

1st

International Scientific Conference

2-4 June, 2016

Vrnjačka Banja, Serbia

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TOURISM IN FUNCTION OF DEVELOPMENT OF THE REPUBLIC OF SERBIA

Spa Tourism in Serbia and Experiences of Other Countries



**THEMATIC
PROCEEDINGS**

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**UNIVERSITY OF KRAGUJEVAC
FACULTY OF HOTEL MANAGEMENT
AND TOURISM IN VRNJAČKA BANJA**



PERFORMANCE ASSESSMENT OF FINANCIAL OPERATIONS OF HOTELS IN SPA TOURISM CENTERS

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Abstract

Based on financial statements of a representative target group of hotel tourist companies which operate in spa tourism centers, cumulative balance sheet and income statement were made and a certain number of indicators of financial health of the surveyed companies. By comparative reviewing of the obtained indicators for the period 2012-2013, with the performance indicators from the cumulative balance for the period 2009-2010, the changes in financial performances have been defined. The obtained results are the reflection of internal strengths and weaknesses of the very companies as well as of a macroeconomic ambient in which the companies were operating. For the purpose of achieving a higher competitive advantage, it is necessary to investigate the possibilities of using the leadership strategies in costs and strategies of differentiating for reaching the objectives related to higher turnover, lower fixed costs and higher profitability.

Keywords: *hotel tourist companies, spa tourism, financial statements, ratio analysis, financial indicators*

Introduction

As a tourist company implements its mission in an interaction with numerous factors of external and internal nature which have different character and intensity, it is requested from it to identify opportunities and threats on time, to evaluate strengths and weaknesses of companies and their competitors, and by knowing the critical factors of business success, to define the mode of business running of companies.

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Financial management is an essential element in any tourist company for implementing the objectives related to revenues and profitability. The management team uses the financial accounting statements for financial analysis, planning and control. The individual positions or items in financial statements are only relative numbers. As the profit is only a relative indicator of success i.e. performance, thus the general state of financial health can be monitored by comparing individual positions in financial statements. Financial analysis deals with research and quantification of functional relationships that exist among the positions of balance sheet and income statement, in order to provide a realistic assessment of the financial position and activities of the company. Financial analysis is basically a ratio analysis. The ratio of one balance sheet position to the other, expressed in a simple mathematical formula, is called the ratio. The significance of substitution of absolute values with the ratio numbers stems from the need to identify and measure those causal links between the balance sheet positions that highlight some of the financially relevant aspects of the business activities of the company (Krasulja, 1982, p.53).

Modern balance theory and practice of financial management have a large number of indicators that are available for the analysis of financial statements. Depending on needs they will be used for, all ratio numbers can be classified into several related groups of financial indicators. That classification is not uniform. One of the most common divisions of ratio numbers is as follows:

1. Indicators of liquidity;
2. Indicators of activities;
3. Indicators of financing structure;
4. Indicators of profitability.

Methodological approach to empirical research

In order to assess the financial performance of hotel business operations in spa tourism centers, it is necessary to consider it through the comparative analysis of financial statements and calculated performance measures, that show causal links between the balance sheet and income statement positions and highlight some of the financially relevant aspects of business activities of the companies.

For the analysis, the published financial statements were taken over from the website of the Business Registers Agency (hereinafter: BRA or APR

in Serbian) the Register of financial statements and data on solvency of legal entities and entrepreneurs. They consist of: income statement, balance sheet, cash flow statement and statistical annex for 2009 - 2010 (Jovanović et al, 2014, p. 264) and 2012-2013 for 60 tourist companies from the territory of Serbia, classified as medium and small enterprises, which make up a representative sample for the need of a further analysis. Based on the entered data from the financial statements for each company individually, the cumulative balance sheet and income statement were made which show a cumulative status of the property and the business performances of the hotel companies in Serbia during three consecutive years.

Given that a representative sample consists of hotel companies which operate in towns, spas, at mountains and near rivers and lakes, the companies that provide tourist services in spas were selected. From the individual data, a cumulative financial statement was made related to hotels business operations in the spa centers in Serbia. The selected sample for analysis of business operations for the period 2009-2010 consisted of eight hotel tourist companies which operate in the well-known spa tourism centers in Serbia.

The same procedure was carried out for the period 2012-2013, and a sample for analysis included nine hotel companies, because, for example, the representative hotel in Arandjelovac, the Izvor hotel doo, started running in 2011. There was a change in the structure of the sample, because some companies from the previous observation period, in accordance with the provisions of the Law on Accounting and Auditing (The Official Herald of the Republic of Serbia, No. 99/2011), changed a size and thus denied the possibility of taking over the financial statements from the web portal of BRA (APR in Serbian), and the others, however, met the conditions to qualify from small into medium-sized companies. The sample consists of the companies whose main business activity code is 5510-Hotels and similar accommodation, as well as the companies with code 8710- accommodation institutions with medical care, such as "Prolom spa" Prolom or DP "Mataruska and Bogutovacka spa", Mataruska Banja, because they are known to be bearers of health or medical tourism in these spas. Some companies, for example, the company "Planinka" AD Kursumlija, has a primary activity code of 1107-production of soft drinks. From the notes to the financial statement of this company it is shown that, besides this, it conducts the activities in the field of tourism, catering and medical rehabilitation in Kursumlija,

Prolom and Lukovska spa, and it submits a unified (consolidated) financial statement, so it is not possible to extract only the hotel business activity.

The aim of this paper is, with the analysis of the cumulative financial statement of the reference companies, classified as medium in size, (whose reports are subject to audit), and which achieve a dominant turnover volume from rendering tourist services in the spas of Serbia, to consider their financial health. Also, its aim is, by comparing the key indicators in different time periods, to determine the direction and level of changes in them, as well as available operating strategies in order to achieve a greater profitability.

In Tables 1 and 2, there are summarized cumulative balance sheets and income statements of hotel companies that operate in the spas in Serbia, in the periods 2009-2010 and 2012-2013, with the amounts expressed in RSD 000.

Performance analysis of financial operations of hotel tourist companies

From the financial accounting statements of the hotels operating in spas in the above mentioned periods, the key business indicators were calculated such as: indicators that provide general information on business operations of these companies, their accumulative and creditworthiness, indicators related to liquidity, structure, profitability and activities.

Table 1: *General information on hotel companies business in spas*

Name of data or indicators	2013	2012	2010	2009
Total revenue	3,347,477	3,235,969	2.204.664	2.252.428
Total expenditure	3,343,337	3,435,907	2.007.873	2.169.389
Net financial result	-57,661	-253,932	137.333	63.176
Business-operating result	6,081	182,121	161.993	198.396
Number of employees	1,697	1,782	1.373	1.565
Self-financing degree	0.40	0.41	0,60	0,65
Credit worthiness degree	0.49	0.50	0,81	0,87

Source: *Authors' calculation*

Table 2: *Summary of cumulative balance sheets of hotel companies in spas*

POSITION	AOP	2013.	2012	2010.	2009.
ASSETS					
Fixed assets (002+003+004+005+009)	001	7.692.350	7.439.478	2.728.950	2.503.339
Property, plant, equipment and natural assets (006+007+008)	005	7.671.807	7.417.165	2.487.744	2.473.148
Long-term financial investments (010+011)	009	14.853	14.814	236.518	28.244
Turnover assets (013+014+015)	012	1.118.216	1.146.863	787.326	690.339
Inventories	013	162.587	158.150	146.535	147.047
Short-term receivables, investments and cash (016+017+018+019+020)	015	955.629	988.713	640.791	543.292
Deferred tax assets	021	82.707	85.875	8.544	895
Business assets (001+012+021)	022	8.893.273	8.672.216	3.524.820	3.194.573
Loss over capital	023	572.119	343.318	190.037	165.341
F. TOTAL ASSETS (022+023)	024	9.465.392	9.015.534	3.714.857	3.359.914
NON-BALANCE ASSETS					
A. Capital (102+103+104 +105+106-107+108-109-110)	101	3.434.914	3.678.204	2.213.846	2.167.189
Basic capital	102	3.627.198	3.627.197	1.689.181	1.778.040
Retained profit	108	847.775	622.624	430.499	321.544
Loss	109	3.347.478	2.682.163	528.227	514.247
B. Long-term provisions and liabilities (112+113+116)	111	6.005.493	5.317.878	1.489.558	1.180.131
Long-term liabilities (114+115)	113	1.221.187	1.250.531	293.853	253.409
Short-term liabilities (117+118+119+120+121+122)	116	4.411.774	4.043.737	1.186.655	926.722
Deferred tax liabilities	123	24.985	19.452	11.453	12.594
C. TOTAL LIABILITIES (101+111+123)	124	9.465.392	9.015.534	3.714.857	3.359.914

Source: *According to the data from published financial statements of the reference companies, on the web site of BRA (APR) the Register of financial statements and data on solvency of legal entities and entrepreneurs for the periods 2009/2010 and 2012/2013*

Table 3: *Summary of Cumulative income statements of hotel companies in spas*

POSITION	AOP	2013.	2012	2010.	2009.
A. Revenues and expenditures from regular business operations					
Business revenues (202+203+204-205+206)	201	3.129.566	3.047.701	2.076,588	2.200.624
Business expenditures (208 to 212)	207	3.123.485	2.865.580	1.914.595	2.002.228
Profit from business operations (201-207)	213	6.081	182.121	161.993	198.396
Loss from business operations (207-201)	214	0	0	0	0
B. Financial revenues	215	113.562	68.493	21.346	20.755
Financial expenditures	216	112.803	404.973	42.630	60.685
Other revenues	217	104.349	119.775	106.730	31.049
Other expenditures	218	107.049	165.354	50.648	106.476
C. Profit prior to taxation (219-220+221-222)	223	2.924	0	196.463	83.150
D. Loss prior to taxation (220-219+222-221)	224	0	201.860	0	0
E Tax on profit		0	0	0	0
1. Tax expense of the period	225	53.362	34.676	22.176	21.626
2. Deferred tax expenses of the period	226	7.275	9.906	635	1.479
3. Deferred tax revenues of the period	227	52	8.510	8.767	3.131
F. Paid out personal earnings to employer	228	0	16.000	45.086	0
G. NET PROFIT (223-224-225-226+227- 228)	229	0	0	137.333	63.176
H. NET LOSS (224-223+225+226-227+228)	230	57.661	253.932	0	0
Net profit belonging to owners of parent legal entity	232	38.303	69.170	0	0
1.Basic earnings per share	233	5	3	3	4

Source: *According to the data from published financial statements of the reference companies, on the web site of BRA (APR) the Register of financial statements and data on solvency of legal entities and entrepreneurs for the periods 2009/2010 and 2012/2013*

Table 3 provides an overview of basic information about the hotels business operations in the periods 2009-2010 and 2012-2013, so we can notice that both the revenues and expenditures increased in absolute amounts, but that the business operating result, as the difference between

revenues and expenditures related to the business activity itself, decreased significantly in 2013 compared to the previous period. The business operating result is the result of regular business activities of the company. It is independent of the mode of financing and is not affected by extraordinary items (except when a company leases the assets to perform business activities and thus, the operating result contains implicate (hidden) costs of interests, making it suitable for assessing the profitability of the primary business activity of a company, and thus for assessing the ability of the management of a company (Knežević et al, 2013, p. 202).

The net financial result, regarded as the financial result reduced by tax expenditures and deferred tax expenses of the period, was negative in 2012 and 2013, which is certainly a result of internal weakness and unfavourable external conditions of business operations. Namely, according to the Announcement on the operations of the economy in the Republic of Serbia in 2013, (Business Registers Agency, 2013b) issued by the Serbian Business Registers Agency, the consequences of the global economic crisis from 2008 had an impact also on the domestic economy. There was a slight recovery of the Serbian economy in 2011, but the second wave of the crisis in 2012 incited the economic tensions and recession trends again. The indications of recovery of domestic economic entities in 2013 are encouraging, thanks to the recovery of the Euro zone states' economy. The number of employees in the hotels was increased in the last two observed years, which tells about the social importance of this sector of business activity. The coefficient of self-financing degree indicates the share of own sources of funds in the total sources, a degree of creditworthiness shows the extent to which fixed assets are financed by own long-term sources of financing (capital equity and long-term bookings). The optimum value of this indicator is 1 or more. In the observed periods, these two indicators have a decreasing trend, which means that the net assets of the company are decreasing, considering the fact that net assets of a company include the assets financed from its own funds (Radovanović&Jovanović, 2000, p. 6)

Analysis of liquidity

Liquidity indicators are intended to indicate the ability of a company to settle its due payment commitments, while maintaining the necessary structure of funds and maintaining a good credit solvency –standing (Knežević, 2009, p.110).

Table 4: *Liquidity indicators of hotel companies in spas*

Indicator	2013	2012	2010	2009
ACID- Liquidity test of level I	0.07	0.02	0,08	0,07
Liquidity test of level II	0.22	0.24	0,54	0,59
Liquidity test of level III	0.25	0.28	0,66	0,74
Revolving fund at the end of year	-2,663,717	-2,487,133	-212.201	-82.741

Source: *Authors' calculation*

The value of the liquidity ratio of the first level, in the amount of 0.07 indicates that the coverage of short-term cash liabilities is at the level of 7% (on RSD 100 of short-term liabilities, RSD 7 in cash).

The value of the liquidity ratio of level II in the amount of 0.22 indicates that the coverage of short-term liabilities with working capital excluding stocks, tax credits and accruals at the levels of 22% and 24% in the period 2013-2012, which is twice lower than that liquidity ratio was in the year 2010/2009.

The value of the liquidity ratio of level III (general,current) in the amount of 0.25 indicates that the coverage of short-term liabilities by working capital was at the level of 25%, and in 2009 that liquidity ratio was 74%. This indicator is the ratio form of of net working capital. If the value of the net working capital is positive, the value of the current ratio will be above 1, and vice versa.

With the analysis of the data of the companies in the sample, it was found that the value of net working capital was negative, which means that the value of short-term assets is lower than the value of short-term liabilities, and taking into consideration that the amount of negative net working capital increases from period to period, it means that the state of long-term financial balance was deteriorated.

Analysis of financial structure

The business operations of a company can be financed from various sources that can be divided into own and borrowed. Own sources include basic-recorded, paid down and entered capital of owners, legal, statutory and other reserves and a profit retained and reinvested in the business running. Borrowed sources, which can be short-term and long-term ones, mean the financing of current and new investments and the providing different forms of assets from debts – payables towards suppliers,

received credits and loans, commitments to employees, the state and other creditors. The relation between the own and borrowed sources of financing indicates the quality of a financial structure, security of creditors and the possibility of sustainable development of a company. There are a lot of financial structure and security indicators and some of them are shown in Table 5.

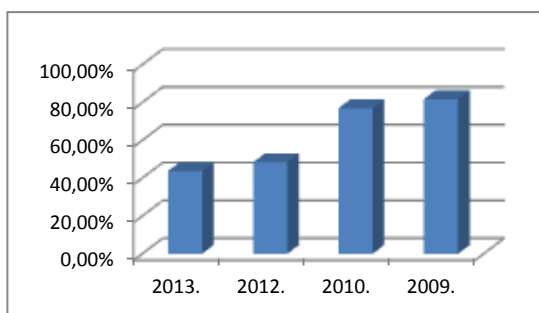
Table 5: *Indicators of structure of hotel companies in spas*

Indicator	2013	2012	2010	2009
Ratio of capital and fixed assets value and stocks	43.73%	48.41%	76,99%	81,77%
Ratio of fixed assets and working capital	687.91%	648.68%	346,61%	362,62%
Share of own capital in total capital	36.29%	40.80%	59,59%	64,50%
Coefficient of indebtedness (Share of other people's capital in total capital)	63.71%	59.20%	40,41%	35,50%

Source: *Calculation of authors*

The ratio which shows the relation of capital and the value of fixed assets and stocks, indicates that tourist hotel companies in the Serbian spas have a growing problem to finance fixed assets from their own capital. Due to the insufficiency of owner's equity capital, the companies look for additional funds from long-term and short-term borrowed financing sources (banks, creditors ..), which presents the ratio of a share of own capital in the total capital (which is decreasing) and the ratio of other people's capital the total capital – indebtedness indicator (which is increasing) in the observed periods

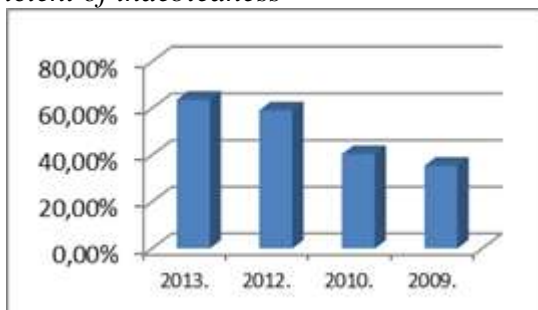
Figure 1: *Indicator of relation between capital and value of fixed assets and stocks*



Source: *Authors' calculation*

This indicates a worse financial structure and a higher degree of financial uncertainty. However, in the hotel business activity, increased indebtedness values of indicators do not absolutely have to indicate the uncertainty in business. Namely, everything depends on the management's skills to manage capital, total assets and revenues so as to contribute to the profit growth.

Figure 2: *Coefficient of indebtedness*



Source: *Authors' calculation*

The ratio of relations of fixed assets and working capital shows the structure of assets, i.e. the dominance of values of the fixed assets in relation to working capital of a hotel, which is justified taking into consideration the fact that the business activity of rendering accommodation to guests in hotels, means high investments in the purchase and construction of facilities for the performance of the business activity. This ratio was significantly higher in the period 2012/13 because the sample included the newly built magnificent "Izvor" hotel in Arandjelovac with a high value of fixed assets.

Profitability analysis

Primary motivation of all the investors is earning profits, which in the financial statements represents a positive difference between revenues and expenditures. The nominal value of the result is not particularly informative without knowing the size of a company that achieved that result. In order to standardize and compare with other companies, the result is put in relation with some of the indicators of business operations volume (revenues) or the volume of invested funds (capital, operating assets, invested capital), in order to make a certain quantification.

Table 6: *Profitability indicators of hotel companies in spas*

Indicator	2013	2012	2010	2009
Factor of business risk (business leverage)	358.52	10.96	8,70	7,72
Factor of fin. risk (financial leverage)	0.89	-1.18	1,15	1,25
Return rate on own capital/equity - ROE	-1.68%	-6.90%	6,20%	2,92%
Return rate on investments - ROI	0.58%	1.68%	4,84%	3,69%
Ratio of interest coverage from profit	-0.51	-0.63	3,22	1,04

Source: *Authors' calculation*

A business risk affects significantly the amount of achieved profit, especially in business activities with a high share of fixed costs, such as a hotel activity, as well as a financial risk, if they operate in circumstances where it is necessary to obtain additional funds for business operations, from borrowed sources of financing, with the obligation of interest payments.

A business risk represents uncertainty if a company will achieve a business operating profit due to the presence of operative fixed costs in total costs. A business risk is measured with a factor of business leverage. Operating leverage is a rule that in companies with a high share of fixed costs (as is the case with hotel companies), it comes to an above-proportional profit growth together with the growth in turnover volume due to the degression of fixed costs, respectively it comes to the above-proportional loss growth with the falling volume of activity i.e. turnover. Therefore, in case of a fall in demand for the services of a hotel company as capital-intensive, the first step should be to reduce the prices, and not to reduce a production (turnover) volume (Radojević, 2013, p.270). This means that small changes in a sales volume, cause a business loss instead of a business profit.

A business leverage factor is obtained by establishing a relation of coverage margin (a marginal profit) and an operating profit. The coverage margin is calculated as the difference between sales revenues and variable costs (which consist of a purchase value of sold goods and costs for materials). Table 6. shows that the factor of business risk was increasing, but it increased sharply in 2013, when it amounted to 358.52, although it amounted to 10,96 in the previous observed year. What happened?

If we look at 2012 and 2013, from the cumulative income statement we see that there was an increase in total revenues by 3.4%, and a reduction in variable costs by 10%. Bearing in mind that "if the revenue from sales

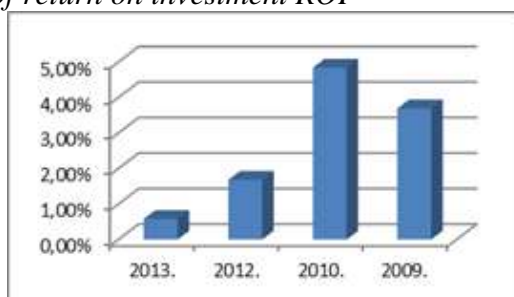
was increased due to increased sales prices, then variable costs remain unchanged. If the sales revenue was increased due to the increased volume of turnover, then variable expenditures of the company also increase "(Radojević, 2013, p.271), we can conclude that the growth of total revenue is the result of price increase rather than a turnover increase, i.e. that there was a decrease in turnover. Thus it results in the fact that within the coverage margin the amount of fixed costs was increased (because the variable costs were reduced), and the operating leverage in 2013 was 358.52 and in 2012 it amounted to 10.96 (increased almost 33 times).

It is characteristic for a business leverage factor that it shows how many times faster a business results is changing than the sales revenue is changing (assuming that a parity of sales and purchase prices is unchanged), which for the period 2012-2013 could mean that when you increase the total revenues, based on the growth of sales prices by 3.4% , and not the turnover increase, while reducing the variable expenditures by about 10% and the increase of business leverage by about 33 times (due to the increased participation of fixed costs in the coverage margin), it came to the decline of business profits by about 30 times i.e. from RSD 182,121,000 to RSD 6,081,000. This confirmed the thesis that in companies with a high share of fixed costs, there is an above-proportional growth of loss with the fall of the volume of activities that is turnover, respectively that small changes in a sales volume cause a business loss – instead of profit, which the hotel management should specially take into account.

Financial risk reflects the uncertainty if a company will be able to pay fixed financial commitments (interest, rent and preferential dividend). Financial risk is measured by a financial leverage factor, and it reflects the relation between borrowed and own funds. The idea is that a company should borrow as long as the return on total equity or assets is greater than the cost of borrowed capital. In that case we have a return growth on own assets (Radojević, 2013, p. 272-273). Financial leverage is obtained by establishing a ratio between a business operating result / net business result, while a business operating result is calculated when you from the net operating result subtract the result from financial items i.e. the difference between the financial revenue and financial expenditure. This indicator was 0.89 in 2013 which means that that the companies in the reference sample can borrow, given that the return on total equity/capital is greater than the cost of borrowed capital.

Considering the fact that the factor of financial leverage is at a low level (in 2013), a high level of business leverage in the company is compensated through it. The increase in sales revenues will increase the gross profit of the companies, the rate of return on own equity capital and stimulate the companies to move the capital structure towards someone else's or external capital. It is enough to reduce the sales revenues in a relatively small percentage, and thus a company will enter the loss zone, without a possibility of rapid substituting other people's capital into one's own capital. With the reduction of credit solvency, the companies lose their current creditors, who want to collect their claims and they are hardly willing to borrow someone else's new capital to remedy the situation of non-liquidity (Radojević, 2013, p. 277). The rate of return on own equity (ROE) is obtained as a ratio between the net financial result (profit attributable to owners of a company) and the equity capital (as capital contribution of owners). It shows the profitability of own equity capital, taking into account the financial structure, financing sources and the effect of financial leverage. Return on Equity shows the percentage increase of own capital at the end of the period, compared to the beginning of the accounting period. This indicator in 2012 and 2013 was negative, but with a growing trend. The rate of return on investment (ROI) is obtained by putting into the relation the sum of a net financial result and financial expenditures vs. the total liabilities. This indicator is increasingly lower in time, but it shows that with the current pace of funds borrowing, a return on investment has been still achieved which is greater than the cost of borrowed capital. The hotel companies in the spa tourism centers are approaching the point of indifference, which is the breakpoint of financing of the companies at which the rate of return on total business equity / funds equates to the average cost of someone else's funds (Radojević, 2013, p. 277).

Figure 4: *Rate of return on investment ROI*



Source: *Authors' calculation*

Interest coverage ratio from profit indicates how many RSD of profit is covered by RSD 100 of expenditures for interest on borrowed financing sources. Although this ratio is negative, considering that the net financial result is negative, it can be said that the investments financed from borrowed capital in 2013, contributed to the reduction of loss from 2012.

Analysis of activities

A company invests in fixed assets and working capital with the intention to use them efficiently, which means that the objective is to achieve a greater volume of business activities with small investments. Financial indicators of the activities correlate the information from the balance sheet and income statement. These indicators include the relations between revenues and expenses from the income statement putting them in connection with the respective positions from the balance sheet.

The coefficient of stocks turnover is according to Barjaktarović, Jovic, Milojevic an important indicator for a practical reason as it tells about speed, i.e. the period needed for a company to reach cash. It is obtained as the ratio of business revenues and average balance of stocks. It shows how many times during a year, stocks are converted into cash. The obtained values of this indicator for the observed companies show a slight increasing trend of activities in cashing of stocks, and the highest was in 2012. In 2013, the turnover coefficient was 19.51, which further means that the sampled companies need, on average, 18 days ($365 / 19.51$) to produce and sell the items that are in stocks, and 39 days to collect the claims pursuant to issued invoices.

Table 7: *Indicators of activities of hotel companies in spas*

Indicator	2013	2012	2010	2009
Coefficient of stocks turnover	19.51	38.54	14,15	15,43
Coefficient of turnover of total assets	0.34	0.68	0,59	0,71
Average number of days for collection	39	54	71	63

Source: *Authors' calculation*

A turnover coefficient of the total operating/business assets (assets) "shows the efficiency of managing total assets" (Barjaktarović et al,2013, p 141) and is calculated as a ratio of net sales revenues and total business operating assets. When explaining this coefficient, there are no defined values of trend levels, bearing in mind that "the level of this coefficient depends on the long-term trend of this ratio trend in a company and its

level in relation to turnover coefficient of total operating assets of other companies in the same economic sector." (Barjaktarović et al, 2013, p 141). Comparing it by periods, we can conclude that the speed of monetary valorization of engaged funds in 2013 was lower than in the previous observed period.

Conclusion

Prior to the carried out analysis of financial operations of the hotel companies operating in the spa tourism centers in Serbia, it was pointed out to the number and specificity of the companies that make up the sample for analysis, and in that sense, the obtained data should be taken with caution and critical consideration.

On the other hand, if the obtained data are taken conditionally as a picture of business operations of tourist companies in the spas which represent a pearl of the Serbian tourist offer, we conclude that the consequences of the recession from the previous period are still felt, but that there are signs of recovery expressed through financial indicators. The amount of loss which was high in 2012, has been reducing. Due to insufficient increase in the turnover volume and a high share of fixed costs, a business risk is high and the business operating result is low. Liquidity of the hotel companies has been continually at a low level, and the current short-term liquidity is particularly jeopardized due to a lack of short-term funds to cover short-term liabilities. The indicators of activities show a slower turnover of stocks and a prolonged period of claims collection. The rate of return on owners' equity was negative in 2012, with an increasing trend in 2013. Despite a high financial risk, the indebtiness coefficient increases, but the rate of return on investment, as the most qualified ratio, indicates that there is a possibility for obtaining additional borrowed capital, for the purpose of the business activities intensification.

Namely, the management of hotel companies surely have in mind that they must invest continuously in facilities and their furnishing and equipping in order to provide top quality services to tourists, on one hand. On the other hand, the investment in capacities means an increase of fixed costs, which in addition to the seasonal nature of demand and intense market competition, is the biggest challenge for achieving profitable business operations, particularly bearing in mind that a business leverage factor is high. In order to increase the turnover and total revenues at the level at which the fixed costs would get a digressive character, the tactic

to increase the price of services is not recommended to the companies, but at their disposal is a choice between at least two strategies: the reduction of costs (cost leadership) and the strategy of differentiation (differentiation strategy) (Knežević et al, 2013).

The strategy of differentiation requires positioning of products in relation to competitors by distinguishing specifics of that product, which means much bigger investments in design, innovative activities and development of products, rather than if a company decides for a simpler strategy, such as costs reduction. Most companies operate in an environment where one chooses to run in several business sectors simultaneously (diversification). The goal is to lower costs and to share risks. The disadvantage is that new business activities which a company enters, may be consumers of cash from other profitable activities, which may contribute to the inefficiency of business running as a whole (high agency costs, inadequate internal system for measurement of managers' performances, etc.) (Knežević et al, 2013, p. 49).

The strategy of leadership in costs is one of simpler ways to achieve a competitive advantage. This strategy is operationally achieved through the economy of volume, simpler products and design of products, lower input costs and the efficient organization of business processes. If a company is a leader in costs, it will have the opportunity to realize a profit rate above the average of the sector and thus to achieve an extra profit (Knežević et al, 2013, p. 49)..

Theorists are of the opinion that these two strategies are mutually exclusive, but the application of one of them will enable a company to achieve a sustainable competitive advantage. However, for achieving a competitive advantage, it is not enough for a company to decide for one of the two strategies, but also to support that strategy through the appropriate value chain within the very company. The value chain is a set of related business activities as well as support activities aimed at creating values for customers. Those companies that are based on differentiation have an organization that stimulates innovation and creativity, while companies that have chosen to have leadership in costs, they have the organization that promotes greater efficiency.

Finally, it is to emphasize the importance and contribution of the state, as a partner to local companies, which by awarding vouchers for subsidized use of accommodation services in hotel and catering facilities, pursuant to

the Decree on conditions and modes of allocation and use of funds for encouraging the improvement of tourist turnover by domestic tourists on the territory of the Republic of Serbia (The Official Herald of the Republic of Serbia, No.113/15), has influenced a bigger share of domestic tourists in the total turnover of hotels throughout Serbia, and especially in spas.

The state should, also, through fiscal policy measures, such as the amount of VAT on board and lodging services in hotels, the tax percentage on profit, incentives for investments into a basic business activity and for employment of new workers, but also of penal policy for those who operate in the zone of „black economy“, has significantly improved the business environment and encouraged the economic activity in tourism.

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