Financial Management in Hotel Industry: The Best Practice

Sanjit Sarkar
Research Scholar
Kazi Nazrul University, Asansol, West Bengal, India

Abstract

Introduction

An overview of the hospitality industry along with the requirement of managing finance has been evident. The scope and significance of the study has pointed out the areas that could benefit from its findings.

Literature Review

The necessity of having a finance management department in the hospitality industry has been reviewed. Followed by that, the best practices of finance management that are currently in use have been pointed out along with the challenges they might involve. The agency theory has been used to analyse the specific responsibility of the finance management department. The literature gap has pointed out the drawbacks in the existing literature.

Methodology

The chosen methodology paradigms for the study are Interpretivism philosophy, inductive approach, descriptive design, secondary data collection method and qualitative data analysis. Google scholar, Proquest and Cochrane Library have been used for collecting the articles based on the inclusion and exclusion criteria provided.

Findings

Hotel managers have been involved in prioritizing macro-environmental and competition analysis conditions as compared to engaging with internal characteristics which include “teamwork in strategy formulation”. Data analytics and business intelligence have largely impacted the hotel industry's business performance.
Discussion

The financial decision helps in mitigating the risk that increases financial volatility. Financial behaviour within the hotel industry “changes over time” which helps in determining the employment and the economy that drives financial performance behaviour.

Conclusion and Recommendation

Data analytics and business intelligence have largely impacted the hotel industry's business performance. Hence, it can be recommended to timely acknowledge the hotel industry and government stakeholders to cope with the financial crisis.

Keywords: Finance management, hotel industry, budgetary planning, management and forecasting

Chapter 1: Introduction

1.1 Introduction

The research is based on the best practices that might be followed in the finance management of the hotel industry. A background of the industry and finance management department has been provided in this context followed by a rationale behind conducting this study. The aim, objectives and questions on which the study is based have been provided in this section.

1.2 Background of the topic

Financial management is a crucial part of every business irrespective of the size and industry it belongs to. Likewise, any organisation from the hospitality industry depends on effective practices that could be utilised to manage the finance. Financial management is important for tracking the running cost of the hotel to ensure that the allocated budgets are not exceeding (Alvarez et al. 2021). Besides, various financial risks could be avoided by managing the money at the required time. The jobs allocated to the finance department of a hotel are not specific to hospitality; rather they are purely finance-related. Making a decision on choosing the adequate practice of financial management depends on them and the situation encountered.

1.3 Rationale of the topic

Every organisation has its respective finance department to assist in recovering from its financial challenges. However, the problem arises when an organisation fails to manage the finance beforehand and a challenge produces more harsh outcomes than it would in normal circumstances (Quan et al. 2022). This is the issue on which the study is based and the reason why this is a potential issue is that it not only hampers the productivity and profitability of the company but it also causes reputational damage. The
current issue is regarding the selection of adequate financial management practices, failing which might bring on more challenges to the organisation. The study sheds light on some of the best practices that might be applicable in the finance management of a hotel.

Figure 1: Revenue shortages as one of the financial challenges for the hotel industry
(Source: Statcan, 2023)

1.4 Research aim
The mini dissertation aims to identify the best practices for managing finance in the hotel industry.

1.5 Research objectives

RO1: To identify the requirement for financial management in the hospitality
RO2: To evaluate the types of financial management
RO3: To point out the best practices for managing finance in the hotel industry
RO4: To analyse the possible risks associated with management practices

1.6 Research questions

RQ1: Why is financial management required in the hospitality sector?
RQ2: What are the different types of financial management?
RQ3: What are the best practices that might be preferred for financial management in the hotel industry?
RQ4: What are the possible risks associated with finance management practice?

1.7 Significance and scope of the study
The study emphasises the different practices that would be applicable in the financial management of a hotel and the factors that would need to be considered. This would serve as advice for the finance department of several organisations, specifically SMEs that thrive to recover from their financial challenges. Also, the possible risks have been highlighted which will help them assess the practice beforehand.
Chapter 2: Literature review

2.1 The necessity of managing finance in the hospitality industry

Financial challenges are a common encounter for any organisation in the hotel industry because the success of the hospitality sector depends on various external factors. As said by Bello and Sensini, (2020), the climate of the region and the accessibility of the area are some of the relevant factors that might affect the income of a hotel. The Covid-19 pandemic has been a demonstration of the unpredictability of the incoming challenges for the hotel industry. As opined by Mueller and Sensini, (2021), dealing with such unanticipated adverse situations is much easier when the hotels have designed management plans beforehand. Financial management helps to avoid a larger financial loss in such situations and hence the other aspects can also be handled.

Other than dealing with the challenges, a business having adequate finance management also ensures that its obligations are met. Most importantly, as mentioned by Rusmingsih et al. (2021), finance management assures that the funds of the hotel are being effectively utilised. This is necessary such that the business operations are running efficiently. Similarly, as said by Úbeda-Garcia et al. (2021), allocation of funds on specific hotel operations, acquisition and management of these funds, cutting down the operation costs and
getting market insights to make critical financial decisions are all aspects of financial management. Besides, it also helps ensure that the organisational goals are met and the expenses do not exceed the generated profits.

2.2 The most used finance management practices in the market

Planning a budget and managing it effectively is important for running business operations smoothly. As said by Ozdemir et al. (2021), budgetary planning is the primary practice that could be used in financial management within the hospitality industry. Besides helping in the coordination of operations, participation in the budget planning process acts as a motivation for the employees in the hotel. However, as mentioned by Kim et al. (2019), the most important practice that ought to be followed by every hotel organisation is creating the appropriate pricing strategy. Having an effective pricing strategy helps connect better with the customers and ensures that each business activity spends the correct amount. On the contrary, as said by Bello and Sensini, (2020), segmentation is the most effective management practice. The segmentation might be according to the country or the source, and that would involve meetings, conferences or leisure groups.

Figure 3: Types of financial management in the hotel industry

(Source: Self-developed)

The online segment is a critical part of the hotel industry and it is necessary that the hotel invests in brand promotion through online channels. As opined by Botta, (2019), channel distribution is an effective
practice in financial management that assists in such investments. It has been evident that the return on investment is much higher when this practice is utilised. On the other hand, capacity management and forecasting are other practices that assist in the prediction of accommodation. As mentioned by Dimitrios et al. (2020), forecasting helps in preparing for a possible overbooking and ensuring customer satisfaction. Capacity management involves a system that monitors all the bookings such that the number of guests does not exceed the available rooms. Hence, a greater payoff is generated and the guests are also saved from harassment.

2.3 Possible challenges in using management practices

The sudden fall of a business due to inadequate cash flow is a common situation that happens due to a lack of management. As mentioned by Ivanov, (2019), this is the most challenging situation for the finance management department due to a lack of tracking the inflows and outflows. The involvement of automated technologies might help prevent such inconsistency in the tracking process but that brings on further challenges. Adapting to advanced technology might not be an easy process for every organisation, especially the ones having older employees believing in traditional methods. Similarly, as said by Hole, (2019), another change in financial management is the lack of a plan regarding the use of the budget. Having an adequate budget would not be useful unless the plan to use it adequately is effective. Being unable to raise the required capital is another potential challenge for financial management in hospitality. As said by Crespí-Cladera et al. (2021), although there might be an effective management plan, that would not be able to get implemented unless there is enough capital. On the other hand, excessive debts can be another challenge which mainly arises when the lack of funds compels organisations to rely on investors. As mentioned by Ali et al. (2021), lacking proper reporting for transactions can be another challenge for hotels. Other challenges include poor tax compliance and being unable to pay due bills.

2.4 Theoretical framework

The financial management department of the hotel industry is a distinct area that is involved in preventing financial challenges from coming to the company. Besides, it is involved in tackling the encountered challenges such that the organisation is saved from further reputational damages. However, ensuring that the management department works specifically to meet these obligations would require the organisation to ensure that the contract has been appropriate. As mentioned by Mio et al. (2020), the agency theory lays emphasis on the fact that a person authorising another person with a task involves certain principles. This economic theory views any organisation as a set of contracts where the assignment of tasks is a contract. In the contract of assigning the duty of financial management to the department, the organization needs to assure that they would be assigned no other hospitality-related tasks other than that. It would also need to
be ensured that they are being paid the correct remuneration in return and only then their service would be effective in saving the company from financial challenges.

![Figure 4: Agency theory](Source: Mio et al. 2020)

### 2.5 Conceptual framework

**FINANCIAL MANAGEMENT IN THE HOTEL INDUSTRY: THE BEST PRACTICES**

- Financial challenges
- Budget allocation
- Hotel operations
- Profitability

*Figure 5: Conceptual framework* (Source: Self-developed)

### 2.6 Literature Gap

The existing literature on financial management practices has effectively pointed out the different types of methods that are currently being used in the market. However, the basic requirements involved to make the
methods work have not been mentioned. Also, the primary data related to financial changes have been mostly collected from the employees and not the financial managers themselves which is another drawback.

**Chapter 3: Methodology**

**3.1 Research philosophy, approach and design**

*Interpretivism* has been selected as the research philosophy for this study because it involves a deep understanding of a phenomenon. The *inductive approach* has been chosen since the study has proceeded from specific to general. Interpretivism philosophy and deductive approach are the most preferable options for a study based on secondary data (Goodwin et al. 2023). The design that has been selected is the *descriptive design* such that each aspect could be separately analysed.

**3.2 Data collection method and Data Analysis**

Extensive use of the previous research articles has increased the chance of reliability of the study. Collecting information from the "previous primary research" allows for a draft of knowledge that has been already undergoing questionnaire-based analysis. "Secondary data collection method" uses large data that exist in the government database as a part of records, already taken researched by the researcher for a similar purpose. As opined by Jones (2018), the "secondary data collection method" enables the processing of the study in authenticated information which is relevant to the current objective being studied. Henceforth, this study has used the "secondary data collection method" that has helped in evaluating the best practice in financial management in the hotel industry. 6 selected articles have been used for conducting findings in a tabular form to draft interpretation.

“Qualitative data analysis” in the secondary methods allow for differing question from the original research. According to Nair (2019), “qualitative data analysis” is a form of transcription that highlights the data comparison on the basis of both secondary and primary data. Therefore, the “Qualitative data analysis” approach has been used for this study as it helps in developing an analysis depending on the findings gathered by the selection of the articles. It has helped in identifying the possible risks that are associated with financial management practice.
3.3 Exclusion and inclusion criteria

<table>
<thead>
<tr>
<th>Inclusion criteria</th>
<th>Exclusion criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Recent journals</td>
<td>● Journals older than 2019</td>
</tr>
<tr>
<td>● Peer-reviewed articles</td>
<td>● Articles that are not peer-reviewed</td>
</tr>
<tr>
<td>● Articles based on primary data</td>
<td>● Articles based on secondary data or systematic reviews</td>
</tr>
<tr>
<td>● Articles shedding light on financial management in the hospitality sector</td>
<td>● Articles diverting from the specific topic</td>
</tr>
<tr>
<td>● Articles that are in the English language</td>
<td>● Articles in languages other than English</td>
</tr>
<tr>
<td>● Articles that have a distinct dissertation structure</td>
<td>● Articles lacking dissertation structure</td>
</tr>
<tr>
<td>● Articles having full-text availability</td>
<td>● Articles not having full-text availability</td>
</tr>
<tr>
<td>● Authentic government websites</td>
<td>● Editable websites</td>
</tr>
</tbody>
</table>

Table 1: Inclusion and exclusion criteria
(Source: Self-developed)

3.4 Source of database

The databases that have been chosen as the preferable options for collecting secondary data on this study are Google scholar, Proquest and Cochrane Library. Keywords like ‘financial management’, ‘hospitality sector’, ‘hotel industry’, ‘financial challenges’ and ‘best practices’ have been used to conduct the research that has been enhanced with the boolean operators OR, AND and WITH.
# Chapter 4: Research Findings

## 4.1 Findings and Analysis

<table>
<thead>
<tr>
<th>Author and Year</th>
<th>Study area</th>
<th>Aim</th>
<th>Findings</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abo-Murad <em>et al.</em> (2019) (1)</td>
<td>“Malaysian hotel industry”</td>
<td>This study aims to explore the “organisational cultural barriers” that affect “crisis management in the hotel industry”.</td>
<td>The outcome depicts that organisational culture has a significant impact and influence on crisis management during the “crisis stages”.</td>
<td>It is concluded that &quot;all cultural barriers” has been linked with each of the crisis stages.</td>
</tr>
<tr>
<td>Rusmingsih <em>et al.</em> (2021) (2)</td>
<td>“Indonesia and Malaysia”</td>
<td>This study aims to combine analyse the “financial and human resource management” to encourage “organizational performance” through accounting psychological factors within the workforce</td>
<td>The findings stated that the “investment in human capital” increases the chance of success on the condition when “human factors of human resources” can be managed with job satisfaction and comfort.</td>
<td>It is concluded that expertise factors and work comfort as human factors are &quot;two dominant factors&quot; which increase the investing success in human capital for &quot;improvising organizational work&quot;.</td>
</tr>
<tr>
<td>Hallin and Marnburg (2018) (3)</td>
<td>hospitality field “empirical KM research”</td>
<td>This study aims to draft “empirical state-of-the-art” research in Knowledge management within the hospitality sector which increases the industry, “intra- and inter-organizational level”.</td>
<td>The results reflect that the hospitality sector has become a &quot;knowledge-intensive&quot; which drafts intensive technology use and service to the natural product. It is based on &quot;interaction between hospitality guests/customer and employees&quot;.</td>
<td>It is concluded that &quot;empirical KM studies&quot; in the context of hospitality sounds to design satisfactory implies o the basis of generalization and testability. It contributes to the comprehensive overall research in hospitality.</td>
</tr>
<tr>
<td>Köseoglu et al. (2021) (4)</td>
<td>Hong Kong</td>
<td>This study aims to investigate hotel managers in describing strategy thereby identifying “key success factors” in implementation and formulation.</td>
<td>The outcome depicts that hotel managers have been involved in prioritizing macro-environmental and competition analysis conditions as compared to engaging with internal characteristics which include &quot;teamwork in strategy formulation&quot;.</td>
<td>It is concluded that &quot;top-level practitioners&quot; within the hotel industry have interpreted the success factors as their &quot;strategic management efforts&quot;. Strategic consensus and employee involvement are given prominence in internal consideration.</td>
</tr>
<tr>
<td>Lai and Wong (2020) (5)</td>
<td>Macau</td>
<td>This study aims to compare how the hotel industry has responded to this crisis at the initial stage and the pandemic stage.</td>
<td>The findings reveal that epidemic prevention must impose a priority strategy in which the maintenance practices and pricing are the &quot;two governmental assistance&quot; along with &quot;human resources practices&quot;.</td>
<td>It is concluded that in epidemic prevention all pandemic stages, practices remain in the quadrant. However, “two pricing practices” were downgraded. It is evident that hotels have forced labour in undergoing unpaid vacations and therefore postpone office.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Location</td>
<td>Study Aim</td>
<td>Result</td>
<td>Conclusion</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------</td>
<td>---------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Tong-On et al.</td>
<td>Thailand</td>
<td>This study aims to investigate “business intelligence activities” with the help of data analytics. Its impact on the hotel industry is due to corporate performance.</td>
<td>The result reflects that data analytics and business intelligence have largely impacted the hotel industry's business performance.</td>
<td>It is concluded that respondents expressed a huge &quot;interest in artificial intelligence&quot;. It is believed that gradual increased artificial intelligence advancement within hotel management must &quot;improve corporate performance&quot;.</td>
</tr>
</tbody>
</table>

Table 2: Findings from selected articles
(Source: Self-developed)
Chapter 5: Discussion

5.1 Discussion

Sustainability in financial management within the hotel industry is critically significant which helps in developing an effective strategy during a crisis. As mentioned by Al-Wattar et al. (2019), the hotel industry is highly prone to huge losses due to external barriers. Managing financial aspects helps in developing the sustainability of company stakeholders. Organisational culture has a significant impact and influence on crisis management during the "crisis stages". The findings stated that the "investment in human capital" increases the chance of success on the condition when "human factors of human resources" can be managed with job satisfaction and comfort. Therefore, it is concluded that expertise factors and work comfort as human factors are "two dominant factors" which increase the investing success in human capital for "improvising organizational work" and "all cultural barriers" has been linked with each of the crisis stages.

The tourism industry is highly noted for to use of technology that helps increase the company's brand awareness and extensive knowledge of eco-friendly programs and guest purchasing behaviour. As referred by Alvarez et al. (2021), analysing the financial performance on the ground of "return on assets" and "return on sales", helps in determining the sustainability report within a hotel. The hospitality sector has become a "knowledge-intensive" which drafts intensive technology use and service to the natural product. It is based on "interaction between hospitality guests/customers and employees". The outcome depicts that hotel managers have been involved in prioritizing macro-environmental and competition analysis conditions as compared to engaging with internal characteristics which include "teamwork in strategy formulation". Therefore, it is concluded that "top-level practitioners" within the hotel industry have interpreted the success factors as their "strategic management efforts". Strategic consensus and employee involvement are given prominence in internal consideration. "Empirical KM studies" in the context of hospitality sounds to design satisfactory implies on the basis of generalization and testability. It contributes to the comprehensive overall research in hospitality.

Understanding the financial decision helps in mitigating the risk that increases financial volatility. Financial behaviour within the hotel industry "changes over time" which helps in determines the employment and the economy that drives financial performance behaviour. As suggested by Bello and Sensini (2020), financial statements have propagated the "finance current assets" that are derived as the market conditions and environmental conditions that promptly affect the business behaviour. Epidemic prevention must impose a priority strategy in which the maintenance practices and pricing are the "two
governmental assistance" along with "human resources practices". The result reflects that data analytics and business intelligence have largely impacted the hotel industry's business performance. Hence, it is concluded that respondents expressed a huge "interest in artificial intelligence". It is believed that gradual increased artificial intelligence advancement within hotel management must "improve corporate performance". The epidemic prevention of all pandemic stages and practices remains in the quadrant. However, "two pricing practices" were downgraded. It is evident that hotels have forced labour in undergoing unpaid vacations and therefore postpone office.

Chapter 6: Conclusion and Recommendation

6.1 Conclusion

The tourism industry refers to a dynamic industry which contributes to frequent changes in economic growth and employment rates. Evaluation of financial management within tourism industry enables effective practice to develop sustainability root interpretation. "Secondary data collection method" has helped in evaluating the best practice in financial management in the hotel industry. 6 selected articles have been used for conducting findings in a tabular form to draft interpretation. Prioritizing macro-environmental and competition analysis conditions as compared to internal characteristics include “teamwork in strategy formulation”. Data analytics and business intelligence have largely impacted the hotel industry's business performance. Gradual increased artificial intelligence advancement within hotel management must “improve corporate performance”.

6.2 Linking with objectives

Objective 1

The low probability of threats within the organisational crisis has developed viability belief. As opined by Kim et al. (2019), financial technology application has been evident in reducing risk. Therefore, identifying the financial management requirement in hospitality by analysing crises helps in assuring effective business practice.

Objective 2

Different strategic influence the financial management prevention technique which helps in reducing financial risk within hotel industry. As mentioned by Ozdemir et al. (2021), stakeholders play a crucial role in managing the financial crisis. Henceforth, evaluating the financial management types that contribute to the strategic practice allows the drafting of knowledge in real-time knowledge management.
Objective 3
Overdependence leads to the fall of a burden on the internal environment. As stated by Al-Wattar *et al.* (2019), financial management can be induced with reactive and proactive effectors by the organisation. Hence, to analyse the best practices for managing finance in the hotel industry, evaluation of the different internal and external conditions has extended the sustainability crisis.

6.3 Recommendation
The hospitality industry market is highly vulnerable which renders "low crisis preparedness". It is alarming; therefore, crisis management within the hotel industry is "important to investigate". As proclaimed by Mueller and Sensini (2021), response to crises and disasters is used reactively despite "proactive crisis management". It contributes to increasing the GDP of the nation's status economy, henceforth; it can be recommended to timely acknowledge the hotel industry and government stakeholders to cope with the financial crisis.

6.4 Limitations of the study
This study has prominently analysed the practices that help in reducing the financial risk within the hotel industry, however, the factor that contributes to the development of the financial risk is less defined. Therefore, the limitation of the study lies in the investigation of the following aspects that less in leading to the prompt answer to the research question.

6.5 Future scope
The future scope of this study will be to understand “actual learning dynamics” that help hospitality management to develop “domain-specific knowledge”. Analysis of the different various aspects of “real-time contextual knowledge” allow investigation of “employees’ versus managers” abilities to forecast business change.
Reference list

Selected articles

Article 1


Article 2


Article 3


Article 4


Article 5


Article 6

Other articles


Websites