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FINANCING DECISION – THE DETERMINANT ROLE OF MANAGEMENT IN INVESTMENTS OF TOURIST ENTITIES

Case
Study

Keywords

*Tourism,
Investment,
Financing,
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JEL Classification

L21, M41, Z32

Abstract

Knowledge of investment costs is a basic tool at the hands of managers and is used to increase the efficiency of economic activity. The investment cost study aims to obtain profits under various aspects, both at microeconomic and macroeconomic level. The short-term financing decision refers to the financing of the operating cycle, which gives the purpose of circulating capital management. Tourism investments are materialized through: accommodation units, equipment, and infrastructure works that ensure the operation of the investments. Given that investors want profit in a quicker and shorter timeframe, in this paper we have conducted a case study on an entity's investment, its cost, recovery time and profitability on basis of the estimated profit. Appropriate financing of the tourism industry would, in the medium term, provide an incentive for the national economy.

LITERATURE REVIEW

INTRODUCTION

Tourism has become one of the most centralized and competitive industries in the world and concentrates a large number of transnational corporations. In recent years, these companies have exerted great pressure on governments to liberalize trade and investment in services.

"While independent travel is relatively widespread, all tourists travelling abroad must use the services of numerous large and small domestic and international companies that organize and coordinate travel and tourism." (Held D, McGrew A., Goldblatt, D. and J. Peratton 1999).

The judicious foundation of the tourism business policy requires the realization of a reference market research.

The analyst Snak, O., has made a classification of services according to the structure of the offered services, in which it distinguishes:

- Specific tourist services:
 - services for the preparation of tourist consumption;
 - basic services:
 - additional (complementary) services provided to inform tourists and ensure a pleasant leisure time at the place of stay: leisure, sports, excursions, cultural-artistic events, rentals of sporting goods etc.;
 - special services: balneal-medical treatments, services for congress tourism, for hunting, fishing, hippies, mountaineering, paragliding, etc.
- Analyst Snak, O., has made a classification of services according to the structure of the offered services, in which it distinguishes:
 - special services: balneal - medical treatments, congress tourism services, hunting, fishing, hiking, mountaineering, paragliding, gliding, etc.
- Non-specific services are those of a general nature offered to the population by service providers, to which tourists (for example, post and telecommunications, foreign exchange, repairs and maintenance, etc.) can call upon.

The confrontation of the heterogeneity of the tourist offer with each of the ways of perceiving its components from the point of view of the tourists categories, determines the existence of a variety of tourist subtopics. Thus, the entire tourist market has the characteristics of a fragmented market (Cristureanu C., 1992).

Lanquar R. (1989) shows that tourism statistic serves to study the most stable traits of the consumer behavior of tourism services. This study will allow the description, orientation of the timeliest decisions and help in establishing the forecasts. The tourist request is made up of that part of people who regularly and temporarily travel outside their usual residence for travel purposes other than to work or to carry out a paid activity.

Ph. Kotler (1998) stated that, in order for his undertaking to constantly market high-quality tourist products and services, it must prepare and motivate its employees, determine them to orient their actions towards tourists, to their satisfaction.

Perroux Fr. (1969) considers economic growth as an increase in the size of the national economy, expressed in total goods and services obtained over a period of time, including depreciation. If the quantitative increase is achieved in the short term, it is an expansion if it is achieved in the long run, then it is an economic growth.

Lundberg (1995) stated that as the tourist industry is developing in an area, the property's price rises steeply. In an underdeveloped tourist area, the level of land investment accounts for only 1% of the total investment for a hotel, while this percentage increases to 20% in an area where tourism is already underdeveloped. With such an increase in the price of the land, we can expect that local (low income) residents are actually "hunted" on the free housing market in a developed tourist area.

Tinard Y. (1995) appreciates that the multiplier measures changes in income, results, employment and balance of payments levels - caused by changes in tourism spending.

V. Adăscăliței (2005) considers that the marketing of tourism products and services on the Single European Market implies increasing the awareness of the Romanian entrepreneurs "of the complexity of the community rules and rules to be transposed and respected.

Balaure V., at. all., (2005) stated that the tourism company must take all its actions in a certain perspective, by formulating development strategies to ensure the mobilization of human, material and financial forces in to successfully achieve the goals and goals set.

Starting and plenary engagement, in a wider perspective, of all the resources of the enterprise in order to achieve the fixed goals and in the conditions of the permanent mutations that occur within the environment in which it operates.

Stancioiu A.F. (2000) stated that the purpose of the strategic approach of the Romanian tourism companies is to minimize the risks and to create the conditions of the superior performance by developing the coherence of the process and the rigor of the action methodologists.

Romanian tourism managers should understand that the success of their companies and their penetration into new markets depends to a large extent on the quality of the strategies they are addressing.

Peters, T.J. and Waterman R.H. Jr. (1982) show that the company's first distinctive attribute for excellence is related to its vision of implementation. A poorly executed strategy attracts poor results as easily as a poorly formulated strategy. *Psychology*, 21(6), 566-579.

MATERIALS AND METHODS

General considerations on the sources of financing of the entities

The integration of emerging markets, among which Romania is part of the developed financial markets, is a necessity, but it is necessary to achieve this process gradually, taking into account the national interests and at the same time minimizing the costs of the international integration. The development and integration of international markets involves first and foremost legislative and institutional harmonization to the standards imposed by international financial institutions.

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

Investments in tourism have a direct impact on both the tertiary sector and the national ones, thus highlighting the double stimulating role of tourism:

- Stimulator of investments that is specific for tourism;
- Stimulator of national investment.

The short-term financing decision refers to the financing of the operating cycle, which gives the purpose of circulating capital management.

Under the conditions of the contemporary economy, uninterrupted support and diversification of goods and services meant to meet the material and spiritual needs of society, the growth of international economic exchanges, problems of communication with internal consumers and with external partners are becoming more and more difficult.

Economic entities that conclude partnership contracts with educational establishments can benefit from tax, tax and contribution facilities due to the state budget, social security budget, special fund budgets or local budgets, according to the legal provisions (Ajtay, Mateş, Domil and Bogdan, 2017).

Internal consumers as well as external customers are rather difficult in the absence of a modern and efficient system of communication, information,

find out what products and services are offered on the market, where, when and under what conditions they can be purchased, what They meet their requirements and preferences.

The solution adopted by modern enterprises to meet these requirements is to set up a system to ensure a permanent communication between producers and traders on the one hand and consumers on the other.

The increased growth of the requirements and requirements on the domestic tourism market has major implications in the marketing policy of Romanian entrepreneurs in this field, in the sense that they are trying a new approach to the marketing strategies adopted in order to adapt their offer of services and tourist products to these changes.

By means of communication policy and the means that materialize, the enterprise seeks to disseminate as widely as possible information about its products and services, as well as receiving the way they are received and appreciated by the recipients.

Viewed from this point of view, the enterprise forms an open system to its external environment and, at the same time, a source of message whose main objective highlights the image and prestige of its products and services on the market on which it operates.

In order to achieve this goal, the enterprise must ensure the selection and harmonization of the information it disseminates, since the use of inappropriate means of dissemination with competitors' information may give rise to situations with negative effects for the prestige of its activity.

As far as tourism investments are concerned, they are materialized by: accommodation units, equipments, and infrastructure works that ensure the operation of the investments.

The specific indicators of investments are:

- specific investment;
- recovery period;
- profit of the investment;
- minimum rate of return;
- the value of fund assets.

In the conditions of the growth of the competition phenomenon, the decision-makers from the tourist entities will have to focus their attention on the audit of the attractions of the tourist areas and, on this basis, the identification of the target markets, on the one hand, and the hierarchy of the segments of potential tourists (Kotler, Asplund, Haider and Rein, 1999), on the other hand, the latter consisting in the allocation of funds for the improvement of tourism infrastructure and the "production" of elements that attract new segments of consumers taking into account that preferences for a form or another are extremely variable over time.

Taking into consideration the evolution of the exigencies on the domestic and international tourism market, it is necessary to adopt quickly, by

the Romanian tourism companies, strategies for increasing the quality of tourism products and services, flexible, in order to adapt the offer to the requirements of different tourist segments, diversification strategies, reformulation, offensive strategies, when market conditions impose this behavior, competitive strategies, etc.

In the context of increasing the concerns of Romanian tourism entrepreneurs and national authorities in this field, to attract domestic and foreign tourists, the adoption of viable marketing strategies is one of the decisive solutions in the development of this field of activity.

In the context of increasing the concerns of the Romanian tourism entrepreneurs, in order to attract domestic and foreign tourists, the adoption of viable marketing strategies is one of the decisive solutions in the development of this field of activity (Balaure, Catoiu, Veghes, 2005).

Case study

An entity wishes to expand its heritage by building a fast-food restaurant with a surface area of 150 m2, the cost of building a square meter of 200 € / m2.

In addition to the construction of the projected area, the total investment also includes the endowment with equipment and furniture, accounting for 60% of the total investment. The fast food will charge a 10 percent share of the trade and a 40 percent share of the public food, and the running costs of this unit are estimated at 70 percent of the revenue it will earn. What will be the total value of the investment (I)?

If you are looking to recover the investment in 3 years, what annual profit (Pa), annual income (V) and what receipts (turnover, CA) need to achieve the unit? If a discount rate of 10% is taken into account in how many years will the investment be recovered? What is the return on investment, based on the estimated profit?

RESULTS AND DISCUSSION

The investment depreciation period of time (It) expresses the amount of amortization, on the basis of operating profit, the amounts allocated to this investment (I) and the annual profit (Pac).

This is transposed by the formula:

$$I_t = \frac{I}{P_{ac}} \quad (1)$$

Given the cost of investment in tourism, reduced profit and short-term operation of the equipment, due to seasonality, the investment amortization term is higher compared to other investments in other areas of activity.

The up-to-date profit (Pac) takes into account that future earnings have a lower value than current earnings and is transposed by the formula:

$$P_{ac} = -I + \frac{P_1}{1+a} + \frac{P_2}{(1+a)^2} + \dots + \frac{P_n}{(1+a)^n} \quad (2)$$

where:

I = investment

P^{1 ... n} = profit in the 1st year ... n years

a = Upgrade fee

The upgrade fee is the tax on future income depreciation in relation to current income in relation to inflation.

By aggregating the updated profit year by year until their amount sums up the invested amount, it can be determined the time when the investment will be recovered.

The return on investment (Pi) is justified by the fact that investments in tourism (construction) have a long life expectancy, yielding a further profit, to the amortization term realized.

$$P_i = \frac{P_{NR}}{I_i} \quad (3)$$

where

P_{NR} = Netto profit after recovery of the investment

I_i = initial investment

The manager aims to obtain the highest profitability rate of the investment made.

Cost of investment for restaurant = 200 € / sqm * 150 sqm = 30,000 €

Considering that the total investment cost (100%) = the cost of construction (40%) + the cost of equipment and machines (60%), it follows that: Total investment cost = 75.000 €

$$P_a = \frac{I}{I_t} = \frac{75.000}{3} = 25.000 \text{ €}$$

If operating expenses represents 70% of revenue, the profit will represent 30% of these.

Profit = Income - Operating Expenses

30%25.000 €

100%income

Income = 83.334 €

Turnover (CA) totals the purchase price of the equipment and the furniture and the company's income. With X, we note the purchase price of the equipment and the furniture.

$$CA = X + 83.334$$

$$CA = X + 10\%X + 40\% (X + 10\%)$$

$$X + 83.334 = X + 10\%X + 40\% (X + 10\%)$$

$$X = 154.321 \text{ €}$$

Taking into account a discount rate of 10%, the updated profit is equal to the initial cost of the investment, exceeding 4 years, according to the following calculation:

$$P_a = -I + \frac{P_1}{1+a} + \frac{P_2}{(1+a)^2} + \dots + \frac{P_n}{(1+a)^n} \quad (4)$$

$$75.000 = \frac{25.000}{1+10\%} + \frac{25.000}{(1+10\%)^2} + \frac{25.000}{(1+10\%)^3} + \frac{25.000}{(1+10\%)^4} =$$

$$22.727 + 20.661 + 18.782 + 17.076 = 79.248 \text{ €}$$

In the 4th year the investment is amortized and a profit of 4.248 € is realized.

The return on investment (R_{ri}) is calculated according to the following calculation:

$$R_{ri} = \frac{P_{NR}}{I_i} \times 100 \quad (5)$$

$$\frac{25.000}{75.000} \times 100 = 33,3 \%$$

CONCLUSIONS

Accommodation spaces in Romania, although many, do not meet the demanding requirements of tourists. An adequate financing of the Romanian tourism industry would, in the medium term, provide an incentive for the national economy.

The marketing strategies applied so far have proved to be in many cases inefficient precisely because of the vision of entrepreneurs who seek first of all the quick recovery of investments and then the satisfaction of the tourists' requirements.

Also, the quality of the products is far from optimal, and the prices of services and travel products are high and do not reflect their real quality.

Starting from these aspects, I consider that revising and adopting a new marketing vision of entrepreneurs in this field is a necessity.

As the performance of the market-recognized tourism business also depends on investors' typology and investor perception, known as the sophisticated investors' experience and competence in valuing the value compared to unsophisticated investors, managers need to be permanently interested in the official recognition of their

performance and increasing their prestige on the market.

The overall performance of the tourism business must capture all aspects of current work, relationships with social partners and future prospects for development.

Starting from the presented considerations, the approach to the statistical methods applied in the analysis of rural tourism led to the following conclusions:

- the conceptual approaches and delimitations in the first chapter highlighted the implications of tourism in the process of economic growth, its multiplier effect, as well as its estimation in sustainable development.
- the concept of economic growth is dealt with in terms of defining elements, the main factors involved in this process (human, material, technological information technology), the types of economic growth, the prerequisites of its modelling, the economic growth models, the conditions of realization its equilibrium, the structural - qualitative aspects that include the environment and the quality of life. Presenting the structure of the quality of life and the components of the indicators involved in its quantification, the role of tourism as a priority factor of influence will be highlighted.
- the theories and the different points of view regarding the implications of tourism in the economic growth process were based on the implications and considerations of the tourism activity under the influence of the constraints and optimizations of the tourist phenomenon on the economy.

The economic importance of this area is argued by the presentation of tourism as a means of diversifying the economic structures, of capitalizing on resources, of the creator and user of national income and of new jobs, as a stimulator of investments, as a factor of attenuation of the phenomenon inflationary, as well as a component of external relations.

The necessity of expanding business in rural tourism is treated as a confirmation of the motivation to choose the theme of the doctoral thesis, assuming to include as basic requirements the following components: accessibility and space factors, complex exploitation of the integration of rural tourism businesses within the localities, infrastructure and technology, workforce, design, seasonality, finance, and support activities for rural tourism.

The development and maintenance of investments and the application of marketing tactics represent the main directions of action in the development of tourism companies and, at the same time, the imposition of Romania's image on the local and international market as a tourist destination.

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