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Neda PETROSKA-ANGELOVSKA*)
Marija ACKOVSKA **)
Nako TASKOV *)**

LIQUIDITY OF TOURISM SECTOR ENTERPRISES IN THE REPUBLIC OF MACEDONIA

Abstract

This paper is focused on number of issues related to cash flow management and liquidity as a long-term problem of Macedonian tourism enterprises, having in mind that strong sales and profits do not ensure good cash flow and liquidity. The timing differences between accrual based profitability and cash flow means that even enterprise with growing sales and strong net income may run out of cash with ensuing disastrous results. This means that the enterprise needs to understand, project and manage its cash flow and liquidity very carefully.

In that purpose some activities on enterprises and institutional level are needed. Defined policy should contain activities for: faster cash making then expiring liabilities; realization of cash inflows vis a vis cash outflows with limited risk; dynamic liability covering and activities for education and training of labor force. Some possibilities for institutional capacity strengthening concerning realization of good cash and liquidity management are related to following activities: activities related to continuous adjustment of Macedonian legal framework; activities related to monetary and credit policy in direction to improvement of borrowing conditions; activities related to improvement of business environment.

*) Neda Petroska Angelovska Ph.D, Institute of Economics-Skopje E-mail:neda@ek-inst.ukim.edu.mk

**) Marija Ackovska, Ph.D, Institute of Economics-Skopje E-mail:marija@ek-inst.ukim.edu.mk

***) Nako Taskov, Ph.D, UGD Stip, Faculty of tourism and business logistics Gevgelija,
E-mail: nako.taskov@ugd.edu.mk

Cash flow and liquidity projecting is an indispensable part of enterprise's managing process. Without adequate projecting, the macedonian tourism enterprises can never sufficiently know what its cash flow and liquidity position will be at any particular time. With it, surprises will be mitigated and the enterprise will be able to plan how to handle any shortfalls or excesses. In that order the timing of the cash inflows and cash outflows has to be taken in to account.

Key words: Cash flow, liquidity, enterprises, tourism sector, Republic of Macedonia.

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Introduction

One of the main reasons for unfavorable performance results of tourism sector enterprise in the Republic of Macedonia is related to liquidity problem. Partly, this is problem caused as a consequence of weak applicative recommendations and solutions derived from the financial performance analyses in Macedonian economy, as well as of seasonality of tourism sector. While facing the problem on the enterprise level, it is obvious that the key for realizing and maintaining the sufficient level of liquidity is in good management of cash inflows and cash outflows. Thence, the need and importance of using company cash flow data in the managing process.

Real estimation of tourism enterprises' financial performances and results can not be done because of the time gap between the revenues and costs, analyzing the cash flows and cash outflows give appropriate point of view for appraisals. Further, the importance of cash flow is not only related to the favorable level of company liquidity, but its crucial mean for: enterprise lasting on a competitive market, attraction of foreign and domestic investors, business expanding, functioning and development, also.

1. Cash flow in relationship to liquidity

Cash flow and liquidity interrelation can be explained in logic of comparing available current assets and short-term liabilities as factors of short-term liquidity, on one hand. On the other hand, long-term liquidity is a result of comparison of enterprise financial ability for reconstruction of current and building of new capacities and enterprise generating cash flow possibility for repayment of debt regarding this activities, which also means to compensate enterprise own funds used for that purpose.

All above mentioned financial items and changes content in the cash flow financial statement have a direct impact on the liquidity status of tourism enterprises. "Companies could take the view that cash flows are critically important and that a regular reports of actual cash flows and balances, compared with budgets and a regularly revised forecast, are essential to ensure that company remains within its funding limits".¹

In general, the enterprise has a good liquidity in short-term if cash inflows from operating activities are exceeding cash outflows from the same activities, or it has the financial basic for permanent functioning of operating activities and from time to time possibility to create financial funds for investment activities in the next period. On contrary, it might cause problems in enterprise functioning and it won't be able to pay for accounts payable on time, especially in case of seasonal character of tourism enterprises.

Long-term liquidity level depends on cash inflows and cash outflows from all types of activities (operating, financial and investment). If the difference between cash flows and cash outflows is for cash flows benefit, there are conditions for financial funds creation and opportunities for investment activities intensification. In that case the level of liquidity is stabile. On contrary, enterprise has liquidity problem. As long as the cash flows from all types of activities are covering cash outflows from operating activities only, that enterprise has short-term good liquidity without long-term possibility for its maintaining and business expanding. The above mentioned gives sign for different points of view that should be taken into consideration when analyzing statement of cash flow. Presented data and information in this statement are fundamental for

¹ Graham Alistair, Graham Alastair: Cash flow forecasting and liquidity, Chartered Institute of Bankers Publishing, United Kingdom, 2000, p. 33.

current liquidity estimation and opportunities for its improvement in a short or longer period of time.

In sense of cash flow and liquidity interrelation, net cash flow from operating, financial and investment tourism enterprise activities deserve special attention. “Cash should come from operations and should be used for investing, with financing as the balancing number”.² This approach provides information for separate activities contribution (positive or negative) in cash flow and liquidity, in different periods of time. Priorities in future period will be on those activities with more positive influence, having on mind the role of investment activities as a prerequisites for future better cash flow and liquidity in a longer period of time.

2. Liquidity as a separate long-term problem in tourism sector enterprises

Managing liquidity as one of the main principles in creation and realization of enterprise financial policy is a very complex process. Conditions for maintenance of stabile enterprise liquidity presume financial balance between tangible assets and appropriate sources for them. In that order, there is a need for many different activities in the permanent functioning process of tourism enterprises that may be limited in the proceedings.

Table 1. Liquidity indicators of tourism sector enterprises in the Republic of Macedonia (2007-2011)

Indicators	In%				
	2007	2008	2009	2010	2011
Curent liquidity	0,6	0,6	0,78	0,77	0,72
Moment liquidity	0,4	0,4	0,63	0,63	0,58
Quck liquidity	0,1	0,1	0,11	0,33	0,32

Sorce: Financial stability report of the Republic of Macedonia for 2008, 2010 and 2011.

² Rob Reider, Peter B. Heyler: Managing cash flow – an operational focus, John Wiley & Sons, Inc, New Jersey, 2003, p.313.

Table 2. Indicators for efficiency of assets utilization of tourism sector enterprises in the Republic of Macedonia (2007-2011)

Indicators	2007	2008	2009	2010	2011
Average collection period	27	30	105	92	80
Average inventory period	21	23	45	42	40
Average payment period	105	119	283	299	286
Turnover of accounts receivable	13,52	12,17	3,48	3,96	4,53
Turnover of inventory	17,38	15,87	8,11	8,74	9,09
Turnover of total assets	0,41	0,40	0,43	0,43	0,48

Sorce: Financial stability report of the Republic of Macedonia for 2008, 2010 and 2011.

In spite of the above-mentioned financial indiscipline and problem with payment delaying, there are other significant long-term problems closely related to liquidity of tourism sector enterprises, as:

- ***Insufficient acknowledgements for the liquidity importance in creation and realization of tourism enterprise financial policy***, that has unfavorable impact on the total economy liquidity;
- ***Insufficient participation of liquidity planning process in tourism sector enterprises***, that limits the good prediction of future cash inflows and cash outflows;
- ***Luck of liabilities (shot-term and long-term capital) and their unfavorable structure***. In one longer period of time macedonian tourism enterprises are facing the luck of capital that causes liquidity problems. The low level of liquidity enlarges the number of unsolved debts among enterprises and influences their ability for investment, as a good presume for generating cash flow. The luck of long-term capital might be covered by borrowings that in final cause higher financial costs for rates;

- ***Low level of revenue and its seasonal collection in tourism enterprises and high level of fixed costs during the whole year;***
- ***High interest rates of credits in the Republic of Macedonia*** and other rigorous conditions for borrowing capital are separate problem related to liquidity. “Before borrowing from external sources, a cash manager should also explore all internal sources of funds. These could include increasing sales, accelerating accounts receivable and collections, reducing inventory, improving accounts payable management, reducing expenses, and selling nonessential assets”;³
- ***Financial indiscipline*** is another problem already mentioned in previous context;
- ***Low level of Macedonian economy development*** is one and very important issue with negative influence on cash flow generation that also influence the tourism enterprise income and cash accumulation as a prerequisites for favorable liquidity maintenance;
- ***Need for trainings in Macedonian enterprises*** regarding the preparation methodology of cash flow statement and its analyze according to contemporary financial literature.

In general these are main problems with long-term negative influence on Macedonian tourism enterprise liquidity. In spite of this, depending of enterprises feature and their activity, there are other factors with long-term or short-term influence. For these obstacles to be overcome, additional steps are required on enterprise level as well as legislative adjustment and institutional capacity strengthening, concerning financial performance of enterprises.

3. Possibilities for efficient cash and liquidity management on enterprise level in tourism sector

As we mentioned above, liquidity is a financial balance between the cash inflows and cash outflows or cash and expiring liabilities in one

³ Allman-Ward Michele, Sagner James: Essentials of managing corporate cash, John Wiley & Sons Inc., 2003, p.115.

period of time. Consequently, if enterprises don't predict the amount of expected cash inflows and outflows and other financial closely related activities it may cause unstable liquidity, risk for insolvency and need for capital borrowing, also.

In that order, it is very important to choose a projecting method and in considering which techniques to use, enterprises have to weigh a number of factors, as following:

- Availability of data-using information that is readily available makes it possible for the enterprise to produce a timely forecast. Unfortunately, businesses typically do not maintain data in formats that allow easy access for statistical analysis.
- Reliability of data- in projecting process, cash flow and liquidity manager will have top access the probability of being correct about the timing of cash flows. For that purpose they should take in to consideration so called: assured cash flows (for example: tax payments, maturing investments, dividends etc.); reliable cash flows (for example: collections from credit sales, vendor payments etc); unreliable cash flows (for example: costs of work stoppages, foreign currency collections etc.); and unanticipated cash flows (for example: cash flows resulting from totally unexpected circumstances such as a outbreak of war in an area where the enterprise is involved, opportunity to buy due to a competitor going out of business etc.).
- Time horizon – the more distant in time the prediction, the less accurate and the less useful it becomes to the cash and liquidity manager. They need to make sure that the time horizon for the prediction is appropriate for the intended purpose.
- Sensitivity – cash and liquidity managers must be prepared to review, refine, and adjust the projection frequently in light of external and internal amendments.

Concerning the projection of cash inflows and cash outflows and the liquidity in macedonian tourism enterprises, the basic direction is determination of real policy for cash flow generation and liquidity maintenance. Namely, defined policy should contain activities for:

- ***Faster cash making then expiring liabilities***, which also means the amount of cash to overcome the liabilities in a period of time. That shows not only the efficiency but also ensure the full stability of enterprise liquidity, with cash accumulation for any case (cash reserve).
- ***Realization of cash inflows that overcome the amount of cash outflows with limited risk*** because of a lower cash reserve than in a previous case. In such a situation, in spite of the efficient cash and liquidity management, the principle of enterprise cost-effectiveness is also taken into consideration.
- ***Dynamic liability covering***, dynamic adjustment between the cash inflows and cash outflows. Activities directed to permanent realization of collections in contribution to risk reduction. The extended tourism season is the activity that can contribute in that way.
- ***Activities concerning the financial performances and ability for paying of business partners*** (collection of permanent and potential business partner's liquidity data) will contribute to improvement in this area, also.
- ***Activities for education and training of labor force engaged in macedonian tourism enterprises*** will have significant positive effects on efficient cash and liquidity management.

Cash and liquidity management is very complex and as such process needs engagement of different profiles of human recourses. Besides the financial management activities, activities from other enterprises departments might have crucial direct or indirect influence on cash flow generation and projected liquidity realization.

4. Recommendations for efficient cash and liquidity management towards the institutional capacity strengthening

Having this in mind, some activities should be undertaken besides of above-mentioned aspects of possibilities for cash flow generation and liquidity achievement and maintenance in Macedonian tourism enterprises. Efficient cash and liquidity management is influenced by

present systematic and legal framework related to these issues, also, made by all relevant institutions, toward making more favorable conditions for efficiency empowerment of cash and liquidity management.

There are different possibilities for institutional capacity strengthening concerning realization of good cash and liquidity management. Some of them are more significant and they are related to the activities regarding the following:

- ***Activities related to continuous adjustment of Macedonian legal framework*** (concerning financial management in Macedonian enterprises) to the modifications and additions in the International Accounting Standards. In that context, we should emphasize the need for obligatory preparation of financial statements by all legal entities of Macedonian economy. As we already mentioned, that is not the present situation in the Republic of Macedonia, although there is background for legislate this settlement in standing International Accounting Standards.
- ***Activities related to monetary and credit policy in direction to improvement of borrowing conditions.*** It is well known, that the Macedonian enterprises, as a result of high interest rates, have significant operative costs. That has a negative influence on increase of enterprise expenditures at all, and respectively results to net income decrease as a own source for liquidity maintenance.
- ***Activities related to improvement of business environment as a whole.*** Those activities are directed to tariff reducing; free capital flow, legal security and appropriate guaranties, business credit approval under the favorable conditions, etc.

Realization of those activities indirectly will contribute to achieve better business performance of Macedonian legal entities, as well as in tourism sector enterprise and consequently achievement of greater liquidity level, witch, as we already conclude is very low at present.

It is obvious that managing cash flow is a continual process. So, beside of above-mentioned potential activities, other more specific measures concerning the different circumstances in future can be recommended by relevant institutions, agencies and organizations in the Republic of Macedonia.

Conclusion

Managing cash and liquidity is arguably more important than the managing profitability, working capital, or assets and liabilities, because having enough cash is a survival issue of immediate importance. Issues involved in cash and liquidity management can be difficult to manage, including that of how much cash to maintain for operating purposes. Too, little cash is an obvious problem for enterprises liquidity and survival, but maintaining too much is also problematic inasmuch as that means insufficient utilization of scarce enterprise resources. Cash like accounts receivable, inventory, plant and equipment, needs to work for enterprise in order to optimize return on the investment in all assets of the organization.

Cash flow and liquidity projecting is an indispensable part of enterprise's managing process. Without adequate projecting, the enterprise in tourism sector can never sufficiently know what its cash flow and liquidity position will be at any particular time. With it, surprises will be mitigated and the tourism enterprise will be able to plan how to handle any shortfalls or excesses during the whole year. In that order the timing of the cash inflows and cash outflows has to be taken in to account. This requires the enterprise to understand the timing of cash inflows, relative to sales made and the timing of cash outflows relative to when the expenses are actually occurred.

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