Hotel Finance

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Chapter

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Financial Management in the Hospitality Industry

The significance of a man is not in what he attains but in what he longs to attain.

Kahlil Gibran

Learning Objectives

After studying this chapter, you will be able to

- Understand the meaning and importance of financial management in the context of hospitality operations
- Understand the goal of the firm and the constraints in relation to the goal
- Examine the position of financial management in the organization chart of a hospitality firm
- Explore the relationship between finance, micro/macro economics, and accounting

Success at Hilton Hotels Corporation

Hilton Hotels Corporation is a leading global hospitality company, with more than 2800 hotels and 4,90,000 hotel rooms in more than 80 countries across the globe. The company offers great choices to its customers, whether travelling for business or leisure. Hilton guests and customers can choose from four-star city centre hotels (more 1000-plus room hotels than any hotel, including the Waldorf=Astoria, the Palmer House, and the Hilton San Francisco); convention properties (more than any other company); mid-priced focused

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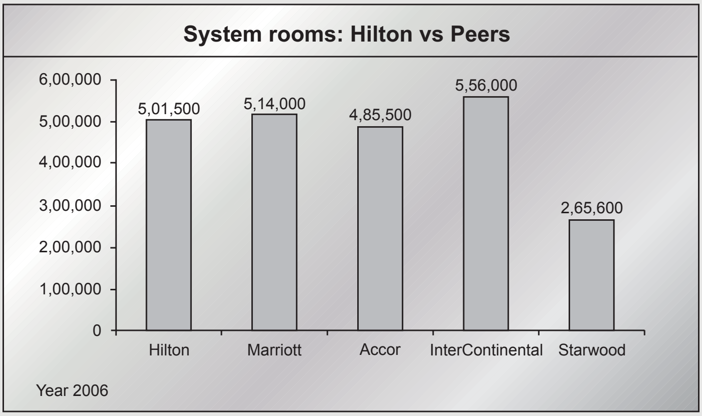

Source: www.hilton.com.

service hotels (the Hilton Garden Inn and the Hampton Inn); long-term extended stay hotels (the Homewood Suites by Hilton); destination resorts on the beach and/or golf course (including the famous Hilton Hawaiian Village and Pointe Hilton Resorts in Phoenix); luxury leisure resorts in the Waldorf=Astoria Collection (including The Grand Wailea, Arizona, Biltmore, and La Quinta Resort and Spa); airport hotels (nearly 40 in such cities as Chicago, Los Angeles, Atlanta, Miami, New York, and Dallas-Ft Worth); vacation ownership (in such locations as Orlando, Miami, and Las Vegas), or conference centres.

The Hilton Hotel Corporation example is that of resounding success of a large global hotel chain. The growth of its business can be attributed to the efficient allocation of resources available to the corporation. *Finance* is a term used to describe all the monetary resources available to an organization. The focus, however, is on the management aspect of finance. Therefore, financial management deals with the acquisition, management, and financing of resources for corporations by means of money, but with due regard for prices in external economic markets.

Effective management of finance is pivotal to the success of hotel companies, and with rapid globalization the role of finance managers is getting more complex. Modern finance managers are expected to play a more dynamic role than that of just raising funds and managing cash flows of the corporation. Managers at various levels of the organization have to be well versed with the subject matter of financial management. Finance is the common thread that runs through all the departments and units of an organization. Majority of managers appreciate financial expertise, and do not consider it as an impediment in their areas.

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FINANCIAL MANAGEMENT IN HOSPITALITY INDUSTRY

Modern day hospitality managers face challenges from all quarters. There is rapid development in technological aspects of the hotel business, while increasing operating costs make it necessary to check costs at all levels to maximize profits. With increase in the competition, it is necessary that the hospitality managers focus on profitability and cash flows without triggering an adverse effect on guests or customers. It is imperative that all executives appraise the financial implications of their actions. It is also necessary that managers be aware of the correct techniques to forecast trends, and be able to identify and address potential problems through discussions with the concerned executives. Estimating revenues and profits accurately is essential for developing the financial side of the business. This calls for appropriate investment in people and infrastructure, and also ensuring adequacy in training and development of the employees and staff.

Financial management in the hospitality industry deals particularly with investment decisions (one of the most important functions of financial management), which begins with the determination of total assets required for operations. The management has to estimate and assess the financial implications of investment in a proposed project or asset. The other side of investment—disinvestment—also needs to be given due consideration. Assets that are not economically viable may be eliminated or discarded.

> *We are building a culture at IHG that's focused on producing strong returns for our owners while creating shared social benefits in the communities we are part of.*
>
> Andrew Cosslett, Chief Executive, Intercontinental Hotels Group
>
> *My personal commitment over the next few years will be on building sustainable value for our shareholders. I believe the key to long-term value building is growth: growth in investments, growth in earnings; and growth in the return on capital employed.*
>
> Capt. C.P. Krishnan Nair, Chairman, Hotel Leela Ventures Ltd
>
> *Source:* Annual Report, 2005–2006.

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Financing decision is the second major decision in the sequence. It is necessary for managers to determine the source of finance. An examination of the mix of financing across the hospitality industry gives a varied result. Some firms have a relatively high amount of debt, whereas others are absolutely debt free. Does a particular type of financing make a difference? Can a certain mix be thought of as the best? These are some questions pertaining to the financing decisions in the hospitality industry. Dividend policy must also be viewed as an integral part of the financial decisions. The dividend payout ratio would determine the amount of funds to be retained in the firm. Larger the dividend payout, lesser will be the amount of current earnings. A firm needs to balance the value of dividends paid and the amount of funds to be retained in the firm for further expansion.

The third important financial decision of the firm is the asset management decision. Asset management decisions call for responsible use of current and non-current assets. The managers must be concerned about employing current assets and non-current assets to provide optimum results.

INCREASING SHAREHOLDER VALUE

Throughout the book, we shall assume that the primary goal of any hotel organization is to maximize shareholder wealth. Shareholders too would invest in companies that show potential for growth. With spurt in the tourism sector, most of the investors look at hotels as a profitable investment avenue. Tourism statistics indicate a phenomenal growth in the industry. This would definitely increase earning opportunities in the hospitality sector. Therefore, the shareholders would definitely look forward to increasing their wealth by investing in the hotel companies. These companies can increase shareholder wealth by increasing profits. This can only be done by increasing revenue from the rooms, and food and beverage sales.

The service sector in India has been burgeoning over the past years. Sectors such as financial services, ITES (information technology-enabled services), and the like have shown a remarkable growth. The Incredible India campaign launched

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Ten ways to increase shareholder wealth

- Do not manage earnings or provide earnings guidance.
- Make strategic decisions that maximize expected value, even at the expense of lowering short-term earnings.
- Make acquisitions that maximize expected value, even at the expense of lowering near-term earnings.
- Carry only those assets that maximize value.
- Return cash to shareholders when there are no credible value-creating opportunities to invest in the business.
- Reward CEOs and other senior executives for delivering superior long-term returns.
- Reward operating-unit executives for adding superior multi-year value.
- Reward middle managers and frontline employees for delivering superior performance on the key value drivers that they influence directly.
- Require senior executives to bear the risks of ownership just as shareholders do.
- Provide investors with value-relevant information.

Source: Rappaport A. (2006), 'Ten ways to create shareholder value', *Harvard Business Review*.

by the government of India has featured India on the world tourism map. The change in policy as regards to civil aviation has allowed the sector to grow. The receipts from tourism have shown an increase of 50 per cent in India. The number of private airlines has increased dramatically over the past five years. As a consequence, the demand for hotel rooms is constantly on the rise. Due to such favourable conditions, hotel companies have emerged as profitable investment alternatives. See Table 1.1 for earnings per share (EPS) of the top three Indian hotel companies.

Table 1.1 EPS of top three Indian hotel companies

	2005 (Rs)	2006 (Rs)
Indian Hotels Co. Ltd	20.06	31.47
Hotel Leela Ventures	6.59	9.69
East India Hotels Ltd	5.58	36.04

Average room rates in star hotels have shot up in the last couple of years (see Table 1.2).

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Table 1.2 Rising room rates

	2001–02 (Rs)	02–03 (Rs)	03–04 (Rs)	04–05 (Rs)	05–06 (Rs)	12-month growth* (%)	Growth** (%)
Overall average	3467	3269	3569	4299	5318	23.7	5.8
Five-star deluxe	4668	4335	4686	5606	7099	26.6	5.9
Five-star	3277	3114	3372	3897	5019	28.8	7.2
Four-star	2368	2246	2580	3088	3799	23.0	10.4
Three-star	1696	1669	1670	1830	2044	11.7	5.4

*Growth in 2005–06 (in absolute terms) expressed as percentage of the figure for 2004–05. **Compounded.
Source: HVS International.

Earnings per share does not specify the duration of expected returns, risk involved in the project, and the effect of the dividend policy on the *market price of the shares*. Hence, maximizing shareholder value may not be the same as maximizing market price per share. Market price of a share is the judgment or perceptions of all the market participants as regards to the value of the firm. It considers all the factors that influence prices. The market price is a reflection of the business performance and an indicator of effective or ineffective management. This brings the management under continuous scrutiny. Unsatisfied shareholders have the option of moving to another company. If the number of unsatisfied shareholders is high, the market price per share will fall due to excessive selling. It is the responsibility of the management to create value for shareholders. Hotel companies will be able to increase shareholder value only by focussing on products, and market strategies such as building market share or increasing guest satisfaction, to increase shareholder value.

SHAREHOLDERS VERSUS MANAGEMENT

The basic premise is that the benefit of the shareholder is most important. The reason is very simple. Let us consider the example of a small restaurant or hotel business where the owner is also the manager of the firm. Here the owner has the primary

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goal of earning good income and increasing his own wealth. When the operations of a business are limited, the owner supplies all the resources and bears all the risks. Perhaps the owner may have borrowed money from a bank or elsewhere, but the ultimate rewards of good or bad performance, and the major risks, go to the owner alone.

The increase in the size of operations demand a larger quantum of resources, which may be beyond the reach of a single individual. Major corporations today invite the participation of the general public to raise capital. In return for the investment, the shareholders get residual (or last) claim on the firm's stream of cash flows. The shareholders benefit by way of cash dividends and/or increase in the market price of the share. But if the firm fails, they may even lose everything because they have a last claim on the assets.

One of the characteristic features of the modern corporation is that the ownership is distinct from the management. Managers are empowered by the owners (shareholders) to make decisions. This is also one of the reasons for conflicts between owners and managers regarding individual interests. In certain cases, there is very little or no control or influence of shareholders due to a large shareholder base, and the management has complete autonomy. Consequently, management may act in its own interests rather than the interests of the shareholders. Managers often work towards mere satisfaction of shareholder interests rather than maximizing them because they focus on ensuring their own security and advancement, rather than maximizing the value of the shareholders.

In this context, the management of the firm is addressed as the *agent* of the owners. Since the shareholders cannot manage the operations of the organization, they delegate the decision-making authority to the managers in a democratic manner. *Agency theory* states that the managers (agents) may have different interests or goals than the shareholders (principal). The shareholders exercise control by casting votes on issues raised in the AGM (annual general meeting) or at any other meeting that is convened by the organization. The agents would act in the best interests of the principal, provided there are adequate incentives, schemes, and monitoring mechanisms. Incentives

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such as performance bonus linked to the performance of the firm and perquisites (perks) like company cars are provided to the executives. Monitoring devices include external audit and other reporting mechanisms. The direct and indirect monitoring costs are called *agency costs*. While we do not know the implications of agency costs, they appear to hamper the objective of shareholder value maximization.

The acid test of the firm's performance is the judgment of the financial markets, reflected in the market price of the share. Firms with low share prices are acquired by larger corporations either by mergers or takeovers. The consequence of mergers and acquisitions is restructuring and retrenchment of the work force. In some cases, good managers are retained. The well-being of the managers and the shareholders depends on the success of the firm. Although, the interests of the managers and shareholders do not coincide at all times, there are common factors that ensure some amount of similarity of objectives.

As long as there is misalignment of shareholder and management interests, the objectives of the firm will never be achieved.

SHAREHOLDERS VERSUS CREDITORS

Shareholders are not the only suppliers of funds to the organization. There is another set of people who lend money to the organization on a short-term or long-term basis. They are called *creditors*. In certain cases, there may be a clash of interest between the shareholders and the creditors. Consider the example of long-term creditors who seek timely payment of interest and repayment of the principal amount. In such a case, the firm will have to balance between the interest and the dividend payout. This cost is borne by the equity shareholders by way of accepting lower cash dividends or a lower market price of the shares.

SHAREHOLDERS AND SOCIAL RESPONSIBILITY

A great deal has been said about the social responsibility of business in recent years. It is true that maximizing shareholder wealth does not mean that management should ignore social responsibilities like protecting consumer rights, ensuring fair

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payment of salaries to employees, maintaining fair business practices, and supporting other social causes like education, welfare, and the like.

In the context of hotel organizations, it is necessary to support the cause of environment by conserving and protecting it. The Orchid is a hotel that is committed to environmental excellence and follows a *mantra*: deluxe need not disturb, comfort need not compromise, and entertainment need not be insensitive. The hotel participates in environmental protection by involving the local community, educating the employees, ensuring solid-waste management, and conserving energy and water. Likewise, most hotels in India have a policy on the protection of environment. It has become necessary to balance social responsibility with business sense. The whole idea of social responsibility is complex. Most firms have resolved the issue by undertaking to maintain a desired level of commitment to society by sponsoring community projects and projects that are socially responsible. Let us consider two firms similar in all respects, the only difference between the two being that one is more socially responsible, supports social causes, and has lower revenues, whereas the other does not and has higher revenues.

Endangered species: Whose social responsibility?

Industrial fishing has wiped out almost 90 per cent of the large predatory fish. Most of the world's oceans are facing the problem of overfishing. Surprisingly, majority of the world's fishing fleet is found in Asian waters. Many restaurants, especially in some of the Asian countries like Indonesia, attract divers searching for lobsters, the last remaining valuable species. Biologists are concerned about popular increase in taste for the fancy, novel, coral reef fish in mainland China. Experts believe that in the wake of massive and hi-tech slaughtering the fish do not stand a chance of survival. This problem can be resolved to some extent by ensuring that countries limit export quotas, create protected areas and encourage consumers to select less endangered species. Legislations will certainly benefit the process of developing marine ecosystems but the fundamental reform that must precede is a change in people's mind. Only when fish are seen as creatures deserving protection that the depletion of the world's ocean will cease.

Source: National Geographic, April (2007), nationalgeographic.com.

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The lower revenues of the former mean lower cash flows and possibly a lower market price of share. Can this situation continue? In an intensely competitive environment, this gross difference between the two firms may not be accepted by the shareholders. The socially responsible firm will have to change policies to correct disparities between revenues and market values to avoid a negative impact on its very existence. Is social responsibility at odds with the objective of shareholder wealth maximization? The answer is yes and no. But it places some restrictions on the freedom to make financial decisions based on the objective of shareholder wealth maximization.

The Practice

With such diverse interests, it is appropriate for the firm to consider the interests of *stakeholders* other than shareholders. These stakeholders include customers, creditors, suppliers, society, employees, and others. The ability to address issues of genuine concern to the stakeholders will ensure the ultimate goal of shareholder wealth maximization.

The objective of shareholder wealth maximization is theoretically correct and provides a proper basis for decision making. There are constraints but the objective provides a clear and precise framework to judge decisions. It provides a ground for comparison and allows one to determine the quality of managerial decisions.

HOW DO HOTEL COMPANIES ACHIEVE THE OBJECTIVE?

After considering the objective of the firm, it is imperative for us to understand how hotel companies endeavour to achieve the objective. Hotel companies have become a lucrative investment proposition in recent years due to the increasing demand for hotel rooms. However, the value to an investor is determined by (a) the quantum of future returns in terms of cash flows to be gained from the investment, (b) the timing of these cash flows, (c) risk involved in the investment, and (d) the market value, which is the fallout of cash flows, timing, and risk involved in the investment.

Cash flows refers to the actual cash to be received or paid. This is not to be equated with earnings or profits in the accounting

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terminology. Accountants would watch earnings, while managers would be concerned about cash flows. Earnings or profits depict the ability of the firm to earn profits, while cash flows focus on the firm's ability to maintain a healthy flow of cash.

The second fundamental concept relates to *timing the cash flows*. Timing is of paramount importance as far as cash flows are concerned. For instance, if you had to make a choice between Rs 1000 today and Rs 1000 after a year, you will choose Rs 1000 today. This will be an obvious decision if you are rational, even when you may not require the amount till the next year. By investing the money elsewhere, you will be able to achieve more than Rs 1000 in a years' time. Managers often hasten the collection process and try to delay the payments to a practical extent. Hotel companies do not battle the problem of collections as most of the transactions are purely based on cash and there is no problem of default from corporate debtors. Therefore, most hotel companies do not face a difficulty in maintaining healthy cash flows.

The third aspect relates to *risk*. The uncertainty of something happening or an event less than desirable is known as risk. Rational investors expect a higher return for assuming higher risks. The risk and return consideration is fundamental to the study of financial management.

Valuation is the fourth important financial concept. Valuation means the process of determining the worth of a company's assets, based on expected risk and return associated with the asset. The magnitude, timing, and risk associated with future cash flows, from the investor's point of view, influence the demand and supply for the shares and thereby determine the market price of the share. It is important to note that management actions that affect the magnitude or timing of, or reduce the risk associated with, the firm's future cash flows will increase the value of the firm.

ORGANIZATION OF FINANCE FUNCTION IN THE HOTEL INDUSTRY

You may become either a chef, a food and beverage manager, a front office manager, or an executive housekeeper, and so it is important to understand the role of financial management in

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the operation of hotels. Figure 1.1 provides a view of the finance function in a majority of hotel companies in India.

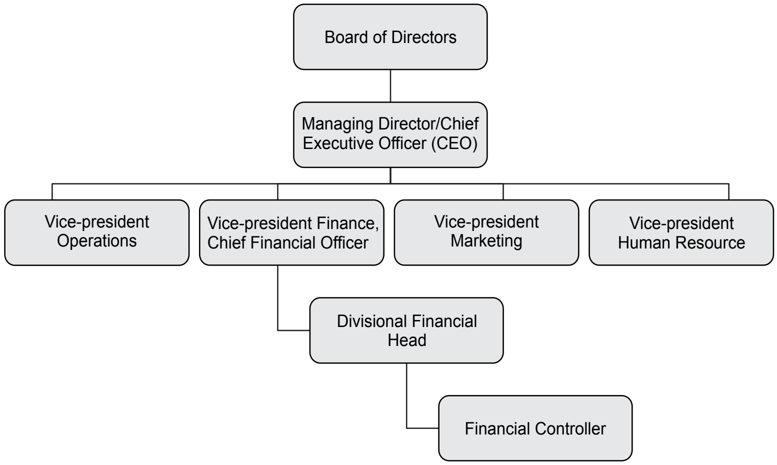

Fig. 1.1 Financial management in a hospitality organization chart

The head of one functional area of the firm, the vice-president of finance or the chief financial officer will report to the chief executive officer (CEO). The vice-president of finance is assisted by heads of finance for different divisions, who are in turn supported by financial controllers at the unit levels. The controller's responsibilities largely pertain to the accounting function that includes cost accounting, budgets and forecasts, and monitoring internal consumption finalization of the unit level financial statements.

The divisional finance head is the link between various functional units (hotel properties) and the chief financial officer (CFO). The divisional financial head is responsible for capital budgeting decisions, financial requirements of strategic business units, cash management, credit management, etc.

FINANCE: AN INTERDISCIPLINARY APPROACH

Financial management has a close association with economics and accounting. In effect, financial management is the application of microeconomics. Key macroeconomic indicators like growth rate of the economy, the domestic savings rate, develop-

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ments in the tourism sector, tax environment, and the availability of funds to the hospitality industry define the framework for the firm to operate. Managers must be tuned into economic developments taking place in the country. Thorough knowledge of macroeconomic concepts will help managers to spot opportunities and threats existing in the environment, while a scrupulous understanding of microeconomic principles is a prerequisite for making effective decisions pertaining to financial aspects of hospitality operations.

Finance and accounting functions invariably fall into the same domain of knowledge and are therefore considered to be the same. But as students of finance, we need to distinguish between the nuances of both disciplines. Accounting is concerned with scorekeeping whereas finance is about value maximization. Accounting pertains to a routine system that reports the financial performance of the firm in the past whereas the principal objective of financial management is to maximize shareholder value by investing in profitable projects and ventures. This does not mean that finance and accounting are exclusive to each other. Financial decision making requires substantial accounting data and information.

The focus of accounting is earning, whereas cash flows are central to financial management. The accrual concept (a detailed discussion on the concepts of accounting is provided in Chapter 4) advocates that the earnings for a period must be recorded irrespective of receipt of cash and similarly expenses must be documented irrespective of payment of cash. Financial management on the other hand is associated with the magnitude, timing, and risk associated with the cash flows, as this serves as the basis for valuation.

Accounting is the systematic recording of financial transactions that have happened in the past. Therefore, it is static and certain. On the contrary, financial management is forward looking and futuristic, therefore dynamic and uncertain.

Need to Study Finance in a Hotel Management Programme

The knowledge of finance is essential to gear up, for the workplace of the future. One may be an excellent chef or a food and beverage service person, or even a housekeeping professional,

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but organizations would prefer employees who are multi-skilled and have cross-functional expertise, which has become the rule of our modern corporate work environment. Therefore, knowledge of basic financial management skills will be a key ingredient of success in the career of non-finance professionals.

SUMMARY

- Acquiring, financing, and managing assets with some overall goal is financial management.
- Financial management is largely associated with investment, financing, and asset management decisions.
- The goal of a firm is to maximize the wealth of current shareholders. Shareholder wealth is represented by the market price per share of the firm.
- The market price of a firm's share is the reflection of the perception of all the market participants as regards to the value of the firm.
- Agency theory states that managers (agents), particularly in large firms, may have different goals than the shareholders (principal). The shareholders ensure that the managers are working towards their (shareholder's) interest by providing incentives and monitoring the performance of the managers.
- The firm is obliged to act in a socially responsible manner. The objective of maximizing shareholder wealth does not absolve the firm of its responsibility towards the society in which it operates.
- Major aspects of the finance function at the helm of affairs are dealt with by the vice president finance, or the chief financial officer, who is usually supported by divisional heads and finance controllers at the business unit levels.
- Financial management has a close association with economics. It is vital for hospitality managers to know the concepts and principles of macro and microeconomics, to understand the hospitality business environment.
- Accounting is concerned with recording transactions of the past and is, therefore, static and objective. Financial management is forward looking, hence dynamic, and contains an element of subjectivity.

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KEY TERMS

Accounting Accountancy (profession) or accounting (methodology) is the measurement, disclosure, or provision of assurance about financial information, primarily used by managers, investors, tax authorities, and other decision makers to make resource allocation decisions within companies, organizations, and public agencies.

Assets In business and accounting, an asset is any economic resource controlled by an entity as a result of *past* transactions or events, and from which future economic benefits may be obtained. Examples include cash, equipment, buildings, and land.

Chief executive officer A chief executive officer (CEO), or chief executive, is the highest-ranking corporate officer, administrator, corporate administrator, executive, or executive officer in charge of total management of a corporation, company, organization, or agency.

Corporate social responsibility (CSR) CSR is a concept that organizations have an obligation to consider the interests of customers employees, shareholders and communities and ecological considerations in all aspects of their operations.

Earnings per share (EPS) Earnings per share are the earnings returned on the initial investment amount.

Expense An expense is a general term for an outgoing payment made by a business or an individual.

Finance A term used to describe all the monetary resources available to any organization.

Financial controller The person responsible for the control of finance at unit level operations.

Income Income, generally defined, is the money that is received as a result of the normal business activities of an individual or a business.

Shareholders A shareholder is an individual or company that legally owns one or more shares of stock in a joint stock company. A company's shareholders collectively own that company.

Stakeholders A corporate stakeholder is a party who affects, or can be affected by, the company's actions. The stakeholder concept was developed and championed by R. Edward Freeman in the 1980s.

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REVIEW QUESTIONS

1. Explain the following terms:
   (a) Financial management
   (b) Share capital
   (c) Cash flow
   (d) Valuation
2. What is the importance of financial management to hospitality organizations?
3. What are the broad areas of financial decision making in the hospitality industry?
4. Financial management is in many ways an integral part of the job of hospitality managers. Explain.
5. Why should managers not take actions that are unfair to the shareholders?
6. Explain the relationship between finance, economics, and accounting relationships.

CRITICAL THINKING QUESTIONS

1. Comment on the following statement made by the vice-president–operations of a large five-star hotel company. 'Sharma, I'm in a dilemma since I'm going to be judged by the shareholders on the basis of market price over which I've no control. In fact, I can't even control the sales or earnings that are the primary determinants of market price.'
2. Socially responsible firms will perform no worse in the market place than those that are less socially responsible. Comment.
3. Discuss the three broad areas of financial decision making.
4. Comment on the relevance of the maximization of shareholder wealth in the light of environmental and other regulations being imposed on hospitality business firms.

PROJECT WORK

1. Collect and discuss the mission and vision statement of two global hospitality companies.

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2. Collect and analyze data of two Indian hospitality companies as to the sales turnover, earnings per share, and market value of the shares on the Bombay Stock Exchange.

CASE STUDY

GOLDIE'S PALACE

Goldie Singh is in the business of hotels since 1980. He opened a 50-room hotel property, Goldie's Palace, in Mumbai after graduating from a well-known hotel management school in India. The hotel is known for its excellent service, and the restaurant Café Gold is the talk of the town due to the food served. Though the restaurant serves a spread of multi-cuisine fare, it is renowned for the Indian regional variety on the card. The popular items were a result of Goldie's extensive research on Indian cuisine. The restaurant has been rated as *numero uno* by food critics and gourmets of Mumbai. Goldie's business has flourished in the recent years and he wants to benefit from the business opportunities. The hotel has forty-two employees, including Goldie and his daughter Lovely, to take care of the rooms and the food and beverage activities as well. The list of clientele is elaborate and draws from major cities and towns of India. Some of the guests have been staying with the hotel since its inception. Goldie's pleasant approach to his guests has played a vital role in the success of his business.

Lovely has recently graduated from an international hospitality school and her father has provided her with an option of working in his hotel. Goldie feels that she will be able to provide financial management expertise and international hospitality perspective to the business. Lovely is inclined towards the family business due to the challenges and opportunities involved. Goldie is conservative, while his daughter is aggressive and wants to achieve success at the earliest. Goldie had struggled very hard to establish a business whereas his daughter will inherit a successful business. He feels that his daughter should learn the nuances of managing the business with him before she is capable of managing things on her own. Lovely desires to expand the business and even wants to incorporate a company at a later stage. Though Goldie has complete confidence in his daughter's ability and is intrigued by her ideas, he is concerned about the changes in the operations after expansion. Goldie has been always committed to social and environmental cause. He introduced environment-friendly amenities in the rooms and abandoned Shark fin soup on the menu (after he read about numerous sharks being killed for fins) even though the revenue generated from the sales was substantial. The guests are also advised to conserve water and contribute towards a healthy environment. Goldie is apprehensive of the fact that incorporation would bring in outside shareholders, who may force him to compromise on the social, ethical, and environmental practices of the business.

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Goldie and Lovely decide to discuss all the issues concerning their future course of action. Lovely is organized and has outlined a series of questions for them to address.

1. What are the important financial management decisions taken in the hospitality industry today?
2. What should be the primary goal of the firm?
3. What is the meaning of shareholder wealth maximization?
4. Will Goldie's commitment for social and environmental issues be an impeding factor for the growth of his business?

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