

FORECASTING THE TOURISM ACTIVITY – RISK MANAGEMENT INSTRUMENT

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Abstract:

Until not so long ago, the evolution of different economical phenomena used to register a certain continuity, generated by the dynamic pulse magnitude, inertial to processes, reflected by increases and decreases, mainly characterized as being constant, linear and predictable for a specific period of time. In this situation, the managers were able to predict the future of the company with sufficient accuracy, based on one hand on intuition or experience, or, on the other hand, on the traditional methods for strategies substantiation and program elaboration.

At present, the business environment, including tourism, is confronting with a series of major challenges, higher in number and amplitude, more profound and accelerated than ever, such as an increase of competitiveness and competition, amplification of globalization, and others, but also an increase of unpredictable shocks regarding the economic and financial crisis, social-political crisis with negative impact on tourism activities. In this context, the forecasting activity becomes more and more difficult, unable to define future trends, as an effect of past evolutions. This forecasting activity has encompassed the role of detecting events that could influence the future of organizations, to issue warnings and alerts in case of negative events, to notify and exploit the opportunities in case of positive ones. Therefore, a complete picture of the company's future can be accessible, by underlining the possible and desirable scenarios, taking into consideration not only the technical aspects but also the financial one.

This study constitutes a plea for utilization of forecasting instruments and techniques, in order to have a more clear image over the company's future trends and, as a result, the ability to take the best decisions.

Keywords: forecast, risk, tourism activity

1. Preliminary Considerations

The economic activity of every firm (including the tourism ones) is influenced, presently, by three mechanisms, that represent different percentages from country to country and from a period of time to another:

- *The self-regulating by market mechanism*, with the essential role of confronting the offer with the demand; gradually the pure competitive market, also known as perfectly competitive market, subject to the free play of market forces – ensuring the spontaneous balance – has turned into the modern competitive market, by adding two more mechanisms of adjustment, as an expression of society behavior, for reducing the economic and financial instability and for establishing the balance needed by society (minimizing risks and maximizing advantages);

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- *The macroeconomic regulating mechanism*, that acts through strategies and economic policies implemented by the state, capable of ensuring the stability of the economic system; the state intervention in economy is usually realized by economic and financial levers (tax system, grants, public investments, public services etc.) and by creating the proper legislative framework in order to favorably influence the economic activity;

- *The microeconomic regulating mechanisms*, that is founded on the forecasting activity, realized at the economic agents level; this aims to prospect and anticipate the future, the evolution of economic phenomena and prevent, as much as possible, the disruptive events, as well as, counter them;

The different forecasting categories (prognosis, strategies and policies, plans, programs and projects elaborated on different levels of economy and different time frames) are a reflection of the fact that the modern society is a prospective one (able to foresee the future transformations and act accordingly) and not a mechanistic type society (based on spontaneous evolutions, totally unpredictable).

The forecasting system of firms has a complementary approach, both towards the market mechanism – that remains the essential one, but with higher qualities, by diminishing the risk and uncertainty, as well as towards the macroeconomic regulation mechanism, by respecting the ethical deontology, the legal framework, in general, and by fructifying the opportunities generated from applying general, regional and sectorial strategies and social-economic policies.

A recent study [O. Nicolescu (coord.); 2015, p.146] registers a worrying situation regarding the tourism economic agents: 50% of them are conduction no forecasting activity, 38% are exclusively elaborating annually plans and polices and only 12% use strategies for longer period of time. Besides, in comparison with the precedent years, the evolution is a negative one.

Therefore, at the management level in tourism, there can be identified three trends, taking place in the present time:

A. Dismissing any concern of economic decision making, based on a forecasting methodology, specific to market economy. Ignoring or denying such concern could be partially explained, on one hand by remembering the failure of centralized planning and commanding, applied till 1989 and on the other hand, by the failure registered in the last two decades, when the forecasting activity wasn't able to anticipate the appearance and evolution of major crisis. As a consequence, disappointed of the insignificant effects of a high cost activity, such as the forecasting one, many managers have ceased making any efforts in this regard. Presently, around 25% of the managers consider that devising strategies should be among their most important activities.

B. Accepting the forecasting activity as an instinctual action, based exclusively on experience, intuition, flair and ability. This approach can lead to short term success and also success in the “quiet period” of economy.

C. In some companies, the forecasting activity plays a strategic part in the managerial priorities, appreciated as a creative process of research, analysis and counseling with the proactive function in decision making. Therefore, the forecasting becomes a permanent and sustained activity of anticipating future evolutions (results, actions, options, priorities), on different time frames and with different probabilities of materialization. The final goal is to master future events (possible, probable, and desirable) to identify, estimate and control risks, adding direct value to the business success.

Although it differs from one organization to another, in regard to the complexity of activity and the company's size, the forecasting process has a basic model, a logical structure, through several stages: diagnosis, prognosis, strategy, tactics, plan/program, monitoring and revising the process.

2. Diagnosis

The diagnosis represents the first step before elaborating the actual forecast and offers a base foundation needed to foreshadow the future evolution of the company. It contains three major components:

- A. Retrospective analysis of the company's performance
- B. Analysis of the internal environment of the company
- C. Analysis of the external environment of the company

A. The evaluation of company's performance consists in the retrospective analysis by studying the evolution of the entire activity. Although, often is ignored in managerial practices, this stage offers valuable information regarding at least two essential aspects:

- identifying trends generated in the previous period of time, as a trajectory and intensity: strong and positive trends, with possible continuance to the future, new and ascending trends that could predict the future changes, as well as negative trends that should be stopped, discouraged or gradually attenuated; in this stage it is a must to use the statistic and econometric methods for dynamic analysis, by valorizing the information offered by the data bases;
- identifying the current state of the company and revealing the significant deviations: by comparing the performance with a standard level, confirmed by the practical activities (medium level from the activity sector, level reached by the competition, leaders in the field etc.); by identifying the causes that generated the deviations, by respecting the basic correlations between the interdependent indicators; for instance, the dynamic of results indicators should be higher than the one of labor force, the dynamic of labor productivity should be higher than the one of the salaries increase, the return rate generated by the company's activity should be higher than the cost of total capital (cost of funding sources) etc.

B. Analysis of the internal environment of the company must take into account the research and evaluation from two points of view: on one hand, the internal potential of the company, the company's capabilities and vulnerabilities to efficient interaction with the market; this means the analysis of the allocation and efficient use of resources (psychical, human, organizational, managerial, technological etc.), with an increased level of attention to the financial ones; these ones are considered to be the most important and flexible, as their volume determine the level of other resources that can be changed; on the other hand, the competitive force of the company in regard with the rivals, by identifying and controlling the successful factors, that determine an important market share (competitive advantage, distinctive competencies), or the contrary, the causes that determine difficulties for the company and a diminished competitiveness in rapport with others.

The well-known method used for this stage is the SWOT analysis, analytically elaborated for all the functions of the company (service production, research – development – innovation, human resources, marketing, financial – accounting etc.).

C. Analysis of the external environment of the company. It is known that on the base of the realistic forecasting activity there is not only the analysis of the internal environment, but also factors, causes and conditions from the external framework.

Firstly, it is about the macro-environment of the company, as an expression of the mega trends manifested at the global level and that can significantly influence the activity of the tourism company: the political instability of different countries, the macroeconomic imbalances (recession, inflation, unemployment etc.), demographic, social and cultural transformations, climate changes and the natural calamities, usage of the new technologies etc. These risk sources can't be totally controlled by the organization, although identification, treatment and mitigation methods for the negative effects can be taken. In most cases, these have a systemic character, meaning that most firms are exposed to the events, at a global, national, regional or local level, according to the extend and magnitude of the risks.

Secondly, it is about the micro-environment of the company, composed of actors, organizations and interest groups close to the company (traditional competing firms, or new entered firms, providers, clients, creditors, public authorities etc.), that have a real impact over the ability to reach its objectives. In this case, the attention must be focused on the competitiveness environment and the relations with the stakeholders.

For studying the external context of the company, PEST analysis (Political, Economic, Social and Technologic) is an effective and frequent used technique. A number of experts [A. Gregory; 2009, p.68] recommend an extended version, by adding other fields considered adequate. For instance, the analysis known as EPISTLE adds there more areas of interest (Information, Laws and Environment).

Using these methods requires access to additional sources of information: published documentary research on scientific prognosis at global and macroeconomic level, concerning the evolution of national and international environment as well as for the specific areas; marketing studies of the company or from the specialized institutions, that can allowing market knowledge, the offer and demand of tourism services for a specific period of time.

3. From Diagnosis to Prognosis

In order to determine the major objectives and further strategies, the following step is represented by the elaboration of medium and long term forecasts, illustrated as prospective studies and prognoses.

The prospective studies are the basic forms of future anticipation, consisting in a logical representation of phenomena and processes, offering a first image, an initial foreshadowing of the perspective. These studies suggest rather what will happen in future evolution, than the amplitude of these evolutions [V.Nicolae, L.D.Constantin, I.Grădinaru; 1998, p.57].

These qualitative researches usually investigate alternative versions of the future that can't be accurately quantifiably in this stage (opinions, reactions, attitudes). For this

purpose, there are frequently used collective intuitive methods, such as group debates (Brainstorming) and the method of iterative investigations (Delfi), based on the creativity of experts, by expressing a set of logical solutions, hypothesis and deductions for the future. Taking into consideration the wide variety of risks in tourism, it is recommended that the group of experts should include specialists from different areas of expertise, therefore an interdisciplinary approach.

Based on diagnosis analyses and the suggestions of prospective studies there are elaborating prognosis, in different versions, which anticipate the probable, desirable and acceptable evolution of the company's performance.

The prognoses are generated by two categories of methods:

A. Explorative methods and techniques, to explain future trends determined by combining the identifiable components in the diagnosis phase:

- The trend, that reflects the influence of essential factors in the past, which should ensure their continuity, as an effect of the determinist component; at the present, this component has a lower share;
- The seasonal fluctuations, specific to the tourism activity, can be accurately quantified, but under the influence of the diversity of risks sources, such as political, natural, economic etc. there is a significant dose of uncertainty;
- The random variations, increasingly more numerous and more important as influence, under the impulse of risk and uncertainty, residing outside predictable causal relations.

As a result, in the actual conditions, extrapolation based on time series must be used carefully. It no longer represents a mechanical action, based exclusively on future extension of past determined evolutions, but a heuristic rationality, by using the correction coefficients of adjustment functions. Hence, there are taken into account, the predictable modifications of phenomena as well as the options of decision factors, aspects that will generate intensification or reduction of previous developments.

B. Normative methods and techniques, encompassing a series of parameters that reflect intention, concern and will to guide events towards desirable, predictable goals, for which there are available resources, adjustment methods and proper technical and organizational methods.

This being the case, in practice, a large variety of methods and techniques of prognosis can be used, according to the specific of the company, by combining the quantitative approach of economic phenomena with hypothetical-deductive rationalities and intuitive estimates, based on experience and the experts' findings in the field.

In this context, the forecasting activity for the medium and long term horizon is finalized by a simulation of various scenarios regarding the desirable, possible and probable future evolution of the company, from which the decision factors will choose a specific alternative that becomes *the priority prognosis*.

4. From Prognosis to Strategy

In accordance with the prognosis alternative chosen (taken into account the company's mission, the current situation, the previous analyses and future perspectives) the next essential step consists in establishing the strategic objectives of the company.

The strategic objectives should express, as much as possible, in a quantifiable form, the performance parameters, and the results that the company wants to obtain in a period of time.

Not so long ago, the fundamental strategic objective was represented by maximizing the forecast profit and therefore, determining the synergy between the two sharing policies of it:

- The dividend policy, sharing the profit by the shareholders, with a high stability rate over time, which leads to an increase of confidence in the company by the public and an increase in the market value;

- The policy of reinvestment of a portion of the net profit, the goal being increasing the financial autonomy, by developing the self-financing capacity, improving the financial structure of capitals, reduction of the level of indebtedness, and in consequence, the reduction of financial risks.

So, there are drawn the possible trajectories for the three major financial actions (investment, funding and profit sharing) for increasing the market value of the company. [G.Vintila; 2003, p.349, 427]

The new theories and practices are focused on the approach of multiple objectives – economic, financial, social, ecological etc., which will lead the company in the desirable direction. In the present, even though the financial targets are essential, it is important to consider the strategic objectives of some areas that ensure the performance stability of the firm for the long run, such as: human resources and increasing labor productivity, research-development-innovation, reorganization, cooperation with the economic environment, in general, and the market one, in particular, social corporate responsibility etc. As a result, there should be a satisfactory compromise between the profitability and stability for the firm, rather than focusing only on maximizing the profit, for a competitive market share.

The manager essential mission is to offer a clear vision of the firm's future goals and directions, on a long period of time, including the proper action for it. Designing the strategy is the most important and difficult area of the forecasting activity. "If the strategy is good, coalesced and coherent, then, everything stems from it." [A. Gregory; 2009, p.147]

The stability of the company's strategy represents the responsibility of the superior management. This decision is based on the selection, from a range of strategic options, of a strategy that offers the company the most successful opportunity in regard with the main competitors, in the context of anticipated transformations in its environment. [M. Naneş; 2001, p.211]

The strategy should be connected to different essential themes:

- The evolution of the activities portfolio (tourist products, markets, geographical areas etc.) which reflects the degree of concentration, diversification of the company's activities, in regard with the newest opportunities;

- The internal development methods, by acquisitions, fusions, alliances, partnerships etc., with other actors for the tourism segment or other segment of activity, scissions, abatements or liquidations of the company's activities, for obtaining an optimal and efficient organizational structure;

- The evolution of the distinctive and managerial competencies as for obtaining a sustainable competitive advantage on the market;

- The process of resources allocation for business centers, activities, geographical areas, as well as the priorities taken in consideration;
- The proper substantiating of necessary functional strategies: marketing, management, organizational, human resources etc., but especially the financial ones;
- The realization of proper planned interventions for the unexpected situations (affecting the image of the organization, the financial position, basic business interruption, new legislation in the field etc.) to prevent the problems turning into major crisis situations.

Finally, the overall strategy is an optimal combination of strategies (business and functional), all of them aggregating from a value standpoint in the long term general orientation budget [G. Vintila; 2003, p.256], by using the necessary resources, ensuring the financial sources and evaluation their efficiency. In this case, the strategy becomes the *guiding principle*” which will move you from the point you are, to the point you want to arrive” [A. Gregory; 2009, p. 148].

5. From Strategy to Tactics, or from Prognosis to Planning

Connecting tactics to strategy is realized by annual planning. Basically, the strategy presents the methods to reach an objective and the tactics explains in details exactly how to do it.

If prognoses, and therefore, strategies (even though well elaborated) have a general character, in the tactical context of planes and programs for a short time frame, stipulations will be detailed, quantitatively and temporal, as well as, regarding the responsibilities involved.

Hence, the plan becomes the most complex and active forecasting instrument, indispensable to any organization, regardless of its size:

- It establishes a route, an itinerary leading to one or more objectives, an unitary, coherent and correlated frame of reference, to which it relates permanently its current activity, the economic reality;
- It represent an accurate image that reflects the development of the activities, by determining, with the use of economic and financial indicators, the level, rate and percentage of future development; by applying a set of actions over a time period, that will generate an optimal achievement of the organization objectives, as far as the conditions and probability.

The *global plan* of the company consists in (according to the company’s domain and size) several sections (indicators systems) that are interrelated, with logical, quantifiable correlations and are highlighted by the use of statistical methods:

- economic plan
- human resources plan
- investment plan
- marketing plan
- increasing the quality of services plan etc.

However, the financial plan for a short time frame has a special role, describing a *budgets system*, that provide the forecasting, coordination, trend, evaluation and control for all the company’s activities:

- *specific budgets* for different activities, as previously presented; in this case the coordination budget is the sales one, that determines the main parameters for all the other budgets;

- *synthetic budgets*, that offers the image of future financial situation of the company and can be reached by compliance with the other budgets: *forecast balance sheet*, reflecting the patrimonial state at the end of the period analyzed; *income statement* (profit or loss) representing the cash-flow of revenues and expenditures and the *treasury budget*, indicating the company's monetary situation.

The treasury budget plays an important part as a resultative operational budget, underlining the accuracy degree of stipulations for the other budgets, the way of respecting the financial balance requirements, the company's capacity to pay by synchronizing the receipts and payments. Lacking to attain those objectives, in the acceptable conditions, will require correction for the annual budgets.

As a result, the entire forecasting activity works as a *system of early warning*, a complex system of monitoring, analyze and revision of the activity in order to adjust to the new market realities.

6. Conclusions

The central message of this study is that in a world in constant change, with high and low points, with continuity and discontinuity, with sudden changes, amplitudes and depth, the business models in the tourism sector are more and more complex and risky. Thus, forecasting activities are diminishing the uncertainty, being characterized as active and flexible in the process of decision making.

Any company, regardless of its size, is depended on the forecasting activity, for which it has to establish and elaborate strategies and systemic plan the future objectives and the necessary resources. Only by understanding the risks involved, generated by forecast options, will be able to achieve successful management.

A professional management requires the coherent correlation of specialized technical projects, with the financial business sector, the sophisticated methods for forecasting with the ability of global thinking, generating a complete and logically accurate for the company's future.

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