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Financial Management for the Hospitality Industry by William P. Andrew, James W. Damiato, and Raymond S. Schmidgall

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BOOK REVIEW

Financial Management for the Hospitality Industry


The strength of this textbook lies in its representation of hospitality industry examples developed for the fundamental financial concepts. This book should form the foundation on which the superstructure of one’s hospitality financial knowledge is built. The text includes 20 chapters which covers many basic principles of financial management. This textbook is intended to give future hospitality managers the competence to understand the fundamental corporate finance decisions. This book is jointly authored by William P. Andrew, James W. Damiato and Raymond S. Schmidgall. Dr. William P. Andrew is an associate professor in the School of Hospitality Management at Pennsylvania State University. James W. Damiato is a professor in the Department of Accounting at Central Michigan University, where he serves as the director of the Perry Schools of Banking and director of the Entrepreneurship program. Raymond S. Schmidgall is the Hilton Hotels Professor at Michigan State University.

At first glance, each chapter begins with a chapter outline and a brief summary. The chapters then conclude with key terms, review questions and practice exercises. Most pages include supplementary graphs, charts, and formulas to assist reader comprehension. One recommendation 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 to the target audience of college students.

The first chapter begins with an introduction to hospitality financial management and role of finance in an organization. Perspectives on decision making and determinants of owners’ value are also introduced in this chapter. According to the authors, this chapter presents the basic terminology and lays the foundation for the rest of the chapters.

In chapter two, we find through explanation of the concept of value creation and wealth maximization in a hospitality firm. Process of value creation is discussed in detail with real world examples.

The third chapter delves into financial markets and raising financial capital. As authors mentioned in the chapter summary, this extensive topic could be a textbook itself. However, financial markets and raising financial capital chapter in this book is explained from the perspective of financial markets that are most functional in the hospitality industry.

The fourth chapter, entitled “A Brief Review of Financial Statements” covers basic financial statements including the balance sheet, income statement, statement of cash flow, statement of retained earnings and explains how pro forma operating statements are prepared.
In chapter five, ratio analysis makes up most of the chapter. Majority of the ratios are interpreted from management’s, owners’ and creditors’ perspectives and explained with examples. Limitation of ratio analysis and usefulness of ratios are also discussed in this chapter.

The chapter six covers the concept of risk and value in the hospitality firm. Measurement and sources of risk and return, investor attitudes towards risk and return, market portfolio and diversification, beta and security market line are explored in this chapter.

The seventh chapter, entitled “The Timing and Value of Cash Flows” discusses how timing of cash flows affects their value. The concept of compounding interest is explained at the beginning of the chapter followed by present and future value calculations. Time value of money calculations are presented using factor tables, formulas and Excel via use of spreadsheets. Authors included the Excel computations in this version of the textbook which is very useful considering that this is how majority of the work will be done in the real world.

Valuation and required rates of return is found in chapter eight. Important topic covered in this chapter are dividend valuation model and how it is applied to project valuation, the equity approach to net present value (NPV), the debt/equity approach to NPV, the weighted average cost of capital approach to NPV and the adjusted present value approach to NPV.

The chapter nine is devoted to the principles of capital expenditure (CapEx) analysis. At the end of the chapter, authors provide two examples of capital expenditure analysis which gives the CapEx analysis and its principles considerable clarity. The solutions of these examples are also illustrated on an Excel spreadsheet.

The tenth chapter tackles other project valuation criteria including accounting rates of return, the paypack criterion, the internal rate of return and net present value. Advantages and disadvantages of each method is explored thoroughly. An example is also included in this chapter.

In chapter eleven, issues in capital structure management are discussed in detail. The chapter delves into Modigliani and Miller’s argument on when capital structure does not matter, the effect of taxes on optimal capital structure, the effect of costly financial distress, the effect of other perfect market assumptions, optimal structure in the hospitality industry and the maturity composition of a hospitality firm’s debt.

The chapter twelve, entitled “Financial Planning for the Hospitality Entrepreneur” covers legal forms of entrepreneurial ventures, regulatory considerations for the hospitality venture, business plan outline, commercial bank loans and term loans.
In chapter thirteen, we find explanation of working capital, cash budgets, cash management, float, speeding collections, controlling disbursements, bank charges/relations, managing accounts receivable, inventory, short-terms bank loans and investing excess working capital.

The chapter fourteen covers the nature of asset management and the role of the asset management in the hospitality industry. It further explains strategic plan for asset management and hotel operations audit.

The chapter fifteen discusses leasing as it relates to the hospitality industry. Major provisions of lease contracts are presented along with advantages and disadvantages of leasing, accounting classification of leases, choosing to lease or to buy, and sale and leaseback.

The chapter sixteen explores franchising which is a crucial topic for the hospitality industry. Franchising of hotel and restaurant chains is examined meticulously. Overall, this chapter sheds light into a very important area of our industry.

The chapter seventeen, entitled “Expansion Via Management Contracts” delves into the most common methods used by hospitality companies for expansion. More specifically, the chapter explains management contracts as it relates to the lodging companies.

The chapter eighteen presents another important topic in the hospitality industry: feasibility studies. Feasibility studies are discussed in detail along with the demand analysis and lodging feasibility studies.

In chapter nineteen, authors discuss valuation of hospitality real estate, uses of appraisals and different approaches to valuation. These different approaches include the cost approach, the sales comparison approach, the income capitalization approach, two-to-five-year projection using equity dividend and gross income multipliers.

In the book’s concluding chapter, tax ramifications of various types of financial business decisions are explained. Following the last chapter, glossary of terms and index is included.

Overall, the authors covered the fundamental concepts of the hospitality financial management very well. In addition to the basic concepts, franchising, leasing and the hospitality industry specific concept of management contracts are also referenced which differentiates this textbook from many other finance textbooks specific to the hospitality industry. In conclusion, this textbook is favorable for a hospitality student or an industry professional for its readability and clear explanation as well as its coverage of all major topics in hospitality financial management. Authors did not leave out any fundamental financial concept which makes this textbook the single best kind of its kind. However, this textbook would have been more user-friendly with case studies and more real life examples, given that hospitality industry is an applied management field.