
Financial Management for Hospitality Decision Makers

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Preface

Welcome to *Financial Management for Hospitality Decision Makers*. The current era of growth and dynamic change in hospitality signifies that it is an exciting time to be involved with the industry. Like many other industries, the hospitality sector is experiencing heightened levels of competition and a growing need to apply appropriate management techniques to ensure commercial success. These factors increasingly signify that a hotel manager needs a working knowledge of pertinent financial management tools, techniques and procedures.

From my experience as an instructor of financial management and accounting generally, and hospitality financial management and accounting in particular, I have found students tend to approach their first class with a degree of trepidation and an expectation that the subject will be dry and difficult to master. Through this book, I endeavour to make the subject material accessible and to demonstrate the relevance of financial management to decision making and control in today's increasingly dynamic business environment. Recognition of financial management's value to the modern manager is a critical factor that can facilitate a student's understanding of the subject. Once relevance is appreciated, the student starts to explore the range of ways in which financial management can serve the hospitality manager.

The book has been designed to encourage confidence in financial management so that current and future managers can demand excellence from their financial management information system. Too frequently, managers are 'turned-off' by accounting language and the presentation of reports produced by the accounts department. It is an unfortunate reality that financial reports frequently appear to be designed by accountants for accountants. This problem is partially attributable to the fact that most qualified accountants have gained their qualification through demonstrating their mastery of the rules of external reporting (i.e. financial accounting, which is the branch of accounting concerned with the preparation of annual accounts for external parties such as shareholders). When providing financial management information to managers within the hotel, however, reports should be designed with the decision-making needs of the managers in mind.

The book has been written with two specific audiences in mind. First, it can serve as a valuable self-help tool for the practising hospitality manager interested in improving their appreciation of financial management techniques and procedures.

Second, it has been designed to serve as a text that can be used in a financial management or accounting course in a hospitality-related course of study. The book is compatible with stage two of the Butterworth-Heinemann hospitality, leisure and tourism series of texts, and is therefore consistent with level two of an undergraduate degree. While the depth of the material covered signifies it would serve well as a stage two text, it could also be used in a first year of study as no prior study of accounting or financial management is presumed.

In my view, not only can a well-designed book meet the needs of both the practitioner and student audiences, a well-balanced book is likely to result from addressing the needs of both audiences. Addressing the practising manager audience ensures that the book imparts information that is relevant to today's hospitality manager in a direct and readily accessible style. The reader will be able to quickly see the wood from the trees and gain an early appreciation of how concepts introduced can be applied in practice. Addressing a student audience ensures that the material covered provides a broad foundation. A set of problems addressing the main issues raised appears at the end of each chapter. Inclusion of these problems was motivated primarily by a desire to provide students with an opportunity to practise applying issues raised in the chapters and also to gain exposure to the type of problems that can be encountered in examination situations. A review of these problems will also prove extremely beneficial to the practising manager, however, as deeper understanding of the material introduced in the text will result from exposure to a range of real-world decision-making scenarios. Solutions to the first three problems in each chapter appear at the back of the text. This is a self-help feature designed to further facilitate learning and enable students to appraise their understanding of concepts covered by the book. Additional solutions to problems are available to lecturers on a password protected site which can be accessed at: <http://www.bh.com/manuals/075065659X>.

A distinctive aspect of the book is its international orientation. The hospitality industry is becoming increasingly international with large multinational chains dominating the 5- and 4-star market segments. This factor, together with the drawing together of countries to form economic alliances such as the European Economic Union, signifies that the career path of hotel managers increasingly involves some international work experience. Further, the clientele base of hotels is becoming more international as a result of increased international business and tourist travel. In combination, these factors highlight the need for a book that views hospitality financial management in a globalized context. International differences in key accounting terms used in different countries as well as the format of key financial statements such as the profit and loss statement ('income statement' in the USA and Canada) will be noted. In addition, scenarios introduced and problems posed will draw on a range of international settings. This will develop the reader's familiarity with addressing financial problems in the context of a range of countries and currencies.

A second distinctive aspect of the book is its hospitality decision makers' orientation. This theme will be apparent from the problem-solving approach used throughout the text. In each chapter this approach is supplemented by the inclusion of a case that takes a particular hospitality manager's perspective on an issue raised. Each of these cases is headed 'Financial Decision Making in Action'.

The book is structured according to three main parts: an introduction (Chapter 1), hospitality financial accounting (Chapters 2–4), and financial information and

hospitality management (Chapters 5–12). Each part can be approached independently of the other parts, i.e. if the reader is exclusively interested in financial management, they can commence their reading at Chapter 5.

In Chapter 1, in the course of providing an overview of the nature of financial management, the contents of the book are introduced. Chapters 2, 3 and 4 build on one another to provide a basic understanding of financial accounting. While financial accounting does not represent the primary orientation of the book, a basic understanding of the workings of the financial accounting system can be highly beneficial to the hospitality manager, due to the importance of financial statements such as the balance sheet and profit and loss statement. It is difficult to overstate the importance of these statements as they represent a key resource used by outsiders to gauge an organization's performance. The need for management to understand the mechanisms by which they are judged externally is clearly important.

The theme of Chapter 5, analysing financial performance, moves us more towards financial management. In this chapter a detailed review of how management can monitor financial dimensions of a hotel's performance is undertaken. Chapters 6–12 consider hospitality management decision making from the following perspectives:

- Classifying costs in order to facilitate decision making
- Cost–volume–profit analysis
- Budgeting and responsibility accounting
- Flexible budgeting and variance analysis
- Cost information and pricing
- Working capital management
- Investment decision making.

Again, an accessible and problem-orientated approach has been taken in presenting this subject matter.

The book has been designed to facilitate a flexible teaching and learning approach. While the sequencing of the chapters results from my view of the most appropriate order in which to present the material covered, many of the chapters can be read out of sequence. The only chapters that build on one another to such a degree that they should be read consecutively are Chapters 2, 3 and 4 and Chapters 8 and 9.

I hope you find this book to be a stimulating read and that your career benefits from your enhanced ability to recognize how financial management techniques and procedures can be applied in hospitality management.

Chris Guilding