

## Forming of Founding Sources of the Tourism Entities

Marius Boiță

Luminița Păiușan

*"Vasile Goldiș" Western University of Arad, Romania*

[bmarius1963@yahoo.com](mailto:bmarius1963@yahoo.com)

[paiusan\\_luminita@yahoo.com](mailto:paiusan_luminita@yahoo.com)

### Abstract

*The objectives of this paper are to identify the sources of financing of tourist entities. Located at the intersection of the two spheres (the tourist markets and the financial ones), the tourism entity in Romania is interested in finding the formula to assure its optimal funding by attracting resources from the financial environment, it is interested in high level satisfaction of the tourism demand and obtaining profit from the economic sphere. The determining objective of the Romanian tourism entity is to maximize its value by carrying out a profitable activity that will ensure a satisfactory remuneration of all its capital providers. This implies that the tourism entity obtains superior profits and, most importantly, generates sufficient cash funds for the distribution of dividends to the shareholders, simultaneously with the remuneration of the creditors at a favorable level of interest for the borrowed funds.*

**Key words:** tourism, tourism market, tourism demand, financing, profit

**J.E.L. classification:** L83, M10

### 1. Introduction

Today's society is much deeper, it has become one of knowledge, freedom and dynamism, and tourism specifically illustrates its values. Naturally, as travel has always meant, in essence, travel in time and space, discovery, communication and spiritual enrichment.

Romania has huge natural reserves, untapped for tourism, but also economic prospects. Romania gets to be an attractive country for international investors that are ready to invest in viable local projects.

The development of the strategy of the tourism entity is a challenge to obtain competitiveness, thus incorporating all expectations of the stakeholders in strategic management.

The process of substantiation, elaboration, implementation and evaluation, based on a professional approach and on the development of networks of relationships with stakeholders and even between them creates the premises for implementation with increased efficiency and generators of additional advantages.

### 2. Literature review

Baker M. (1994, pp. 48) stated that ensuring a climate in which consumer satisfaction as the main reason of the enterprise is one of the primary objectives that Romanian tourism entrepreneurs should take into consideration in the implementation of their marketing strategy.

M. LeBoef (1987, pp. 13), is of the opinion that a dissatisfied client also informs about eight or ten people about his / her negative problems found in the visited unit.

G. Lammers (2006, p. 27), believes that customer satisfaction will increase if businesses adapt to the wishes and needs of their customers in time.

### 3. Materials and methods

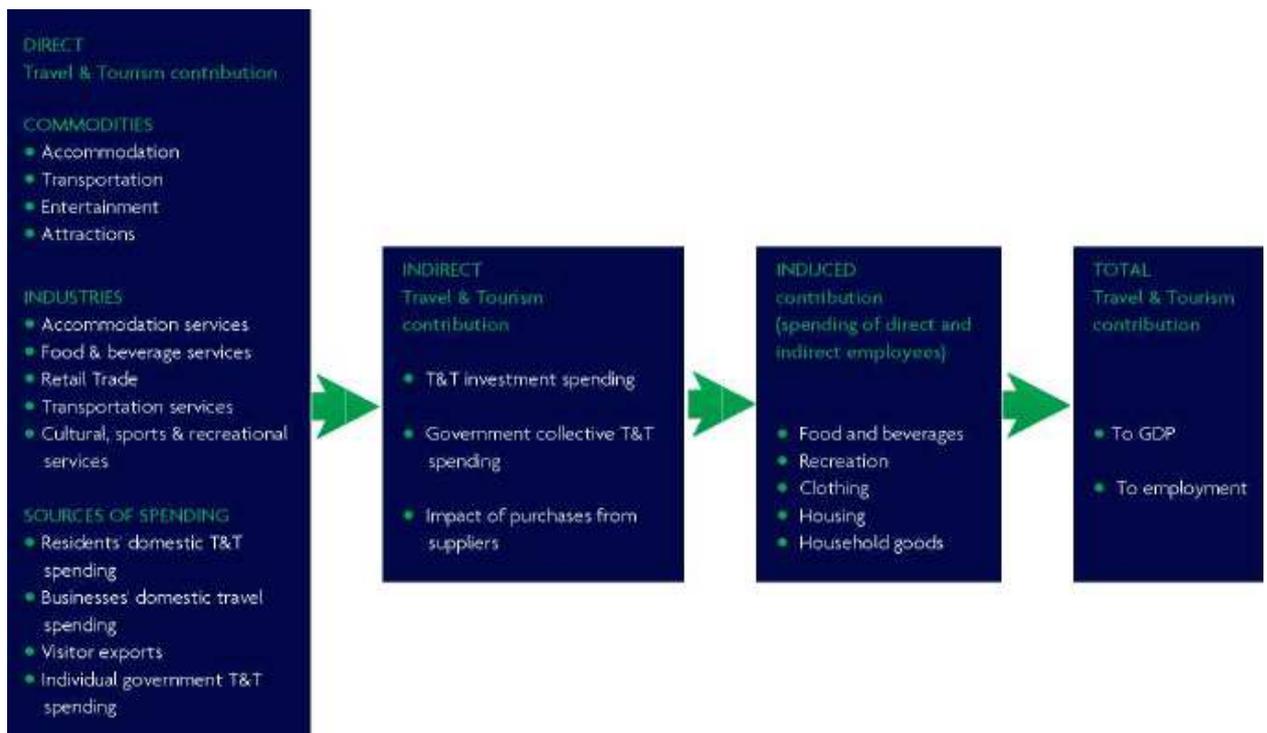
Tourism is one of the most dynamic areas of activity, which generates currency resources and jobs.

As seen in the literature, tourism consumption covers the whole hierarchy of needs mentioned in Maslow's model. Tourist consumption extracts its determinants from all levels of Maslow's pyramid (Cristureanu C., 1992 b).

In the broadest sense, information (Costi, 2009) is a communication, a data, a message that conveys meanings about objects, people, phenomena, processes, events and intentions.

According to World Travel & Tourism Council, Travel and Tourism is an important economic activity in most countries around the world. As well as its direct economic impact, the industry has significant indirect and induced impacts. The UN Statistics Division-approved Tourism Satellite Accounting methodology (TSA: RMF 2008) quantifies only the direct contribution of Travel & Tourism. But WTTC recognizes that Travel & Tourism's total contribution is much greater, and aims to capture its indirect and induced impacts through its annual research.

Figure no. 1 Travel&Tourism contribution



Source: <https://www.slovenia.info/uploads/dokumenti/raziskave/raziskave/world2019.pdf>

Figure no. 2 World direct contribution of travel & tourism to GDP % of whole Economy GDP, 2009-2019

	2018	2018	2019		2029	
WORLD	USDbn1	% of total	Growth2	USDbn1	% of total	Growth
Direct contribution to GDP	2,750.7	3.2	3.6	4,065.0	3.5	3.6
Total contribution to GDP	8,811.0	10.4	3.6	13,085.7	11.5	3.7
Direct contribution to	122,891	3.8	2.2	154,060	4.3	2.1
Total contribution to	318,811	10.0	2.9	420,659	11.7	2.5
Visitor exports	1,643.2	6.5	4.0	2,483.9	7.2	3.8
Domestic spending	4,060.1	4.8	3.5	6,031.9	5.3	3.7
Leisure spending	4,475.3	2.5	3.8	6,780.7	2.8	3.9
Business spending	1,228.0	0.7	3.0	1,735.1	0.7	3.2
Capital investment	940.9	4.4	4.4	1,489.5	5.0	4.2

Note: 2018 constant prices & exchange rates; 2019 real growth adjusted for inflation (%); 2019-2029 annualized real growth adjusted for inflation (%); 4'000 jobs

Source: <https://www.slovenia.info/uploads/dokumenti/raziskave/raziskave/world2019.pdf>

#### 4. General consideration on the financing sources of the tourism entities

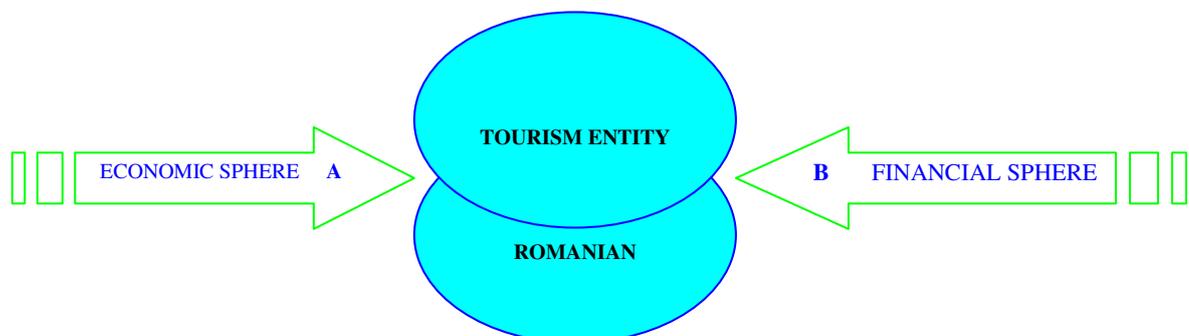
The integration of emerging markets, of which Romania is a part of, among the developed financial markets is a necessity, but it is necessary that this process be done gradually, taking into account national interests and at the same time minimizing the costs of international integration.

The development and integration of international markets implies first of all the legislative and institutional harmonization to the standards imposed by the international financial institutions.

The total liberalization of capital flows is a necessity for Romania and it must be done gradually, starting from the current characteristics of the capital market, so as to diminish the negative effects of the liberalization of the circulation of financial services and capital.

Located at the intersection of the two spheres, the Romanian tourism enterprise is interested in identifying the formula that will ensure its optimal financing by attracting resources from the financial sphere (figure 1, flow A), and, satisfying the demand and obtaining profit from the economic sphere (figure 1, flow B).

Figure no. 3. Place of the Romanian tourism entity at the intersection of the economic and financial spheres



Source: Author processing

The determining objective of the Romanian tourism enterprise is to maximize its value by carrying out a profitable activity that will ensure a satisfactory remuneration of all its capital providers.

This presupposes that the tourist enterprise obtains superior profits and, most importantly, generates sufficient cash funds for the distribution of dividends to the shareholders, at the same time as the remuneration of the creditors at a favorable interest rate for the funds lent to the enterprise.

Maximizing the value of the tourism enterprise implies adopting the optimal financing decisions, so as to ensure a minimum level of the cost of capital and implicitly increase its value.

Financial markets have an important role to play in financing enterprises, which, in addition to domestic financial resources, provide direct access to the capital offered by investors.

The accounting program is the one that provides necessary accounting reports to managers in decision making, and its quality depends largely on the detection and notification of accounting errors and the speed with which information is provided (Boiță et. all. 2014).

In drawing up the financing decision, the enterprises must establish a financing structure in accordance with the following objectives:

- first of all, ensuring the high remuneration of the shareholders through a stimulating dividend policy, depending on the development of the business environment and the investment prospects;
- increasing the value of the shares of listed tourist enterprises;
- maintaining an appropriate level of self-financing;
- ensuring an optimal degree of indebtedness by reducing the overall cost of financing;
- the borrowing policy must offer advantages to all capital providers without increasing the risk of bankruptcy.

The assessment of the financing needs of a tourism enterprise must take into account all the financial funds needed to:

- investments in buildings and related lands, technical, electrical and sanitary equipment, the furniture necessary for carrying out the hotel activity, means of transport, etc. ;
- the establishment of a working capital to ensure the development of the activity in normal conditions until the collection of the first services provided.

The sources of capital corresponding to the financing of these needs are constituted by:

- the joint capital from the shareholders' contribution;
- loans;
- other sources of financing, from which we mention subsidies, aids, etc.

Financing and capital sources are as follows:

#### **A. *Financing needs***

##### **I. Current assets**

- Net treasury;
- Receivables;
- Stocks of materials and food.

##### **II. Fixed assets**

- Land;
- Buildings;
- Technical, electrical and sanitary equipment;
- Furniture for the rooms and public spaces.

#### **B. *Sources of capital***

##### **I. Operating debts;**

##### **II. Loans**

##### **III. Own capital**

Modigliani and Miller summarize the formula for the compromise theory thus: *the value of the indebted company= the value of the unlevered company+ the value of the savings from taxes - the additional costs of bankruptcy.*

## **5. Management of the financing funds on the short term using financial flows forecast**

The tourist entity must have industrial tools to achieve its objective, namely a certain production apparatus (buildings, furniture, and equipment specific to the hotel business) and a commercial one. In order to put these instruments into operation, the tourism enterprise must purchase raw

materials, provide the necessary stocks and sell the tourist services in order to recover the resources used.

**5.1. Current assets** consist, in general, of cash, financial investments, receivables from customers, inventories and works in progress and expenses paid in advance.

The difference between current and fixed assets is given by the temporal character.

**5.2. Current liquidity.** Liquidity involves the ability to convert assets into cash.

Lack of short-term liquidity can mean for the tourism enterprise, in addition to the impossibility of paying short-term obligations and the impossibility to benefit from discounts from partners.

At this level, a short-term lack of liquidity implies a lack of freedom of choice and constraints for managers.

The short-term liquidity analysis is of particular interest to the hotel manager in the management of current financial operations.

This involves taking into account the following elements:

- the past evolution of sales and the current trend, including the seasonality characteristic of the hotel industry;

- the market share held by the hotel company;

- general characteristics of the economy and of the tourism industry;

- productivity and financial capacity;

- competitiveness factors.

As the tourism industry is defined by a high seasonality index, companies in this field must first consider the fluctuations of revenues and then forecast the need for financing, identify the periods in which a surplus of financial flows is generated, but also periods with deficit of financial flows.

The surplus and the deficit of financial flows must be carefully correlated and forecasted in time, so that the activity of providing hotel services is not affected. The manager of the tourism enterprise thus elaborates his procedure for entering the financial markets, identifies the main sources of financing or the destinations where he could invest the surpluses of financial flows.

## 6. Discussions

In contrast to the method of measuring short-term liquidity rates, the method of financial flows allows the identification of sources of financing and destinations of funds in the activity of the enterprise.

Although it is not a common model in the economic activities of Romanian enterprises and even less in the activities of tourism enterprises, we recommend using the financial flow model in the current activity.

It can successfully replace the traditional budget. In addition, through a permanent adaptation to future events, it becomes an essential tool for leading and managing the financial densities of the tourism enterprise.

## 7. Conclusions

Accommodation capacities in Romania, although numerous, do not meet the increasingly demanding requirements of the tourists.

A proper financing of the Romanian tourism industry would bring on the medium-term a stimulus to the national economy.

As the performance of the tourism enterprise recognized by the market also depends on the type of investors and how it is perceived by investors, knowing the experience and competence of sophisticated investors in assessing value compared to unsophisticated investors, managers must be constantly interested in official recognition of their performance and increasing their prestige in the market.

The global performance of the tourism enterprise must capture all aspects of the current activity, of the relations with the social partners and its future development perspectives.

The impact of tourism activities in the world economy can be recognized to the extent that it is seen as a system in which each national economy is an important component to ensure a harmonious functioning, tourism is found as an essential element of capitalizing on economic potential in both developed and undeveloped countries.

As such, the process of internationalization of the service sector, including tourism, has never been limited exclusively to giant service firms, which follow those in the field of manufacturing in their global expansion, and a whole network of smaller service providers from the local markets.

## 8. References

- Boiță M., Costi B., Anghelina A., 2014. The managerial decision in tourism related to the tax information and the accounting reports. *Annals of the Constantin Brâncuși University of Târgu Jiu, Economy Series*, Special Issue/2014, page. 396.
- Cristureanu C., 1992. *The economy and the policy of international tourism*. Bucharest: Abeona Publishing House.
- Held D, McGrew A. Goldblatt, D., 2004. *Global transformations. Politics, economy and culture*. Iasi: Polirom Publishing House.
- Kotler P., 2002. *Marketing for Hospitality and Tourism*. NJ: Prentice Hall, Upper Saddle River
- Sandu G., 2000. *Capital formation of private companies*. Bucharest: Economica Publishing House.
- World Travel & Tourism Council [online] Available: <[http://www.World Travel & Tourism Council, Travel & Tourism economic impact 2019World](http://www.WorldTravel&TourismCouncil.Travel&Tourismeconomicimpact2019World)> [Accessed 15 may 2020].
- World direct contribution of travel & tourism to GDP [online] Available: <[http://www.slovenia.info/uploads/ dokumenti/raziskave/raziskave/world2019.pdf](http://www.slovenia.info/uploads/dokumenti/raziskave/raziskave/world2019.pdf)> [Accessed 17 may 2020].