
Importance of accounting information for increasing competitiveness of health-tourism – Case study Croatia

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Abstract

The aim of this paper is to explore the level of health tourism development in Croatia and the possibilities of improving quality of information through segment reporting by using the framework of accounting and specific industry standards and to enable external presentation and comparison (benchmarking) of internally achieved results. Establishing segment reporting model means respecting specifics of medical, wellness or/and health/spa services, using specialized software supported by an integrated database as a source of information for short- and long-term decision making. The services offered by special hospitals and spa/health resorts on the global tourism market should be better evaluated. This can be achieved by establishing segment reporting system that would follow directions of global trends and strategic documents, the best practice of USALI segment- reporting and benchmarking used in Croatian hotels.

Key Words: *Health-tourism; Competitiveness; Segment reporting standards; Benchmarking; Croatia.*

Theme: *Wellbeing, health, wellness and spas*

Focus of Paper: *Practical / Industry*

Introduction

Croatia has adopted relevant strategic documents which are important for health-tourism development. Health is an important part of Croatian National Health Care Strategy 2012-2020 (CNHCS - OG 116/2012) and the Croatian Tourism Development Strategy up to 2020 (CTDS - OG 55/13). Following this path, the National program – Action plan for health-tourism development (APHTD, 2014) oriented to health-tourism development (wellness in hotels, wellness/spas; health/spas, special hospital's ...) was created. This national plan is following the vision and goals of health, medical and wellness tourism development, and is made in accordance with the global trends and EU legal framework in the field of health (Health 2020; Together for Health, 2007; Directive 2011/24/EU; Health Programme 2007 & 2014, PBB 2014...) and in tourism (UNWTO 2011, 2012, 2013; Tourism in Europe 2010; EU tourism action plan, 2013; Emerging markets, 2016). In Croatian strategic document wellness and medical tourism services are positioned as sub-systems of health tourism as the "products with a strong development perspective" (CTDS, 2013). They have large unused potential due to the Croatian closeness to large markets, natural beauty, favourable climate, long tradition, safety and security of the country, competitive price and generally good reputation of health services in health spa/resorts, special hospitals and hotels. The aforementioned creates actual basis for better involvement of Croatian health-tourism services on the tourism market, whose growth rate is 15- 25% per year (CTDS, 2013; GSS 2010; GOH, 2014; GSWS 2012, 2015; GWTE 2013, 2015; Woodman, 2016).

1 Research background – the role of segment reporting standards

Decision making should be based on relevant information, prepared according to strategic goals and short-term objectives. Accounting as well as specific industry standards in the field of segment reporting

create possibilities for preparation and comparison (benchmarking) of information. International financial reporting standards 8 (IFRS 8 – Segment reporting), and the specific version of their application in the hotel industry - USALI (Uniform System of Accounts for the Lodging Industry), are successfully applied in Croatia. This type of accounting information is required to help managers to make decisions in four broad areas: developing long-term plans and strategies, performance evaluation and control, allocating resources and determining costs and benefits (Atrill & McLaney 2007, pp. 21), Segment reporting is a task of Managerial (internal) accounting (Responsibility Accounting), focused on preparing information for internal users in company that delegate authority by permitting different levels of management to be responsible for decisions regarding the economic factors of a company sub-units that they can control (Garrison, Noreen, Brewer, 2004) taking into account the specifics of health tourism services (Keck, 2010; Hall, 2011; EM, 2016;) especially in the field of medical tourism services (Deloitte 2008, 2009, 2015; DMT 2011; MTDG 2015).

Segment reporting is the best way for recognizing and measuring specifics of processes, whose results can be presented through financial and nonfinancial information relevant for a particular segment. These information help managers to fulfill the goals and objectives on the level of decentralized part of company, with focus on segment reporting process (Harris, Mongiello 2006; Horngren, Datar, Madhay 2012; Pardal, Morais 2012; Drury 2012). Segment information allows evaluation of managers because it gives the possibility to measure if managers are successful in costs-cutting and revenues-increasing, because each manager is assigned responsibility for the items of revenues and costs under their control. For decision making information about deviations among strategic goals are very important. They are achieved through systematic evaluating whether the national (CNHCS 2012; CTDS 2013; APHTD 2014) as well as the globally expected strategic goals (UNWTO 2011, 2012, 2013; WHO 2009, TFH 2007; Health 2020, 2011; Health programme 2007, 2014), are successfully implemented, based on the segment reporting system, as the framework for control if the actually achieved results are in accordance with the budget, in the defined time frame.

1.1 International financial reporting standard 8 – Segment reporting

The specific meaning for segment reporting has globally accepted International financial reporting standard 8 (IFRS 8 – Operating segments), issued in 2006 and applied for the first time in January 2009 (IFRS 2009, pp. 713 - 775) as a result of harmonization process between IASB and FASB. IFRS 8 replaced the previously valid US GAAP SFAS 131 (Generally Accepted Accounting Principles - Statement of Financial Accounting Standards 131) and IAS 14 (International Accounting Standard 14) and it provides the rules for identification and aggregation of reportable segments in all fields of businesses (industries). “Operating segments” are defined as components of an entity that engage in business activities for which separate financial information is available (IFRS 2009, pp. 8.5).

Provisions of the Croatian Accounting Act (CAA, Art 17/3) require all listed companies to prepare and present information in accordance to the IFRS standards. This means that according to the provisions of IFRS 8, all listed companies are obligated to present segment information in order to provide the opportunity for better communication with shareholders. This also means that segment information shall be disclosed in the framework of consolidated financial statements, allowing the users to see business performances through the eyes of responsible segment’s management. In order to see the presence and the degree of application of the IFRS 8 in the practice and to assess the availability of segment information in 25 different industries, all consolidated financial statements of Croatian listed companies on ZSE (Zagreb Stock Exchange) for year 2015 were analyzed. The listed companies were divided and grouped according to the Global Industry Classification Standard (GICS, 2014) and the National classification of industries / business (NCI, 2007).

The analysis of segment reporting on the level of consolidated financial statements (information presented in the Notes to the financial statements), indicates that the largest number of listed companies that disclose segment information come from “Accommodation / Food & Beverage” business/industry - 13 out of 41 (32%). Although many of them prepare and present information for wellness/spa services for internal purposes, only two types of segments (“Room”, “Food & Beverage”) are available in consolidated reports. Companies in “Finance & Insurance” business are on the second place (12 out of 33 companies), and the “Business services” (legal, accounting, architecture, engineering, technical testing, analysis ...) follow etc. (CFA, 2015). All the above mentioned suggests that most of the Croatian listed companies do not apply the provisions of the Accounting Act regarding the application of IFRS (including IFRS 8) because only 24%

(49 out of 206) listed companies that were examined present segment information. The methodological framework of IFRS 8 allows formatting reporting segments in the way that management of special hospitals and health/spa resorts systematically conduct the monitoring of segments revenues, costs and partial results for each relevant market or internally oriented group of activities / services (medical, wellness, spa), primarily those which have the character of responsibility profit centres.

1.2 Uniform System of Accounts for the Lodging Industry - USALI

USALI (Uniform System of Accounts for the Lodging Industry) are very important segment reporting standards for hotel companies, because they apply specifics of the hotel business into the global provisions of standard IFRS 8. The authors have been involved (directly or indirectly) in the research on the role of USALI standards in segment reporting, benchmarking and decision making in the Croatian hospitality industry (Peršić, Ilić, Vlašić, 2003; Peršić, Janković 2006; Peršić, Poldrugovac 2009, 2011; Peršić, Janković, Poldrugovac 2012; Vlašić 2012; Peršić, Janković 2014; Janković, Peršić, 2014, 2015). The research results generally indicate that Croatian hotel industry has a long tradition in segment reporting which has been based on USALI standards. Research carried out in the year 2000 on the sample of 42% hotels indicated that 68,6% of investigated hotels had partially or fully implemented segment reporting system (Peršić, Turčić 2001), while in 2010 on the sample of 54% of hotel capacity this percentage increased to 88% (Peruško-Stipić D., 2010).

Eleventh revised edition of USALI standards is a kind of manual for hotel managers and accountants, directed to the preparation, presentation and usage of segment information. These information are prepared in accordance with the specific hotel activity as: 1) Rooms, 2) Food and beverage, 3) Other operated departments (golf course and pro-shop, health club/spa, parking ...), 4) Miscellaneous income, 5) Administrative and general, 6) Information and telecommunications systems, 7) Sales and marketing, 8) Property, operation and maintenance, 9) Utilities, 10) Management fees, 11) Non-operating income and expenses 12) House laundry, 13) Staff dining, 14) Payroll-related expenses, as well as Summary operating statements - for operators and for owners (USALI, 2014. pp. 1-150). In this way the prepared segment reports enable external comparison of internal results achieved by segments in the same way, as management meets their information requirements for making operating decisions and in assessing performance.

Over the last few years Faculty of tourism and hospitality management Opatija, supported by Ministry of tourism, Croatian chamber of economy and Croatian hotel association introduced the process of hotel-benchmarking by using USALI standards and specific IT technology (Benchmarking, 2016). Today, more than 100 Croatian hotels are involved in the benchmarking process and use benchmarking framework to compare the achieved results among group of hotels, with the similar quality level and structure of services, as a basis of current control, but also to assess effectiveness and competitiveness on the tourist market. For this purpose uniform defined and standardized “financial ratios and operating metrics” for measuring results as a basis for comparison within the similar hotels on the world wide lodging industry level are used (USALI, 2014. pp. 187 - 232).

Since this approach provides framework for systematic control among the achieved revenues and costs on the segment level, this kind of information is very useful for comparison of achieved and budgeted values and for assessing if the short-term results are taking place in accordance with the strategic goals presented in the strategic documents. USALI standards can be applied in the special hospitals and health/spa resorts for the creation of reportable segments related to accommodation, food and beverage and other groups of services, regardless whether they are profit or costs responsibility centers. The formation of reporting segments for specific medical, wellness and spa services could be achieved through the use of IFRS 8 and other industry standards (USFRS, USAR) methodological framework.

1.3 Other types of useful segment reporting standards

For the purpose of applying segment reporting in the health tourism services, “Uniform system of Financial Reporting for Spas” (USFRS) that are used by ISPA (International Spa Association) and presented in the specific reports should be used (ISPA, 2015). USFRS represents the first successful organized effort to establish uniform accounting system framework for the Spa-industry, and establish standardized formats and account classifications to guide users in the preparation and presentation of financial statements. Internal and external users of financial statements are able to compare the financial position and operational performance of particular facilities to similar types of facilities in the health-tourism business (USFRS 2005, pp. ix - xi).

Segment reporting in USFRS has 19 supporting schedules: 1) massage, 2) Skin care, 3) Hair, 4) Nail, 5) Fitness, 6) Food and beverage, 7) Health and Wellness, 8) Membership dues and fees, 9) Retail, 10) Other operating departments, 11) Rentals and other income, 12) Support labour, 13) Indirect operating expenses, 14) Administrative and general, 15) Marketing, 16) Facilities maintenance and utilities, 17) Fixed charges, 18) Federal and state income taxes, 19) Payroll taxes and employee benefits). They are prepared according to the specifics of operations / activities on the department level and present the achieved results for a given time period (USFRS 2005, pp 31 – 102). The Summary statement of income is divided into several sections in order to present the overall picture of revenues and expenses for each reporting segment (department, responsibility center or group of activities). The number and types of used segment reports will vary according to the services assortment or organisational structure of institutions, which use USFRS in preparing segment information. In Croatia USFRS standards are still not being used.

Although the reporting segment “Food and beverage” is provided as the integral part of USALI and USFRS standard, the National restaurant association has developed specific standards known as USAR (Uniform System of Accounts for Restaurants). USAR offers detailed supporting schedules for specific statements that provide a quick overview of the key costs, margins and operating results for a specific time period. Standards USAR are oriented to satisfy the needs of day – to – day decision making, through offering detailed information in specific supporting shedule, used as a tool to present additional information based on analytical approach, on the impacts of the achieved operating results. As the basis for successful reporting system the chart of accounts, basic information connected with the restaurant activities bookkeeping (part of accounting), specific field of controls, as well as taxing matters based on the USA regulations system are presented (USAR, 2012). As USALI standards are the basis on which USFRS and USAR standards are made, it is possible to develop special model of reporting system for special hospitals and health/spa resorts.

2 The research methodology, achieved results and proposals

In order to assess the achieved level of health tourism development in Croatia, the authors conducted a survey in 2015 (for financial year 2014) on the sample of 17 health-tourism institutions (75% of health/spa resorts, 90% of special hospitals with the health-tourism orientation or 47% of all special hospitals and the most important thermal-spa hotels). It was estimated that the characteristic of the thermal-spa hotels business are basically different in relation to the health/spa resorts and special hospitals, because of special relationship with the Croatian Health Insurance Fund (CHIF), therefore in 2016 from the survey thermal-spa hotels were excluded (for financial year 2015) and 12 institutions in field of special hospitals (90%) and health/spa resorts (75%) mostly oriented to the medical-tourism services were analyzed. The analyzed capacity was 3945 beds/2013 rooms, 40% of them located on the coast and 60% in the mainland (mostly near to the mineral/medical water wells). About 46% of all yearly available beads are contracted with the CHIF, which means that more than 50% of capacity (and services) might be oriented to the market-user needs. For this purpose internal segment information, based on reporting-standard using should be provided.

2.1 Research results, discussion and recommendations

The first step was to assess the achieved level of facilities and human resource only in the specialized hospitals and health/spa resorts in the field of medical and wellness/spa services development, following the goals presented in the national strategic documents and in accordance to the global trends. Research results indicate that at the sample level 45.204 m² (72%) of space is intended for the provision of medical services, 12.895 m² (21%) of space is oriented to the wellness/spa services and 5.150 m² (8%) is in pools mostly with thermal water, which can be used for treatments and leisure. The structure of space types is more or less equal in special hospitals and health/spa resorts, but special hospitals are better equipped (89% of facilities).

The contracted capacity (with the CHIF) is used on average in 85% (special hospitals in 86,2% and health/spa resorts in 79,2%), however the capacity oriented to the market users is insufficiently utilized - on average 46,1% (in special hospitals 47,1% and in health/spa resorts 42,9%). The fact is that on average only 8% of users are foreigners (9% in special hospitals and 7% in the health/spa resorts), indicating that foreign visitors are relatively more present in the health-tourism institutions on the coast (21,8%) than the ones located in the mainland (only 1,7%). Following the principle that “human resources are the key of success in any business” and that orientation to foreign markets has to be followed by the high quality services, the structure of employees was evaluated. In the total number of employees (on the sample level), 6% of them are doctors (191), 45% other medical staff (1256) and 1% are the specialists in the wellness/spa services

sector (33), with remaining 48% that are the employees in other professions (1300). If this problem will be observed from the statistical point of view, it can be concluded that on average one health-tourism institution has 16 doctors, 105 employees in profession of other medical staff, 3 specialists in the field of wellness/spa services and 108 employees that are from other (non-medical) different professions. Employees generally provide services under the contract of the CHIF, and only 8% of employees are fully oriented to meet the needs of customers from the external markets, and for this purpose it is also necessary to acquire a new interdisciplinary knowledge, skills and competences in accordance with the European Qualifications Framework - EQF (Peršić, Vlašić 2016)

As the next step of the research the structure of revenues as well as the indicators arising from them (tables below), taking into account the impact of available resource basis and the insufficient market orientation of Croatian special hospitals and health/spa resorts was investigated.

Table 1: The structure of revenues in special hospitals and health/spa resorts (research results)

The structure of total revenues generated from:	Special hospitals	Health/spa resorts
Activities provided on the tourist market :	19,6 %	27,8 %
<i>Contracts with the CHIF (Croatian Health Insurance Fund)</i>	58,1 %	35,4 %
Supplementary health insurance and participation	12,7 %	10,8 %
Foreign and other private insurance	0,7 %	0,5 %
Leasing and renting space / property	0,5 %	1,4 %
Other revenues	8,4 %	24,1 %
<i>Total revenues</i>	100 %	100%
The structure of operating revenues generated from:	Special hospitals	Health/spa resorts
Medical services	16,8 %	15,2 %
Wellness, spa, sport, recreation services	3,9 %	5,6 %
<i>Accommodation services</i>	49,0 %	67,1 %
Food and beverage services	20,9 %	11,8%
Congress services	9,4 %	0,3 %
<i>Total of operating revenues</i>	100 %	100 %

It may be noted that in the structure of the total revenues those achieved through CHIF contracts dominate. They are significantly higher in special hospitals (58,1%), while in the structure of operating revenues those generated from provision of accommodation services are significantly higher in health/spa resorts (67,1%). In the same way the structure of revenue, following the location, depending on whether it is special hospital or health/spa resort located on the coast or in the mainland will be presented (table below).

Table 2: The structure of revenues accomplished in special hospitals and health/spa resorts in accordance with their location (research results)

The structure of total revenues generated from:	Special hospitals and health/spa resorts on the coast	Special hospitals and health/spa resorts in the mainland
Activities provided on the tourist market :	24,26 %	17,78 %
<i>Contracts with the CHIF (Croatian Health Insurance Fund)</i>	46,73 %	61,92 %
Supplementary health insurance and participation	10,04 %	13,96 %
Foreign and other private insurance	2,16 %	0,03 %
Leasing and renting space / property	0,35 %	0,64 %
Other revenues	16,46 %	5,67 %
<i>Total revenues</i>	100 %	100%
The structure of operating revenues generated from:	Special hospitals and health/spa resorts on the coast	Special hospitals and health/spa resorts in the mainland
Medical services	19,57 %	14,30 %
Wellness, spa, sport, recreation services	4,99 %	3,43 %
<i>Accommodation services</i>	65,01 %	40,59 %
Food and beverage services	9,92 %	27,46 %
Congress services	0,51 %	14,12%
<i>Total of operating revenues</i>	100 %	100 %

In the same way the revenue structure by type of health-tourism institution by the locations were analysed. In the structure of the total revenues, those achieved by CHIF contracts also dominate, and they are

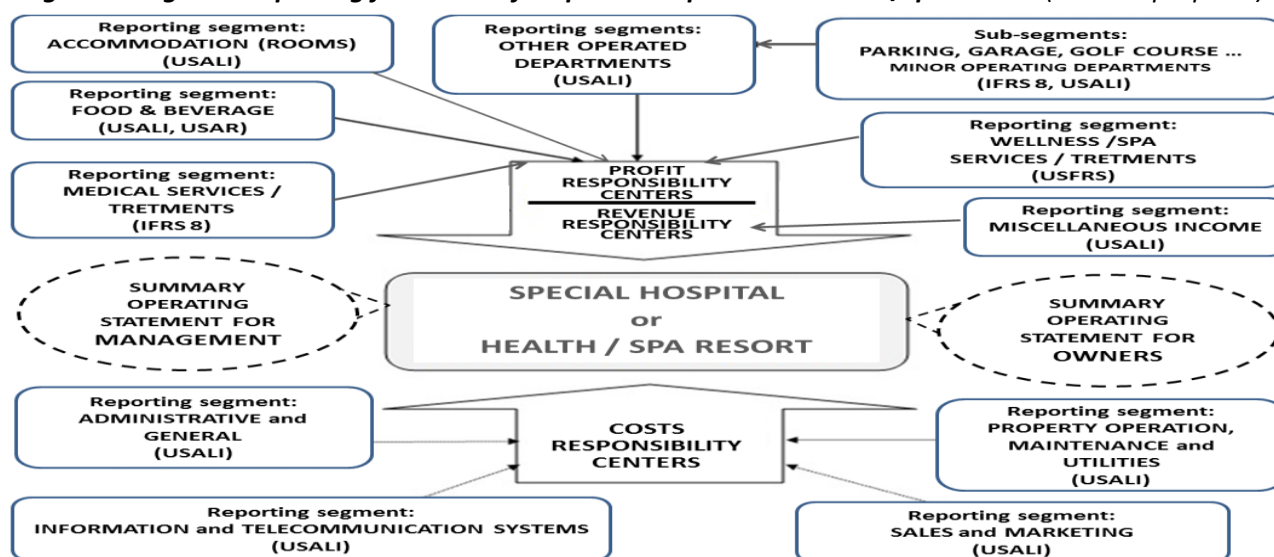
significantly higher in special hospitals and health/spas resorts located in the mainland (61,92%). In the structure of operating revenues those generated from provision of accommodation services dominate, and they are significantly higher in special hospitals and health/spa resorts located on the coast (65,01%). Revenues generated from activities provided on the tourist market are higher in the institutions located on the coast (24,26%), and institutions located in the mainland generate more revenue in the field of food and beverage services (27,46 %). Lack of resource/potential valuation on the market, can also be considered through the indicators commonly used in segment-reporting system, respecting the indicators that are presented in the following table.

Table 3: Indicators of business efficiency in the Croatian special hospitals and health/spa resorts
(research result)

Indicator	All special hospitals included in the sample	All health/spa resorts included in the sample	Special hospitals and health/spa resorts located on the coast	Special hospitals and health/spa resorts located in the mainland
Total revenue per available bed	52 €	26 €	34 €	57 €
Total revenue per m ² space intended only for the provision of health tourism services	137 €	33 €	55 €	168 €
Total revenue per employee	2 374 €	2 223 €	2 418 €	2 254 €
Operating revenue achieved on the market /per available bed for market-oriented use	30 €	15 €	20 €	32 €
Operating revenue achieved on the market from providing health-tourism services / per available bed for market-oriented use	8 €	3 €	5 €	9 €
Average achieved price on the market, based on accommodation services /per sold bed	12 €	10 €	13 €	11 €

Generally, research results show that the relevant segment information about costs are missing, as well as on the ratios regarding revenues and costs. Due to that it was not possible to evaluate profitability and competitive market position of important group of services offered by special hospitals and health/spa resorts at the segment reporting level. Using the framework of globally recognised accounting standard for segment reporting IFRS 8 and its application to the specific of services in tourism and hospitality industry (USALI, USFRS, USAR standards) the segment reporting framework which can be used for preparing relevant information in accordance with the specific needs of management and owners of the special hospitals and health/spa resorts, will be presented. This would also enable benchmarking on the national level.

Figure 1: Segment-reporting framework for special hospitals and health/spa resorts (authors proposal)



The above presented model of segment-reporting system can be applied in each health-tourism institution (special hospital or treatment center) following the organizational structure, IT system development, level of

Table 4: The model of Summary Operating Statement for management and owners in the special hospitals and health/spa resort (authors proposal)

SUMMARY OPERATING STATEMENT						
a) COMMON PART OF STATEMET FOR MANAGEMENT AND OWNERS USE						
Natural and financial data – indicators	Current period (recommended reporting on the monthly level)			Year – to – date (cumulative for period of year beginning to the current Month)		
	Actual	Budget / Forecast	Prior Year	Actual	Budget / Forecast	Prior Year
Number of available rooms Number of available beds Number of rooms sold Number of beds sold The degree of capacity utilization The average room rate (ADR) Revenue per available room (RevPAR) Total operating revenue per available room (Total RevPAR) Number of services: MEDICAL SERVICES: - Medical diagnostics - Medical treatments - Hospital day - Surgical procedures - Other medical services WELLNESS/SPA SERVICES - Massage - Beauty programs - Fitness services - Swimming pool services - Sales of specific products						
Financial data (revenue, costs and internal results)	Current period (recommended reporting on the monthly level)			Year – to – date (cumulative for period of year beginning to the current Month)		
	Actual	Budget / Forecast	Actual	Budget / Forecast	Actual	Budget / Forecast
OPERATING REVENUE ON THE PROFIT-CENTRE LEVEL: Medical Services Wellness / spa services Accommodation Food and Beverage Other operated department TOTAL OPERATING REVENUE						
REVENUE ON THE REVENUE-CENTRE LEVEL:						
CONTROLLABLE COSTS ON THE PROFIT-CENTRE LEVEL: Medical services Wellness / Spa services Accommodation Food and Beverage Other operated department TOTAL CONTROLABLE COSTS						

CONTRIBUTION MARGIN
COSTS ON THE COST-CENTRE LEVEL
Administrative and General
Information and Telecommunications Systems
Sales and Marketing
Property Operations, Maintenance and Utilities
TOTAL COSTS ON THE COST CENTRE LEVEL
GOP - GROSS OPERATING PROFIT
Management Fees
INCOME BEFORE NON-OPERATING INCOME AND EXPENSES
NON-OPERATING INCOME AND EXPENSES
Income
Rent
Property and Other Taxes
Insurance
Others
TOTAL NON-OPERATING INCOME AND EXPENSES
EBITDA - EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION
b) PART OF STATEMENT ONLY FOR MANAGEMENT USE
Replacement Reserve
EBITDA less REPLACEMENT RESERVE
c) PART OF STATEMENT ONLY FOR OWNERS USE
Interest
Depreciation
Amortization
TOTAL INTEREST, DEPRECIATION and AMORTIZATION
INCOME BEFORE INCOME TAXES
Income Taxes
NET INCOME

The presented Summary Operating Statement as well as the other segment and sub-segment reports in the health-tourism institution has to be supported by the specific software, which will allow to transfer data into information from each business activity to the Profit and loss account, and allow harmonisation in the process of internal and external reporting system, oriented towards the short- and long term decision making.

Conclusions

On the global level, Croatia has not been recognized yet as health-tourism destination. Therefore, the presented research results should be used as the basis for health-tourism development, especially in the evaluation of “hidden” potential of special hospitals and health/spa resorts for market purpose. It has been noted that relevant segment information on the efficiency of health-tourism services are missing, because only global revenue and relevant natural data are available. The research results indicate low efficiency of Croatian special hospitals and health/spa resorts in valorisation of available resources and potential for market use, in line with currently very inflexible CHIF regulations that limit achieving greater market business results, especially in the periods outside the main summer tourist season. Following the provisions of Croatian and regional strategic documents there is also the need for improvement of interdisciplinary knowledge of medical and non-medical staff, in order to be make a step towards the orientation on the foreign market and achieving higher level of quality.

Managers need relevant information on the profitability, efficiency and competitiveness of health-tourism services, which is connected to the use of segment-reporting standards and segment information. Establishing segment-reporting system according to the specific needs of special hospitals and health/spa resorts, will allow external comparison of internally achieved results. The possibility to connect different standards (IFRS 8, USALI, USFRS, USAR) to meet specific management information needs in the special hospitals and health/spa resorts, as well as external users, based on the of the specific software should be achieved. Managers also agreed on their employees to take part in the educational program designed for

gaining relevant specific knowledge (<http://www.fthm.uniri.hr>) so that in this way the information basis for successful implementation of health institutions on the global tourism market will be created.

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