Budgeting in Hotels: A Contingency – Based Study in Northern Cyprus

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ABSTRACT

The aim of this study is to do an empirical research on budgeting in hotels regarding the relationship between the contingent variables (structure, strategy, technology and perceived environmental uncertainty) and budgeting practices and performance measurement.

Management Control System is a valuable tool which is used by managers for decision making. Budgets are seen as a management control system since they can provide a basis for comparison between actual and budgeted results to rate their performance. However, due to the fact that little has been investigated about budgeting in the service industry, this paper aims to contribute to the existing literature by surveying the hotels in Northern Cyprus through a contingency-based research.

In order to reach the aim of the study 124 self – administered (delivery and collection) questionnaires were distributed to General Managers, Accounting/Finance Managers, Human Resources Managers, Front Office Managers, F&B Managers, Housekeeping Managers and Sales and Marketing Managers of 4- and 5 star hotels. Out of the 124 questionnaires 109 were received. The sample was selected by using the non-probability judgmental sampling technique.

This study has found that perceived environmental uncertainty, structure, strategy and technology are all positively related with budgeting practices. However, budgeting practices is negatively related with performance measurement. Moreover, the implications, limitations and direction for future research are provided.

Keywords: Management Control Systems, Management Accounting, Budgeting, Performance Measurement, North Cyprus

ÖZ

Bu araştırmanın amacı, deneysel bir araştırma uygulayarak otellerdeki koşullu değişkenler (örgütsel yapı, strateji, teknoloji ve algılanan belirsizlik ortam) ile bütçeleme uygulamaları ve performans ölçümü arasındaki ilişkiyi ölçmektir.

Yönetim bilişim sistemleri, müdürlerin karar verme sürecinde kullandığı çok etkili bir araçtır. Bütçeler, performans ölçümü için fiili sonuçların ve bütçelenen sonuçların karşılaştırılabilmesi için zemin oluşturduğundan dolayı bir yönetim bilişim sistem çeşidi olarak görülmektedir. Ancak, hizmet sektöründeki bütçeleme ile ilgili çalışmalar az olduğundan dolayı bu araştırma Kuzey Kıbrısdaki otelleri inceleyerek var olan literatüre katkıda bulunmayı amaçlamaktadır.

Bu amaca ulaşılabilmesi için 4 ve 5 yıldızlı otellerin Genel Müdürlerine ve departman müdürlerine toplam 124 adet anket dağıtılmıştır. Dağıtılan 124 anketten 109 anket geri alınmıştır. Olasılıksız yargısal örnekleme tekniğini kullanarak örneklem seçilmiştir.

Araştırmanın sonucuna göre algılanan belirsizlik ortamı, örgütsel yapı, strateji ve teknoloji ile bütçeleme uygulamaları arasında olumlu bir ilişkinin olduğu saptanmıştır. Ancsk, bütçeleme uygulamaları ile performans ölçümü arasında olumsuz bir ilişki gözlemlenmiştir. Buna ek olarak yöneticiler için öneriler yapılmış, tezin sınırlılıkları açıklanmış ve gelecekteki araştırmalar için öneriler sunulmuştur.

Anahtar Kelimeler: Yönetim Bilişim Sistemleri, Yönetim muhasebesi, Bütçeleme, Performans Ölçümü, Kuzey Kıbrıs

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INTRODUCTION

1.1 Background of Turkish Republic of Northern Cyprus

Cyprus is the third largest island in the Mediterranean and is located on the north of Egypt, south of Turkey, east of Greece, west of Lebanon and Syria and northwest of Israel. Greek and Turkish Cypriots lived together and shared the same culture however due to tensions and disagreements in 1974, the island divided into two segments representing two different nationalities; The Republic of Cyprus (Greek Cypriots) and The Turkish Republic of Northern Cyprus (TRNC) (Turkish Cypriots). Since then, attempting to reach a solution resulted in failure however; both communities maintain open borders between the two segments with no restrictions regarding the movement of the two nations. The result of the population census which took place in 2011 revealed that the TRNC has a population of 294,906.

Cypriot culture is seen as one of the richest cultures due to the importance of family life, cuisine, traditions, festivals and gatherings. Family life is very important in Northern Cyprus where they spend most if not all their time with family gatherings, barbeques, weddings and picnics. It has a rich cuisine which consists of many dishes that has been influenced by many cultures due to its history. However, each dish has a particular taste and type of cooking which actually represents the Cypriot culture.

The World Tourism Organization (WTO) defines tourism as an activity where people move from one destination (home country/town) to another for various reasons such as a holiday, a business trip, etc. (www.unwto.org). Since Cyprus is an island, it is seen as one of the main popular sites for visiting or coming for a holiday. The leading sector in the economy of the island is the service sector which includes retailing, tourism and education. As it can be seen from Table 1, tourism is the backbone of the economy with $459.4 million net income in 2012. However, embargos, political conflicts with the Republic of Cyprus and an isolated economy have exterminated the ability of TRNC to generate foreign currency. Due to such reasons, the island is highly dependent on Turkey and its financial and economic support.

Table 1. Tourism and the T.R.N.C Economy

YEARS	NET TOURISM INCOME (Million USD)	THE RATIO OF NET TOURISM INCOME TO THE TRADE BALANCE
2003	178.8	41.9
2004	288.3	36.4
2005	328.8	28.0
2006	303.2	23.2
2007	381.0	26.2
2008	383.7	24.0
2009	390.7	31.1
2010	405.8	26.9
2011	459.4	29.1
2012*		

*Not determined yet

Source: State Planning Organization

Table 2-4 shows the number of Turkish and foreign visitors accommodated in TRNC, the occupancy rates and their distribution according to the regions and those establishments with / without a casino.

In table 2, it can be seen that the majority of Turkish tourists visiting TRNC is much higher than the foreign tourists. TRNC is the foster land of Turkey which is the main reason why Turkey is the main market followed by UK, Germany and Iran.

Table 2. Number of People Accommodated

YEARS	TURKEY	FOREIGN	TOTAL
2003	165,872	82,465	272,162
2004	162,790	112,921	306,244
2005	171,518	127,338	335,235
2006	225,052	100,841	368,891
2007	265,273	106,124	423,396
2008	317,509	103,613	478,392
2009	304,942	114,218	474,600
2010	336,240	108,343	497,236
2011	393,238	156,381	594,862
2012	459,529	183,651	688,355
2013 (*January – May)*	181,338	60,285	241,623

Source: Tourism Planning Organization

According to the North Cyprus Hoteliers Association, there are 88 accommodation establishments in TRNC which include hotels, touristic bungalows, and holiday villages with a total of 17,038 bed capacity. With the increase in both the number of establishments and various types of advertising, the occupancy rate increases year by year apart from 2007 where there was a slight decrease due to economic reasons (Table 3).

Table 3. Occupancy Rate

YEARS	%
2003	37,5
2004	41,2
2005	40,7
2006	33,5
2007	32,5
2008	33,3
2009	35,0
2010	36,4
2011	41,4
2012	44,1
2013 (*January – May)*	35.8

Source: Tourism Planning Organization

In table 4, the occupancy rates are distributed among the regions in North Cyprus. The highest occupancy rate belongs to Kyrenia (65,9%) which is the top touristic destination on the island and occupies more than half of the touristic establishments followed by Famagusta (52,8%), Nicosia (45,6%) which is the capital of the island, Iskele (29,4%), and Guzelyurt (5,4%).

Table 4. Occupancy Rate According to the Regions in May 2013

REGION	%
Kyrenia	65,9
Guzelyurt	5,4
Nicosia	45,6
Famagusta	52,8
Iskele	29,4

Source: Tourism Planning Organization

The majority of the tourists that come from Turkey are casino tourists that prefer the island since casinos are forbidden for their local citizens in Turkey. However, together with Turkey; Israel and Western Europe have also chosen TRNC as their top destination for gambling.

Hotels with a casino have been the primary choice for those tourists that come for gambling which is also proven in table 5, where the occupancy rate of establishments with a casino is 54,1% whereas those without a casino is 39,7%.

Table 5. Occupancy Rate According to the Establishments With and Without a Casino

	%
With a casino	54,1
Without a casino	39,7

Source: Tourism Planning Organization

1.2 Rationale of the Study

Within the last decade budgets have received attention both in the hospitality and manufacturing industry and in the research literature as an important financial tool. Davila and Foster (2005) defines budget as a "forward looking set of numbers which projects the future financial performance of a business, and which is useful for evaluating the financial viability of the business's chosen strategy or deciding whether changes to the overall plan are required" (pp. 1047).

Although it is believed that the comparison of actual and budgeted results provides the basis and standard for measuring effectiveness and efficiency in an organization, financial measures have been criticized for being short term, lacking end results of managerial efforts and for being unbalanced between financial and non-financial measures.

As a result, new systems that place financial measures as one dimension of the decision-making process and that incorporate financial measures with operational measures of performance have emerged (Haktanir and Harris, 2005).

Over the years the competition in the hospitality industry has grown rapidly worldwide. According to the statistics, international tourist arrivals grew by over 4% in 2011 to 980 million up from 939 million in 2010 (unwto.org). In the Turkish Republic of Northern Cyprus (TRNC), the hospitality industry is the leading sector and is of great importance to the economy in the island. However, many researchers pointed out that there is a lack of research about budgeting especially in the hospitality industry.

Several studies were conducted in the manufacturing industry investigating the use and implementation of budgeting. A survey done by Ahmad *et al.* (2003) in Malaysia proved that the companies use budgets to a large extent, as part of their planning and control mechanisms. Another survey done by Ghosh and Chan (1997) also indicated that the budget usage in Singapore is 97% among the respondent companies. Similarly, some studies have been conducted in the hospitality industry as well mainly focusing on the hotels in the developed countries. Jones (1998, 2008a) conducted two surveys in the UK in which budgets were viewed as the main performance indicators in the hospitality industry. Another survey done by Pavlatos and Paggios (2009) analyzed the Greek hotels and found that the majority used budgets for planning annual operations (98.8 per cent), controlling cost (91,8 per cent), coordinating activities of the various parts of the organization (80 per cent), and evaluating the performance of managers (64.7 per cent).

Therefore, due to the fact that little has been investigated about budgeting in the service industry, this study aims to contribute to the existing literature by surveying the hotels in Northern Cyprus through a contingency-based research.

The study will mainly focus on, the relationship between contextual factors identified from contingency-based research, budgeting practices, and business performance within the hospitality industry.

1.3 Research Objectives

In order to achieve the aim of the study for following research objectives were undertaken;

- The gap in the literature is identified
- A review of the literature is carried out for budgeting practices and performance measurement
- The type of method for data collection is selected and the questionnaire is prepared
- The data is analyzed using SPSS 15.0 and the output of results are determined
- Regarding the results found, implications for the sector and academicians is provided

1.4 Thesis Outline

This thesis consists of six chapters. In Chapter 1, introduction, rationale of the study and the research objectives were presented.

Chapter 2, presents the literature review about Management Control Systems (MCS), Budgeting Practices (BP), and Performance Measurements (PM).

Chapter 3, consists of the research and model and hypothesis where each hypothesis is explained and supported through previous studies findings.

Chapter 4, provides us with the methodology used in data collection for the study followed by chapter 5 which consists of the findings of the study.

Lastly, Chapter 6 will present the discussion and conclusions of the study.

Chapter 2

LITERATURE REVIEW

2.1 Importance of Management Control System (MCS)

Management Control System (MCS) is an important tool to supply information to aid managers' decision making (Otley, 1999; Chenhall, 2003; Davila, 2005; Malmi and Brown, 2008; Carenys, 2010). MCS has been defined as the entire method an organization uses to make sure that the attitudes of the employees and their way of thinking is in line with the companies aim (Malmi and Brown, 2008).

Management control is both old and new to management literature such that Anthony (1965) saw it in between strategic planning and operational control. He stated that strategic planning helps to measure and modify the organization according to the changing environment by ensuring that the employees work towards achieving the long term goals and objectives set by an organization as a whole whereas operational control makes sure that the daily actions are in line with the goals and objectives set by the organization and deals with short term events.

He saw management control as a course of action where it is ensured by the managers that resources are consumed in an efficient and effective manner in order to achieve the goals and aims of the company (Anthony, 1965).

Later on, Simons (1995a) put forward a framework named levers of control (LOC) which can be used as a tool when business strategies are to be put into action. According to Simons (1995a), there are four levers of control; belief systems, boundary systems, diagnostic control systems and interactive control systems. Through the combination of the four levers of control, business strategy can be achieved within the organization as seen in Figure 1. However it is pointed out that "the power of these levers in implementing strategy does not lie in how each is used alone, but rather in how they complement each other when used together" (Simons, 2000). Boundary systems and diagnostic control systems are classified as negative controls which pressurize, "punish, prescribe and control" (Tessier and Otley, 2012, p. 172) whereas belief systems and interactive control systems are classified as positive controls which "motivate, reward, guide and promote learning" (Tessier and Otley, 2012, p. 172).

Belief systems of LOC are the systems used to motivate the search for new ideas and opportunities of management in relation to their strategies in order to develop a business's core value and are linked to *strategy as perspective* (Simons, 2000). These systems offer supervision and motivation in order to seek new opportunities and establish a path to combine the intended and developing strategies (Simons, 2000).

Boundary systems of LOC enable limitations of unfavourable actions of employees and help the organization to decrease risks so these systems make sure that organization activities take place in identified product markets and at suitable levels of risk through *strategy as position* (Simons, 2000).

According to LOC, diagnostic control systems are systems that are used for feedback in order to observe performance and take corrective actions if needed so these systems are linked to *strategy as a plan* and provide a benchmark for the organization to compare their plans and performance (Simons, 2000). The absence of such systems will result in the failure of knowing whether the planned strategies are achieved or not (Simons, 2000).

Interactive control systems are the systems used to support organizational learning and build up fresh ideas and objectives for the organization (Simons, 1995a). These systems are linked to *strategy as patterns of action* which enables the stability and guidance of innovative search procedures even if formal plans and goals are not present (Simons, 2000).

Although boundary systems and diagnostic control systems are utilized to make certain that it is behaved in line with strategies and regulations, belief systems and interactive control systems are utilized to support innovation (Simons, 1995a, 1995b). Table 6 shows the relationship of the four levers of control and their link towards strategy.

Ouchi (1979) and Flamholtz (1983) pointed out that MCS is a method enabling those individuals or divisions with similar objectives to collaborate and work towards the organizational goals. However, Langfield-Smith (1997) stated that the definition of MCS by Anthony (1965) limited the picture of MCS isolating it from strategic and operational control as well as a tool including planning, monitoring and performance measurement.

Horngren (2004) affirmed that management accounting not only enables the organization to make effective decisions but also allows the organization to concentrate on how these management controls can be used for planning and control via management accounting information.

Langfield-Smith (1997) indicated that the first study offering verification about MCS and its relationship with competition was done by Khandwalla (1972). On the other hand, the controls used by Khandwalla (1972) which include those such as inventory control, costing (standard), budgeting (flexible) and Return on Investment (ROI) were not considered to perform as a tool in organizations that focus on flexibility and immediate response (Miles and Snow, 1978; Porter, 1980).

Despite all the debates in literature about MCS and its relationship with certain variables, Horngren *et al.*,(2002) points out that the main purposes of MCS are;

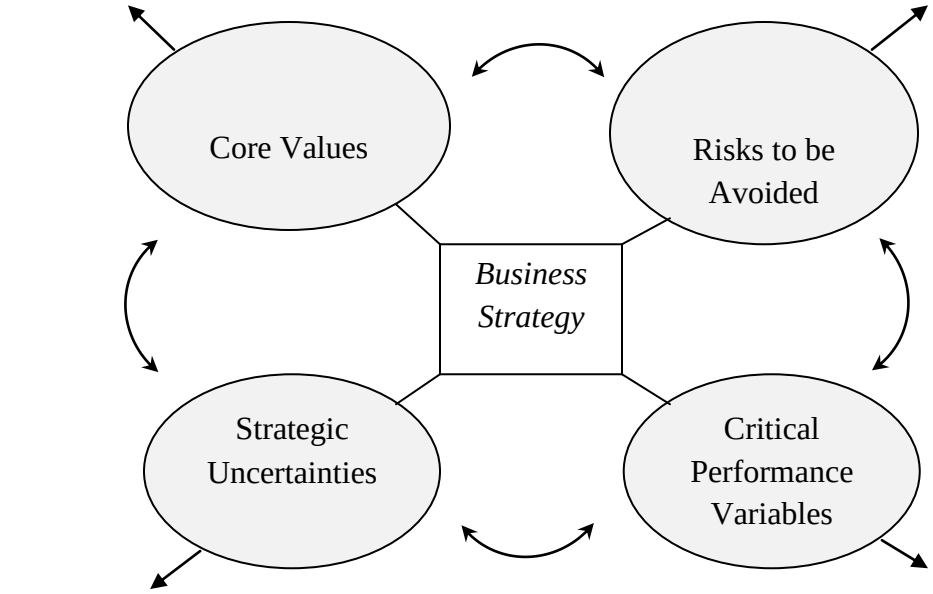
- To convey the goals and objectives of the organization in a visible way;
- To confirm that both employees and managers know how to achieve the goals of the organization and what is expected from them;
- To convey the end results within the organization;
- To confirm that managers are able to adjust to environmental changes.

Strategy as "Perspective"

Obtaining Commitment to the Grand Purpose

Strategy as "Position"

Staking out the Territory



Strategy as "Patterns in Action"

Experimenting and Learning

Strategy as "Plan"

Getting the Job Done

Figure 1. Levers of Control (Simons, 1995a, p. 159)

CONTROL SYSTEM	PURPOSE	COMMUNICATES	CONTROL OF STRATEGY AS
Belief Systems	Empower and expand search activity	Vision	Perspective
Boundary Systems	Provide limits of freedom	Strategic domain	Competitive position
Diagnostic Control Systems	Coordinate and monitor the implementation of intended strategies	Plans and goals	Plan
Interactive Control Systems	Stimulate and guide emergent strategies	Strategic uncertainties	Pattern of actions

Table 6. Harness Employees' Creativity with the Four Levers of Control (Simons, 1995a, p.156)

Since the methods used in the past are not sufficient nowadays, managers must renew their tools for management control as organizations develop and change (Horngren *et al.*, 2002). The later studies on control systems stated that they mainly concentrate on information that includes financial and accounting data basically through budgets and cost accounting (Carenys, 2010). The same study revealed that, the majority of control systems, including budgets, management information systems and accounting and financial systems compile information on specific aspects of the organization's performance to provide them to the organization members.

According to contingency-based research, MCS is not a sole system that suits every business (King *et al.*, 2010; Malmi and Brown, 2008). It is believed that the fittingness of a specific MCS depends on the characteristics of an organization such as its size, structure, strategy, perceived environmental uncertainty, technology, and corporate culture (King *et al.*, 2010; Chenhall, 2003). A wide review of contingency research and the variables are studied in the introduction section of chapter 3.

2.2 Budgeting

2.2.1 Importance of Budgeting

Budgets are regarded as one of the MCS since they can provide a benchmark to evaluate performance and shape the actions and decisions of staff by translating an organization's objectives into strategies (King *et al*., 2010; Malmi and Brown 2008) and combine the whole organizational activities into one logical abstract (Otley, 1999).

Within the last decade budgets have received attention both in the hospitality and manufacturing industry and in the research literature as an important financial tool. King *et al.,* (2010) defines budget as figures that show the future and forecasts the financial performance of a company showing whether the implemented strategy was the right choice or whether changes are needed.

Although it is believed that the comparison of actual and budgeted results provides the basis and standard for measuring effectiveness and efficiency in an organization, financial measures have been criticized for being short term, lacking end results of managerial efforts and for being unbalanced between financial and non-financial measures (Brander Brown and Atkinson, 2001; Haktanir and Harris, 2005).

2.2.2. Description

Budgets are usually in the form of yearly short-term plans aiming to achieve the long-term objectives (Adams, 1997). She pointed out that the purpose of budgets is to help organizations to set future plans by determining the targets and objectives, to organize and manage the activities within the departments, to pass on these objectives and plans throughout the organization and to direct the performance of the organization. However Jones (2006) has done a survey which compared the reasons for using budgets in three sources; namely in the UK industry in 1997 and 2004 and in the textbooks.

In 1997, she found that budgets were firstly used to evaluate performance secondly to aid control and thirdly to motivate managers. In 2004, the results had slightly changed where budgets were firstly used to aid control secondly to evaluate performance and thirdly to aid long-term planning. However, in the textbook analysis it was seen that budgets were used firstly to aid both long-term and short-term planning, secondly to aid control and thirdly to coordinate the operation.

In addition to reasons of utilizing budgets, a general sequence of budget preparation is demonstrated by Adams (1997) in Figure 2. Otley (1999) added that such process is helpful in providing practitioners with a framework where all activities of the organization are gathered into a solitary financial statement.

2.2.3 Types of Budgets

There are a number of different types of budgets which can be seen below (Horngren, 2002, Dropkin *et al.*, 2011)

A) *Budgets according to Time*:

1. Long-term Budgets: are budgets that are prepared to give a picture of the organization in the long term. These budgets are usually prepared by the top management and vary within five-ten years (oppapers).
2. Short-term Budgets: are budgets that usually portray the organization in short term planning and vary between one-two years (oppapers).

B) *Budgets according to function*:

(Horngren, 2002) categorized budgets into three according to their functions:

1. Operating Budgets: are budgets that are a part of the master budget which concentrate mainly on the income statement and its components.
2. Financial Budgets: are a section of the master budget where it shows the influence of plans together with the operating budget on cash.
3. Master Budgets: is a summary of the plans and activities of the whole organization.

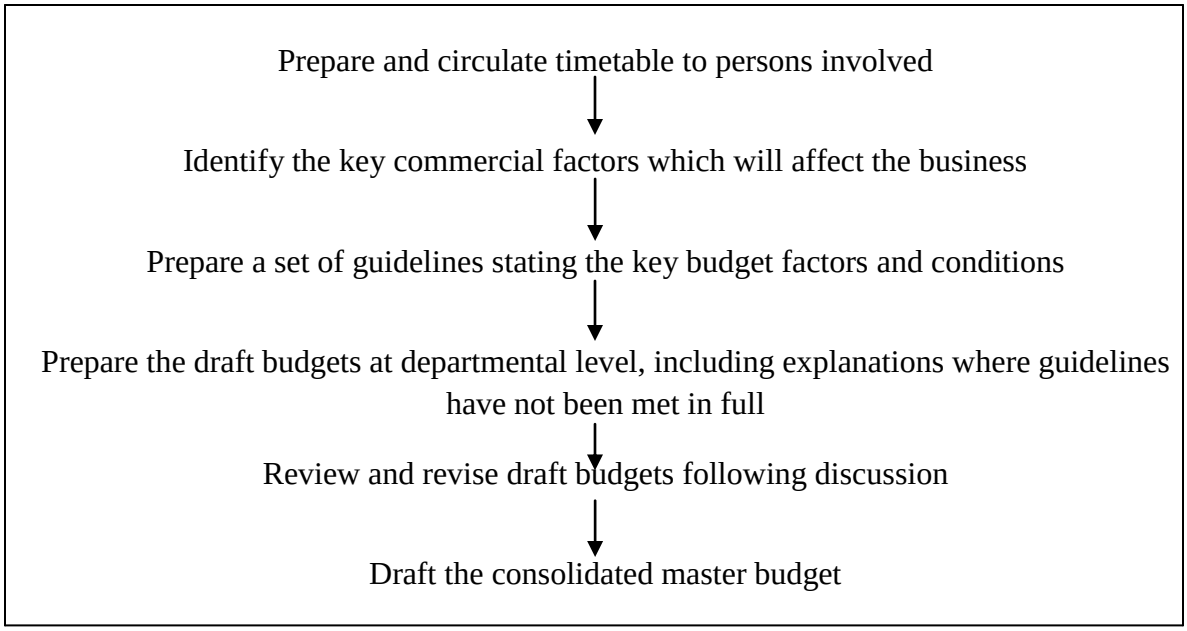


Figure 2. Budget Preparation Process (Adams, 1997, pp. 88)

C) *Budgets according to flexibility*:

1. Fixed Budgets: are budgets that do not change whether sales or other activities increase or decrease. Fixed budgets are also known as static budgets (oppapers).
2. Flexible Budgets: are the opposite of fixed budgets. Flexible budgets adjust to the changes in the level of activities within the organization which enables the business to respond immediately and maintain the company profitable (Harris, 2006)

2.2.4 Zero-Based Budgeting

Zero-based budgeting (ZBB) is a type of budgeting system where budgets are re-established each year without including previous year's budget results (Linn, 2007; Cottrell, 2012). Preparing such a budget allows the managers to see what is important and what isn't for each division to finance, since every division or unit within the organization lists their activities according to their precedence (Linn, 2007). The advantages of using ZBB is that it allocates the areas which should be financed in the upcoming years by identifying unnecessary expenditures so that funds can be transferred to those areas (Linn, 2007). Also due to the increase in global competition, it is believed that to create the organization again through ZBB is considered a useful and insightful attempt to adapt to the changing environment (Cottrell, 2012). However, ZBB is considered to be time consuming since each item is required to be aligned which is why most organizations don't attempt to use this system nowadays (Linn, 2007).

2.3 Budgeting and Performance Measurement

One of the vital elements that are considered in decision-making is performance measurement (Haktanir, 2006). Neely *et al.,* (1995) defined performance measurement as a procedure of measuring the actions that bring about performance. Another definition was done by Philips (1999) where he defined performance as the success or results of a unit. Furthermore, Kollberg *et al.,* (2005) defined that performance measurement is a procedure of the collection of processed measurable structures for the aim of enhancing the performance of the organization through monitoring.

Haktanir (2006) stated that performance measures are commonly used for the development of the plans through identification of those of poorly performance. Philips (1999) pointed out that financial and non – financial measures were commonly used to measure success. Emmanuel *et al.,* (1990) put forward that financial measurements which include profitability, ratios (earning per share, return on investment, and return on shareholders' funds) and accounting information provide a standard for comparison which enables the company to compare its units with each other and evaluate their performance.

DeFranco (2006) mentioned the importance of benchmarking is as follows;

> Benchmarking is a beneficial process to any lodging operation. First, it measures the operation's performance and sets the bar or the standard. Then by making the comparison, on an internal, competitive, or industry-wide basis, the lodging operation will know where it is graded and what improvements are needed.

Then again, Haktanir (2006) indicated that even though the above mentioned measures are of great importance, a combination of both financial and non-financial/operational measures can provide a much better result of performance.

The study of Geller (1985) adopted in the US hotel industry presented the main performance measures used which resulted in the majority being operational measures. Another study alike that of Geller (1985) was adopted by Brander Brown *et al.*, (1996) in the UK hotel industry who found that companies take into consideration not just financial measures but operational measures as well. A similar study was done by Haktanir (2006) to find out the performance measures used in independent hotels in

North Cyprus. She found that the types of performance measurements depends on the type of ownership and their involvement in the management of the operation together with the sort of products or services offered by the organization.

Throughout literature, it is said that measures such as ratios, profitability, asset and liability accounts and comparing actual and budgeted results are among the most common measures used in performance measurement (Atkinson, 2006; Haktanir, 2006). However, these measures have been censured for being short-term, lacking the provision of past information relative to ongoing operations, reflecting results rather than managerial efforts and for lacking the balance between the financial and operational measures (Emmanuel *et al.,* 1990; Lynch and Cross, 1995; Kaplan and Norton, 1992; Kennerley and Neely, 2002; Davila and Foster, 2005; Haktanir, 2006; Atkinson; 2006). Therefore, many frameworks have been developed in order to conquer such censures such as the Balanced-Scorecard (BSC) by Kaplan and Norton (1992), the Performance Pyramid by Lynch and Cross (1995), the Results and Determinants Model by Fitzgerald *et al.,* (1991) and the Performance Prism by Kennerley and Neely (2002). Kennerley and Neely (2004) state that the main aim of such frameworks is to provide organizations better measures to be able to measure their performance.

2.3.1 Balanced-Scorecard (BSC)

The balanced-scorecard has been seen as one of the most powerful frameworks for performance measurement (Evans, 2004). Kaplan and Norton (1992) first introduced this framework which consists of different perspectives in order to provide an in-depth understanding of organizational performance.

Companies applying the balanced-scorecard can see the progress of their business from four perspectives; customer, financial, internal business and learning and growth (Kaplan and Norton, 1992; Atkinson, 2006). The BSC acts as a linkage between the organizations itself and its strategy through four questions (Figure 3).

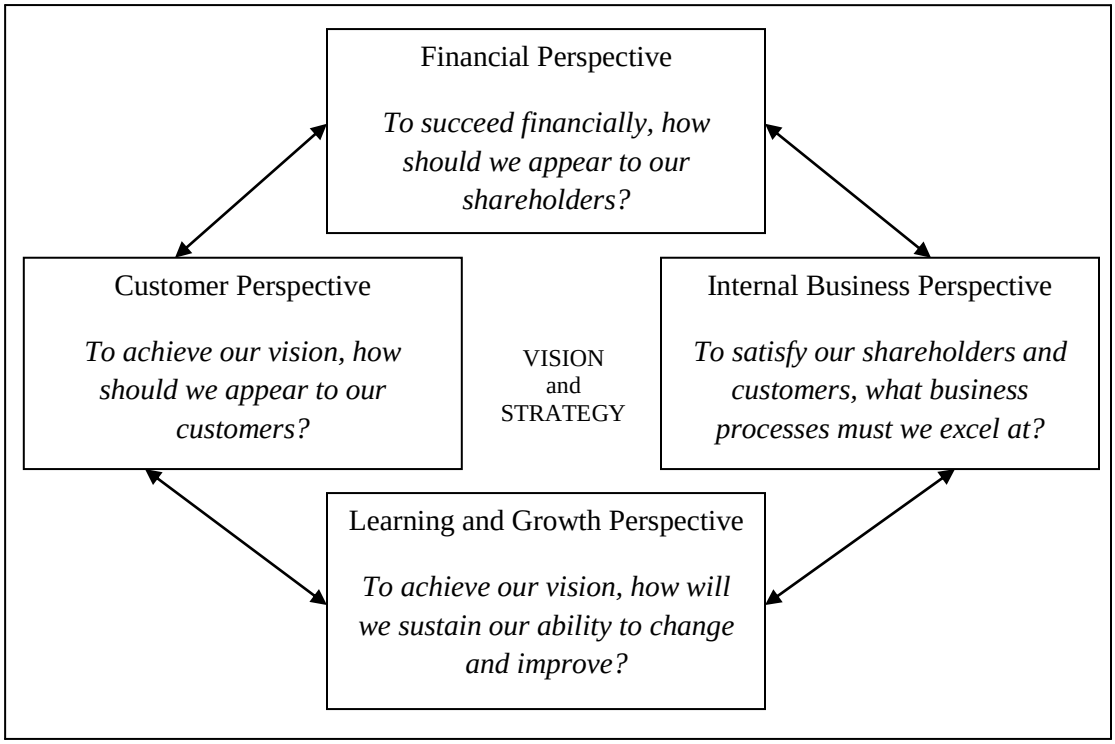


Figure 3. Balanced – Scorecard
(Kaplan and Norton, 1996, pp. 76)

In order for the BSC to succeed, it is required from the managers to be able to develop precise measures focusing on the factors that indicate what is important for their customers and then translating these measures to see their expectations and what the organization can do internally in order meet them (Kaplan and Norton, 1992). Several studies in the hospitality industry have stated that this framework can be seen as a valuable tool for measurement (Brander Brown and McDonnell, 1995; Hepworth, 1998).

2.3.2 Performance Pyramid

Figure 4 shows the performance pyramid by Lynch and Cross. This framework represents the organization as a whole in the form of a pyramid where each level represents a unit of the organization, such as the top part of the pyramid which is vision, is developed from the business unit level which includes market and financial where objectives are established (Atkinson, 2006). The fourth level of the pyramid is divided into two as internal and external perspectives where internal perspectives include cycle time and waste and external perspectives include quality and delivery (Atkinson, 2006).

2.3.3 Results and Determinants Model

The results and determinants model by Fitzgerald *et al.* (1991) was designed in a way which overcomes the criticisms on previous measures (Neely *et al.*, 2000). It is stated that there are two types of measures of performance. The first type of performance measure is the one that is related to the actual results (for example, competitiveness, financial performance), whereas the second type of measure is those that actually concentrate on the determinants of the results (for example, quality, flexibility, resource utilization and innovation) (Neely *et al.*, 2000). However the types of measures mentioned in the framework will differ from unit to unit depending on the organization, environment, strategy and type of service (Atkinson, 2006).

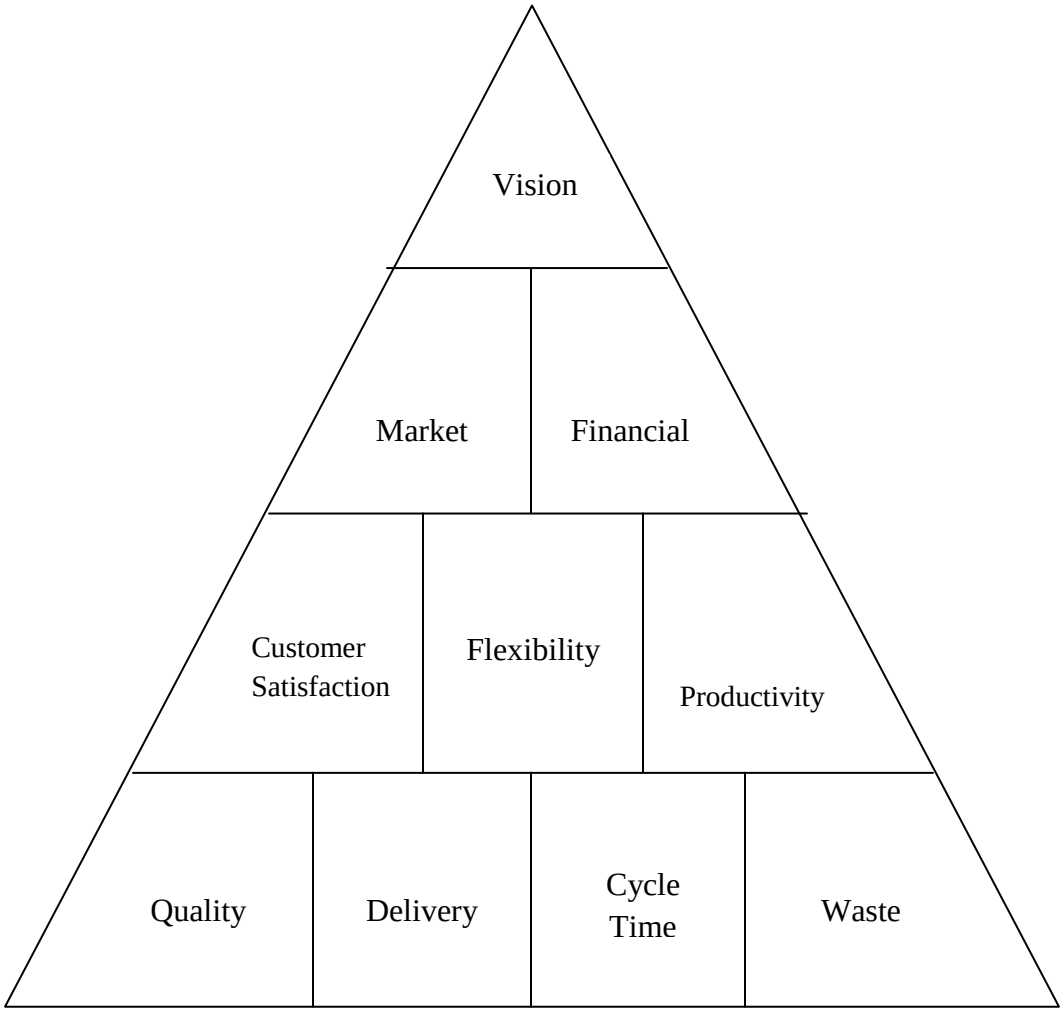


Figure 4, Lynch and Cross's (1991) Performance Pyramid
Source: Neely *et al.* (2000, pp. 1126)

	Performance Dimensions	**Types of measures**
R E S U L T S D E T E R M I N A N T S	Competitiveness	Relative market share and position Sales growth Measures of the customer base
	Financial Performance	Profitability Liquidity Capital Structure Market ratios
	Quality of service	Reliability, responsiveness, aesthetics/ appearance, cleanliness/tidiness, comfort, friendliness, communication, courtesy, competence, access, availability, security
	Flexibility	Volume flexibility Delivery speed flexibility Specification flexibility
	Resource Utilization	Productivity Efficiency
	Innovation	Performance of the innovation process Performance of individual innovators

Figure 5. Result and Determinants Model
Source : Fitzgerald *et al.* (1991, pp. 8)

After a broad review of the literature it can be said that the performance and success of an organization highly depends on the type of MCS and performance measurement it adopts. As it was mentioned in this chapter, according to the contingency theory there is no single type of MCS that every organization can implement, however the critical point in which the organizations have to consider is which type is suitable for his organization. As I have defined before MCS is an effective tool that is used by managers to aid them in decision making. Then again the suitable type depends on different situations and different elements which were also given as a basis in the chapter. Therefore the hypothesis carried out for this study and a detailed explanation of the contingent variables are explained in the following chapter which is chapter 3.

Chapter 3

RESEARCH HYPOTHESES

3.1 Introduction

This chapter is about the contextual variables and their effect on budget use and business performance, which is developed from a broad review of literature. According to contingency theory, the structure and usage of control systems is dependent on the background of the organization where these control systems manipulate (Fisher, 1998). Accordingly, he states in his study that, the correlation of a control system and a contextual variable can be theorized to intensify performance. In several studies it is argued that organizational performance should be used as the dependent variable in contingency research (Cadez and Guilding, 2008; Chenhall, 2003; Chenhall and Langfield-Smith, 1998).

Fisher (1995) points out that evolving and testing an inclusive model that encompasses several contingent factors and several components of accounting systems should be the fundamental aim of contingent accounting research. Moreover, Fisher (1998) proposes that a contingent variable is pertinent to the extent where companies that diverge on that contingent variable also display differences in the way "control attributes" (pp.49) and behaviors relate to performance. Figure 6 is taken from Fisher (1998) which shows the well-known list of contingent variables used in previous studies.

The first section includes those variables that are connected to uncertainty, the second section is to do with technology and interdependence, the third section consists of industry, firm and unit variables, the fourth section includes variables about competitive strategy and mission and the last category is about the observability factors.

Contingent Control Variables

1) Uncertainty
    - Task
        - Routine
            - Repetitive
            - External Factors
    - Environmental
        - Static vs. Dynamic
        - Simple vs. Complex

2) Technology and Interdependence
    - Woodward (1965): Small batch, large batch, process production, mass production
    - Perrow (1967): Number of exceptions, nature of search process
        - Interdependence: Pooled, sequential, reciprocal

3) Industry, Firm and Unit Variables
    - Industry
        - Barriers to Entry
        - Concentration Ratio
    - Firm
        - Structure: U form, M form
        - Size
        - Diversification: Single product, related diversified, unrelated diversified
    - SBU
        - Size

4) Competitive Strategy and Mission
    - Porter (1980)
    - Miles and Snow (1978)
    - Product Life Cycle

5) Observability Factors
    - Behavior (effort) observability
    - Outcome (output) observability

Figure 6. Contingent Control Variables (Fisher, 1998, pp. 50)

3.2 Perceived Environmental Uncertainty (PEU)

Managers in the hospitality industry confront a more unstable and complicated work environment than those in the manufacturing industry due to the service industries characteristics (Winata and Mia, 2005). Gordon and Narayanan (1984) interpreted from several studies that decision maker's initiate systems that help them manage with uncertainty whenever it is perceived in the environment (Gordon and Milller, 1976; Hayes, 1977; Ewusi – Mensah, 1981)

Chenhall (2003) defines PEU as the situation where environmental factors are seen as uncertain by managers where uncertainty is differentiated from risk. He differentiates these terms in the following way;

> Risk is concerned with situations in which probabilities can be attached to particular events occurring, whereas uncertainty defines situations in which probabilities cannot be attached and even the elements of the environment may not be predictable (pp. 137).

Another definition of PEU is from Sharma (2002) who states that PEU involves the managers' uncertainty of how the environmental factors will have an effect on or influence their organization.

Ezzamel (1990) stated that the higher the environmental uncertainty the more the involvement and interactions between managers and supervisors together with more precedence on budgets especially for evaluation. Furthermore, Chapman (1998) put forward that in terms of uncertainty, accounting can play as a planning tool only if there is ongoing communication between departmental managers and accountants.

Throughout the literature different studies have taken different measures for PEU even though they are examining the same environment (Gordon and Narayanan, 1984; Chenhall and Morris, 1986; Tymond, Stout, and Shaw, 1998; Emmanuel *et al.*, 1990; Sharma, 2002; King *et al.*, 2010). Gordon and Narayanan (1984) studied the link between PEU and MCS using the measure uncertainty as the power of competition, instability of environment and components of change.

Alternatively, Chenhall and Morris (1986) used uncertainty as a measure which took into account the lack of information on the external environment, incapability to foresee the probability of the environments effect on performance and whether the decision taken was correct or not. However, Tymond, Stout, and Shaw (1998) provided a recommendation that measures should include the perceptions of top management about the external environment when examining uncertainty.

On the other hand, Emmanuel *et al.*, (1990) pointed out that the features of the environment which effect MCS are the extent of being predictable, the degree of the competition within the market and the number of companies that deal with hostility to some degree (for example, price, product, technological and distribution competition). However, Sharma (2002) stated in her study that the most four common elements of PEU are environmental turbulence, the ability to predict the future state of relevant environmental factors, intensity of competition and environmental complexity.

Then again King *et al.,* (2010) focused on two other elements of PEU; dynamism and hostility. He stated that dynamism is "the dynamic nature of the environment" and hostility is "the level of competition" (pp. 45). In his study of budgeting in healthcare businesses, he found that there is an insignificant relationship between these two elements of PEU and the extent of written budget use. Another study done by Bastian and Muchlish (2012) in the manufacturing industry found that PEU has a positive relationship between both organizational performance and strategy. Therefore, the following hypothesis can be expressed as;

H1: PEU is related with budgeting practices.

3.3 Technology

Chenhall (2003) defines technology as the firm's activities in how the tasks are converted from inputs to outputs consisting of knowledge, hardware, data, people and software. Winata and Mia (2005) argued in their study that the performance of managers could be hastened by their involvement in budget planning and usage of information technology.

After analyzing several studies, Winata and Mia (2005) stated the reason for such an argument as computer systems maximize capacity and efficiency in both data handling and channels of communication (Malone et al., 1987; Weill, 1992; Bryanjolfssan, 1993; Johansen et al., 1995; Powel and Dent-Mitcallef, 1997).

Managers have the ability to evolve a network where they can access both internal and external resources and fit out themselves with necessary information in order to set their budgets correctly and accurately (Winata and Mia, 2005). In return, this will help managers to contact with the environment, increase their performance and motivate them in budget implementation. Kirk and Pine (1998 pp. 207) stated in their study that there are four types of technology;

- "Building Technology: The design and construction and maintenance of the building to provide clients with the types of built environment".
- "Environmental Management Technology": Controlling the demands for resources within the internal environment.
- "Food Production and Service Technology": Supplying food and beverages to customers through quality and cost control. This industry is also responsible in providing healthy, safe and nutritious food in order to satisfy the needs of their customers.
- "Information Technology": Using technology to communicate and process data to increase the benefits offered to customers to the maximum level.

In addition to Kirk and Pine (1998) study, Tse (2003) and O'Conner and Murphy (2004) stated another type of technology for the hospitality industry called disintermediation. Disintermediation mainly focuses on the direct web bookings done by customers without having to use travel agencies and how this affects the relationship between hotels and travel agencies (O'Conner and Murphy, 2004).

O'Conner and Murphy (2004) state in their study that, the hospitality industry is focusing more on the adoption of the web to sell its rooms directly to its customers. Another study done by Garces *et al.,* (2004) in the Aragonese hotel industry found that they used the internet for advertising the services they offer and earn up to 5% of their revenue through online sales. Alternatively, Buick (2003) done a similar study in Scotland and found that small Scottish hotels use both the technology and the internet to a high extent for marketing. Winata and Mia (2005) found in their study that managers' performance in Australian hotels was significantly and positively associated with their extent of IT use and budget participation.

Therefore, the following hypothesis can be expressed as;

H2: Technology is related with budgeting practices.

3.4 Strategy

It is foreseen by contingency theory that particular strategies are more appropriate for particular types of MCS (Chenhall, 2003). Liao (2005) defines strategy as a combination of promises and acts towards the development of core competencies and achievements of obtaining a competitive advantage. Another definition is from Macintosh (1994) who defines strategy as an aim that sets a plan intending to provide the required elements to be able to compete in the marketplace and the type of structure that is needed for the implementation of the plan.

As it can be seen from the definitions above, strategy is supposed to offer support both internally and externally for the company to reach its organizational goals in harmony (Herath, 2007).

Macintosh (1994) identified that the relationship between MCS and strategy is actually a double way relationship where MCS has an impact on strategy but also is affected by strategy.

There are many classifications of strategy throughout literature including defenders, analyzers, prospectors and reactors (Miles and Snow, 1978), entrepreneurial, conservative (Miller and Friesen, 1982), cost leadership and product differentiation (Porter, 1980) and build, hold, harvest (Gupta and Govindarajan, 1984). Even though there are many types of business strategies in the literature, this study is focusing on Porter's classification of strategies which are cost leadership and differentiation strategies (Porter, 1980).

Chenhall and Morris (1995) stated that cost leadership strategies need budgets and certain goals to ease the progress of cost control at the operational level. David (2011) noted that there are two types of cost leadership strategies; low-cost strategy and best-value strategy. He explains low-cost strategy as the selling of a product or service with the lowest possible cost and best-value strategy as the selling of a product or service with the best price-value in the sector. Firms that adopt either of these two strategies must make sure that they attain their competitive advantage in a way that makes it difficult for their rivals to copy (David, 2011).

To be able to manage cost leadership strategies effectively, companies must make certain that the total costs of their company is lower than those of its rivals. On the other hand, Simons, (1987) put forward that differentiation strategies are in need of a more external and extensive MCS to be able to plan and gather the information needed of their rivals. David (2011) stated that in order to apply the differentiation strategy you must give something different compared to your competitors. Those who are successful in applying this strategy will gain customer loyalty meaning that even if the company increases its prices customers do not hesitate in buying the product or service (David, 2011). Chenhall (2003) proposed that cost leadership strategies are linked with the customary and formal MCS that focus on cost control, operating goals, inflexible budget controls and budgets. Therefore the following hypothesis can be expressed as;

H3: Strategy is related with budgeting practices.

3.5 Structure

Herath (2007) considered both structure and strategy as one component and stated that structure depends on the strategic position of the company. She further explained that strategy reveals the relationships and duties within the roles, and the authority delegated for decision making ensuring a sole structure of an organization. Another definition is from Chenhall (2003) who defines structure as the official requirements from the employees in order to guarantee that the activities are accomplished in the organization.

Literature mainly focuses on the two components of structure; differentiation and integration (Lawrence and Lorsch, 1967; Chenhall, 2003; King et al., 2010; Sharma, 2002).

Differentiation is referred to the extent in which managers are seen as "quasi-owners" (King et al., 2010, pp. 44) gained through a decentralized authority whereas integration refers to the extent in which managers behaviors are consistent with the organizations goals (Chenhall, 2003). King et al., (2010) differentiates a decentralized structure from a centralized structure in the following way. He states that in a centralized structured business the decision making is only delegated to top level managers and owners only whereas in a decentralized structured business decision making is delegated to the lower level managers and the staff of the organization.

It is proven that more formal controls are seen in decentralized structured businesses whereas centralized structured businesses call for less MCS since administrative controls are at the minimum level and have a less difficult budget (Bruns and Waterhouse, 1975; Merchant, 1981; King et al., 2010). Subramaniam *et al* (2002) states in their study that managers could have authority in decision making for a variety of decisions such as product development, hiring and pricing. He continues by explaining that the more a company is decentralized the more the managers will be careful in decision making which will result in an increase of both their responsibilities and their budget practices since greater budget use will provide greater control of their targets and overall performance. Therefore the following hypothesis can be expressed as;

H4: Structure is related with budgeting practices

3.6 Budgeting Practices and Performance

For the evaluation of the performance of managers, there has to be a yardstick in which the measures of performance can be evaluated (Otley, 1978). There has been consistent evidence about budgets being a tool used for evaluating overall performance of an organization (Haktanir, 2006; Jones, 2008a) since it can shape the actions and decisions of staff by translating an organization's objectives into strategies (King *et al.,* 2010; Malmi and Brown, 2008) and combine the whole organizational activities into one logical abstract (Otley, 1999) representing a criterion for both efficiency and effectiveness (Otley, 1978).

Several studies state that budgeting is used for financial planning, allocation of resources (financial) and to monitor the performance of the managers (Jones, 2008b; Oak and Schmidgall, 2009). King *et al.,* (2010) defines a budget as a "forward looking set of numbers which projects the future financial performance of a business, and which is useful for evaluating the financial viability of the business's chosen strategy or deciding whether changes to the overall plan are required" (pp. 41).

Several studies were conducted in the manufacturing industry investigating the use and implementation of budgeting. A survey done by Ahmad *et al.* (2003) in Malaysia proved that the companies use budgets to a large extent, as part of their planning and control mechanisms. Another survey done by Ghosh and Chan (1997) also indicated that the budget usage in Singapore is 97% among the respondent companies.

Similarly, some studies have been conducted in the hospitality industry as well mainly focusing on the hotels in the developed countries. One of the first foremost studies carried out in the hospitality industry was done by Kosturakis and Eyster (1979) taking into account the food and service chains together with the hotel chains located in America and their budgetary processes (Jones, 2006).

Afterwards this study was compared with those in Scandinavia by Schmidgall *et. al.*,(1996). Jones (1998, 2008a) conducted two surveys in the UK in which budgets were viewed as the main performance indicators in the hospitality industry. Yahya *et al.*, (2008) found in their study that there is a significant positive relationship between budgetary participation and performance.

Another survey done by Pavlatos and Paggios (2009) analyzed the Greek hotels and found that the majority used budgets for planning annual operations (98.8 per cent), controlling cost (91,8 per cent), coordinating activities of the various parts of the organization (80 per cent), and evaluating the performance of managers (64.7 per cent). Therefore the following hypotheses can be expressed as;

H5: Budgeting practices is related with performance measurement.

Up to now we have gone through the literature and the contingent variables for this study. The following chapter will be explaining the methodologies in general and which methodology is chosen for this study.

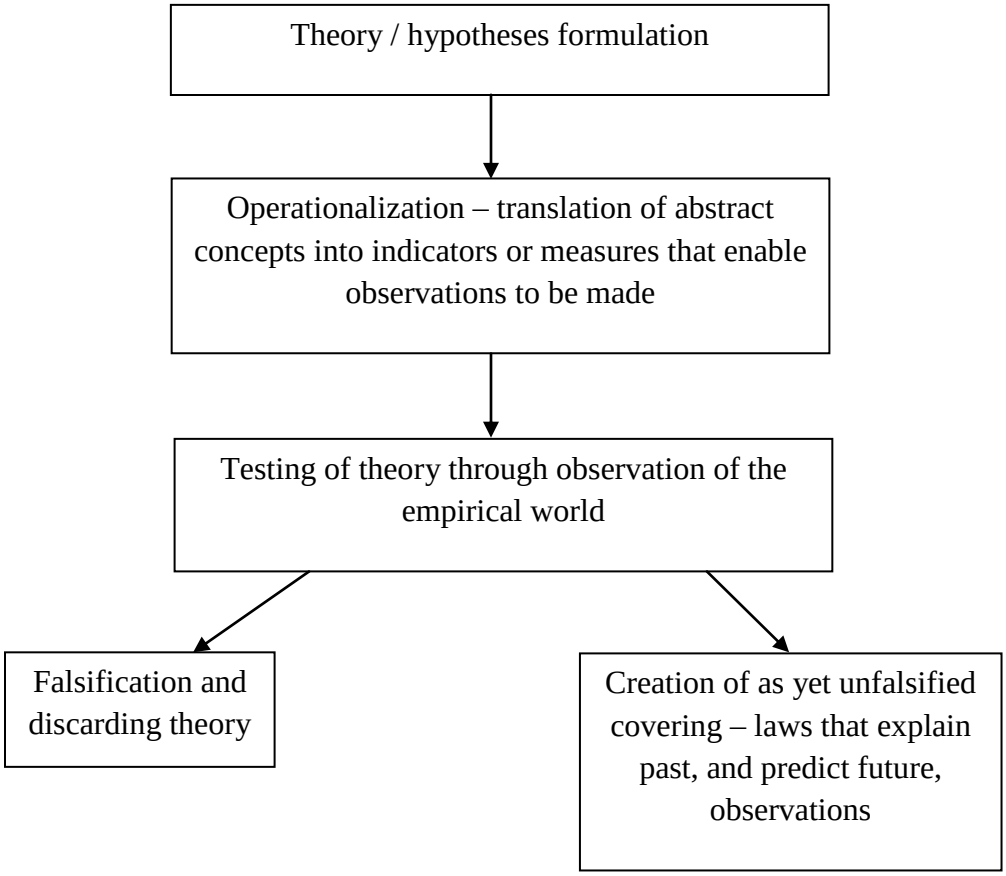
Chapter 4

RESEARCH METHODOLOGY

4.1 Deductive vs. Inductive Approach

When doing a research the first thing you must decide on is the type of approach you will be taking. That is either deductive or inductive. Lancaster (2005) describes deductive approach as a type of research where hypotheses and theories are developed and tested through observation. Gill and Johnson (1997) proposed the framework for the deduction research process as shown in figure 7. The first step of the process is the formulation of the theory/hypotheses. Here, the researcher can generate the theory/hypotheses based on his/her previous experience on what s/he wants to prove or generate the theory/hypotheses from a broad literature combining multiple studies (Lancaster, 2005). Once the theories/hypotheses are formulated they have to be operationalized which is the next step in the process. In this stage, the researcher must make sure that the theories/hypotheses are measurable through empirical observation (Lancaster, 2005). Burns (2000) indicates that a precise definition of what will be measured and how it will be measured is a must in this stage to avoid confusion. Afterwards, the researcher must identify which techniques and measures will be used for the concepts that are operationalized which is the third stage of the deductive process (Lancaster, 2005). Once this stage is completed, the researcher can then see if the theory/hypotheses is falsified and to what degree and if it should be discarded.

Figure 7. The Process of Deduction



Source: Gill and Johnson (1997, pp. 32)

Inductive approach is the opposite of deductive approach. In this approach the observations of the researcher comes up with a conclusion by putting all pieces of information and evidence together (Altinay and Paraskevas, 2008; Saunders, *et al.*, 2000). Induction is where the evidence actually shows the researcher the way to the conclusion (Altinay and Paraskevas, 2008). The major differences between inductive and deductive approach can be seen in table 7 below.

Table 7. Major Differences Between Deductive and Inductive Approaches to Research

Deduction emphasizes	*Induction emphasizes*
• Scientific principles	• Gaining an understanding of the meanings humans attach to events
• Moving from theory to data	• A close understanding of the research context
• The need to explain causal relationships between variables	• The collection of qualitative data
• The collection of quantitative data	• A more flexible structure to permit changes of research emphasis as the research progresses
• The application of controls to ensure validity of data	• A realization that the researcher is part of the research process
• The operationalisation of concepts to ensure clarity of definition	• Less concern with the need to generalize
• A highly structured approach	
• Researcher independence of what is being researched	
• The necessity to select samples of sufficient size in order to generalize conclusions	

Source: Saunders *et al*., (2000, pp. 91)

4.2 Types of data

Lancaster (2005) divides the types of data in the following two categories; primary versus secondary data and qualitative versus quantitative data.

4.2.1 Primary versus Secondary data

Primary data is raw; first-hand material collected by the researcher through methods for example experimentation, interviews, observation and surveys (Lancaster, 2005). Primary data provides the researcher with the most recent, correct and up-to-date information (www.ehow.com). On the other hand, secondary data is data that already exists but wasn't collected by the researcher first (Lancaster, 2005).

To be more precise, secondary data is actually primary data collected by another individual or researcher (www.ehow.com). Secondary data includes both internal sources such as internal organization data, company analyses, reports, databases and external sources of data such as government surveys, published reports competitor information and the internet (Lancaster, 2005)

4.2.2 Qualitative versus Quantitative data

Lancaster (2005) defines qualitative data as"data in the form of descriptive accounts of observations or data which is classified by type" (pp. 66) and quantitative data as" data which can be expressed numerically or classified by some numerical value" (pp.66).

Qualitative data can be obtained through individual interviews, focus groups, observation, documentary analysis and data analysis (Robson, 2011; Petty et al., 2012). Whereas quantitative data can be obtained through experiments, quasi – experiments, surveys/questionnaires (Lancaster, 2005).

4.3 Methods of data collection

Robson (2011) defines methodology as "the theoretical, political and philosophical backgrounds to social research and their implications for research practice and for the use of particular research methods" (p. 528). Petty *et al.*, (2012) states in her study that the most commonly used five methodologies are case study, grounded theory, ethnography, phenomenology and narrative.

4.3.1 Case Study

Case study methodology comes from evaluative research and human and social sciences and intends to figure out the distinctiveness of a case (Creswell, 2007). Robson (2002) identifies case study as an approach which contains an exploration of a specific event in its own habitat via numerous sources of proof. In this type of methodology there is no specific method of data analysis, one can choose from a range of methods for data collection such as; interview, observation and document analysis (Petty *et al.*, 2012). When knowledge on hand is insufficient and lacking, this method allows you to find new information about the subject or area (Otley and Berry, 1994).

4.3.2 Grounded Theory

The grounded theory is originated from sociology (Petty *et al.,* 2012) and was stemmed in the 1960s by Glaser and Strauss (Glaser and Strauss, 1967). This theory has two approaches. The first is called the Glaserian grounded theory where the theory is emerged from data whereas the second approach is vice versa where the concept is built by researchers (Petty *et al.,* 2012). The main objective of this method is that the researcher enters the field with no acknowledged relationships and creates relationships among the variables that are intended to be measured through raw data collected (Glaser and Strauss, 1967). Interviews, observation and documentary data are the most frequently used data collection methods in the grounded theory (Petty *et al.,* 2012).

4.3.3 Ethnography

Ethnography originated in the early 20th century from "cultural anthropology" (Petty *et al.,* 2012, pp. 379). Ethnography is a type of methodology where an understanding is developed through a comprehensive observation which is usually taken place through the participation of the researcher in the group over a period of time (Spradley, 1979; Petty *et al.*, 2012). The shared beliefs, language and behavior of certain cultural groups are the main focus of this methodology (Petty *et al.,* 2012). Ethnography is mainly used among anthropologists and by those who carry out cultural studies (Altinay and Paraskevas, 2008).

4.3.4 Phenomenology

Phenomenology is related with the methods used to research individuals and their behavior (Gill and Johnson, 1997). This methodology mainly focuses on the individuals' distinctive "lived experience" through the investigation of the definition of phenomenon (Petty *et al.*, 2012, pp. 2). The analysis of this methodology allows "the researcher to uncover a description of the "essence" of the phenomenon; the universal meaning for individuals" (Petty *et al.,* 2012, pp. 379). The main key areas of this methodology are outlined in table 8.

4.3.5 Narrative

Narrative is a type of methodology which is developed from humanities and social sciences and can pursue both quantitative and qualitative methods (Elliott, 2005). This methodology mainly concentrates on events and its stories and life experiences of individuals (Creswell, 2007) either in a biographical way or "oral history" (Petty *et al.,*

2012, pp. 380). Data collection methods for narrative may include artifacts, photographs, observation, documentation, diaries, interviews and letters (Petty *et al.*, 2012).

Table 8. Key Areas of Phenomenology

Key Areas	**Phenomenology**
Basic beliefs	• The world is socially constructed and subjective • The researcher is part of what is observed • Science is driven by human interests and motives
Method of research	• Focus on meanings • Try to understand what is happening • Look at the totality of each situation • Develop ideas through induction from data
Research design	• Evolving and flexible
Involvement of the researcher	• The researcher gets involved with the phenomena being researched • Long-term contact; emphasis on trust and empathy
Preferred methods	• Use of multiple methods to establish different views of phenomena
Sampling	• Small samples investigated in depth or over time
Data collection methods	• Observation, documentation, open-ended and semi-structured interviews
Research instruments	• Researcher
Strengths	• Ability to look at change processes over time • Greater understanding of people's meaning • Adjustment to new issues and ideas as they emerge • Contributes to the evolution of new theories • Provides a way of gathering data which is natural rather than artificial
Weaknesses	• Data collection takes a great deal of time and resources • Difficulty of analysis of data • Harder for the researcher to control the research process • Reliability problem with findings

Source: (Denzin and Lincoln, 1994; Easterby-Smith et al., 1999; Wood, 1999)

4.4 Quantitative Research Method

Quantitative research utilizes investigational methods and measures to analyze hypothetical simplifications (Hoepfl, 1997), which also highlights the measurement and analysis of contributory relationships among variables (Denzin and Lincoln, 1998; Creswell, 2007; McMillan and Schumacher, 2006) enabling the researcher to publicize herself with the question or theory to be studied, and possibly construct hypotheses for testing (Golafshani, 2003) which then goes through statistical analysis (Malhotra, 2010). The aim of this type of research is to decide on how a variable has an effect on another variable by measuring the relationships between them through statistical methods for instance correlation coefficients, frequencies and means (Altinay and Paraskevas, 2008).

4.4.1 Experiments

Saunders *et al.,* (2000) describes experiments as a method of research that is used mostly in psychology. They further explain that this method involves the following stages; firstly the hypothesis is defined, secondly the sample of the population is selected, thirdly the selected samples are allocated to different experiment situations, fourthly any change on the variable(s) are introduced followed by the measurement of the variables and lastly other variables are controlled. Furthermore, McQueen and Knussen (2002) explained that the aim of this method is to demonstrate the cause and effect relationships such as, learning and memory, child development and social behavior.

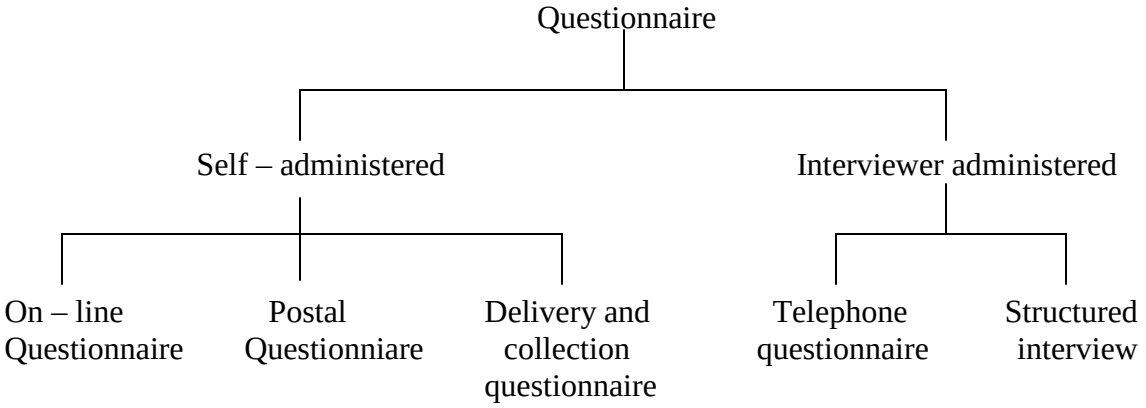
4.4.2 Surveys / questionnaires

Among researchers, questionnaires are seen as one of the most popular methods of data collection (Altinay and Paraskevas, 2008). McQueen and Knussen (2002) explain that the aim of this type of methodology is to generate primary descriptive data and can be taken in the form of structured interviews or questionnaires. Moreover, Saunders *et al.*, (2000) presents a table (figure 8) showing the types of questionnaires. He suggests that the type of questionnaire used in a study differs according to how and with who you will be doing the research. However Lancaster (2005) states that the researcher must consider some aspects about the design and implementation of the questionnaire such as;

- The range of questions that will be included
- Types of questions (open/closed)
- Content of the questions
- Structure of the questions
- Wording of the questions
- Order of the questions

Furthermore, additionally to the aspects above, Saunders *et al.*, (2000) states that even though the format of the questionnaire is important, the sample population needs to be as accurate as possible since there is a no second chance to recollect the data.

Figure 8. Types of Questionnaire



Source : Saunders *et al.,* (2000, pp. 280)

4.4.3 Reliability in Quantitative Research

Reliability is defined by Joppe (2000, pp. 1) as;

> The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable.

Reliability can be measured by using a test-retest method where questionnaires are filled in by the same individuals at two separate times which is commonly indicated as stability (Charles, 1995; Golafshani, 2003; Bashir *et al.,* 2008). It is believed that the higher the stability the higher the reliability indicates the results may be repeated which shows us that stability is positively correlated with reliability (Golafshani, 2003; Bashir *et al.,* 2008).

4.4.4 Validity in Quantitative Research

Validity is defined by Joppe (2000, pp. 1) as;

> Whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others.

The aim is to see if there is accurate measurement and whether the researcher is measuring what s/he is aiming to measure (Golafshani, 2003).

4.5 Qualitative Research Method

Mack *et al.,* (2005) defined qualitative research as "a type of scientific research" (pp. 1) which is composed of an analysis that:

- Tries to find answers for questions
- Uses a series of procedures to answer the questions
- Gathers proof
- Discovers findings that have not been found before
- Discovers findings that can be applied further than the limits of the research

Qualitative researchers look for clarification, knowledge, and extrapolation in contrast to quantitative researchers who search for contributory relationships, forecast, and generalize findings (Hoepfl, 1997; Golafshani, 2003). The most common used data collection methods in qualitative research are individual interviews, focus groups, and observation (Petty *et al*., 2012).

4.5.1 Individual Interviews

Qualitative research generally uses interviews for data collection. Individual interviews comprise of "direct questioning" among the respondent and the interviewer (McClelland, 1994, pp. 27). Robson (2011) classified interviews into 3 categories; structured, semi-structured and unstructured. Petty *et al.*, (2012) stated that structured interviews are very alike to questionnaires and don't go into much detail whereas semi-structured interviews are the type of interviews where a few questions are determined beforehand to get the conversation going during the interview. She also mentioned that unstructured interviews are more in detail when compared structured and semi-structured interviews since they cover an extensive area to survey. Petty *et al.*, (2012) also pointed out that the direction of the interview is dependent on the participant in which the researcher follows.

4.5.2 Focus Groups

Mack *et al.*, (2005) defined focus group as a method of qualitative data collection where either one or multiple researchers meet with a number of participants in order to talk about a specific topic for research. Petty *et al.*, (2012) stated that focus groups can also take place as unstructured, semi-structured or structured and have something/nothing in common dependent on the research question. She also pointed out that focus groups are helpful when multiple points of view about a specific topic are needed.

4.5.3 Observation

Observation provides detailed and specific information (Sackmann, 1991) which is received from constantly contrasting comparing and questioning (Schein, 1992). By using this method you gain the information needed by being present at the setting, observing what they do and their relationships with each other (Altinay and Paraskevas, 2008; Lancaster, 2005). Observation can be used to examine politics and cultural groups (Altinay and Paraskevas, 2008).

4.6 Sampling

Collecting data from the best representatives of the population is crucial when carrying out a research or study. Altinay and Paraskevas (2008) define sampling as "the process by which researchers select a representative subset or part of the total population…" (pp. 89) in order to come up with a result that considers and represents the whole population. Sampling can be divided into two groups probability/representative sampling and non-probability/judgmental sampling (Altinay and Paraskevas, 2008; Saunders *et al.*, 2000; McQueen and Knussen, 2002). The different types of sampling techniques for each group are shown in figure 9. As it can be seen from the figure the sampling techniques for probability sampling includes simple random, systematic, stratified random, cluster and multi-stage and non-probability sampling includes quota, purposive, snowball, self-selection and convenience. Altinay and Paraskevas (2008) define the above techniques in the following way;

4.7 Probability sampling techniques

Simple random sampling: This technique emphasizes that each individual considered in the population has an equal chance or probability of selection. For example, a research is to be done in a hotel about customer satisfaction. The hotel provides you a list of 800 customer contact details for your study and you decide to select 150 guests randomly. You start from the list at any point you want and work your way through in a specific pattern such as diagonally, horizontally, vertically, zig – zag or you can choose numbers from every specific column or row until you reach a total of 150.

Systematic sampling: In this sampling technique, every n^{th} number of the population is selected for the sample where n is calculated by dividing the total population by the sample size required. For example, a researcher wants to do a study on the passengers perception of the airline company and needs 25 percent of the population as his sample. Assuming that there is 200 passengers on the flight, the researcher will have to take every 8^{th} passenger (200/25=8) for the study.

Stratified random sampling: In this technique, the total population is divided into segments or subsets according to specific characteristics such as, age gender, nationality, etc. Afterwards the sample is selected from the subsets either by using simple random sampling or systematic sampling. For example, a hotel wants to open a new restaurant and needs feedback from its guests. The hotels guest profile consists of business travelers, tour groups, leisure travelers and conference groups.

If the market mix is 30 percent business travelers, 40 percent tour groups, 20 percent leisure travelers and 10 percent conference groups then a sample of thirty guests would include 9 business travelers, 12 tour group guests, 6 leisure travelers and 3 conference delegates.

Cluster sampling: In this technique, the population is divided into groups and a sample of the groups is chosen randomly. Then a sample population is chosen out of the groups. However, if the members of the whole group is studied this is called one-stage clustering. On the other hand, if a sample is selected probabilistically from the chosen groups then this is called two-stage clustering. For example, a study is carried out to analyze the tourists spending patterns in a specific destination. You are taking into account the hotels together with other touristic accommodations in the specific destination. Then again, since this would be highly costly and take too much of your time you decide to use one of the cluster approaches above. So, you start to analyze each hotel and touristic accommodation that best suits your study. Then, you randomly choose a fraction of these accommodations. Afterwards, you can either take in all the tourists accommodating in the hotels chosen (one-stage) or you can randomly choose some of the tourists from the selected hotels (two-stage).

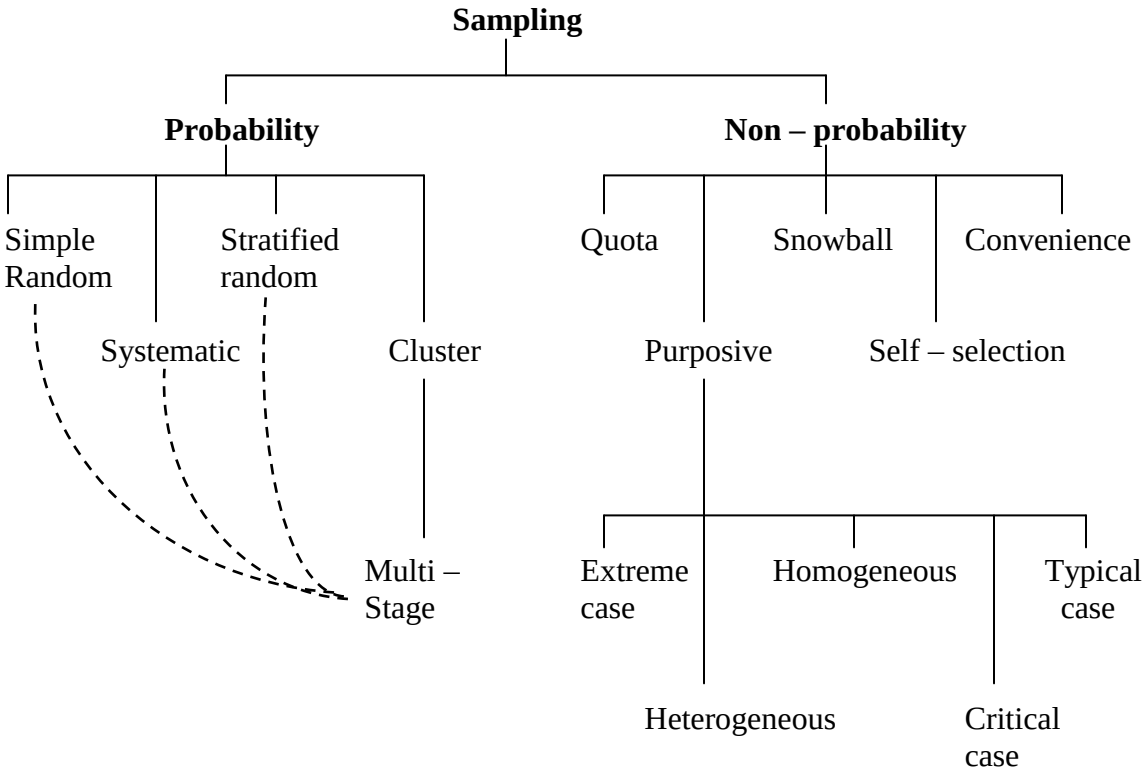
Multi – stage sampling: This technique is defined by Saunders *et al.,* (2000) as a method used to conquer any problems when the case is about needing face-to-face communication with a scattered population for a large geographical area.

Nonetheless, this method can also be used for disconnected groups together with those that are not in the same geographical area. As it can be seen from figure 3, this technique involves random sampling together with cluster sampling.

4.8 Non-probability sampling techniques

Quota sampling: This technique is used to make sure that there are equal participants for each of the groupings done by stratified sampling. Firstly, by using the stratified technique, the whole population is divided into subsets. Then by using judgmental sampling, you choose the participants according to a specific share. For example, you want to study the English people who have immigrated to Northern Cyprus about how they find the standard of living in the island. Therefore you need to know how many people have moved out here and in which area they live in. Let's say that you need to interview 100 English people and you know that 40% live in Kyrenia, 30% live in Famagusta, 10% live in Nicosia, 10% live in Iskele and 10% live in Guzelyurt. As a result, the number of interviewees is determined by the share of what each group has so if you interview 40 English people from Kyrenia the quota will be full for this area and you will be left with 4 other areas to fill in the quota.

Figure 9. Sampling Techniques



Source: Saunders *et al.,* (2002, pp. 153)

Purposive (Judgmental) sampling: This sampling technique allows you to select a sample that will answer your research questions the best. Purposive (judgmental) sampling is mainly used when you have a small sample or when you want to select those that are more informative than the others (Neuman, 1997). For example, you will be carrying out a study about internationalization and quality assurance in a university. So, you choose the deans, vice deans, and directors of the faculties and schools within the university as your sample since they can be of more help rather than choosing students or other staff.

Snowball sampling: In this technique, nor the sample or the population has a definite number beforehand until you finish collecting the data. In snowball sampling, you mainly find your respondents from the recommendation or referral of a participant. For example, you are doing a research about coastal zone management and you have many research questions ready to be asked to the participants however you are guessing that you have a large population in hand and you don't know where to start. Therefore you start with the minister of tourism. After the interview is finished you ask him who else takes part in coastal zone management for you to interview and so on.

Self – selection sampling: This sampling technique is different from the other techniques. In the other methods the researcher uses various ways of contacting or finding participants however, in self – selection sampling the participants contact or find you. You publish or advertise that you are doing such a study and those who are interested fill in the questionnaire. For example, you are doing a study about e-commerce in a specific country. You publish your study on several internet sites, bulletin boards and social media sites and ask for those interested in your study to fill in the survey until you have reached the wanted sample size.

Convenience sampling: In this technique, the sample is selected according to their convenience and ease of access. For example, if you was to do a study on tourists' perception about a destination you would go to touristic places (such as hotels, museums, historical places, etc.) to find them to be able to conduct an interview. Therefore, the sample that is chosen for this study is revealed by convenience instead of being randomly chosen.

4.9 Rationale for using deductive approach

The aim of this study was to test the relationship among various contingent variables with budgeting practices and performance measurement in hotels in Northern Cyprus. After searching and analyzing the literature about similar studies done in different countries, the hypotheses was developed and evaluated which is the procedure of the deduction process.

4.10 Rationale for using quantitative method

When starting this study, the triangulation method (which is a mixture of both quantitative and qualitative methods) was going to be implemented. However, due to the opening of the high season in Northern Cyprus interviews with the participants would be nearly impossible therefore self – administered (delivery and collection) questionnaires were used.

As it was mentioned in this chapter, judgmental sampling is a non-probability sampling technique where the sample is not randomly chosen but chosen according to the criteria that will best answer the questions for the study. In this case, the sample for this study consisted of General Managers and departmental managers so the sample size was relatively small. However, since the subject was about budgeting practices in a hotel, the most informative sample for this case was the manager instead of the employees because it is known that General Managers and departmental managers attend budget meetings and have a say in the decision making for various decisions which is why judgmental sampling was used.

The aim of this study was to focus on the relationships between contingent variables and budgeting practices and budgeting practices with performance measurement in hotels in Northern Cyprus. The questionnaire was developed from a broad review and literature and all items except for performance measurement were measured on 5 point likert scales. The contingent variables used in the study was adapted from multiple studies such as those from Gordon and Narayanan (1984), Fisher (1998), Sharma (2002), Chenhall (2003), and King, *et al.*, (2010).

The questionnaire was written in English and then translated to Turkish and again translated back to English using back-to-back translation method. A pilot study was held in one of the hotels for feedback and in case of any misunderstanding among the questions. Positive feedback was received from the participants of the pilot study and the questionnaires were distributed. The summary of the questions held in the questionnaire can be seen from table 9.

This research considered 4 and 5 star hotels in Northern Cyprus as the population. According to the list of hotels from the Ministry of Tourism and Planning there are 21 four and five star hotels in Northern Cyprus. All were included as the population apart from two hotels who refused to fill the questionnaires.

Table 9. Table of Questions' Content

CONTENT	QUESTIONS	DETAILS
Size	Questions 1	
PEU	Question 2 (8-10)	Adapted and developed from Gordon and Narayanan (1984). The scale was "1" (Strongly Disagree) – "5" (Strongly Agree).
Technology	Question 2 (1-7)	Self developed
Strategy	Question 4 (32-39)	Adapted and developed from Govindarajan and Fisher (1990). The scale was "1" (Extremely Low) – "5" (Extremely High).
Structure	Question 3 (25-31)	Adapted and developed from Inkson et al., (1970) and Gordon and Narayanan (1984). The scale was "1" (Extremely Low) – "5" (Extremely High)
BudgetingPractices *Budget use*	Question 2 (11-20)	Adapted and developed from Schoute and Wiersma (2011). The scale was "1-5" (not at all - a very great extent)
Budgeting Practices *Budget participation*	Question 4 (40)	Adapted from Schoute and Wiersma (2011). The scale was "1" (not at all) – "5" (a very great extent). In this study this was changed to "1" (Extremely low) – "5" (Extremely high).
Budgeting Practices *Budget emphasis*	Question 2 (21-24)	Adapted from Schoute and Wiersma (2011). The scale ranged from "1" (strongly disagree) – "5" (strongly agree).
Performance Measurement	Question 6 (&b)	Adapted from Tsui (2001).
Demographic characteristics of respondents	Question 7 (a-f)	

General Managers, Accounting and Finance Managers, Food & Beverage Managers, Housekeeping Managers, Front Office Managers, Sales & Marketing Managers, and Human Resources Managers were considered as the sample which results in 7 questionnaires distributed per hotel. However, for 9 hotels one departmental manager had the responsibility of two departments therefore 6 instead of 7 questionnaires were distributed to those hotels. Also, one hotel just had one manager which was responsible for all the departments so 1 instead of 7 questionnaires was given. In total 124 questionnaires were distributed and 109 questionnaires were received resulting in a 87.9% response rate.

4.11 Measurement and Analysis

Likert scales were used for the measurement of the majority of the variables of the study which is seen as the most common type of scaling (Saunders *et al.*, 2000). Apart from performance measurement and demographic questions, 5-point likert scales were used which were "1" (Strongly Disagree) – "5" (Strongly Agree), "1" (Extremely Low) – "5" (Extremely High), "1" (not at all) - "5" (a very great extent). Two questions were used to measure performance measurement where one question had a scale from 1-9 and the other 1-10. On the other hand, a nominal scale (which is used to identify the characteristics of individuals or objects) was used to measure the demographic questions the respondents.

Once the questionnaires were collected, the data was entered and analyzed using SPSS 15.0 (Statistical Package for Social Sciences).

Chapter 5

FINDINGS

5.1 Introduction

This chapter presents the findings of the analysis which includes the demographic profile of the sample, exploratory factor analysis and coefficient alphas of the variables and the means, standard deviation and correlations of the study variables.

Cronbach's alpha was used to measure the reliability of the variables. This measurement has a range from 0 – 1.00 pointing out that those values closer to 1.00 has a higher consistency. An alpha above 0.75 is generally accepted as high reliability, however those values below the value indicates a low reliability. The relationship between the variables was measured through Pearson Correlation Analysis together with the testing of the hypothesis using a one-tailed test.

5.2 Demographic profile of the sample

The respondent's demographic profile is shown in Table 10. As it can be seen from the tables, the majority of the respondents are aged between 28-37 (40.4%) and 38-47 (40.4%). Out of the remaining 19.2%, 11.0% of the respondents are aged between 48-57, 5.5% are aged between 18-27 and 2.8% are aged 58 and above.

Sixty percent of the respondents are male, and the remaining 39.4% are female. Forty – nine percent of the respondents have a University degree, 27.5% have a Vocational school degree, 14.7% have a Secondary school degree and 8.3% have a Master/PhD degree. The majority of the respondents are married (75.2%) while the remaining 24.8% are single or divorced.

Forty – one percent have an organizational tenure of 1-5 years, 28.4% have tenure of 6-10 years, 13.8% have tenure of 11-15 years, 11.0% have tenure of less than 1 year, 3.7% have tenure of more than 20 years and the remaining 1.8% has tenure of 16-20 years. Twenty – nine percent of the respondents were other which includes F&B managers and Housekeeping managers, 16.5% were Accounting managers. 15.6% were Front Office managers, 14.7% were Human Resources managers, 12.8% were General Managers and 11.0% were Sales and Marketing managers.

5.3 Measurement Results

Table 11 consists of the frequency and descriptive statistics of the study variables by showing the number of respondents for each question and scale. This table is further explained in the following chapter (Chapter 6). The results of the exploratory factor analysis are shown in Table 12. The exploratory factor analysis used principal component analysis with Varimax rotation to determine if variables embodied the individual concepts. As the initial results showed cross loadings, 2 items were deleted from STRUC, 3 items were deleted from STR, 4 items were deleted from TECH and 13 items were deleted from BP. Factor loadings range from .55 to .91.

Consequently, the remaining items loaded on their own factors. The coefficient alphas for all variables were greater than the cut-off level .70, except PEU (α= 67) as shown in Table 13. Therefore all variables reveal a high reliability with a minor exemption of PEU.

Table 10. Respondents' Profile (n= 109)

	Frequency	%
Age		
18-27	6	5.5
28-37	44	40.4
38-47	44	40.4
48-57	12	11.0
58 and above	3	2.8
Total	109	100
Gender		
Male	66	60.6
Female	43	39.4
Total	109	100
Education		
Secondary school	16	14.7
Vocational school	30	27.5
University graduate	54	49.5
Master/PhD	9	8.3
Total	109	100
Marital status		
Single or divorced	27	24.8
Married	82	75.2
Total	109	100
Organizational tenure		
Less than 1year	12	11.0
1-5 years	45	41.3
6-10 years	31	28.4
11-15 years	15	13.8
16-20 years	2	1.8
More than 20 years	4	3.7
Total	109	100
Position		
General Manager	14	12.8
HRM Manager	16	14.7
Accounting Manager	18	16.5
Front Office Manager	17	15.6
Sales and Marketing Manager	12	11.0
Other	32	29.4
Total	109	100

Table 13 presents the means, standard deviations and correlations of the study variables. The correlation coefficients between STRUC, STR, PEU, TECH and BP are significant. As it can be seen from the table PEU is related with BP (r=.261) therefore hypothesis 1 is supported. Hypothesis 2 is also supported since it can be seen that TECH is related with BP (r=.222). The table also shows that STR is related with BP (r=.283) therefore as a result hypothesis 3 is supported. Consequently, it can be said that hypothesis 4 is also supported since it can be seen from the table that STRUC is related with BP (r=.363). However the results also indicate that BP is negatively correlated with PM (r=.-164). That is, hypothesis 5 is partially accepted since BP is related with PM but negatively.

Table 11. The Frequencies and Descriptive Statistics of the Variables

Variables	N	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
PEU						
The classification of the market activities of your competitors during the last five years is predictable	109	4 (3.7%)	8 (7.3%)	25 (22.9%)	34 (31.2%)	38 (34.9%)
The tastes and preferences of your customers are predictable	109	3 (2.8%)	8 (7.3%)	15 (13.8%)	49 (45.0%)	34 (31.2%)
The legal, political and economic constraints surrounding your firm during the past 5 years are predictable	109	3 (2.8%)	6 (5.5%)	25 (22.9%)	45 (41.3%)	30 (27.5%)
TECHNOLOGY						
The hotel keeps track of new system updates continuously	109	3 (2.8%)	3 (2.8%)	4 (3.7%)	54 (49.5%)	45 (41.3%)
New system updates are put into practice/implemented straight away	109	1 (0.9%)	8 (7.3%)	22 (20.2%)	39 (35.8%)	39 (35.8%)
Training programs/sessions are organized for the employees every time there is a system update	109	1 (0.9%)	12 (11%)	9 (8.3%)	44 (40.4%)	43 (39.4%)
BUDGETING PRACTICES						
Budgets are used for the motivation of managers	109	9 (8.3%)	27 (24.8%)	20 (18.3%)	33 (30.3%)	20 (18.3%)
Budgets are used for the evaluation of managers	109	6 (5.5%)	34 (31.2%)	18 (16.5%)	25 (22.9%)	26 (23.9%)

Table 11. The Frequencies and Descriptive Statistics of the Variables (cont'd)

Variables	**N**	**Extremely Low (1)**	**Low (2)**	**I don't know (3)**	**High (4)**	**Extremely High (5)**
STRUCTURE *(To what extent has authority been delegated to the appropriate senior managers for each of the following classes of decisions?)*						
Development of new products or services	109	2 (1.8%)	25 (22.9%)	11 (10.1%)	48 (44.0%)	23 (21.1%)
Selection of large investments	109	11 (10.1%)	16 (14.7%)	18 (16.5%)	34 (31.2%)	30 (27.5%)
Budget allocations	109	9 (8.3%)	15 (13.8%)	17 (15.6%	38 (34.9%)	30 (27.5%)
Pricing decisions	109	7 (6.4%)	10 (9.2%)	5 (4.6%)	50 (45.9%)	37 (33.9%)
Training methods to be used	109	3 (2.8%)	10 (9.2%)	10 (9.2%)	51 (46.8%)	35 (32.1%)
STRATEGY						
Product quality compared to your competitors	109	0	4 (3.7%)	10 (9.2%)	47 (43.1%)	48 (44.0%)
Product/service profitability compared to your competitors	109	1 (0.9%)	11 (10.1%)	16 (14.7%)	42 (38.5%)	39 (35.8%)
Brand image compared to your competitors	109	0	6 (5.5%)	9 (8.3%)	49 (45.0%)	45 (41.3%)
Product feature compared to your competitors	109	0	6 (5.5%)	9 (8.3%)	45 (41.3%)	49 (45.0%)
Return on Investment compared to your competitors	109	2 (1.8%)	10 (9.2%)	10 (9.2%)	45 (41.3%)	42 (38.5%)

Table 11. The Frequencies and Descriptive Statistics of the Variables (cont'd)

Variables	**N**	**Below 10% (1)**	**11-20% (2)**	**21-30% (3)**	**31-40% (4)**	**41-50% (5)**	**51-60% (6)**	**61-70% (7)**	**71-80% (8)**	**81-90% (9)**	**Above 90% (10)**
PERFORMANCE MEASUREMENT											
On average, the growth of sales revenue for the past 3 years is:	109	4 (3.7%)	34 (31.2%)	26 (23.9%)	19 (17.4%)	6 (5.5%)	1 (0.9%)	9 (8.3%)	5 (4.6%)	4 (3.7%)	1 (0.9%)
		Below 5% (1)	**5-10% (2)**	**11-15% (3)**	**16-20% (4)**	**25% (5)**	**26-30% (6)**	**31-35% (7)**	**36-40% (8)**	**Above 45% (9)**	
On average, the growth of net profit before taxes for the past 3 years is:	109	15 (13.8%)	26 (23.9%)	32 (29.4%)	14 (12.8%)	4 (3.7%)	2 (1.8%)	6 (5.5%)	6 (5.5%)	4 (3.7%)	

Table 12. Exploratory Factor Analysis Results and Coefficient Alpha (α)

Scale Items	Loadings	Eigenvalues	%of variance	Alpha
Strategy		6.8	30.8	.88
Product feature compared to your competitors	.86			
Brand image compared to your competitors	.83			
Return on Investment compared to your competitors	.74			
Product quality compared to your competitors	.71			
Product / service profitability compared to your competitor	.71			
Technology		2.3	10.5	.81
The hotel keeps track of new systems updates continuously	.85			
Training programs/sessions are organized for the employees everytime there is a systems update	.80			
New system updates are put into practice/implemented straight away	.74			
Performance Measurement		1.7	7.8	.83
On average, the growth of sales revenue for the past 3 years is	.91			
On average, the growth of net profit before taxes the past 3 years is	.89			
Perceived Environmental Uncertainty		1.7	7.6	.67
The legal, political and economic constraints surrounding your firm during the past 5 years are predictable	.83			
The tastes and preferences of your customers are predictable	.78			
The classification of the market activities of your competitors during the past 5 years is predictable	.55			
Budgeting Practices		1.4	6.5	.77
Budgets are used for rewarding of managers	.87			
Budgets are used for evaluation of managers	.85			

Table 12. Exploratory Factor Analysis Results and Coefficient Alpha (α) (Cont')

Scale Items	Loadings	Eigenvalues	%of variance	Alpha
Structure		1.1	5.1	.89
To what extent has authority been delegated to the appropriate senior managers for each of the following classes of decisions?				
Budget allocations	.85			
Selection of large investments	.84			
Pricing decisions	.80			
Development of new products or services	.73			
Training methods to be used	.72			

Note: All factors loadings are above .50. Kaiser-Meyer -Olkin Measure of Sampling Adequacy = .799. Bartlett's Test of Sphericity = 1208.9

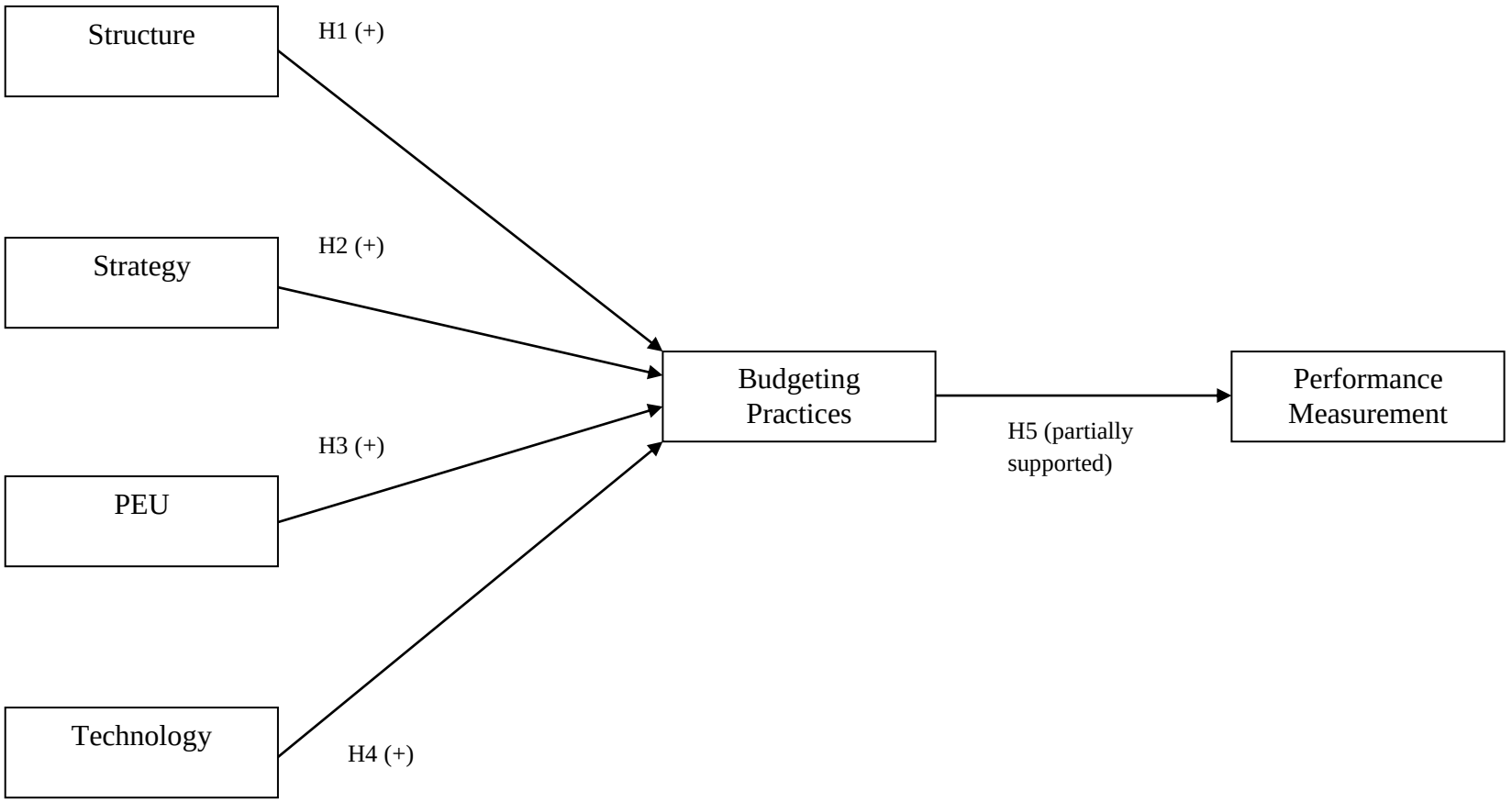
Table 13. Mean, Standard Deviations, Correlations of Study Variables

Variables	Mean	SD	1	2	3	4	5	6
1. Structure	3.71	.98	1.000					
2. Strategy	4.16	.73	.477**	1.000				
3. Perceived Environmental Uncertainty	3.89	.79	.336**	.438**	1.000			
4. Technology	4.09	.81	.383**	.463**	.288**	1.000		
5. Budgeting Practices	3.15	1.21	.363*	.283**	.261**	.222*	1000	
6. Performance Measurement	3.61	1.99	-.220*	-.096	-.051	-.091	-.164*	1000

Note: Composite scores for each construct were computed by averaging respective item scores. The scores for all constructs ranged from 1 to 5 except for performance measurement which ranged from 1 to 9. All correlations are significant ($p < 0.01$, $p < 0.05$)

**. Correlation is significant at the 0.01 level (1-tailed)
*. Correlation is significant at the 0.05 level (1-tailed)

Figure 10. Research Model



Chapter 6

DISCUSSION AND CONCLUSION

6.1 Overview of the study

Contingency theory states that there is no single type of MCS that every organization can implement, however the critical point in which the organizations have to consider is which type is suitable for the company. Nevertheless, the structure and usage of control systems are highly dependent on the background of the organization where the manipulation of these controls systems take place (Fisher, 1998). There are many contingent variables that can be considered in a study which can also be seen in Figure 6. Then again this study has taken on 4 of them.

The purpose of this study was to test the relationship between contingent variables, budgeting practices and performance measurement. The main contingent variables used in this study were strategy, structure, technology and perceived environmental uncertainty. Non – probability judgemental sampling was used to collect the data from the General Managers, Accounting and Finance Managers, Food & Beverage Managers, Housekeeping Managers, Front Office Managers, Sales & Marketing Managers, and Human Resources Managers. The processing of this data (109 questionnaires) was done by using SPSS 15.0. This study had 5 hypotheses where 4 (H1, H2, H3, H4) of them were supported and the remaining 1 (H5) was partially supported.

Consequently, this chapter presents the discussion of the findings in chapter 5, the limitations of the study and the implications for both the sector and for further research.

6.2 Discussion

Throughout the study, 5 hypotheses was developed and tested where 4 of them were accepted and remaining 1 was partially accepted. The first hypothesis (H1) which proposed that "*PEU is related with budgeting practices*" was supported with a positive relationship (r=.261).

These findings corroborate with those of Gordon and Narayanan (1984) and Muchlish (2012) but refute the study of King *et al.,* (2010) meaning that the more the external environment is uncertain, the more the establishment will carry out budgeting practices in order to be able to take precautions and protect themselves from risk. However this study has also found that the hotels in Northern Cyprus seem to be able to predict the market activities of its competitors better than being able to predict the tastes and preferences of customers and the legal, political and economic constraints (Table 12).

The second hypothesis (H2) which proposed that "*Technology is related with budgeting practices*" was also supported with a positive relationship (r=.222). These findings corroborate with those of Winata and Mia (2005) meaning that ease of access to internal and external resources, capacity maximization and efficient data handling enables the organization to increase its budgeting practices.

Moreover, this study has additionally found that the hotels keep track of new system updates continuously more than implementing the new system updates and organizing training sessions for the employees every time there is a system update (Table 12).

The third hypothesis (H3) stating that "*Strategy is related with budgeting practices*" was supported with a positive relationship (r=.283). These findings corroborate with those of Macintosh (1995), Chenhall (2003) and King *et al.,* (2010). This result indicates that in order to be able to implement a specific strategy the organization must plan through budgeting practices to be able to forecast and have an idea on whether or not implementing the chosen strategy is the correct decision. In addition to these results, this study has found that the majority of the hotels focus more on product quality, brand image and product feature than product/service profitability and return on investment when compared with their competitors (Table 12). This shows us that the majority of hotels if not all focus more on applying the differentiation strategy which needs a more extensive use of MCS and budgets which was explained by David (2011) in chapter 3.

The fourth hypothesis (H4) proposing that "*Structure is related with budgeting practices*" was also supported with a positive relationship (r=.363). These findings corroborate with those of Bruns and Waterhouse (1975), Merchant (1981), Subramaniam (2002) and King *et al.,* (2010). It was stated by many scholars (Bruns and Waterhouse, 1975; Merchant, 1981; King *et al.,* 2010) that a decentralized business is in need of a more solid MCS and budget. This study has also shown the same results.

However, this study has additionally found that the authority delegated to the appropriate senior managers for the decision making of a group of decisions was very high. These include decisions such as pricing decisions (highest authority), training methods to be used, development of new products or services, budget allocations and selection of large investments (Table 12). On the other hand, since the managers have high authority in decision making this increases their responsibilities. As a result, budgeting practices also increase with a more careful decision making process to control the targets and aims of the organization which makes this study consistent with that of Subramaniam (2002).

The fifth and last hypothesis (H5) which proposes that "*Budgeting practices is related with performance measurement*" was partially accepted since BP was related with PM however surprisingly negatively (r=.-164) which refutes the studies analyzed for this research. However, regarding the purpose of budget use and the general performance of the hotels, this study has found that the hotels in Northern Cyprus generally use budgets for the motivation of managers more than for the evaluation of managers. It has also been found that the majority of hotels have an 11 – 20% growth of sales revenue and 11 – 15% growth of net profit before taxes for the past 3 years.

6.3 Managerial Implications

Both the literature and the findings reveal the importance of the contingency variables on budgeting practices and performance measurement which was the fundamental aim of the research.

The findings of this study imply that the sample used may somehow lack knowledge about budgeting and how to use a budget as a measurement of performance. Even though the findings of a negative relationship between budgeting practices and performance measurement was a disappointing factor, this may show us that MCS and tools used for performance measurement may not have been included or fully covered in tourism and hospitality programs. This factor could be the reason why the hotels in Northern Cyprus face many problems when trying to increase their performance.

Therefore, it maybe suggested that the ministry of tourism, faculties and schools of tourism and even the hoteliers association could arrange a program, course or seminar on MCS and PM in order for the managers, employees and even students that want to be in the sector to be aware of the importance of budgets and MCS when trying to measure and increase performance.

6.4 Limitations and directions for future research

During the research of this study a number of limitations were identified. Firstly, this study took into account 4 contingent variables; PEU, Technology, Structure and Strategy. However, considering the relationships between the variables such as those in Figure 6 (Chapter 3) and budgeting practices together with researching the relationships between themselves would be beneficial.

Secondly, although the managers that were included in the study gave high rankings for the variables, it is doubtful to what extent they are implemented. Therefore, not being able to identify the extent of implementation maybe considered as a gap in the literature.

Thirdly, another limitation for the study occurred when gathering information for the field work. One hotel refused to accept any questionnaires to be filled in by their managerial team. In addition to this hotel, another hotels General Manager did not accept the questionnaire to be filled once it was distributed.

Fourthly, the data was collected by distributing questionnaires therefore conducting interviews or other types of data collection methods could have given richer and deeper information about the variables considered in this study. Also having a limited time for the data collection process was a limitation of this study.

Thus in future studies, examining the relationships of these variables between budgeting practices and performance measurement using triangulation method for their data collection and perhaps extending this process to a more longitudinal study would be a significant contribution to the literature. Another direction could be that this study used the contingency theory as its base therefore; trying to use other theories would also be a contribution to the literature. In this way, we would gain more detailed and accurate findings stating to what extent budgeting practices are done and whether or not they are used as a tool for performance measurement.

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APPENDIX

Dear respondent,

This research is aimed to understand the effect of contextual variables in Management Control Systems on budgeting practices and business performance within the four and five star hotels in the TRNC. This study is aimed to benefit from the experiences and ideas of the General Managers, Human Resource Managers, Accounting/Finance Managers, Marketing Managers and Front Office Managers.

Each of the questions in the questionnaire is a judgement. Therefore there is no right or wrong answer for these questions. All responses and response identities will be confidential. The approximate response time for this questionnaire is 20 minutes. We thank you for your participation in this study.

Research Team:

Asst. Prof. Dr. Mine HAKTANIR

Dilem Ramadan

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1. Please answer the following statements according to the number from the following scale that best corresponds to your answer.

1. **Strongly disagree**
2. **Disagree**
3. **Neutral**
4. **Agree**
5. **Strongly Agree**

No.						
1.	The hotel keeps track of new system updates continuously.	1	2	3	4	5
2.	New system updates are put into practice/implemented straight away.	1	2	3	4	5
3.	Training programs/sessions are organized for the employees every time there is a system update.	1	2	3	4	5
4.	Customers directly use the hotels web page for reservations.	1	2	3	4	5
5.	Breakdowns in systems often occur.	1	2	3	4	5
6.	Maintenance and repair equipments are frequently updated.	1	2	3	4	5
7.	Hotel equipments pass through maintenance and are repaired frequently.	1	2	3	4	5
8.	The classification of the market activities of your competitors during the past 5 years is predictable.	1	2	3	4	5
9.	The tastes and preferences of your customers are predictable.	1	2	3	4	5
10.	The legal, political and economic constraints surrounding your firm during the past 5 years are predictable.	1	2	3	4	5
11.	Our hotel has a budget.	1	2	3	4	5
12.	Budgets are used for planning	1	2	3	4	5
13.	Budgets are used for communication	1	2	3	4	5
14.	Budgets are used for coordination of activities	1	2	3	4	5
15.	Budgets are used for evaluation of activities	1	2	3	4	5
16.	Budgets are used for motivation of managers	1	2	3	4	5
17.	Budgets are used for evaluation of managers	1	2	3	4	5
18.	Budgets are used for rewarding of managers	1	2	3	4	5
19.	Budgets are used for resource allocation	1	2	3	4	5
20.	Budgets are used for spending authorization	1	2	3	4	5
21.	Top management constantly reminds the managers of the business units of the need to meet targets.	1	2	3	4	5
22.	Top management controls the business units chiefly by monitoring how well performance meets targets.	1	2	3	4	5
23.	Promotion prospects of the managers of the business units depend heavily on their ability to meet targets.	1	2	3	4	5
24.	In the eyes of top management, achieving targets is an accurate reflection of whether the managers of the business units are succeeding.	1	2	3	4	5

2. To what extent has authority been delegated to the appropriate senior managers for each of the following classes of decisions? (Please rate actual, rather than stated, authority).

1. **Extremely low**
2. **Low**
3. **I don't know**
4. **High**
5. **Extremely high**

25.	Development of new products or services	1	2	3	4	5
26.	The hiring, firing and promotion of managerial personnel	1	2	3	4	5
27.	Selection of large investments	1	2	3	4	5
28.	Budget allocations	1	2	3	4	5
29.	Pricing decisions	1	2	3	4	5
30.	Training methods to be used	1	2	3	4	5
31.	To alter responsibilities/areas of work of specialist/line departments	1	2	3	4	5

3. Please answer each statement according to the number from the following scale that best corresponds to your answer.

1. **Extremely low**
2. **Low**
3. **I don't know**
4. **High**
5. **Extremely high**

32.	Product / service pricing compared to your competitors.	1	2	3	4	5
33.	Product / service costing compared to your competitors.	1	2	3	4	5
34.	Research and Development cost compared to your competitors.	1	2	3	4	5
35.	Product quality compared to your competitors.	1	2	3	4	5
36.	Product / service profitability compared to your competitors.	1	2	3	4	5
37.	Brand image compared to your competitors.	1	2	3	4	5
38.	Product feature compared to your competitors.	1	2	3	4	5
39.	Return on Investment compared to your competitors.	1	2	3	4	5
40.	To what extent do the managers of the business units in your firm participate in setting their unit's targets?	1	2	3	4	5

4.Please indicate the intervals which best depict your enterprise's performance by circling an appropriate number for questions (a) and (b).

(a) On average, the growth of sales revenue for the past 3 years is:

Below 10%.....1	51 – 60%.....6
11 – 20%.....2	61 – 70%.....7
21 – 30%.....3	71 – 80%.....8
31 – 40%.....4	81 – 90%.....9
41 – 50%.....5	Above 90%.....10

(b) On average, the growth of net profit before taxes the past 3 years is:

Below 5%.....1	26 – 30%.....6
5 – 10%.....2	31 – 35%.....7
11 – 15%.....3	36 – 40%.....8
16 – 20%.....4	Above 45%.....9
21 - 25%.....5	

1. Please indicate your answer by placing a (√) in the appropriate alternative.

(a) How old are you?

18-27 ( )
28-37 ( )
38-47 ( )
48-57 ( )
58 nd over ( )

(b) What is your gender?

Male ( )
Female ( )

(c) What is your level of education?

Primary School ( )
Secondary School ( )
Vocational School (HND) ( )
University Graduate ( )
Master or PhD ( )

(d) What is your marital status?

Single or divorced ( )
Married ( )

(e) How long have you been working in this hotel?

Less than a year ( )
1-5 years ( )
6-10 years ( )
11-15 years ( )
16-20 years ( )
More than 20 years ( )

(f) What is your position in the company?

General Manager ( )
Human Resources Manager ( )
Accounting Manager ( )
Front Office Manager ( )
Sales & Marketing Manager ( )
Other ( ) please specify…….