

Journal of Hospitality Financial Management

The Professional Refereed Journal of the International Association of Hospitality Financial Management Educators

Volume 13 | Issue 1

Article 19

2005

Hospitality Financial Management by Robert E. Chatfield and Michael C. Dalbor

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Recommended Citation

Hsu, William and Burdick, Kenneth (2005) "Hospitality Financial Management by Robert E. Chatfield and Michael C. Dalbor," *Journal of Hospitality Financial Management*. Vol. 13 : Iss. 1 , Article 19.
Available at: <https://scholarworks.umass.edu/jhfm/vol13/iss1/19>

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BOOK REVIEW

Hospitality Financial Management

Robert E. Chatfield, Michael C. Dalbor, Upper Saddle River, New Jersey: Pearson Education, Inc., 2005. Hardcover, 299 pages, ISBN 0-13-0482870

In the information explosion age in which we live, the hallmark of a great informative text is often not found in the amount of information given, but rather in the conciseness and quality of information presented. This is where *Hospitality Financial Management* excels: it manages to be concise without leaving the reader confused, and is able to filter out any extraneous information while still providing a solid understanding of basic financial matters. Having said that, *Hospitality Financial Management* does little to cater to the Hospitality industry specifically, and seems to be more of a general business financial textbook, with the mere occasional tie-in to the hospitality world.

The text is co-authored by Robert Chatfield and Michael Dalbor, both from the University of Nevada, Las Vegas- a university known for its excellent Hospitality program. Chatfield and Dalbor have enough experience during their teaching careers to know what kind of textbook would be most helpful for today's college student: direct, clear, and to the point. Unfortunately, they seem to have overlooked many of the financial issues that are paramount to the hospitality industry.

At first glance, the book's organization jumps out at the reader. Each chapter begins with a bulleted list of chapter objectives, followed by an introduction, and bolded subheadings. The chapters then conclude with a brief summary, a list of key terms, discussion questions, and practice exercises. Most pages include supplementary graphs, charts, and formulas to assist reader comprehension. Perhaps, one thing that could potentially make the book more user-friendly would be the addition of color and/or pictures to make the text more attractive and less intimidating. Also, current examples and applications from the real world are minimal.

The body of the text is obviously written with the target audience of college students in mind. Numerous up-to-date examples are used and presented in language that is easily understood by the undergraduate student. For instance, in order to present the concept of "risk-averse behavior" the authors use an illustration from the TV game show *Who Wants to Be a Millionaire*. When discussing the importance of validity in financial statements, examples are drawn from the Enron Corporation scandal. These kinds of current examples and illustrations helps the college-age student to relate to the authors as well as better understand the concepts involved.

In the opening chapter we find an introduction into the concept of value creation and wealth maximization, as well as brief descriptions of the basic forms of business organization, from the sole proprietorship to the modern corporation. The different

parties involved in the typical business are introduced, as well as their sometimes conflicting interests and motivations.

The second chapter, entitled “Financial Markets and Financial Instruments” begins with a somewhat ineffective example from Walt Disney Company’s issuing of bonds, which fails to draw a conclusion or make a significant point. The example is given before any of the concepts involved have even been touched on. Stocks and bonds are then defined, followed by an introduction to the major capital and money markets. Finally, the concept of hedging is introduced.

A basic review of financial statements and ratio analysis makes up the bulk of the third chapter. Basic hospitality activity ratios such as Occupancy percentage, Average Daily Rate (ADR), Revenue Per Available Room (RevPAR), Average Food Check, and Food Cost Percentage are shown, as well as those applicable to all industries. Several sample financial statements are shown, and the limitations of ratio analysis are explained after being introduced in the chapter’s opening example.

In the fourth Chapter, we get an introduction to the investment world. Concepts like market portfolio and diversification are covered. Beta and SML are covered. Much of the information seems somewhat more pertinent to someone preparing to be an investor or trader in the stock market than one preparing to work in the hospitality industry.

The fifth Chapter tackles the time value of money. The authors cover these sometimes confusing concepts very well, and as clearly as can be expected. Numerous examples are given, with detailed step-by-step explanation. Loan amortization is shown with considerable clarity as well. The best real-life example so far in the text is also given, as McDonalds issuing of multiplier notes is examined. A helpful appendix to the chapter shows how to use financial calculators to make calculations. Perhaps more attention could have been given to using spreadsheets via Excel to do much of this work, as this is how the majority of this work will be done in the real world.

We return to issues concerning stocks and bonds in Chapter Six. We go through the matter of security valuation, and an investor’s IRR. Bond ratings are listed in a table, and preferred stock is explained. At the conclusion of the chapter more instructions are giving for using certain scientific calculators to assist in the computations.

The seventh chapter is devoted to common stock. The authors show here how to estimate the value of common stock, using the value of future cash flows and the investor’s IRR. A large table of common stock quotations is presented, but relevance to the hospitality industry or its management again is sometimes not tied in.

An exploration of cost of capital is found in Chapter Eight. Critical to the valuation of hospitality projects, the chapter dives into the topic of weighted average cost of capital, and effectively explains how it may be calculated in a thorough manner.

Chapter Nine is entitled “Introduction to Capital Budgeting and Cash Flow Estimation,” and contains a short case study from the authors’ hometown of Las Vegas which effectively illustrates the importance of good capital budgeting decisions. The sometimes misunderstood concept of after-tax salvage value is given adequate attention to avoid confusion.

Capital Budgeting Decision Methods is the topic of discussion in Chapter Ten. Many of the various methods available for choosing a value maximizing project are presented, such as the payback method, NPV, and IRR. The reader will find the “not-normal cash flows” section very helpful, as it is often overlooked in comparable textbooks. Thankfully, a very suitable study is reported from *The Journal of Hospitality Financial Management* which cites NPV and IRR as the most popular methods in the hospitality industry.

In one of the best “hospitality specific” additions in the textbook, we find an appendix to Chapter 10 which walks the readers through a hospitality capital budgeting example in some detail. Hospitality students will be anxious to study this section.

Chapter Eleven is the chapter that best represents *hospitality* finance as opposed to issues that would not be found in a general finance book. Entitled “An Introduction to Hotel Valuation,” the chapter begins with an excerpt about HVS International, the largest hotel valuation and appraisal company in the world. The first section of the chapter is devoted to the actual appraisal process involved in accessing a hotel’s current situation, including the field work that needs to take place. The second half gives a wonderful section on the several approaches to value, that goes far beyond the basic methods. This chapter is one of the obvious highlights of the text and is both novel in its approach and informative on an industry level.

In the book’s concluding chapter we find some closing words regarding capital structure theory, including discussion of financial leverage and risk. Our attention is again brought to matters of business risk that must be considered in our daily decision making process. The book concludes with the typical glossary of terms and index.

Due to the brevity of certain sections, one may be worried that the conciseness could work to their disadvantage in understanding difficult concepts, but this is not the case, thanks to the wonderful accompanying website. As is often the case with many Prentice Hall books, the text features a companion website that is just fantastic. In addition to providing the key terms and glossary for each chapter, the reader will find excel spreadsheets and powerpoint presentations to provide additional explanation for each chapter.

Though the authors very efficiently present each chapter’s topic in the text, there are a few topics that are noticeably absent from the book. We find little, if any, reference to franchising. The difficult concept of leasing, which is often devoted an entire chapter in comparable textbooks, is given little attention. The hospitality-specific concept of management contracts goes virtually unmentioned. These concepts will be vital to the developing hospitality student’s understanding of the industry. Though this is intended as

an introductory course to Hospitality Finance, it seems peculiar and unfair to avoid these topics altogether.

In conclusion, *Hospitality Financial Management*, is a concise and clear textbook and presents many basic concepts of finance extremely well. The authors personalize the message to their target audience skillfully, and the college-age reader will find the text relatable and easy to comprehend. Its minor shortfall, however, is not in what the book contains but rather in what it leaves out. Concepts like leasing, management contracts, and franchising are passed over, leaving the teacher to tackle these topics on his own. Many will feel like they are reading a general finance book at times as opposed to a hospitality finance text. There is a definite lack of real life examples and case studies, as these are minimal. For a hospitality student to be ready for the postgraduate business world, these industry specific concepts will need to be understood as well as the many important topics explained in the book.

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