

Chapter 1

The Impact of COVID–19 on the Business Performance and Financial Position in Hotel Industry: The Case of Croatia

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ABSTRACT

The hotel industry, among others, has been affected by the COVID-19 pandemic. The effect of the pandemic can be noticed through financial statements. The aim of the chapter is to analyse how the COVID-19 pandemic has affected the financial position and business performance of the hotels in a tourism-oriented country such as Croatia. The chapter covers the basic information of tourism and the features of the hotel industry in Croatia. The authors represent the sets of national recommendations for dealing with the pandemic in the tourism sector that are enriched with available macroeconomic statistical data. Further, the analysis of financial statements of the five selected hotels is presented. The analysis was done in order to provide comparative analysis of financial results in the pandemic environment (2020) and the previous year (2019). Based on the calculated liquidity, solvency, activity, economy, and profitability ratios, the authors conclude that all the mentioned ratios worsened in 2020 for all the observed hotels.

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INTRODUCTION

The COVID-19 pandemic has changed the way we live and certainly the way companies conduct their businesses. World and national health organisations and the Ministries of health have been trying to deal with this world pandemic and protect people. Many restrictions and instructions have become a “normal” part of our life. Many adjustments were made in 2020, personally and professionally. Positive impact of the restrictions has resulted in lowering the number of confirmed cases and deaths. Contrarily, the greater the restrictions, the lower economic activity and business performance.

Many sector analyses have indicated that tourism, hospitality, aviation and automotive industry are some examples of the COVID-19 negative effect on industries. On the other hand, there are some industries that are positively affected by the pandemic (e.g. pharmaceutical or telecom industry). Certainly, there are some industries that suffer from the pandemic but deal with the restrictions more or less successfully.

Hotel industry is one of the industries that suffers from the impact of COVID-19. Croatia is a tourist oriented country, so it is pretty much obvious that COVID-19 has affected the Croatian macro economy. However, the COVID-19 impact should be considered as well in the light of micro point of view. The pandemic doesn't only affect the Croatian GDP but also has the influence on many business entities and their business results.

Many decisions in economic world are based on accounting information presented in principal financial statements. Since a picture is worth a thousand words, Balance sheet, Profit and loss account, Cash flow statement, Statement of changes in equity and Notes are pictures that present the quality of company's business operation. In regular business circumstances, financial statements and the related financial ratios identify the advantages and disadvantages of a company. Hence, in the COVID-19 business environment, a lot of changes in business environment arise and decision makers could use financial statements for the purpose of business evaluation which is affected by the pandemic. In this way, financial statements might be used for measuring the impact of COVID-19 on business results, liquidity, solvency, profitability and other financial ratios. It is sure that lock downs up to now and many restrictions of traveling have marked financial ratios. In such difficult business environment, many governments have tried to help and offered different ways of support in the form of grants, tax payment deferral etc. So, it is worth to analyse the level of such impacts on the financial statements and financial ratios.

The aim of the proposed chapter is to analyse how has the COVID-19 pandemic affected the financial position and business performance of the hotels in a tourism oriented country such is Croatia. The paper covers the basic information of tourism in Croatia and provides the features of hotel industry in Croatia. After that, the authors represent the sets of national recommendations for dealing with COVID-19 pandemic in tourism sector which are enriched with available macroeconomic statistical data. Further, the analysis of financial statements of the selected hotels is done. The analysis was done in order to provide comparative analysis of financial results in the pandemic environment (2020) and previous year (2019).

Financial position is mainly illustrated through Balance sheet and business performance is usually represented by Profit and loss account. Other than that, financial analysts use Cash flow statement to cover the evaluation of business quality by cash flows. Basic tools and techniques of financial statement analysis such as comparative and structural financial statements and financial ratios are common for gathering necessary information for the judgment of business operation. The following ratio blocks are used for the purpose of the described analysis: liquidity, solvency, activity, economy and profitability ratios. Financial ratios that measure liquidity, solvency and activity are used for assessing financial position whereas activity, economy, profitability and investment ratios are applied for the interpretation of

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