Analysis of Financial Indicators of Montenegrin Hotel Industry

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Abstract. Taking into consideration the slow increase of incomes and limited investments IN Montenegrin hotel industry, the purpose of this paper is to research the potential sources of efficiency via analysis of financial indicators in hotels in Montenegro. The special focus is given to analysis of the following indicators: operating revenue, revenue per room, room occupancy, investments, room rates, payroll etc. Using available secondary and primary data from hotels, government bodies and relevant international organizations, several factors are identified that affect the financial efficiency of SMEs in Montenegrin hotel industry. Key findings indicate that hotel industry in Montenegro is experiencing limited financial efficiency, especially in terms of following financial indicators: low average annual growth rate of the operating revenues per room of just 4% in period 2008-2013; room occupancy has grew from average annual 37% in 2008 to 39.5% in 2013; decrease in average investment in 2013 comparing to 2012 for 54.6%, together with negative prognosis for future investment till end of 2015; and serious regional disbalance in sense of key indicators (e.g. operating revenue, gross operation profit) in seaside, central and northern area of Montenegro, where level of demand in Northern (Mountain) region is still below the Montenegrin average, etc. The contribution of this research comes from the analysis of financial indicators and accounting system of hotel industry in Montenegrin, which provides the guidance and ideas for further improvements in the important sector of tourism.

Keywords: hotel industry, Montenegro, USALI, sources of efficiency.

1 Introduction

Tourism in Montenegro has been recognized as a priority economic sector because of the importance that it has for the generation of employment and higher standards of the population as well as the balancing of regional development (MORT, 2013). The strategic goal of the development of tourism in Montenegro does not apply solely to large investments, which include the construction of large tourist complexes, but implies the establishment of small and medium private initiatives. In this regard strategic measures shall be taken (Masterplan, 2008) so that Montenegro can become a developed tourist destination that offers a unique tourism product throughout the season. In the National Strategy for Sustainable Development of Montenegro (2007) a commitment to tourism as the driving force of the economy is especially emphasized because it primarily needs to provide a stable income for the individuals and the state.

In spite of stimulating strategic framework, the tourism industry of Montenegro is facing several challenges, especially in sense of critical financial situation and limited efficiency. Taking into consideration the slow increase of incomes and limited investments, the purpose of this paper is to research the potential sources of efficiency via analysis of financial indicators in hotels in Montenegro. Using available secondary data, especially from Horwath Hotel Industry Survey Montenegro 2012 and 2013, combined with available primary data, several factors are identified that affect the financial efficiency of SMEs in Montenegrin hotel industry. In line with this, in this paper we shall focus just on individual economic - financial aspects of the tourist offer and the business results achieved in the hotel industry as the most important segment of tourism. The special focus is given to analysis of the following indicators: operating revenue, revenue per room, room occupancy, investments, room rates, payroll etc.

Related to these arguments, we formulate the following hypothesis: Hotel industry in Montenegro is experiencing limited financial efficiency, which implies the need for definition of several practical and managerial guidelines in order to improve the financial management of these enterprises.

The reminder of this paper is organized as follows. Section 2 reviews the status quo of hotel industry financial reporting in Montenegro. Section 3 presents the data and analysis of key financial indicators. Key findings are provided and discussed in section 4. Section 5 concludes and suggests future directions of research.

2 Status quo of hotel industry financial reporting in Montenegro

In Montenegro, companies prepare and present financial statements in accordance with the Conceptual framework, the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), Interpretations which are an integral part of the standard, the International Standards on Auditing (ISA) and the Code of Ethics for Professional Accountants. On the other hand, each country is given the option to determine their own requirements through national regulations according to their needs and specificities.

Financial statements prepared in accordance with the above mentioned accounting requirements are intended to provide an information base for external users in order to make a good business decision. However, experts and economic practice shows the increasing importance of financial reporting which is, primarily, focused on meeting the needs of internal users for information. This is a problem particularly faced by hotel companies in Montenegro. Developed tourist countries and many authors in this sense point out the importance of using adopted uniform accounting standards for the hotel industry (USALI).

In addition to the informative role that USALI has, from the aspects of the administration of hotel company, it provides credible comparability of financial statements between similar hotels as well as the determination of the financial position in a given industry. USALI methodology is still not applied in its full form and content in Montenegro, and national regulations do not indicate its mandatory application. However, the Ministry of Sustainable Development and Tourism of Montenegro, for the aforementioned reasons, engaged in 2005 an international institution Horwath Consulting Zagreb, which conducts research on Montenegro's hotel industry in a way that the collected data is processed using a unique accounting methodology for the hotel industry. Although individual hotel companies do not apply USALI system of internal reporting, the research results provide tracking of national hotel contributions and its comparison with the results of hotel industry in other countries.

Accordingly, the above research provides information on realized results of Montenegrin hotel industry as a whole, by region, property size and room rates, as well as other financial results. We

believe that the application of uniform reporting system in individual hotel companies would provide a reliable base of hotel owners and future investors on the basis that they could make good business decisions.

3 Analysis of financial efficiency in hotel industry of Montenegro

Looking at the period of time of seven years, there was a significant increase of investments in the Montenegrin hotel industry up to the beginning of global economic crisis. The increase in average investment can be attributed to the fact that in 2006, Montenegro became an independent state, and as a young country with an abundance of tourist potential undoubtedly it attracted large foreign investors. Foreign investment inflows had multiple positive effects on the Montenegrin tourist industry because, on the one hand, it meant financial injection to the dilapidated tourism industry and on the other hand, the standard of living considerably improved.

A considerable decline in investment activities was felt in 2011 (even by 50%) while 2012 records renewed increases in average investment in hotels in Montenegro (Horwath, 2012). However, 2013 is the year of the fall in investment activities, i.e. 56.4% less funds were invested in investment works (Horwath, 2013). Greater investment activity by the end of 2015, are only expected in hotels on the coast, while the central and northern part of Montenegro have a small investment expectations.

The average annual room occupancy in the period from 2007 to 2008 amounted to 37%, in 2009, the impact of the economic crisis caused stagnation in tourism demand, it significantly decreases to 29.5%, after which a gradual increase was recorded in 2012 when it reached the level from 2008. The following year, room occupancy has further increased to 39.5%, that still could be considered quite low, especially in sense of the need for more rapid growth of Montenegrin tourism sector.

For the observed period an increase in the average room rate is recorded, and in 2013 this increase was 6.9% compared to the previous period, i.e. around € 74 per room. Since in 2014 a limited price increase per room was recorded, it is expected that the research results of Hotel Industry in Montenegro for 2014 will indicate a reduction in demand for Montenegrin tourist product. These data are presented in Table 1.

Table 1: Average size of the property, the annual occupancy and achieved room rate

Year	Average Size of Property (Room)	The average annual room occupancy	Average Room Rate (€)
2007	145	37,9%	53,73
2008	175	37,0%	61,76
2009	149	29,5%	66,47
2010	163	30,5%	61,92
2011	158	30,6%	72,62
2012	136	37,4%	69,11
2013	136	39,5%	73,86

Source: Adapted from Horwath Hotel Industry Survey 2013.

Although 2013 was characterized by a recession in the key demand markets, it can be concluded that there was stability in the utilization of hotel facilities as well as an increase in the term of pricing policy. These data indicate that, after a period of stagnation in demand, Montenegrin hotel industry is recovering with a tendency to increase the utilization of hotel capacities. However, there is a reasonable concern about competitiveness of hotel products, especially in terms of opportunities for further growth of prices and adequate service/ product quality. Although indicators of the average

occupancy rate and average realized price per room are fundamental techniques in the analysis of business performance of the hotel, both indicators have limited value. With their combination, however, much more reliable indicators can be calculated, more important for hoteliers in terms of information provided, that is the operating revenue per room. Revenue per available room can be calculated in two ways, the ratio between the total revenue per room with the number of available rooms or when the degree of occupancy is multiplied by the average realized price per room. Many hotel managers prefer this combined statistics (Andrew et al., 2007) as a reliable information base upon which they can make future business decisions.

Operating revenue per room in Montenegro for the period from 2008 to 2013 shows a positive trend and amounts (see Table 2).

Table 2: Average annual operating revenue per room

Year	2008	2009	2010	2011	2012	2013
Operating revenue per room	16.221	15.129	14.051	17.503	17.730	19.556

Source: Adapted from Horwath Hotel Industry Survey 2013.

In the period from 2009 to 2010, during the depression, there was a slight drop in revenues but from 2011 to 2013 there was an increase or an average annual growth rate of operating revenue per room of 4% (Horwath, 2013). As this period recorded an increase in average annual room occupancy and average realized price per room, especially in 2012 and 2013, it is not a surprise that in the same period followed the growth trend and operating revenue per available room.
In the same period, from 2012 to 2013, there was an increase in operating revenue per room availability by hotel categories (see Table 3).

Table 3: Operating revenue per room in different hotel categories

Year	5*& 4+* Hotels	4* Hotels	3* Hotels	2* Hotels
2012	88.361	18.278	7.491	3.602
2013	95.586	20.655	7.809	4.279

Source: Adapted from Horwath Hotel Industry Survey 2013.

As Montenegro is divided into three regions, Coastal, Central and Mountain area, the results of hotel operations follow the given regions and are compared with average sizes at the national level. For this occasion we will show the average room prices, occupancy and revenue per room by region (see Table 4).

Table 4: Average room price, capacity utilization and operating revenue per room

	Average room price	Capacity utilization in %	Operating revenue per room
2012			
Coast	67	37,4	17 719
Central are	120	44,4	31 658
Mountains	58	29,3	6 654
2013			
Coast	71	39,4	19 369
Central are	133	45,5	35 544
Mountains	74	33,6	7 923

Source: Adapted from Horwath Hotel Industry Survey 2013.

All three observed indicators show a tendency of growth by region in Montenegro, which is certainly a positive development. On the Montenegrin coast operating revenues per room in 2013 increased by 9% compared to the previous period, while occupancy and average room rates increased by about 6%. Although we note a positive trend, we believe that the profitability of the hotels on the coast is not satisfactory. The reason for this lies in the fact that many of the hotels on the coast ventured into large investment projects, all with the goal to improve the quality of their services, which in the final financial statements resulted in higher depreciation costs. In addition to depreciation costs, high labor costs are present because of the present increase in the number of employees per room within a hotel. Namely, payroll and related expenses of the hotel industry of Montenegro since 2004 were constantly high, due to constant increase of quality of service, although the average monthly gross payroll in years 2012 and 2013 was stabilized on around 535 Euro per employee (Horwath, 2013).

Unlike the Coast where there is the highest hotel occupancy during the summer months, hotels in the central part of Montenegro do business throughout the year. They show an increase in operating revenues per room in 2013 to 12% compared to the year 2012, although this increase is attributable to an increase in average room rates of 10%. Hotels in the central region are not faced with high costs as coastal hotels which results in stable financial operations. In addition to stabilized costs, these hotels realize high income because their income side of the income statement shows, apart from income from accommodation, food and beverage, high amounts of revenues derived from the lease of most of hotel facilities.

Mountain area of Montenegro consists of attractive tourist destinations such as, for example, Durmitor and Bjelasica. Hoteliers in this area have the option of operating both in winter and in summer. However, since the years of crisis and earlier, mountainous region has suffered the most in terms of lack of investment activities and small investments in existing infrastructure in order to offer a complete tourist product. In the last two to three years, the situation changed a great deal but hoteliers still have not reached their market peak. Mountain area of Montenegro still has plenty of space to develop a competitive offer on the market but at the same time it requires greater investments. However, in the reporting period we notice that in this region there was an increase of room rates for about 28%, on the one hand, while, on the other hand, operating revenue per room has a slightly smaller growth for about 19%.

Previous analysis has shown that status quo of hotel industry in Montenegro is experiencing several financial challenges that implies for the necessity of certain improvements, that will be discussed in following section.

4 The necessity of financial management improvement

Montenegro has recognized tourism as a strategic direction to be pursued and take all necessary measures and activities to improve the tourist offer. In this sense numerous laws and by-laws and the policy documents have been adopted to define the direction of development of tourism in Montenegro, in terms of activities to be implemented. Revenues generated from tourism have direct and indirect impact on the Montenegrin economy, especially in the gross domestic product and employment levels.

Bearing in mind the positive impacts of tourism, in the work we've highlighted in particular the financial effects realized by the Montenegrin economy on the basis of the hotel industry, as the most important segment of tourism. In the years of crisis, visible stagnation in the market demand had a negative financial impact on the Montenegrin hoteliers. However, in the coming years, there have been positive trends in the business. When we observe the average annual occupancy rate, average realized price per room and operating revenue per room, we conclude that all three indicators have a

positive trend but there are some discrepancies in the size of growth when we look at the different categories of hotels and the regions of Montenegro. Larger hotels and hotels with 4 and 5 stars show more stable income, although their financial statements are burdened by high costs incurred as a consequence of investment and high employment. Consciously investment in existing or new capacity provides future maintenance of quality at a satisfactory level and thus maintains financial operations.

Observing Montenegrin regions reveals differences in the achieved profitability. Hoteliers from the central part operate mainly throughout the year and report stable financial results as opposed to hoteliers on the coast where the highest revenues are achieved during the summer months while hoteliers in the northern part of Montenegro, although having two seasons, still have not reached a satisfactory operational profitability. Clear regional imbalance greatly damages the principles of sustainable tourism and sustainable regional development, and economic policy measures are necessary to neutralize the specified deviations.

For the improvement of Montenegro's hotel industry primarily the investments are necessary in order to complement the tourist offer which definitely must be accompanied by adequate infrastructure. In the strategic documents adopted by the Government of Montenegro, necessary activities are provided and they should be implemented by 2020. Furthermore, the concept of innovation today is a key factor influencing the profitability of hotels. By offering more innovative features, such as offer guests a healthy lifestyle, significantly affect the increase in occupancy and operating revenues per room.

However, strategic documents do not contain instructions on how to manage a hotel in an efficient and effective manner. In this direction it is necessary to educate all managerial levels of decision-making with modern methods and techniques of business process management. The use of a single accounting system for hotels (Uniform System of Accounting for the Lodging Industry - USALI) is a distinctive system of internal reporting since 1925. Application of USALI provides informative background to the management of the hotel in analysing business results by hotel's segments. For each segment, a compiled report on realized revenues and expenses related to a particular segment is done (a segment of accommodation, food, drinks, etc.). Summing the business results of all segments obtained creates a summary report for the hotel as a whole. However, over the individual reports of hotel's segments the management can control the revenues and expenses incurred in a given segment, and if we can control something it means that we can influence it.

Control of revenues and expenditures reveal the factors that caused their increase or decrease, which finally leads to the answer to the question of how we effectively engage our own property because it directly affects the level of financial results. There is no doubt that the adoption and application of USALI has a significant potential for improving financial management in the hotel industry of Montenegro, primarily due to the possibility of precise control and therefore management of revenues and expenditures.

5 Conclusions

Key findings indicate that hotel industry in Montenegro is experiencing limited financial efficiency, especially in terms of following financial indicators: low average annual growth rate of the operating revenues per room of just 4% in period 2008-2013; room occupancy has grew from average annual 37% in 2008 to 39.5% in 2013; limited possibility to increase room rate in future period due to the need for higher occupancy rates and stable market position (e.g. average room rates for period 2012-2013 were increased for 6.9%); decrease in average investment in 2013 comparing to 2012 for 54.6%, together with negative prognosis for future investment till end of 2015; after multiannual losses, the surveyed hoteliers have forecasted the minimum profit realization in 2013 (4% of the revenues, on

average); payroll and related expenses of the hotel industry of Montenegro since 2004 were constantly high, although the average monthly gross payroll in years 2012 and 2013 has been stabilized on around 535 Euro per employee; and serious regional disbalance in sense of key indicators (e.g. operating revenue, gross operation profit) in seaside, central and northern area of Montenegro, where level of demand in Northern (Mountain) region is still below the Montenegrin average; serious disbalance in terms of revenue in different hotel categories, where operating revenues of surveyed 4+ and 5-star hotels were increased for 62% in period 2008-2012 compared to lowest category (2*) that has experienced decrease of their revenues for around 13%; the average age of the hotels surveyed was 27 years etc. Based on these facts, we may conclude that our hypothesis, that hotel industry in Montenegro is experiencing limited financial efficiency that further implies the need for definition of several practical and managerial guidelines in order to improve the financial management of these enterprises, is confirmed.

The contribution of this research comes from the analysis of financial indicators of hotel industry in Montenegrin, which provides the guidance and ideas for further improvements in the important sector of tourism. In line with this, key factors that influence critical financial situation could be identified, as follows: dominant seasonality where more than 77% of tourist overnights are concentrated in period June-September; limited sources for new investment in hotel industry especially in higher hotel categories and in Northern region; inappropriate structure of hotel offer with dominant share of leisure allotments hotels (62%); low share of business and leisure FIT (free independent traveler) hotels together with inadequate government support for this segment of offer; underdeveloped own reservation systems in hotels; limited presence of USALI methodology in just 25% of hotels in Montenegro, together with non-unified and disordered accounting standards and methods etc.

Based on this analysis, several practical and managerial implications could be designed in order to improve the financial management of these enterprises. Therefore, it is possible to propose the following key measures and guidelines for the improvement of financial management in the hotel industry of Montenegro:
- The national financial laws system and business accounting system should be improved in order to be adapted to specifics of small and medium enterprises in Montenegro, especially in sense of more simulative business ambient;
- The use of a single accounting system for hotels (Uniform System of Accounting for the Lodging Industry - USALI) should be expanded;
- More favorable investment environment should be created with further increase of investments in the sector;
- Existing entrepreneurial initiatives should be supported with the provision of adequate financial, technical and administrative support;
- More favorable sources of financing should be obtained, primarily through the reduction of interest rates of loans from commercial banks;
- Innovative approach to development of tourist offers should be stimulated, through the recognition of specific travel needs and the concept of market segmentation;
- Networking and clustering of hotel companies should be stimulated together with financial / professional strengthening of such entities;
- The general tourism promotion of Montenegro should be strengthened, with particular emphasis on the activation of potential in the central and northern part of Montenegro;
- Other actions and measures that neutralize negative effects of different economic and non-economic factors;

This paper has some limitations that should be taken into consideration for further research. There is an objective need to expand the number of financial indicators that may influence the level of financial efficiency of hotel industry in Montenegro. More parameters and further primary research may be

helpful to understand better which factors can improve the overall efficiency of financial management in Montenegrin hotel industry.

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