

The case of missing financial leadership

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Several factors have combined to de-emphasize the role of financial leaders on property, such as directors of finance, but hoteliers need to make the roles a priority as they're key to protecting owners' investments.



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I recently read a tale about Sherlock Holmes and Dr. Watson going camping.

Asleep in their tent, they both suddenly wake up. Holmes tells Watson to “look up and tell me what you see.” Watson replies, “I see the starry heavens above.” Holmes asks him, “And what do you deduce from that?” Watson thinks for a moment, then says: “I deduce that we are but small and insignificant beings in a vast cosmos.” An exasperated Holmes shouts, “No, you moron! Somebody stole our tent!”

It seems to me that when it comes to financial leadership at hotels, someone stole our tent. Let me lay out the details of the case.

Sometime over the past 10 years or so, hotels stopped having a controller and started having a director of finance (DOF). While the title became loftier, the skills, training and responsibilities were not elevated to accommodate the new moniker. Simultaneously, many operating companies structurally downgraded or centralized the on-property financial function. Meanwhile, the business of hotels continued on its trajectory of becoming more complex—and the need for high quality financial support became even more acute.

So, is the on-property financial leader of today a bookkeeper, an accounting manager, a controller, a director of finance, a chief financial officer or something else? In actuality, they can be one, some or all of the above depending on the type/size/complexity of a given hotel and, to lesser extents, the operating modality of the management company and/or the requirements of ownership. It is critical, however, that both management companies and owners recognize that the DOF's function is not simply to prepare

financial statements and reconcile balance sheets. In addition, it includes some combination, if not all, of the following:

- the general manager's right hand with respect to performance accountability;
- a critical support function for department heads to effectively manage the financial affairs of their departments;
- the chief architect of timely and accurate forecasting and, in turn, labor productivity;
- the chief credit officer;
- the party most directly responsible for the preservation and protection of owner's assets;
- a key part of the development and execution of the business plan/strategy;
- the principle party responsible for internal controls;
- the purchasing approval backstop;
- CapEx planning and administration;
- contracts administration;
- insurance administration;
- external audit coordination;
- cash management;
- management contract compliance;
- leasing and lease administration; and often
- the primary compliance officer with respect to debt agreements and taxes.

In short... the DOF is a (perhaps "the") central operational support function for effective financial management of the hotel.

Identifying the guilty parties

Here's the lineup.

Over-reliance on technology: Technological advances have been a major boon to the industry. When technology works, it can provide powerful analytics and processing power. With the right access to information, programming and advancements in artificial intelligence, it may someday substantially replace the need for experienced and talented DOFs. That day has not arrived. Yet, many companies are shifting their emphasis from technology as a tool to technology as a substitute. Technology has reduced processes that historically took days or weeks to perform to hours.

Theoretically, this would afford the financial leader more time to focus on business strategy, planning and engagement with the general manager and management team. All too often, it has resulted in the false security of payroll cuts and the downgrading of skillsets in critical financial management positions.

Centralization: In concert with technological reliance, many financial functions have been centralized – and concomitantly, DOF skills and responsibilities have been weakened. Management companies offering centralized accounting will advance multiple arguments in favor thereof, and I don't object when it comes to smaller select service/limited service/focused service hotels. Frankly, such hotels do not need and cannot afford the level of financial management I am referring to here. But with the exception of certain functions (payroll, receivables, etc.), centralization is not yet ready for prime time with respect to most critical financial support functions because of failures in speed, accuracy, responsiveness and insight.

Complexing: This is a variation on centralized or regional support and involves sharing resources between hotels generally owned by disparate parties. God bless management companies for wanting to save overhead – but this generally means that the time, loyalty, focus of a single qualified individual is split between multiple hotels. The old saw about being penny wise and pound foolish is very apropos here. If I save a dollar on financial management payroll and it costs more than a dollar in how efficiently a given hotel is run, the choice was obviously a bad one. "A dollar" in this instance is often more like \$5 or \$10 because of the many areas impacted by less than optimal financial management.

Misguided job specs and hiring mistakes: If you underestimate or misunderstand the importance of a job, your chances of finding the right person to fill it is greatly diminished. 'Nuff said!

Inadequate training: Every carpenter needs to sharpen their saw, and we are all carpenters in this respect. When the DOF role (and the jobs supporting the DOF) are properly understood and appreciated, training and continuing education programs can be designed accordingly. A particular cautionary note here for management companies: You are responsible for running a business that is first and foremost an investment. Ownership entities have put millions of dollars at risk to earn a return, and it is your responsibility to make sure your financial management teams understand real estate finance as much as they understand average daily rate, occupancy and gross operating profit.

Trial and sentencing—Guilty on all counts

The industry has allowed financial leadership to become disconnected from the ultimate goals and priorities of sound financial management. The "crime" has been aided and abetted by ownership's lack of understanding of the negative performance implications of having the wrong person in this seat—or the right person with marginalized responsibilities and authority.

Watson may have been right in his observation about man's insignificance in the universe, but it won't keep him dry when it rains and he has no tent.

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