

The end of budgeting?



As they return from their summer holidays, hotel management teams around the world are facing up to the annual task of preparing the annual budget.

Despite years of being pilloried as being a process that is out of touch with modern business needs, taking too long, costing too much, encouraging value destructive behaviour, almost all companies will oblige their teams to take their eyes off the ball of guest satisfaction to serve the alleged needs of corporate office in preparing the budget.

Looked at it positively, a budget provides a focus for a hotel and a hotel company. It aids the co-ordination of activities and facilitates control. But, as they say, if the budget provides a route map, it's only valid if you keep your eyes open and if the destination remains the one you need to get to. If not, the business will come off the rails.

Changing times

And, since we live in changing times and always have done, the chances are the goals established for the business in the 2008 annual budget by the team working on it will prove to be misplaced (as indeed will the goals for the month January 2008). Humanity is not blessed with 100% foresight and hotel management is no exception.

Increasingly, we find businesses making use of rolling forecasts. Many companies will regard the rolling forecast as a more important directional tool, whilst the annual budget allows the opportunity to look into some of the darker corners of a business' processes and their inter-relationships. Perhaps the key benefit of the annual budget process is that it requires the leadership of the business and all the functional leaders to talk to each other. The budget forces something that should be happening but may not be.

Route maps

The other significant change that has occurred in recent years has been a move away from a financially-based budget towards a route map that is denominated in both financial and non-financial terms. Usually referred to as the balanced scorecard, the intent is to target financial, operational, customer and learning goals. The accountants who typically still run the budget process may feel challenged as they are required to give as much credence to soft indicators such as 'employee satisfaction' as to hard data such as 'days inventory held'.

There are conflicting views that suggest the budget enables behaviours to change as well as constraining behavioural change. Certainly achievement of annual budgeted goals by the first quarter can lead to underperformance in the next three quarters, whilst an overly ambitious budget may have the effect of switching off the management team. In the end, the important issue is to ensure there is a culture in which value-adding decisions are encouraged rather than limiting decisions to simply making budgeted profit.

Making things happen

How can you make sure this takes place? In the first place, aspirational goals need to be set that encourage continual improvement rather than attainment of fixed annual targets. Success needs to be shared, based on relative performance rather than fixed annual targets. Planning should be a continuous background process rather than an event that disrupts the annual corporate calendar.

Corporate management and company leadership need to learn how to allocate resources – people, time, money – as needed rather than through annual allocations. And there needs to be continual cross-functional co-operation rather than the annual planning cycle.

Leadership

This has some leadership implications. The hotel needs to be focused on improving the outcome for the guest and the customer - full stop - rather than focused on improving life at headquarters. There should be a matrixed network of teams accountable for results rather than centralised hierarchies. The leadership team should explicitly reward success in the marketplace rather than success against internally determined benchmarks.

Once teams are accountable for their success, they should be given the right (indeed, the obligation) to act rather than merely adhere to plan. In this adaptive world, values and boundaries are established rather than detailed rules and budgets. And, importantly, data, information and knowledge need to be made available to all and not limited to those with a 'need to know'.

We've yet to see enlightened hotel owners build such requirements into hotel management contracts. Regrettably these documents seem to be stuck in the 1960s in some respects. But we have no doubt that those who do will improve profit as well as their embedded management teams.

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