

Methodological Aspects of the Financial Justification of Development Strategies of Hotel Industry Enterprises

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ABSTRACT

The relevance of the problem under investigation is due to the fact that the lack of validity of the development strategy, fragmentary use of new financial technologies, incomplete account of internal and external factors of the financial environment, reduces the investment attractiveness of hotel business. The purpose of the article is to develop an algorithm of the financial justification strategies for the development of hotel business enterprises. For the analysis of the existing system of strategic management of development of the Russian hotel business authors of the article used methods of economic-statistical and factor analysis, economic and mathematical modeling. The proposed algorithm of the financial justification involves the following steps: Analysis, modeling and strategic decision-making, and monitoring the cost of the hotel business. The proposed approach takes into the consideration the most effective solutions in this field, supplements and specifies the standard algorithm of the development procedures with the financial justification of the development strategy, allowing not only to diagnose the current value of the hospitality industry, but also to control the cost of factors at different levels of the hotel business management. Article submissions may be used in the expert-analytical and scientific community for the further research in the field of strategic management of hotel enterprises, as well as for practical use in the hospitality industry in the design and implementation of development strategies.

KEYWORDS

Hospitality industry; development strategy; financial justification; development indicators; investment, tourism hospitality

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Introduction

Currently, in the Russian Federation, the hotel business is developing very rapidly, aided by the support of the industry at the federal level and, therefore, becomes the object of attention of Russian and foreign investors (Sheresheva &

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Polyanskaya, 2015). Since the collapse of the Soviet Union, the number of hotels and other accommodation facilities in the whole country increased by more than 2 times - from 7000 in the Soviet Union to almost 16,000 today. This industry gave employment to 400 thousand people (Rosstat, 2016). However, when making financial decisions about investing in the hotel business enterprises it is ought to analyze comprehensively all the factors that affect their development.

The strategy is an implementation of the management system approach that provides a balance of the enterprise and the overall direction of the development (Orlova, 2015). The aim of the implementation of most of the strategies is to achieve long-term competitive advantage, which are expressed in the improvement of financial performance. Thus, the strategy is a comprehensive plan designed to achieve the strategic goals of hotel business development.

Taking into consideration the research materials of E.V. Pecheritsa & E.E. Sharafanova (2015), it may be concluded that the following groups of factors recently have the greatest impact on the formulation and implementation of the hotel business development strategy:

- foreign and internal political situation in the country, affecting the selection of travel destinations by potential guests, including the tourism purpose;
- the economic situation in the country, determining the creditworthiness of the citizens and the financial situation of organizations wishing to take advantage of accommodation services;
- legal and government support for the hotel industry, both at the federal and regional level;
- demographic situation and other factors associated with the presence of qualified personnel to work on the enterprises of hotel business;
- scientific and technological environment which provides hospitality with the modern scientific-technological and information solutions, corresponding to the world level;
- socio-cultural and socio-psychological environment, which determines the attitude of society to the domestic and foreign tourists.

At the same time, basing a development strategy especially for small hotel business (small hotels, guest houses and so on) L. Rudenko et al. (2015) distinguishes the following main types of risks associated with factors of external and internal environment:

- the lack of own financial resources;
- high interest rates on commercial credit;
- lack of demand for services of accommodation and the uncertainty of the economic situation in the country;
- investment risks;
- unsatisfactory conditions of material and technical base of the hotel facilities.

Thus, scientific and methodological substantiation of the development strategies of hotel industry is important for private business and public authorities in making strategic decisions about the development of hotel

business in specific regions. Thus, scientific and methodological support of strategies for the development of hotel business enterprises is important for both private businesses and for public authorities in making strategic decisions about the development of the hotel business in specific regions.

Materials and Methods

The methodological basis of this research consists of the works of scientists studying the essence of the rationale of development strategies of enterprises of hotel business, including its features in the Russian Federation, such as E.G. Kropinova, N.A. Zaitseva & M. Moroz (2015), E.V. Pecheritsa & E.E. Sharafanova (2015), M.V. Vinogradova (2012) and others. Financial aspects of the development and implementation of strategies for the development of the hotel business considered in A.D. Kozlov (2016), M.V. Petrovskaya et al. (2016) and others.

For the analysis of the existing system of strategic management of the Russian hotel business development the authors of the article used the methods of economic-statistical and factor analysis, economic and mathematical modeling.

The application of these methods allowed identifying the main trends in the development of Russian hotel business.

In addition, through the use of theoretical and empirical research methods algorithm of the financial justification of the hotel business enterprises development strategy on the basis of the cost management was worked out.

Results

For the strategic planning of any enterprise, it is important to understand what is the vector of impact on the business of the most significant factors and what trends in the market appear because of this. Such information is the basis for the adjustments or complete change of the previously selected development strategy. Therefore, a study aimed at the analysis of these factors and identification of trends is an urgent task, which has not only scientific but also practical significance for enterprises of hospitality industry.

A study of the possibilities of receiving state support development of hotel business enterprises

Studying the prospects of obtaining state support for the development of hotel business enterprises, it is necessary first of all to consider the Federal target program "Development of domestic and inbound tourism in Russia (2011–2018гг.)". This program is being implemented on public-private partnerships. According to the results of its implementation on the average on one rouble of budgetary funds around three extra-budgetary roubles are attracted. Further calculations for hospitality projects created by the implementation of this program show that the profit on them comes to five rubles per each invested rouble. Only for the period from 2015 to 2018, the budget allocations approved in the amount of 16 billion 100 million rubles (Federal target program, 2011).

However, many hotel business owners say that it is very difficult to get into the program, not only due to difficulties with funding, but mostly because of the various formal requirements that are sometimes difficult to perform (Zaitseva et al. (2016). Another reason is the disparity between private projects and

modern requirements of business plans, their financial justification. In the end, the real or potential owners of hotel business have to spend large funds for consulting services payment that does not always guarantee obtaining a positive conclusion at the Federal level.

The research of tourism development trends in the Russian Federation and its influence on the change of hotel infrastructure

Since 2014, Russia is continuing to shift from the outbound tourism, which in 2015 showed the strongest decline in 20 years, to the inbound one. There were the following changes in the structure of inbound tourist flow in 2015: reduction of the number of foreign tourists, especially from Europe and the United States arriving with business purposes, but an increase in the number of guests from Iran, India, and Korea. Leaders of arrivals are tourists from China (table 1).

Table 1. Top 10 for entry to the Russian Federation for 9 months. 2015 (Rosturizm, 2016)

Total			With the purpose of tourism		
№	Country	Amount, people	№	Country	Amount, people
1	Ukraine	7 876 178	1	China	583 617
2	Kazakhstan	4 217 655	2	Germany	319 192
3	Uzbekistan	1 795 215	3	USA	152 940
4	Poland	1 331 292	4	Turkey	115 776
5	Finland	1 118 619	5	Israel	103 901
6	China	1 117 017	6	United Kingdom	102 910
7	Tajikistan	980 700	7	The Republic Of Korea	100 069
8	Azerbaijan	802 839	8	Italy	94 065
9	Armenia	671 881	9	Spain	73 333
10	Kyrgyzstan	627 813	10	France	72 996

However, outside the field of the hotel business owners' attention are often the leaders of the incoming flow for other purposes and above all – with purpose of getting a job. Almost 8 million people arrived in the first 9 months of 2015 in the Russian Federation from Ukraine, 4.2 million people from Kazakhstan, 1.8 million people – from Uzbekistan. Many of them end up living either in the private sector, renting an apartment or hostels for visitors. However, this type of accommodation is still not widely spread in the Russian Federation - by the end of 2015, the number of visitors for dormitories together with hostels according to official statistics amounted to only 535 units across the country, representing 9% of the total number of hotels over the same period.

The analysis carried out by the authors showed that in spite of the existing demand for budget accommodation, their structure for the period from 2010 to 2015 in the total number of accommodation facilities has not changed greatly (figure 1).

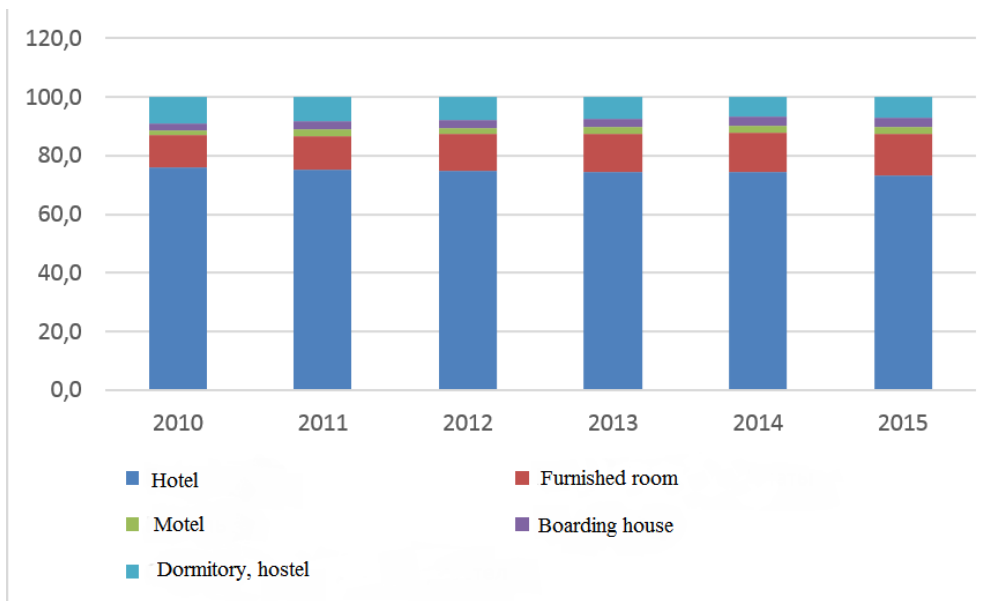


Figure 1. The structure of the means of hotels and other accommodations in Russia in 2010-2015, %
 Compiled by the authors based on the data of Rosstat

In addition, there are no large fluctuations in the rate of growth in the number of certain types of accommodation facilities by years (figure 2).

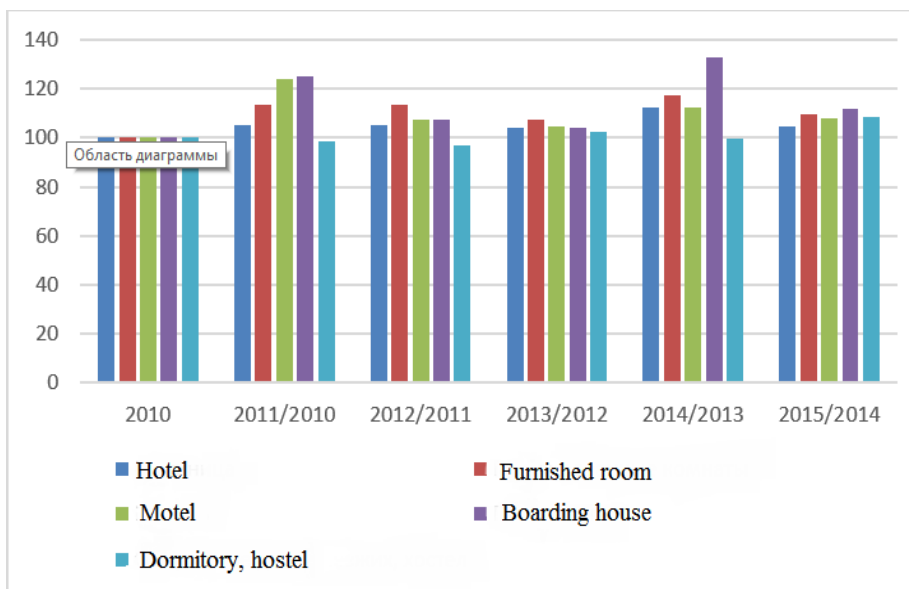


Figure 2. Dynamics of growth of number of hotels and similar accommodations in Russia in 2010-2015, %
 Compiled by the authors based on the data of Rosstat

The largest increase over the last 5 years recorded in the boarding houses and furnished room – 107,9% and 78,4%, respectively. The hostels and

dormitories for out-of-towners showed the smallest increase of only 5.5% between 2010 and 2015, largely due to the presence of a number of unresolved issues at the legislative level in terms of restrictions for the establishment of this form accommodation.

A study of the financial performance of the enterprises of hotel business

To justify the development strategies of enterprises of hotel business, it is important to understand how the income is changing year by year and expenses of such enterprises, what is the profitability of the business. A study conducted by the authors confirms that the income of hotels and similar accommodation facilities from services provided in 2015 compared with 2014 increased by 12% (figure 3).

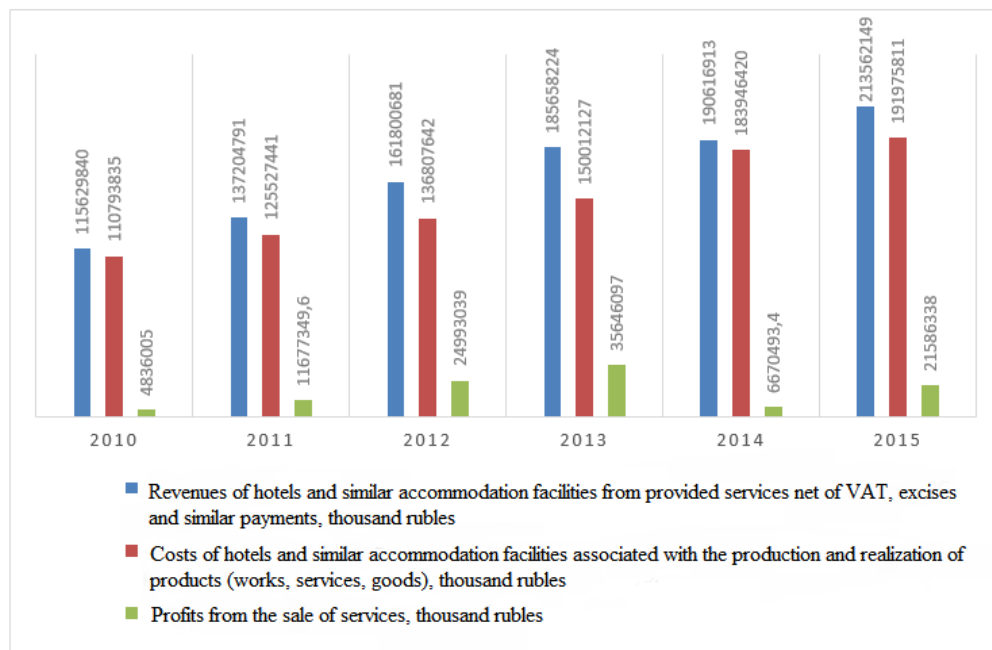


Figure 3. Dynamics of the main financial and economic indicators of hotels and similar accommodation facilities in the Russian Federation for the period from 2010 to 2015. Compiled by the authors based on the data of Rosstat

Based on the data presented in figure 3, it may be concluded that the costs of hotels and similar accommodation facilities associated with the production and realization of products (works, services, goods) has increased much slower – only 4.4%. The consequence of this was the increase in profit by 3.2 times.

However, such dynamics reflects the recovery of the hotel business after a disastrous 2014, when the profitability of this business amounted to an average of just 3.6 %. The situation was similar in 2010 (figure 4).

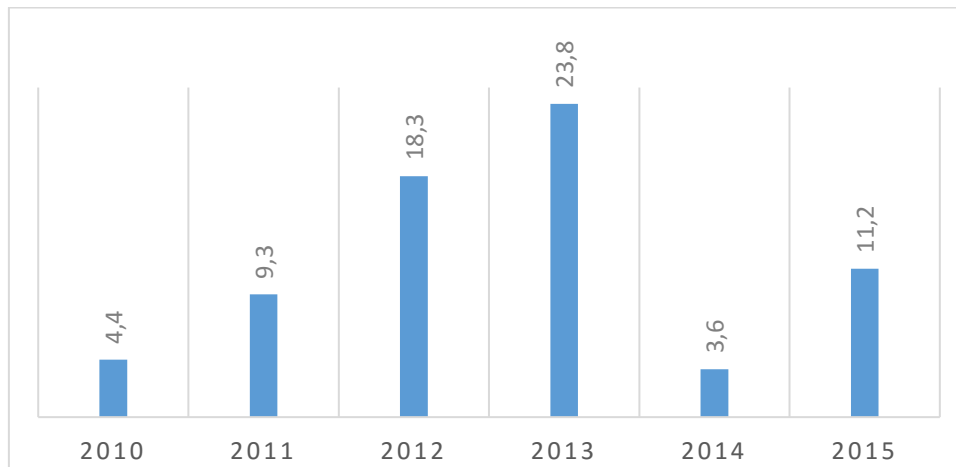


Figure 4. The dynamics of the value of the return activities of hotels and similar accommodation facilities in the Russian Federation for the period 2010-2015, %
Compiled by the authors based on the data of Rosstat

Further investigation revealed that the number of persons accommodated in hotels and similar accommodation for the same period increased by 11%, increasing the number of overnight stays in hotels and similar accommodation facilities by 19%. Consequently, the revenue growth is largely due to the increase in the number of provided services rather than of higher prices. Due to localization of demand, in 2015, there is a tendency of the predominance of lower price preferences of the guests. Due to a more pronounced reorientation towards organized groups, the occupancy in a majority of hotels increased. Overall, the growth of domestic tourism changes the structure of demand, portrait of the target audience, and consumption patterns.

However, it is too early to say that the hotel business has fully recovered from the crisis, including payment of previously acquired credits. According to the latest data of Rosstat, in June 2016, the share of overdue bill payables in the Russian economy amounted to 6.2%. The rate of growth slowed to 14.6% in June 2016, compared with 17% in January 2016. However, in the "hotels and restaurants sector" the dynamics are opposite. The volume of overdue bill payables of these companies amounted in June 2016 3.5 billion. rubles, which shows an increase compared to the same period last year by 2.5 times.

The peculiarity of the hotel business is that the dynamics of financial indicators depends on the segment hotels. Consider the performance indicators on the example of hotels of various segments of Moscow (figure 5).

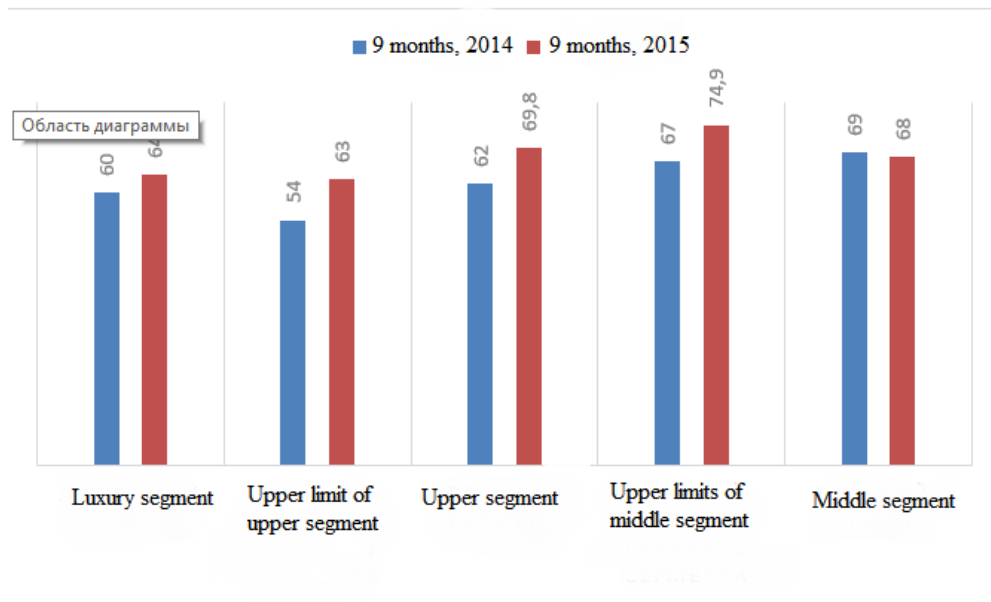


Figure 5. The dynamics of the Moscow hotels Occupancy Rate (OCC - occupancy), for 9 months, %, 2014 to 2015

Compiled by the authors according to the materials of <http://www.jll.ru/russia/ru-ru>

According to the figure 5, the average value of the occupancy rate on the market of the quality hotels for the first nine months of 2015 increased compared to the same period of the last year by 4 percentage points to 68.8%. All segments of hotels showed an increase in the occupancy rate, a slight decrease of 1% is observed only on the middle segment. While on the same segment there is a decrease in the yield per room in 2015 (figure 6).

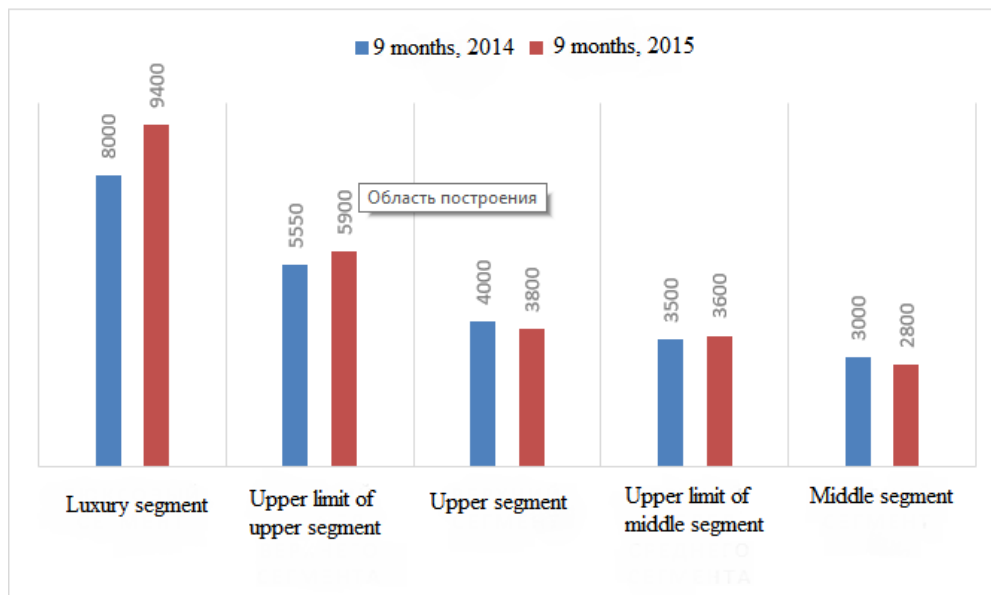


Figure 6. Dynamics of Revenue per Available Room (RevPAR - the yield per room of hotels in Moscow for 9 months. 2014 to 2015

Compiled by the authors according to the materials of <http://www.jll.ru/russia/ru-ru>

Positive dynamics of average prices and of average income to the number observed in the luxury segment, which is associated with an increase in the number of guests who can afford the highest level of service and comfort on the background of weak ruble. Other segments of hotels in the crisis has not increased the tariffs. Marked trends remain in 2016, at the end of the first half of the year all segments of hotels, from luxury hotels to hotels of the medium price segment, showed growth in the occupancy rate compared to the last year. In turn, the average room rate increased by 6.7% as the cost of food and hotel livelihood means is rising.

In general, it can be noted that a good-quality studies of all aspects of the financial justification of development strategies of hotel business enterprises will enable making more effective management decisions that are able to ensure long-term competitiveness of hotel business enterprises.

Algorithm of the financial justification of the hotel business enterprises development strategy

Strengthening of the strategic emphasis in corporate management, in light of which obtains not only current income, but also the profit in future periods, and the source of its generation leads to the need of the improvement of the methodology of the financial justification of the development strategy. Thus, the effectiveness of the strategy and its evaluation is possible using indicators of value-based management model.

In our opinion, the financial justification of the development strategy is the technology of the financial capacity assessment, the definition of the financial cost factors, forecasting on its basis of the financial position of the hospitality business and cost monitoring.

Based on this provision and following the logic of constructing an algorithm of the financial justification, authors of the article developed the following algorithm of the financial justification of the development strategy (Figure 7).

Stage 1. Analytical stage. This stage includes the diagnosis of the financial condition and the operations' results based on traditional techniques and methods of financial analysis, the diagnosis and identification of key cost factors (parameters of activity of the hotel business enterprises, in fact which define its value), as well as evaluating the value of the business at the current time. The main objective of this stage of the financial justification of the development strategy is not a diagnosis of the situation of the hotel business in the real time, but the determination of the strategic position, the identification of opportunities and threats of functioning in the long term period for the subsequent forecasting of the future earnings.

To measure changes in the value of the hotel business the authors suggest the utilization of a model of economic value added, which is based on three main elements: return on capital, the cost of invested capital and the value of invested capital. The advantage of the model of economic profit (EVA[®]) is that it describes the results of activities in a particular year, enables assessing the efficiency of the whole enterprise or its departments. It acts as a universal tool of business valuation; it is used, including, for private companies (this is the majority of hotel companies), acts as the indicator of the quality of management decisions. The $EVA^{\text{®}} > 0$ indicates not the increase in the enterprise value, but on the contrary, decrease.

Stage 2. Modeling and strategic decision-making. Forecasting is the main method to assess the cash flow generation of the hospitality business and changes in its value. Its specificity by the financial justification lies in the choice of alternatives of development strategies, providing a variety of cost changes, and represents a new development strategy. The essence of this stage of the financial justification of the development strategy is to compare the cost of the studied object and the value of strategic alternatives.

Stage 3. Cost monitoring. At this stage, the strategic goals are transferred to the task level of business units, i.e. evaluation of the development strategy effectiveness shifts in the measurement problem of assessing the effectiveness of the company and each of its divisions.

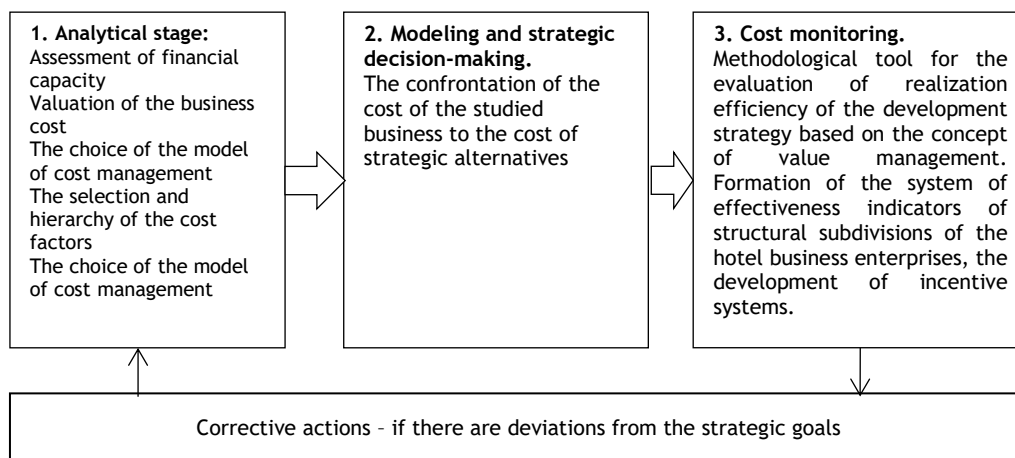


Figure 7. Steps of financial justification of the development strategy of the hotel business enterprises.

Discussions

The study carried out by the authors showed that there are many studies in which great attention is paid to the issues of business value management (Braley & Myers, 2008; Damodaran, 2004; Van Horn, 2003; O'Byrne, 1996; Stewart, 1999; Rappaport, 1986; Kaplan & Norton, 2005).

Previously conducted studies of the hotel business development strategies (Orlova, 2015; Kozlov, 2016) mostly was reduced to the study of the problems associated with the classification of strategies of hotel business, models of strategies. However, they insufficiently take into account the specific financial justification of the hotel business development strategies on the basis of cost management.

Formerly separate provisions of this studies have already been reflected in publications of some authors of this study (Petrovskaya et al., 2016; Bunakov et al., 2015; Úbeda-García et al., 2014), and caused a certain scientific and practical interest. In this article a study of trends of hotel business development was conducted, were analyzed the factors influencing the strategic development

of the hospitality industry, as well as updating of strategic management under the influence of these factors, and describes the steps of financial justification strategies for the hotel business development.

The research conducted by the authors of this article is fundamentally different from the existing approaches to the hotel business development strategy; the fact is that the choice and the development strategy implementation is based on the model of cost management. The proposed method takes into account the most effective approaches in this area, complements and concretize the typical algorithm of the strategy development procedures, financial justification, allowing not only to diagnose the current value of the hotel business, but also to control cost factors at various levels of the hospitality management.

Conclusion

Modern trends of the hotel business development suggest the presence of established mechanisms for strategic management and continuous improvement of business processes. The hotel business is becoming an area of interest not only for hotel chains, but also for the Russian companies from other industries; this fact shows the desire to develop and diversify their activities. On the basis of conducted research it can be concluded that the hotel business in Russia is one of the most fast and successfully developing industries.

Application of the proposed approach to the financial feasibility of the development strategies by influencing on its forming factors will facilitate the hotel business with a promising and effective tool for assessing current and future conditions. This will contribute to its modernization, the elimination of the existing imbalances, the creation of objective prerequisites for the growth of efficiency and improvement of stability of functioning of enterprises.

Disclosure statement

No potential conflict of interest was reported by the authors.

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