

The Business of Hospitality

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GLOSSARY



Hospitality, Lodging, and the Business Office

Chapter Objectives

After completing this chapter, you should be able to perform the following tasks:

1. Define basic hospitality terms.
2. Discuss the main hospitality markets.
3. Identify the five segments of the lodging industry.
4. Discuss the distinguishing traits of economy/service, mid-market, all-suite, first-class, and luxury hotels.
5. Describe the four main property types.
6. Discuss factors that influence the organization of a lodging establishment.
7. Describe the main departments of a hotel and describe the general responsibilities of each department.
8. Discuss the role of the business office.

Hospitality and Change

The need of travelers for food and temporary lodging has not changed substantially since ancient times. However, the nature of the hospitality industry has undergone a constant evolution since the first public inns appeared. In 312 B.C., a Roman roadbuilder, Appius Claudius Crassus, constructed a monumental highway to facilitate travel throughout Western Europe. The Imperial Post Office in Rome sold tickets to citizens who were interested in traveling by chariot over the Roman road system, which, by 117 A.D., spanned 50,000 miles. Included in the ticket price was the cost of wine, food, and shelter at roadside rest areas that had been constructed along the thoroughfares. The accommodations were not luxurious: the shelter was merely a roof suspended on poles, and the bedding was little more than a pile of hay.

The European inns that evolved later were basically taverns in which travelers could rent a cot for the night. Men, women, and livestock shared the same, large, communal room, with no provisions for privacy or sanitation.

By today's standards, these early lodging facilities seem primitive, indeed. Just as food service and lodging have become more "civilized," the business aspects of hospitality have also become much more refined.

Like the early inns, a modern hospitality operation is still concerned with the provision of lodging, food, and beverages to the general public. However, the nature and scope of the hospitality industry are large and complex. Hotels, restaurants, cruise ships, and, to some extent, airlines and railroads, all are involved in hospitality.

The cost and complexity of a lodging operation partly depends on its marketing emphasis. For example, a full-service hotel, which maintains a food and beverage service and a uniformed bell staff in addition to accommodations, is more complex than a limited-service hotel, which primarily markets only rooms. The following examples illustrate the relationship between marketing emphasis and operating costs in the six basic property types:

1. A typical luxury or deluxe hotel, such as a Ritz Carlton or Four Seasons hotel, markets to affluent travelers, providing a high level of quality and service, and charging suitably high rates. The facilities may include one or more restaurants, and the hotel may offer specialized personal services, such as laundry, valet, hair care, or a health spa. Construction costs typically are very high – from \$10,000 to \$100,000 per room.

2. A typical first-class or executive hotel, such as a Hilton, Sheraton, or Marriott, spends a significant amount of its operating budget on maintaining and refurbishing the premises. The facilities usually include a restaurant, lounge, and recreational facilities such as a swimming pool or exercise room. Construction and operating costs range from \$1,000 to \$10,000 per room, depending on the location and facilities. A major portion of the operating budget is usually spent on maintaining and refurbishing the premises.

3. Mid-market hotels, such as Holiday Inn, Ramada Inn, and Courtyard properties, market to the average business travelers and vacationing families and, usually, provide some form of food and beverage service. The facilities are typically less expensive to construct and maintain than those of a first-class hotel, with construction costs averaging about \$1,000 per room.

4. An economy or budget property, such as a Days Inn or Hampton Inn, is designed to appeal to budget-conscious travelers, such as elderly people on fixed incomes, single working women, and students. Services, staff, and facilities are kept to a minimum to maintain low operating costs and, thus, to enable below-average room rates. Construct costs range from \$650 to \$900 per room.

5. All-suite hotels, such as Embassy Suites or Residence Inns, provide separate sitting, sleeping, and, usually, cooking facilities in all guest rooms. Construct costs vary significantly, from about \$1,000 to \$3,000 per room, depending on the location and facilities.

The management and operation of these various property types have evolved with the hospitality industry itself, continually adapting to social, economic, and technological changes.

Lodging and Change

The lodging industry is made up of businesses such as hotels, motels, and inns that provide temporary lodging for pay. Since its inception, the industry has undergone incessant expansions and continuous change. At times, the changes have been gradual, but, at other times, they have occurred very rapidly.

A period of rapid change known as the Golden Age of Hotels occurred in the mid Eighteenth Century, when industrialists like John D. Rockefeller and Horatio Alger acquired large fortunes and captured the imagination of the American public. During this period, numerous luxury hotels, called "Grand Hotels," were constructed in major cities such as New York, Chicago, and San Francisco. These establishments were intended exclusively for the

wealthy, with rates that were too steep for ordinary travelers. However, their construction symbolized America "coming of age" as a nation of importance.

With the Industrial Revolution of the early 1900s, the focus of society shifted from the upper class to the common citizen. More people began traveling for business reasons, creating a demand for clean, private lodging that was affordable to the working class. The first full-service hotel designed to accommodate business travelers was built by Ellsworth Statler in 1908.

In late 1940s and early 1950s, people began traveling extensively in automobiles. During this period, rapid highway construction also took place, and motoring vacations became a national pastime. By the 1960s, motels—lodging establishments that market primarily to motorists—outnumbered traditional full-service hotels.

By the year 2000, the number of hotel rooms exceeded the number of guests by almost two to one. As a result, competition in the lodging industry is more intense than at any previous time.

Management and Change

The diverse and changing nature of hospitality and lodging constantly challenges the management and staff of hotels, motels, and resorts to adapt to new conditions, competition, and customers.

Security and accounting were virtually nonexistent in early European inns. Food and lodging charges were paid with coins, which the innkeepers stuffed into leather pouches worn around the waist. A typical innkeeper made up prices as he went along, charging guests on the basis of their ability to pay. Expenses were also paid by coin. No distinction was made between the operating costs of the inn and the innkeeper's personal expenditures. Accounting journals were not kept, because education was limited to the aristocracy and clergy, and, so, few innkeepers knew how to read or write.

Anthropologists have discovered evidence of ancient bookkeeping records scribbled on papyrus scrolls, dated as far back as 2,500 B.C. However, modern accounting methods did not become widespread in America until 1909, when the federal income tax was instituted. By levying a tax on business profits, the U.S. government required every company in America to maintain accurate, timely books and records.

At one time, personality and style were considered to be a hotel manager's most prominent traits. Statler, Conrad Hilton, and other famous hotel builders, called hoteliers in the manner of the French, became virtual cult figures. As social and economic conditions changed, and as competition

increased, lodging management became more scientific. Increasing emphasis was placed on formal accounting in the business office.

In 1925, in an effort to standardize bookkeeping methods for lodging establishments, a group of hotel managers created the first Uniform System of Accounts for Hotels. Published in a manual, this system described basic classifications and accounting procedures that could be used by the managers of both large and small properties. The Uniform System also provided a straightforward management tool that could be used to compare the operations of different hotels. Over the years, the Uniform System has been revised and updated numerous times. A similar system was created for restaurant accounting in 1930.

Hotels are not required by any law or regulation to use the Uniform System, but the principles, methods, and classifications are widely accepted throughout the hospitality industry and are used by accounting firms, banks, and government agencies.

Automation and the Hotel

The Uniform System provided a standard accounting language for the hotel business office. The advent of automation gave this language a new and powerful voice. Computer technology greatly streamlined the preparation of accounting reports, but also enabled the analysis of more diverse and detailed information. Work that formerly required long hours of toilsome, manual calculations could be performed literally in minutes with a computer. Furthermore, the computer enhanced the staff's ability to monitor and control room availability, store and analyze reservations, and post charges and payments to guest accounts. Information that previously had to be stored in file cabinets could be accessed at a computer terminal anywhere in the hotel at the press of a key. As the cost of computers declined, the technology became affordable to even small, independently owned properties.

Point of sale systems (POS) are used to post charges and payments to guest accounts directly from the dining room, cocktail lounge, and room service department. Property management systems (PMS) are used to handle accounting functions for all departments of the hotel. Computers are used in virtually every aspect of hotel operation, from maintenance of the exterior grounds to analysis of food and beverage costs. Reservation systems provide instant access to room availability and rates, while point of sale systems maintain and analyze sales at the front desk, dining room, and cocktail

lounge. Computers can also be used to operate telephone systems and regulate heating and air conditioning equipment.

The Role of the Business Office

More than any other department in the hotel, the business office, informally called the "back office," functions behind the scenes. The staff of the business office is usually unseen by guests, but no one has a more important role in keeping the hotel operating smoothly and profitably. In the back office, all of the various departmental activities are planned, budgeted, and analyzed.

A typical full-service hotel has four main operational divisions: administration, rooms, food and beverage, and engineering. The administration includes the various staffs of the business office, responsible for management, finance, accounting, marketing, and personnel. The rooms division consists of reservations, front desk operations, bell service, and housekeeping. The food and beverage division is responsible for planning, preparing, and serving meals and beverages in the dining room and cocktail lounge, as well as to guests in their rooms. The condition of the buildings, grounds, electrical and plumbing systems, and heating and air conditioning equipment are maintained by the engineering division.

The staff requirements of the hotel, and of the business office, depend, among other factors, on the type, size, location, and scope of the property. For example, a full-service hotel that operates a food and beverage service and maintains a bell staff naturally requires more personnel than a limited-service property that sells only rooms.

The highest authority in the hotel is the executive director, also called the general manager. The managers of the various hotel divisions work under the direct supervision of the executive director.

The accounting department of the business office maintains close contact with the other divisions to monitor and control costs, forecast sales, maintain guest accounts. The marketing and sales department is responsible for promoting the hotel's image, attracting guests, and creating sales projections.

Because rooms are the hotel's main product, the rooms division is the center of activity. The reservations department secures and documents room requests, while the front desk is responsible for guest registration, communications, and check-out. The housekeeping department is responsible for cleaning rooms, dispensing linens, and monitoring room status. The main responsibilities of the bell service, also called the guest

services department, are luggage assistance, vehicle parking, and guest communications. The engineering division maintains the physical premises, electrical and plumbing systems, and HVAC (heating, ventilating, and air conditioning) equipment.

Functions of the Business Office

The business office of a modern hotel has four main functions:

1. Accurate accounting
2. Effective cost control
3. Accurate forecasting
4. Financial reporting

Among other responsibilities, the business staff pays the hotel's bills, produces payroll checks, and determines profits and losses. But accounting is a means to an end and, by itself, cannot guarantee that a hotel will be successful. To produce profits also requires the ability to control operating costs in every department of the hotel.

A modern hotel business office has the most sophisticated technology available to perform its tasks.

Members of the business staff must have arithmetic and computer skills, the ability to work with detail, and effective communications skills. They must also have a thorough understanding of how a hotel makes money, and the methods that are used to track of income and expenses.

KEY CONCEPTS

Before proceeding, review the key concepts listed below to be sure you understand each one. If necessary, read over the corresponding section of the chapter. When you are ready to test your understanding, answer the Review Questions.

hospitality industry	occupancy
lodging operation	back office
food and beverage service	administration division
luxury or deluxe hotel	rooms division
first-class or executive hotel	food and beverage division
mid-market hotel	engineering division
economy/limited-service property	accounting department
all-suite hotel	marketing and sales department
Golden Age of Hotels	reservations department
Grand Hotel	front desk
motel	housekeeping department
hotelier	average daily rate
Uniform System of Accounts for Hotels	point of sale
	property management system

REVIEW QUESTIONS

1. Name the industry segment that is best described by each of the following phrases:
 - a. Has a restaurant, lounge, and recreational facilities and maintains above-average luxury
 - b. Has separate sitting, sleeping, and, usually, cooking facilities in all guest rooms
 - c. Markets to budget-conscious travelers, such as elderly people on fixed incomes, single working people, and students

- d. Markets to affluent travelers, providing a high level of quality and service, and charging suitably high rates
 - e. Markets to average business travelers and traveling families
2. What were the causes of each of the following events?
- a. The rise of the motel in the 1950s and 1960s
 - b. Rapid hotel construction in the 1980s
 - c. The advent of modern hotel accounting methods
3. Give the correct word or phrase for each of the following descriptions:
- a. A system of basic classifications and accounting procedures that was introduced in 1925 and can be used to compare the operations of different hotels
 - b. The percentage of rooms that are occupied on a given date
 - c. The average income per room for a given date
4. Identify the type of automation system that is used mainly for each of the following activities:
- a. Posting charges and payments to guest accounts directly from the dining room, cocktail lounge, and room service department
 - b. Handling accounting functions for all departments of the hotel
 - c. Managing room availability and rates
5. Identify the hotel division or department that is responsible for each of the following:
- a. Planning, preparing, and serving meals and beverages in the dining room and cocktail lounge, as well as providing meals and beverages to guests in their rooms

- b. Maintaining the condition of the buildings, grounds, electric and plumbing systems, and heating and air-conditioning equipment
- c. Promoting the hotel's image, attracting guests, and creating sales projections
- d. Handling guest registration, communications, and check-out
- e. Cleaning rooms, dispensing linens, and monitoring room status
- f. Assisting with luggage, vehicle parking, and guest communications

P R O J E C T S

1. Give three examples of properties from each industry segment in your local market.
2. Create an organization chart showing operational divisions for a hypothetical full-service hotel.
3. List the responsibilities of each operational division and department in the hotel.

The Hotel as a Business

Chapter Objectives

After completing this chapter, you should be able to perform the following tasks:

1. Explain the differences between retail and wholesale businesses.
2. Describe the main traits of a proprietorship, a general partnership, a limited partnership, and a corporation.
3. Identify the elements of a franchise, and discuss the advantages and drawbacks of franchising.
4. Explain the relationship between the owner and manager under a management contract.
5. Identify the licenses and permits that are required to operate a hotel.
6. Discuss the insurance requirements of a lodging establishment.
7. Name factors that are related to location and discuss their impact on the hotel.
8. Describe the basic books and files that are maintained by a lodging establishment.

Basics of the Hotel Business

A hotel is a type of retail business that provides services directly to the public. However, rooms sales may also be made by wholesale sources, such as tour operators or airlines. Wholesale refers to the sale of products or services for resale by others. A tour operator purchases room space from a hotel, and assembles vacation packages consisting of airfare, accommodations, airport transportation, and other travel services. The tour packages are offered for sale through retail travel agencies.

Most hotels are organized as corporations or limited partnerships. In theory, a business can be organized in three different ways:

1. Proprietorship
2. Partnership
3. Corporation.

Business Organization

A **proprietorship**, the simplest form of organization, is a business that is owned by an individual. The debts and taxes owed by the business are the owner's personal liabilities, and income from a proprietorship is the owner's personal income.

A **partnership** is jointly owned by two or more individuals. The liabilities and assets (cash, possessions, and other items of value) are shared equally by each partner. A limited partnership is owned jointly by general partners and limited partners. The business is managed by the general partners, who are responsible for the debts and liabilities. The limited partners have no liability but receive a share of the profits.

A **corporation** is owned by stockholders who are represented by a board of directors. The directors appoint officers such as a president, vice president, and treasurer, to manage the business. Unlike a proprietorship or partnership, a corporation has its own identity that is separate from that of its owners. Legally, a corporation is a "person" that pays its own income taxes and is responsible for its own debts. Profits are distributed to the stockholders as dividends.

Franchises

A **franchise** is a license obtained by an investor to operate a hotel using the trademark, designs, and operating methods of a large hotel company. The investor, who called the franchisee, pays a fee to the hotel company, which is called the franchisor. The franchisee finances the construction of the hotel. The franchisor may provide training, operating manuals, and assistance with constructing, decorating, staffing, and opening the property.

A franchisee may be an individual, a partnership, a small corporation, or a group of investors. The franchisee must abide by the franchisor's quality standards and product specifications, but is the legal owner of the business. Examples of successful hotel franchises include Holiday Inn, Days Inn, Sheraton, Hilton Inn, Quality Inn, and Ramada Inn.

The obligations of the franchisee are set forth in a contract, called the franchise agreement. An initial fee is paid to the franchisor when the agreement is signed. The franchisor's operations manuals cover such subjects as accounting practices, maintenance procedures, sales and marketing, advertising, personnel hiring and training, inventory control.

Besides the initial fee, the franchisee also pays an ongoing royalty on room revenues. For example, a Holiday Inn franchisee pays four percent of room sales each month. Additional royalties may be charged by the franchisor for advertising, computer reservation systems, and other services.

A hotel franchise can have any type of organization. If the hotel is organized as a corporation, the franchisee must own and control a majority of the stock.

Management Contracts

A management contract is similar to a franchise, except the hotel company builds the property and retains ownership. Under this type of arrangement, the hotel company contracts with a local firm to operate and manage the hotel. The corporation puts up the money for construction, development, decoration, and furnishings. The manager agrees to operate the hotel, as if he or she were the owner. In return, the the management firm receives a share of the profits.

Licenses and Permits

The licenses and permits that are required to operate a lodging establishment vary in different parts of the country and in different countries. In general, the following permits may be required.

Federal ID Number

A federal ID number is required of all employers in the United States, including hotels. The ID number is obtained from the Internal Revenue Service.

Business Licenses

Most local governments require a special license for the privilege of conducting a business in their communities. Business licenses are issued by a city or county clerk. In some locations, a special license is required for hotels.

Zoning Permits

In many communities, operating a lodging establishment requires the approval of local zoning authorities. A special permit may be required to construct a hotel in residential areas. To obtain a zoning permit, the director or manager may be required to make an appearance at a hearing or meeting.

Fire, Safety, and Health Permits

Most local governments require a fire, safety, and health inspection before granting a business permit or hotel license.

Trade Name Permit

The owners of the hotel must obtain a special permit to use a business name. This permit may be called a fictitious name license, or d.b.a. ("doing business as"). The hotel owner is required to pay a fee and publish a notice of intention to use a business name in a legal newspaper.

Business Insurance

Hotels must have comprehensive public liability insurance protecting the business against claims for bodily and personal injury, death, and property damage. The coverage should be sufficient to cover all the assets of the hotel, including real estate, furnishings, equipment, and records, against fire, theft, loss, or damage.

If motor vehicles are used by the hotel—for example, to transport guests to and from the airport—vehicle insurance must be obtained as well.

Worker's Compensation Insurance

Worker's compensation insurance covers employees of the hotel in case they are injured or disabled on the job. In some states, this coverage is not required of hotels.

Location

Location is important in many businesses, and lodging is no exception. The hotel's location has a great influence on its success or failure. The main factors in location are visibility, surroundings, proximity to customers, and accessibility.

Visibility

The primary advertising tool of a roadside lodging establishment is the outdoor sign that identifies the location. Nothing is more fundamental to a motel's success than the visibility of the property and its identifying sign to prospective customers. The sign also advertises the hotel company. Every Holiday Inn sign helps to market the Holiday Inn chain.

The property sign should be prominently displayed and easily visible to traffic passing in both directions. Sites located away from a main thoroughfare often have billboards or directional signs pointing the way to the property.

Surroundings

Just a person's image is derived from the company he or she keeps, a hotel's image is derived from its surroundings. A hotel in a business or financial district attracts executives and professionals, and one in a resort area

attracts leisure travelers. Motels situated at freeway exits attract motorists. A hotel that is located in an upscale shopping area conveys an image of luxury and affluence.

Proximity to Clients

Airport hotels and roadside motels enjoy close proximity to travelers. However, a hotel can succeed in a location that is near places where travelers go. For example, a hotel near an industrial park is assured of attracting a high percentage of sales people and engineers. A hotel in a university town will attract visiting educators, sports teams, and parents of students.

Accessibility

An important attribute of any hotel site is accessibility. Many travelers place a high value on convenience. A motel must have ample land for parking spaces and be easily accessible to motorists. If a hotel or resort is hard to get to, airport transportation should be available.

Books and Records

Most hotels now use computers to maintain their accounting books and business records, but certain items must be kept in physical files, as well. The traditional method of managing the finances of a business is to enter transactions in a record book, or journal. The basic journals kept by a hotel include a cash receipts journal, accounts receivable journal, and disbursements journal.

A cash receipts journal is used to record all daily sales transactions, whether paid in cash or by credit card. An accounts receivable journal is used to record credit sales (other than credit-card transactions). A disbursements journal is used to record payments for expenses, such as rent, salaries, and office supplies.

These and other accounting tools will be discussed in detail in chapter 5.

Physical Files

A file is any collection of information that is stored in a systematic manner. When information is stored in a file cabinet or drawer, the collection is called a physical file. This term distinguishes the information from data

stored by a computer in electronic files. Often, accounting information is kept in both physical and electronic files.

The physical files maintained by a hotel include the following invoice files, disbursements, assets, liabilities, and travel expenses.

Invoice File

Copies of unpaid client invoices are kept on file to document sales made on account.

Disbursements File

An expense file is maintained to document payments made for expenses. The file may contain such items as canceled checks, sales receipts, paid invoices, and so forth.

Asset File

An asset is an item of tangible property owned by a business. An asset file contains records that document the ownership of tangible property. The file may contain such items as equipment titles, bills of sale, and warranties.

Liability File

A liability is a debt or payable item that reduces the monetary worth of a business. A liability file contains records that document liabilities, such as outstanding loans, insurance premiums, taxes owed, and so forth.

Travel Expenses

Business and employee travel expenses are maintained in a special file containing detailed documentation to substantiate their necessity. The Internal Revenue Service has strict regulations governing the documentation of deductible travel and entertainment expenses. These records must be kept a minimum of four years.

Employee Records

A typical hotel may have a large staff and, thus, a large payroll. State and federal laws require various types of employee records to be kept, including the following:

- _ Tax withholding
- _ Social security
- _ Federal unemployment tax
- _ State or other local income tax withholding

Employee records may be stored in physical files or in electronic (computer) files. However, storing information in a computer does not satisfy all of the legal requirements. Tax withholding forms signed by each full-time employee are required to be kept in physical files.

The following information is required to be kept for each employee:

- _ The name, address and social security number of each employee
- _ The total amount and date of each paycheck, and the period covered by the check
- _ The amount of wages paid subject to deductions
- _ The amount of the deductions
- _ Signed statements regarding the residency status of aliens
- _ Withholding exemption certificate signed by each employee
- _ Agreements to voluntarily withhold additional wages, and other special withholding requests

Hotel Automation Systems

Lodging establishments use three types of data processing systems: reservations systems, point of sale (POS) systems, and property management systems (PMS). A reservations system is used to document room requests and, in some cases, to manage rooms. The major chains, franchise networks, and referral organizations have centralized computer systems to which individual properties can be linked. Some hotel computer systems can also be linked to the reservation systems used by airlines and travel agencies.

A POS, or point of sale system, is used by the front office to record client payments and manage accounts receivable. A computer terminal is used by the cashier to enter invoice totals, cash receipts, and charges on account.

Entries can be made "at the point of sale" by cashiers in the front office, dining room, and lounge. The computer posts all guest payments and adjusts the accounts receivable journal automatically. The POS can be used to print cash receipts reports, accounts receivable report, and sales summaries.

A PMS, or property management system, is used to handle the accounting functions of all the various departments. Room sales, food and beverage sales, telephone charges, and other income are entered into the computer throughout the day. The system is also used to make disbursements for operating expenses and salaries. A POS can be used to print financial statements, operating statements, and management reports such as room summaries, sales forecasts, and cost analyses.

KEY CONCEPTS

Before proceeding, review the key concepts listed below to be sure you understand each one. If necessary, read over the corresponding section of the chapter. When you are ready to test your understanding, answer the Review Questions.

proprietorship	management contract
partnership	zoning permit
assets and liabilities	fire, safety, and health permits
general partner	fictitious name permit
limited partner	liability insurance
corporation	visibility
stockholder	surroundings
board of directors	proximity to clients
officer	accessibility
franchise	physical file
franchisee	invoice disbursement
franchisor	asset
franchise agreement	liability
initial fee	POS system
royalty	PMS

REVIEW QUESTIONS

1. Write the correct word or phrase that matches each description:
 - a. A business that provides services directly to the public
 - b. A business that offers products or services for resale by others, but not to the general public
 - c. A business that is owned by stockholders represented by a board of directors
 - d. A business that is owned jointly by general and limited partners

- e. A license obtained by an investor to use the trademark, designs, blueprints, and operating methods of a well-known chain
 - f. A permit to use a business name
2. Name four factors related to location that have an influence on the operation of a lodging establishment.
 3. Name four types of physical files that are kept by a lodging establishment.
 4. Name four types of employee records that must be kept by a lodging establishment.
 5. Name two types of fees that are paid by a franchisee.
 6. Explain the main difference between a franchise and a management contract.
 7. From what source is a federal employer's ID number obtained?
 8. What is used to record daily sales transactions paid by cash or credit card?
 9. What is used to record payments for expenses, such as rent, salaries, and office supplies?
 10. What type of computer system is used to maintain and analyze sales at the front desk, dining room, and lounge?

PROJECTS

1. Research government agencies in your area, and prepare a list of the sources where the following can be obtained:
 - a. Business license
 - b. Fictitious name permit
 - c. Employer ID number
 - d. Fire, safety, and health inspection permits
 - e. Hotel license



Organization of the Business Office

Chapter Objectives

After completing this chapter, you should be able to perform the following tasks:

1. Identify the main responsibilities of the business office of a lodging establishment.
2. Describe the formal organization of the business office, and identify the key staff positions.
3. Describe the accounting functions performed by the front desk cashier and night auditor.
4. Explain the relationship between responsibility and accountability.
5. Discuss the differences between a line organization, a functional organization, and a line and staff organization.

The Functions of the Back Office

The back office has primary responsibility for the business aspects of the hotel. The duties of the staff include creating budgets, handling bookkeeping and accounting, managing payroll, banking, ordering stationery and business supplies, and financial planning.

The size and organization of the back office depends on several factors. A limited-service hotel is devoted primarily to rooms functions and, therefore, requires a small business staff. On the other hand, a full-service hotel with food and beverage service and a bell staff has more employees, a larger payroll, and a proportionately larger business staff.

The main functions of the back office are general cash and accounts payable, but in a large hotel, the activities that are required to perform these functions are distributed among numerous specialists.

Back Office Organization

The back office organization of a large lodging establishment typically consists of the following key positions:

1. Controller
2. Budget controller
3. Credit manager
4. Chief accountant
5. Food and beverage controller
6. Payroll manager
7. Inventory controller
8. Bookkeeping staff
9. Shipping/receiving staff

To understand how the business office functions, let us examine the main responsibilities of each position and see how each relates to other staff members in the hotel.

The Controller

The controller, also called the accounting director, is the highest authority in the business office. Under the direction of the executive director or

general manager of the hotel, the controller plans and implements accounting procedures, supervises the managers of the various accounting divisions, and prepares financial reports. The controller's two most important responsibilities are the analysis of income and the control of operating expenses.

Accounting Managers

In the largest hotels, the controller may be assisted by several accounting managers, each of whom supervise a staff of specialists.

A budget controller is responsible for preparing budgets, based on sales forecasts and estimates of future operating expenses.

A credit manager has the responsibility for establishing credit policies, approving client accounts, and ensuring the prompt collection of monies owed to the hotel.

A chief accountant, also called the accounting manager or bookkeeping manager, supervises a staff of accountants responsible for analyzing and monitoring income and expenses.

A food and beverage controller analyzes costs and implements controls related to the hotel's restaurant, lounge, room service, and banquet operations.

A payroll manager is responsible for ensuring that all employees are properly paid on time. The payroll staff maintains payroll, social security, and income tax records, and issue paychecks for all personnel.

The bookkeeping staff is responsible for posting charges to guest accounts and maintaining detailed records of money owed to suppliers, such as commercial laundries, glassware vendors, and so forth.

Inventory Managers

An inventory controller has the responsibility for devising and implementing procedures for receiving, storing, and dispensing supplies throughout the hotel. The facilities under the inventory controller's supervision include all storerooms where cleaning supplies, food and beverage items, and maintenance supplies and equipment are kept.

An inventory controller might also be responsible for managing the assets of the hotel, by labeling hotel property and maintaining detailed records of the purchase date, vendor, and department of each item.

A purchasing manager is responsible for researching the availability and pricing of the many different supplies and equipment needed to operate the hotel and approving all purchases. Buyers working under the supervision of the purchasing manager determine the best vendors, quantities, and prices for major purchases.

Front Desk Cashier

Though they work in the front office, cashiers are usually part of the accounting department and work under the supervision of the accounting manager. The cashier is responsible for receiving payments from departing guests and giving out receipts for paid bills. Some hotels consolidate the functions of front desk receptionist and cashier into one job. This receptionist/cashier is responsible for guest registration, check-out, and client payments.

Night Auditor

The night auditor works in the front office, but has an important accounting responsibility. A night auditor's shift usually runs from 11:00 P.M. to 7:00 A.M. During this time, the night auditor performs the duties of a front desk clerk, registering arriving guests and checking out late-night departures. Most of the night auditor's time is occupied by posting charges to guest accounts and totaling the charges from each department for the previous day. The auditor also totals the payments received from guests to determine the balance owed to the hotel. The new balance is compared with the previous day's balance, to verify that the charges and payments were posted correctly. A night auditor may be required to perform other accounting duties, as well.

Principles of Hotel Organization

Organization is the formal division of authority. In a very small business, one person might be able to perform all or most of the tasks that are required to manage the operation. But even a self-employed individual or a small company from time to time needs help with special functions, such as

bookkeeping, bill collections, and advertising. A large company has far too many administrative tasks for any one person to even think of performing.

The main objective of organization is to divide authority effectively among people who are qualified to perform each task. The division of authority creates responsibility and accountability. Responsibility is the obligation to handle a particular function, following the directions of a higher authority. Accountability is the obligation to receive credit for successes and blames for mistakes. For example, the food and beverage manager is responsible for all operations in the kitchen, dining room, and lounge, and performs his duties under the direction of the executive director. If food costs run out of control or service mistakes are made in the dining room, the food and beverage manager is held accountable. If the department operates smoothly and produces a profit for the hotel, the manager is entitled to take credit for these successes.

Every employee of the hotel, from the door attendant to the cashier, is both responsible and accountable for his or her function. The executive director is responsible for all hotel operations, under the direction of the owners.

The people who take direction from a higher authority are subordinates, and the higher authorities are their supervisors. The key to good organization is the proper delegation of authority. Subordinates cannot perform their jobs effectively unless they, too, receive a certain amount of authority in addition to accountability. For example, if purchasing managers are held accountable for the quality of lighting fixtures in guest rooms, they must also have the authority to select and approve the vendors from which the hotel purchases the fixtures. Similarly, if headwaiters are held responsible for service mistakes in the dining room, they must have the authority to train food servers and take corrective action when mistakes occur.

The division of authority, responsibility, and accountability among the employees of a business is called the formal organization. A formal organization may be of three types:

1. Line
2. Functional
3. Line and Staff

A **line organization**, also called a vertical organization, may be viewed as a ladder, with each rung representing a different job position. In the line organization, each position is subordinate to a higher position. For example, a housekeeper is subordinate to the executive housekeeper, who is

subordinate the assistant manager. In turn, the assistant manager is subordinate to the general manager.

No position in the organization can have more than one immediate supervisor. For example, the door attendant cannot be supervised by both the bell captain and the front desk clerk. Any directions that involve the door attendant must follow the proper line authority, from the bell captain to the attendant.

A **functional organization**, also called a matrix organization, may be viewed as a wall consisting of several rows of blocks. In a functional organization, the flow of authority depends on a particular project or objective. The person who has overall responsibility for the project has the highest authority. The various positions that are required to carry out the project become the subordinates. The flow of authority is different with each project.

For example, assume that, in the food and beverage department, food servers may be required to work both in the dining room and at banquets. When on duty in the dining room, food servers are subordinate to the dining room manager, who is subordinate to the food and beverage manager. When on banquet duty, the food servers are subordinate to the banquet service manager, who is subordinate to the catering director. When budgets are prepared, the dining room manager and catering director are both subordinate to the food and beverage controller. This example is representative of a functional organization.

In a **line and staff organization**, line authority and functional authority are combined. Line positions are subordinate to their immediate supervisors, but staff positions have no authority over any of the line positions. For example, assume that the food and beverage manager has direct authority over the dining room manager, head bartender, and catering director. In turn, these subordinates have authority over their own departments. The food and beverage controller has management responsibility but has no authority over anyone in the food and beverage department. To analyze food and beverage costs, the controller receives regular reports from the dining room manager and head bartender. The controller works in the food and beverage department but is subordinate to the accounting director, not the food and beverage manager. In this example, the food and beverage manager has line authority, whereas the controller has staff authority.

A line organization is suitable only for small businesses where flexibility is not required. The functional organization is used mainly by large engineering and manufacturing companies that have numerous projects requiring highly specialized expertise. Most hotels use the line and staff organization, so that

authority can be delegated effectively, while allowing for flexibility in management and decision making.

Management by Committee

In the traditional organization, important management decisions are made by the highest ranking authority. For example, decisions as how to run the dining room and lounge are made by the food and beverage manager, and, at the highest level, the most important decisions affecting any department of the hotel are made by the executive director. In some organizations, committees are formed to discuss and decide important management issues.

An executive committee is made up of the heads of the various operational departments, such as the front office, housekeeping, engineering, the food and beverage service, and accounting. The committee meets regularly to discuss operational problems, staff needs, and so forth. The executive director serves as the head of the committee, but decisions that affect the entire hotel are put to a vote.

Not all executive committees have the authority to make important management decisions. The executive director may retain the right to accept or reject the committee's recommendations.

Chain Organization

Internal organization refers to the formal organization of the property staff headed by the executive director. If the hotel is part of chain, the property staff may be subordinate to yet a higher authority—the chain headquarters.

Headquarters functions are divided into five main areas:

1. Administration
2. Finance
3. Operations
4. Marketing
5. Development

The administration area is involved with the coordination and management all of the chain's properties. The finance area is involved with the planning, management, and reporting of monies, including profits, investments, loans,

and taxes. The operations area is involved with devising, implementing, and evaluating training programs and operating procedures for all of the properties. The marketing area is involved with planning, implementing, and evaluating promotions. The development area is involved with planning and coordinating property expansion, construction, and refurbishing.

The headquarters is the highest authority in the chain. A proprietary chain consists of multiple properties owned by one company. In a co-owner chain, ownership of the company's properties is shared with independent investors. In both types of chains, the headquarters is responsible for the operations and profits of all of the company's properties.

The highest authority is the chief executive officer, or CEO. The CEO is usually the chairman of the board of directors and has overall responsibility for setting company objectives and setting policies. The chief operations officer, or COO, is the second highest authority and is responsible for implementing the objectives and policies. Each of the main functional areas is headed by a vice president.

The management of the chain may be centralized or decentralized. In a centralized chain, the headquarters has direct control over all of the properties. The executive director of each property receives direction from the vice president of operations. The various hotel departments are required to abide strictly by the policies and procedures established by headquarters. The headquarters staff consults with the executive director, but makes all important management decisions affecting the hotel.

In a decentralized chain, each property is permitted to operate as an independent hotel, under general guidelines and quality standards established by headquarters. The executive directors are free to make important decisions without consulting headquarters, but are held accountable for the image, efficiency, and profits of their hotels.

The properties of a **franchise chain**, such as Holiday Inn or Quality Inn, are independently owned and operated. However, the franchise agreement obligates the property owners to adhere to the operating methods and quality standards set forth by headquarters. Some chains, such as Sheraton and Hilton, consist of both proprietary properties and franchises.

The formal organization of a chain is of two basic types: satellite and area. A **satellite organization** is arranged like the solar system, with the various planets revolving around the sun. In this analogy, the properties are the planets, and the sun is the headquarters. Each property has a direct, one-on-relationship with headquarters. For example, the monies produced by each property go directly to the headquarters, and the headquarters staff has line authority over the executive directors.

The properties of an **area organization** are separated into smaller organizations, called subsidiaries or divisions. Each subsidiary has its own headquarters and is responsible for the operations and profits of all of the properties under its control. The subsidiaries may have different trademarks, or may be responsible for selected geographic regions. For example, subsidiaries of the Select chain operate under the trademarks Quality Inn, Red Comfort Inn, and Scottish Inn. In the Holiday Inn chain, each is managed by a separate division with its own headquarters staff.

KEY CONCEPTS

Before proceeding, review the key concepts listed below to be sure you understand each one. If necessary, read over the corresponding section of the chapter. When you are ready to test your understanding, answer the Review Questions.

controller	formal organization
budget controller	line organization
credit manager	functional organization
chief accountant	line and staff organization
food and beverage controller	executive committee
payroll manager	internal organization
bookkeeping staff	headquarters
inventory controller	proprietary chain
purchasing manager	co-owner chain
front desk cashier	chief executive officer (CEO)
night auditor	chief operations officer (COO)
organization	centralized
authority	decentralized
responsibility accountability	franchise chain
subordinate	satellite organization
supervisor	area organization

REVIEW QUESTIONS

1. Give the job title of the back office employee who is responsible for each of the following:
 - a. Coordinating storeroom operations
 - b. Planning and implementing accounting procedures, supervising the accounting staffs, and preparing financial reports
 - c. Researching availability and pricing of supplies and equipment
 - d. Posting charges to guest accounts and maintaining records of money

2. Give the type of organization (line, functional, or line and staff for each situation:
 - a. The kitchen steward is directly supervised by the storeroom supervisor, but may also receive directions from the head cook
 - b. The kitchen steward receives all directions from the storeroom supervisor and from no one else
 - c. Depending on the project, the kitchen steward may receive directions from the banquet service manager, head cook, or room service manager
3. What job position has the highest authority in the business office?
4. What job position has the highest authority in a chain?
5. What two factors are created by the division of authority?

PROJECTS

1. Create an organization chart of the business office of a hypothetical hotel.
2. Write a job description listing the responsibilities and duties of each key position in the chart.