Distress Analysis and Risk Score of Hotels
A Longitudinal Study

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ABSTRACT

This article is first study of a service firm’s risk/risk management score and Zeta function, particularly, analysis how risk disclosure and financial performance varies longitudinally. Using mix methodology, research uses Z score-discriminant function \( Z = \sum_{i=1}^{n} \beta_i X_i \) \( Z \), \( X \) -specific to hotel industry and the risk scores, extracted from analysis of formal disclosures from annual reports. This article identifies that risk and risk management practices differ across hotel formats. The analysis of \( Z \) scores and risk disclosures reveals the association between these variables. The international hotels in comparison to national and local hotels are more distressed and hence have high risk scores confirming awareness of strength of this relation. Local standalone hotels are exhibiting high volatility and exhibit low risk score. This unique relationship between \( z \) score and risk disclosures will prove to have sustained relevance to risk academicians and practitioners.

KEYWORDS
Cultural Theory Of Risk, Grid, Group, Hotel, Risk Management, Risk Score, Z Score

INTRODUCTION

Though scholarly interest in risk management is growing in the domain of hospitality, risk and distress analysis has not yet received wider attention. This paper adds up to our knowledge of risk and distress signals specific to Hotel firms.

Modern world is debating extensively on risks. There exist differences about understanding of risks, appraisals of risks, risk communications, risk measurement and management. The subject has been extensively researched by engineers, scientists –pure and applied, social and political analysts, academic organizations and individual researchers and experts, only to conclude that meaning of “risk” and “risk management” is not standardized. The Hotel industry, like other industries is affected by uncertainty and risk. Hotels have to identify and manage risks emerging from multiple sources to be sustainable. There is growing research focus and to study risk perception and risk management practices. The extant literature has put forth various types of risks –business risks by Hopkin (2017), firm risks by Coleman in 2009, strategic and external risk by Kaplan and Mikes’s (2012) Global hospitality business is facing rapid innovations and interconnecting complexities due to which risks cannot be approached in silos. Attending and mitigation has to be quick, precise and real time. early signal about failure would help the promoters to take preventive steps (Glahtier and Underdown, 2001)

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The extant hospitality literature is on a steep growth path, but not much has been attempted at firm level risk exploration. This paper aims to have deeper understanding of risks and studies its impact on risk management practices and the distress prediction. The firm level risk management has been the focus of scholars as risks- new and emerging ones are threatening the Hospitality organisations across the globe. Risk mitigation and distress prediction is need felt more than earlier due to dynamic interrelations between risks.

LITERATURE REVIEW

The research undertaken in the area of risk has been criticized for its methodological pitfall. The question is, should one take an individual or group as unit of analysis for exploring the inquiry pertaining to risk? Risk needs to be defined equally from probability/ expected values and from perspective of events/ uncertainties/consequences (Aven & Renn 2009). Risk needs to be understood from perspectives of a firm. Correct risk prediction needs to be appreciated and understood for its true threat level so that response is effective. Erroneous risk practices may result in more serious issues such as uncontrolled risk aggregation and may have serious cost implications (Sunstein, 2002). Exposure to risks results in financial difficulties which impacts the business strategy. Researchers are looking at Sociology of risks (Korstanje, 2010, 2011a)

Financial Distress

Firms experiencing Financial distress find difficulty in managing their day to day operations (Bahrain and Sentosa, 2013). It is financial, operational and managerial difficulty (Adeyemi, 2011). Difficulty in paying lenders and suppliers is indicating Business failure (Vuran, 2009). When current obligations of firm are not met due to a situation occurring because of paucity of operating cash flows is termed as financial distress. (Ross, Westerfield, Jaffé, and Jordan, 2008). Which is visible through liquidity problems, layoffs, losses, closure of hotel, reduction in dividends, inability to pay off loans, CEO/ CFO resignation, Plummeting stock prices, Inability and lack of means to pay-off debt. Zhuang and Chen (2014) gave a discriminant model which exhibited correlation between distress signals and financial state. Prediction of financial distress is attempted by several researchers. Beaver (1966), used statistical analysis whereas Muller et al. (2009) identified the ratio of cash flow to total debt. Altman’s study in 1968 identified five –variable model for bankruptcy prediction. It uses items such as productivity, liquidity, longevity, operating profitability, leverage and solvency which is better than individual financial ratio analysis. Altman’s Z is effective in predicting bankruptcy of firm (Moyer, 2005). Edward Altman, a financial economist and professor at New York’s Stern School of Business, developed Altman’s Z (the Z-Score) in 1968. He studied 66 firms, during the period 1946-1965 and evaluated 22 significant variables, and presented bankruptcy prediction function having 5 discriminating variables. Later in 2000, he amended the formula (Altman, 2006). Z score is an important multidimensional measure of strategic performance” (Chakravarthy, 1986) in that it is a “composite measure of profitability, cash flow, slack, and stock market factors (Altman, 1968). Low scores indicate financial distress (Ferrier et al., 2002). The mathematical form of the discriminant score model is Z-Score is essentially descriptive in nature and is fairly accurate measure of a firm’s financial health.

It has sector-based combination of ratios (weighted/added) these contains certain key dimensions of corporate solvency. Z-Score cannot be averaged to provide industry means, Negative Z is only a necessary, but not sufficient condition for default nor it is a forecasting device. Altman Z-score is based on financial statements. It is used to assess company performances, financial stability, and as an indicator of measuring a company’s future performance. Z-Score can only raise questions, but cannot be used alone. Researchers have used it in combination with risk scores. Predicting distress is a very relevant today in making wise and prudent decisions and interventions at corporate and governance level. It helps and can save the firm by proactive operations. They can improve the situation and
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