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Budgetary Controls in Clubs: A Time-Tested Process for Financial Success

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ABSTRACT

Budgetary controls are essential for any business organization. This study provides a longitudinal comparison of budgetary control practices in the club industry in the past 4 decades, filling a literature gap for the club industry in the United States. This research aimed to document the various budgetary control practices in clubs; analyze whether such practices differ by the types of clubs, size, and profitability; and compare current practices with those in the past 3 decades. The authors administered a survey to the members of the Club Managers Association of America. With a prevalent participatory budgeting process, the budget is used widely at all levels of a club. The longitudinal comparison showed variance tolerance in food, beverage, and labor cost percentages tightened since the 1980s but was relaxed slightly in this present study. Subgroup analyses by demographic characteristics also showed statistically significant differences in a number of areas.

Introduction

Any experienced manager or any management textbook would quote the five functions of management as planning, organizing, staffing, directing, and controlling. A slightly different version is combining staffing and directing into the one function of leading. Regardless of which definition one subscribes to, the management process always starts with planning and ends with controlling, and the cycle begins again as one learns from the successes and failures through controls and then plans accordingly for the next cycle with corrective actions.

Budgeting in the hospitality industry is not any different. The budget process starts with planning and forecasting, and the details are then transformed into revenues and expenses of a budget for the operation (Schmidgall, 2016). And, having a budget is simply the beginning. As a hospitality operation goes about its business and transactions are recorded, the accounting results are then evaluated against the budget to see whether the operation meets its financial goals.

In the club industry, the same budgeting process applies (Schmidgall & Damitio, 2001). More important, the budgetary control is the determination of

variance, the determination of significant variance levels when corrective actions need to be taken, the analysis of why such variances occur, the determination of problems, and the exact management correction (Schmidgall & Damitio, 2001). A budget without proper budgetary control is not a living document. The process of budgetary control, with proper corrective actions, leads to reforecasting, so the entire forecasting-budgeting process can be as accurate as possible to ensure financial success for the club.

Need for the Study

The club industry in the United States provides career opportunities to many individuals and entertainment and services to its many members. According to the Club Managers Association of America (www.cmaa.org), clubs have more than 389,000 employees, with a payroll of \$10.6 billion, and serve between 1.8 to 2.1 million members. In 2013, the total income for clubs was \$22 billion and \$2.8 billion was paid in taxes to different levels of government. With all these impressive contributions the club industry makes to the U.S. economy, the need to understand the budgetary control process is even more

acute. In addition, documentation of the budgetary control process can serve as a guideline for clubs to gauge their own performance and management practices. The more this process is transparent, the more clubs can learn and better their operations. The literature in this area is also quite scarce. The most recent comprehensive study on club budgetary study was carried out in 2008 and published in 2009 (Oak & Schmidgall, 2009). Therefore, an updated study is warranted.

Purpose of the Study

Specifically, this study aimed to collect data in four areas: (a) demographics of the respondents and their clubs; (b) the various budgetary control practices in clubs; (c) the variance tolerance levels in food, beverage, labor, and other operating costs percentages before corrective actions are taken; and (d) whether such budgetary control was linked to management compensation and whether budgetary control negatively affected service quality. Once we tabulated the results, we conducted subgroup analyses to assess whether budgetary practices differ by the demographic characteristics of the types of clubs, the size of clubs (by revenues and members), and the profitability of clubs (as measured by the food and beverage profit margin). In addition, the results of the present study were compared with those in the past three decades to present a longitudinal depiction of budgetary control practices in the club industry in the past 40 years.

Literature review

Control involves maintaining the necessary restrictions and accountability over the resources of a business (DeFranco & Noriega, 2000). Control also involves a methodical process where objectives are first established, then communicated to the employees and all parties involved. The actual performance is then evaluated against the established objectives, and finally feedback and corrective action are taken (DeFranco & Noriega, 2000; Ninemeier, 2004).

These objectives can come in many forms. Operations may use financial ratios as their

standards or objectives and compare their financial ratios at the end of a certain accounting period to their budgeted numbers. A cluster of studies on club financial ratios has been conducted since 2003. The five main classifications of financial ratios—liquidity, solvency, activity, profitability, and operating ratios—were calculated to document the trends over the years (DeFranco & Schmidgall, 2009, 2013; Schmidgall & DeFranco, 2004, 2009, 2010, 2011a, 2011b, 2016). In addition to ratios, cash budgeting is another tool (Schmidgall, 1998b). Cash budgets are essentially plans of expected cash receipts and disbursements for a certain period for a club. Clubs then use these cash inflows and outflows to estimate if they have enough cash in the future for their operations. Whereas cash budgets are prepared normally for a period of a few months, capital budgets are normally for the longer term, given that they have to do with major acquisitions. Damitio and Schmidgall (2006) studied the capital budgeting practices of clubs and found that nearly half of the respondents of their study defined a major acquisition as purchases of more than \$10,000. Moreover, this amount was also the threshold that clubs would use one or more of the capital budgeting criteria (such as payback period, net present value, or internal rate of return) to make a purchasing decision.

For the day-to-day operations, the operating budget is the most often used method by which management compares actual results against to gauge their financial performance. This is true in other segments of the hospitality industry. Schmidgall and Ninemeier (1989) studied the budgeting practices in both lodging and food service chains; and Schmidgall also studied the operating budget process in clubs (1997). Therefore, Schmidgall and Damitio (2001) advocated the use of an operating budget in the club environment for this purpose.

Budgetary control: The what

Budgetary control starts with an approved budget. The operating budget, simply put, is the set of objectives expressed in the form of revenues and expenses as the operating budget summarizes the management's and the owner's plan for revenue

generation and expense usage over a specified period (Schmidgall & Damitio, 2001). A budget is an essential part of any club operations as it requires management to examine alternatives, assess all information from internal and external sources, in order to set realistic goals and objectives (DeFranco & Noriega, 2000). From marketing plans, to staffing decisions, to capital expenditures, a budget provides this blueprint for a club to operate its daily business while keeping an eye into the future.

To have an effective budget, a participative approach whereby management at all levels can provide input is preferred. This approach fosters transparency, communication, and most importantly, commitment. The various parties bring in facts, estimates, and information on the economy, competitive conditions, new rules and regulations, expected changes in employee compensations, and other pertinent information to begin to form a forecast of revenues (Schmidgall, 2016).

Once the revenues are set, the budgeting process moves into the phase of estimating expenses—on the basis of the level of revenues expected. Some expenses known as *variable costs* change with the level of revenues, such as food and beverage; others are fixed, such as depreciation or rent; and yet others are mixed, such as labor and utilities (DeFranco & Noriega, 2000). Therefore, cost item by cost item, the budgeting team will come up with the proper expense level of each line item, given the estimated corresponding revenues, to complete the budget.

The two pioneer studies on club budgeting practices were published by Schmidgall (1986, 1998) on data from the years of 1985 and 1996. In those two decades, it was found that the budget preparation process was participative in nature where a budget was jointly determined between the general manager of the club, the department heads, and other key management positions to set tentative financial goals. The budget was prepared as a benchmarking/comparison tool, and one third of the respondents also prepared long-range budgets of 2–3 years. In addition, also about a third of the clubs revised their set budgets during the year when changes necessitated this step (Schmidgall, 1986, 1996). Schmidgall, together with Singh (2007), updated the study about 10 years later

and found that more than 90% of the clubs were preparing the budget as a team, compared with 88% in the 1985 (Schmidgall, 1996). Clubs also used budgets as a benchmarking tool more often: 60% in 2006, 56% in 1996, and 42% in 1985 (Schmidgall & Singh, 2007). Furthermore, with the increased use of spreadsheets and other technologies, more budget revisions were undertaken when club performance indicated a need rather than at a set time such as monthly or quarterly.

Control methods and process: The how

With an established budget, the budgetary control process begins. As budgetary control compares the actual performance to the set goals and objectives, the first step is to prepare budget reports at the end of accounting periods so that analyses can be performed. These reports must be timely and relevant for management to properly carry out the process. Schmidgall and Damitio (2001) stated the five steps of budgetary control as follows: determination of variances, determination of significant variances, analysis of significant variances, determination of problems, and action to correct problems. In determining the limit of variances and whether a certain percentage is less or more significant, Schmidgall and Damitio (2001) gave an example in their textbook that a larger club may set its significant criteria different from that of a smaller operation. Although an intuitive thought, Oak and Schmidgall (2009) were unable to prove this point in their 2009 study as a result of insufficient data. Still, the pair was able to document the changes in the variance tolerance levels of clubs in food, beverage, and labor cost variances.

When examining the three studies—Schmidgall (1986, 1998) and Oak and Schmidgall (2009)—clubs were more tolerant in their variances in all categories in the 1980s, with 13.9% taking corrective actions when the variance is less than 2.0% in food, 23.0% in beverage, and only 14.8% in labor. In the 1990s, below the 2.0% variance level, 21.3% of the clubs took corrective actions already (as opposed to 13.9%). This was also true in beverage cost variance (27.7% versus 23.0%) and labor cost variance (20.0% versus 14.8%). The trend continued in the next decade when the percentage of clubs taking corrective action when the

variance was less than 2.0% increased to 24.7% for food, and 28.6% for both beverage and labor (Oak & Schmidgall, 2009). Thus, clubs seemed to be more vigilant in watching over their costs.

The analysis of significant variance is the one step that requires the most calculation because one needs to perform the revenue variance analysis, the cost of goods sold variance analysis, and the variable labor analysis (Schmidgall & Damitio, 2001). Yet, with the help of a spreadsheet, all these formulas can easily be programmed with the budgeted numbers so when the actual results are available, they can be automatically linked into the spreadsheets for analysis and the results are instantaneous, leaving management with more time for the two most important steps—finding out what causes these variances and what types of corrective action need to be taken.

Therefore, the present study seeks to provide answers to the following for the club industry in 2016:

- the various budgetary control practices in clubs;
- the variance tolerance levels in food, beverage, labor, and other operating costs percentages before corrective actions are taken;
- how budgetary control is linked to management compensation;
- whether budgetary control affects service quality negatively;
- whether budgetary practices differ by demographic characteristics; and
- the trend of budgetary practice change in the past four decades.

Method

Following the protocol of the Oak and Schmidgall (2009) study, this research had a total of 409 club professionals who responded to the survey, yielding a response rate of 17%.

Survey development

To ensure content validity and so that longitudinal comparability can be achieved, this research followed very closely the questions asked in three

studies: Oak and Schmidgall (2009) and Schmidgall (1986, 1998). These three previous studies were performed roughly in the middle of each decade. Thus, this research fills the role of the decade of 2011–2020.

The survey instrument, approved by the university's institutional research board, had four major sections, starting with the demographics of the respondents and their clubs. It then moved the segment on the development and use of the operations budget, including questions such as which level of the operations are the budgets used for monitoring purposes. The third section focused on budgetary controls measures, against what numbers are budgeted figures compared, and the levels of variance tolerance. Last, the use of budgetary controls, such as for managerial compensation and whether budgetary controls affect the quality of service in clubs, was explored.

Sample

We obtained the sample for this study from the membership of the Club Managers Association of America, who electronically sent a survey to 2,400 members identified as general managers/CEOs in April of 2016.

Data collection and analysis

We collected data for this study by using Qualtrics. The first survey was sent out in April 2016, and a second reminder was sent in June 2016. The results were analyzed using SPSS. Both frequencies and chi-square statistics were performed.

Results

As mentioned previously, more than 400 responses were received. The results presented below followed the four sections of the survey, starting with the demographic details of the respondents and their clubs.

The clubs and the executives

More than 85 of the respondents were general managers of their clubs, with another 5.2% as club managers and 1.3% as assistant managers. In addition, 80.6% of the respondents were employed

by country and golf clubs or golf only clubs, and 9.1% were employed by city clubs. Yacht clubs made up 2.8% of the respondents.

When measured by gross revenues including membership dues, the majority of the clubs (42.5%) belonged in the \$5,000,001–\$10,000,000 category. Most of the respondents enjoyed healthy revenue levels. The next two highest categories were clubs that grossed more than \$10 million annually (21.8%), and those that grossed between \$3,000,001 and \$5,000,000 (19.2%). This also meant clubs that grossed less than \$3 million made up only 16.5% of the sample.

When the size of the clubs was measured by the number of members, the largest category belonged to clubs with 251–500 members at 35.2%. The next biggest category was clubs with 501–750 members at 24.7%. Together, these two groups made up almost 60% of the respondents.

In terms of profitability, measured by using food and beverage profit over food and beverage sales, almost 40% of the clubs (39%) saw a loss of more than 5%, with another 12.7% reporting at breakeven to a loss of 5%. These numbers are not alarming, given that many clubs subsidized their food and beverage operations with membership dues. The good news, however, was that 31.4% of the respondents indicated they had more than 5% in food and beverage profit. Table 1 summarizes the details.

The control tool: The operations budget

Given that the operations budget is a powerful tool, then how it is being used for control purposes, at what levels of the operation, how often are the actual numbers compared with the budgeted amounts, and what the actual numbers are compared with once the performance statistics were tallied were all asked of the respondents. A resounding 96.6% of the respondents stated that their clubs used the operations budget as a means of monitoring performance. In addition, 97.5% of the clubs used the operations budget at all levels of the clubs' operations; 1.4% stated only for profit centers such as food, beverage, and areas that generate revenues; and the remainder mentioned other service centers such as the cost in operating an accounting department.

Table 1. Demographics of the Respondents and Their Clubs.

Variable	%
Title of respondent	
General manager	85.3
Club manager	5.2
Assistant manager	1.3
Other	8.2
Total	100
Type of club	
Country/golf	79.3
City	9.1
Golf	1.3
Yacht	2.8
Other	7.5
Total	100
Annual gross revenue of club	
\$2,000,000 or less	6.0
\$2,000,001–\$3,000,000	10.5
\$3,000,001–\$5,000,000	19.2
\$5,000,001–\$10,000,000	42.5
More than \$10,000,000	21.8
Total	100
Number of club members	
Fewer than 250	4.7
251–500	35.2
501–750	24.7
751–1,000	16.8
1,001–2,000	11.5
More than 2,000	7.1
Total	100
Profitability (food and beverage profit/food and beverage revenues)	
Less than –5%	39.0
–5%–0%	12.7
0.1%–5%	16.9
More than 5%	31.4
Total	100

When actual results were tabulated, the responding clubs did compare them with various measures to gauge their financial performance. As seen in Table 2, 55.7% of the clubs compared their actual revenues and expenses with the original budget. And as budgets are amended, 11.2% of the respondents also stated that the actual figures were compared with the revised budget. Furthermore, 51.6% of the respondents mentioned comparing their actual figures with those of the same period of the previous year, whereas another

Table 2. Frequency which Actual Revenues and Expenses are Compared Against.

Measure	%
Original budget	55.7
Revised budget	11.2
Same period last year	51.6
Same period last few years	14.7
Industry averages	12.7
Other	3.9

14.7% averaged the numbers of the same period of the past few years as a comparison point. Moreover, 12.7% reported taking the analysis further and compared the actual revenues and expenses with industry standards. Last, 3.9% responded “other” and stated items such as “all of the above.”

How much is too much?

Club executives were keen in making sure their actual financial performances were in step with the original or revised budgets; 90.3% reported that comparisons were made on a monthly basis. A total of 2.5% of the club executives prepared comparison analysis on a bimonthly basis, and another 2.9% completed the analysis quarterly.

In making a comparison analysis, one would hope that a club would make budget at the very least and it would even be better if the actual figures differ from the budget with a positive variance. This means the club is doing better than expected, and the extra revenues or saved expenses will flow down to the profit line. Although many clubs are nonprofit, private equity clubs, making a profit also means having funds available for improvements in the clubhouse, the golf course, or other areas, thereby lowering the need of membership assessments or borrowing funds. However, there are times that the actual figures, when compared with the original or revised budgets, ended up with negative variances. Thus, the variance tolerance, the point where the variance is considered too much and management would take cor-

rective action, is important to note. Therefore, club executives were also asked to indicate the level of variance tolerance in food, beverage, labor, and other expenses, where corrective action would be triggered.

As seen in Table 3, the variance tolerance of food, beverage, and labor cost percentages were displayed. For the present study, in terms of food cost percentage variance, only 2.6% of the club executives would take corrective action if the variance was less than 1.0%. When the variance range increased to 1–1.9%, 16.7% of the clubs would take corrective action. The response rate increased to 21.6% for the 2–2.9% variance range, and peaked at 23.6% for the 3–3.9% range.

This was then compared with the past three decades. The 1985 figures (representing the 1980s) and 1996 figures (representing the 1990s) are from Schmidgall’s (1986, 1998) studies, whereas the 2006 figures (representing the first decade of this century) are from Oak and Schmidgall (2009). As seen in Table 3, in the 1980s, a significant percentage of club executives started taking corrective action when the food cost variance reached 2%. Specifically, 29.8% of clubs took corrective action when the variance percentages were at the 2–2.9% range and another 21.2% took corrective action when the variance percentage reached the 3–3.9% range. The median for food cost variance tolerance was at 3.4%. This scenario changed a bit in the 1990s where 28.3% of clubs began taking corrective action at the 2–2.9% variance range; but the percentage of respondents creased to 25.5% for the 3–3.9%

Table 3. Variance Tolerance in Food, Beverage, and Labor Costs Percentages in the Past Four Decades (%).

Variance	Food costs				Beverage costs				Labor costs			
	2016	2006	1996	1985	2016	2006	1996	1985	2016	2006	1996	1985
<1	2.6	3.7	5.7	1.3	3.0	6.3	11.4	5.6	3.3	6.3	7.9	4.2
1–1.9	16.7	21.0	15.6	12.6	17.5	22.3	16.3	17.4	14.9	22.3	12.1	10.6
2–2.9	21.6	27.7	28.3	29.8	21.2	26.8	29.7	29.9	26.8	26.9	26.4	18.3
3–3.9	23.8	20.0	25.5	21.2	21.9	20.0	19.2	20.1	18.2	20.0	19.3	14.8
4–4.9	14.1	11.5	11.4	10.0	15.6	9.6	7.1	7.6	10.8	9.6	14.3	14.1
5–5.9	14.5	7.6	8.5	15.9	13.0	7.3	9.9	11.8	17.1	7.3	8.6	22.5
>5.9	6.7	8.5	5.0	9.2	7.8	7.7	6.4	7.6	8.9	7.6	11.4	15.5
Median year	Food cost		Change from previous decade		Beverage cost		Change from previous decade		Labor cost		Change from previous decade	
2016	3–3.9		+		3–3.9		+		3–3.9		+	
2006	2.9		–3.0		2.8		+4.0		2.8		–14.0	
1996	3.0		–13.0		2.7		–7.0		3.2		–38.0	
1985	3.4				2.9				4.4			

range. Overall, the median for the 1990s dropped bit to 3.0%. This median decreased slightly to 2.9% in the 2000s, and this was reflected in the two highest variance tolerance percentage brackets at 1–1.9% (at 21.0%) and 2–2.9% (at 27.7%).

This trend of tightening and taking corrective action at a lower variance level reversed in the current study, mirroring that of the 1980s and 1990s with the 2–2.9% bracket garnering 21.6% and 3–3.9% bracket reporting at 23.8%. In the present study, the respondents were asked to indicate a range rather than a particular variance percentage, and the median was 3.4%, so the variance tolerance level was relaxed in the current decade.

This exact trend for food cost variance tolerance was also found in the beverage cost variance tolerance. In the present study, only 3.0% of the respondents took corrective action if the variance tolerance range was less than 1.0%. Another 17.5% of the clubs took action when the variance tolerance range was at 1–1.9%. The highest responses were recorded at the 2–2.9% range (21.2%) and the 3–3.9% range (21.9%), making these two variance tolerance ranges the highest ranked ones where clubs took corrective action.

Longitudinally, in the 1980s (Schmidgall, 1986), beverage cost variance tolerance behaved the same as its food cost counterparts, where the same two ranges of 2–2.9% and 3–3.9% had the highest responses. In addition, 29.9% of club executives stated that they took corrective actions when the variance was at 2–2.9%, and another 20.1% of club executives took corrective actions when the variance range was at 3–3.9%. The median beverage cost variance percentage that triggered corrective action was at 2.9%. The same two ranges of 2–2.9% and 3–3.9% also recorded the highest responses in the 1990s (Schmidgall, 1998) at 29.7% and 19.2%, with the median slightly lower at 2.7%. Similar to food cost, the two highest beverage cost variance tolerance brackets in the 2000s dropped to the 1–1.9% and 2–2.9% with 22.3% and 26.8% of the respondents (Oak & Schmidgall, 2009). Yet, the third highest variance tolerance bracket for the 2000s was 3–3.9% reporting with 20.0% of the total respondents. Thus, the median beverage cost tolerance increased to 2.8%. The median also increased for the current decade to 3.4%. The current median variance tolerance of

3.4% was the highest, signifying a relaxation of the reins.

Food and beverage costs are normally viewed similarly as they are related to products. Labor cost, however, is different as it deals with human capital, human performance, and the service quality aspect, which is most important in the club environment. Thus, although club executives might react similarly in food and beverage costs, they might have a slightly different variance tolerance in terms of labor, and probably a higher tolerance. This was very true in the 1980s. The two highest responses were found in the 2–2.9% variance tolerance bracket at 18.3% and the 5–5.9% bracket at 22.5% (Schmidgall, 1986). This bimodal distribution was a quite interesting, especially when the third highest bracket was found at more than 6%, with 15.5% of club executives taking corrective action. It showed that clubs were more tolerant in their labor cost variance than in food and beverage. Indeed, the median for labor cost variance in the 1980s was reported at a high of 4.4%. In the 1990s, the variance tolerance for labor cost was more in line with those of food and beverage where the two highest brackets were at 2–2.9% (26.4%) and 3–3.9% (19.3%; Schmidgall, 1998). This dropped the median variance tolerance from 4.4% a decade ago down to 3.2%, which is still the highest among the three cost variances, but was 27% down from the 4.4% in the 1980s. In the 2000s, tighter controls were also seen in labor where the median variance tolerance dropped further to 2.8% with the two highest brackets at 2–2.9% (22.3%) and 3–3.9% (26.9%; Oak & Schmidgall, 2009).

This practice of labor cost control against budget continues in the current decade. As seen in the highlighted figures in Table 3, 3.3% of the clubs started corrective actions when the variance of labor cost was less than 1.0%, and another 14.9% of the clubs took corrective actions at the 1–1.9% variance range. However, corrective actions were not triggered in labor costs until the 2–2.9% and 3–3.9% levels at 26.8% and 18.2%, respectively. This pushed the median up to 3.3%, resulting in a slightly relaxed view in labor costs variance tolerance.

Overall, it was obvious that any negative variance of less than 2% normally would not trigger

any management corrective actions except in the 2006 study where corrective actions were taken as early as a 1.0% variance. For the other years, as soon as the variance reached 2.0%, club executives and management would start making adjustments to ensure costs would be contained and issues addressed.

Besides the three main cost items of food, beverage, and labor, an additional item—“other”—was also asked of the respondents in this study to better understand how club executives manage and control their entire budget. The same variance categories of the aforementioned three items were used so comparisons could be made to see how the variance in “other” would differ. The 2016 variance tolerance of all four cost categories can be seen in Table 4. It is noteworthy that although the 2–2.9% and 3–3.9% levels were the highest for the three prime costs, the other costs showed a bimodal distribution with 23.9% of club executives responding that they would take corrective action when the variance was at the 2–2.9% level, whereas another 20.1% said that they would take corrective action when the variance reached the 5–5.9% level.

Budgetary controls: Incentives and service quality

It is apparent that the operations budget is used extensively by management and executives to gauge their clubs' performance. If so, one might also ask whether controlling the budget is in any manner linked to managerial compensation. As summarized in Table 5, the compensation of general managers was closely linked to budgetary controls as 49% of the club executives responded positively. Compensation of other managers came in second at 32%, followed closely by food and beverage managers at 30%, and then clubhouse managers at 22%.

Table 4. Variance Tolerance in Food, Beverage, Labor, and Other Operating Budget Costs, 2016 (%).

Variance	Food cost	Beverage cost	Labor cost	Other cost
<1	2.6	3.0	3.3	3.4
1–1.9	16.7	17.5	14.9	10.8
2–2.9	21.6	21.2	26.8	23.9
3–3.9	23.8	21.9	18.2	19.4
4–4.9	14.1	15.6	10.8	11.6
5–5.9	14.5	13.0	17.1	20.1
>5.9	6.7	7.8	8.9	10.8

Table 5. Managerial Compensation and Budgetary Control.

	Linked to budgetary controls (%)	
	2016	2006
Managerial position		
General manager	49	60
Clubhouse manager	22	28
Food and beverage manager	30	33
Other manager	32	36
Other	23	29

These figures decreased categorically when compared with those a decade ago (Oak & Schmidgall, 2006) when 60% of the club executives responded that the compensation of general managers linked to budgetary controls. Other managers also came in second but at 36%, followed by food and beverage managers at 33% and clubhouse managers at 28%.

In 2016, 23% of the club executives mentioned compensation being linked to budgetary control in the position of “other.” They further indicated specific examples such as bar managers, chefs, event planners, golf directors, golf pros, golf course superintendent, grounds directors, tennis pros, to generic categories such as all department heads, and all salaried management. In 2006, this category was reported at 29%. Although the percentages in all categories decreased by a few points each, budgetary control is still resoundingly a mean for clubs to reward its management team and key associates.

In addition, almost 200 executives shared how their compensation were linked to budgetary controls. These responses can be grouped into four main categories where meeting or performing better than budget would affect: (1) part of their base salary, (2) part of their bonus, (3) their annual compensation increase or raise, and (4) their deferred compensation plan amounts. Finally, their compensation was also tied to the level of profits achieved when compared to budget. Of these five, having the bonus tied to budgetary performance was used the most.

Often, budgetary control has the connotation of cost cutting or watching every single cent, which leads to the belief that controlling a budget negatively affects service quality. Whereas 1.7% of the club executives admitted that budgetary control has considerable negative effect on service quality, 9.8% stated some negative effect, and other 26.9% agreed that there was slight negative effect. At 58.4%, the majority said that there was no effect at all. The remaining 3.1% defended the process of

budgetary control and responded in the option of “other,” specifying that budgetary controls “are good,” to “only positive,” to “most definitely positive impact.”

Subgroup analyses

With the aim of further understanding whether the type of clubs, the size of clubs (as measured by revenues and by number of members), and the profitability of clubs (as measured by food and beverage profits as a percentage of food and beverage sales) affect how clubs carried out the budgetary control process, cross-tabulations in the form of chi-square were conducted with these four demographic characteristics on the following statements:

- (1) Use of the operating budget for control,
- (2) Operational levels where operating budget is used for monitoring
- (3) Measures which actual numbers are compared against,
- (4) Variance tolerance levels in (a) food, (b) beverage, (c) labor, and (d) other operating costs,
- (5) Frequency of comparing actual and budgeted numbers,
- (6) Linking of managerial compensation to budgetary controls, and
- (7) Extent to which budgetary control negatively affects service quality.

For these seven aspects of comparison across the four demographic characteristics, statistically significant differences were not found in the use of operating budget for control (item 1), the variance tolerance in beverage cost percentage, part (b) of item 4, the frequency of comparing actual against budgeted figures (item 5), and the extent to which budgetary control negatively affects service quality (item 7). In other words, regardless of club types, size (by revenues and by members), and profitability, clubs shared similar practices in these areas. Statistically significant differences, however, were found in the other aspects.

As seen in Table 6, the first difference was found in the operational levels where the operating budget is used for monitoring both in the types of club and in the size of clubs by revenues. For the

Table 6. Differences in Budgetary Control Practices, by Demographic.

Variable	df	n	χ^2	p
Operational levels operating budget is used for monitoring				
Type of club	12	282	25.215	.014*
Size of revenues	12	282	29.921	.003**
Size of members	15	282	18.700	.228
Profitability	9	277	8.882	.448
Measures by which actual numbers are compared against				
Type of club	96	281	72.815	.963
Size of revenues	96	281	109.534	.163
Size of members	120	281	147.112	.047*
Profitability	72	276	84.245	.153
Variance tolerance levels in food cost percentage				
Type of club	24	269	38.767	.029*
Size of revenues	24	269	15.907	.891
Size of members	30	269	25.125	.719
Profitability	18	264	19.114	.383
Variance tolerance levels in labor cost percentage				
Type of club	24	269	47.004	.003**
Size of revenues	24	269	24.718	.421
Size of members	30	269	64.638	.000*
Profitability	18	264	21.408	.259
Variance tolerance levels in other operating cost percentage				
Type of club	24	269	49.189	.002**
Size of revenues	24	269	19.274	.737
Size of members	30	269	52.346	.007**
Profitability	18	264	30.584	.032*
Linking of managerial compensation to budgetary controls				
Type of club	100	285	67.800	.994
Size of revenues	100	285	126.051	.040*
Size of members	125	285	154.730	.037*
Profitability	75	280	86.950	.163

* $p < .05$. ** $p < .01$.

type of clubs, a significant interaction was found, $\chi^2(12) = 25.22$, $p < .05$, where city and yacht clubs used the budget to monitor all of the clubs' operations while the other types may use the budget only in profit centers, and profit and service centers. For the size of clubs, a significant interaction was found, $\chi^2(12) = 29.92$, $p < .01$, where clubs of less than \$2 million in revenues used the budget in all of the clubs' operations while other clubs used the budget to monitor all, only profit centers, or profit and service centers.

The second difference was found in the measures by which actual numbers are compared against when clubs are grouped by size as measured by the number of members, $\chi^2(96) = 147.11$, $p < .05$. While all clubs selected original budget and same period last year as their top comparisons, the bigger clubs also favored comparing the actual numbers to the average of the same period for the last few years and also industry averages.

The next statistically significant difference was found in the variance tolerance in food by the type

of clubs, $\chi^2(24) = 38.77$, $p < .05$, where country/golf clubs and city clubs started taking corrective actions at the lower variance levels. For the labor cost variance tolerance, significant interactions were found with the type of clubs, $\chi^2(24) = 47.00$, $p < .01$, again with country/golf and city clubs taking corrective actions at lower levels of variances. In terms of the size of clubs by membership, $\chi^2(30) = 64.64$, $p < .01$, the bigger clubs of more than 2,000 members took corrective actions when the variance was less than 1%, whereas the majority of the smaller clubs started taking corrective action at the 2–2.9% variance tolerance range.

In terms of other operating cost variance tolerance, it was found that when grouped—by types of clubs, $\chi^2(24) = 49.19$, $p < .01$; by size of membership, $\chi^2(30) = 52.35$, $p < .01$; and by profitability, $\chi^2(18) = 30.58$, $p < .05$ —statistically significance differences existed. For type of clubs, athletic clubs exhibited an interesting pattern, either taking corrective action early at less than 2% or waiting until 4.4–9% (48%) or more than 5.9% (48%). None of the city clubs took action till the variance reached the 3–3.9% range; and country and golf clubs had responded mostly in the 2.2–9% and 3–3.9% range. In terms of size by membership, in general, the smaller clubs started corrective actions at the 2–2.9% range while the bigger clubs took action earlier. Last, in profitability, for clubs that sustained a loss of more than 5%, 28% of these clubs did not take corrective action until the variance reached the 5–5.9% range and another 13% did not take corrective action until the variance was more than 5.9%. For those who were also in the loss column but were in the 0% to –5%, 18% did not take corrective action until the variance reached more than 5.9%. This was very different for the 0.1% to 5% profit group as only 5% of that group took action at a variance level of more than 5.9%.

Last, we found differences in size of clubs, both by revenues, $\chi^2(100) = 126.05$, $p < .05$, and size by membership, $\chi^2(125) = 154.73$, $p < .05$, when it came to linking managerial compensation to budgetary controls. In terms of size by revenues, the smaller clubs, similar to the bigger ones, linked budgetary controls to the general managers similarly at the 30% range. However, 37% of clubs with less than \$2 million in revenues did not tie

budgetary control to any management compensation at all and this was only at 8% for clubs with revenues of \$5,000,001 to \$10,000,000 and 7% for clubs with revenues of more than \$10 million. For size by membership, a similar phenomenon was observed with clubs of all sizes reporting linking management compensation to budgetary control for the general manager but 16% and 14% of the smaller clubs did not tie any management to the budgetary control as opposed to 5% and 6% for clubs with 1,001–2,000 and more than 2,000 member clubs.

Discussion

Being the first study to document a four-decade longitudinal analysis of budgetary practices in club operations and also the first to investigate and report subgroup analyses, this study offers a number of notable theoretical implications and useful managerial implications.

Theoretical contributions

As mentioned, this is the first study to present the changes in club budgetary practices of 1985 to 2016, a span of more than 30 years, representing four decades. Since 1985, the club industry has seen a number of changes with the increase number of Common Interest Realty Association clubs and also the decline in corporate sponsored club membership. As the business model changes, the parameters by which management operates also change.

The results, therefore, fill a gap in the literature by providing needed information in four areas. First, the results showed that although the club industry is mostly nonprofit in nature, yet having a budget, using a participatory style of setting budgetary guidelines, and applying that budget to all departments and levels were sound practices over time and should be continued.

Second, it was also determined that clubs had been attentive and watchful of their variances in food, beverage, and labor in the last three decades with each decade being tighter than the previous. However, it appeared that the tolerance levels of all three costs were increased slightly in the present

study. This study also introduced a fourth cost category of other expense as a new comparison point.

Third, Oak and Schmidgall (2009) carried out subgroup analyses but were not able to determine any statistically significant differences between the three studies (Schmidgall, 1986, 1998; and Oak & Schmidgall, 2009) because of a lack of data. Ten years later, this study was able to determine such differences as described in the Results section.

Fourth, contrary to the belief that cost cutting leads to bad service, being budget conscious and monitoring a budget closely is not exactly the same as blind cost cutting. Budgetary control involves setting a proper and effective budget to begin with and then being accountable by monitoring the performance results to the budget. The responses that stated budgetary controls did not negatively affect service quality were most reassuring. Thus, this study advances the body of knowledge in club budgeting practices.

Managerial contributions

This study also offers a number of practical managerial contributions. First, with the information of who were involved in the budgeting process, how often was a budget compared with the actual figures, and other information presented in the results of this study, club executives now have guidelines over four decades for them to set their own goals and objectives accordingly. As the club industry is mostly private, member equity, and nonprofit in nature, the goals and objectives of clubs do vary slightly. However, this does not mean clubs can just spend any resources they wish in whatever way they please. This study confirms that certain budgetary preparation and control measures were quite identical across types of clubs, sizes, and profitability levels. With a budget, the accountability of management to the members increases. This fosters better member–management relationship, which is crucial for any operations, but especially for clubs.

Besides accountability, following a sound budgeting process with tight yet reasonable variance tolerance, the profitability of a club can also be improved. The budget is the blueprint. With a proper blueprint, the process of building a sound operation is much easier. The economy has not been

favorable to the club industry. Each decade brings its own set of challenges with the housing debacle in the 2000s and now, the low interest rate and historically low oil and gas prices (DeFranco & Schmidgall, 2009). Although this lower price is good for the general public at the pump, it affects not only businesses but also the income stream for government in taxes. Therefore, having a budget, holding management responsible to a committed budget, with management compensation linked to the budget would help ensure the profitability of the club.

The club industry strives to provide excellent and quality service to its members; thus, improving service quality and membership satisfaction are of utmost priority. Any means to ensure quality service should be explored by management. It was clear from the results of this study that budgetary control did not equate to poor service quality. On the contrary, some respondents stated that budgetary controls were good for the club. It is the responsibility of management, the board, and everyone involved to view budgetary control in a positive manner, to realize that it is a tool for the club to operate more effectively and efficiently, with member service as the ultimate goal.

Limitations and future research

As with any research, this study has some limitations. Although there were more than 400 total respondents, the response rate of 17% is still low. In addition, this is a study solely on the clubs in the United States; therefore, it is not generalizable to other segments of the hospitality industry nor outside the United States. Although the operating cost is added in this study, perhaps “operating” can be separated more in the major cost items such as depreciation, rent, and some other costs. An additional question of reserves in capital expenditure will also be worthwhile given that clubs spend significant resources in updating golf courses and clubhouses and undertaking other major renovations.

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