I Don't Need to Know Accounting, I am Going to be a Hotel Manager. Right?

By Toni Repetti

Introduction

So you have decided to go into hospitality because you love the industry and you like working with people. Great, we want you, but to be a good manager in the industry you need to understand the numbers and data that are significant for the company to be successful. Some students have said, they don't like (or aren't good in) math, so they get a hospitality degree over a business degree since it is less math. Well, hospitality is a business and all those business skills are very important to successfully operate a hospitality organization. Product and service are extremely important to success but so it profit. All three are necessary, not just some of them.

This case study delves into the managerial accounting skills you need to be a successful hotel manager and is based off discussions, meetings, shadowing, job descriptions, and competencies from a variety of different hotel operations. Twenty-four professionals from about a dozen different companies were evaluated, from varying sizes, class of hotels, geographic regions around the US, chains/individual hotels, amenity offerings, etc. Timeshare companies were also included as many, if not most, now include a retail segment where they sell unused rooms to the general market. Although company names will not be disclosed, most properties had a consensus on the skills necessary, so the case study is presented from an overall general consensus and not one specific property.

The case study takes on the form of a "Month in the Life of a Hotel Manager" instead of just a day since some skills are done daily but others are done weekly or monthly. The objective of this case is to show specific managerial accounting tasks that a typical hotel manager, front office manager, or director would be responsible for in the course of their job. Some of the skills discussed may not be managerial accounting specifically but go hand in hand with learning, understanding, and applying of these concepts, so it is important to include them. Upon completion you will have a portfolio of proof of managerial skills competencies to provide during job interviews or to use as a toolkit upon starting your management position.

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Literature Review

Much of the research on important industry knowledge is based on broad categories, such as financial management or employment laws, or is based on soft skills. Also, many of the studies conducted that further break down some hard skills look at entry-level positions or first level management positions. There appears to be a lack of financial management skills and the skills necessary at higher-level management positions.

Many consider Buergermesiter's (1983) study to be the seminal work on hospitality manager competencies. He studied 83 factors, many of which were soft skills, and only those required for entry-level managers. Only two skills, 'maintaining effective communication with personnel' and 'realize profit is an important goal' were listed in the 25 skills that had a mean score of 3.5 (out of 5) or higher. Skills that scored below 2.49 that would relate to managerial accounting were computer skills, marketing analysis, and labor studies. Li and Wang (2010) also studied the management skills viewed as important for first level hotel management positions by those currently working in Taiwanese hotels. They evaluated four skills constructs and found that hands-on operating skills were the most important, followed by self-adjustment abilities, linguistic abilities, and basic theoretical knowledge, in order of importance. Once again, many of these skills were soft-skills. For instance, the top ranked skill within hands-on operating skills was the ability to supervise and lead, followed closely by ability to execute instructions and plans from superiors. Within the self-adjustment abilities construct, the ability to communicate and coordinate was the top ranked skill. When evaluating the basic theoretical knowledge construct, the authors look at more hard and technical skills and the top ranked skill was 'financial management and cost control abilities'. No further analysis was done to achieve details on what specific financial management skills.

There have also been a few studies on management trainee skills. The skills in these studies were generally more hard skills and higher order skills. One of the first studies on hotel general manager trainees was conducted by Tas (1988). All 36 competencies evaluated were rated at least moderately important for general manager trainees. Twelve skills, one third of those studied, were centered around managerial accounting or tasks required to do managerial accounting effectively. The majority of theses skills ranked in the middle of the list and include competencies such as 'Analyzes factors that influence the controllability of profits', 'Uses past and current information to predict future hotel reservation', and 'Uses past and current information to predict future departmental revenues and expenses'. Baum (1990) duplicated Tas' (1988) study by evaluating management trainee competencies according to general managers of small and medium sized UK hotels and found similar results. Nelson and Dopson (2001) also evaluated the skills of hotel management trainees, expanding the list of competencies to 55, of which 19 would be considered managerial accounting related, and once again found similar results. The collective results of these studies indicate that at least one third of a hotel manager's job consists of managerial accounting skills. These past studies do not indicate time commitment in the job though.

Most studies evaluated trainees or entry-level positions since many believe the rest will be learned on the job as employees move up. Having the skills necessary early will allow for a more fast-paced career while putting graduates with these skills ahead of those without. Kay and Moncarz (2004) have one of the few studies conducted on skills needed for middle and upper management. Both ranked financial management second in perceived important out of the four categories (human resources management, financial management, marketing, and information technology) studied. The perceived importance of financial management was significantly different between the managers, with upper managers perceiving it as having higher importance. Financial management was the only category that was significantly positively correlated with increased compensation. The authors state that middle managers striving to move up should increase their competency in analytics skills and knowledge of financial management including understandings, evaluating, and managing earnings, cash flow, margins, ROI, ROA, etc.

The specific hard skill that probably has the most research is budgeting. Jones (1998) studied why budgets were employed in UK hotels and found that budgets were used to evaluate performance, aid control, motivate managers, aid long-term and short-term planning, communicate plans, and coordinate the operation. As this list shows many of the reasons for doing a budget pertain to managerial accounting skills. Jones (1998) found that 95% of respondents use last year's actual numbers when preparing their budgets, which is in line with U.S. hotels where 90.9% (Schmidgall, 1996) used these same numbers and in Scandinavian hotels where 88.7% employed this method (Schmidgall, 1996). These high percentages indicate that a trend analysis is the most common method used to prepare a budget. Jones also found that 52% of the U.K. hotels studied used zero-based budgeting either in place of or with prior year numbers. This compares to only 42% in the U.S. and 7% in Scandinavian hotels (Schmidgall, 1996). Schmidgall (1996) further evaluated how budgets are done and found that 65.6% of U.S. and 34.5% of Scandinavian hotels use a bottom up approach with an additional 17.2% and 25.5%, respectively, using a combination of top down and bottom up. The main reasons given for this was that department heads take stronger ownership when they are involved and the department heads are better about noticing the specifics of problems affecting their area. Even if a different approach is used, 68.0% of U.S. and 21.8% of Scandinavian hotels studied have department heads provide input during the budget process so it is important that operations managers understand the process and how to do the budget.

One of the most recent studies concerns 'big data', and more specifically revenue management, since it is one of the newest hotel management skills. 'Big data' and the analytics that go with it are used to predict consumer behavior and allow companies to be proactive in their marketing. Companies are better able to anticipate their customers' behavior instead of relying on past trends and being reactive (Ferguson & Smith, 2014). For hotels to be successful though, it requires managers, including the revenue manger, to not only understand the data but to interpret it (Ferguson & Smith, 2014).

There is a lack of previous research on the specific managerial accounting skills needed in hospitality and specifically hotels but universities are requiring these courses. Universities must see the need for these skills in general, but what specific skills within managerial accounting are most needed? This case study attempts to answer this question by evaluating industry professionals and the tasks they do on a regular basis in their job.

A Month in the Life of a Hotel Manager

Each morning starts out with reading the daily operating report (sometimes called a DOR, daily management report, DMR, revenue report, etc.). This report gives the property performance from the day before and month to date and compares it to last year and the budget/forecast. Depending on the size of the property this report may or may not have expenses on it. Each manager confirms their department performance and can see how other departments performed. Managers use this report to determine if adjustments are needed in not only revenue, but also expenses. Management uses this report to assist in scheduling and staffing decisions, such as having to call additional staff in, or let employees leave early. The analysis and interpretation is done the same as the P&L, i.e. departmental income statement, but allows for a quicker response and adjustment if necessary since it has performance from less than 24 hours ago. Analytics bright and early in the morning.

Around the 8th of the month, each department head prepares their P&L analysis for the previous month. While these reports may be provided to management by accounting, department heads need to understand how they are calculated and how to work with the Excel files. All companies studied use horizontal and vertical analysis, with none using base year. A horizontal analysis shows how accounts change over time, in dollars and percentage changes, and allows a manager to see patterns. A vertical analysis is a proportional income statement that allows management to understand what percentage of revenue each account represents. Management is responsible to report on their variances and reasons for the variances. Variance comparisons are for last year and budget. For companies that do not anticipate large changes year over year, they compare to last year, but for those that are in a growth stage or dealing with some external economic factor, like a recession, they compare to budget or forecast. The department head is responsible for comprehending and understanding the following:

- How are the variances calculated?
- What are the significant variances?
- What is the reason behind the variance?
- Do the managers anticipate these variances to continue or is it an anomaly?

Select a hospitality company you are interested in and conduct a vertical and horizontal analysis for the last two years. If you are currently working, ask your manager for a copy of the most recent income statement and conduct an analysis on that company. After completing the analysis, interpret the results by stating what significant changes occurred, why they happened, how operations in the future will be effected by these changes, and what management needs to be aware of and how to address any issue.

It is also crucial for managers to understand their general ledger reports, which shows the expenses for the month. They need to know what purchase orders they have sent through that have not been recorded yet and need to be accrued for so they don't hit the wrong month. Managers need to be able to evaluate this report for any errors so expenses that managers did not approve are not booked or should be in a different account. Some of the smaller companies, instead of using general ledger reports have their managers keep track, in Excel, all the invoices they send to accounting. Management uses this report to make sure invoices are approved, coded to the correct accounts, and spend is within budget. This report is then sent to accounting at the end of the month, so accounting can verify and confirm what they have and what needs to be accrued. Having a good understanding of financial accounting assists greatly in this area, no matter which process.

Weekly, management has a revenue management meeting with the General Manager, Front Office Manager, Revenue Manager, Director of Marketing, Sales Manager, etc. In this meeting the discussion starts with an update from the past week, which are generally based on the STAR report (or comparable competitor analysis such as a rate shop). The STAR report is provided by Smith Travel Research to subscribers and compares your company performance to main competitors and the local market, also called benchmarking. Top concerns from the STAR report for the company include:

- How did the company compare, for the week, to its main competitors and industry segments for occupancy percentage, average daily rate, and revenue per available room?
- How did the company compare, by day, to its main competitors and industry segments for occupancy percentage, average daily rate, and revenue per available room?
- How are customer segments performing (ex. transient, group, contract) in comparison?
- How is the month shaping up?
- Are there any adjustments that the company may need to make?

The General Manager only wants a 5-10 minute update, but the team has to compile all this information to give an update. After discussing the competitor analysis, an update is given on rooms on the books, pace, arrivals, departures, stay overs, walk rates, and 30, 60, and 90 day forecasts and any significant variances or deviations. This information leads to pricing decisions and how rates should be increased or decreased in the future (near and far). A very similar analysis is also conducted about the 18th based off the monthly STAR report for the previous month.

Based on the example STAR report given to you by your instructor analyze company performance based on the questions provided with the report. After analyzing the report give an update to the instructor, similar to what you would tell a general manager, concise and to the point, and suggest what the company should do moving forward.

Weekly, management also has a leadership/executive meeting. Each manager is responsible to provide any reports that pertain to their area. These reports should include the last week's performance along with forecasts for the next week. In addition, any significant items that the entire property should know about should be discussed. In scheduling a leadership meeting, upper management needs to consider:

- What departments/managers should be represented in this meeting?
- For each department, what information should management provide for the meeting?
- Why is this information for the entire team to know?
- How do the departments relate to each other and what information crosses departments?

The instructor will form groups of "executive teams" and you should conduct a meeting for your executive team. The intention is not that you analyze company performance as you would in industry, but instead discuss what information you need or want to effectively have a leadership meeting. Answer the above questions in your group. If you can predict what information may be needed for your meeting in industry you will always be prepared and ready when the general manager asks. This meeting is a lot of analysis and communication.

On a less regular basis, but done monthly on a short-term basis and annually for a longer term, each department is responsible for doing their operating forecast/budget. The operating forecast is a prediction of future revenue and expenses. The forecast is generally done monthly and takes anywhere from a couple hours to a couple days depending on the complexity of the forecast. The forecast is for the next one to three months at most. These are more detail oriented and include a forecast by day and not just for the month in total. Daily forecasts give managers better information to assist in scheduling employees. Operating budgets are done on an annual basis generally starting around four months before the next year starts and takes a significant amount of time and coordination with other managers. Using a bottom up approach, which entails managers starting with a net income goal and forecasting revenue and expenses needed to meet that goal, department heads are responsible for their own budget, including every line item from the P&L. While there is guidance from the CEO or accounting on some overall company goals, such as revenue growth or expense savings, department heads are responsible for their own budget.

The two most common methods of forecasting and budgeting are moving average and trend, with no properties using exponential smoothing or regression. A trend forecast consists of multiple horizontal analyses, while a moving average takes the average of the most recent time periods. Department heads need to consider questions such as the following when building their forecast/budget:

- Which method is most appropriate, moving average, trend, or something else?
- Does the same method need to be used for every line item?
- When forecasting/budgeting revenue how much should revenue management be considered?
- Which expenses are variable and which are fixed? How should these be forecasted?

Using the same company you conducted your P&L analysis on, forecast the company's income statement for next year. This requires you to pull a minimum of five years of data. Based on the five years of data conduct multiple forecasts as determined by the instructor and decide which forecasting method is most appropriate for your company. Examples of forecasting methods are moving averages with a different number of periods, trends based on either the dollar change or the percentage change, or vertical analysis trends.

Management is also responsible for a capital budget once a year. A capital budget consists of budgeting the long-term assets that a company needs to purchase in the next year. This is generally conducted right before or at the early stages of the annual operating budget. The reason for this is management's capital needs greatly affect their operations. Each department head puts together a wish list of the capital items they would like to purchase, including costs (with 3 bids if possible), life of the project, and justification. The justification generally includes the quantitative return, such as an increase in revenue or decrease in expense. In addition management is generally given a company standard required rate of return and often a capital budget form. Within this form the department head is able to compute the projected net present value, internal rate or return, and payback before submitting their list. After this analysis, managers need to determine if they still want to request the item. Upper management then evaluates all proposals and decide 1) the ones with the best return or 2) the projects that have a higher priority for the company as a whole. Capital budgets are generally considered finance and not managerial accounting, but are included here as a discussion because they greatly relate to the operations budget.

These concepts listed are not the only managerial accounting skills needed by hotel managers, but are the ones that were similar across the different types of hotel organizations. Larger properties with more revenue centers, such as resorts, involve more analysis of other revenue departments and more pricing discussion, not just pricing hotel rooms. In addition concepts such as breakeven and cost-volume-profit are also used but on a less regular basis. For instance, these concepts are extremely beneficial in the discussion of renovations, building new properties, changing amenities offered to guests, etc.

There were three things that came across from every manager, that while not directly managerial accounting greatly affect the managers ability to do the managerial accounting functions of their jobs. Most financial analysis and budgeting are done in Excel and even those companies that have budgeting or revenue management systems still dump their data into Excel to analyze. Dashboards, which give snapshots of data, generally previous day data, are used at some places, but when anything more than a snapshot is required the data is analyzed in Excel. In one executive meeting with about eight directors and above, a Food and Beverage Director said, "Well, we need pool attendants" when discussing the fact the students may not be required to learn Excel. A follow up discussion found this manager was more concerned with the basics of Excel such as formulas, formatting, and graphs, and not advanced features like pivot table, VLOOKUP, etc.

Communications skills (oral, written, and presentation) are highly valued by managers. It is also important to understand the audience when communicating and delivering the message appropriately to that audience. In addition, understanding the context of what is occurring at the property is important. The numbers have to be calculated, but understanding what those numbers mean is key. Along with what the numbers mean, is being able to decide if the data is reasonable and does it make sense. One company's management competencies handbook states "Only touches the surface (is a "snorkeler" vs. a "scuba diver")" is a hindrance for success and promotion.

Table 1 is a summary of the skills that are used on a daily, weekly, and monthly basis for hotel management. These skills are demanded in the job requirements of any management position in the hotel industry. Many of these skills such as operational analysis, STAR interpretation, Excel knowledge, and sufficient communication skills are needed at all levels of management. As a front desk manager or general manager you need to have these skills, although higher positions requires a more advanced understanding than lower management positions. Some of these skills such as revenue management or budgeting may only be needed at middle or upper level management positions. Managers that have these demanded skills earlier in their career, can have a heads up in promotion and success in their jobs. As employees move up in their career they need a differing set of skills to be successful. The skills learned at lower level positions do not go away. It is expected that these be maintained and added to or enhanced as employees move up in their career and in the organization.

Accounting and finance skills are no longer just the job of accountants. There is a growing need for these skills in managers of all areas in hospitality. This case study bridges the gap from textbooks, lack of relevant literature, and industry needs. It also exposes students to what it is like to be a manager in hospitality and not just dealing with customers and employees.

Table 1

Managerial Accounting Skills Needed in the Hotel Industry

Hotel Management Managerial Accounting Skill
Hard Skills
Operational Analysis (Daily Operating Report, Monthly P&L, and Ad-Hoc)
General Ledger Analysis
STAR Report Interpretation
Revenue Management
Forecasting/Budgeting (Operations and Capital)
Excel Basics (Building Formulas, Formatting, and Graphing)
Soft Skills
Communication (Oral, Written, and Presentation)
Understanding Context of Numbers/Data

Note. Skills are in no particular order

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