

STUDY OF THE FUNDAMENTAL RISKS AT THE MANAGEMENT LEVEL OF HOTEL VICTORIA, PITEȘTI

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Abstract: *It is known the fact that economic risks as probable events can lead to losses in a financial activity. Some managers tend to ignore possible events that would be quite unpleasant, through the consequences it may induce to the company. Management practice in the Romanian companies highlighted three key risks that may affect 60-70% of a company's overall profitability. These risks include wage policies, policies that refers to loans from the banking system and policies that refers to payments to suppliers and to the state budget. These three performance rates for these risks have alarm thresholds and can be classified into three classes A, B and C in relation to the values they can take. Framing company with a diagram in classes related risk management requires taking appropriate decisions. Using SWOT quantitative model recommends, to the hotel management, the adoption of concrete strategies of increase.*

Key words: Risk management, Performance rates, Financial security, Alarm threshold, Major-risk diagram, SWOT analysis, Evaluation matrix.

JEL Classification Codes: M10, D81.

1. THEORETICAL ASPECTS REGARDING THE ESSENTIAL MANAGERIAL RISKS FOR THE ROMANIAN COMPANIES

In Romania, the most important and frequent risks at the companies' level come from managerial decisions towards wage policies and the financial security of the company.

The strategic management index assessing the wage policies is the share of total wage costs in the net added value $IS = ChST/VA_{net}$, %. The international practice has validated that the alarm threshold of this indicator's value is 85%. At a higher value, the company enters in operating loss.

The strategic objective of the social partnership regarding wage policy is evaluated through the wage policies coefficient (Ks) which is the ratio of average wage index and the index of price growth. If $Ks > 1$ the purchasing power increased, $Ks = 1$ the same purchasing power (indexing) and $Ks < 1$ the purchasing power reduced.

Wage policies have specific features depending on the dynamics of the turnover. If the turnover increases, the managers are recommended either to adopt caution in the increase of the purchasing power and / or the number of employees, or relaxation, i.e. large increase of

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the purchasing power and / or maximum staff hiring. If turnover is reduced, it is recommended freezing purchasing power (indexing), combined with layoffs or increasing purchasing power greater than the effect of layoff, or maintaining purchasing power with the same number of employees. The performance rates that define financial security of the company are: the overdue payments rate (PR / CA%) and financial expenses ratio (CHF / CA%). They show alarm thresholds: PR / CA \geq 50%, or CHF / CA \geq 25% and aim the insolvency of companies.

The domestic strategic indicator of financial security of the company is coverage with cash of the monthly operating expenses, as a ratio between the firm's liquidity and its monthly operating expenses. In the international practice, a firm is fully financially secure if Ga \geq 100% and the alarm threshold is Ga < 80%.

The three rates of performance influence by 60-70% the overall profitability of a company, and are classified in three classes in relation to the values they can take.

Table 1. Major management risk scales

Class	Number of points	ChST/VA net, %	ChF/CA, %	PR/CA, %
C	0	> 130	> 20	> 20
	10	120 – 130	18 – 20	18 – 20
	20	110 – 120	16 – 18	16 – 18
	30	100 – 110	14 – 16	14 – 16
	40	90 – 100	12 – 14	12 – 14
B	50	80 – 90	10 – 12	10 – 12
	60	70 – 80	8 – 10	8 – 10
A	70	60 – 70	6 – 8	6 – 8
	80	50 – 60	4 – 6	4 – 6
	90	40 – 50	2 – 4	2 – 4
	100	< 40	0 – 2	0 – 2

Source: Mereuță, C. – Decision Simulation, Course Support for the Master, University of Pitești, Faculty of Economic Sciences, 2004

From the perspective of each major risk, managerial, companies are classified into three classes:

Class A - good adaptation to the competitive environment (> 60 - \leq 100 points)

Class B - balance, with uncertainty about the future development (> 40 - \leq 60 points)

Class C - difficulties in adapting to the competitive environment (\geq 0 - \leq 40 points)

Including a company in the three classes regarding the major managerial risks imposes certain specific decisions.

2. FUNDAMENTAL MANAGERIAL RISKS ANALYSIS AT THE HOTEL VICTORIA. FORMULATING A CONCRETE STRATEGY BASED ON SWOT ANALYSIS

Ideally located in the cultural and commercial center of Pitesti, the Victoria Hotel is close to all the tourist attractions and business centers of this important industrial town.

Opened in 2003, Victoria Hotel Complex started its activity by inaugurating a body of 3-star, with 24 accommodation rooms, a 3 star restaurant with 100 seats, conference hall, club and a spa center. In 2007, it expanded its activity by opening a body of 4 stars, with eight De

Luxe rooms. In May 2009, was inaugurated a new wing of 4 stars with 64 accommodation rooms, a restaurant with 450 seats and 2 conference rooms. The 96 hotel rooms combine good taste and comfort through space and elegance of the interiors. The accommodations at the hotel are structured as follows: 2 single rooms 3*, 50 single rooms king size bed (10 rooms 3* + 40 rooms 4*), 26 double rooms (10 rooms 3* + 16 rooms 4*) and 18 apartments (2 suites 3* + 16 suites 4*). The five conference halls, each having different capacity and fully equipped, offer the possibility to successfully organize any kind of event with a maximum number of 450 participants.

The economic and financial situation of the company is shown in table 2, in the table 3 are presented the economic and financial indexes calculated and in the table 4 the analysis of the profitability.

Table 2. Economic and financial situation of the Hotel Victoria

No. crt.	Name	U.M.	2013	2014	2015
1	Turnover CA	RON	5,711,567	5,485,278	6,786,139
2	Export revenues Vex	RON	-	-	-
3	Operating result Rex	RON	787,849	840,659	689,559
4	Overdue payments - total PR	RON	-	-	-
5	Financial expenses - total Ch.fin	RON	248,051	288,956	369,157
6	Wage costs - total Chs	RON	458,160	633,600	1,218,240
7	Added value VA	RON	943,269	1,050,983	2,095,457
8	Claims - total CR	RON	550,872	1,827,969	2,252,311
9	Number of employees NP	PERS	23	30	54
10	Energy Costs ChE	RON	270,580	275,874	489,523
11	Annual average rate of exchange	RON	4.42	4.44	4.44

Source: www.risco.ro

Table 3. Analysis of the economic and financial indicators of Victoria Hotel

No. crt.	Rate denomination	Value		
		2013	2014	2015
1	Turnover Dynamics (CA), lei	1,292,209.73	1,235,422.97	6,786,139.00
2	Export intensity (Vex/CA), %	-	-	-
3	Operating result (Rex/CA), %	13.79	15.32	10.16
4	Overdue payments (PR/CA), %	-	-	-
5	Financial expenses (Ch.fin/CA), %	4.34	5.26	5.44
6	Wage costs (ChS/VA), %	48.57	60.28	58.13
7	Debt recovery (CR/CA*365), days	35.2	121.63	121.14
8	Productivity (VA/NP), lei/employee	9,278.66	7,890.26	8,739.81
9	Energetic efficiency (ChE/VA), %	28.69	26.25	23.36

Turnover dynamics and productivity were calculated in prices comparable relative to average annual rate of exchange for the three years.

Table 4. Victoria Hotel Profitability Analysis

Profitability	2013	2014	2015
Net income	645,968	679,991	578,352
Net profit margin	11.47%	12.40%	8.52%
Percentage evolution of the turnover	5.08%	-3.96%	23.71%

The analyses on the financial indicators of the company reveal an increase of the turnover, the added value and the productivity. Calculations show that the evolution of the turnover during the period 2013-2014 was lower than that of the industry to which it belongs and presented a high risk, given the fact that he failed to follow the development trend of the segment to which it belongs, but in 2015 the turnover rises and falls in that of the industry to which it belongs, and the company presents the same risk as the other organizations. Since the turnover is going up, it is recommended caution in increasing purchasing power and / or the number of employees.

Net profit margin is significantly better than the industry it belongs to. The company presents a very low risk compared with most businesses from the same industry and it has accelerated development prospects.

Borrowing rates on the three years are 23.81%, 27.57% and 16.23%. Debts to banks and financial institutions have a very small share in total assets and indebtedness is significantly lower than the average of the belonging industry. The profit from current business of the company covers very well the total debts and the company has sufficient financial resources to repay them. The company has equity that allows a very good financial balance.

From calculations for all three years at the Victoria Hotel we can see that in each of the years analyzed, the company achieved a positive operating result, which means that the company is sustainable in the Romanian service market.

The share of wage costs in the company's net added value is between 48.57% and 58.13%, values that are much below the alarm threshold. The calculation of the wage policies index in relation to the purchase price index calculated and downloaded from the website INSSE (table 5) is presented below. It is noted that the purchasing power of the employees increased.

Table 5. Consumer price index

No. Crt.	Current period	Refference Period	IPC services (%)
1	2012	2011	105.07
2	2013	2012	103.19
3	2014	2013	103.16
4	2015	2014	102.04

Source: <http://statistici.insse.ro/shop/?page=ipcal&lang=ro>

$$KS_{2013} = \frac{\frac{Smed_{2013}}{ICP_{2013}}}{\frac{Smed_{2012}}{ICP_{2012}}} = \frac{\frac{1,660}{103.19}}{\frac{1,560}{105.07}} = \frac{1.064}{0.982} = 1.08 \quad (1)$$

$$KS_{2014} = \frac{\frac{Smed_{2014}}{ICP_{2014}}}{\frac{Smed_{2013}}{ICP_{2013}}} = \frac{\frac{1,760}{103.16}}{\frac{1,660}{103.19}} = \frac{1.060}{0.999} = 1.06 \quad (2)$$

$$KS_{2015} = \frac{\frac{Smed_{2015}}{ICP_{2015}}}{\frac{Smed_{2014}}{ICP_{2014}}} = \frac{\frac{1,880}{102.04}}{\frac{1,760}{103.16}} = \frac{1.068}{0.989} = 1.08 \quad (3)$$

In respect of the financial security, Victoria Hotel does not register overdue payments and the share of the financial expenses in the turnover is below 25%, a threshold of the insolvency of the firms.

The levels of cash cover of the monthly operating expenses calculated using the data in the table 6 are, on the three consecutive years, 103.42%, 159.64% and 61.35%. In 2015, it is under the alarm threshold due to the increase of the operating expenses and cash reduction.

Table 6. Information on the level of cash cover of the monthly operating expenses

No. Crt.	Denomination	U.M.	2013	2014	2015
1	Operating expenses	RON	976,791	1,198,430	2,076,920
2	Cash	RON	1,010,243	1,913,184	1,274,246

Source: www.risco.com, www.mfinante.ro

Adding the results by way of an analysis of the major managerial risks on the Hotel Victoria, we obtain the following aspects: regarding wage policies, the results are in the range 40-80%, corresponding to class A, regarding the policies on financial expenses, Hotel Victoria is in class A, corresponding to the results obtained in the range of 0-8% and regarding the index of the overdue payments, the result is 0, because Hotel Victoria does not record overdue payments in the period considered. The class corresponding to this result is still class A, with 0-8% range. The inclusion of the company in this class is based on the ground of the total score obtained, and corresponds to diagram A-A-A. The class A indicates a good adaptation to the competitive environment, and the managerial decision corresponding to this class management is to enhance the results obtained. It follows therefore that, currently, Hotel Victoria is not exposed to major managerial risks specific to the Romanian companies, but an enhanced attention must be paid to the turnover, which until 2015, was not developing according to industry segment to which it belongs.

To adopt a concrete strategy we used SWOT quantitative model, which requires the use of the assessment matrices (table 7 and table 8).

Table 7. Internal factors evaluation matrix (IFEM)

Strengths	Importance	Grade	%
- Service hotel accommodation is, along with the transport, food and entertainment ones, a category of basic service required by tourist during his journey and, in the same time, a factor of stimulation of the tourist request	0.10	4	0.40
- One of the best developed tourist facilities in Pitesti and not only, being a true luxury hotel for business tourism.	0.10	3	0.30
- Modern and select endowments, multiple and quality services, conferences and relaxation	0.10	4	0.40
- Management provided by well-trained persons from a professional perspective.	0.10	3	0.30
- Uniform structure of the permanent staff and employees who pay attention to the details that make the difference on the tourism market.	0.05	3	0.15
- Modern SPA and beauty center.	0.05	3	0.15
- AquaGym courses.	0.05	3	0.15
- Wireless internet access.	0.05	3	0.15
- Good image in front of the customers.	0.10	4	0.40
- A recognized market leader.	0.10	4	0.40
- Efficient strategies.	0.05	3	0.15
Weaknesses			
- Poor coverage of the hotel in the business environments in Romania	0.05	2	0.10
- Slight lack of quality in the case of the staff recently hired regarding all services offered by the Hotel Victoria;	0.05	1	0.05
- Absence of a strategic partner.	0.05	1	0.05
Company's Internal Global Power (CIGP)	1	3.15	

Table 8. External factors evaluation matrix (EFEM)

Opportunities	Importance	Grade	%
- Hotel Victoria is one of the few luxury hotels in Pitesti, situated in the city center, close to all the main tourist attractions and business centers.	0.15	4	0.60
- It is well known because until recently was the only luxury hotel in the city, and the oldest	0.10	4	0.40
- Planning and hosting weddings.	0.10	4	0.40
- Personal swim trainers.	0.10	4	0.40
- Personal Masseurs for SPA	0.10	3	0.30
- Activity throughout the year leads to customer loyalty, especially those in the business environment.	0.10	3	0.30
Threats			
- Side effects of the economic changes (change the level of the fees, taxes level), legislative changes;	0.10	3	0.30
- Staff obsolescence and problems in finding qualified staff and long period for the training of the new one	0.10	1	0.10
- Main competitor in Pitesti – Hotel Ramada	0.15	2	0.30
Company's External Global Power (CEGP)	1	3.10	

It can be noticed that the point resulted from the intersection of the coordinates can be found in quadrant 1, specific for the generic growth strategies.

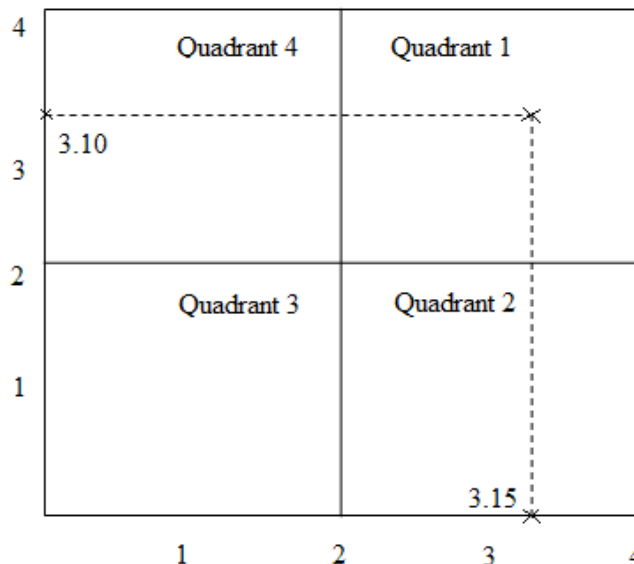


Figure 1. Inclusion of the company in the corresponding quadrant

3. CONCLUSIONS

The company's financial indicators cover the expenses which that are registered. However, the organization must continue to pay attention to these indicators, in order to notice the evolution in time and to determine the future course of action.

For better organization of the activity of the Hotel Victoria, we propose the following measures:

- Organizing of workplace trainings for employees to maximize their efficiency and to disclose the new trends in HORECA field, assuming and applying this knowledge;
- Assessment of the knowledge, skills, professional and managerial aptitudes that the staff acquired during the trainings, to apply them at the parameters set to perform better at work. A well-qualified staff provides quality services, in accordance with the hotel standards;
- Promoting better the existing symbols within the organization, and the introduction of new symbols, forming an organizational culture within the hotel and the training of the employees in accordance with the principles and fundamental ideas according to which function the hotel;
- Organizing team buildings, where employees of the company socialize better with each other and to show them their importance within the organization;
- Because the well motivated employees are more involved in promoting a good image of the company they work for, this measure refers to the diversification of the motivation forms and definition of clear criteria for the staff assessment, for example: paying staff's transportation to work, granting free meals etc .;
- To solidify relations between employees we recommend organizing events for the staff such as Christmas party, New Year and Easter meal for all employees;
- Reducing energy costs, that have skyrocketed in the last year by identifying activities and hotel departments that generate high energy consumption and attempt to minimize their consumption, by adopting preventive measures using methods of calculation and tracking;

- Conducting vigorous action to recover the claims which have recorded a significant increase in the last year;

- We consider that the adoption of concrete strategies with application directions on a market segment or on certain services fits best to the activity unfolded simultaneously with the reduction of the fundamental risks.

All these measures are designed to improve the activity of the Victoria Hotel. Most of the measures listed refer to the organization's staff because, in our opinion, human resources are the main link of a successful business. A well-trained and motivated staff is more involved in the organization and brings added value to its activity.

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