

Baranova & Bogatyreva

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FINANCIAL STABILITY AND INVESTMENT ATTRACTIVENESS OF THE HOTEL BUSINESS ENTERPRISES: THEORETICAL ASPECTS AND PRACTICAL ANALYSIS

Natalia Baranova

Lobachevsky State University of Nizhniy Novgorod, Nizhniy Novgorod, Russia
khn2@rambler.ru

Liudmila Bogatyreva

Lobachevsky State University of Nizhniy Novgorod, Nizhniy Novgorod, Russia
mila_nki@mail.ru

Abstract

The article discusses some methodological issues of evaluating financial stability and investment attractiveness of the hotel enterprises. The essence and the contents of the tasks dealing with the analysis of these categories, the known methods, the procedure of calculation of the indicators and their meaning are considered. The aim of this work is to analyze financial stability and investment attractiveness of the hotel business enterprises and to consider the theoretical aspects of this problem. For achieving this goal, methods of comparison and statistical methods were applied. The thesis has been formulated that for attracting financial resources an enterprise (organization) should have relatively stable values of a number of indicators, which confirm the sustainability of their development. The figures were calculated in dynamics from 2011 to 2015 basing on the hotel business reports data, with the help of the methodology of assessing financial stability and investment attractiveness of the company INEC.

Keywords

Financial stability, Investment attraction, Hotel business, Integrated economic analysis, Macroeconomic factors, Equity, Borrowed capital

1. Introduction

The objective of the analysis of financial stability is to assess the degree of business independence from loans. This raises the following methodological question: credit source traditionally include bank loans and other funds received on a reimbursable basis, and required to be returned after a set period. It is logical to state that the funds received by organizations on a pro bono basis, but assumed to be returned, cannot be related to borrowings, and, consequently, requiring payment. However, these funds also affect the balance structure and differ from the borrowed ones only because they are not subject to the relevant interest. This aspect of the assessment of financial stability is scheduled for consideration in the following publications of the authors.

The purposes of assessing financial sustainability of any business or organization are the following:

- Finding out how the organization is financially independent;
- Defining the level of increase or decrease of financial independence;
- Assessing the correspondence of the state of assets and liabilities belonging to the object of the analysis to the challenges of its financial and economic activity.

Thus, the assessment of financial stability can be described through a system of calculation of indicators that characterize the level of independence judging by the elements of the assets and provide an opportunity to measure how stable the analyzed organization financially is.

2. Methodology

This situation justifies the necessity to refer to another methodological problem: the assessment of financial stability of a company, as well as the assessment of the financial state as a whole, which can be carried out only basing on the results of the reports of the organization, which is formed in accordance with the laws and accounting regulations. Consequently, the assessment of financial stability is only valid for a specific date of the financial statements, and the owners and the management require periodic evaluation of this indicator to substantiate their decisions. The solution to this problem can be found in the organization of a specially formed evaluation of intermediary accounting data.

Many authors emphasize the importance of analysis for determining the financial sustainability of the capital structure, to be more exact, finding the optimal ratio of the debt and equity.

By optimizing of the capital structure we mean the process of determining the ratio of the use of debt and equity, in which optimal proportions between the level of return of equity and the level of financial stability are provided, so this allows to maximize the market value of the enterprise (Kovalev,2004).

We consider it possible to underline the fact that the capital structure must depend on the level of profitability of the enterprise: in industrial sphere, where the profitability is relatively low or average, the proper funds should prevail in the capital, while the financing of highly remunerative (high-risk) market operations, loaned funds can have a significant share in the capital structure. What is important, that all over the world an organization is considered financially independent if the density of the equity capital is not less than 30% (Krutikhin, Polyanskaya & Kulikov, 2014).

Table 1: *Financial Stability Indicators and methods of their calculation*

<i>Indicator (coefficient)</i>	<i>Method calculation</i>	<i>The normal limit</i>	<i>Explanations</i>
Capitalization (financial lever)	$U1 = \text{Borrowed capital} / \text{Equity}$	Not more than 1.5	It shows how much leverage the organization attracted in 1 ruble of invested in assets equity
Provision with the proper sources of funding	$U2 = (\text{Equity} - \text{Non-current assets}) / \text{Current assets}$	The lower limit of 0.1; the optimal value of ≥ 0.5	It shows what part of current assets financed by own sources
Financial independence (autonomy)	$U3 = \text{Equity} / \text{Balance sheet total}$	$\geq 0,4 - 0,6$	It shows the proportion of the proper funds in the total sources of funding
Financing	$U4 = \text{Equity} / \text{Debt capital}$	≥ 0.7 ; the optimum value of 1.5	It shows what part of the activities funded by the proper funds, and which one by the

			borrowed funds
Financial stability	$U5 = (\text{Equity} + \text{long-term liabilities}) / \text{Balance sheet total}$	$\geq 0,6$	Shows what part of the asset financed by sustainable sources

In accordance with the Government Resolutions of the Russian Federation № 367 and № 855, the financial analysis of the crisis company must be carried out on the basis of all the indicators mentioned in Table 1 and the interpretation of their values, then there can be made a conclusion about the existence of fraudulent or deliberate bankruptcy.

There are four types of financial situations:

1. The total independence of the financial state - the company is not dependent on the external sources of financing; it mostly finances its own operations by itself. This type of financial condition is extremely rare.

2. Normal independent financial status, which guarantees solvency.

3. Financial condition characterized as unstable, but it can be improved by means of reducing debts.

4. The critical financial situation, in which the equity capital and borrowings are not enough to finance the material circulating assets.

Financial stability of the organization, being derived from the index indicators of financial statements, is directly related to another important financial and economic category - investment attractiveness.

Investment attractiveness is a significant economic feature of an enterprise or organization, which allows attracting funds for financing the operational and strategic activities in the conditions of the achieved level of property usage, the degree of solvency and the type of financial stability. To raise funds the organization should develop sustainably, generate a stable positive cash flow, and use its own resources for the realization of investment projects.

Investment attractiveness of some business or organization has two aspects. It characterizes the amount of financial support, which the company can potentially attract. It reflects the effective usage of investment.

The analysis of recent publications shows that there are a lot of papers devoted to the problems of assessing investment attractiveness in the industrial sector, IT sector, while the papers discussing methodological issues of assessing investment attractiveness in the sector of hospitality, especially hotels, are scarce (Lomova, L. A. et al, 2016; Zaitseva, N. A. et al, 2016).

Moreover, the existing methodologies do not take into account the following specific features of the hotel business. As a rule, a hotel is a complex asset (building area), which includes several business units, which are traded under the name of the hotel business. The process of re-investment in the hotel business takes place in case if there has been made a decision to extend or upgrade it, in fact, the investments of capital nature are made only at the moment of creation (construction or purchase) of the asset. Even stock corporation hotel enterprises rarely use market mechanisms and instruments for attracting investment resources in contrast with industrial enterprises. From the financial point of view, the return of investment in the hospitality sector mostly depends on the amount of visitors, on the one hand, and the availability of additional services for those who are not guests of the hotel, on the other hand.

3. Results and Discussion

Below you can see the results of the analysis of the indicators of financial stability and investment attractiveness of three companies in hospitality sector. There are some important points related to the source of information used in the analysis. Three random unrelated companies belonging to hospitality sector and located in different areas were chosen for the analysis. The data of the report on cash flows is not subject to analysis in this article, as it requires consideration of the investment areas of enterprises, and the aim of this work is to determine the stability and investment attractiveness of the enterprises.

The accounting data of the annual reports of the hotels presented on the website Interfax for the period 2011 – 2015 was used in the paper. The indicators, the method of calculation, the essential content and the normative values described above were used for the analysis of financial stability. The methodology, used by company INEC (Kotlyar, 2004), was used to analyze the financial attractiveness in the research.

The results of the analysis of the financial stability of JSC "The Hotel Barnaul», JSC "The Hotel Novorossiysk», JSC "The Tomsk Hotel» are presented in table 2. The following conclusions can be formulated on the results of the calculations. All the three objects of analysis have extremely high levels of equity capital and rather low levels of loan capital; though these figures for the period under consideration tend to decrease. The ratio of debt and equity in the analyzed objects is rather low, which means that they have their own adequate funds to finance

the operating activities. The dynamics of the indicators presented in Table 1.2 suggests a stable financial status of the objects of the research for the analyzed period.

Table 2: *The Financial Stability Indicators of the analyzed hospitality enterprises for 2011 – 2015*

<i>Indicator</i>	<i>On 31.12.2011</i>	<i>On 31.12.2012</i>	<i>On 31.12.2013</i>	<i>On 31.12.2014</i>	<i>On 31.12.2015</i>
Hotel	"The Barnaul Hotels"				
The level of equity	0,836	0,741	0,785	0,722	0,761
The level of loan capital	0,164	0,259	0,215	0,278	0,239
The ratio of debt and equity	0,197	0,350	0,274	0,385	0,314
The indicator of coverage of non-current assets by equity	1,035	0,930	0,952	0,972	1,103
The indicator of coverage of non-current assets by equity and long-term private loan capital	1,035	0,930	0,952	0,972	1,103
Hotel	"The Hotel Novorossiysk"				
The level of equity	0,786	0,607	0,598	0,800	0,757
The level of loan capital	0,214	0,393	0,402	0,200	0,243
The ratio of debt and equity	0,272	0,647	0,672	0,250	0,321
The indicator of coverage of non-current assets by equity	3,773	1,438	1,056	1,269	1,398
The indicator of coverage of non-current assets by equity and long-term private loan capital	3,773	1,438	1,056	1,269	1,398
Hotels	"The Tomsk Hotel"				
	0,919	0,913	0,930	0,804	0,835

<i>Indicator</i>	<i>On 31.12.2011</i>	<i>On 31.12.2012</i>	<i>On 31.12.2013</i>	<i>On 31.12.2014</i>	<i>On 31.12.2015</i>
The level of equity					
The level of loan capital	0,081	0,087	0,070	0,197	0,166
The ratio of debt and equity	0,088	0,095	0,076	0,245	0,198
The indicator of coverage of non-current assets by equity	1,382	1,536	1,669	0,931	0,905
The indicator of coverage of non-current assets by equity and long-term private loan capital	1,392	1,544	1,677	1,089	1,035

Investment Analysis results are shown in Tables 3, 4, 5.

Table 3: *The Integrated Assessment of the financial condition of "The Hotel Barnaul" reporting data on 31.12.2015*

Indicator	Groups			
	1	2	3	4
The profitability of equity (ROE, cast to a year), %	> 8,250 36,120	4,125 - 8,250	0.001 - 4,124	<= 0
The level of shareholders' equity,%	>= 70 76,090	60 - 69.999	50 - 59.999	< 50
The indicator of coverage of non-current assets by equity	> 1.1 1,103	1.0 - 1.1	0.8 - 0.999	< 0.8
The duration of short-term debt turnover on cash payments, days	1 - 60 23	61 - 90	91 - 180	> 180; = 0
The duration of net turnover of the production working capital days	1 - 30 6	> 30; (-10) - (-1)	(-30) - (- 11)	< -30; = 0
Price range	5	3	1	0

Indicator	Groups			
	1	2	3	4
The amount of points	25			

Table 4: *The Integrated assessment of the financial condition of "The Hotel Novorossiysk" reporting of data on 31.12.2015*

Indicator	Groups			
	1	2	3	4
The profitability of equity (ROE, cast to a year), %	> 8,250	4,125 - 8,250	0.001 - 4,124 2,010	<= 0
The level of shareholders' equity,%	>= 70 75,680	60 - 69.999	50 - 59.999	< 50
The indicator of coverage of non-current assets by equity	> 1.1 1,398	1.0 - 1.1	0.8 - 0.999	< 0.8
The duration of short-term debt turnover on cash payments, days	1 - 60 25	61 - 90	91 - 180	> 180; = 0
The duration of net turnover of the production working capital days	1 - 30 22	> 30; (-10) - (-1)	(-30) - (-11)	< -30; = 0
Price range	5	3	1	0
The amount of points	21			

Table 5: *The Integrated assessment of the financial condition of "The Hotel Tomsk" reporting data on 31.12.2015*

Indicator	Groups			
	1	2	3	4

Indicator	Groups			
	1	2	3	4
The profitability of equity (ROE, cast to a year), %	> 8,250	4,125 - 8,250	0.001 - 4,124	<= 0 -
The level of shareholders' equity,%	>= 70 83,450	60 - 69.999	50 - 59.999	< 50
The indicator of coverage of non-current assets by equity	> 1.1	1.0 - 1.1	0.8 - 0.999 0,905	< 0.8
The duration of short-term debt turnover on cash payments, days	1 - 60 51	61 - 90	91 - 180	>180; = 0
The duration of net turnover of the production working capital days	1 - 30	> 30; (-10) - (-1) 53	(-30) - (-11)	< -30; = 0
Price range	5	3	1	0
The amount of points	14			

In accordance with the chosen methodology of JSC "The Hotel Barnaul" and JSC "The Hotel Novorossiysk" belong to the first group of investment attractiveness. This means that these objects of analysis show rather high level of profitability of their business, financial stability, sustainability and high levels of management, both financial and operational.

The results of the analysis also show that "The Hotel Tomsk" belongs to the second group of investment attractiveness - the solvency and financial stability are at the acceptable levels, the return rate can be described as satisfactory, some indicators are below the

recommended values. The object of analysis in some ways is not resistant enough to the fluctuations in the market demand for products (services) and other factors of financial and economic activity.

4. Conclusion

The results of the research can be formulated in the following statements. There are different approaches to the analysis of both financial stability and investment attractiveness. The specificity of analysis of financial stability and investment attractiveness should be determined by the sphere of business, what is proved by the calculations carried out in the research. The calculations show that the characteristic feature of the hotel business is the availability of proper assets, the main source of assets, the value of which can be quite substantial because only in this case a significant supply of financial strength, stability and investment attractiveness is provided.

By the opinion of the authors, it is necessary to formulate the algorithm and to determine the tool used for a comprehensive analysis of the activity of the hotel industry. It should be based not only on the analysis of financial and economic indicators, but also take into account the macroeconomic situation in the region of specific market operators, the level of state investment activity.

One of the trends typical for the service and tourism sector is the creation of material objects of these sectors of the economy for carrying out specific, clearly defined lifetimes of sports, public and political events. The confirmation of this thesis is the already implemented project of the Olympic Village and its accompanying infrastructure in Sochi, also as preparations for the World Cup in 2018.

Thus, the state of scientific development of the problem shows that a whole series of tasks for the functioning of the hospitality industry have yet to be solved. These include the issues of strategic planning, creation, deployment, operation of hospitality industry facilities, assessment of the impact of financial, economic and social indicators of their activities on the economy of the region, which sufficiently justifies a comprehensive, comprehensive study of the proposed topic.

The authors of the research are planning to consider some other economic and financial indicators of hospitality industry enterprises, such as profitability (assets profitability, revenues profitability, income profitability), asset turnover, as well as to analyze the structure of assets and

liabilities in order to identify the general trends and develop some prognostic econometric models in the following publications.

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