OPERATIONAL BUDGETING IN HOSPITALITY

Nikica Radović, Tijana Radojević
Faculty of Tourism and Hospitality Management, Singidunum University, Belgrade, Serbia

Abstract:
Successful business enterprises are based on reliable and proper financial reporting. Financial reporting is the basis in forming valuable components that make up the elements of the budget. In hospitality industry, budget appears as a set business plan, but also as an instrument of control efficiency. Through the operating budget, management of a hotel is able to compare planned and actual values in business in a financial year and this continuously examines the results of its operations. The aim of this paper is to highlight the important role of operational budgeting in the complex system of business enterprises in the hospitality industry.

1. INTRODUCTION

To be successful in business, every company needs to create a business plan that forms the basis of management decisions. Based on the business plan, company defines the objectives of the business, looks at the risks and uncertainties and develops business activities that lead to the realization of the set goals. A very important part of the business plan relates to the financial plan for a certain period of operation, which is called a budget. Budget is one of the key management decisions, while at the same time predictive techniques, and also instrument of planning and control [1].

In the process of budgeting, management defines the holders of the budgeting process, method of preparation, alignment, review and approval of the budget [2]. The business activities of small businesses, over the formation of the budget process, are not defined, they are spontaneous. While in the business of larger systems, it is desirable to define the steps and observe them for more effective budgeting.

When creating a budget, it is necessary to comply with the defined procedures for this activity, based on the choice of the method according to which the budget is created. Three methods of creating the budget are well-known [1].

a) from top to bottom - top managers make up the budgets of all organizational parts and pass them to managers sector.
b) bottom-up - the first version of the business plan make managers by sector, and then send them to the correction, alignment and acceptance by top management.
c) Zero based budgeting – The starting point is the idea that the budget for the next period of business activity is equal to zero, and the management has an obligation to define the purpose for the use of funds. It is started with the division of responsibilities between the managers, each in its sector, have to identify and justify the proposal of the business plan. In this way, it is necessary to analyze the costs and benefits of all of the activities and decide which they think should be achieved in the next period. Method Zero based budgeting is typically used for marketing, research and development sector, the sector of human resources, etc.

According to [3], advantages of Zero Based Budgeting include: rational allocation of resources according to the needs of the sector, defining the optimal allocation of resources, the efficient discovery of artificially increased budget, increasing coordination, communication and motivation within the organization. Also this method has disadvantages and they relate to the lack of flexibility because the budgeting process requires precisely defined period, and management must be trained to know to carry out activities at all levels.

2. OPERATIONAL BUDGETING IN HOSPITALITY

The hotel business is characterized by complex business processes, given the nature of many activities that take place in daily operations in several departments (sectors). At the same time, a significant impact on the operations of the hotel company is reflected in the changing internal and external developments in the tourism market. In connection with the foregoing facts, it is confirmed that for hotel company is very important to have created a business plan. Budget of a hotel company is a financial business plan for the upcoming financial year.

When hotel company prepares the budget for upcoming year, they usually used method of bottom-up.

According to this method, managers of department within the hotel company, at the request of the General Manager, are obliged to make their department budgets which then will be integrated into a general budget of a company. Then the general budget is given to the control of the General Manager who than forwarded for approval and acceptance of the Supervisory Board or the owner. Annual adopted and approved budget does not change and is the final business plan for the new fiscal year [4]. The aim of the budgeting in hotel company is defining values of income and expenditures for each organizational unit of business, in order to project the results pursued.

In hospitality industry, operating and capital budget are usually created. Operating budget by sector includes planned revenues and expenditures. Capital budget includes activities planned to invest in a hotel company. Investments that are often receive through these financial plan are: investments that are related to regular maintenance of equipment, purchase inventory, urgent investments in the event of a failure in the course of providing services to guests, etc. Operating and capital budgets are interrelated and are indispensable for the needs of a successful business. The information contained in the operating budget indicate financial opportunities for investment and information from capital budget presented the period of return on investment.

According to operating and capital budgets, in hospitality is necessary to prepare the financial budget. The financial budget is based on short-term business plans, ie. at the level of a financial
In a series of individual budgets is necessary to create the marketing budget, which should include the promotion of the business plan of hotel company - trade shows, TV appearances, advertising of printed materials and the like. At the same time, we should pay attention to the administration budget of a hotel company which include planned items of salaries, fees and representation.

If the hotel company has more organizational units ie. more places where it provides its services, it is necessary that each organizational unit individually make their budgets by sector.

3. CONCLUSION

Budgeting is a quantitative definition of the elements of a business plan as an integral part of organizational business planning, as one of the four elements of strategic management. At the beginning of the budget development it is necessary to do a detailed analysis of business operations in order to detect defects and hazards in operations, with a view to making a decision on which to overcome and improve business processes. In this way, through sector budget at the level of organizational units is enabled continuous insight into complex business of a hotel company. Actual performance results that are achieved may be a monthly compared with target values within sectors, within organizational units, as well as on the whole level of the hotel company.

Monthly comparison and analysis enables the flexible and precise response to variations in the business. In this way, the operating budget is controlled by the hotel management company ie. in addition to its planning function it has a controlling role in business. After the analysis of planned and actual values in business of hotel company and defining deviations, management brings a certain strategic decisions relating to the assessment, for instance, whether it is necessary to revise the budget for the coming period, whether due to the state budget costs must examine and rearrange business activities or everything is in satisfactory, planned level of values and it is not necessary to download any activities.