome has been informed by textbook theory and current practice to make recommendations for evolving and improving practice in the hospitality industry.

The inter-relationship between management accounting theory and practice, as portrayed in the literature, is of a complex nature. The development of ‘positive theory’, through closer researcher and practitioner links within empirical research is key in reducing any perceived gap between theory and practice within this field.

Scapens (2006) considered research has moved on from *describing* industry practice, to research that tries to *understand* industry practice. As part of this ‘understanding’ of management accounting practice, it has to be considered how practice changes over time, and the organizational and social context in which management accounting systems exist. Budgeting specifically has a long history, dating back to the industrial revolution. Academic budgeting literature applied to the hospitality industry dates back to the 1970s. As in generic management accounting, the hospitality-applied literature of the 1980s and early 1990s reflected the move to research linked to industry practice. Empirical hospitality-applied budgeting research often focused on surveys of contemporary industry practice. However, in particular, UK-based empirical research applied to hospitality budgeting has been limited (Jones, 2006a,b).

During the late 1990s and into the twenty-first century some researchers questioned the traditional annual budgeting processes. Whilst some researchers suggested a moving, ‘beyond budgeting’ others suggested budgeting techniques could be improved through, ‘better budgeting’. Although these two movements had different solutions, many of the concerns of traditional budgeting are shared. Despite this recent debate over budgeting, evidence suggests that ‘traditional budgeting’ is still very much alive in industry. Evidence also suggests budgeting will have continued importance into the future, with organizations reporting a commitment to continue the annual budgeting process.

Schmidgall has undertaken several hospitality-applied empirical research projects into aspects of hospitality budgeting, along with co-authors (Schmidgall and Nine-meier, 1986, 1987, 1989; Schmidgall et al., 1996; Schmidgall and DeFranco, 1998). Jones (1998) investigated hotel budgeting practice within the UK. This research by Jones was the first empirical investigation to focus specifically on

budgeting in the UK hotel sector. However, the conclusion was reached that whilst the research provided interesting findings concerning contemporary industry practice more research was required, “ongoing research in this area to establish why current practice is what it is, not simply what it is, will help draw theory and practice closer together to aid the development of good practice within the industry” (Jones, 1998, p. 99).

Hospitality-applied research since 1998 has related to specific aspects of budgeting and sometimes been part of a broader project (Harris and Brander-Brown, 1998; Graham and Harris, 1999; Brander-Brown and Atkinson, 2001; Sharma, 2002; Subramaniam et al., 2002; Mia and Patiar, 2002; Yuen, 2004, 2006).

Schmidgall concluded on a number of occasions, the published research does not answer all the questions concerning budgeting in the hospitality industry. Empirical research, particularly focused on the UK, is limited and in the past has reported what current practice is, without a detailed focus on the rationale for practice.

Management accounting textbooks, both generic and industry specific, provide detailed budgetary techniques for use in the industry—it is this that management accounting researchers have referred to as ‘normative theory’, or ‘textbook theory’. In this context, researchers see a value in such management accounting techniques being closely linked to the needs of industry, thus developing budgetary techniques that are appropriate for the contemporary hospitality industry would be viewed as ‘positive theory’, theory that considers the specific needs of the hospitality industry.

3. Methodological approach

The methodological stance was interpretive and corpus based. Individual corpuses (bodies of knowledge) were developed related to ‘normative’ theory and hospitality industry practice. An interpretative approach was used to interrogate the corpus to ascertain ‘positive’ theory, applied to the hospitality industry.

Preston (1995) questions whether budgets can ever actually be considered neutral and objective and believes this ignores the social construct in which they exist. This has ontological implications. If budgets exist within a social and organizational context research into budgeting needs to recognize this complexity and state of ‘reality’ within the methodological approach taken.

Many methodological perspectives are broadly accepted within management accounting research. More recent wisdom identifies not only are a variety of approaches widely accepted, but that combining approaches can lead to better understanding. Such triangulation and the ‘if it works use it’ attitude to accounting research is advocated by Hopper et al. (2001).

The overriding methodological approach is better described as ‘interpretive’. Epistemologically interpretative research uses theory to explain intention with its adequacy

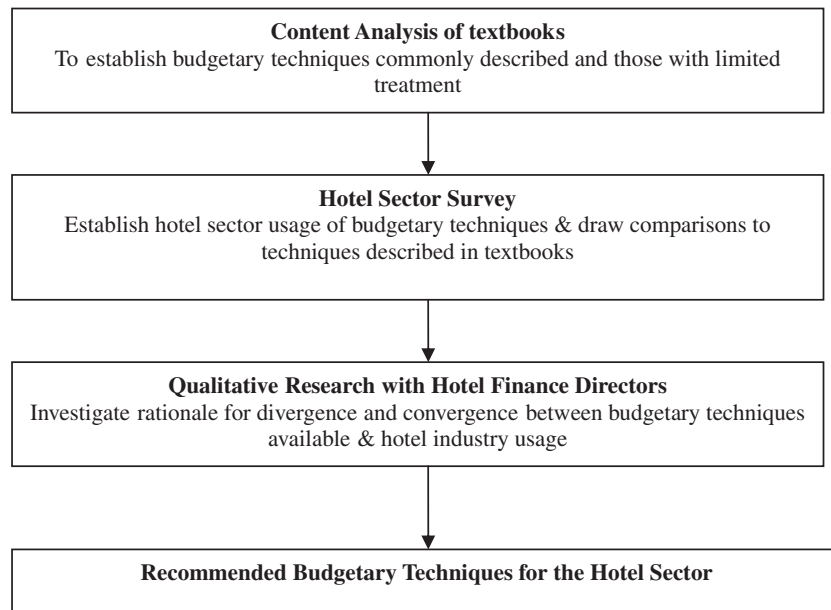


Diagram 1. A research overview.

coming from logical consistency with subjective interpretation and common sense interpretations (Ryan et al., 2002). This research used theory in order to consider and interpret industry practices, with the ‘actors’ involved in explaining their actions/intentions. The ontological stance of interpretative research is described as considering reality to be socially created through human interactions (Ryan et al., 2002). This relates well to what Scapens (2006) refers to as, ‘making sense of practice’, as his practical dimension of interpretative research. The relationship between theory and practice in interpretative accounting research is described as when theory is used to explain actions and the relationship to social actions.

Whilst the research is interpretative it drew on the notion of a ‘corpus’ based approach.

Bauer and Aarts (2000) summarize that whilst older meanings refer to the ‘complete works’ on a subject that more modern definitions refer to a ‘purposive nature of selection’ in developing a corpus of knowledge. Corpus construction has a long history of usage in linguistic and historical research, but has a relatively short history of usage more widely in social science research (Bauer and Aarts, 2000). The increasing focus on qualitative social science research (and this is specifically true in accounting-based research) lends itself to the use of a corpus approach, which allows a systematic treatment of qualitative data.

A corpus aims to include sufficient examples to show the variety within the subject under investigation. Therefore, a corpus does not aim to be all-inclusive—for example considering every text that exists on a subject—but aims at ‘saturation’ of the variety shown within the corpus (Bauer and Aarts, 2000). A corpus approach was used to develop a ‘body of knowledge’, used alongside an interpretative methodological approach to identify ‘meaning’ from the corpus.

Thus, a strength of this study is the methodological stance taken, such an approach, with a number of phases of data collection provides triangulation. Diagram 1 gives an overview of the phases of the project and how they are linked and inform the overall results and conclusions. This illustrates the interconnected nature and how the overall results are informed through this triangulation approach.

3.1. Data collection methods

Data needed to be collected related to: existing budgeting theory as portrayed in textbooks (normative theory), hotel industry budgeting practice, and the rationale for practice. The paper focuses on the final outcomes for the project in its entirety and specific research methods used. Key summary results from the earlier phases of the research are given to provide the context for the overall results and conclusions.

3.1.1. Content Analysis

To assert, for example, ‘theory states budgets are produced to aid planning and control’ requires substantiation, that this is the *norm*, i.e. generally supported within management accounting textbooks as a whole and not the opinion of a single author. To make definitive statements as to the representation of budgeting within textbooks, management accounting textbooks needed to be analysed for detailed information regarding various aspects of budgeting. The selection of an appropriate research method and development of a research framework was pivotal to this. Content Analysis was viewed as the most appropriate method, although it is not widely used in the context of accounting or hospitality applied research. The population of textbooks related to budgeting and/or management accounting was established through global

books in print (GBP). The sample was 34 textbooks, out of 118 in the final GBP list. The sample was judgmentally related to the total population. Judgemental sampling allowed all hospitality-applied textbooks to be included, alongside a sample of generic textbooks. The sampling process had regard for the level of usage, multiple editions, and multiple textbooks by a single author. The sampling process ensured such textbooks were specifically represented in the sample alongside a smaller sample of 'single author/edition' textbooks.

For the Content Analysis framework, the unit of observation was individual texts and the unit of analysis chapters and sections applied to budgeting. The coding was manifest content, i.e. keywords and phrases, with regard to latent content.

The resulting corpus of textbook content related to budgeting was then analysed to identify aspects of budgeting that are common across all or most textbooks. The use of a systematic Content Analysis identified in a specific topic, such as zero-based budgeting, is covered in the majority of textbooks, or whether it is something only shown in a minority of textbooks. The Content Analysis data identifies text content in four categories (covered, mentioned, not covered and negatively covered) for each recorded primary and secondary coded area. The analysis considered the sample against 16 primary and 73 secondary coded areas, see Table 1 for complete list of primary and secondary codes and summary results.

The analytical statistical tool considered most appropriate was Chi-square. As a non-parametric test, it is suitable for dealing with data that is shown in frequencies, as in this case. The data was less suitable for parametric testing due to the sample size and it does not lend itself to the calculation of a mean or fit with a distribution curve.

As an illustrative example of the results shown in Table 1 'why do we produce budgets?' is reported as being normative in textbooks. At this primary coding level, 27 textbooks either 'covered' or 'mentioned' why we produce budgets. With a Chi-square of 19.35 ($P < 0.5 = 3.84$), this identifies that all textbooks with a general coverage of budgeting in the sample at least 'mentioned' this aspect of budgeting. However, when you delve into the associated secondary codes, the stated reasons as to why budgets are produced, textbooks are not all in agreement. Of the six secondary coded areas, three are normative (i.e. are generally considered across the sampled textbooks). These are planning, control and performance evaluation. The Chi-squares are particularly high for planning (32.00) and control (22.13) ($P < 0.5 = 5.99$) and indeed several budgeting sections in textbooks are designed around these two concepts: budgets for planning purposes and budgets as a control tool. Whilst communication is covered by some textbooks, the Chi-test results show this is not the norm as a reason for budgeting. As can be seen in Table 1, zero-based budgeting was only considered by a minority of textbooks therefore it is not the norm in textbooks to cover this aspect.

The Content Analysis results were used in developing a survey to identify industry practice, for example, they were asked their reasons for budgeting, so this could be compared to what was commonly portrayed in textbooks.

3.1.2. *Industry survey*

A census survey of all hotel operators listed in the Hotel and Catering International Management Association (HCIMA) directory of UK Hotel Operators (HCIMA 2003) was used to identify the current practice of budgeting within UK hotel organizations. As organizations' management accounting policies and procedures are usually established at a corporate level, the survey focused on financial directors.

In total, 31 organizations completed the questionnaire, giving a 38% response rate. Such a response rate is considered above satisfactory for a postal survey. In comparison, previous hospitality based budgeting research has response rates ranging from 10% (Schmidgall et al., 1996) to 53% (Schmidgall and Ninemeier, 1987) and this survey has an above average rate in comparison.

The survey was descriptive in nature, as it was designed to identify current hotel industry practice. The data collected formed a corpus, or body of knowledge, that could be used to build an understanding of budgeting in a hospitality context. Various statistical analysis tools were used including: Chi-square tests, Spearman's rank coefficient and ANOVA. Statistically significant Chi-square tests identified aspects that can be considered commonly industry practice and those that are not industry practice.

Elements of budgetary theory commonly or infrequently used within the industry were highlighted through this statistical analysis and provides an insight into budgetary practices within UK hotel organizations. An illustrative example of this is the reasons given for budgeting. With statistically significant Chi-square tests (31.00 and 27.13, respectively; $P < 5 = 3.84$), it can be said that respondents generally agree that budgets are produced to aid control and evaluate performance. The results were further tested by being placed in rank order and compared to a previous hotel industry survey (Jones, 1997) and to Content Analysis results. When considering the two sets of industry data, 1997 and 2004, a correlation coefficient of 0.86 was achieved, with an R^2 of 73% and a critical value of 0.62. This shows there is a significant correlation between the two sets of industry data, over a 7-year period. However, when industry data is correlated against the Content Analysis results, the correlation is low (2004, 0.44 and 1997, 0.04), giving R^2 of 19% and 0%, respectively. This identifies, when in rank order, there is not a significant correlation between the most commonly cited reasons for budgeting in the Content Analysis (textbooks) and within the hotel industry. So whilst Chi-squares gives part of the picture, correlation shows a difference between industry and Content Analysis results. The key difference is the importance placed on budgeting's role in aiding

Table 1
Summary of Content Analysis results

Primary code	Associated secondary codes	
Stages in the planning process ✓✓	<ul style="list-style-type: none"> ● Identifying objectives ✓✓ ● Identifying potential strategies × ● Evaluation of strategic options × ● Select course of action × 	<ul style="list-style-type: none"> ● Implementation of long-term plans ✓ ● Monitor actual outcomes and respond to divergences from plan ×
Why do we produce budgets? ✓✓	<ul style="list-style-type: none"> ● Planning ✓✓ ● Coordination ✓ ● Communication × 	<ul style="list-style-type: none"> ● Motivation ✓ ● Control ✓✓ ● Performance evaluation ✓✓
Conflicting Roles of Budgets ××	(None)	
The budget period ✓✓	(None)	
Administration of the annual budget ×	<ul style="list-style-type: none"> ● The budget committee ×× ● Accounting staff ×× 	Budget manual ××
Stages in the budgeting process ✓✓	<ul style="list-style-type: none"> ● Communicating details of the budget policy × ● Determining the factor that restricts performance × ● Preparation of the sales budget ✓ ● Initial preparation of budgets ✓✓ 	<ul style="list-style-type: none"> ● Negotiation of budgets × ● Coordination and review of budgets × ● Final acceptance of the budgets × ● Budget review ×
A detailed illustration ✓✓	<ul style="list-style-type: none"> ● Sales budget ✓✓ ● Production budget and budgeted ✓✓ ● Direct materials usage ✓✓ ● Direct materials purchase ✓✓ ● Direct labour budget ✓✓ ● Factory overhead budget ✓✓ 	<ul style="list-style-type: none"> ● Selling and administration budget ✓✓ ● Departmental budgets ✓✓ ● Master budget ✓✓ ● Cash budgets ✓✓ ● Final review ✓✓
Computerized budgeting ×	(None)	
The budgeting process in non-profit-making organizations ××	Line item budgets ××	Planning, programming budgeting systems (PPBS) ××
Incremental and zero-base budgeting ×	(None)	
Flexible budgeting ✓✓	<ul style="list-style-type: none"> ● Budget formula ×× ● Performance reports × ● Variable costs vary with input × ● Allowance based on output ×× 	<ul style="list-style-type: none"> ● Standard hours produced ×× ● Analysis of variances into price and quantity effects × ● Influence of other factors ××
The use of budgets as targets ✓✓	<ul style="list-style-type: none"> ● Aspiration levels ×× ● The effect of budget levels on performance ✓ 	Conflicting roles of budgets ××
The use of accounting control techniques for performance evaluation ✓✓	<ul style="list-style-type: none"> ● The dysfunctional consequences of performance measures × ● Managerial accounting information in performance evaluations × 	The educational role of the accountant ××
Participation in the budgeting and standard setting process ✓✓	<ul style="list-style-type: none"> ● Factors influencing participation × ● The influence of participation in the budget process ✓ 	Conditions for effective participation in the budgeting process ×
Bias in the budgeting process ××	(None)	
Management use of budgets ✓✓	<ul style="list-style-type: none"> ● Management's authority and responsibility must be clear × ● The managers must accept their budgets and consider them to be attainable × ● Budgetary control information must be understood by the managers ×× 	<ul style="list-style-type: none"> ● Training in budgetary control must be effective ×× ● Managers must understand the aim of budgetary information ××

✓✓ = normative, ✓ = probably normative, × = probably not normative, and ×× = not normative.

Notes: The results 'normative' and 'not normative' reflect statistically significant Chi-square results; the results 'probably normative' and 'probably not normative' are results not showing significant Chi-square results and are based on further statistical analysis and probability.

planning. Within textbooks this is the most commonly cited reason for budgeting, but within industry budgets' aiding control and evaluating performance are more commonly cited.

The qualitative phase of the research allowed such differences to be explored in more detail, for example, the reason why these are the most commonly cited reasons for budgeting.

3.1.3. *Qualitative empirical data*

Previous survey-based research into hospitality budgeting (Collier and Gregory, 1995; Schmidgall and Ninemeier, 1987; Schmidgall et al., 1996) provides evidence that some aspects of budgetary theory are not widely used within the industry, but not the reason why. This research has taken that additional step by collecting qualitative data as to why certain elements of budgeting theory are, or are not, used in practice. In this respect, this work makes a further contribution to knowledge.

The sample was drawn from those involved within the survey phase. The resulting data provides a corpus of finance director's opinions concerning both industry practice and 'textbook' theory related to budgeting in the hotel industry. The qualitative data collected, via interviews and in-depth questionnaires, helped to provide *understanding* as to why current practice is what it is. This fits with Scapens' (2006) views that management accounting research needs to engage more with industry to understand practice, not just to identify practice. Six respondents took part in this qualitative phase of research. Given the qualitative nature of this phase of the research and its role as part of a 'multi-method' approach to developing a corpus of knowledge concerning hospitality budgeting the volume of responses was not a key issue.

As an illustrative example of this would be the reasons for budgeting. Whilst one respondent believed planning was key, this view was based on the argument that the budgetary plan had to be accurate before it could be used for control and performance evaluation purposes. All other respondents agreed that 'to aid control' and as 'a performance measurer' were key functions of budgeting. In general, the rationale for this related to cost control against budget as opposed revenue or profit generation.

The role as a performance measure for budgets was clearly the main factor in one organizations bonus reward system for managers. In other organizations it was used as a performance measure, but seemed to be more associated with keeping operational costs down than other financial implications for the operation. In discussing the difference in views between the hotel industry and textbooks concerning the budgets role in planning, it was viewed that due to the strategic, long-term nature of business planning the budget is viewed as not being as useful in this context, being a tactical tool at best. Clearly, in these organizations a budgetary plan is produced, *but* the main

purpose of the budgetary plan is so budgetary control and performance measurement can be undertaken.

4. Results

This paper focuses on the positive theory developed for budgeting in hotels, as such detailed findings from specific subsections of the research (Content Analysis, industry practice survey; and qualitative investigation of practice) are not extensively covered in this paper. The Content Analysis results identified aspects of budgeting that were 'normative', 'probably normative', 'probably not normative' and 'not normative' in textbooks. A summary of the results is given in Table 1.

Findings from the industry research established which aspects of practice were in line with 'normative' theory. The survey focused on three distinct areas: budgetary planning and preparation, budgetary control and review, and human aspects of budgeting.

The follow-up qualitative study provided a rationale for industry practice, which has informed the development of budgeting in a hospitality industry context. Therefore, these results can be viewed as a positive theory development in budgeting as they are informed by practice, textbook (normative) theory and the rationale for industry practice. For a number of aspects such as the need for participation in the budgeting process, or the marginal reporting of zero-base budgeting, there was agreement between theory and practice. However, flexible budgeting was viewed as having little use by those in the hotel industry, whilst it was norm in textbooks. The combined results and outcomes from the various phases of the research are further explored in the 'hospitality positive budgetary theory', which forms the key results of this investigation.

4.1. *Hospitality positive budgetary theory*

Through *understanding* why textbook (normative) budgetary theory is, or is not, fully utilized within the hotel industry, it is possible to develop 'positive' budgetary theory that is of value in practice within hotel organizations. There may be external factors that impact on what is considered acceptable budgetary practice, or there may be an impact due to the structure, size, or ownership of an organization. This development of 'positive' budgetary theory for hotel organizations is interpreting 'textbook' theory, industry practice and the underlying reasoning for such practice in order to form 'positive' budgetary theory, that is to say theory informed by an *understanding* of practice (Scapens, 2006).

Table 2 provides a summary overview of the results, with the key outcomes discussed in Sections 4.1.1–4.1.3. The results follow three broad aspects of budgeting: budgetary planning and preparation, budgetary control and review, and human aspects of budgeting, although some aspects of budgeting transcend these somewhat artificial boundaries.

Table 2
Summary of positive theory for budgeting in hotels

Heading	Hospitality positive theory position
Assumption that budgets are useful	'Annual organizational budgets are considered useful and have both internal and external functions, they can provide lenders with an annual financial plan for the business (often this is a requirement).'
Why are budgets produced?	'The key internal reasons for annual budgets in hospitality can be seen as for cost control and performance evaluation purposes ... organizations should seek to maximize the benefits of the budget ... the budget serves the dual roles of an internal management accounting tool and meets the demands for a financial plan from backers or lenders to the organization ... budgets have the potential to provide secondary functions, such as coordination, motivating managers, and aiding communication within the organization, given the investment in budgeting, individual organizations should maximize their potential usage.'
The budget period	'Shortcomings of an annual fixed budget...in times of economic uncertainty are recognized ... they are still highly valued in the hospitality industry ...shortcomings ... minimized by reforecasting during the budgetary year.'
What influences how far in advance budgets are started?	'When the budget is started varies ... 3 months ... most common ... key influences ... requirements of financial backers and ... to maximize previous year's data available ... there is not a strong correlation between when the budget was started and the layers in the management structure, number of hotels operated, or sales revenue.'
Information used in setting budgets	'The most commonly used information in setting an annual budget is previous years data (historical operating data). In addition ... use of in-house market analysis, industry statistics and indicators, and local economic indicators ... shift away from the use of national to local economic indicators in recent years ... the localized impact of 'economic disasters' may also be a factor.'
Computerized budgeting	'The use of computers in budgeting in so accepted as the norm that they warrant little attention ... It is however worth noting spreadsheets have allowed the uploading of budgets for multi-unit operations over a shorter timescale, almost eliminating size from the equation.'
Zero base budgeting	'Zero-base budgeting has its uses ... it is not considered a routine process that should be adopted across the hospitality industry. The nature of the business ... suggests a more accurate budget, particularly sales budget, can be achieved by using an incremental approach to budgeting.'
Flexible budgets	'Flexible budgeting is not widely used in the hotel industry ... usage reflects a similar pattern in other industries ... reasons are ... associated with its perceived complexity and cost ... no consensus as to its benefits ... not viewed as a technique the industry should adopt wholesale.'
Achievable budgets motivate managers	'Industry and textbooks agree ... having budgets that are achievable but difficult to attain motivates managers ... neither industry or textbooks view motivation as a key reason for budgeting.'
Participation in budgeting	'Textbooks and the hospitality industry agree...participation in the budget setting process is important ... UK hospitality industry shows ... bottom-up, combination and top-down approaches being used by differing organizations ... outside the UK ... less usage of the traditional top-down approach in the industry ... the rationale for a top-down approach is not justifiable in that other hospitality organizations in the UK and abroad are using combination or bottom-up approaches ... UK hospitality industry needs to reflect on their recognition that participation is important in budget setting and how this translates to budgeting practice Current levels of top-down budgeting are too high ... particular issue of lack of full involvement by management at the hotel department level It may require better financial training for lower level managers to address this.'
Budgetary gamesmanship	'Budgetary gamesmanship is not an industry-wide issue that needs to be addressed.'
Budgets role in performance evaluation	'One of the key reasons identified for budgeting in the hospitality industry is to measure performance ... viewed as the main, or one of a few key performance indicators used ... most common performance measures used are previous years results, and budgeted figures ... other more subjective measures are used ... emphasis is placed on the budget ... its perceived accuracy and tangible nature ... The hospitality industry use of budgets as a performance measure is valid, if they are used alongside other performance measure and budgets continue to be an accurate measure, particularly in times of economic uncertainty'
Use of original budget in performance evaluation	'Reforecasts provide valuable internal ... data for short-term operational planning, but the original budget is the focus for performance evaluation as it is viewed as an accurate, achievable annual plan'
Benchmarks and investigation of variance	'Hotel organizations set benchmarks for variance ... combination of percentage ... monetary value or repeat of adverse variance...the hotel unit manager is likely to be involved alongside the department manager in resolving department level variance. At unit level and above ... most likely to be ... manager at that level in the organization ... raises issues ... financial expertise and training needs of department level management in hotels'
Manager's authority and responsibility in budgetary control	'The hospitality industry supports the notion that an individual manager's authority and responsibility must be clear for budgetary control to work effectively ... unclear if this is practice ... particularly in relation to hotel based department managers. The hospitality industry needs to ensure budgetary authority and responsibility is matched, particularly at department level'
Use of budget committees and budget manuals	'Hospitality Industry and textbooks concur ... use of budget committees and budget manuals are not the norm ... not perceived as adding value to the process or being practical to administer'
Review of budgetary procedures	'Established ... budgets are useful in the hospitality industry ... lack of routine review of the processes used ... a concern ... Budgets run the danger of being viewed as an 'unnecessary ritual' if ... not reviewed. Incremental change is shown ... but the hospitality industry needs to be more proactive in reviewing budgetary processes'

4.1.1. *Budgetary planning and preparation*

Firstly, is the assumption that budgets are useful valid? Annual organizational budgets were considered useful by participants, having both an internal and external function. The budget was viewed as ‘the backbone’ of an organization's performance measurement, not least due to the demands of lenders that viewed the budget as an inherent part of the annual business planning cycle and required budgets to be lodged with them prior to the start of the financial year. The importance of external backers requirements related to the internal budgeting process has not been recognized in previous hospitality-applied empirical work in this area. Despite ‘beyond budgeting’ (Hope and Fraser, 2003) the continued value of annual budgeting was supported by the research findings.

Textbooks place a greater emphasis on budgetary planning than industry. Given the short-term nature of annual budgets the industry view these as a ‘tactical tool’ at best, believing planning for the organization is well in place prior to the start of an annual budgeting round. Budgets were viewed as an operational tool to aid managers in controlling the operation and keeping costs down. The importance of operational control and cost control are of prime importance to the user group. In many cases, an individual's performance is measured and bonuses awarded in relation to performance against budget, highlighting the importance of the control aspect to individual operational managers. The budget, however, serves the dual roles of an internal management accounting tool and meeting the demands for a financial plan from backers or lenders to the organization.

The key internal reasons for annual budgets in the hospitality industry are for cost control and performance evaluation purposes. Budgets have the potential to provide secondary functions, such as coordination, motivating managers, and aiding communication within the organization, given the investment in budget preparation, it is recommended that individual organizations should maximize their potential usage and consider these.

The vast majority of organizations used a fixed 12-month period for budgeting, usually fitting with the financial year. In times of economic certainty producing such annual budgets is seen to have more value than in times of uncertainty. Whilst those interviewed recognized that ‘unexpected events’ (i.e. 9/11) can make comparison to an annual fixed budgets more difficult, they believed in the value of having a fixed annual budget, any shortcomings being overcome by ‘commonsense’ budget interpretations, or the use of shorter term reforecasting. So whilst the shortcomings of an annual fixed budget in times of economic uncertainty are recognized budgets are still highly valued in the UK hospitality industry.

It was evident from the qualitative phase that the annual budget has a pivotal role to play in communicating plans and cash flow forecasts to debt providers. When these were required was taken into account in initiating the annual process. Organizations started as late as possible, so they

had as much previous year data as possible—ideally starting after data from quarter-three was available. This also applied to those using zero-base budgeting. Having statistically analysed the data, the size of an organization was not seen as an issue, as technology ensured uploading data from many hotels was no more time consuming than for a few hotels. Spreadsheets have allowed the uploading of budgets for multi-unit operations, almost eliminating size from the equation, so uploading data from 30, 40, 200 hotels takes no longer than for 10 units. Thus the process of preparing incremental annual budgets and coordinating and communicating these to units at a distance is smoothed by the use of computer spreadsheets.

When the budget is started varies, with 3 months in advance being most common. The key influences are the requirements of financial backers and the desire to maximize the previous year's data available. There is not a strong correlation between when the budget was started and the layers in the management structure, number of hotels operated, or sales revenue levels.

When setting an annual budget, the most commonly used information is previous year's data (historical operating data). This supports findings from previous hospitality-applied studies. This study shows a shift away from national economic indicators, with an increased emphasis on local economic indicators. This is supported by interviewees' comments concerning each hotel working in a specific local market that needs to be addressed in budgeting. Economic disasters for the industry (9/11, 7/7, foot and mouth) in recent years have had localized impact and this may be the reason for a shift of emphasis from national to local economic indicators.

Zero-base budgeting is not routinely used in the industry. The reasons given for this are several: firstly, the hotel business was viewed as relatively static and predictable (at the unit level); and given this more is to be gained by incremental budgeting and developing budgets from previous year's sales figures than from a zero base. Finance Directors believed, given the nature of the hotel industry, more precision could be gained preparing sales budgets incrementally than by starting from zero and that you may have more to lose than gain from zero-based budgets. Even those using zero-based budgeting for costs believe you also need to check against last year's data to provide a ‘reality check’, as it is easy to get a zero-based budget, ‘radically wrong’. Zero-base budgeting has its uses, however, it is not considered a routine process that should be adopted widely across the hospitality industry.

4.1.2. *Budgetary control and review*

Flexible budgeting was the one aspect of budgeting where there was a substantial difference of opinion between textbooks and industry practice. Within the hotel industry, flexible budgeting was not widely used because it is believed that the annual budget is generally accurate, and where it was not (i.e. after 9/11), reforecasts used alongside the original budget, alleviated the need for a flexible budget.

The argument, put forward by previous hospitality-applied research (Collier and Gregory, 1995), that it is the high fixed cost nature of the hotel industry that leads to this low usage, was not supported by these findings. Whilst some participants viewed the cost nature of the industry as *part* of the issue in low flexible budget usage, more commonly the reasons given related to cost and complexity. This is supported by surveys in other industries that show a similar (around 20%) usage of the technique (Puxty and Lyall, 1989; Dugdale and Lyne, 2004), identifying low usage is not a hotel industry specific issue. There is not a consensus even by those that using flexible budgets as to the benefits, therefore it is not a technique the hotel industry should wholesale adopt.

One of the key reasons identified for budgeting is to measure performance; budgets were viewed as the main or one of a few key performance indicators by participants. The most commonly used performance measures are previous year's results, and budgets. Whilst other, more subjective, measures are utilized the emphasis is placed on the budget, due to its perceived accuracy and tangible nature. Interviewees were asked what they believed to be the future of budgets as a performance indicator. All firmly believed the budget would remain the main performance indicator, whilst accepting other indicators are also useful. This supports the textbook view that organizations should use a few key indicators. It is also supported the research by Ekholm and Wallin (2000) who believe that the traditional annual budget can be used effectively alongside other techniques.

Results show that reforecasts provide valuable internal data for short-term operational planning. The original budget is, however, the focus for performance evaluation as it is an accurate and achievable annual plan.

Hotel organizations set benchmarks for variances. These include a combination of percentage, monetary value or the repeat of an adverse variance. The hotel unit manager is likely to be involved alongside the department manager in resolving department level variances. At unit level and above it is most likely to be the manager at that level in the organization. This raises the issues of the financial expertise and training needs of department level management in hotels in relation to budgets.

The hospitality industry survey reported statistically significant results that organizations had, at some stage, reviewed their budgetary procedures; however, this was more likely to be non-routinely, with only five organizations reviewing processes annually. The 'beyond budgeting' argument that budgets can become almost 'rituals' within an organization is based on them not being questioned as a management tool. The 'better budgeting' movement suggests organizations need to rethink how they conduct their budgeting (Neely et al., 2003; Dugdale and Lyne, 2004), but to do this it is necessary to review the budgeting process. Interviewees suggested the cliché, 'if it's not broke why fix it?' Whilst some organizations did review budget process annually, this was more tinkering with detail and

not a full-scale review of the process. Change was viewed more as an incremental process. This is supported by the fact that despite low routine review of budgeting procedures in organizations, change has evidently taken place over time, as identified by hospitality industry surveys over a period of time.

The hospitality industry and textbooks concur that the use of budget committees and budget manuals are not the norm. The interviewees identified that a few pages of guidance, or notes on a spreadsheet file, were adequate and resources were simply not available to produce a budget manual. It has been established that budgets are useful in the hospitality industry, but the lack of routine review of the processes used is a concern. Budgets do run the danger of being viewed as an 'unnecessary ritual' if not reviewed. Incremental change is evident, but the hospitality industry needs to be more proactive in reviewing budgetary processes.

The survey showed significant results in agreement with the statement that, '*individual manager's authority and responsibility must be clear for budgetary control to work effectively*'. Evidence seems to show a match between accountability and responsibility at unit and organizational level, but the picture is less clear at the hotel department level. At this level, less input is made when establishing the budget or in investigating variances by the department manager. Interviewees suggests a lack of financial understanding by hotel departmental managers, and centralized purchasing, may mean a lack of responsibility that is linked to an equal lack of accountability in budgetary control for hotel department managers. So whilst the hospitality industry supports the notion that an individual manager's authority and responsibility must be clear for budgetary control to work effectively, it is unclear if this is actually happening in practice, particularly for department managers. The hospitality industry needs to ensure budgetary authority and responsibility is matched, particularly at department level.

4.1.3. Human aspects of budgeting

Around a quarter of those surveyed in the UK used a top-down approach to budgeting, which is higher than industry applied surveys in other countries, around 5%, (Schmidgall et al., 1996). Given the survey also identified all respondents either agreed or strongly agreed with the statement that, '*participation is key to managers accepting their budgets and considering them attainable*' this is a concern. The vast majority also agreed or strongly agreed with the statement, '*participation in the budgeting process is key when using budgets as a performance measure*'. The possible reasons given for the top-down approach used by some hospitality firms relates to management structures, managers' financial experience and responsibilities in the industry. The top-down approach to budgeting, led by head office, was linked to traditional/centralized management structures. It was argued that in such structures buying is also centralized, so responsibility for costs is not

at unit level. This coupled with managers at unit level not having the financial expertise to construct a budget, were the justifications for top-down approaches to budgeting in the industry.

The survey data identified which managers have full or partial involvement in setting budgets within hotel organizations. Managers' were more likely to be involved in setting budgets at their own level in the organization (i.e. the hotel general manager involved in hotel level budgets). However, a hotel general manager is more likely to be involved in setting individual departments' budgets, than the head of department themselves. Equally, if department heads are involved the vast majority only have partial, not full involvement, which might be considered 'pseudoparticipation'. Thus, it highlights poor levels of participation in the budget setting process is a bigger issue at department level, than at unit level and the issue of lack of financial expertise may be a bigger issue at this level of management. Kosturakis and Eyster's (1979) recommend significant participation important in the budgeting process and that training could help participants fully understand the process; these recommendations are still valid today.

Textbooks and the hospitality industry agree that participation in the budget setting process is important. The UK hospitality industry shows the bottom-up, combination and top-down approaches being used by differing organizations. However, outside the UK, there is less usage of the traditional top-down approach in the industry (see Table 3). The rationale for a top-down approach is not justifiable, as other hospitality organizations in the UK and abroad are using a combination or bottom-up approaches. The UK hospitality industry needs to reflect on their recognition that participation is important in budget setting and translates this to practice as the current levels of top-down budgeting are too high.

Industry and textbooks agree that having budgets that are achievable but difficult to attain motivates managers, however, neither industry nor textbooks view motivation as a key reason for budgeting. Although some organizations reported budgetary gamesmanship to be an issue the results do not show the concerns to be significant industry-wide, therefore it is not an industry-wide issue to be addressed.

5. Conclusions

Previous research concerning budgetary practices within hotel organizations is limited by a number of factors. They either; focus on a specific aspect of budgeting (DeFranco, 1997; Kosturakis and Eyster, 1979); cover elements of budgeting as part of a broader survey (Collier and Gregory, 1995; Graham and Harris, 1999; Brignall et al., 1992); are restricted to a limited number of establishments (Brignall et al., 1992; Collier and Gregory, 1995; Graham and Harris, 1999); or are focused on identifying practice, not that practice (Schmidgall and Ninemeier, 1986, 1987; Schmidgall et al., 1996; Schmidgall and DeFranco, 1998). This research has developed positive budgetary theory for the hospitality industry by undertaking theoretically informed research that is useful to industry practitioners (Scapens, 2006). Thus, new theory has been developed from prior theory and 'meanings' from those in industry.

The positive theory provides some specific aspects of budgeting where the industry needs to reconsider current practice (see Table 2). An example of this is in relation to participation levels, particularly of hotel department managers, and the lack of routine review of budgetary procedures. The financial training needs of non-financial managers, specifically at lower levels in organizations are identified as a key issue. The results should be used to provide hotel industry specific training programmes for such managers to improve budgetary control as currently practised.

In developing new positive theory, judgements have been made concerning normative (textbook) theory and hotel industry practice. Positive theory is *informed* by practice, but is far more than a statement of current practice. As Drury and Dugdale (1992) identify, practice identifies the 'current state', but theory should represent the 'desired state'. In the research questions posed in the introduction, the question of whether 'normative theory' is of practical use within the hospitality industry was raised. The results have identified incidences where normative theory and practice are in line, but also highlight where they differ.

Through critically reviewing the underpinning rationale for practice in some incidences, industry practice has been rationalized as an appropriate part of positive theory. Examples of this include: when budgets are started, the information used in setting budgets, and the use of budgets as a performance measure. However, in reviewing the underpinning rationale for practice in other incidences the evidence suggests industry practice is best reviewed or amended. For example, industry agrees with normative theory that participation is essential in managers' acceptance of the budget, but practice does not show full participation, particularly at lower management levels. In such an example, positive theory suggests the industry needs to reconsider its position and implement a management-training programme to overcome these issues.

The positive theory developed is not the same as industry practice or normative theory. It is a development of

Table 3
Approach to budgeting reported in hospitality applied surveys

	UK (Jones, 2004) (%)	UK (Jones, 1998) (%)	USA (Schmidgall and Ninemeier, 1987) (%)	USA (Schmidgall et al., 1996) (%)	Scandinavia (Schmidgall et al., 1996) (%)
Top-down	26	14	13	5	4
Bottom-up	36	55	57	80	64
Combination	39	32	27	16	28
Other	0	0	3	0	4

existing theory informed by previous theory, industry practice and the rationale for practice, and it establishes budgetary techniques and approaches that are appropriate in a hospitality industry context. Whilst previous hospitality studies have focused on one aspect, generally industry practice, it is the insight of in depth investigation of both normative theory and industry practice that is the strength of this study and makes it a valid contribution to knowledge in this area.

Scapens (2006) ‘practical dimensions’ consider the current (and future) role of management accounting research as ‘helping practitioners’. This development of positive theory, informed by an understanding of practice allows the results to be used in this way. During the research process, summary survey details were made available to those taking part and also published within the British Association of Hospitality Accountants (BAHA) Times (Jones, 2004). This allows those in industry to compare their own current practice with that in other hospitality organizations. The research findings provide some specific aspects where industry needs to reconsider current practice, such as the level of participation in budgeting and the routine review of budgetary procedures—this is key to operational management. The financial training needs of non-financial managers, specifically at lower levels in organizations are also identified. Such data can be used to provide industry specific training programmes for such managers. Wider dissemination of these findings to industry is important and is best achieved through working with professional bodies.

However complete, all research has its limitations. Covalesski et al. (2003) argue that budgeting incorporates practically every aspect of management accounting as it encompasses elements of performance measurement, cost accounting, responsibility accounting, and managers’ remuneration. This is further supported by Luft and Shields’ (2003) mapping of management accounting empirical research, which clearly shows links between budgeting research and other management accounting research.

The core of this research project is budgeting, so whilst it includes performance measurement, for example, this is in relation to budgets’ role as a performance measure and not a full investigation of performance measures per se. The integrated nature of management accounting and how it relates to organizational structures, operational management and strategic management means there can be no clear boundary drawn for research into budgeting. By its nature, budgeting is inherently linked to other aspects of management accounting and management within organizations, so the boundaries of any research can be viewed as artificial. Whilst budgeting cannot be considered in isolation to other research areas, boundaries need to be drawn in order to provide depth of focus in such research.

As identified by Scapens (2006) and Ryan et al. (2002) management accounting research is not static and develops over time. This research is based on a ‘snap-shot’ of

contemporary practice and normative theory portrayed in textbooks, both of which may change with time. However, by comparing research results to previous studies, patterns can be identified: for example, the issue of the training needs of non-financial managers in hospitality was identified by Kosturakis and Eyster (1979) and is verified as still being an issue today. As this research provides the first insight into some aspects of budgeting—for example, developing normative theory through a systematic Content Analysis of textbooks, there are no previous findings with which to draw comparisons. Given this, some aspects can only be viewed as a ‘snap-shot’, but this is valuable research and develops knowledge and understanding of budgeting.

Whilst comparisons are drawn with other empirical research findings, the number of previous studies undertaken and their focus limits this. Thus, limited comparisons can be drawn to other industries for some aspects of budgeting, due to the nature of previous empirical research available.

Whilst this research has achieved the research aim and objectives set it also raises areas for future and continued research into budgeting. These include the budgets link with other performance measures. Budgets were viewed as the main, or one of a few key performance indicators within the industry. There is much interest in the area of performance measurement and how these are used; this research centred on budgeting, but highlights an interesting topic as to how budgets are used alongside other performance measures and any tensions between such performance measures. One such example is the weight given to performance against budget when using a ‘balanced scorecard’ approach. Another issue in this area is the use of budgets as a performance indicator where budgetary participation does not include full involvement in the budgetary process.

The influence of external stakeholders on management accounting processes is another aspect raised from this study. It was evident that external stakeholders, in the form of banks and debt providers, influenced the budgeting process. Management accounting is defined as accounting for internal management use, but this study has shown how an external stakeholder influences the budgetary process. This raises the question as to the extent that external factors influence management accounting techniques adopted more widely within organizations and this could be explored further.

Ongoing research and dissemination is required to ensure the benefits of budgeting in the hospitality industry remain and that practice is developed to meet change needs over time.

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