



## **OPERATIONALIZING THE FINANCIAL MANAGEMENT PRACTICES IN THE HOSPITALITY AND TOURISM INDUSTRY**

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### **ABSTRACT**

*The Hospitality and Tourism Industry is a fast growing, multi-faceted industry that evolved so much over the years. As the tastes, preferences and demand change, so do the methods and activities in the Hospitality and Tourism Industry. This growth and changes in Hospitality and Tourism Industry called for an effective Financial Planning and overall management in the Industry; to effectively achieve organizational goals, make profits and compete profitably in the international market. This study examines the varying practices of Financial Management as it relates to the Hospitality and Tourism Industry.*

*Keywords: Operationalizing, Financial, Management, Practices, Hospitality.*

### **Introduction**

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the Hospitality and Tourism business. It could also be seen as applying general management principles to financial resources of the enterprise, (Ollor, 2019).

### **SCOPE/ELEMENTS OF FINANCIAL MANAGEMENT**

Investment Decisions:

1. Investment Decision entails investment projects that Hospitality and Tourism business could engage in. Investment in Fixed Assets is regarded as Capital Budgeting; while in Current Asset, it is termed Working Capital investment decision.
2. Financial decisions:

Financial Decision relates to the process of raising finance from various resources which could depend on making decisions on the type of source, period of financing, cost of financing and the returns thereby.

3. Dividend decision:

In Dividend Decisions, the finance manager would need to make decisions with regard to the net profit distribution. Net profits are generally divided into two:

- i) Dividend for Shareholders: This could be dividend and the rate would need to be decided.
- ii) Retained Profits: Retained Profits are the amount of profit set aside for the expansion and diversification plans of the business.

### **OBJECTIVES OF FINANCIAL MANAGEMENT**

The objective of Financial Management is generally concerned with procurement, allocation and control of Financial Resources of a concerned business.

The objectives:

- 1) To ensure regular and adequate supply of funds to the concern.
- 2) To ensure adequate returns to the shareholders which; could depend on the earning capacity, market price of the share and expectations of the shareholders.
- 3) To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
- 4) To ensure safety on investment, that is, funds should be invested in safe ventures so that adequate rate of return can be achieved.
- 5) To plan a sound capital structure: This means that, there should be sound and fair composition of capital so that a balance could be maintained between debt and equity capital.

### **FUNCTIONS OF FINANCIAL MANAGEMENT TO THE HOSPITALITY AND TOURISM INDUSTRY**

1. Estimation of capital requirements:

A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programs and policies of the business.

Estimations have to be made in an adequate manner which increases the earning capacity of the organization.

**2. Determination of capital composition:**

Once the estimations have been made, the capital structures have to be decided. This would involve Short- Term and Long- Term Debt Equity Analysis; which would depend on the proportion of equity capital the company could be possessing and additional funds to be raised from outside parties.

**3. Choice of sources of funds:**

For additional funds to be procured, the Hospitality and Tourism business would have many choices such as:

- a. Issue of shares and debentures
- b. Loans to be taken from banks and financial institutions
- c. Public deposits to be drawn in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing.

**4. Investment of funds:**

The finance manager would have to decide to allocate funds into profitable ventures so that there would be safety on investment and regular returns if possible.

**5. Disposal of surplus:**

The net profit decisions have to be made by the finance manager. This could be done in two ways:

- i) Dividend declaration - It includes identifying the rate of dividends and other benefits such as bonus.
- ii) Retained profits - The volume of retained profits would have to be decided which would depend on: Expansion, Innovation, and Diversification plans of the company.

**6. Management of cash:**

Finance manager would need to make decisions with regards to cash management. Cash would be required for many purposes such as: payment of wages and salaries, Payment of electricity and water bills, Payment to creditors, Meeting current liabilities, Maintenance of enough stock, Purchase of raw materials, etc.

**7. Financial controls:**

The finance manager would not only to plan, procure and utilize the funds; but, would also exercise control over finances. This could be

done through many techniques such as: Ratio Analysis, Financial Forecasting, Cost and Profit Control, etc.

### **FINANCIAL MANAGEMENT PRACTICES**

According to (Moore and Reichert, 1989), financial management practices could be defined as the practices performed by the accounting officer, the chief financial officer and other managers in the areas of budgeting, supply chain management, asset management and control. The most common financial management practices could be:

- i) Accounting Information Systems (AIS),
- ii) Financial Reporting and Analysis (FRA),
- iii) Working Capital Management (WCM),
- iv) Fixed Asset Management (FAM)
- v) Capital Structure Management (CSM).

The above practices are crucial for an efficient Financial Management in Organizations.

### **RELATIONSHIP BETWEEN THE FINANCIAL MANAGEMENT PRACTICES AND THE HOSPITALITY AND TOURISM INDUSTRY**

- i) **Financial Reporting and Analysis:**  
Financial Reporting and Analysis indicates an integrated framework within the Hospitality and Tourism business employs physical resources such as: materials, supplies, personnel, equipment, and funds to transform economic data into financial information in order to facilitate the operations of the Hospitality and Tourism Organizational activities. Financial Reporting and Analysis could also provide records of sales, cost of purchases, cost of daily expenditure, and inventory to help management make decisions for the profiting and growth of the industry.
- ii) **Capital Structure Management:**  
Capital structure could be defined as the relative amount of debt and equity used to finance the Hospitality and Tourism Industry. It could be the relative amount of permanent Short-Term debt, Long-Term debt, preferred stock and common equity used to finance the Hotel or any other Hospitality Organization. In

contrast, Financial Structure refers to the amount of total current liabilities, long term debt, preferred stock and common equity used to finance the company. Thus, capital structure could be part of Financial Structure, representing the permanent sources of a company's Financing. In other words, it could be described as the total capital invested in the Hospitality Organization. It is important to have a strong capital structure in the Hospitality and Tourism Industry because of the rate of competition in the Industry.

iii) Accounting information systems:

Accounting information systems assist in the analysis of accounting information provided by the Financial Statements. Romney, (2009) purported that the biggest advantage of computer-based accounting information systems could be that they automated and streamlined reporting. As pertains to Financial Reporting Analysis (FRA), recording and organizing the accounting information systems would not meet objectives unless reports from systems would be analyzed and used for making managerial decisions, (Gitman, 2011).

iv) Working Capital Management (WCM) :

Working Capital Management is a part of the Hospitality and Tourism current assets. Working capital could be defined as the organization's total investment in current assets or assets that the Hospitality and Tourism organization expects to be converted into cash within a year or less (Keown; Martin; Petty; and Scott, 2005). Managing the working capital entails making decisions relating to working capital and short-term financing (Garrison, 1999). These involve managing the relationship between the Hospitality and Tourism firm's short-term Assets and Short-Term Liabilities.

v) Fixed Assets Management (FAM):

Is an accounting process that seeks to track non-current assets for the purpose of financial accounting, preventive maintenance and theft deterrence (Garrison, 1999). Keeping this record would help to curb the rate of thefts in the Hospitality and Tourism Organization.

## **CONCLUSION AND RECOMMENDATION**

The Hospitality and Tourism Industry; like every other industry, engages in activities that involve cash inflows and outflows which calls for the need of proper accounting and financing functions. For Hospitality and Tourism Industry to be profitable and successful, it must imbibe and take into cognizance the indispensability of the practices of financial managements such as: Asset Management, Working Capital Management, Accounting Information System, Financial Analysis and Capital Structure Management which would aid the Hospitality and Tourism Industry to effectively and efficiently run its operations. These Practices should be Operationalized in the Hospitality Management and Tourism Management in order to build competitive edge internationally.

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