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Economics and Law  
GÖTEBORG UNIVERSITY

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# The Budget Process in a Hotel

## A case study of Novotel

Department of Business Administration  
Management Accounting  
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Authors:  
Christian Haberler, 690526  
Hans-Erik Wahll, 830519

*Tutor:*  
Olle Westin



School of Business  
Economics and Law  
GÖTEBORG UNIVERSITY

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Christian Haberler

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Hans-Erik Wahll



School of Business  
Economics and Law  
GÖTEBORG UNIVERSITY

## Abstract

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**Title:** The Budget Process in a Hotel - A case study of Novotel

**Key words:** Budget, Budget process

**Thesis Language:** English

**Summary Language:** German

**Background and problem:** There has been a lot of discussion about the relevance of the budget but so far most companies choose to have one. The reason for a budget is to plan and coordinate a company. A company could use the budget as a tool of control to direct departments; especially for Novotel, the budget is an important tool for steering. The fields of application of budget are many and its purpose could vary a lot due to how it's used in the companies. The managements acting in the use of budget as a tool of steering are very important. It is necessary for the management to have the employees trust. In many companies the budget is processed with the help from managers without a discussion with the involved departments whether it is reasonable or not. The budget is usually based on last years outcome of sales and little consideration is taken to the department's judgement during the operational year.

**Purpose:** The purpose of this thesis is to survey and analyse the process of budgeting at Novotel. The authors will also make a survey to analyse how the budget are working in the different departments that we have investigated.

**Delimitations:** We have chosen to investigate only one company. We wish to point out that this case study can't be related to other companies.

**Method:** We have chosen to make a case study about the budget process at Novotel. This thesis is based on a qualitative approach. We have mainly used two ways to collect the information we need to be able to reach our purposes. We have chosen to collect the most important information through interviews with persons at the company that we have selected.

**Result and conclusions:** The thesis gives a detailed survey of the budget process in Novotel and how it is planned, implemented and followed up. It also shows that there are great differences in how the management and the heads of the departments experience budget.

**Suggestions for further studies:** We suggest further studies with direction in the area of business without a budget.

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# 1 Introduction

*This chapter intends to give the reader a general background about the process of budgeting and the purpose of budget. We will also present to the reader some brief background information of the hotel Novotel. In the problem frame we present a few questions at issue within budgeting that we intend to answer. Our thought is to give the reader an insight on how the process of budgeting functions at Novotel.*

## 1.1 Background

A budget is, according to Nordstedts dictionary, defined as “*a plan for use of income and its distribution of different expenses during a certain time, usually a year*”.<sup>1</sup> From the beginning the purpose of a budget was to plan and coordinate a business. A company could use the budget as a tool of control to direct departments. Gradually the intention of the budget process was to create a long term plan where the company drew up superior goals and then tried to reach the targeted goals.<sup>2</sup> For companies, the budget is an important instrument to create profitability to the owners but also to the employees. The budget also functions as a tool to a company in order to analyze the business and to make a prognostication for the next operational year. This facilitates for the management to discover any disturbances in the business rhythm and to take care of any deviations.

According to Bergstrand & Olve, the traditional way for a management executive business leader is to directly manoeuvre the process of budgeting, i.e. the budget is made up centrally and the management in each department implements it without any participation of the employees. The corporate management considers the budget to be a help to reach a more effective distribution of resources and an increased communication between the departments. Due to increased globalisation goal management direction was developed, which means that the management is trying to create a discussion between different divisions or departments in order to give them more freedom and independence to work towards the business’ specific goals.<sup>3</sup> There are generally three main types of budgets. These are profit budget, cash flow budget and balanced budget. The different types of budgets are mainly intended to be used by the company as a whole and not for a specific part of the company. In any company it can also be reasons to make budgets for specific functions or departments. The company that is the choice of subject for this thesis uses a staff budget.

However, the companies of today are beginning to have a somewhat different view at the process of budgeting and are beginning to question the relevance of budget since it is both difficult to handle and expensive.<sup>4</sup> One of the pioneers of the questioning of budgeting is Jan Wallander, the man who converted Handelsbanken to a business without a budget. According to Jan Wallander, the budget causes a lockup within an organisation and it is also hard work for the heads of the departments to implement the budget amongst the employees. The budget is a forced, artificial and unnatural allocation to a point that the management construct on the business is made from simplified assumptions. It could even lead to a struggle of power between different departments in order to reduce costs and give an increased profitability,

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<sup>1</sup> Wordfinder – Nordstedts digitala Dictionary

<sup>2</sup> Hedman - Isaksson (2001), p. 3.

<sup>3</sup> Bergstrand - Olve (1996), pp. 26-27.

<sup>4</sup> Fraser - Hope (2004), p. 21.

which in turn could lead to the company's loss of solidarity.<sup>5</sup> Despite the increasing criticism against a budget, many companies have not abandoned the use of a budget. Instead they still consider it as the only way to measure the companies' efficiency and profitability.

## **1.2 Presentation of Novotel**

Novotel is a middleclass hotel with 148 rooms sited by Älvsborgsbron in Gothenburg. Novotel franchises the name from the largest chain of hotels in the world, Accor, while the business is run by the company Hotell Waterfront AB. The hotel is divided into several different departments, such as reception, restaurant, kitchen and cleaning. Each department is responsible for its own budget.

The budgetary work for the next operational year, which is initiated in April, is mainly set by the sales department. The budget is an important tool of steering at Novotel. The restaurant and the kitchen do not start their planning until September and large parts of the budget are already set by the sales department. Accor demands that the budget is set at the latest in October, but by this time three of the strongest revenues months for Novotel are still remaining. This is a great disadvantage at the planning stage and is a specific problem for the sales department. The financial controller says: *"when they (the sales department) have to sit with their crystal ball for the year to come, October, November and December, which are our strongest months, are missing on the outcome and they still have to budget for the next year without the final result and that, of course, is pretty difficult"*.<sup>6</sup>

At the beginning of each month the heads of the departments gather together to what is called an operational group meeting, where the Managing Director (MD) gives a presentation to each department's revenue and costs. For the restaurant and kitchen the sales turnover revenues, number of hours worked and costs are evaluated with different business ratios in comparison to the budget. Any deviations from the budget are investigated and taken care of immediately if necessary since, as the financial controller says *"if the difference is too big compared to the budget, it's the reality that is wrong instead, see, not the budget itself but there's a reason why the difference has occurred"*.<sup>7</sup>

The question we asked us was if the heads of the departments, the chef and the restaurant manager, experienced the budget in the same way as the management executive. The heads of the departments' point of view is that the restaurant business should be seen as a service to the hotel and therefore not be burdened with a budget that has the function of an economical tool of steering to the management executive. When we asked the chef what use or disadvantage the budget, in his opinion has, he answered *"one's ruled by imaginary numbers"*.<sup>8</sup> This expression is striking for the way the kitchen and restaurant business experiences the use of budget.

## **1.3 Problem description**

The fields of application of a budget are many and its purpose could vary a lot due to how it's used in the companies. For some companies budget is only a planning for the near future

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<sup>5</sup> Wallander (1994), p. 96.

<sup>6</sup> The Financial controller (2006-04-28)

<sup>7</sup> Ibid., (2006-04-28)

<sup>8</sup> The Chef (2006-05-03)

while it in other companies is a way of steering and distributing responsibilities in the business. This is only two of the arguments of the use of a budget in companies but all have their reasons why they choose to spend resources on budgeting. However, steering and planning are usually the most important reasons for the companies.<sup>9</sup>

Even though many companies make the assessment that a budget has a large effect and most companies use a budget, there is criticism pointed to the occurrence. The critics consider the budget to be too rigid and in society today it's important to be able to adjust quickly to the changes of the surrounding world. The fact that many of the models that are used to process the budget was created in the first half of the 20<sup>th</sup> century and has not developed much since then, is by the critics seen as yet another nail in the coffin of budgets.<sup>10</sup>

The managements acting in the use of a budget as a tool of steering are very important. It is necessary to have the employees trust. In many companies the budget is processed with the help from managers without a discussion with the involved departments whether it is reasonable or not. The budget is usually based on last years outcome of sales and little consideration is taken to the department's judgement during the operational year.

When the management within a line of business lacks the competence necessary to predict the development within the business that is to be budgeted, the targets might only be a number taken out of the air, without support from the real world. It's not all that unusual that the management within a company comes from other types of businesses. This could be a good thing since it makes it possible to bring in a new way of thinking into the business. The lack of knowledge can, however, make it very difficult to, without expert help, set a realistic budget, even if there is enough information to create a fair budget. It is then important that the management has a dialogue with the different departments in order to get the information necessary, and being able to make use of the competence that is needed to create a fair plan.

The use of budgeting within the business decreases when the heads of departments feel that the goals set are impossible to reach. The possible steering effects, that the budget is capable to create, then disappear.

The budgets efficiency of steering, distribution of responsibility and its use for planning has been questioned. If it's also taken into consideration that much time is spent, staff and money is used to put together, use and evaluate the budget one might wonder why any company at all use a budget. Since most companies still use a budget it must be considered to give some kind of surplus value.<sup>11</sup>

Novotel is one company that has chosen to use a budget. The company is in addition applying a great significance to the budget and the process of budgeting. Novotel is a hotel with many departments and the budget seems to give the management a useful tool to steer and control the company. According to our investigation, we can state that the budget is not apprehended in the same way by the management as by the heads of departments.

The members of the staff in the different departments have to discuss amongst each other during the budgetary work. One might think that it would lead to a greater insight into each others work and an increased understanding for the other departments' tasks. This could,

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<sup>9</sup> Greve (1996), p. 16.

<sup>10</sup> Dahlin - Lundén (1998), s. 120.

<sup>11</sup> Ibid., p. 10.



however, be seen from different views and if the departments are influenced by the other departments decisions the budgetary work could also be a source of conflict.

If there is a reward system tied to the budget, the staff members' motivation will decrease if they are unable to reach or influence the goals of the budget before they even tried. The critics have a line of arguments against budgeting, as we mentioned above, and as an alternative they suggest, for instance, to work closer to the customers with increased flexibility. They consider it to be very important to plan ahead. Furthermore, they consider it to be more important to work with contemporary social and environmental analysis and predictions that can change fast instead of locking one self up to made up goals of budget.<sup>12</sup>

### **1.4 Question at issue**

Our main question is:

- What does the process of budgeting look like at Novotel and how is it implemented in the business?

We follow up our main question through the following question:

- What's the relevance of the budget as a tool of steering in the hotel?
- Does the management experience the use of the budget in the same way as the chosen departments, kitchen and restaurant?

### **1.5 Purpose**

The purpose of this thesis is to find out how the process of budgeting within a company is disposed. With the process of budgeting we mean all that is done with the budget, from the planning, implementation and the follow up. We wish to investigate if the budget, which is an important tool for the steering of Novotel, is experienced in the same way by the management as by the chosen departments.

Our main purpose is:

- To make a survey of and analyse the process of budgeting at Novotel.
- To make a survey of and analyse how the budget are experienced by the different departments that we have investigated.

### **1.6 Delimitations**

The purpose of the thesis is to find an understanding of how the budget process functions. We are limited with time so we have only preformed interviews with the financial controller and also with two heads of the departments. We consider these three persons to be central for our thesis; to investigate how the process of budgeting is performed at Novotel. We will also investigate how the heads of the departments experience the budget within the restaurant and kitchen. We delimitate by not investigating further how the other departments experience the handling of budget. Additional interviews would not have brought more value to the thesis compared to the means demanded in order to get the information that can be placed on analytic work. We chose to interview the financial controller since she has the most general

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<sup>12</sup> Dahlin - Lundén, 1998 p. 120

view on the whole business. It is, however, the head of marketing that has the main responsibility for the process of budgeting but he lacks the financial controllers' general view.

We have chosen to investigate only one company. The reasons for this are mainly because we had a good contact at Novotel and the company gave us an incredible opportunity to take part in gathering information about the running of the company. We wish to emphasize that we are not investigating a company in general, we have chosen a specific company and the survey of their process of budgeting cannot be seen as representative for the line of business, but shows how a specific process of budgeting is functioning in a specific company. To investigate several companies would have been too time consuming if we intended to have the same large empiric material that we received from Novotel. It would also have been difficult to find further companies that would help us out in the same noble way that Novotel did. We wish to point out that this case study can't be related to other companies.

## 2 Method

*In this chapter we'll explain why we've chosen to do a case study and a qualitative study. We will also discuss the objectivity and how we went about the collection of data. In the end of this chapter we explain the credibility and the validity of the research.*

Budgeting is a known conception that occurs in some form in all companies and through this study we got the opportunity to investigate how the reality functions. We have been allowed to get a glimpse at how a company's process of budgeting is disposed and which thoughts that may occur during the process. We wanted to find out if the different departments had a similar apprehension of the budget. The question we asked ourselves was if there was a remarkable difference between the lectures at school, the course books and how a company really handles its process of budgeting. Since one of the authors have been working several years in the hotel line of business there was a possibility to find a greater understanding for the reasoning within the management when the budget is brought up to subject.

### 2.1 Case Study

We have chosen to make a case study about the budget process at Novotel. A case study can be defined as an investigation of a group that could vary from a person to a small group or to an organization. The purpose of a case study is to get a comprehensive picture, in our case how the process of budget in the company is functioning. We will interview three employees on a managerial level at the hotel Novotel in order to find out this comprehensive picture of the process of budgeting. In case studies the data is usually collected in order to give the scientist a greater picture.<sup>13</sup>

In an attempt to strengthen the reliability of this thesis we chose to interview the financial controller first. We could then use her answers to specify our questions to the restaurant and kitchen head managers. The thought behind this was that through the first interview we could get a more comprehensive picture of the process of budgeting through the vision of the management. After analysing of the collected interview material we revised our questions to the chosen heads of the departments in order to get out as much as possible from these interviews. It is our opinion that this strengthens the validity of the collected interview material and it gives us a richer picture of the process of budgeting in the company.

In this thesis we will collect information from three different departments in an attempt to give us a greater picture to proceed from. The disadvantage with the use of the case study as method is that it can't be generalized to be valid in other companies since it is specific to the company at hand. When one conducts a case study one should bear in mind to create a definition of the problem so that one doing the work always will be aware of which purpose to hold on to. This is important to avoid to be flooded by information. A process study means that one is emerging deeper into the subject, while a momentary study instead handles certain limited purposes. The difference of conduction of the case study is the depth of understanding of the subject that one devotes oneself to.<sup>14</sup> Our study is a momentary study.

How many interviews that are needed in order to have a study full of perspectives is a question of adjustment between the width and the depth of the study. It's necessary to collect

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<sup>13</sup> Davidson - Patel (2003), p. 54.

<sup>14</sup> Lundahl - Skärvad (1999), p. 189.

enough background information that could be of relevance to the study. Relevant questions in the interview must be summarized objectively without mixing in ones own opinions. The researchers' task is to interpret theory and empiric research and from these draw conclusions. The great challenge with a qualitative study is to interpret the result and be able to get conclusions out of a great quantity of data. In the conclusion the researcher mustn't suppose that the case study gives a general validation to a population but instead be seen as to create theories.<sup>15</sup>

## **2.2 Qualitative interviews**

The purpose to a qualitative investigation is to get to know the qualities in the persons interviewed, such as how they experience themselves in their surroundings, their conditions of life and on the whole in which context they are part of.<sup>16</sup> The thought to our interview-questions is to understand how the respondents experience and act to the process of budgeting at Novotel. It's important for the interviewer to create a dialogue with the interviewee and therefore it isn't possible to create a questionnaire where alternative answers already are pre-printed. One might say that the research result in abduction where the interviewer creates a preliminary theory from the individual case and then tries it on new cases to get different angles of approach. The answers that come out from the interviews create a great deal of the empiric research. By readjusting the theory it is possible for the researcher to develop and expand the theory. It is important to possess previous knowledge and to be prepared within the area as the qualitative interview is conducted.<sup>17</sup>

There are a few basics that should be taken into consideration while conducting a qualitative investigation. According to Lundahl & Skärvad all interpretations should be influenced by previous experiences and concepts such as earlier studies in the subject chosen. During the fieldwork, it's important that the collected theory is tried and formulated at the same time as the collecting of information is taking place and to see things with the eyes of the interviewees. One should have the respondents' interpretation of the social environment that they think of as an important part of their lives in mind, but also try to get a picture of how processes and courses have changed during the time passed.<sup>18</sup>

We have mainly used two ways to collect the information we need to be able to reach our goals. We have chosen to collect the most important information through interviews with persons at the company that we have selected. The other method is collection of facts through information that we fetched from printed sources such as books, articles and Internet.

The reasons that we've chosen these methods are that it's the best way to reach as complete information as possible about the company Novotel's process of budgeting. Our purpose is to describe the process of budgeting and to find out if the chosen departments share the same conception.

A personal interview face to face is the method that gives us the greatest freedom to be able to ask supplementary questions and to conduct the discussion in the direction this thesis is meant to investigate. We wrote and gave the questions beforehand to the interviewees. We did this in order to give them the opportunity to prepare themselves and if possible find important

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<sup>15</sup> Lundahl - Skärvad (1999), p. 194.

<sup>16</sup> Ibid., p. 101.

<sup>17</sup> Davidson - Patel (2003), p. 78.

<sup>18</sup> Lundahl - Skärvad (1999), p. 102.

material that would give us a deeper picture of their answers to our questionnaires. The questions we gave to them were the questions we wanted answered, but depending on how the conversations developed we wanted to be prepared to go outside the frame for the questionnaire if it would be useful to the thesis in general. If we had held on too tight to the questions we might have lost important information. We conducted three interviews. Both researchers were present during the interviews and we took notes as well as taped the interviews. The interview with the financial controller lasted approximately 75 minutes and the chef and the restaurant manager were interviewed together for approximately 30 minutes. Since both of us took part in the interview, it gave us the possibility to compare our impressions of the interview and tell one another how we interpreted the answers and the interviewees' behaviour during the interviews. One of the great advantages with the personal interview is that it's possible to read more than just the words. The body language and the tone of voice can also tell us about the area to be conducted. The reason for taping the interviews is that we otherwise might have forgotten important details that could have been of significance later on. We also took accurate notes during the interviews, both as a mean of support during the interviews and to be able to go back while writing out the recorded interviews.

### ***2.3 Objectivity***

The objectivity in our interviews could be coloured in many ways. One of the researchers has been working at the hotel during a number of years and therefore knows the interviewees. Due to this, some things might be taken for granted and not explained in detail since the interviewees suppose that some information is obvious. We also believe, however, that since the respondents know one of the interviewers it could lead to the fact that the answers are much more open and the interviewees are not restrained when answering the questions. The fact that one of the interviewers is totally unknown by the respondents and is lacking all the knowledge that they have, should guarantee that no important and basic questions are missed.

### ***2.4 Collection of data***

We experienced an increased need for knowledge in order to formulate relevant questions and afterwards would be able to analyse and answer the purpose of the thesis. It was important to us that the purpose of the thesis was obvious when we formulated the questions for the interviews and that the questions were designed to answer the questions we had doing this thesis instead of the other way around. We have been looking for data within the area, such as articles, books and papers. The search for information has taken place on the Internet and in the library database of Gothenburg Library for literature- and articles (GUNDA). The search-words have been budgeting, process of budgeting, budgetless steering and economic steering. There are plenty of papers and books about budgeting. There is, however, no book that brings up the subject of budgeting in the hotel line of business, so we must be exploring something new.

### ***2.5 Reliability/Validity***

In a qualitative study, validity is aimed to bring understanding to the whole process of research. The scientist can formulate several different interpretations as long as he can defend them. In a qualitative study the interviewee can change his point of view during the interview if he has come to new insights. This is not seen as evidence for a low reliability but instead as

background to the unique situation.<sup>19</sup> The interviewees of our study has, however, not changed their point of view during the duration of the interview, but instead held on to their opinions.

When collecting data it is usual to use triangulation. Triangulation means that several different methods of collecting data is applied, such as interviews, books and documents which then are used in the analysis to give a richer picture.<sup>20</sup> We have used the method of triangulation as we first collected the theoretical knowledge about the process of budgeting in order to be able to formulate relevant questions on the subject and thereafter conducted the interviews.

If the interviewee explains his opinion of the process of budgeting and the scientist discovers in his studies that this contradicts what has been said, it means that it could be a richer interpretation and does not have to be considered as an imperfection. In a qualitative study the scientist does not have to obtain the same answers.<sup>21</sup> In a qualitative study it is difficult to form unambiguous rules and procedures, it is important for the scientist to carefully describe the process of researching so that the reader himself can make his own conclusion. If the scientist has this in mind the validity of the thesis is reinforced.<sup>22</sup> We have taken this into consideration by carefully describing how we have carried out our research.

We also wish to call attention to the probability that the answers would come out the same at a later interview-occasion as trustworthy since one of the researchers has worked in the company several years. It is, however, probable that the result would have been different if both researches had been unknown to the respondents.

## **2.6 Criticism of the sources**

According to Thurén, four different criterions are necessary to make a judgement of criticism of the sources. These four criterions are authenticity, time linkage, dependence and tendency.<sup>23</sup>

Since our thesis is built on narrative sources, we have been urgent to express what has been said by the persons we interviewed. To be able to achieve this we have taped the interviews and afterwards we have made transcriptions of the text, word by word. We used some quotations but mostly we revised the amount of text that comes from making transcriptions out of the spoken language. To secure the time linkage we have recorded the interviews and within a short timeframe made the transcriptions. That way we have not been able to mix up the facts or add something. When it comes to the criterion dependence we have asked ourselves if our interviewees have been independent from outside influences. With the final result we consider it to be so. Neither the restaurant manager nor the chef has been contacted by the management before the interviews took place and therefore they have not been exposed to the pressures of answering questions in the interest of the company. Our sources during the interviews had a tendency not to be totally impartial. They exist in different hierarchical levels of the organisation and therefore a difference in their answers can be noticed.<sup>24</sup>

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<sup>19</sup> Davidson - Patel (2003), p. 103.

<sup>20</sup> Davidson - Patel (2003), p. 104.

<sup>21</sup> Ibid., p. 104.

<sup>22</sup> Ibid., p. 105.

<sup>23</sup> Thurén (1992), p. 70.

<sup>24</sup> Ibid., pp. 71-72.

## 3 Budgeting

*In this chapter we present the theoretical frame of references. The chapter contains among other things a presentation of the budget, economical management, leadership, the budget process and alternatives to the budget.*

### 3.1 The budget

A budget is future oriented and steering, an estimate of the future. A budget is a plan for the near future where the companies are trying to estimate their revenues and costs. The time period that is usually budgeted is a period of up to a year. The budget sets the frames for the economically limits of the company. This means in most cases that the company must hold its costs under a fixed limit and its revenue over a fixed limit. The budget is being produced from historical values but since it is produced for a future period of time, the complete information is missing.<sup>25</sup> This means that the producers of the budget are forced to make estimates and assumptions about the future in order to make the budget relevant. In addition to this, the budget distributes responsibility to them that uses it to reach the goal of the budget. These goals are often monetary but non monetary goals can also exist in the budget.

The budget has many purposes. A budget is meant to function as a plan for what the company must achieve in a future period. A budget can, however, be of further advantage besides the boundaries that it provides. The budget becomes a program of action for the company and is therefore an important tool for the planning and steering of the company.<sup>26</sup> The company can achieve a continuous steering of the business, a way to better achieve the goals of the company and to give the employees within the company a codetermination. The budget can become a tool for achieving assignment of responsibilities with freedom of actions within the different departments.<sup>27</sup>

The production of the budget can also function as an agent to tie the management corporate to its employees. If the persons involved in the budget are engaged in the matter of setting the goals, it is probable that the goals are actually achieved since all aim in the same direction. It will create a dialogue between the different parts of the company which makes the budget a bearer of information. The budget will also give the company an opportunity to look over its business and to see in which direction the company is going.<sup>28</sup> Moreover, this work also gives the company an opportunity to see what options there might be for the future.

### 3.2 History of a budget

The budget has its name from the 19<sup>th</sup> century England. Every year, the English financial minister presented the revenue and costs of the state and these statements were kept in a leather briefcase which was called a budget.<sup>29</sup>

The budget in Sweden has been developed a lot during the 20<sup>th</sup> century and its use has changed during the decades. Before the 1950's it was almost only the real big companies of Sweden that had a budget, but after 1950 more and more companies started to use a budget. It

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<sup>25</sup> Greve (1996), p. 11.

<sup>26</sup> Bergstrand - Olve (1996), p. 11.

<sup>27</sup> Ibid., pp. 18-19.

<sup>28</sup> Lundén - Dahlin (1998), p. 10.

<sup>29</sup> Greve (1996), p. 9.

was used to plan and coordinate the business and the key word of the budgetary work was efficiency.<sup>30</sup> It was important that the companies produced efficiently and that the resources were used wisely. It also leads to the development of many different models of budgeting.

During the 1960's the surrounding world was stable and this made it possible for the management corporation of the companies to direct much of the business centrally. In the 1970's, many of the companies prognostications came out wrong due to the oil crisis. When the surrounding world showed its uncertainty, the companies were forced to meet up to this in some way. The solution was to decentralise the business in order for the companies to react faster. From the earlier order, when the management had a great deal of the responsibility, it was now moved downwards in the organisation. This also changed the roll of the budget in the companies. When the budget in a lesser degree could be used to direct the operational management, it could instead be used in a greater degree to measure the responsibility of the collaborators.<sup>31</sup> The budget set the goals for the collaborators, to achieve targeted business ratios. When the period was over, the budgeted goals could be compared to the achieved results and responsibility could be claimed by those who were set out to fulfil the goals.

In the 1980's the direction of the budget once again changed. The American companies met harsh competition from the Japanese companies. They wagered, according to Greve, on constant improvements and on as few as possible of inaccurate products as it's a lot cheaper to prevent inaccuracies than to attend to them afterwards. Earlier the companies had been very concentrated of the hierarchy of the company and the budget had reflected this, but since the new times came, the companies became more interested by the flow of products in the company. The emphasis of the budget was now concentrated on coordinating all the activities of the flow that it took to make the business function in a satisfactory matter. A budget is seen, according to Greve, as a combination of the budget direction of the different times towards efficiency, responsibility and orientation of flow.<sup>32</sup>

### ***3.3 Increased need for economical management***

Economical management means that the economy will steer and do so from economical measurements and demands. This is a problem, as Broström expresses when a person in charge lacks a deeper knowledge of economy and its models of direction, he will have difficulties judging the situation and to make the remedies needed. Therefore, it's important for a management corporation to educate its heads of the departments in economical management.<sup>33</sup>

The primary task for a profit centre is to increase revenues and thereafter adjust the possible cost increase, or if the revenue has been decreased the costs must also decrease. As Broström says, all types of revenue are as interesting and all units are responsible for its economical result and can therefore influence it if necessary, both in a positive and a negative way.<sup>34</sup>

When a company changes its economical model it is important for the management to involve everybody that is participating, in order to simplify the model and make it explicit. The management must know what they are out to achieve with the new model, if the head of the

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<sup>30</sup> Greve (1996), p. 11.

<sup>31</sup> Ibid., p. 12.

<sup>32</sup> Ibid., p. 15.

<sup>33</sup> Broström et.al. (2005), p. 253.

<sup>34</sup> Ibid., p. 254.



department in his turn will be able to interpret the information in the same way as a financial controller; to get the same result, experience and use of the budget. It is very important for the management to give directions that are apprehended in the same way by everyone involved.<sup>35</sup> One problem the management faces is the question of the production of the budget; should it be centralised or decentralised? If the management develops specific questions at issue in the planning of next years budget, a centralised process of budgeting will only let itself be influenced by the management instead of letting the responsibility be placed on every department of a decentralised process of budgeting.<sup>36</sup> The management must choose the form of direction they see fit to meet their needs in spreading the resources and the economical responsibility.<sup>37</sup> A budget is an instrument of direction within a company. It is important that the management have enough information to give orders that are adjusted to the current situation.<sup>38</sup>

### **3.4 Leadership styles and budget**

According to a study by Hopwood, it has been shown that there are different leadership styles for the use of budget and their effects. Hopwood had classified three different styles of leadership which are the budget constrained, the result conscious and the account free styles.<sup>39</sup>

In the budget constrained leadership style, the business is directly controlled by the budget. Each department is judged on how the goals of the budget are achieved. The budget will not be questioned, but follows the targeted goals and a possible diversion will be examined by the management. The departments' purpose is to achieve the goals of the budget since the management will compare revenue to costs. A difference compared to the budget will lead to an evaluation by the management with no considerations to the cause.<sup>40</sup>

In the result conscious leadership style, is not the goals that are most important but instead means to reach the goal. It is important for departments to show their ability to expand the departments' efficiency where the budget reports are being judged by how the goal has been reached. Costs are at focus in this leadership style.<sup>41</sup>

In the account free leadership style, the heads of the departments' accomplishment plays a subordinate roll in the process of budgeting.<sup>42</sup>

Differences between the budget constrained and the result conscious leadership style is that the result conscious one sees the budget evaluation in a greater perspective, they work in a more long term manner to reduce cost, compared to the budget constrained where the management stands for a rigid evaluation without any considerations.<sup>43</sup> The management of the budget constrained leadership style can invite the different departments to the processing of the budget if these can contribute with knowledge, while the result conscious leadership style involves all departments in the processing of the budget.<sup>44</sup>

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<sup>35</sup> Broström et.al. (2005), p. 276.

<sup>36</sup> Ibid., p. 276.

<sup>37</sup> Ibid., (2005), p. 278.

<sup>38</sup> Ibid., (2005), p. 176.

<sup>39</sup> Westin (1993), p. 42.

<sup>40</sup> Hopwood (1973), p. 19.

<sup>41</sup> Jönsson (1987), see booklet.

<sup>42</sup> Westin (1993), p. 42.

<sup>43</sup> Hopwood (1973), p. 19.

<sup>44</sup> Ibid., p. 161.

In the budget constrained leadership style the management judges what performances of work they find reasonable and it's what the employees must achieve. This might, however, create anxiety to fail in reaching the goals in the departments if the goals are set too high. In the result conscious leadership style the relations are good among the departments and the employees, which create a feeling of participation since a deviation in the budget is accepted by the management.<sup>45</sup> The account free leadership style avoids rivalry and strain in the organisation but at the cost of a poorer result and efforts. The result conscious leadership style must be regarded as promoting and democratic, while the budget constrained leader is seen as a prompter chief.<sup>46</sup>

The budget constrained leadership style was often presented in a negative way and many were of the opinion that it had to change; the view of the leadership style had to be modified. Jönsson mentions Otley considered the budget constrained leadership style to be focusing on a budget that provides every department's needs and therefore avoids pressure and tension among the departments. According to Jönsson, Otley considers the other two leadership styles to create stress by the external pressure that can arise from a competitive position as well.<sup>47</sup>

### **3.5 Different means of control for budgeting**

The three well-known forms of control for budgeting are direct control, program direction and goal direction.<sup>48</sup> The original, direct control was used within the traditional industrial corporations. The budget is set centrally, which implies that MD and the financial controller are the only ones involved in the process of budgeting. The process of budgeting includes all from planning to budget follow up.<sup>49</sup>

A further development of the direct control is called program directions. Written instructions about the way the work should be conducted were formulated. The program direction might be understood as a system of control of the co-workers, while the management often looks upon it as an instrument of coordination for the companies' different parts, a plan of action.

Due to the increased globalisation, the goal direction was developed in which the companies divisions or departments are allowed to work independently. The intention of the management is to create a discussion between the different units, distributing the responsibility to the managers from goals as basic data for the subsequent budget review. The purpose of the goal direction is to create a forum between divisions and departments.<sup>50</sup>

### **3.6 Budget in different lines of businesses**

The process of resources conversion is divided into three different types of business activities; trading companies, service-producing companies and product-producing companies.<sup>51</sup>

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<sup>45</sup> Westin (1993), p. 43.

<sup>46</sup> Jönsson (1987), see booklet.

<sup>47</sup> Ibid., see booklet.

<sup>48</sup> Bergstrand - Olve (1996), p. 25.

<sup>49</sup> Andersson (1995), p. 106.

<sup>50</sup> Bergstrand - Olve (1996), pp. 26-27.

<sup>51</sup> Andersson (1995), p. 98.

In trading companies this primary means to control the merchandise flow. Important components in a budget are purchasing, storage, sales and administration, and important business ratios are creditor's debts, stock of merchandise and accounts receivable turnover rate.<sup>52</sup>

In a service-producing company, such as Novotel, the employees are primary. It is very important to use the staff efficiently. Important components in the service-producing companies' budget are the staff, sales and administration, and important business ratios are sales turnovers per member of the staff, capacity utilization and administrative costs in comparison to the unconsolidated sales.<sup>53</sup>

Product-producing companies tends to look upon the flow of a product that has been refined as primary. Important components are purchase, raw material storage, processing, sales and stocks of finished goods. Important business ratios are creditor's debts, the stocks turnover rate, contribution to cover fixed costs and production per time unit.<sup>54</sup>

### **3.7 The budget process**

#### **3.7.1 Planning**

Before the actual work with the budget begins, someone within the company takes on the responsibility for the processing of the budget. This person might vary and often depends on the size of the company. In a small company the budget is often made by the MD. In a large company, someone is usually assigned the responsibility for the budget and that it is ready on time.<sup>55</sup> It is important that as many as possible are involved in the processing of the budget, as one person can't know everything. Furthermore, when several persons participate and feel they can influence the outcome of the budget, they are more positive to the budget and its implementation.

The ones responsible for the budget collect information about the current situation of the company, and present a suggestion to a first rough draft of a budget.<sup>56</sup> This suggestion is then evaluated by the parties concerned in order to hear their opinion. Thereafter the budget is finished, completed with the viewpoints of the others. This procedure leads to an increased understanding for the budget and its aim becomes more obvious to the employees.

Those who work with the processing of the budget need a foundation to be able to bring out a realistic budget. It is more common that the company use the numbers from earlier years' budgets when making the budget. However, it is important that an evaluation has been done of what is good and what can be improved since last year. Different types of index', like retailer price index and wages agreement, are other usually occurring sources. The companies might also look at the market and its rivals and by that get a feeling for the possibility that the company has got into a new position that must be taken into consideration in the budget. An analysis of the surrounding world must also be done, since elements such as political decisions, new laws and altered taxes might influence the company.<sup>57</sup>

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<sup>52</sup> Ibid., p. 99.

<sup>53</sup> Ibid., p. 99.

<sup>54</sup> Ibid., pp. 100-101.

<sup>55</sup> Lundén - Dahlin (1998), p. 17.

<sup>56</sup> Ibid., p. 17.

<sup>57</sup> Lundén - Dahlin (1998), p. 14.

During the processing of the budget, it is important to carefully document the course of events and the estimates that are done to analyse and draw conclusions to improve the budget. Detailed notes are important as it is easy to forget the situation as it was when the notes were written and people that were not involved from the beginning might need to read the notes.<sup>58</sup>

The budget is often processed from the basic data since it is built on the goals the company wish to attain. It could be financial goals or business ratios or even non-financial goals such as reaching a certain market share.<sup>59</sup>

The business ratios and goals could also serve as a sort of alarm. If the numbers go under the set limits, the company must act quickly to change the situation. There is a connection between some business ratios and the companies' financial survival. A company that goes bankrupt often shows a poor cash liquidity and solidity.<sup>60</sup>

The processing of the budget begins the year before the period that is to be budgeted. The result from the first half of the ongoing periods' budget and forecasts for the remaining and coming period is often used as basic data. The reason why the processing of the budget has to begin early is because a lot of time and resources is necessary in order to collect basic data and compile the information, especially in large companies with many departmental budgets that must be compiled into a material for the company as a whole.<sup>61</sup>

The companies must constantly become more efficient and that is applicable also for the process of budgeting. This leaves high demands on routines in the production of the budget and focus lies on the essentials and on time and efficiency. In an alternating world, demands are also set on the budget to be flexible and it has to adapt quickly to the various conditions if so necessary.<sup>62</sup>

### **3.7.2 Budget disposition**

There are two different methods to process a budget; the bottom-up method and the top-down method.<sup>63</sup>

In the bottom-up method the company constructs a budget from underneath and lets its staff collect relevant information that can influence next year's budget. All information is put together and compiled by the management. The benefit of this is that the information is collected close to the source, which grants a good view about next year's business. The disadvantage is that a certain amount of duplication of work occurs. A tactical budgeting might also occur, since the staff might estimate their work lower than the level they would be able to handle in order to accomplish the goal or exceed it easier and maybe collect a commission.<sup>64</sup>

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<sup>58</sup> Ibid., pp. 15-16

<sup>59</sup> Ibid., p. 21.

<sup>60</sup> Ibid., pp. 21-22.

<sup>61</sup> Ibid., pp. 21-22.

<sup>62</sup> Ibid., p 22.

<sup>63</sup> Samuelson et.al. (2004), p. 258.

<sup>64</sup> Carlson (2002), p. 82.

In the top-down method obvious directions about which goals that are to be achieved are given by the management. These directions are guidelines to all departments and the technique functions well if the goals are realistic and a motivation among the departments to reach the targeted goals exists.<sup>65</sup>

### 3.7.3 Principles of budgeting

The items a company brings up in its budget are of importance. The intention is to convert all put in resources into achievements, like goods or services. There are different principles to create a budget.

The object principle will give the company control over its consumption of resources. According to this principle, costs like staff and material are separated.<sup>66</sup>

The principle of location, on the other hand, leads the companies to specify the budget by asking the question where the costs has taken place in order to know where the resources should be put.<sup>67</sup>

Yet another way to budget is to use the principle of aim. The company distributes all costs on the companies' different products in the budget, i.e., to connect all costs with activities and the purpose of the business. The company identifies kinds of resources, economical responsibility and purpose of the business. The thought is that each separate activity shall be assigned to a specific purpose and the company divides the business into an overall main purpose such as production, administration or marketing.<sup>68</sup>

In the public sector, organisations use the principle of program; organisations wish to see what efforts are made. There is no explicit difference between the principle of aim and the principle of program.<sup>69</sup> The purpose of program budgeting is to manage a better dialogue and delegation within the authorities and a better cooperation between the government and the authorities. For the authorities it's easier to in each program redistribute money between different types of costs.<sup>70</sup>

Criticism is sometimes heard that all involved in budgeting rarely has an opportunity to reconsider the budget as a whole. Budget is often about a growth rate; to raise the sales by ten percent, cut costs by five percent... Therefore the thought has been introduced that the company should have an initial position equalizing zero as a basis for budget discussions. The zero basis budgeting was created, where each department is involved in the process of budgeting by taking out three packages of decisions; one basic package, one additional package and one expansion package. The advantage of this is that it encourages participation and it is logical since the company gets a large number of decision-packages and can chose the best ones.<sup>71</sup>

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<sup>65</sup> Ibid., p. 82.

<sup>66</sup> Bergstrand - Olve (1996), p. 40.

<sup>67</sup> Ibid., p. 41.

<sup>68</sup> Ibid., p. 158.

<sup>69</sup> Ibid., p. 41.

<sup>70</sup> Ibid., p. 147.

<sup>71</sup> Bergstrand - Olve (1996), p. 166.

### 3.7.4 Different types of budgets

There are generally three main types of budgets. They are profit budget, cash budget and balance budget. These are mainly meant to be used for the company as a whole and not for any separate part of the company. However, in large companies it could be reasonable to make budgets for specific functions or departments of the company. Examples of this are purchasing departments and marketing departments.<sup>72</sup> All budgets influence each other and the profit budget is the core. An investment affects the result by interest charges and writings off, and also the liquidity but accesses and liabilities in the balance sheet as well.<sup>73</sup>

#### **Profit budget**

In the profit budget, the company plans for its financial revenue and costs the coming year. The profit budget gives, as the name implies, an estimated result for the business.<sup>74</sup> When costs are put against the financial revenues the company can easily see if the business is making a profit or a loss. Usually the condition for a company to exist is that it must generate some kind of added value and should the budget show that the company will show a loss, the persons in charge can take precautions to increase the revenue or rationalize the business in order to cut costs. The profit budget is divided into different areas such as sales, staff, purchase and expense.<sup>75</sup>

#### **Cash flow budget**

In the cash budget the company plans its cash inflow and cash outflow to make sure the money is enough to run the business. The cash flow equals the companies' solvency. This is funds that can be used immediately in order for the companies to stand up for their costs at the right time.<sup>76</sup>

The difference between profit budget and cash flow budget is that certain poster interfere with the outcome but not with the cash flow like write offs are not an cash outflow while loan and amortization interfere with the cash flow but not with the outcome.<sup>77</sup> Instead of using revenue and costs, as in the profit budget, the cash flow uses cash inflows and cash outflows. Revenue and costs are period costs over a period as oppose to cash inflows and cash outflows. This is the money that really flows in and out of the company in the period that it has been budgeted for.

The cash budget helps the company to counteract a shortage of money when a company that has planned well notices that the money is coming to an end, by comparing actual cash inflows and cash outflows to the budget. The company is able to fend off the result by acting in order to reduce the cash outflows and increase the cash inflows.<sup>78</sup> Also a profitable company could find itself in a crisis if the cash flow is bad. Especially a growing company could get in trouble since they tie up a lot of capital in different investments and these companies often have much account receivable.

If a company is experiencing problems with the cash flow, the companies that leave them credit will be worried about their money. They will then claim harsh conditions for their

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<sup>72</sup> Lundén - Dahlin (1998), p. 12.

<sup>73</sup> Carlson (2002), p. 123.

<sup>74</sup> Greve (1996), p. 109.

<sup>75</sup> Carlson (2002), p. 86.

<sup>76</sup> Lundén - Dahlin (1998), p. 47.

<sup>77</sup> Carlson (2002), p. 101.

<sup>78</sup> Greve (1996), p. 102.

money, which in turn will lead to even greater cash flow problems for the company. This is a problem with cash flow.

When the cash flow is made, it is important to consider that the cash flow must be good enough each period and not only calculated for a year. Therefore, a budget will be made for each month. The company could have large cash inflows and small cash outflows during certain periods and large cash outflows and small cash inflows during other periods. Companies that are operating in seasons-sensitive line of businesses often meet this type of transactions. Over a year the cash flow is good but in reality the company could be in a jam if there isn't enough money a month when the cash inflows are less than the cash outflows. It is therefore important to formulate the cash flow in a manner that the company always has liquidity enough to cover their costs, also those months when the business is performing at its worst.<sup>79</sup>

### **Balanced budget**

The balanced budget is not made until both the cash flow and the profit budget are produced. There are no new figures in the balance budget, it is put together with the guidance of the calculations that has been produced for the companies second year of budget.<sup>80</sup> The balance budget shows how well the profit budget and cash flow are processed. If there is a difference in the balance budget, it is probably due to a miscalculation or to a mistake in one of the other budgets that the cash flow relies on. Another one of the balance budgets field of application is the use of business ratios that is used in the steering of the company.<sup>81</sup>

### **3.7.5 Budget follow up**

The budget follow up signifies that the outcome of the budget is evaluated against the real values during a budgetary period. The budget is meant to function as a tool of steering for the company. In order for the tool of steering to be relevant for the company, the actual results that arise in a period must be analysed against the values that was budgeted during the same period. The follow up is made from different reasons. It could be one way to know if the results agree with the budgeted estimates, or if there are any discrepancies. If any rewards are connected to the goals of the budget, a review has to be done in order to evaluate the achievements and distribute possible rewards.<sup>82</sup>

The budget follow up is made in order to let the ones who processed the budget evaluate their work and analyse any discrepancies found. The purpose of this is to be able to make an even more valid budget next time. Furthermore, the budget will not be taken seriously enough if it is not reviewed; since the management then will send the message that it is not important to inform them whether the budget was fair or not.<sup>83</sup>

When a company processes a budget, they want to have the possibility to control if the targets have been fulfilled and if not, alarm them to why. If the company discovers a discrepancy within their budget, it begins to investigate why the discrepancy has occurred and to make a diagnosis. This will be used as a supporting document to prepare to make measures to manage the problem.<sup>84</sup>

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<sup>79</sup> Greve (1996), p. 102.

<sup>80</sup> Ibid., p. 63.

<sup>81</sup> Lundén - Dahlin (1998), p. 62.

<sup>82</sup> Samuelson et.al. (2004), p. 277.

<sup>83</sup> Lundén - Dahlin (1998), pp. 32-33.

<sup>84</sup> Bergstrand - Olve (1996), p. 115.

### **3.7.6 Reasons to deviations**

The budget is made of many assumptions and estimates, and therefore it can never be exact. However, the companies must strive to make it as exact as possible since it is the foundation to the planning of the business. If the budget is not equal to the reality, it is, as mentioned earlier, a prediction of what the company believes and not what the company with certainty know will happen. For this reason, a discrepancy should not be seen as a major catastrophe. Some deviations will occur, but the company should strive for as few deviations as possible. The deviations that occur should nevertheless be analysed, in order to make changes in coming budgets, if necessary. Usual reasons for deviations are such simple causes as miscalculations, unforeseen events or it could be due to the fact that considerable poster have not been included in the budget. The company could also have made allocations to a period that has turned out to be faulty afterwards.<sup>85</sup>

If the management plans their budget without the knowledge necessary about the different departments within the company, it may cause a problem. It can lead to the result of unrealistic conditions and starting points that are impossible for the departments to reach. This might consequently lead to a conscious deviation from the budget.

Usually a company investigates a deviation only if the company has underperformed and has not been able to reach the goals set in the budget. It is also important, however, to try to find out the causes why the company has achieved better than the goals set in the budget. Facts that the company has not taken into consideration earlier may have had a great influence on the positive result, and it could be of importance in the future as well. If control and evaluations are done only on poor results, possible future profits may get out of hand.<sup>86</sup>

### **3.7.7 Reports**

To facilitate the evaluation of the budget, it is important to continuously report to the ones responsible, in order for them to take part of important information that has effect on the business and direction of the company. It is important that these reports show the most essential information and that they do not bring up too much each time. The ones reading the reports does not have unlimited time and if the reports are too extensive it could mean that they will not be studied at all.<sup>87</sup>

It can be difficult to analyse why a change has occurred since a number of factors influence each separate value of the budget. To analyse every change is too much of a demanding task, and instead the company must give priorities made by the importance of every separate value.<sup>88</sup>

## **3.8 Criticism of budgeting**

The budget process requires a lot of time and resources from the company in planning, implementation and evaluation. The company always has to estimate if the benefits of the budget are larger than the cost of it. Another disadvantage with the budget is that it is a plan for a period of time that has not yet occurred. Large negative consequences can occur if the company pursues with the budget without acknowledging to the reality in which the company

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<sup>85</sup> Lundén - Dahlin (1998), p. 36.

<sup>86</sup> Ibid., p. 33.

<sup>87</sup> Ibid., p. 37.

<sup>88</sup> Samuelson et.al. (2004), p. 282 and p. 278.



exists. It can be difficult to make correct judgement because the external conditions can change quickly. It is especially difficult for the company to make a correct budget if it is the first time or if there is a lack of experience of the company's current situation.<sup>89</sup>

Some companies do not use budget. They use prognoses and try to adapt the business in line with how they believe the market develops. There are many possible reasons for a company to choose to steer without a budget.<sup>90</sup> The budget requires a lot of time and resources that could be used on other things if the company chooses to steer without a budget. Because the budget period takes place in the future it is not possible to know if the activities the company planned for is going to occur. To steer without a budget does not mean that the companies can stop planning, instead they have to watch their business and the environment closely to be able to react quickly if needed and constantly steer the company in the right direction and within the limits.<sup>91</sup>

The budget creates a lot of dysfunctional behaviour because it evaluates and steer the employers in a strict and firm way and if the goals of the budget are not reachable the negative behaviours and tendencies are strengthen. Another shortcoming with the budget is that it is often not the most important thing to make a better result than the budget goals but to reach them and not more. A highly controlled budget also makes the employees less likely to take risks if that means that they must go beyond the budget restrictions and take the responsibility if the gambling goes wrong. To go beyond the budget in that situation can make the critic harder because the employees in a company with a budget have clearer restrictions than they in a company without.<sup>92</sup> It is also possible that the management of a company with a budget has a bonus connected to the goals of it. It is then a risk that they will continue to steer against the goals although changed conditions make this behaviour negative and can hurt the company.<sup>93</sup>

Many companies look for alternatives to the budget but they often feel that there are not realistic alternatives or knowledge about alternatives to steer, plan and lead companies.<sup>94</sup> Today there are two main possibilities for the companies who want to steer without a budget. One is to introduce new tools to steer and one is to decentralize. To decentralize requires new tools to steer the company but a company can introduce new tools for steering without a decentralization of the company. The companies change the fixed goals in the budget that work as an evaluation foundation to an evaluation system that takes into consideration the actual reality and adapts to reasonable goals after these conditions.<sup>95</sup>

It is possible to predict the future adequately as long as there isn't a break in the trend of the development. However, a break in the trend is very hard to predict and it can cost a lot if the company has prepared itself in the wrong way for the future.<sup>96</sup> The budget is often built on prognoses which often turn out to be wrong and then the companies aim at goals that are no longer relevant.<sup>97</sup>

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<sup>89</sup> Lundén - Dahlin (1998), pp. 10-11.

<sup>90</sup> Samuelson et. al. (2004), p. 283.

<sup>91</sup> Lundén - Dahlin (1998), p. 126.

<sup>92</sup> Hope - Fraser (2003), p. 15.

<sup>93</sup> Samuelson et. al. (2004), p. 284.

<sup>94</sup> Hope - Fraser (2003), s. 16.

<sup>95</sup> Ibid., p. 42.

<sup>96</sup> Lundén & Dahlin (1998), p. 120.

<sup>97</sup> Wennberg (1995)

It is hard to know the effects if the budget is replaced before the companies have tried. To abolish the budget sends a clear message to the employees at lower levels that the management is serious and that it is time to take more responsibility because there isn't the same steering at detail level without a budget.<sup>98</sup>

According to Wallander, budgeting creates conflicts in the organisation and is very demanding and difficult because many co-workers are forced to engage themselves. The budget demands a lot of input which becomes out of date after a short period. The budget is seen by many within the organisation as a forced and unnatural division of periods which the management builds on simplified prognoses. Wallander believes that the budget leads to power struggles between different departments when each department wants to do what is best for itself and loses focus on the company as a unit.<sup>99</sup> According to Wallander, all budget work is a misuse of resources that in the worst case can be dangerous for a company and he also considers that the budget is only an instrument of power to influence the employees.<sup>100</sup>

If a company wants to steer without a budget it needs to have a good functioning and intelligent account. The account has to give enough information on how the result is developing and also other information that is relevant for the business. The company needs to be divided into separate unit with responsibility for the result and a detailed account of each unit.<sup>101</sup>

The company makes a basic model of the balance sheet and of the profit and loss account including a picture of possible events that might take place if the price rises. In a steering without budget, smaller investments like price setting is made continuously and larger investments are made when the opportunity arises. Compared to a company with a budget where all the planning binds the company to a plan for shorter and longer time.<sup>102</sup> According to Wallander, steering without a budget aims towards relative goals and not absolute. The basic idea to steer this way is to earn as much money as possible with the competitors and the development in the market in mind.<sup>103</sup> The central management's task is to monitor the development and help the different departments with there work as profit centres.<sup>104</sup>

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<sup>98</sup> Hope - Fraser (2003), p. 173.

<sup>99</sup> Bergstrand - Olve (1996), pp. 186-187.

<sup>100</sup> Wallander (1994), p. 63.

<sup>101</sup> Ibid., p. 81.

<sup>102</sup> Ibid., p. 82.

<sup>103</sup> Ibid., p. 91.

<sup>104</sup> Ibid., p. 94.

## **4 Interviews at Novotel**

*In this chapter the empiric result that we have collected from the interviews we have conducted at Novotel is presented. The empiric study contains among other things how the budget process works, how the respondents experience the budget and its functions as a tool for steering.*

### **4.1 Background**

Novotel is a middleclass hotel with 148 room located at Älvsborgsbron in Gothenburg. Novotel in Gothenburg is a manage hotel and not owned by one owner. Novotel franchises the name from the world's largest chain of hotel, Accor, while the business is controlled by the company Hotell Waterfront AB. The hotel is organized in to many departments like reception, restaurant, kitchen and a cleaning department where each is responsible for its own budget.

We have interviewed three persons. The goal of the interviews was to get information to be able to answer the purpose of the thesis. The interviews were recorded on tape in two occasions with both of the authors participating. First the financial controller was interviewed for about 75 minutes and then the chef and the restaurant manager were interviewed together for 30 minutes. These interviews were then transferred word for word into written form. This basic data has then been worked on.

Lisbeth Lyngvi has worked as the financial controller at Novotel for ten years. Her area of responsibility is everything in economy in the company. Because it is a small workplace the financial controller has to assist in other issues too except the economy. That is the same for all the white collar workers in the hotel. She also replaces the MD in some cases. She is the next employee to the MD and the tasks that can land on her board can be about construction work and different projects that aren't purely economical.

Linda Fahlman works as restaurant manager with responsibility for restaurant, conference, bar and breakfast.

Patrick Hillgard works as chef with responsibility for kitchen and food design.

### **4.2 The purpose of the budget**

The budget is an important instrument of control and steering to Novotel but it's also used to compare Novotel with other companies in the Accor organisation.

### **4.3 The budget process**

#### **4.3.1 The planning work**

The budget process for the next year starts in April with the review of the market plan. The sales organisation starts with constructing prognoses and environment analyses. One important reason for this work is that the hotel wants to be in a good position against the other hotel businesses in Gothenburg. The work in spring also includes an analysis of the business concept and the vision of the company. This is according to the financial controller the basis

for the whole process and the starting point for the budget work. Small changes have been made to the business concept even this year to make it relevant and modern. The business concept is visualized in many ways. Among other things it is on the first page in the hotels employee handbook and it is also often presented when the hotel makes contracts with large companies and at larger purchases when the counterpart is interested in the company's basic outlook which is supplied by the business concept.

The summer means a lot of activities and events in the city which means that it isn't much time for anything else. The financial controller says that it is then when the big tourist hysteria arrives at the hotel and that it is not time to do anything else but to take care of the service and business of the hotel. That is why it is important the prognoses are done before the summer. The budget work is paused because of the increasing business. Directly after the summer, in September, the sales department starts with the budget work again.

The sales organisation also works to put together attractive offers in the form of packages during this time. A great part of Novotel's sales take place on the Internet nowadays. The guests become more and more familiar with the Internet and compare prices which are both an advantage and a disadvantage for the hotel. It is important to keep the hotel attractive through good offers on the hotels website. The packages are something the hotel works on continuously during the whole year but it is in this time they are being put on paper and become reality. In the first part of October the demands on the budget come from the owners in France. They want to have the finished budget a couple of weeks after they sent the demands to Novotel. It is short of time to get everything ready but the financial controller is aware of this and she is usually well prepared. She has prepared templates so all departments know which account they shall plan for the budget. The budgeting that the departments do is mostly cost oriented. It is only the sales department that calculates the revenues for the rooms in the hotel. The sales department does the budgeting of revenues concerning the restaurant but the restaurant manager and the chef also take part in this.

The restaurant manager and the chef do the budget together and their work with the budget used to start in September or October. They take part in three budgets; one sales budget, one cost budget and one employee budget. These budgets are different parts that shall become one joined budget for the whole company at the end.

The restaurant manager and the chef start to work with the sales budget. The work begins with a review of the past year and they fill in how the results have been and do an estimate for the remaining months October, November and December. Afterwards they look very closely at what happened last year; for example which events took place and in which ways these are different from earlier years. That can be in which month Easter occurred this year compared to last year or how large events have affected the result, like Göteborgsvarvet, or how successful the Christmas smorgasbord has been. The restaurant manager says: "*We lock ourselves in for two days and then we sit and go through what is happening and what has happened and what we think is going to happen.*"<sup>105</sup> They look back quite a lot at the recent year to compare the result but because they make changes in the budget every year to adapt the budget to the current conditions it becomes difficult to compare. This is because when they make a change it will not be the same values as the previous year's budget. The changes are made to make an improvement of the budget or a simplification in some cases.

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<sup>105</sup> The Restaurant manager (2006-05-03)

The budget work of the chef and the restaurant manager are strongly connected to the sales department's work with producing a prognosis over the revenues. The budgeting of some segments is totally affected by the business from the hotel. Examples of these segments are breakfast and all accommodations which are divided into own segments like accommodation-food, accommodation-drink and accommodation-conference guests and all these are based on the budget work from the sales department. The chef also adds some percentage in the budget with help of the values from the sales department, for example how many hotel guests that eat in the restaurant. The information that the sales department does not provide, the chef and the restaurant manager have to try to calculate their results the best they can, even if they have to guess future results.

After the sales budget is done, the chef and the restaurant manager make a cost budget of all their costs. It concerns a lot of accessories and consumer goods like porcelain, cloths, napkins and cleaning agents. They also in this situation are reviewing previous years and how they are doing so far this year. The cost budget is the budget that usually is the most correct and it is also the budget they can affect the most. They also work with an employee budget but in principle they have no influence in that budget. They get a number of employee hours in addition to the regular hours as a group and then they have to place them throughout the year as good as possible. The hours are placed on the days and months were they are needed and adapted after the restaurant employees scheduling system.

The sales department does a very detailed budget over the revenues in each segment and for everything in logistic. The values are only on sales. These are sent to the financial controller that coordinates the budget. She has collected the cost values. She also has gotten some parts of the revenue values in parallel with when they were produced to put the parts of the budget together as soon as possible. She gets the revenue values parallel because the budget must be finished in a short time so she can send it to the highest level. It is no time to wait until the sales department is entirely finished before the cost that is based on the revenues has to be budgeted. This can lead to the effect that the budget is sent and returned between the sales department and the economic manger a few times to correct the sales budget against the values of the departments.

The revenues dominate the budget. The goals of the budget are in percentages so if the revenues are very good the cost can increase a little and the hotel can still reach its budget goals. The hotel has demand from the owners what they earn and they are very aware how much the hotel should be able to earn. The hotel cannot set their goals low so they are sure that they can reach them but they have to do a precise estimate what they are able to make. They usually reach their revenue goals and that is mostly because the sales department is very good at estimating the revenues which usually cause only small differences between the values from the budget and from the result.

Then the budget is sent to France via the French owners' Scandinavian director and the budget is usually approved by France in the beginning of November. It sometimes occurs that the Frenchmen want some changes and that the budget goes back and forward a few times but that was more common in the previous years. In those days the French owners were not represented in Sweden and then the communication with them was not as good as it is now. The main responsibility for the budget in the hotel is the MD.

After the approval it does not happen anything during November and December concerning the planning of the budget. The budget for the next period is finished and it starts to apply

from the first of January. Novotel always does the budget for a calendar year even though the legal person uses a broken accounted year. There are totally ten persons involved in the budget work and among them are Novotel's MD, the financial controller, the restaurant manager, the chef and persons from the sales department.

#### 4.3.2 Implementation and follow up

When the budget is finished and approved the financial controller feeds it into the accounting system. It puts the budget in a column in the profit and loss account and every month the managerial body has a meeting. In the monthly meeting the financial controller shows the result and then everyone analyses the values that are different from the budget. In this way the hotel is controlled by the budget. If there are any large differences the financial controller usually discusses this with the head of the department especially when it comes to the costs.

The main purpose with the follow ups is to control that everything is correct. The hotel has many different systems and if the wrong values are put in the wrong places it will have consequences in the follow up. It can arise when a person isn't properly trained in the systems. The financial controller also says that "*often when it differs too much against the budget so it is wrong with the reality instead, not the budget*".<sup>106</sup> It often is someone who has put the wrong value into the system and then the monthly meetings become an instrument of control so everything is correct but the meetings are of course also to control that the costs are held.

Mostly the reports come to the financial controller but even the financial controller reports. She reports to Accor Scandinavia in Stockholm and to France. She usually doesn't get any answer on these reports but she gets an invoice. She gets the invoice because Novotel pays a fee on the revenues. The director for Accor Scandinavia in Stockholm often gets the reports via Novotel's MD, who gets it from the financial controller. The MD often writes what happened during the last month and what different discrepancies can be due.

The budget work hasn't changed so much during the last years but it became easier to report since Accor became represented in Scandinavia. Before the hotel was forced to report to France directly and they wanted the budget according to some specific templates and these templates changed almost every year. The budget in the hotel was made and is always made at the account level. Before the hotel was forced to convert the values into the French budget templates but today they only send the budget to Accor in Stockholm and they send it forward to France in the way Accor wants it.

For the chef and the restaurant manager the implementing of the budget means a lot of planning of the employees' hours. It often becomes differences between the budget and the reality according to the restaurant manager. The reason for this is that the sales and the employees' hours are in relation to each other. They try to keep the employees' hours on a certain level but if they can earn more money by using more employees that is not a problem. The restaurant manager says: "*We are allowed to exceed the hours as long as we sell more!*"<sup>107</sup> To have the right number of employees at the right time is, however, a hard judgment to make. To help them the chef and the restaurant manager get a report every second day that shows how they are doing day by day. They also get feedback on the monthly

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<sup>106</sup> The Financial controller (2006-04-28)

<sup>107</sup> The Restaurant manager (2006-05-03)

meetings but the information there is only to show how the departments are doing in relation to the budget. The responsibility to take actions to make improvements is on the departments themselves.

In the budget there are a number of business ratios like turnover per employee and the sales of food in relationship to worked hours. The restaurant manager and the chef steer their daily work mainly after the business ratios which are related to the budget. They should reach a certain percentage, a drink percentage and food percentage. The budget as a document is a paper they seldom look at. The chef explains the reason for that like this: *“It is still no matter how you make it a imaginary number, it is what you have thought, it isn’t anything you know, the budget, but the business ratios is something you actually know.”*<sup>108</sup>

Both the restaurant manager and the chef spend an hour a day on activities related to the budget. Because the employees’ hours are so important, the most of the time of the budget related work is planning and scheduling the employees. The heads of the departments have to decide how many persons they need and on which days and that also means that they need to spend a lot of time to contact the employees they require but who isn’t employed on a regular basis.

### 4.3.3 Reporting

Novotel steers to a great extent from different reports like hour reports and result reports (see Appendix 2).<sup>109</sup> These reports are not only monetary. One of the most important reports to know if the budget is under control is on employees’ hours. The financial controller says that it is “very hard to steer on kronor when it is about personnel cost”.<sup>110</sup> It is possible monthly and per year but the hotel also applies a direct steering where the control takes place every day or at least every week. The hotel compares the used personnel hours with the daily sales for the different profit centres. The reason is that the personnel hours are not transformed into wage costs directly but the relationship between the sales and the hours shows directly how the company is doing right now. The budget is very detailed and goes down on hour level so those who are responsible are able to react quickly. If the budget was not broken down into hours, the financial controller would not be able to give feedback to the heads of the departments quickly enough. If they used too much personnel hours in relation to the sales then they cannot wait to the next monthly meeting before they get to know this because at that time they have already scheduled their personnel and the damage is already done. There is a special schedule system for hours.

When the budget is finally done it is done and it isn’t upgraded during time even if new information should come to awareness. However, prognoses are made every month to see how the result can be and these prognoses can change.

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<sup>108</sup> The Chef (2006-05-03)

<sup>109</sup> Appendix 2, Budget document from Novotel

<sup>110</sup> The Financial controller (2006-04-28)

#### **4.4 Advantages and disadvantages**

The financial controller says: *“The advantages are that, we get a very, very precise steering in numbers, it isn’t fuzzy quite simply but, yes it is numbers quite simply. You know were you are.”*<sup>111</sup>

Another advantage is that it is also possible to compare the business with other Accor hotel internationally. Novotel in Gothenburg is a managed hotel and not owned by one owner. This makes the demands on the hotel not as high as the full owned Novotel hotels, but they can still compare themselves with the other hotels budget demands around the world. The factors that are possible to compare are different kinds of business ratios. Something is not possible to compare though because of differences in laws between different countries. It may also be possible that a large cost in one country is a small cost in another country. For example is personnel costs in a hotel in Asia are totally different compared to the personnel costs in Sweden. This can be corrected and then the budget is a good tool to compare the hotels as been mentioned earlier.

The financial controller thinks that the budget gives far more benefits than the cost that arises because of the budget. Except from the advantages that already been mentioned it is also a way to create communication between the departments. In the monthly meetings the managerial body, which contains ten heads of the departments, meets and among other things reviews the profit and loss account and all other activities that happen in the hotel. The budget is a way to steer the business together, for example two separate occupations like the financial controller and the chef which have very different competencies have something in common when they work on the budget. The financial controller: *“hard to find another common denominator to steer on so to say, then pure numbers”*.<sup>112</sup>

The disadvantage with the budget is that it is a pretty stiff and unchangeable instrument for the employees because it is built on sales prognoses which cannot change. It is the sales department that produces these values and they often complain that *“they have to sit there with their crystal ball”*.<sup>113</sup> Because the budget has to go to Paris to be approved the budget has to be produce far too early in the year. In addition to this the result from the period October-November-December is missing. This result contains the company’s strongest revenue months. The sales department still has to try to do the budget for the next period without the key from the present year.

On the question if the budget can be an obstacle for the profitability the financial controller answers that she does not think that it is the case. She doesn’t believe that it is the budget that controls the revenues the most but that the revenues are more affected by the market. Factors that affect can be if the weather is good and if there are many events in the city. However, if the revenues are very good then the cost can be allowed to increase a little.

The chef and the restaurant manager try to reach the goals but not more. They think that the goals are set at a good level and if the goals are reached the restaurant has had a good mixture of personnel, service and quality. If the heads of the departments would strive to get a higher profitability it is very possible that an important part could disappear for example that the service could decrease, lesser quality of the food and the personnel could be worn out.

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<sup>111</sup> The Financial controller (2006-04-28)

<sup>112</sup> Ibid., (2006-04-28)

<sup>113</sup> Ibid., (2006-04-28)



The chef and the restaurant manager personally think that budgeting is hard to do. The restaurant manager has not done the budget too many times and she thinks that they never had any really clear directive. This is the first year she thinks they managed to get a fairly correct budget because up until now the budget for the current year has been realistic.

One advantage with the budget could be that the departments get a chance to meet that would not occur otherwise and which creates more communication between the departments. However, Novotel is a small workplace which means that everybody knows each other pretty well and the atmosphere is good and the chef says that *“it is not any watertight seal between the departments”*. The heads of the departments also often see each other in meetings which are not related to the budget but yet the budget has an importance in increasing communication in the company.

The disadvantage with the budget is according to the chef that: *“It’s still so that you are controlled by IMAGINARY NUMBERS!”*<sup>114</sup> The restaurant manager says that her main goal is to make the business functioning and if that then should depart from the budget that is just the way it is. The work with the budget involves the heads of the departments and the white collar worker and these are the only ones that really see the budget. The other employees are steered by their own business ratios that affect their bonus and are therefore not involved at all.

There is a bonus system that is partly connected to the budget. The heads of the departments have a bonus that give bonus if they reach certain goals but they aren’t necessarily pure budget goals. The bonus is connected to two to four different criteria per person that affects how much that person gets in bonus. In the financial controllers case this is half of her possible bonus depending on if the hotel reaches the goal of the GOP (Gross Operating product). If they reach the GOP the financial controller gets at least half her bonus.

The bonuses of the restaurant manager and the chef are based on business ratios outside the budget. They cannot explain how these are calculated though. They have four criteria and each criterion they fulfil is a quarter of the total bonus they can get. In other words they get half of their bonus if they fulfil two criteria and 75 % of the bonus if they fulfil three criteria. Of the four criteria they have they can’t affect three of them. On the question of what they think about that they answer: *“Not too good!”*<sup>115</sup> and *“Worthless!”*<sup>116</sup>

#### **4.5 Alternative**

The budget is a very good way to steer the business and the financial controller says that it is the only way. *“Yes, it is a good; it is a very good way. It is the only way that is. And there I have to say that we are very high up, if you compare with the other hotels here in Sweden.”*<sup>117</sup> According to the financial controller, the reasons that make Novotel special in Sweden is that the high personnel costs and expenses on personnel are very large parts of the business costs and because of this it is very important to keep these costs under control and Novotel does this very precisely. Other companies in this branch of trade work a lot with estimations according to the financial controller. So when Novotel does the accrual accounting they can use their time scheduling system where all the hours have been inputted and that makes it possible for

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<sup>114</sup> The Chef (2006-05-03)

<sup>115</sup> The Restaurant manager (2006-05-03)

<sup>116</sup> The Chef (2006-05-03)

<sup>117</sup> The Financial controller (2006-04-28)

the financial controller to accrual the hours exactly every month. Other hotels have to use values based on mean wages when they do their accrual accounting and that will never be totally exact. Novotel has worked in this way for many years now and the financial controller believes that they were first in Sweden.

Despite that the system is good it is not as flexible as the hotel would like it to be but that is due to the laws and the rules for the employees. For example; how many extra employees you are allowed to have and in which periods. If Novotel could choose they would not want any regular employees at all and they would rather be able to use the personnel when they were needed. The hotel feels that this is because if the hotel does not have any bookings the hotel would not need employees in the hotel either. Now the conditions are as they are, therefore it's important to plan correct so there are enough personnel when it is needed and fewer personnel when there is lesser amounts of work.

The difficulty in budgeting in the hotel industry compared with other industries is that personnel and personnel hours are more significant in the hotels. It is a large cost for the hotels and it is difficult to estimate but in other kinds of businesses it can be very different. An example of this is given by the financial controller who tells us that she worked at a consultant company before were there only were regular employees and if it is like that "*it isn't any difficulty to budget the personnel costs*".<sup>118</sup>

To illustrate the difficulties with the personnel costs in the hotel it's important to know that Novotel is a hotel in a chain of hotels that exist all over the world. The hotel has to live up to certain basic requirements because it is in a chain of hotels. The hotel has to be open on certain days and in principle the restaurant should also be open all these days according to the Novotel rules. There are hundreds of Novotel hotels around the world and the guests expect that they can go and eat at the restaurant at 9 o'clock pm even if it is the first of May or Christmas Eve because it is a Novotel. This however means that Novotel needs a basic crew even if there aren't any bookings. This is expensive. It means that there has to be at least one cook, at least one in the service, at least one in the reception and often at least one in the cold buffet in the hotel when it's open. This can result in Novotel having as much personnel as four or five fulltime employees in the hotel from the morning until late at night without having any guests at all.

The restaurant is the department that is the most difficult to plan. The hotel has its bookings but the restaurant often has to deal with the situation that suddenly can be 30 people outside that would like to eat and who haven't booked anything at all.

The restaurant manager and the chef can't say if there is any alternative to the budget and the chef's comment about it is this: "*I am not an economist.*"<sup>119</sup>

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<sup>118</sup> The Financial controller (2006-04-28)

<sup>119</sup> The Chef (2006-05-03)

## 5 Analysis and discussion

*In this chapter we analyse and interpret the results from the collected empiric material with the help from the theoretical frame of references. We also extend the analyses with a discussion where we weave in more of our own thoughts in the text. The chapter contains an analysis and a discussion of the budget process, the benefit of the budget, how the budget is experienced and the bonus system.*

### 5.1 The Budget process

#### 5.1.1 Planning

When the work with the budget starts the business concept is reviewed and is possibly upgraded. This points at the fact that Novotel wants that the budget to be deeply rooted in the company in accordance with the basic values of the hotel. Novotel uses the top-down budgeting method in the same way it is described by Carlson. The management gives out clear directives of which goals that need to be reached.<sup>120</sup> Then the departments have to adapt their business to these goals.

The budget process in the hotel starts early in the year because the summer is a hectic period when it is little time for other things than the guests. The early start is also due to the demands from the French owners who want the budget to be sent to them in good time before the budget comes into force. It means that the budget has to be prognosticated before the sales department gets the result from the hotels strongest revenue months. The persons in the sales department are good at their work, according to the information from the interviews, but the longer the time before a budget period a company does the budgeting, the more uncertainty in the estimations. However, Lundén and Dahlin write that the budget work starts on the year before the period that is to be budgeted and it is due to the fact that it takes a lot of time and resources to collect basic data and gather the information. According to Lundén and Dahlin this especially applies in big companies with many department budgets which should be united into one common material for the whole company and that correspond well with the hotel which contain many departments.<sup>121</sup> Unfortunately the budget suffers from the early compilation of the basic data but in this case Novotel hasn't got any option. Because they use the name Novotel they must by contract to do a budget that the French owner shall have and approve. Because of this it is not possible for Novotel to abolish the budget if they had a better alternative and if they wished to use that instead. However, according to the financial controller the budget is the only way to have a common steering of the business.

The heads of the departments say that the budget has become more realistic in the latest years and there are different reasons for this. Those who work with the budget now have gained more experience because they have done the budget a number of years in succession and they know how they should plan their work. The work has also been made easier by the fact that the French owners have gotten a representative in Stockholm which makes it possible for Novotel to send their budget there instead of directly to France. When the budget was sent to France they had to adapt it into a French budget template which was difficult to set up.

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<sup>120</sup> Carlson (2002), p. 82.

<sup>121</sup> Lundén - Dahlin (1998), pp. 21-22.

There is a risk in the Novotel's budget work because a reason for the improvement of the budget is due to more experience of the employees that take part in the budgeting. If the ones that do the budgeting now should quit, suddenly there is a risk that the budget would take a step backwards before the new people in those positions built up the same experience. Lundén and Dahlin write that it is important to document the course of events of the budget closely.<sup>122</sup> If this documentation is used to produce good routines and directives it is possible that the shortage of experience in some degree can be compromised.

The company has developed good routines for the budgeting in accordance to the requirements. However, it is not such a good routine to gain employees interest for the budget in the company. When the budget is in the planning phase in April only a few persons are involved. When the chef and the restaurant manager start to participate in the budgeting in September/October many decisions have already been made. The whole budget process is centrally controlled by the management.

It would be interesting to know what would happen if all the heads of the departments participated from the beginning to be more able to affect that the chef calls "*imaginary numbers*".<sup>123</sup> The heads of the departments also get a chance to come up with ideas, suggestions and constructive critic. It is always easier to affect in the beginning than when the basic budget has already been laid out by the sales department. When the sales department prepares the budget it uses the result from last year and environmental analyses. If all departments get involved in the first phase of the budget their engagement will increase and the budget will be more adapted to the reality. Lundén and Dahlin are clear when it comes to the planning work of the budget. If more people get involved in the budget work the accepting of the budget increases.<sup>124</sup>

There is much uncertainty in Novotel's budget because it is built on early prognosis. The demands from Accor in France are that the budget shall be finished in the autumn and that the budget shall be for one calendar year. This then increases this uncertainty. It was clear from the interviews that the early planning was the big disadvantage with the budget process in the company. If the company was given the possibility to prepare a budget for nine months and wait with the three latest months the uncertainty would decrease. When the sales department has seen the result from the last three months of the year, they can do the budget for the last quarter and add this to the already made nine months budget. The last three months of the year are Novotel's strongest revenue months because the Christmas smorgasbord stands for a huge part of the whole years sales in the restaurant. All departments can prognosticate more accurately and do not have to guess themselves through the last three months with an old result and an environmental analysis that already can be out of date at this occasion. Accor also benefits from this solution because they get a budget that is more relevant and more accurate.

The hotel industry is easily affected by outer circumstances that cannot be predicted by the sales department, for example a summer with bad weather. The sales department has to calculate that the guests are going to stay overnight in the hotel and also eventual visit in the restaurant. Because of the uncertainty in Novotel's budget it could be better to have a budget for shorter time periods. The whole budget for the coming year is finished before the result from the most lucrative months is known with the present way of work. Even if these months

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<sup>122</sup> Lundén - Dahlin (1998), pp. 15-16.

<sup>123</sup> The Chef (2006-05-03)

<sup>124</sup> Lundén - Dahlin (1998), p. 17.

would give a much unexpected result the finished budget would not be changed. Accor and the management always use the already finished budget according to the financial controller's interview. Then it does not matter if the result is different because of outer circumstances that cannot be affected. If the hotel would do a budget for shorter time periods it would increase the possibility to get a budget that is more adapted to the reality.

### 5.1.2 Implementation

When we asked the question the revenues or the costs steer the budget, we got different answers from the financial controller and the restaurant manager. The financial controller answered that *"it of course was the revenues that steered because if the revenues are high the business can increase their cost a little because the costs and the revenues are in relation to each other"*. The restaurant manager answered that she steers her business after costs and by adapting the costs with the business she gets a good mixture of quality, service and personnel. With this view, the restaurant does not strive to increase the revenues because the balance of quality, service and personnel would be disturbed. However if the restaurant does not try to increase the revenues the goals of the financial controller to increase the revenues is obstructed. The restaurant manager's task is to calculate how many guests that are going to visit the restaurant during a day and adjust the workforce to that. It is hard to calculate this in the hotel industry because you never know if there will be an influx of unexpected guests. The restaurant manager's main task is to keep the costs under control and therefore she will not take the risk to have extra personnel in the hotel if the guests fail to come. However, the restaurant cannot increase its revenues if there are not enough personnel.

The management looks at the restaurant as a profit centre that shall create a profit whereas the restaurant manager sees her business as a pure service unit for the hotel. The management does not seem to mind this as long as everything works, it does not matter what the cause of what or how different people label the departments. As long as the guests get food and service and the owners get money in their safes, everybody is satisfied regardless if the budget is accurate or imaginary numbers. The management sees the budget as a steering instrument to measure revenues against costs. In comparison to the management the restaurant and the kitchen consider the business ratios as more relevant for their business. The restaurant manager and the chef do not see the budget as a whole and as they stated: *"The budget itself isn't anything you sit and look at every day"*.<sup>125</sup> Their whole business is adapted to the business ratios that are a part of the budget.

### 5.1.3 Follow up

The company has monthly meetings where the result for the latest period is reviewed with the departments. The management applies the budget constrained leadership style that Hopwood describe. In Novotel the budget is not questioned by the departments but they try to reach the fixed goals. At the monthly meetings the management investigates possible deviations from the budget.<sup>126</sup> The management is not interested of the cause of the deviations but consider that the responsibility to make improvements is a task for the departments. From the management's point of view the monthly meetings are a way to see that everything is correct and not a development meeting to improve the departments' performance even though you cannot exclude that the meeting have such an effect. According to Bergstrand and Olive, the

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<sup>125</sup> The Restaurant manager (2006-05-03)

<sup>126</sup> Hopwood (1973), p. 19.

budget can be seen as a control system by the co-workers while the management often sees it as an instrument to coordinate the company's different parts.<sup>127</sup> There are clear indications of this in the case in the hotel. The management coordinates the departments at the meetings and the departments mostly experience the control.

Novotel has not measured how many resources are used for the budgeting but the financial controller considers that the value from the budget is much greater than the costs. Exactly how much time the company spends on the budget is impossible to know because the hotel does not know but it is not any significant part of any of the involved person's time seen over a year. Those who spend the most time with the budget are the sales department who spend a couple of weeks every year on it. However, the restaurant manager and the chef said that they used an hour per day on budget related tasks. Most of this time, however, was used to schedule personnel and this task would have needed to be done even if Novotel had not used a budget.

## **5.2 The benefit of the budget**

The budget is used as a steering instrument in Novotel. However, the benefit of the budget as a steering tool is difficult to lay down because there are differing opinions about its importance. The interviews show that the financial controller sees the budget as very effective but the heads of the departments' kitchen and restaurant are not as convinced as she is. However, it is possible to state that the budget pervades the whole company and engage all employees that have some kind of higher position.

The financial controller says that she experiences a huge benefit from the budget. She thinks that it serves very well as a steering instrument and does not believe that it could be replaced by something else. To her it has huge advantages. All business gets translated into monetary values and Novotel's system believes that the business can be measured very precisely. Because the departments are very different from each other it's good to have a common measure to compare them with. According to Broström, the management has to choose the structure of steering that they consider best satisfies their need.<sup>128</sup> This corresponds with the approach in the hotel.

Novotel does not have any choice due to the demands from the French owners and therefore they are forced to use a budget but it is important to try to see what value they get from the budget. According to the financial controller, it is a good way for the hotel to compare itself with other Accor hotels even if it is the only Novotel hotel in Sweden. To compare the hotel with hotels in other countries is difficult because wage costs and food costs vary a lot but it is possible to correct this since it is known. When the companies gather the basic data for the budget they can look at the market and at their competitors according to Lundén and Dahlin. That helps the companies to find out if they have ended up in a new position that should be taking under consideration in the budget.<sup>129</sup> This comparison must be able to be made between the hotels within Accor. There are differences in the opinions in the company when it comes to what the budget is and what it is not. The heads of the departments steer their business with the help of business ratios. These are obtained from the budget. When the heads of the departments talk about this, it seems as if they see the business ratios and the budget as

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<sup>127</sup> Bergstrand - Olve (1996), pp. 26-27.

<sup>128</sup> Broström et. al. (2005), p. 278.

<sup>129</sup> Lundén - Dahlin (1998), p. 14.

two separate things. The budget steers indirectly because all the goals through the business ratios are based on the budget even though the budget as a document is not for everyday use in the hotel. Because of this, the budget is a foundation in the company and it can also explain to some extent why the financial controller and the heads of the departments have such different experiences of the budget. From the financial controllers perspective she sees the budget more as a whole than the heads of the departments. From her viewpoint everything is included in the budget and therefore she sees the budget as a useful steering tool. For the heads of the departments it is not obvious that the steering business ratios and the budget is the same thing and then the benefits of the budget as a steering tool become less apparent to them. The restaurant manager and the chef adjust the business after the predetermined business ratios. The heads of the departments are satisfied if they reach the business ratios and don't try to exceed them.

For the management the budget is a steering instrument so they in an easy way can be able to see how the different departments handle their revenues to their costs. According to the financial controller, it is the only way to steer the employees. If it was possible the financial controller would like to run the business only with extra personnel and not with any regular employees but this would increase the amount of pressure on the restaurant manager to summon the right amount of personnel. Too little of a personnel increases the stress level among the employees which can result in more people reporting sick which increases the company's costs. It is a difficult balance to plan the business so that the right amount of personnel is in the hotel at the right time because both too much personnel and too little personnel cost the company a lot of money.

### **5.3 How the budget is experienced**

There is a clear difference in how the budget is experienced by the different people in the company. To the financial controller it is very precise and she feels that the company is in front of the companies when it comes to budgeting in the hotel industry. She believes that it is possible that they are leading in Sweden with their way to budget in their niche. The chef thinks that the budget is a prognosis and because of that a guess of the future is not of real values. He is sceptical of the way they estimate their revenues and costs. It gives a good indication on what Wallander writes that the business is built on simplified prognoses.<sup>130</sup> The chef thinks that the business ratios are better because they are always relevant according to his statements.

The restaurant manager believes that for the first time the budget has become fairly correct in spite of all assumptions but she says that the important thing for her is to make the business function. If they keep themselves within the limits of the budget it is good but if they do not, it is not that bad according to the restaurant manager. This makes it possible to consider that the budget does not fulfil the role it is supposed to. It can be so that it is not that important because Novotel can still have a well functioning steering.

It seems as though Novotel has a communication and collaboration problem. Communication and collaboration are very important for the budget work and that is especially important in the planning phase. When the economic manager says that if there is something wrong with the budget it is the reality that is not correct and when the chef says "*that they do not look so*

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<sup>130</sup> Bergstrand - Olve (1996), pp. 186-187.

*closely at the budget because it is just imaginary numbers and it is obvious that there is a differing of opinions about the purpose of the budget”.*

Because there is such a huge difference in how the budget is experienced by the people that were interviewed, we feel this is due to the differences in background and frame of references. The financial controller sees the budget through an economic perspective and the restaurant manager sees the budget as a factor that controls how much personnel she can summon. Finally, the chef who has to adjust his raw material purchases to the budget when he plans his menus. Therefore, it is not only a management accounting matter which can be dealt with purely economically. To be able to fully understand how the budget is produced there must be an understanding that psychological and organisational factors play a part in the work.

The question is if it would be feasible to increase the understanding of the economic part of the budget in the departments. Despite the fact that the departments are involved in the budgeting, they have another basic perspective than an economist and an economist probably has equally hard to see it from their point of view as they have to see it from the economist viewpoint. The departments know their areas where they feel secure and they prefer to work with what they can and that they think that the activities that is about economy is somebody else’s job. They do not need to invest time in understanding the budgets purpose and meaning for the whole company as long as their departments work as they should. Nor do they see the overall picture, they only see the part of the budget that concern their departments and that is why they never get the opportunity to get really engaged. Broström considers that a responsible person without good knowledge in economy has difficulties evaluating this type of situation and also taking action with the information. Therefore, he thinks that it is important that the companies educate their heads of the departments in economic steering.<sup>131</sup> There is a difference in the basic view of the budget in the company. The budget is not experienced as a steering instrument by the heads of the departments, but more like a factor they have to relate themselves to. They are being steered but all personnel that work in this type of industry understand that the company is forced to have the cost under control. The hard reality demands that the chef makes sure that the food is not too expensive and that the restaurant manager keeps the cost for personnel down.

## **5.4 The bonus system**

One negative factor that was shown in our interview is that the bonus system is designed in a way that seems to have a few shortcomings. The personnel cannot explain how the business ratios that their bonuses are based upon are calculated and besides that they can’t affect the most of these business ratios. The employees think that this is bad, which is quite understandable.

Novotel uses a bonus system that gives bonus if certain business ratios are reached and these are not necessarily the same business ratios as those in the budget. According to the restaurant manager and the chef, they cannot affect three of the four criteria that are included in their bonus system. When we asked how they felt about that we got answers like: *“Not too good!”*<sup>132</sup> and *“Worthless!”*.<sup>133</sup> If they participated in the planning phase of the budget process they could also affect the budgets bonus system and feel more involved and motivated

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<sup>131</sup> Broström et. al. (2005), p. 253.

<sup>132</sup> The Restaurant manager (2006-05-03)

<sup>133</sup> The Chef (2006-05-03)



to reach the business ratios and the wanted results. As it is now very few persons can affect their business ratios and then the bonus system does not fill the function it should have.

The bonus should according to us be a factor that increases the motivation but if it cannot be affected there is not any economical incentive for the personnel to try to do a better job. That it turned out this way can be due to that nobody has thought about how the bonus system is designed. It can also be that the management thinks that the business ratios give so good steering that the personnel could not increase the revenues much, especially if they tried. If the personnel cannot affect the revenues to any great extent a change of the bonus system would only increase the costs of the company and that is not in Novotel's management's interest.

## 6 Conclusion

*In this chapter we present the conclusion and we plan to answer the purpose of this thesis and its questions at issues. The conclusions are the result of the analysis and the discussion that has been made with the help of the collected empiric material and the theoretical frame of references. The chapter is completed with our suggestions for further studies.*

### 6.1 The purpose of the thesis

The purpose of this thesis was to survey and analyse the budget process in Novotel but also to survey and analyse how the budget is experienced by the departments we have studied in relation to the management who is represented by the financial controller. In addition to this we wanted to see how the budget worked as a steering tool. On the basis of these purposes we have reached a number of conclusions.

### 6.2 The budget process

We consider that we have surveyed the budget process and gotten a good insight in how the work with the budget is done. The main points of the budget work are planning, implementation and follow up. There are in total about ten people that are involved in the budget work of which the most have some form of leading position and are white collar workers. For the method to create the budget we consider that Novotel uses the top-down budgeting method which is described by Carlson.<sup>134</sup> It is the management who establishes the budget goals and the directives that become guidelines for all the departments.

The work begins in April when the sales department produces the basic data and makes prognoses. During the summer the work with the budget stops but in September everybody who takes part in the budget starts to plan for their area. The parts of the budget are then compiled by the financial controller and approved by the MD. The budget is sent to the owners in France who give the final approval. The final approval usually comes in the beginning of October. After that there is not any work with the budget before it will be in effect the first of January. When the budget starts to be applied, it is put in to the accounting system and is compared to the result of the departments.

The budget is then followed up at the monthly meetings, there the management and the heads of the departments meet and get information about their results. The departments also receives reports every second day regarding how their result is in comparison to the budget. This procedure starts over again at the same time next year but then the hotel tries to make the budget more accurate with help from the experience they gained from last years budget and the budget follow up. We feel that this line of action that the hotel follows is well chosen and works in a good way. We find support for this in the literature that describes the line of action of the budget process. Lundén and Dahlin<sup>135</sup> and Bergstrand and Olve<sup>136</sup> write about the budget process and they describe a similar line of action for planning, implementation and follow up. The hotel starts its planning a bit early in the year compared to the optimal which is

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<sup>134</sup> Carlson (2002), p. 82.

<sup>135</sup> Lundén - Dahlin (1998), pp. 15-16.

<sup>136</sup> Bergstrand - Olve (1996), p. 115.

a couple of months later according to Lundén and Dahlin.<sup>137</sup> This, however, is due to the demands from the French owners and the hotel has to adjust itself to these demands.

### **6.3 Different view on the budget**

We have also surveyed and analysed how the budget is experienced by the departments that we studied in relation to the management that is represented by the financial controller. We came to the conclusion that it is a big difference in how the financial controller and the heads of the departments, kitchen and restaurant, experience the budget. The biggest difference in how the budget is experienced we feel is due to the fact that the financial controller sees the budget more as a whole when the heads of the departments only see their part of the budget. A factor that increases the differences of the view of the budget further is that the financial controller and the heads of the departments have such a different experience and they see the budget out of their subjective view. It makes the financial controller to consider that the budget is a very effective steering tool compared with the heads of the departments that does not think it has any great significance. The heads of the departments get the business to work and to them the budget is more a prognosis. We consider that Broström is right when he says that there is a need for more knowledge about economy in the companies. If the management in the company educated their heads of the departments they would understand the budget better and the differences in how the budget is experienced by the management and the heads of the department would decrease.<sup>138</sup>

### **6.4 The budget as a steering tool**

We also wanted to investigate how relevant the budget is as a steering tool in the hotel. Our conclusion in this area is that it works in a good way as a steering tool. The financial controller can monitor the development of the result the whole time and contact the responsible if a deviant result would arise. The heads of the departments steer a lot of their business on business ratios that comes from the budget so even on an operative level the budget have a large significance. The steering in Novotel is according to us on the basis of the budget constrained leadership style that Hopwood describe in his literature. Novotel have a budget constrained leadership style where the business is directly control by the budget. Each department is judged if it reaches the goals in the budget. They try to reach the fixed goals and the budget is not questioned by the departments. If there is a deviation from the budget it is going to be investigated by the management.<sup>139</sup> It is this that takes place on the hotels monthly meetings. We think that this leadership style works in a good way in Novotel since the management tries to set up reasonably goals to satisfy the departments' needs and are reachable. Because the goals are established on the basis of the departments' capacity, stress and tension are avoided in the departments. This corresponds with Jönsson's writings about the by Otley modified view on the budget constrained leadership style.<sup>140</sup>

We consider further that the budget is a good steering tool in the company because the management thinks that they get a good overview and a good control at the same time as the heads of the departments get clear goals through the budgets business ratios. Even if the experiences of the budget differ between the persons that were interviewed and an increased

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<sup>137</sup> Lundén - Dahlin (1998), pp. 21-22.

<sup>138</sup> Broström et.al. (2005), p. 253.

<sup>139</sup> Hopwood (1973), p. 19.

<sup>140</sup> Jönsson (1987), see booklet.

understanding would make the work with budget easier the steering through the budget is still very good in our opinion. Our conclusion is on the basis of the interviews we carried out and on the literature we taken part of and studied.

### ***6.5 Suggestions for further studies***

We suggest further studies with direction in the area of business without a budget. A study of how Novotel would handle their business according to the discussion that Wallander and Hope conducted. That research would give the researcher and Novotel interesting information and knowledge about the budgets duration and its significance for the organization. We know that Novotel doesn't have any choice and that there are not any alternatives according to the financial controller but the budget is criticized to some extent by the interviewed departments so there could be a better way to operate the hotel. This might be found if more research in the area is done.

There is also a possibility to perform further studies in an organisational viewpoint, for example how the information is interpreted by the different departments.

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## **8 Appendix**

### **8.1 Appendix 1 Interview questions**

#### **The Management – Financial Controller**

1. Could you introduce yourself and your area of responsibility?
2. Could you define the word budget?
3. Could you give comprehensive description of how the budget process works in the hotel?
  - planning
  - implementation
  - follow up
  - reports
  - tools
  - important business ratios
4. Do you set up goals for the business?
  - Do you do a follow up on these goals?
  - What consequences are there if the result does not correspond with the result?
5. Which advantages and disadvantages do you experience with the budget process?
6. Do you think that your current system is suitable for your business?
  - Do you think that the budget works better or worse in some departments?
7. What benefit do you see with the budget and the budget process in the different departments?
8. How have the development with the budget been, has there been any change during the years?
9. How much time, resources and personnel do you spend on the planning, implementation and follow up of the budget?
10. How is the budget connected to the accounting?
11. Is the budget affected by the centres of responsibility?
12. Is the budget affected by the structure of the owners?
13. Does the budget affect the result in the company or does the result affect the budget?
14. How do you in the management motivate the heads of the departments and the employees to reach the goals of the budget?
15. What is your personal view on the budget and the budget process?

## **The Departments - The Chef and the Restaurant manager**

1. Could you introduce yourself and your area of responsibility?
2. Could you give comprehensive description of how the budget process works in the hotel?
  - planning
  - implementation
  - follow up
  - reports
  - tools
  - important business ratios
3. Which advantages and disadvantages do you experience with the budget process?
4. How does the budget affect the everyday work?
5. Can the budget goals to keep the costs under control be in the way to reach high profitability?
6. Do you feel controlled by the budget?
7. What benefits do you see with the budget?
8. Is there any alternative that you think is better suited for your department than the budget?
9. How are you motivated to reach the goals of the budget?
10. How do you handle as a head of a department to get all the employees to feel involved in the budget process?
11. How much time, resources and personnel do you spend on the planning, implementation and follow up of the budget?
12. What is your personal view on the budget and the budget process?

## 8.2 Appendix 2 Budget document from Novotel

# Budget 2006

	Jan	Feb	Mar	Apr	Maj	Jun	Jul	Aug	Sep	Okt	Nov	Dec	Total
Försäljning rum	2 047,2	2 039,3	2 574,4	2 178,6	2 835,5	2 820,5	2 954,2	3 469,2	3 101,2	2 776,0	2 621,3	1 818,4	31 235,8
Försäljning mat	528,6	563,0	776,2	674,1	898,5	860,4	788,7	902,0	854,6	774,1	846,1	2 172,1	10 638,4
Försäljning dryck	205,6	220,1	314,3	267,4	352,5	334,3	266,9	341,3	336,7	308,6	345,0	975,9	4 268,6
Försäljning konferens	142,0	141,6	247,3	198,0	233,0	227,9	15,5	179,9	299,7	245,0	242,4	150,5	2 322,8
Försäljning telefon (4A)	6,0	6,0	9,0	9,0	9,0	7,0	7,0	7,0	9,0	9,0	9,0	8,0	95,0
Försäljning shop o TV (4C)	47,9	47,7	52,7	59,3	70,5	72,2	80,9	82,2	73,9	71,2	65,5	50,9	774,9
Försäljning gästvätt (4G)	2,0	2,5	3,0	4,0	1,5	3,2	0,5	2,5	3,0	3,0	2,0	1,0	28,2
Försäljning div (4Z)	6,0	9,0	9,0	9,0	7,0	5,0	0,0	5,0	6,0	10,0	10,0	9,0	85,0
<b>TOTAL FÖRSÄLJNING</b>	<b>2 985,3</b>	<b>3 029,2</b>	<b>3 985,9</b>	<b>3 399,4</b>	<b>4 407,5</b>	<b>4 330,5</b>	<b>4 113,7</b>	<b>4 989,1</b>	<b>4 684,1</b>	<b>4 196,9</b>	<b>4 141,3</b>	<b>5 185,8</b>	<b>49 448,7</b>
Intäktsreduceringar	66,6	66,4	79,0	69,7	85,0	84,7	87,8	99,8	91,3	83,7	80,0	61,2	955,2
<b>Nettointäkter</b>	<b>2 918,7</b>	<b>2 962,8</b>	<b>3 906,9</b>	<b>3 329,7</b>	<b>4 322,5</b>	<b>4 245,8</b>	<b>4 025,9</b>	<b>4 889,3</b>	<b>4 592,8</b>	<b>4 113,2</b>	<b>4 061,3</b>	<b>5 124,6</b>	<b>48 493,5</b>
varav försäljning övrigt	61,9	65,2	73,7	81,3	88,0	87,4	88,4	96,7	91,9	93,2	86,5	68,9	983,1
Varukostn mat	202,4	215,2	290,1	256,2	349,0	337,1	346,2	363,2	329,9	294,1	314,9	734,4	4032,7
Varukostn dryck	59,6	63,8	91,0	77,6	102,1	96,9	77,4	98,9	97,6	89,4	100,0	282,8	1237,1
Varukostn telefon	3,0	3,0	3,8	3,8	3,8	3,3	3,3	3,3	3,8	3,8	3,8	3,5	42,2
Varukostn shop o TV	18,3	18,3	21,4	24,9	27,0	27,5	35,6	30,1	28,6	29,9	26,4	22,2	310,2
Varukostnad gästvätt	1,6	2,0	2,3	3,1	1,2	2,5	0,4	2,0	2,3	2,3	1,6	0,8	22,1
Varukostnad konf.	3,5	3,5	3,5	3,5	3,5	3,5	3,5	3,5	3,5	3,5	3,5	3,5	42,0
<b>Total varukostnad</b>	<b>288,4</b>	<b>305,8</b>	<b>412,1</b>	<b>369,1</b>	<b>486,6</b>	<b>470,8</b>	<b>466,4</b>	<b>501,0</b>	<b>465,7</b>	<b>423,0</b>	<b>450,2</b>	<b>1 047,2</b>	<b>5 686,3</b>
därav "övrigt":	26,4	26,8	31,0	35,3	35,5	36,8	42,8	38,9	38,2	39,5	35,3	30,0	416,5
Direkt lön kollektiv	358,4	377,1	450,3	398,6	451,9	458,7	509,7	519,9	438,3	441,2	508,6	585,7	5 498,4
Direkt lön Tjm	266,5	238,2	281,6	240,9	281,4	236,4	109,3	155,5	267,0	273,8	276,7	258,8	2 886,1
<b>Summa direkt lön</b>	<b>624,9</b>	<b>615,3</b>	<b>731,9</b>	<b>639,5</b>	<b>733,3</b>	<b>695,1</b>	<b>619,0</b>	<b>675,4</b>	<b>705,3</b>	<b>715,0</b>	<b>785,3</b>	<b>844,5</b>	<b>8 384,5</b>
Personalkostnader	690,6	692,2	786,7	717,4	833,6	814,3	921,9	891,1	814,2	789,3	825,7	831,0	9 808,0
<b>Total personalkostnad</b>	<b>1 315,5</b>	<b>1 307,5</b>	<b>1 518,6</b>	<b>1 356,9</b>	<b>1 566,9</b>	<b>1 509,4</b>	<b>1 540,9</b>	<b>1 566,5</b>	<b>1 519,5</b>	<b>1 504,3</b>	<b>1 611,0</b>	<b>1 675,5</b>	<b>17 992,5</b>
	44,1%	43,2%	38,1%	39,9%	35,6%	34,9%	37,5%	31,4%	32,4%	35,8%	38,9%	32,3%	36,4%
Övr. rörelsekostnader													
2A	141,8	153,0	157,7	163,5	189,1	209,1	313,9	242,1	187,0	184,8	164,1	145,9	2 252,0
3A	81,0	71,1	78,7	75,3	83,7	79,4	74,5	75,6	81,2	81,2	84,0	110,7	976,4
6B	79,7	79,7	79,7	79,7	79,7	79,7	79,7	79,7	79,7	79,7	79,7	79,7	956,4
6N	80,0	80,0	80,0	80,0	95,0	95,0	95,0	80,0	80,0	80,0	95,0	95,0	1 035,0
6Q	140,3	103,1	115,5	107,9	136,6	120,0	117,2	140,8	140,2	118,3	117,5	131,1	1 488,5
6R	140,0	144,9	148,1	122,3	99,9	105,2	117,4	118,2	119,5	130,2	132,8	147,8	1 528,3
<b>Total</b>	<b>662,8</b>	<b>631,8</b>	<b>659,7</b>	<b>628,7</b>	<b>684,0</b>	<b>688,4</b>	<b>797,7</b>	<b>736,4</b>	<b>687,6</b>	<b>674,2</b>	<b>673,1</b>	<b>710,2</b>	<b>8 234,6</b>
	22,2%	20,9%	16,6%	18,5%	15,5%	15,9%	19,4%	14,8%	14,7%	16,1%	16,3%	13,7%	16,7%
<b>TOTALA KOSTNADER</b>	<b>2 266,7</b>	<b>2 245,1</b>	<b>2 590,4</b>	<b>2 354,7</b>	<b>2 737,5</b>	<b>2 668,6</b>	<b>2 805,0</b>	<b>2 803,9</b>	<b>2 672,8</b>	<b>2 601,5</b>	<b>2 734,3</b>	<b>3 432,9</b>	<b>31 913,4</b>
GOP:	652,0	717,7	1 316,5	975,0	1 585,0	1 577,2	1 220,9	2 085,4	1 920,0	1 511,7	1 327,0	1 691,7	16 580,1
	22,3%	24,2%	33,7%	29,3%	36,7%	37,1%	30,3%	42,7%	41,8%	36,8%	32,7%	33,0%	34,2%
Management fees 0,75%	22,4	22,7	29,9	25,5	33,1	32,5	30,9	37,4	35,1	31,5	31,1	38,9	371,0
Incentive fees	-155,7	-123,8	153,1	-3,9	277,4	275,3	102,2	514,0	438,5	245,7	154,6	312,5	2 189,9
<b>RBO:</b>	<b>785,3</b>	<b>818,8</b>	<b>1 133,5</b>	<b>953,4</b>	<b>1 274,5</b>	<b>1 269,4</b>	<b>1 087,8</b>	<b>1 534,0</b>	<b>1 446,4</b>	<b>1 234,5</b>	<b>1 141,3</b>	<b>1 340,3</b>	<b>14 019,2</b>