Do hotel managers have sufficient financial skills to help them manage their areas?

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Abstract

Purpose – The purpose of this article is to investigate whether managers in hotels have sufficient financial skills to help them effectively manage their areas, within the context of a changing industry.

Design/methodology/approach – Additional findings from a series of recent research projects amongst hospitality financial controllers have been utilised to give an alternative viewpoint to those found from literature.

Findings – A review of literature identified a strong need for managers to have financial skills, but there is little recent evidence as to whether they actually hold these skills. Hotels are changing fast with pressure to maintain profits resulting in new approaches to management, but there is concern that the development of systems has meant an over-reliance on these to control costs. Financial controllers consider that departmental and general managers do not have enough business skills – and finance skills in particular – to optimise costs and revenues and hence maintain profits.

Research limitations/implications – The findings were based on a fairly small sample of respondents, utilising projects designed for alternative purposes. However, the findings raise questions as to the trust that hotel companies have placed in their systems and approaches.

Practical implications – If the concerns expressed by controllers are not addressed by hotels, then inevitably standards of control will suffer, costs will rise and hence profitability will be negatively affected

Originality/value – There has been little recent consideration of the realities and the impact of systems changes on management, the majority of earlier projects considering the need for skills rather than the actual possession of these amongst managers.

Keywords Financial management, Hotels, Competences, Hospitality management

Paper type Research paper

Introduction

There have been many changes affecting the hotel industry in recent years, partly originating from developments in technology and pressure to achieve optimum returns on investment. For many hotels, accounting processes are now largely automated and the emphasis has moved to a more audit based approach. Responsibility for control has moved away from the accounting area towards that of departmental managers within the unit, but there is concern that they have insufficient financial skills to manage this.

Future predictions indicate that hotel profitability will become even more of a challenge, with a consequent impact on hotel management. This article aims to establish whether managers have the financial skills to manage their areas of business effectively. It presents an overview of current and future trends affecting the hotel unit, from a financial management perspective, and then considers the opinions of financial controllers as to the impact of these on their areas, and whether there is a lack of

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financial skills amongst managers which may directly impact on the success and profitability of the hotel.

There is limited evidence as to the impact of recent trends on unit managers, and whether they possess the skills required to better manage their businesses for the future. To review all skill needs would be beyond the remit of a single paper, and hence this article concentrates on the financial and related business skills that managers require. It also briefly considers the role that the financial manager has as a support service to unit management. Considerable existing work in this area has already been performed by Burgess (see, for instance, 1995 and 2001, with Bryant) and it is not intended to repeat this here, other than reporting some of the findings from her recent research projects.

First, a review will be made of the general trends that affect hotels, utilising a range of existing sources. This will then be supplemented by some limited findings from two earlier research projects but also preliminary results from a recent survey amongst hospitality financial controllers. Some conclusions will then be drawn as to the impact that these trends may have on the financial management of the hotel. The term "unit" is used for an individual hotel, and "department" for a section within it.

General economic trends that affect hotels

The UK economy is "very strong" (Euromonitor, 2005a) and the hotel industry is booming (Tri, 2005), for both leisure (Holjevac, 2003) and business (Barnard, 2005) travel and hence demand for hotel rooms remains strong over Europe (Waite and Kett, 2004) with both London (as a destination city, particularly leading up to its role as host city for the Olympics in 2012), and regional (for local events and business) hotels expected to show rises in occupancy and average room rate.

The strong demand has resulted in improved performance with market performance up by 10 per cent since 2000 (Euromonitor, 2005b) and continuing throughout 2005 (Deloitte, 2005). Chain hotels continue to dominate the market, producing 80 per cent of all sales in 2004, largely as a result of the growth in the budget hotel market (Barnard, 2005), although profitability growth is less strong (Tri, 2006). The independent sector has also grown with sales up by 120 per cent since 2000 (Barnard, 2006).

The provision of types of accommodation has "polarised" (Euromonitor, 2005a) into two – luxury and budget, with hotel groups rationalising their property assets, particularly in the budget sector (Economist, 2005; Barnard, 2005). They also comment that, although the international hotel groups are dominant in terms of ownership, there is still a strong market for independent, individual hotels. Companies can earn more money by managing ("management contracts") rather than owning hotels (Economist, 2005) and investment in hotels is at "record levels" (PKF, 2005), with the budget sector again showing "dynamic growth".

Owners, however, still want stable, safe properties in which to invest (Barnard, 2005) and hence, he suggests, the most popular brands are likely to continue to grow, being perceived as offering the most reliable return. This is likely to result in consolidation of brands, with consequent continued growth of global operators (Allison, 2004; Matovic and McCleary, 2003). Olsen *et al.* (2005) have discussed the "intense competition" amongst the major brands and shown that the pressure for growth, and hence profits, has aided the development of the key brands in a complex market.

Increased demand and supply means that organisations need to ensure that they remain competitive (Tamkin, 2005; Litteljohn and Watson, 2004) in order to maintain their place in the market. Accurate pricing is important (Guilding *et al.*, 2005; Clott, 2004) with distribution a key driver (with consequent issues regarding pricing and control, especially when rates are low (KPMG, 2005)) in a global marketplace (Litteljohn and Watson, 2004). Furthermore, with consumers able to access prices through their own research via the internet (Matovic and McCleary, 2003), these are much more open to acceptance or decline of the offer (Barnard, 2005), and hence hotels need to maintain close management and control of this area.

Other financial trends affecting hotels

There are three key features affecting current accounting practice – the impact of corporate governance legislation, the need to maintain profitability and the effect of technology.

Accounting, and the profession, are "under public and regulatory scrutiny" (Palmer *et al.*, 2004) as a result of the new standards in corporate governance (Marshall and Heffes, 2005). Hence businesses need to be increasingly vigilant about their financial standards with new standards required to regain trust and ensure compliance (Vamosi, 2005). Audit, says Spira (2001), has moved from being a "compliance tool" to being a "risk management tool".

The hotel industry competes in a global capital market (Olsen *et al.*, 2004) and the demands of shareholders (Altinay and Altinay, 2003) mean that owners are looking for secure investments that make a good return. However, there are also conflicts between owners and operators as to the need for optimising profitability, with owners tending to look at short-term rather than long terms returns (Olsen *et al.*, 2004). In the future, there is a perceived need for much better management of revenue and expenses (Singh and Schmidgall, 2004) and organisations are looking at a range of measures to reduce costs, including changes in systems.

A combination of a need for effective cost control (PricewaterhouseCoopers, 2002), developments in technology (ICAEW, 2005) and a perceived need to concentrate on "core" competencies (Lankford and Parsa, 1999) have resulted in trends towards outsourcing non-core services in many aspects of business, including accounting, if the organisation is to remain competitive (Holjevac, 2003). The risks of this have been discussed by many, with Beasley *et al.* (2004), for instance, warning of the need for effective risk management and on-site control to maintain core operations and Sanford (2003) also arguing that there is a high potential for risk. He warns that organisations need to update their policies and procedures for a new business environment. Outsourcing can be used to enhance business (Phillips and Kirby, 2002) with an improved quality of information and improved strategic analysis (Graham, 2003), in addition to the costs savings that can be demonstrated.

In hotels, outsourcing has been used for many years for some operational tasks such as cleaning, but only recently (Cline and Warner, 2001; Lamminmaki, 2006), has been considered for accounting, following the example of other industries. Benefits such as cost savings are generally quoted here, with hotels seeking to continually improve quality of systems and processes so as to enhance efficiency and profitability (DeFranco *et al.*, 2004; Burgess, 2004) although many hotel personnel have been cautious about these benefits, supporting generic findings from, for instance, Matejka and

De Waegenaere (2000). Hotels have complex operating structures requiring many inter-connecting types of system (Goss-Turner, 2000) and outsourcing one or more aspects may negatively impact on another area (Lamminmaki, 2006). Service issues mean that there needs to be a holistic approach to management, with efficiencies in the whole operation essential, says Cranage (2004) in maintaining optimum delivery to customers.

The impact on the financial aspects of management

As a result of outsourcing and other developments, there is a need for major changes in approach (Smith and Morris, 2005) to the organisation of management in general and the financial aspects (and hence control) in particular. Scapens and Jayazeri (2003) have discussed the constant evolution of management accounting and show that line managers are now required to have greater financial knowledge and information and be much more accountable for their actions. Edwards *et al.* (2005) show that improved information, when used effectively, can enhance the performance of managers and their organisation (Pierce and O'Dea, 2003). Managers can be more effective in their management of the operation and hence in customer relationships (DeSouza and Awazu, 2004) but, they say, this requires accurate knowledge in order to constantly control the operations and they need to have better financial skills in order to effectively utilise this information.

The provision of this information is within the remit of the accountant or controller and their role is evolving (Davis and Albright, 2000) from a traditional recording function (looking backwards) to being more supportive and analytical and looking forward, including tasks such as creating reports, explaining trends and variances and forecasting future performance (see also Scapens and Jayazeri, 2003). With the developments in systems the processing aspects of the job are reduced and the generic business management aspects increased (Palmer *et al.*, 2004; Phillips and Kirby, 2002). Accountants need more commercial awareness and to become more like business advisors (Tamkin, 2005; Burns and Baldvinsdottir, 2005; ICAEW, 2005), with much more emphasis on a team approach (Scapens and Jayazeri, 2003).

In hotels also the accounting function is changing, with a need for the controller (as they tend to be called in hotels (Burgess, 1995)) to become more of a "partner" in the business (Graham, 2003). Commercial management skills are increasingly important (Gibson, 2004), in order to increase efficiency and profitability. The optimum approach for chain hotels appears to be (Burgess, 2004) the centralisation of accounting processes to head office – hence retaining company control – but with interpretation and decision making retained in the units. However, other researchers have found that a combination of poor technology and a lack of control systems and processes within hotels (DeFranco *et al.*, 2004) results in reduced effectiveness. Sanford (2003) also expresses concern that there is a tendency to change the approach to control in the unit with a lack of daily audit and in order to save costs. He sees the system as the control, with consequent potential for losses when the efficiency of these is suspect. Independently owned hotels (Burgess, 2004) have also experienced some outsourcing of accounting processes although it is still essential to maintain control of all aspects of revenues and costs within the unit, in order to ensure that losses are minimised and profitability optimised, and so (Burgess, 2004) there is a continuing role for financial management within the hotel.

Two of the five "key drivers" of company performance are (Jones, 2000) quality of management and the ability of management to reach targets. In hotels better management practices will improve operating efficiencies in both the control of costs and the optimising of revenues (Singh and Schmidgall, 2004). Standards must be maintained and improved in a complex and competitive operating environment (Jeffrey *et al.*, 2002) with monitoring trends crucial to the accurate forecasting of revenues and costs. "Tight" control is essential, says Jones (2002) in all cost areas.

At a more strategic level, Phillips (2000) has found deficiencies in the planning processes and argues that hotels need to plan more effectively, again requiring that managers have better financial training, supporting findings by Matovic and McCleary (2003), who suggest the need to better plan sales and costs strategically in a volatile and uncertain market-place (Bowen and Ford, 2004). DeFranco *et al.* (2004) also argue the need for improved forecasting, better budgeting, better control at strategic, operational and managerial levels (and see also Mayo and Thomas-Haysbert (2005), amongst many) and so there are continuing pressures to develop and maintain management control systems for the hotel unit.

The importance of financial skills

Hotel financial experience is "mandatory" for managers (Gibson, 2004) with "commercial management" skills increasingly important in the modern hotel, along with other generic management skills (Litteljohn and Watson, 2004). These improved financial skills can also enhance commitment to the organisation (Subramaniam *et al.*, 2002) with consequent benefit to both. Chung-Herrera *et al.* (2003) suggest that there is a lack of competency models for hotel managers, but here in the UK in 1998 the HCIMA (Hotel and Catering International Management Association) produced a range of key competencies in their major research project (HCIMA, 1998). This shows competencies at three levels of management, and includes financial skills such as cost control, budgeting and accounting, control processes and mechanisms, financial management including analysis, resource utilization, risk assessment, having earlier (HCIMA, 1995) stressed the need for skills in managing business performance. A later hotel-based project (Adams, 1998) also identified the need for managers to hold financial competencies in order to better manage the business as a whole.

Other authors to emphasise the importance of financial skills for hotel managers include Doherty (2002), Kay and Moncarz (2004), Harper *et al.* (2005), Raybould and Wilkins (2005), all of whom have researched different aspects of the need for qualifications. However, as early as 1992 the HCTC expressed concern as to whether these skills were actually being gained, with 39 per cent of their respondents citing shortcomings in finance and administration. This is despite evidence (Kay and Moncarz, 2004; Harper *et al.*, 2005) that managers with good financial skills are more likely to achieve success (and see also Graham and Harris, 1999). Hence, although the need seems to be proven, there is doubt as to the extent and effectiveness of these skills.

In conclusion, there are a range of issues affecting hotels. The role of financial management within the unit has been shown to be changing rapidly, with the impact of technology and the constant drive for profits being key factors. Current prospects for the industry are good, but changes in approach to systems management mean that the focus on financial management within the unit has declined. This has impacted on the control functions, with managers expressing concern at the reliance on systems and the potential for losses. At the same time, increasing pressure on profitability means it is essential to maintain tight controls, and hence there is an increasing role for managers in general to take responsibility for various financial aspects in their units or departments. They need to be able to utilise the improved information available to accurately forecast and plan their revenues and costs, so as to take appropriate action to maximise customer satisfaction and profitability. However, do they have these skills? Evidence from a variety of sources suggests that the need for financial skills is accepted, but does this actually happen? What is the opinion of financial controllers as to the ability of managers to take responsibility for control within the unit?

Methodology

In order to answer these questions, some of the findings from three research projects have been utilised. The two earlier projects were performed in 1993 and focused on the role and responsibilities of the financial manager, some of the results of which have been discussed above. However, additional data has been gathered from these that consider the relationship between the financial manager and the rest of the management team, and the attitudes of controllers as to the financial skills required. First, a survey was performed to review attitudes towards outsourcing and centralisation of accounting functions in hotels, followed by a focus group discussion amongst a series of controllers, the methodology of both having been discussed in Burgess (2004, 2007).

Most recently, a further survey has been developed and distributed; results of which are not yet published but some preliminary findings are presented below. This project utilised a survey initially designed in 1990 and then repeated every five years, with some minor updating to reflect current trends. The detailed methodology for the design has been discussed earlier (see Burgess, 1995) but, in summary, is a mailed questionnaire of which the majority of questions are of the "tick-box" variety (quantitative) and three at the end are qualitative, asking respondents for their opinions as to the changes they have experienced. The use of quantitative surveys allows the gathering of a broad range of data from many respondents (Saunders *et al.*, 2003), although typically response rates are low. However, repetition of a survey can allow the analysis of trends over many years, and so longitudinal comparisons can be made (Saunders *et al.*, 2003). As in earlier versions of the survey, the membership database of BAHA (British Association of Hospitality Accountants) has been utilised and, although the number of potential respondents has declined, the profile is still similar.

This latest edition of the survey also utilised the BAHA Council to aid in the updating and piloting of the questions. It was distributed via email to BAHA's membership database to approximately 502 current members in December 2005, and reminders sent by email and surface mail via the monthly newsletter. A total of 37 responses were received for this latest survey, a response rate of 7.4 per cent which was disappointing but typical for this type of survey (Saunders *et al.*, 2003). Of the respondents, 23 worked for a chain of hotels, ten were "independent" and the remaining four did not answer this question.

For this article only very limited quantitative results were used, together with the findings from the qualitative questions. A full analysis will be performed in due course and results published in further articles. The discussion below combines findings from the three projects, although the quotations given by respondents are almost all from the most recent survey.

Findings from the projects

The major change in recent years is that financial management in chain hotels is moving away from "self-accounting" (preparing all their own accounts, including tax calculations) to a more group-centred approach. One of the major contributors to this has been the impact of branding, say controllers, which requires systems and procedures that maintain brand standards from an operational as well as a marketing perspective. This has extended into the accounting area, facilitated by improvements in technology that allow many processes to be moved off-site to a central or external office. The accounts function has divided – processing being largely automated (and often now off-site) whilst analysis of performance still remains in the unit. The implementation of recent legislation and standard reporting requirements has also resulted in more head office accounting to ensure that the most stringent principles are applied.

Standardised systems are intended to reduce costs and allow uniform reporting that benefits managers at all levels and supports decision making at unit level, but there was a perceived tendency by senior management to "trust" the systems and rely on these to produce correct results, whereas controllers felt that the opportunities for errors and wastage were still huge. There was very strong support for maintenance of an on-site control function in chain hotels to optimise costs and revenues, due to the complexity of the hotel business, with one respondent suggesting that "it is not possible to divorce the financial function from the running of the business". This means that they need to be on-site and there was much criticism for the hotel companies who, driven largely by corporate processes, had removed experienced controllers from the unit. This was felt to be counter-productive as the savings made were offset by losses incurred due to inadequate controls.

For chain-operated hotels there also appeared to be an inevitable "demise" of the on-site financial controller, with several respondents commenting on the downgrading of the position. In many hotels a "clustered" approach has been adopted, with a controller responsible for several hotels in a region and a (more junior) assistant controller based in each unit, who is usually less skilled in the finance aspects of the business than the cluster-based controller but, in theory, are "more involved in all aspects of the operation". They act as a "business advisor" and often "walk the business" in assisting in cost control and revenue generation – and hence are "more managerial than financial".

In some hotels, there is even less of a control function, with a reliance on the "systems as control" with a risk management approach, but comments indicate that internal control procedures are not always followed at unit level, particularly if these are no longer the responsibility of an on-site financial controller. This trend is likely to continue, with even more outsourcing and centralisation of processes, and even more potential for loss, say controllers, if adequate internal management controls are not utilised – which requires skills and awareness of unit management. Hence, unit management should be "analysis and internal control oriented" – in other words, they need to have the skills and awareness, as well as systems, to minimise the opportunities for losses within their own areas.

Within independent hotels, controllers expect that there will also be more outsourcing of some accounts processes, with the emphasis in the unit moving away from "the figures" towards management control and the analysis of the results that are produced. Here, an on-site financial controller is needed to give accounting knowledge to aid in business decisions, as well as advising on changing legislation and accounting standards and "contributing strategically to the business". They can take an active role in raising financial awareness, developing managers" financial skills, helping them analyse and interpret their results and then planning and making decisions for the future. However, some did express concern at the reduction of their traditional role as more and more of the accounting function can be performed externally via outsourcing.

For the future, controllers in all types of hotels agreed that the emphasis on operating profits continues to grow, and that systems should support the effective management of both costs and revenues, if profit is to be optimised. The strategy has been to cut costs to deliver profits – focussing on costs rather than revenue maximisation – but there is an expectation that managers need to not only analyse and interpret results but also accurately predict future trends in an uncertain global economic and political climate. Increased professionalism and experience of managers should enable them to anticipate alterations in business levels, react to adversity and implement changes to optimise efficiency and profitability. A much more commercial approach to running the business is required, at unit level, with a controller ideally more of a business advisor and providing much more "hands-on" support to the management team.

However, there were real concerns regarding the lack of quality of financial skills at unit level, with one comment that the "financial function has over-compensated for weaknesses in other areas". It was felt that heads of department often lack control skills – they are good at customer care but need the financial skills as well if they are to be effective overall at their jobs – and this can negatively impact on profits. Managers need support in making decisions, with controllers seeing their relationship as a "commercial partnership" but they often lack the relevant financial skills to make continuous improvements. Hence, there is a perceived need for the development of financial skills, particularly in analysis and forecasting, to enable managers to be more involved in running their own departments. There is a "need for more qualified people in all areas" as many managers "lack the skills" and need to be trained and developed to optimise profitability. These opinions were widespread and expressed by a range of respondents from different types of hotels.

Discussion

Evidence from a variety of sources shows that the hotel industry has been through many changes in recent years, and that economic pressures are likely to see further developments in the future, despite the rising demand for hotel accommodation. Branding has emerged as the key feature of the modern hotel industry, moving from being not just a marketing concept but a whole-property approach which means that many aspects of the operation have been standardised, facilitated by developments in technology, and hence have reduced the perceived need for local, unit-based management control, in its broadest context.

This approach has also been used for the accounting area, with standardised systems being used in many units, often (within a chain) managed centrally in order to ensure compliance with standard reporting requirements and to be more cost-effective, producing better management information, and so assisting in the drive towards improved profitability. The emphasis has moved away from control and towards an audit or risk management based approach, although many controllers are sceptical as to the long-term benefits as the cost-savings may well be outweighed by the losses, and are concerned as to the impact on financial management within the unit. Many chains have implemented a clustered or centralised approach, with a reliance on a combination of standard procedures and the awareness of departmental managers to ensure effective controls. Centralised hotels may well now not have an on-site controller, with the control function being managed regionally and operational managers being expected to look after this within their day-to-day management tasks.

Independently owned hotels can also benefit from a more standardised approach by outsourcing some accounting functions, with consequent benefits of expertise and cost-saving. They can then concentrate on the "core" functions of accommodation and food and beverage. There was some concern from controllers here as to the reduction of their role and hence expertise but this was balanced by others who found an increase in statutory duties as well as a broader scope for them within the units as an advisor to management.

The common theme throughout both the literature and the primary research was the need for managers in the hotel unit to be much more commercially minded in order to better manage the business and improve profitability but unit managers appears to often lack financial management skills. Although it has been argued for many years, and by many writers, that managers in any business need strong financial skills to enable them to be more commercial in their approach – with consequent benefit to the business – the evidence suggest that this is not happening in practice. There is still widespread concern from controllers as to the shortcomings of managers from a financial management perspective. They just do not have the developed skills to enable the business to be managed effectively, either for day-to-day control or for the longer-term tasks such as accurate forecasting and planning. Managers need the support of a controller in managing their departments.

As a result of this changing accounting function – and when combined with the other pressures facing managers – the need for close control of costs and revenues remains paramount in order to optimise profitability. This approach would be feasible if managers had sufficient financial skills to be aware of opportunities for losses and to accurately plan for the future, as many writers have suggested over recent years. However, it appears that concerns remain as to the amount and quality of financial skills that managers hold, with a consequent negative effect on the operation.

Conclusions and future research

This limited study has suggested that there is a gap between expectation and reality regarding the financial skills of unit – based hotel managers, with controllers expressing concern that losses are occurring due to a lack of effective, informed management. Controllers' jobs are changing rapidly with many chains centralising functions and minimising the amount of on-site control. They want to continue to act as advisors to the business, and see a continuing role for themselves as being even more of the management team, filling the gaps in financial expertise so as to offer an effective service to the business. However, many chains are giving responsibility for control to unit managers, who may not have sufficient skills and knowledge. Although controllers may be concerned about the threat to their own positions their opinions were widespread and not limited to any one type of hotel. The skills of managers in independent hotels were criticised as well as those in branded, standardised chains, despite the perception that the controller's role would continue here. The literature indicates that managers should have these financial skills but the primary research suggests that this is not always the case.

There is an implication that a centralised approach produces high standards in chain hotels so that the control function is somehow less necessary – and yet controllers feel otherwise. They see an increased reliance on the financial skills of departmental managers in order to fill the gaps, but these seem to show a shortfall in reality that can impact on efficiency and profitability. There is a need for further qualitative research in both these areas, to ascertain just how effective centralisation is and also to establish exactly whether managers have the skills that are identified as being required of them in this new environment. If the above findings are supported then the industry needs to take positive action to develop managers' skills, if the efficiencies are to be maintained and profitability optimised.

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