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Department of hotel and restaurant business

FINAL QUALIFYING PAPER

on the topic:

Corporate governance of CACCK LLC «Radisson Blu Hotel», Kyiv

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INTRODUCTION

Actuality of research. The hospitality industry has undergone changes in its business model through the 1990s and 2000s. For example, in the lodging sector, there has been significant consolidation in the industry, leaving a few large firms that operate in several markets - time share, budget hotels, full service, and luxury brands. Other major changes include purchases by private equity groups and innovative financing deals like real estate investment trust and its variants. The structure of the lodging industry is also quite complex and varied. The portfolio of hotels can include company-owned hotels, franchises, firms operated under management contracts, and time share (partial ownership) arrangements. Thus, business models in this industry may require different governance structures from other service industries.

The choice of corporate governance structure has implications for the management of the firm as well as firm value. Jensen and Meckling and Williamson viewed the firm as a nexus of contracts and argued that the firm is organized such that the transaction costs of these contracts are minimized. Faleye found that outside board members increase the effectiveness of monitoring managers but at the expense of weaker strategic advising. Larcker found that government regulations that would appear to strengthen governance structures - executive pay, proxy access and staggered board - appear to reduce investors' wealth. Other researchers have investigated the relationship between ownership structure and firm value. The argument posed by these researchers suggests that the level of monitoring and bonding of management will provide the requisite incentives for managers to make decisions that maximize investor wealth and minimize the agency costs due to managerial entrenchment.

The focus of prior research on corporate governance structures was not on specific industries; few papers examined a particular industry. Theories have been developed and empirical work done assuming that there is uniformity in optimal governance structures across industries and firm characteristics. It is quite plausible that what is appropriate for a manufacturing firm is suboptimal for a financial firm

or a service firm. Similarly, optimal governance structure may vary according to the size and complexity of the firm. Hence, having the optimal governance structure that will reduce agency costs and increase firm value and profitability is critically important for firms in the hospitality industry.

Purpose of research is to develop theoretical and methodological regulations, methods of effectiveness estimation, guidelines and suggestions for the organization of hotel corporate governance, and implementation of new principals in overall operation of the hotel industry based on the study of new conceptual framework and methodological approaches to improve the assessment of the development of hotel corporate governance at domestic tourism enterprises and prioritize levers of effective corporate governance.

Tasks of research. To achieve of defined purpose it is necessary to solve the following scientific and practical tasks:

- to examine the essence of corporate governance as a modern concept;
- to investigate the peculiarities of corporate governance in hospitality industry;
- to identify the main corporate-level strategies and restructuring;
- to assess the organizational and economic performance of the CACCK LLC «Radisson Blu Hotel»
- to estimate corporate governance effectiveness of the hotel;
- to evaluate the level of investors' protection in the hotel;
- to develop measures of corporate governance improvement;
- to analyze corporate social responsibility practices of the hotel;
- to suggest areas of improvement of corporate social responsibility.
- **The object of research** is the corporate governance processes of the hotel «Radisson Blu Hotel»

The subject of research is theoretical, methodological and practical aspect of corporate governance at hotel industry enterprises.

Methods of research. The theoretical basis of the study were the foreign and domestic fundamental assumptions of corporate management and strategic

management. In order to achieve a particular purpose we used different scientific methods: dialectical and system method of knowledge in order to research works of leading scientists about the nature of corporate governance development as a modern concept, the method of economic analysis in order to analyze data of hotel industry enterprises and to detect changes in relative and absolute indicators, economic-statistical method in order to explore and summarize the trends and patterns of dynamics of the sales management, the method of questioning and grouping in order to detect the attitude and stakeholders sentiments regarding corporate governance in industry enterprises.

Scientific innovation is summary of theoretical and methodological positions and practical aspects of corporate governance applied to hospitality industry.

The practical significance lies in comprehensive analysis of the theory and the formation of hotel corporate governance in a market economy has made it possible to obtain scientific results that could be used in a practice. Scientific methods could possibly be implemented in a large number of hotel industry enterprises in Ukraine.

Publications. The main theoretical position of the master diploma elucidation in the scientific article «Corporate governance in hospitality», published in a collection of articles KNUTE.

Work structure. Master diploma paper consists of an introduction, three chapters, conclusions, references in items, conclusions and appendices. The main text of 109 pages is representing the 19 tables and 22 figures.

PART 1

**THEORETICAL FOUNDATIONS OF CORPORATE GOVERNANCE
FORMATION IN HOSPITALITY INDUSTRY ENTERPRISES**

1.1. Essence of corporate governance as modern concept

The concept of corporate governance was introduced by Berle and Means following the Wall Street Crash of 1929. At that time, corporate governance was traditionally associated with the ‘principal-agent’ or ‘agency problem’. Berle and Means’ basic concern was the separation of ownership and control in large U.S corporations. Berle and Means (1932) 1 argued that the concentration of power in management rendered the large publicly traded corporation fundamentally different from our traditional notion of private property [10].

Since the late 1970’s, corporate governance has been the subject of significant debate in the U.S. and around the globe. Efforts to reform corporate governance have been driven mainly by the needs and desires of shareowners to exercise their rights of corporate ownership and to increase the value of their shares and, therefore, wealth. Over the past three decades, corporate directors’ duties have expanded greatly beyond their traditional legal responsibility of duty of loyalty to the corporation and its shareowners [59].

While the development in the United States stimulated debate in United Kingdom, a spate of scandals in the late 1980’s and 1990’s, led to shareholders and banks to worry about their investments. In an attempt to prevent further recurrence of such business failures, the Cadbury Committee, under the chairmanship of Sir Adrian Cadbury, was set up by the London Stock Exchange in May 1991. The Cadbury Report (1992) outlined the findings of the committee on financial aspects of corporate governance. The Greenbury Report followed in 1995, responding to the concerns over directors pay.

In the early 1996, the Campbell Committee was set up in an attempt to review both the Cadbury and the Greenbury reports. The Campbell Report led to

the publication, in 1998, of the Combined Code of Corporate Governance which applied to all listed companies in England. With this publication came the principle of ‘comply’ or ‘explain’ [44].

In the early 2000s, the massive bankruptcies and criminal malfeasance of Enron and WorldCom, led to increased shareholder and governmental interest in corporate governance. The failure of the Enron in late 2001, apart from signalling the largest corporate bankruptcy in the USA, has also thrown up a number of questions about the effectiveness of contemporary accounting, auditing and corporate governance practices. The manipulation of information by executives was notably an important element in the evolution of events preceding the 2001 Enron bankruptcy [5].

As a result of these corporate frauds and scandals in the U.S, the Sarbanes-Oxley Act (2002) was enacted to provide more enforcement tools to hold corporate executives accountable for the accuracy of financial reports and also increase criminal penalties for securities fraud [23].

The concept of corporate governance is gaining momentum because of various factors as well as the changing business environment. The EEC, GATT and WTO regulations have also contributed to the rising awareness and are compelling society to think in terms of adhering to the good governance practices. Corporate governance, by the very nature of the concept, cannot be exactly defined. However, there can be no two opinions that “effective accountability to all shareholders is the essence of corporate governance” [22].

The following definition should help to understand the concept better. “Corporate governance is not just corporate management, it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives. It is a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. When it is practiced under a well-laid out system, it leads to the building of

a legal, commercial and institutional framework and demarcates the boundaries within which these functions are performed” [58].

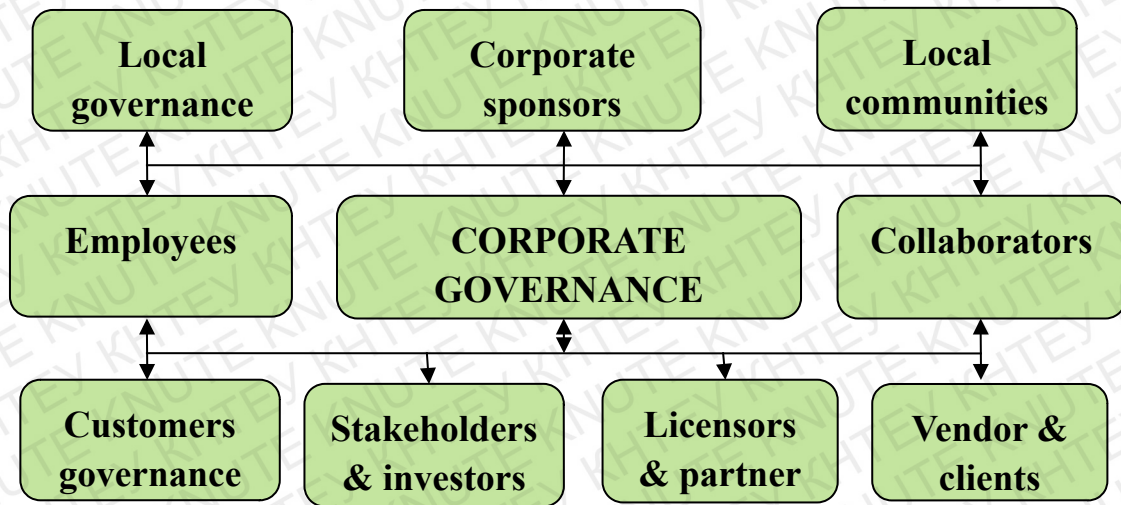


Figure 1.1. Main actors in corporate governance

The Cadbury committee has defined the term “Corporate Governance” and according to the committee, “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. (It is) the system by which companies are directed and controlled.” It may also be defined as a system of structuring, operating and controlling a company with the following specific aims:

1. Fulfilling long-term strategic goals of owners;
2. Taking care of the interests of employees;
3. A consideration for the environment and local community;
4. Maintaining excellent relations with customers and suppliers;
5. Proper compliance with all the applicable legal and regulatory requirements [13].

The Organization for Economic Cooperation and Development (OECD) and Commonwealth reports opened new thinking on corporate governance. This new thinking incorporated the fundamental notion that corporate governance went beyond regulating the relationship between shareholders and management. Furthermore, it recognized that there were other parties that interacted with corporations such as employees, customers, suppliers and the public in general - the stakeholders of the enterprise. The OECD's Principles of Corporate Governance was published in 2004 and has been used as a benchmark for a number of corporate governance codes in transition economies [32].

Corporate governance – is a system of elected and appointed bodies that manage the activities of companies, which reflects the balance of interests of owners and aims to ensure the highest possible return from all types of companies' activities within the current legislation [60].

The World Bank gives the following definition: “Corporate governance combines legislation, regulations and management practices in non-state sector, allowing companies to attract financial and human resources, to efficiently carry out economic activities and thus to continue its operation by collecting long-term economic value by increase of the value of the shares, while respecting the interests of all parties involved in the company and society as a whole” [6].

In the table 1.1., we can see the different approaches to determine the essence of corporate governance.

The Main actors in the Corporate Governance System

1. Shareholders. Shareholders are the ultimate owners and from their point of view the ultimate goal of the firm is wealth maximizations. In most firms, the majority shareholders control and take decisions on behalf of minority shareholders. In some other firms, the managers make the entire firm's decision that is supposed to benefit largely to the owners [8].

Some firms differ since financial institutions involve themselves in the decision-making process. Given this multiplicity of governors, some issue may arise mainly regarding the degree to which decision makers aligned with the

interest of shareholders. Corporate governance systems will differ in each of these types of firm and help in the protection of shareholders rights [26].

Table 1.1

Different approaches to define the essence of corporate governance

<i>№</i>	<i>Approach</i>	<i>Essence of Corporate Governance</i>
1	Fractional (internal architecture)	Selection of the best controlling mechanisms and authority distribution between different groups of participants of corporate relations
2	Social (external relations)	Relations between corporation and society
3	Normative	Code of principals and norms, that regulates rights, liabilities and responsibilities of people who participate in governing of corporation
4	Economical	System of relations between corporate bodies, officials and shareholders.
5	Managing	System of elected and appointed bodies of joint stock company that governs it.
6	Organizational	Organizational model with the help of which the company represents and defends the interests of the investors.
7	Judicial	General name of judicial concepts and procedures that form the basis of creation and governance of corporation, and that refer to the shareholders rights.
8	Financial	Institutional agreements that provide the transformation of savings in the investment that distribute the resources between alternative users in corporate sector.
9	Social and economic	Management system that provides the balance of interests of financial and non-financial participants of corporate relations.

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2. Investors. Good corporate governance helps to raise share price and makes it easier to obtain capital. International investors may be reluctant to lend money or buy shares in companies that do not subscribe to good corporate governance practices. Transparency, independent directors, separate audit committee and disclosure are essential principles that have to be present otherwise the investor may not seriously consider investing in a firm [56].

3. Employees. Employees are stakeholders to the firm either individually or collectively. Nowadays, intellectual capital has become a key competitive tool. Employees just like shareholders and investors play an important role in the corporate governance system. Some impacts of corporate governance on employees are that corporate governance:

- strengthens the human resource management;
- increase labor motivation through well-established organization goals and structure;
- raise legitimacy and authority of the decision making;
- improves corporate structure;
- contributes towards economic growth and social stability [35].

4. Stakeholders. In the last decade, there has been a change in the corporate governance model, moving from a model focusing on the company interest solely to a model focusing more on the stakeholders and governance for sustainability. The society has a very crucial role to play in the corporate governance system since they are the immediate consumers of the firm's product. The image that the firm reflects will determine largely the success of the product. In order to gain

societal acceptance, firm must promotes and disclose their activities as being sustainable. Recognition becomes a key for market leadership.

5. Regulators. Regulators may take the form of public or government authority responsible for the reinforcement of corporate governance practices. Regulatory agencies deal in the area of corporate governance, codify and enforce rules and regulations and impose supervision or oversight for the benefit of the public at large. Following this view, firms having a poor corporate governance structure may be more often subject to occasional check by regulatory bodies [15].

Corporate governance issues are at the heart of the problem of economic transition and reform – how to convince economic actors to act differently, to become more efficient, to look outwards, to search for new opportunities rather than to wait for current problems to go away or to be solved by government [60].

More specifically, corporate governance refers to the set of rules and incentives by which the management of a company is directed and controlled. It refers to the way rights and responsibilities are distributed among the board, company management, investor's and other stakeholders [41].

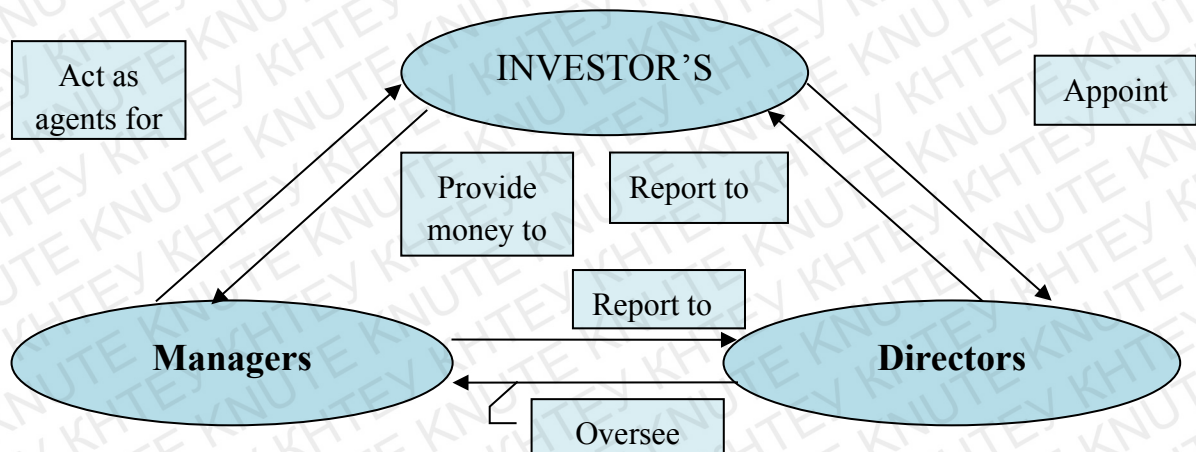


Figure 1.2. Three principals of Actors

The foundation of trust among shareowners, directors, and managers consists of four corporate governance pillars [46]:

1. Accountability. Directors should be held accountable for their decisions and actions to shareowners, and, in certain cases, key stakeholders, submitting

themselves to rigorous scrutiny. They ensure that management is accountable to the board and that the board is accountable to shareholders.

2. Fairness. All shareowners should receive equal, just, and unbiased consideration by the directors and management. It means to protect shareholders' rights and treat all shareholders including minorities equitable

3. Transparency. Directors should clarify to shareowners and other key stakeholders why every material decision has been made. They ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and CG

4. Responsibility. Directors should carry out their duties with honesty, probity, and integrity - recognize shareholders' rights and encourage cooperation between the company in creating wealth, jobs and economic sustainability.

Benefits of good Corporate Governance are [27]:

1. Having better access to external finance. Good corporate governance systems encourage global investors to invest, which subsequently leads to greater efficiencies in the financial and banking sectors.

2. Lower costs of capital. Investors that are provided with high levels of disclosure by well-governed companies are likely to provide capital to those well-governed companies at a lower rate, reflecting the investors' improved knowledge of the company's strategy and performance.

3. Improved company performance. Sustainable wealth creation within the private sector can only be brought about through good management, entrepreneurship, innovation, and better allocation of resources. Better corporate governance adds value by improving the performance of companies through more efficient management, better asset allocation, and improvements in productivity.

4. Higher firm valuation and share performance. Many researchers have identified the existence of a "corporate governance premium" (e.g., an additional price that investors will pay for shares in well-governed companies). In addition, some researchers have identified superior share performance by well-governed companies.

5. Reduced risk of corporate crises and scandals. A company with good corporate governance practices will, by definition, have a better risk-management system, which is more likely to cope with corporate crises and scandals, than those without. These systems include enterprise risk-management, disaster recovery systems, media management techniques, and business continuity procedures. The benefits and impact of corporate governance will be discussed in more detail in the next module [18].

An appropriate structure or framework will help a company run smoothly without any confusions. “Corporate Governance” is a proper structure of the rules and the work practices that are to be followed in an organization [28].

This structure delegates all responsibilities and assigns every employee specific tasks. With the help of corporate governance, all employees are aware of their responsibilities and duties and perform them accordingly avoiding any sort of confusion.

A board of directors controls this framework and ensures the accountability and fairness of the system. Moreover, the board also ensures that the company has a transparent relationship with its stakeholders. The stakeholders of a company include customers, suppliers, employees, management, financier, the government and the society [12].

Corporate Governance comprises of two fundamental elements [3]:

1. A long term relationship – this part of the structure involves checks and balances that are necessary in a business, incentives or motivation for managers and proper and smooth communication between investors and company managers.
2. A transactional relationship – this area of the structure involves managing aspects of authority and disclosure.

The framework of corporate governance includes:

- Contract, whether implicit or explicit between the firm and its stakeholders to responsibilities, rights and incentives or rewards.
- Procedures to reconcile the stakeholders’ interests according to their duties, roles and privileges.

- Procedures to allow proper control and supervision and a smooth flow of information to allow for regular checks and balances [21].

A detailed and all-embracing corporate governance structure that is enforced effectively by the company will benefit the entire business and its stakeholders by ensuring that the firm is aligned with and adheres to the established ethical standards and a set of best practices and formal laws. This is extremely essential for all organization, big or small, whether they are set up at national, regional or global level [14].

A well established structure of corporate governance promotes a trustworthy, moral and ethical corporate environment. It harmonizes the entire company and helps every individual to collectively focus on aligning their individual goals with the corporate goals [4].

Figure 1.3. shows the main tasks the managers should perform while conducting the corporate management in order to lead an organization towards established organizational goals.

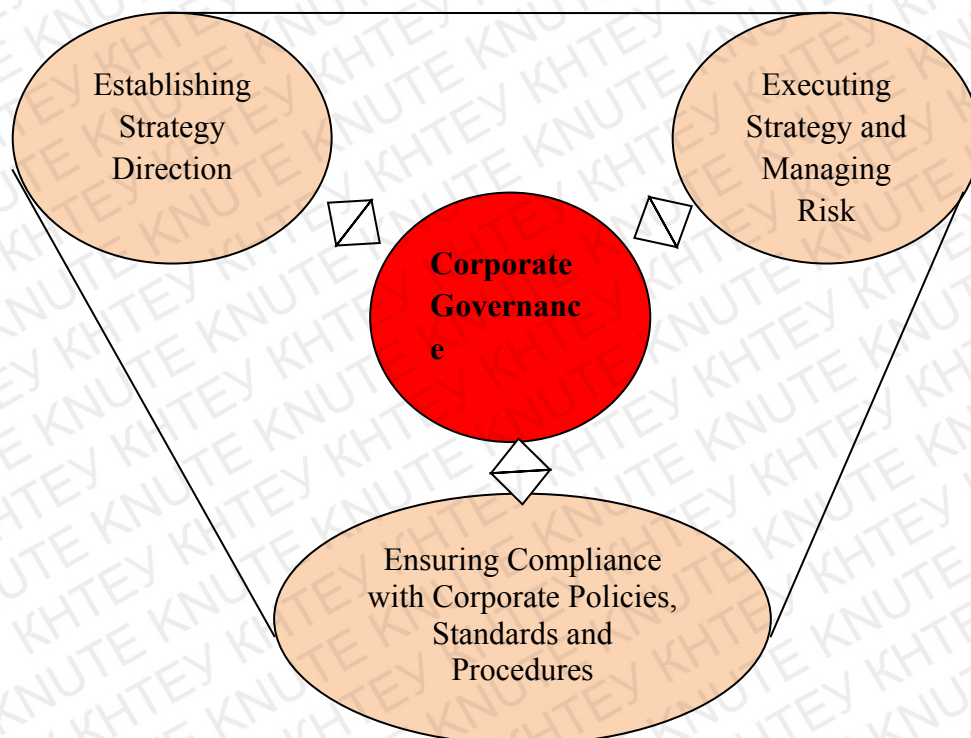


Figure 1.3. The main tasks of Corporate Governance

Today, corporate governance has become vital due to the changing trends in business. As globalization is having an impact on the business world, firms need to

be even more efficient and rule-compliant to fight and rise above the competition. Furthermore, they need to be ethically correct in their practices and strive to better their current system to win over more customers. This will, in turn, help them grow their revenues and profits [11].

The importance of corporate governance has increased in the past few years due to many firms being involved in high profile corporate scandals that involve corporate power abuse, corruption and alleged criminal acts undertaken by corporate officers.

Finally, corporate governance has an overall impact on the economy. It not only benefits the company or its stakeholders, but the economy as well. By reflecting a positive image, the company can attract foreign investors and benefit the economy of the country [16].

To sum up, Corporate governance is not just corporate management, it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives. Furthermore, it recognized that there were other parties that interacted with corporations such as employees, customers, suppliers and the public in general - the stakeholders of the enterprise [65].

1.2. Peculiarities of corporate governance in hospitality industry

The purpose of corporate governance is to engender the successful operation of organizations and to minimize principal – agent problem. The hospitality industry is not immune from changes in corporate governance and the rise of strategic thinking. Hospitality firms behave differently than other firms in terms of financing and investing issues. Hospitality firms have lower governance control mechanism, better financing performance and higher quality earnings than non-hospitality firms.

Corporate governance includes employing thorough contracts that specifically and in detail denote managements' duties and freedom as well as the profit sharing. According to Guillen (2000), different systems of governance are

appropriate for different industries. Governance of hospitality firms may be different from firms in other industries for several reasons [66].

First, firms in the hospitality industry can be involved with real estate ownership as well as management. If property ownership is separated from management, there is a potential conflict of interest. As an agent, the operator pays, in the name of owner, all operating expenses from the cash flow generated from the property, retains management fees and remits the remaining cash flow, if any, to the owner. The owner supplies the lodging property, including any land, building, furniture, fixtures, equipment, and working capital, and assumes full legal and financial responsibility for the project. This separation of management from real estate ownership can lead to agency related problems. Management tends to focus on long term success of the business with emphasis on customer relationships while owners tend to have a short-term focus with emphasis on payback and return. Owners might want to hold the power to ensure that management's focus is on achieving the desired return on equity within an acceptable time frame. And, as long as all the hotels have their own high and low seasons, owners can't obtain return on equity as fast as in other industries [31].

Second, the Hospitality industry is characterized by a high level of capital intensity and relatively low level of operating inventories. The real estate components (furniture, fixtures and equipment, land, buildings, facilities) increase capital intensity for hospitality firms [9].

High level of capital intensity is associated with high business risk and financial inflexibility due to limited alternate use and lower salvage value of facilities and equipment specific to the hospitality industry. Operating inventories (food, beverage, guest supplies) refer to the items that must be available for the hotel to operate, or to offer the desired level of service. Due to the nature of the products and services offered within the hospitality industry, operating inventories for hospitality firms are relatively low level compared to the manufacturing firms [45].

Third, there are unique pressures on hospitality managers because of the high ratio of short- to long-run decisions. During short-run, production output in the hospitality industry can only be modified by changing variable inputs, but facilities, furniture, fixtures and equipment cannot be easily altered. On the contrary, both fixed and variable inputs can be modified in the long run to increase production output [30].

Forth, hospitality businesses are very sensitive to changes in the economy and reliant on discretionary spending of their customers. Therefore, shareholders of hospitality business might demand increased power to monitor the management's activities. An alternative argument can be attributed to the dynamic and highly competitive environment that hospitality business operates in [33].

As fast decision-making would be needed in this type of environment and management has the best insight and knowledge into the situation, authority and control could be transferred to management by owners [63].

Hotel Corporate governance structure (figure 1.4.):

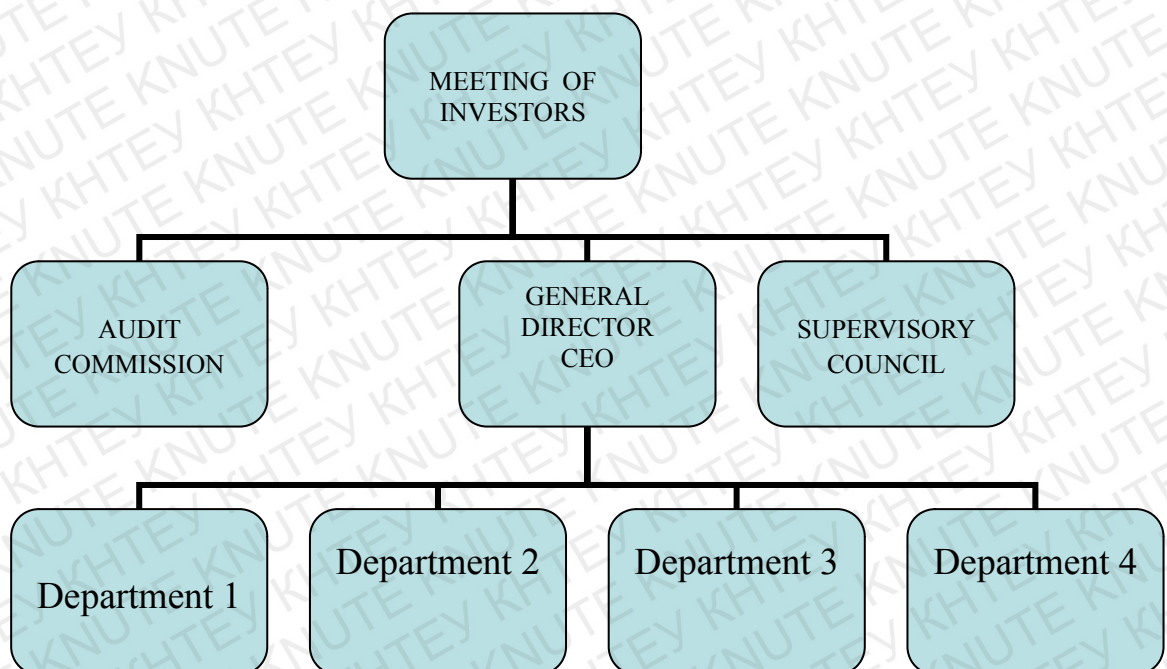


Figure 1.4. Hotel's corporate governance structure

1. Meeting of co-owners is the supreme body of the joint stock company.

The exclusive competence

- definition of the main directions of the joint-stock company activity
- amendments to the charter of the company
- decision to change the type of company
- decisions to cancel purchased shares and their placement
- decision to increase or decrease the authorized capital of the company
- approval of the principles of corporate governance of the company
- election of Chairman and members of the Audit Commission, Commission on termination of investments and members of the Supervisory

2. Supervisory council is the body that protects the rights of co-owner, and within the competence (defined by the charter and the “Economic Code”) controls and regulates the activity of the executive body [1].

The exclusive competence

- adoption within its jurisdiction provisions governing matters related to the company
- preparation of the agenda of the Meeting of co-owners, the decisions on the date of its convening and the inclusion of proposals on the agenda, except for the convening extraordinary Meeting of co-owners
- decision on the placement and redemption of places securities by the company other than shares of election and recall of powers of the head and members of the executive body, the registration commission, auditor of the company
- addressing issues of company’s participation in industrial and financial groups and other associations, the establishment of other legal entities
- addressing issues of company’s participation in industrial and financial groups and other associations, the establishment of other legal entities

3. General director (CEO) manages daily operations of the company. The competence of the executive body will address all issues associated with the current activities of the company, except matters within the exclusive competence of the Meeting of co-owners and the Supervisory council.

4. Audit commission: for the execution of the financial and economic activity of the Meeting of co-owners elects the Audit Commission (Auditor).

AC verifies the financial and economic activity of the company under the results of the financial year [40].

Under the results of examination of the financial and economic activity of the company after the financial year AC is preparing a report, which contains information about:

- authentication and completeness of financial statements for the period
- facts of violations of law during the financial and economic activities
- established procedure of accounting and reporting

Taking into consideration all the mentioned above we can come to the conclusion that the directors, regardless the complexity of peculiarities of corporate governance of hospitality firms, influence the essential decision making process that starts from the process of objective setting [44].

Strategic objectives, since they represent the most important level of decision-making, are set by organizations' senior management, usually the board of directors. In setting objectives, however, senior managers are likely to be influenced by a range of different groups, which have an interest in the organization. "Who and what influences the senior management in their objective-setting?" This question cuts to the heart of an important debate that is taking place both in universities and business circles. This debate revolves around two differing approaches towards objective-setting: the stockholder and stakeholder approaches [37].

The stockholder approach.

The stockholder approach argues the businesses exist primarily for their owners (usually shareholders). Accordingly, any business behavior that renders profit performance suboptimal is not only theft from shareholders but will also, eventually, lead to a level of business performance that will harm all other groups such as employees, customers and suppliers.

In 1970, the Nobel Laureate Professor Milton Friedman contended that ‘the moral obligation of business is to increase its profits.’ Friedman argued that the one and only obligation of company directors (which are the legal agents of shareholders’ financial interests) is to act in such a way as to maximize the financial rate of return on the owners’ shares. The capitalist system upon which the Western economies rests in large part upon the presupposition that investments made in shares (e.g. in pension funds, unit trusts, etc.) will perform well. The profitable performance of shares lies in an increase in the share’s value and in the rate of dividend per share – objectives that can only be served by financial profits [52].

The stakeholder approach.

A stakeholder can be defined as any group of individuals who can affect or is affected by the achievement of an organization’s objectives [39].

This definition draws in almost everybody that is, or maybe potentially involved in the life of an organization. It consequently goes without saying that not all stakeholders are equal in their influence on an organization’s objectives.

The stakeholder approach argues that organizations, like individual people, are characterized by their relationships with various groups and individuals such as employees and customers. A group of individual is qualified as a stakeholder if it/he/she has a legitimate interest in the organization’s activities and thus has the power to affect the firm’s performance and/or has a stake in the firm’s performance.

The implications of this propositions are far-reaching. In essence, stakeholder theory argues that shareholders are neither the sole owners of a business nor the sole beneficiaries of its activities. Whilst shareholders are undeniably one stakeholder group, they are far from being the only group who expect to benefit from business activity and accordingly, are just one of those groups who have a legitimate right to influence a company’s strategic objectives. Some of these groups are internal to the organization whilst others are external.

Stakeholder groups, which might be able to exert an influence over the setting of objectives, are shown in Table 1.2 [49].

Table 1.2

Examples of internal and external stakeholders

<i>Internal stakeholders</i>	<i>External stakeholders</i>
<ul style="list-style-type: none"> • Board of directors • Employees collectively • Individual employees (e.g. founding entrepreneur) • Employees' representatives (trade unions, trade associations) • Geographical areas of the organization (e.g. Europe, Asia, etc.) 	<ul style="list-style-type: none"> • Shareholders • Creditors (existing and potential) • Suppliers (existing and potential) • Customers (existing and potential) • Trade bodies • Pressure groups (e.g. environmental) • Competitors (current and future, national and international) • Government (legal, fiscal and regulatory impacts) • Private individuals • International regulatory bodies • The local community

One widely used and useful model for understanding how stakeholders exert influence on an organization's objectives was proposed by Mendelow (1991). According to this model, stakeholders can be 'ranked' depending upon two variables: interest and power. Stakeholder power refers to the ability to influence the organization; stakeholder interest refers to the willingness to influence the organization. In other words, interest concerns the extent to which stakeholder cares about what the organization does [36].

It then follows that: stakeholder influence = power \times interest.

The actual influence that a stakeholder has will depend upon where the stakeholder is positioned with respect to ability to influence and willingness to influence. A stakeholder with both high power and high interest will be more influential than the one with low power and low interest. We can map stakeholders

by showing the two variables on a grid comprising two interesting continua (Figure 1.5).

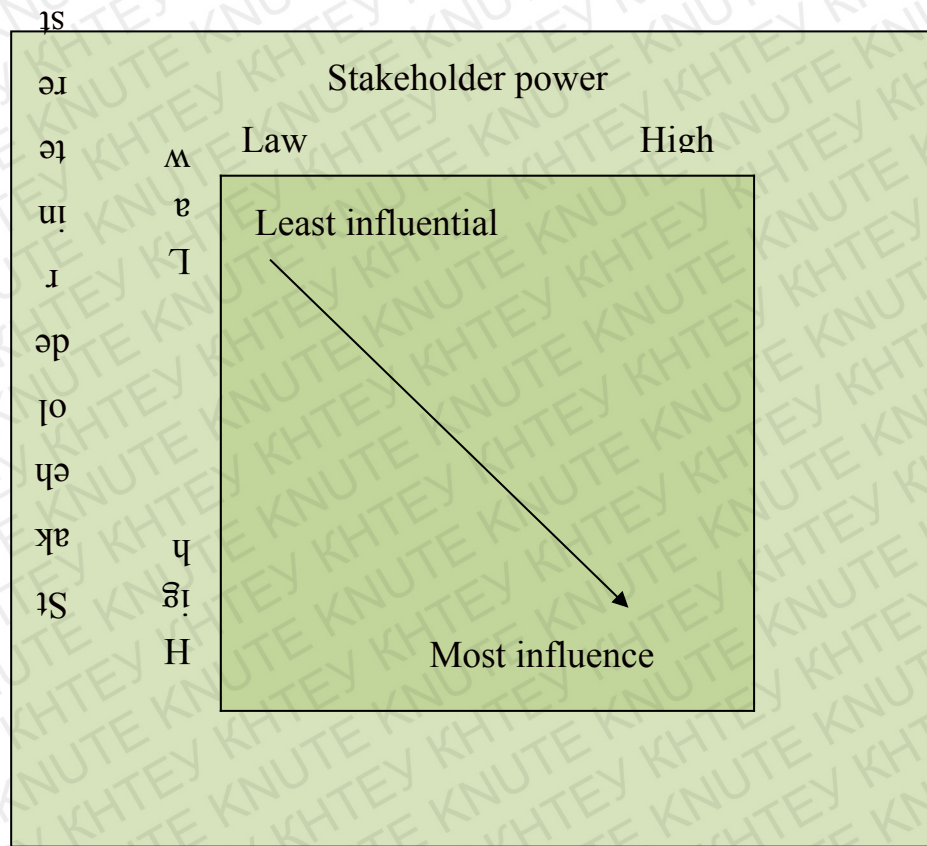


Figure 1.5. The level of stakeholder's influence

Once constructed, we can use the map to assess two things:

- 1) which stakeholder is likely to exert the most influence upon the organization's objectives, and;
- 2) the stakeholders that are most likely to be in potential conflict over strategic objectives (where two or more stakeholders are in close proximity in the high power – high interest part of the map).

The managing director and the board of directors are the examples of stakeholders with both high power and high interest. This is because they manage the business, depend upon it for their jobs and their position within the organization give them power with which to implement their decisions. The local community (in most cases) will not concern itself with the setting of organizational objectives and have limited power to impose their views [53].

Corporate objectives translate the mission into specific long-term targets that can usually be quantified. Corporate objectives are strategic level objectives that can be used as a starting point in the setting business (or tactical) and operational objectives which are more detailed objectives set lower down the organizational hierarchy. The business objectives will usually relate to important constituent parts of the overall organization – often termed strategic business units (SBUs), whilst the operational objectives will usually relate to smaller units or teams within each SBU [25].

Corporate objectives normally:

- relate to the whole organization;
- apply to the medium to long term;
- are set by senior management;
- can be pursued simultaneously.

Care must be taken in writing corporate objectives so that they are clear and easily understood. A common view is that objective writing is a ‘crime’ in that corporate objective should be [19]:

1. Communicable – capable of being easily communicated down the line to the workforce and other internal and external stakeholder groups.
2. Realistic – capable of being achieved within the time scale.
3. Internally consistent – consistent with the overall organization mission, the operational objectives and the strategy for achieving the objective set.
4. Measurable – capable of being quantified so that they can be measures and it is possible to assess whether the objectives have been achieved.
5. Explicit – written in clear unambiguous language, precise in relation to both targets set and to timescale [43].

Firms in the hospitality industry are faced with the challenge of being both labor and capital intensive. The typical service firm is usually labor intensive, but generally does not require a large amount of capital (fixed assets). A typical manufacturing firm that requires a great deal of capital is usually not labor intensive. In addition, the services provided by hospitality firms are mostly

discretionary; hence, the demand for these services will fall a substantial amount during periods of low economy activity. Therefore, it is imperative that firms in the hospitality industry adopt corporate governance structures that will minimize agency costs and maximize the firm's ability to make value-creating decisions [24].

Complex firms, with corporate governance structures that were associated with simple firms, have significantly lower levels of profitability measured, return on assets, and return on equity, and lower - but not significantly lower - valuation based on market-to-book value. Similarly, simple firms that have corporate governance structure more suitable for complex firms also have lower market-to-book value and significantly lower return on equity and return on assets [48].

Having analyzed the peculiarities of hospitality industry, we came to conclusion that hospitality firms have lower governance control mechanism, better financing performance and higher quality earnings than non-hospitality firms.

Hospitality firms tend to grant greater power to CEO's and typically have less independent board. Furthermore, the hospitality firm CEOs are more likely to chair the board relative to CEOs of non-hospitality firms. Duality that is CEO also acting as board chair, leads to less independence board. It is therefore possible that CEO's dual role improves strategic leadership for the firm [59].

1.3. Corporate – level strategy and restructuring

Corporate-level strategy is formulated by the CEO and other top managers. An organization may have several business units or divisions that are run by individual managers. Those managers establish strategy for their own units, but not for the corporation as a whole. At the corporate level, primary strategy-formulation responsibilities include setting the direction of the entire organization, formulating a corporate strategy, selecting businesses in which to compete, selecting tactics for diversification and growth, and managing corporate resources and capabilities.

Corporate-level responsibilities such as selling business, and the key issues associated with each responsibility are listed in table 1.3.

Table 1.3

Major corporate-level strategic management responsibilities

Major Responsibilities	Key-Issues
Direction setting	Establishing and communicating organizational mission, vision. Enterprise strategy, and long-term goals.
Development of corporate-level strategy	Selecting a board approach to corporate-level strategy concentration, vertical integration, and diversification. Selecting resources and capabilities in which to build corporate-wide distinctive competencies.
Selection of business and portfolio management	Managing the corporate portfolio of business – buying business, selling business. Allocating resources to business units for capital equipment.
Selection of tactics for diversification and growth	Choosing among methods of diversification – internal venturing, acquisitions, joint ventures
Management of resources	Acquiring resources and/or development of competencies leading to a sustainable competitive advantage for the entire corporation Hiring, firing and rewarding business-unit managers Ensuring that the business units (divisions) within the corporation are well managed, and provide training where appropriate including the area of strategic management Developing a high-performance corporate management structure Developing control systems to ensure that strategies remain relevant and that the corporation continues to progress toward its goals

Hospitality organizations typically begin as entrepreneurial ventures providing a single hotel, restaurant, casino, or service. This type of corporate-level

strategy, called concentration, is associated with a narrow business definition. As long as an organization has virtually all of its resource investment in one business area, it is still concentrating. With its strategy, a firm may pursue growth through internal business ventures, mergers and acquisitions, or joint ventures. Some organizations never stop concentrating, despite their size [29].

As they grow, successful organizations often abandon their concentration strategies because of the market situation, excess resources that they need to find a use for, or some other reasons. Through internal ventures, mergers and acquisitions, or joint ventures, they pursue business outside of their core business areas. Corporate strategy typically evolves from concentration to some form of vertical integration or diversification of products, markets, functions served, or technologies.

Diversification that stems from common markets, functions served, technologies, or services is referred to as related diversification. Unrelated diversification is not based on commonality among the activities of the corporation. Organizations may continue to pursue vertical integration and/or diversification successfully for many years, each time expanding their business definitions [51].

Many organizations eventually come to the point at which slow growth, declining profits, or some other situations forces corporate-level managers to rethink their entire organizations. Disgruntled stakeholders – including stockholders, employees, and managers – often drive the process. The result is usually some form of restructuring [14].

Restructuring often involves reducing the business definition, combined with refocusing efforts on the things the organization does well. Concentration is the least complicated of corporate-level strategies, but it is still pursued by many large and successful companies [17].

In order to understand whether it is efficient to implement the concentration strategy on the firm or whether it is more rational to use another type of corporate-level strategies, advantages and disadvantages are featured in table 1.4.

Table 1.4

Advantages and disadvantages of a concentration strategy

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Allows an organization to master one business • Less strain on resources, allowing more of an opportunity to develop a sustainable competitive advantage • Lack of ambiguity concerning strategic directions • Often found to be a profitable strategy, depending on the industry 	<ul style="list-style-type: none"> • Dependence on one area is problematic if the industry is unstable • Primary service or product may become obsolete • Difficult to grow when the industry matures • Significant changes in the industry can be difficult to deal with • Cash flow can be a serious problem

Finally, a concentration strategy may not provide enough challenge or stimulation to managers. In other words, they may begin to get tired of doing the same things year after year. This is less true in organizations that are growing rapidly, because growth typically provides excitement and promotion opportunities. In multiunit, the opportunities for growth in new regions of the world may be one reason why concentration strategies continue to exist, even as the industry matures [2].

Vertical integration is determined by the degree to which a firm owns its upstream suppliers and its downstream buyers. A company that is fully vertically integrated would handle all of the activities from obtaining raw materials through delivery of the finished product. One of the best examples of this kind of integration is TUI AG. By owning its own travel agencies, hotels, airlines, and cruise ships, this European-based company has positioned itself to be its own supplier and buyer of travel services [20].

Vertical growth can be accomplished by either backward integration (upstream), when a company produces its own inputs, or forward integration (downstream), when it provides its own distribution.

Numerous attempts have been made to integrate hotels and airlines, although most of these efforts have proved to be unsuccessful. However, because research has not shown generally found vertical integration to be highly profitable strategy relative to other corporate-level strategies, this may not be a serious issue in table 1.5.

Table 1.5

Advantages and disadvantages of vertical integration

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Can eliminate steps, reduce duplication, and cut costs • Avoid time-consuming tasks, such as price shopping, communicating design details, and negotiating contracts • Avoid getting shut out of the market for rare inputs • Improves marketing or technological intelligence • Can create differentiation through coordinated effort • Provides superior control of firm's market environment • Offers increased ability to create credibility for new products • Can create synergies through careful coordination of vertical activities 	<ul style="list-style-type: none"> • Need for overhead to coordinate vertical integration • Burden of excess capacity if not all output is used • Poorly organized firms do not enjoy enough synergy to compensate for the higher costs • Obsolete process may be perpetuated • Reduces strategic flexibility due to being locked in to a business • May link to unprofitable adjacent business • Lose access to information from suppliers or customers • May not be potential for synergy because vertically integrated businesses are so different • May use the wrong method of vertical integration (i.e., full integration instead of contracting)

Diversification, sometimes called horizontal integration, can be divided into two broad categories. Related diversification implies organizational involvement in activities that are somehow related to the dominant or core business of the organization, often building on key capabilities or competencies through common or complimentary markets or technologies. Unrelated diversification does not depend on any pattern of relatedness and often seeks to reduce risk [7], [26].

Table 1.6

Commonly Stated Reasons for Diversification

<i>Strategic reasons</i>	<i>Motives of the CEO</i>
<ul style="list-style-type: none"> • Risk reduction through investments in dissimilar businesses or less dynamic environments • Stabilization or improvement in earnings • Improvement in growth • Use of excess cash from slower-growing businesses • Application of resources, capabilities, or core competencies to related areas • Generation of synergy through economies of scope • Use of excess debt capacity • Ability to learn new technologies • Increase in market power 	<ul style="list-style-type: none"> • Desire to increase the value of the firm • Desire to increase personal power and status • Desire to increase personal rewards such as salary or bonuses • Craving for a more interesting and challenging management

In addition to these strategic and personal reasons, some diversification may be simply a result of less familiarity with the diversified business areas that with the core business areas of the organization. In other words, diversification opportunities may look good because organizational managers do not press enough information about problems and weaknesses associated with the diversified areas.

Related diversification is based in similarities or linkages among the products, services, markets, or resource-conversion process of different parts of the organization. These similarities are supposed to lead to synergy, which means that the whole is supposed to be greater than the sum of its parts. In other words, one corporation should operate two related businesses more efficiently than two organizations each producing one of the products or services on its own.

Many large hotel companies deploy related diversification strategies to achieve a greater degree of concentration in the lodging industry while leveraging shared distribution and marketing capabilities [38, 57].

The potential for synergy based on relatedness in diversified firms is limited only by the imagination. However, even if relatedness is evident, synergy has to be created.

Some managers seem to believe that if business units somehow related to each other, synergy will occur automatically. Unfortunately, this is not the case. Synergy creation requires a great deal of work on the part of managers at the corporate and business levels. The activities that create synergy include combining similar processes, coordinating business units, and resolving conflicts among business units. Not only are the coordinating and integrating activities expensive, but corporate level management also created an administrative overhead burden that must be shared by all of the operating units [55, 50].

Figure 1.6. shows the necessary requirements for synergy creation.

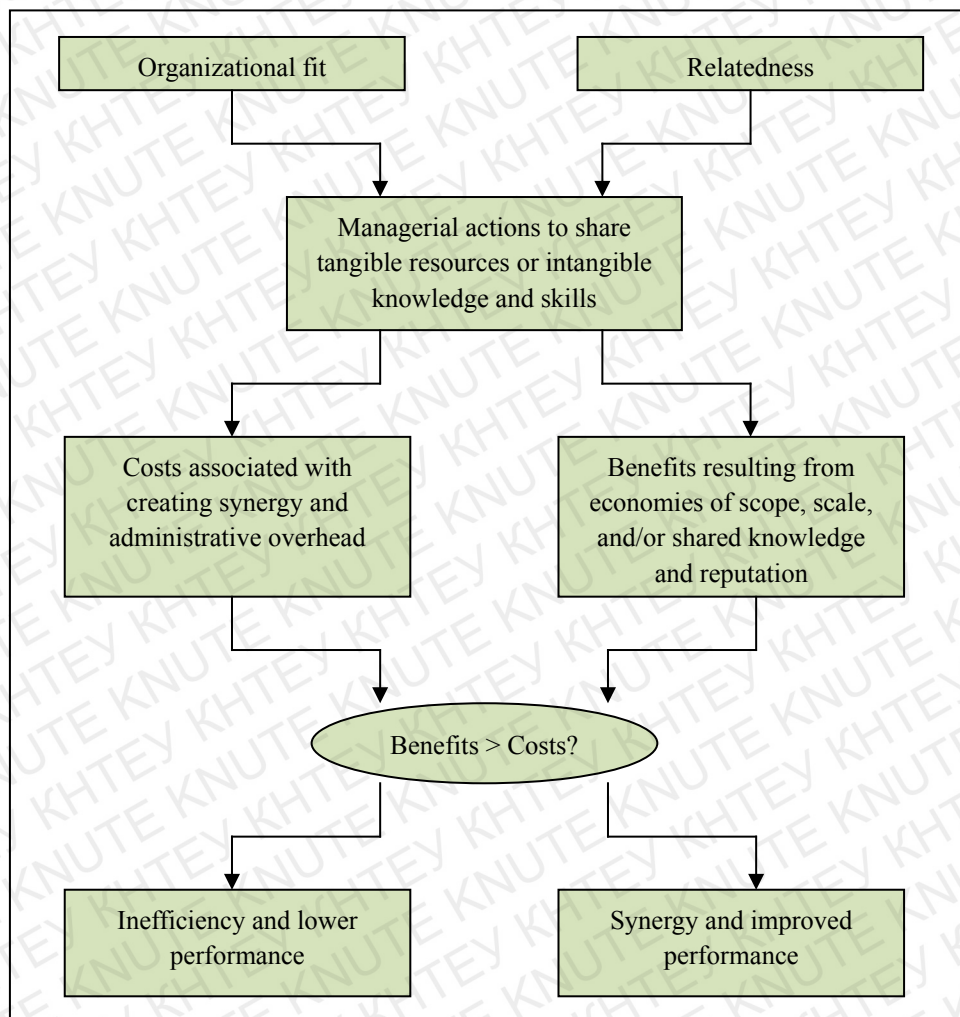


Figure 1.6. Requirements for the creation of synergy

Consequently, organizational performance is increased only if the benefits associated with synergy are greater than the costs related to corporate-level administration, combining activities, or sharing knowledge and resources. When the economic benefits associated with synergy are highest, the administrative costs are also highest, because a lot more information and coordination are required to create synergy.

In summary, organizations may pursue related diversification by acquiring or developing businesses in areas that are related on some basic variable, such as a similar production technology, a common customer, a complementary brand, or other dimensions. However, synergy is not instantaneously created if businesses are related. The creation of synergy requires related businesses to fit together common processes. This can be a difficult managerial challenge.

The level of difficulty depends on the amount of strategic and organizational fit that exists among related businesses. In addition to the synergy that can be created through related diversification, corporate-level managers sometimes try to add value to their organizations through the development of corporate-level distinctive competencies that may or may not be associated with a relatedness strategy [54].

Large, unrelated diversified firms are often called conglomerates, because they are involved in a conglomeration of unrelated business. Cash-flow management and risk reduction are two reasons why corporate strategists adopt strategies of unrelated diversification.

Unrelated diversification places significant demands on corporate-level executives, as a result of increased complexity and technological changes across industries. In fact, it is very difficult for a manager to understand each of the core technologies and appreciate the special requirements of each of the individual units in an unrelated diversified firm. Consequently, the performance of management may be reduced. Some managers rely on internal venturing for most of their growth and diversification. However, managers sometimes feel that their own

firm's resources are inadequate to achieve a high level of growth and diversification [47].

Table 1.7

Potential problems with Mergers and Acquisitions

<i>High costs</i>
<ul style="list-style-type: none"> • High premiums typically paid by acquiring firms: if company was worth \$50 per share in a relatively efficient financial market prior to an acquisition, why should an acquiring firm pay \$75 (a typical premium) or more to buy it? • Increased interest costs: many acquisitions are financed by borrowing money at high interest rates. Leverage typically increases during an acquisition. • High advisory fees and other transaction costs: the fees charged by the brokers, lawyers, financiers, consultants and advisors who orchestrate the deal often range in the millions of dollars. In addition, filing fees, document preparation, and legal fees in the event of contestation can be very high. • Poison pills: these anti-takeover devices make companies very unattractive to a potential buyer. Top managers of target companies have been very creative in designing a variety of poison pills.
<i>Strategic Problems</i>
<ul style="list-style-type: none"> • High turnover among the managers of the acquired firm: the most valuable asset in most organizations is the people, their knowledge, and their skills. If most managers leave, what has the acquiring firm purchased? • Short-term managerial distractions: "Doing a deal" typically takes managers away from the critical tasks of the core businesses for long durations. During this time period, who is steering the ship? • Long-term managerial distraction: because they are too distracted running diversified businesses, organizations sometimes lose sight of the factors that led to success in their core business. • Less innovation: acquisition have been shown to lead to reduced innovative activity, which can hurt long-term performance. • No organizational fit: if the cultures, dominant logics, systems, structures and processes of the acquiring and target firms do not "fit", synergy is unlikely. • Increased risk: increased leverage often associated with mergers and acquisitions leads to greater financial risk. Acquiring firms also take the risk that they will be unable to successfully manage the newly acquired organization.

Consequently, they seek to acquire skills and resources through purchase of or mergers with another firm. Many firms in the hotel and restaurant industries focus on acquisitions and mergers as their primary method for growth. Compared to internal venturing, mergers and acquisitions are relatively rapid way to pursue growth or diversification, which may partially account for the dramatic increase in their popularity over the past decades.

Mergers occur when two organizations combine into one. Acquisitions, in which one organization buys a controlling interest in the stock or another organization or buys it outright from its owners, are the most common type of mergers. Corporate raiding is another interesting phenomenon associated with mergers and acquisitions. Corporate raiders are organizations and individuals who engage in acquisitions, often against the wishes of the managers of the target companies. This type of acquisition is called hostile, and it tends to be more expensive than a friendly acquisition, because the premium paid to acquire the firm is higher [2].

Many of the main problems of mergers and acquisitions can be avoided through effective due diligence, even if it means avoiding the deal altogether.

Mergers and acquisitions represent a paradox with regard to innovative activities. While organizations can learn from the companies they acquire, acquisitions can lead to a reduction of innovative activities. This negative effect may come from a loss of focus on the core business or absorption of a new debt that directs cash flow toward interest payments and away from research and development. Regardless of the reasons, acquisitions seem to be a way to “buy” innovation from external source while damaging internal innovation. Consequently, some experts call acquisitions “a substitute for innovation” [42].

In summary, mergers and acquisitions have a high incidence of failure, but, if carefully executed, may enhance firm performance. Once a firm has created a portfolio of business – through either acquisitions, joint ventures, or internal growth – the emphasis becomes managing those business so that high

organizational performance is achieved. One of the keys to doing so is creating competencies that span multiple businesses.

Conclusions to part 1

Based on theoretical foundation of corporate governance as: essence of corporate governance as modern concept, peculiarities of corporate governance in hospitality industry, analysis of corporate objectives setting and corporate-level strategies and restructuring, we have done following conclusions.

1. Defined that corporate governance is not just corporate management, it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives. It is a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. When it is practiced under a well-laid out system, it leads to the building of a legal, commercial and institutional framework and demarcates the boundaries within which these functions are performed.

2. Determined the benefits of good corporate governance: better access to external finance; lower costs of capital; improved company performance; higher firm valuation and share performance; reduced risk of corporate crises and scandals.

3. Investigated the reasons, why governance of hospitality firms may be different from firms in other industries. They are: hospitality businesses are very sensitive to changes in the economy and reliant on discretionary spending of their customers; there are unique pressures on hospitality managers because of the high ratio of short- to long-run decisions; the hospitality industry is characterized by a high level of capital intensity and relatively low level of operating inventories; firms in the hospitality industry can be involved with real estate ownership as well as management.

4. Discovered that corporate objectives translate the mission into specific long-term targets that can usually be quantified. Corporate objectives are strategic level objectives that can be used as a starting point in the setting business (or tactical) and operational objectives which are more detailed objectives set lower down the organizational hierarchy. The business objectives will usually relate to important constituent parts of the overall organization – often termed strategic business units (SBUs), whilst the operational objectives will usually relate to smaller units or teams within each SBU.

5. Observed the main corporate-level strategies and restructuring: concentration strategy, vertical integration, related and unrelated diversification, mergers and acquisitions.

6. Identified that organizations may pursue related diversification by acquiring or developing businesses in areas that are related on some basic variable, such as a similar production technology, a common customer, a complementary brand, or other dimensions. However, synergy is not instantaneously created if businesses are related. The creation of synergy requires related businesses to fit together common processes. This can be a difficult managerial challenge. The level of difficulty depends on the amount of strategic and organizational fit that exists among related businesses. In addition to the synergy that can be created through related diversification, corporate-level managers sometimes try to add value to their organizations through the development of corporate-level distinctive competencies that may or may not be associated with a relatedness strategy.

PART 2

PRACTICAL ASPECTS CORPORATE MANAGEMENT OF CACCK LLC «RADISSON BLU HOTEL», KYIV

2.1. Organizational and economic assessment of CACCK LLC «RADISSON BLU HOTEL», Kyiv

The Radisson Blu Hotel is a four stars hotel located in the heart of downtown Kyiv – Yaroslaviv val 22., <https://www.radissonblu.com/ru/hotel-kiev>. It was built at the beginning of the 20th century and is one of the city's architectural heritage sites.

“Radisson Blu” Hotel, Kyiv is part of the family of Radisson Blu Hotel which are under the control of professional hotel operator “Radisson hotel group”. Radisson hotel group is Ukraine’s first domestic hotel management company and the industry leader among 3-, 4- and 5-star hotels. As a hotel management company, Radisson hotel group specializes in professional administration of all its operations to guarantee top performance in every category.

The principal activity of Radisson hotel group is as a professional hotel management for its chain hotels and for independently managed members, plus consulting and technical support for hotels, from the design and build phase to the reorganization of facilities already in operation.

Today Radisson hotel group is:

- 11 years of success and remarkable experience at Ukraine’s hospitality market;
- 8 hotel brands: Radisson Blu, Park inn, Radisson collection, Park Plaza, Country Inn & Suites, Prizeotel, Radisson Blu, Radisson Red ;
- 1400 hotels;
- 3408 total rooms;
- representing 154 country;

- Hospitality Awards 2012, 2013: Best national hotel chain management company;
- Member of the European Business Association (EBA), the American Chamber of Commerce in Ukraine (ACC), the International Hotel and Restaurant Association (IH&RA) (APPENDIX B).

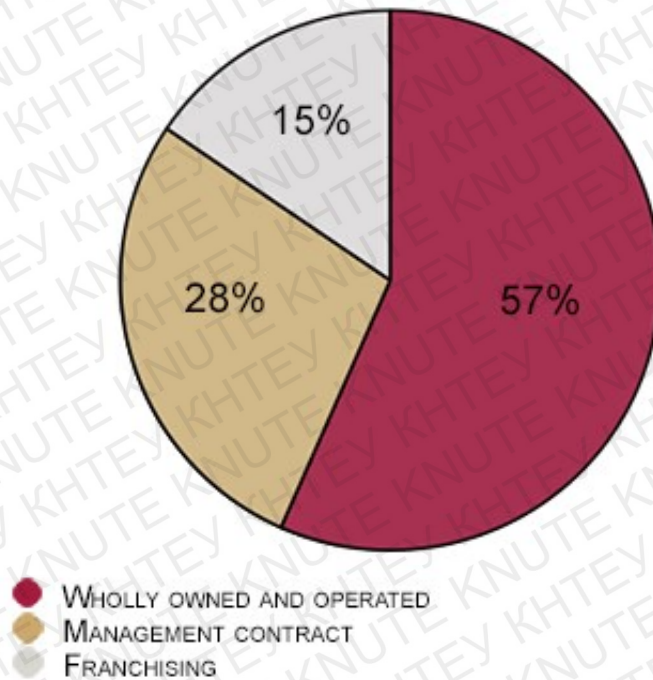


Figure 2.1. Type of hotel management in Radisson hotel group

Radisson hotel group mission statement

Radisson hotel group core values

1. Focus on the Guest.

Each guest is the overriding priority in all our work. All our actions are dedicated to one thing – the creation of a warm, welcoming and homelike atmosphere meant to make each guest want to return. Everything is possible for Radisson hotel group hotel guests (APPENDIX C).

2. Innovation.

Our hotels are the first in Ukraine to introduce new technologies, fresh solutions and innovative approaches in order to work effectively in making each guest feel comfortable and satisfied. We Endeavour to always remain one step

ahead of our competitors and keep abreast of new trends in the world of hospitality and comfort.

3. Social Responsibility.

We feel responsible for the world around us and want to take care of it. We consider three areas to be of vital importance: environmental stewardship and preservation; domestic tourism development and the support of regional tourism infrastructure, plus historical and cultural sites; child care, promotion and sponsorship of philanthropy in our society (APPENDIX C, D, F, G).

4. Striving for Perfection.

We employ the best and most talented employees in the industry. We know that the contribution of properly trained employees makes our hotels the best in the market, and we continually seek to improve their professional qualities. To us, hospitality means that every detail matters.

Radisson Blu Hotel represents a collection of 4-luxury hotels in Ukraine, each a one-of-a-kind property and all equally superb, hospitable and comfortable. Each hotel boasts a unique atmosphere and captures the spirit of the city in which it is located. At the same time, all Radisson Blu members are united in their desire to offer exceptional service and ensure the comfort of guests at all times.

Many Radisson Blu properties are long-standing historical or architectural landmarks, adding charm to their surroundings and existing as true city attractions in their own right. All Radisson Blu endeavor to make their guests feel at home thanks to an attentive and individual approach to service.

The brand's core values are courteous service, respect for guests, attention to every detail, and refined cuisine. At every turn Radisson Blu showcases true Radisson hotel group.

The members of Radisson hotel group are Radisson Blu Hotel (Kyiv), Radisson Blu (Kiev), Radisson Blu Hotel (Kiev, Podil), Park Inn by Radisson Troyitska (Kiev), Radisson Blu Resort (Bukovel).

In 2001, the Radisson hotel group was given the status of a four-star hotel. The only historic hotel among Kiev hotels had become Ukraine's first four-star hotel and named one of "The Most Famous Hotels in the World".

Radisson hotel group are developing. To become a member of the chain the hotel must meet predetermined requirements and standards table 2.1

Table 2.1

The Radisson hotel group standards overview

Concept	"Radisson hotel group" A collection of luxury hotels combining a unique urban atmosphere and the highest standards of hospitality.
Segments	4*, 5*, luxury+, hotel
International peers	Park Plaza, Park inn, Country Inn & Suites
Building	Recently renovated or new
Location	Central business district or resort hotels
Room area	From 25 m ²
Total hotel area	From 70 m ² / room
Restaurants	Two
Conference/meeting rooms	Yes
Parking	Onsite
Hotel website	Conforms to Radisson hotel group corporate style
Participation in the Radisson hotel group guest loyalty program	Yes
Participation in the Radisson Rewards guest loyalty program	Yes

In May 2009, the Radisson Blu Hotel begins a year-long celebration of the 100 year since ground was first broken on the original hotel.

From 2009 till 2012, the Radisson Blu presented an entire series of wonderful events that amazed and pleased many, many people. The First National Chamber Orchestras Competition conducted in May 2009 has launched this series.

Hotels mission - is to provide guests with quality service, combining traditional hospitality and modern technology; be individual and creative approach to service, protecting the interests of investors, employee care and respecting the interests of the state.

Full name of the Company - CACCK LLC «Radisson Blu Hotel», Kyiv. At the time of the company establishment its founder was regional Department of CACCK LLC «Radisson Blu Hotel» in Kiev. At the time of the Company establishment capital amounted to 17032572 (seventeen million thirty two thousand five hundred two) which was equal to 100 % authorized capital.

Organizational structure of the Company management is an assembly of interconnected elements which function and develop as a single whole. In Radisson Blu the organizational structure itself reflects the chain of Company management (figure 2.2).

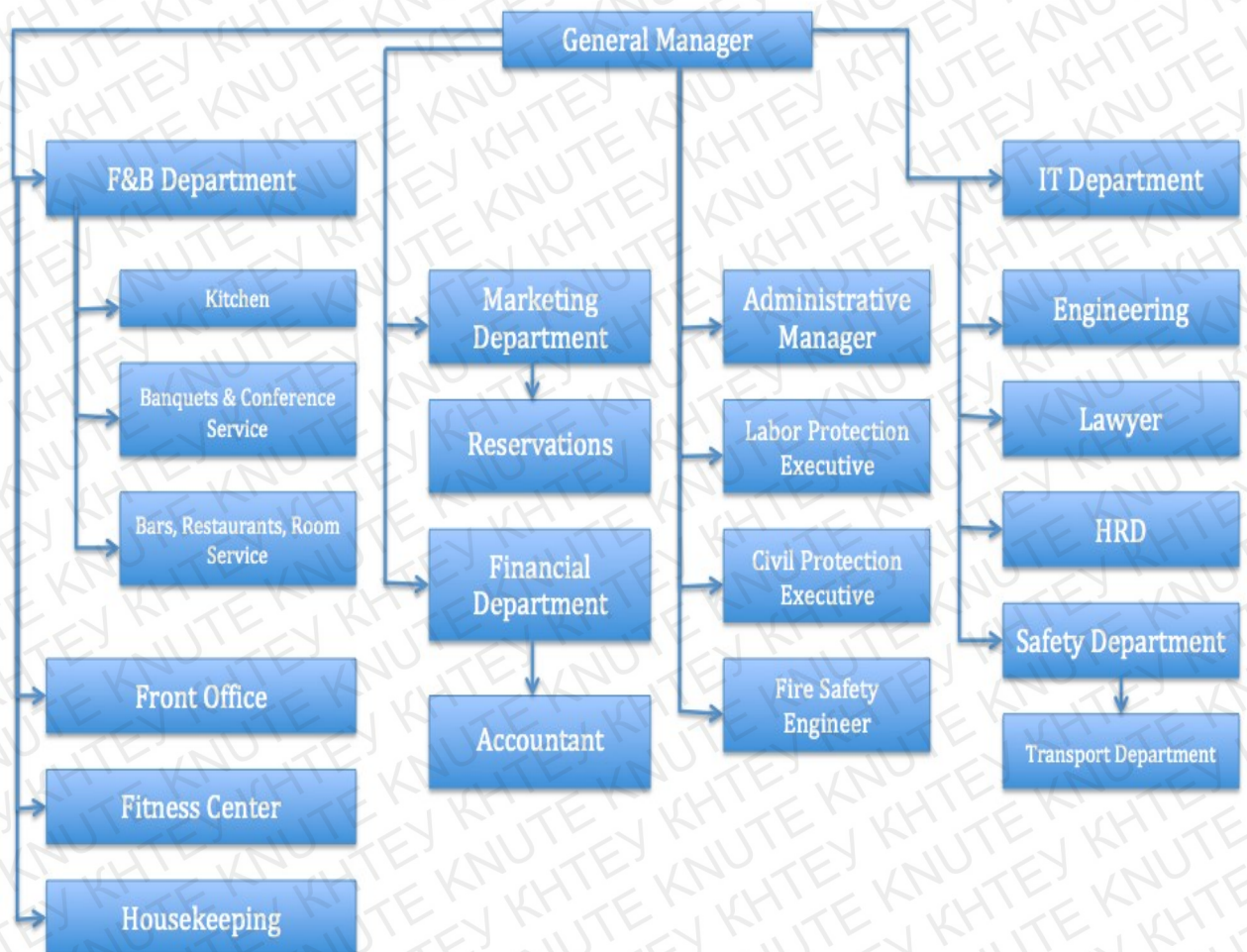


Figure 2.2. Organizational structure of CACCK LLC «Radisson Blu Hotel», Kyiv

By studying the structure conclusion can be made that it is linear-functional. The Manager of this Company is the Chairman of the Board as Radisson Blu Hotel

is a Private Joint-Stock Company. Company has democratic management style as all decisions are discussed by the collective body; however they are taken by and responsible is the Manager.

Management chain of the Radisson Blu Hotel itself is first of all presented by the Investors Meeting, Chairman of the Board and his or her Deputy.

Currently Private Joint Stock Company Radisson Blu Hotel's investors are the following Ukrainian Companies:

- State Company „LD Ukraine”;
- LLC „Venture Investment Projects”;

As well as Swiss Companies:

- IWENTA S. A.;
- Repechine Finance S. A.;
- Urbanic Finance S. A.

They make general strategic decisions, for instance, decisions oriented toward a selected market segment aimed at satisfying clients' demands, identification of general directions of the Company Policy within the established goals and objectives which can cover such issues as determination of taxes for personnel maintenance, limited fund allocations for administrative and business requirements.

During yearly investors' meetings the Chairman of the Board approves a business plan for the current year, other strategic long-term plans. Top Management also decides on the mode of settlement to be accepted in the Hotel.

By analyzing this organizational structure 3 management levels can be singled out:

1. Top – Head of the Supervision Counsel, General Manager and Chairman of the Board, Chief Accountant.
2. Medium – First Deputy Chairman of the Board, Head of the Procurement Department, Head of the HR Department, Executive Secretary, Head of IT Department, Head of the Front Office, Head of Sales and Marketing Department,

Head of Inventory, Director of Club Service, Head of Security Service and Chief Engineer.

3. Lower - Senior Chef.

Hotel organizational structure is a reflection of duties and responsibilities of each employee. This structure is quite complicated; its out of the box nature is due to functional peculiarities and specifics of Company management. Radisson Blu is included in the Radisson Blu network. This very fact determines its organizational structure.

Radisson International LLC management is represented by Director General and his or her Deputy who identifies strategic directions of Radisson Blu Hotels network development. Managerial Company' Marketing Department is involved in survey of markets in all five regions and develops marketing strategies to compare various categories of hotels.

In Radisson Blu Hotel a lot of departments operate which perform specific functions as per the Regulation on Departments.

The forms of management functions realization in the Company are as follows: administrative, operating, security service, logistics, marketing, human resources, accounting, financial, investment, innovation, automatization, foreign affairs.

Administrative – Head of the Supervision Counsel, Head of the Board, General Manager and first Deputy Head of the Board solve the following issues: identification of company policy-specific directions as per the goals and objectives established, making decisions oriented to a specific market segment which are aimed at satisfying consumers' requirements, solve issues associated with financial policy and economic management.

Operational – Front Office, Inventory, Restaurant Service, Catering and Club Service Departments – provide for creation and realization of basic and additional hotel services. Engineering Service, Energy, Transportation and Warehousing Services provide for continuous operation of all hotel's services, continuous energy supply, timely delivery of all resources to the Company, etc.

Security – Security Service – provides for safety of hotel accommodation and security of hotel’s assets.

Logistics – Procurement Department is engaged in purchase of equipment, machines, foods and other materials required for hotels’ functioning.

Marketing – Sales and Marketing Department.

Human recourses – HR Department develops employees work motivation projects, arranges personnel trainings and refresher courses, determines requirement of increase in staff number.

Accounting – Accounting Department – recording of all Company’s business activities.

Financial – Financial Director – performs all Company’s financial operations.

Investment – Chairman of the Board and his or her Deputy – determination of investments amount for future, determination of investment forms, formation of investment portfolio, control over effective use of investments, selection of main investors.

Innovation – Sales and Marketing Department.

Automating, computerization, communication, software, information & technical support – IT Department – ensuring effective and smooth operation of Company’s office equipment.

Foreign affairs – Sales and Marketing Department – signing contracts with foreign partners.

Efficiency of performance of the main management functions figures out in the financial reports on hotels activity. Profit is the economic aim of any business and core interest of investors’, that’s exactly why, in order to make suggestions regarding increasing of effectiveness of hotel managements it is necessary to analyze the expenses, income and other economic indexes. To analyze the dynamics of the hotel’s income we used Balance Sheet and Financial Results Report and it is presented in the table 2.2.

Table 2.2

Dynamics and income structure of CACCK LLC «Radisson Blu Hotel», Kyiv

№	Index	2015		2016		2017		Deviation (2015-2016)		Deviation (2016-2017)	
		Amount, th. UAH	Proportion, %	Amount th. UAH	Proportion %	Amount th. UAH	Proportion %	Absolute Deviation, th. UAH	Relative	Absolute Deviation, th. UAH	Relative
1	Volume of services	232934	100	233435	100	318371	100	-11494	-5	97336	44
2	Main Activity (Hotel Sales)	122332	53	126909	69	110724	35	29589	24	-41835	-28
3	F&B Sales	47752	20	47526	31	60658	19	21780	46	-9218	-13

Having analyzed the results of the calculations in table 2.2 we can make the conclusions that despite the growth of total volume of services (income) through 2016 in 44% that is about 97336 thousand UAH, part of income from the hotel sales decreased in 28% that is about 41835 thousand UAH as well as from the F&B sales in 13% that is about 9218 thousand UAH.

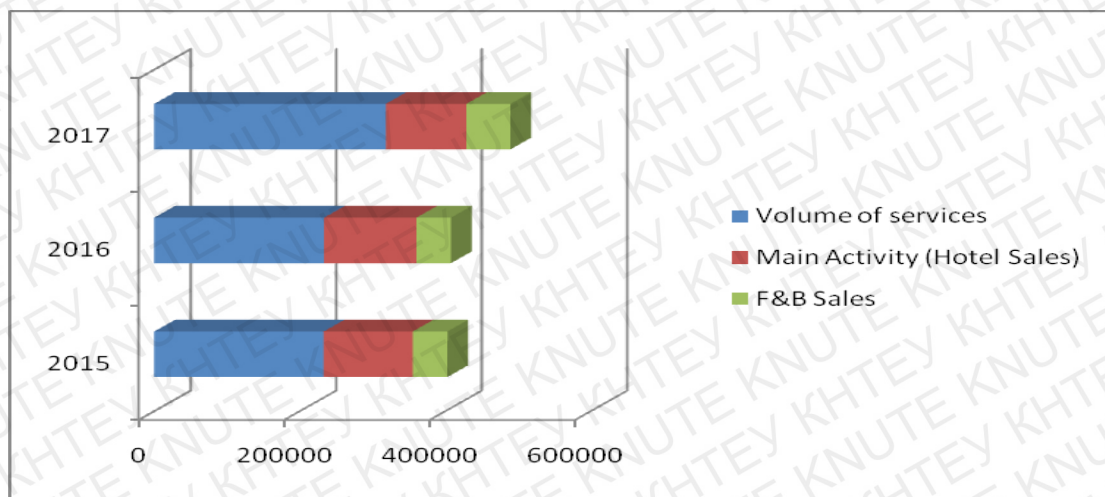


Figure 2.3. Dynamics and income structure of CACCK LLC «Radisson Blu Hotel», Kyiv

This table shows that within 2015-2016 the hotel improved its activities what we can observe from the indexes of growth of income from main activities. Within 2016-2017 this indexes fell down to negative point which was caused by the growth of political tension and total economic fall figure 2.3.

In order to examine the activity of the hotel Income analysis is not enough. It is also significant to analyze the costs size and structure, which calculation is exposed in table 2.3.

Table 2.3

Dynamics and cost structure of CACCK LLC «Radisson Blu Hotel», Kyiv

Index	2015		2016		2017		Deviation (2015 – 2016)		Deviation (2016 – 2017)	
	Amount, th. UAH	Proportion, %	Amount, th. UAH	Proportion, %	Amount, th. UAH	Proportion, %	Absolute Deviation, th. ТТТТ	Relative Deviation %	Absolute Deviation, th. ТТТТ	Relative Deviation %
Material costs	14455	9	42247	18	11229	3	27792	192	-31018	-73
Labor costs	33948	20	35765	15	36553	9	1817	5	788	2
Deduction for social events	12323	7	12990	6	12667	3	667	5	-323	-2
Amortization	30149	18	62659	27	64425	17	32510	108	1766	3
Other operating expenses	78901	46	80280	34	262932	68	1379	2	182652	228
Total	169776	100	233941	100	387806	100	64165	38	153865	66

As we can see from the table 2.3, the indicators of all the costs are very unstable. This we can see from the amount of material costs which increased through 2015-2016 in 192%, which is 27792 thousand UAH but through 2016-2017 decreased again in 73%, which is 31018 thousand UAH. The same tendency we can observe in amortization level which rapidly increased through 2015-2016 in 108% which is 32510 thousand UAH.

But the biggest disjuncture is obvious in other operating expenses within 2016-2017 they increased in 228% which is 182652 thousand UAH. Possible reasons for this disjuncture may be connected with negative foreign exchange difference, increase of securities servicing fees and UAH devaluation.

Having analyzed the indicators from table 2.3 we can conclude that unfortunately negative tendency is obvious because the total amount of costs increased in 66% which is 153865 thousand UAH figure 2.4.

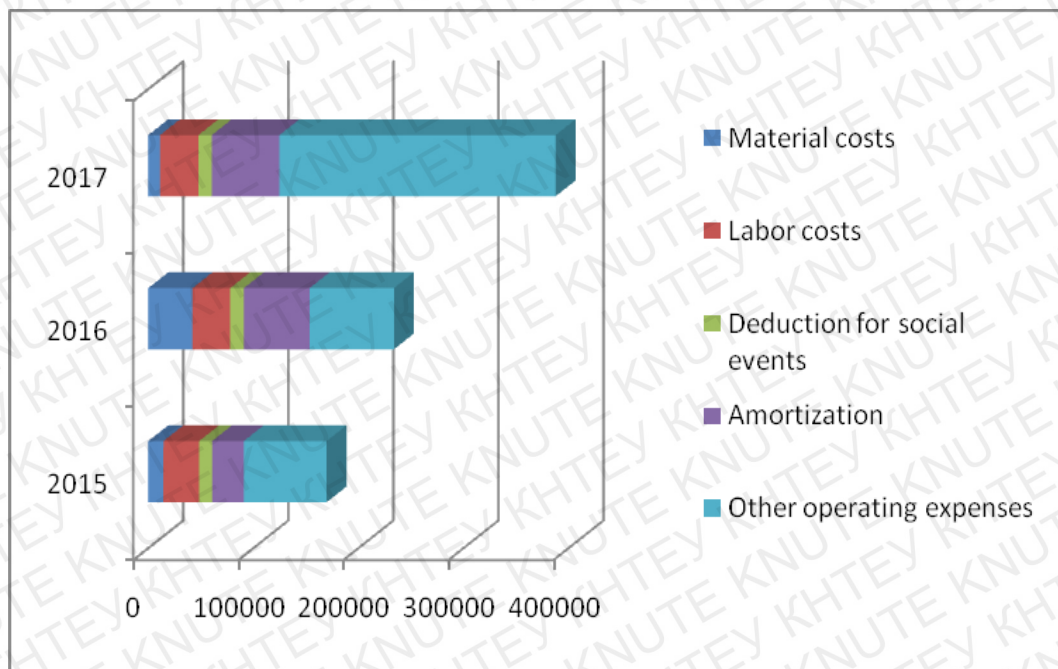


Figure 2.4. Dynamics and cost structure of CACCK LLC «Radisson Blu Hotel», Kyiv

In order to assess the corporate management practices on the enterprise, it is a necessity to analyze the equity structure and its dynamics – table 2.4. Having analyzed the table above, we can see that statutory capital and reserve capital over the last years remained the same. But within 2016-2017 additional paid-in capital has increased in 389% which is about 387961 thousand UAH.

Table 2.4

Dynamics and equity structure of CACCK LLC «Radisson Blu Hotel», Kyiv

Index	2015	2016	2017	Deviation (2015–2016)	Deviation (2016–2017)

	<i>Amount, th. UAH</i>	<i>Amount th, UAH</i>	<i>Amount, th. UAH</i>	<i>Absolute Deviation, th. UAH</i>	<i>Relative Deviation, %</i>	<i>Absolute Deviation, th. UAH</i>	<i>Relative Deviation, %</i>
Statutory Capital	366700	366700	366700	0	0	0	0
Additional paid-in capital	102822	99843	487804	-2979	-3	387961	389
Other additional capital	384982	323369	0	-61613	-16	-323369	-100
Reserve capital	1636	1636	1636	0	0	0	0
Retained income (loss)	-457562	-539344	-661497	-81782	18	-122153	23
Total	398578	252204	194643	-146374	-37	-57561	-23

The reason for this – is because there was a vital increase of costs, what we saw from the table 2.3, which the hotel has to cover first of all. In addition, we can stipulate that total amount of company’s equity is decreasing through last years – in 37% (146374 thousand UAH) within 2016 and in 23% (57561 thousand UAH) within 2017.

Speaking about hotel’s liabilities we divided them into short-tem and long-term and made an analysis of their dynamics and structure. Calculation of the long-term liabilities of “Radisson Blu Hotel” is described at the table 2.5.

Table 2.5

Dynamics and long-term liabilities structure of CACCK LLC «Radisson Blu Hotel», Kyiv

Index	2015		2016		2017		Deviation (2015 – 2016)		Deviation (2016 – 2017)	
	Amount, th. UAH	Proportion %	Amount, th. UAH	Proportion, %	Amount, th. UAH	Proportion, %	Absolute Deviation. th.	Relative	Absolute Deviation. th.	Relative
Long-term bank loans	436393	87	465272	88,14	445106	99,56	28879	6,62	-20166	-4,3
Other long-term financial liabilities	0	0	52	0,01	203	0,05	52	100	151	290,4
Deferred tax liabilities	62843	13	62580	11,85	0	0	-263	0,42	-62580	-100
Other long-term liabilities	0	0	0	0	1786	0,4	0	0	1786	0
Total	499236	100	527904	100	447095	100	28668	5,74	-80809	-15,3

As we see from the table above, “Radisson Blu” Hotel long-term liabilities are slowly decreasing and for the last year the indicator was 4,3% (20166 thousand UAH). This is a positive tendency taking into account the fact that bank loans are the longest to be paid off. At the same time, the amount of other long-term liabilities increased in 290% (151 thousand UAH), which is not causing serious problems for the hotel. As we can see from table 2.5, all the tax liabilities were paid off in 2017. To sum up, we can see the positive tendency because long-term liabilities decreased in 15,3% (80809 thousand UAH).

The short-term hotel’s liabilities are counted at the table 2.6.

Table 2.6

Dynamics and short-term liabilities structure of CACCK LLC «Radisson Blu Hotel», Kyiv

Index	2015		2016		2017		Deviation (2015 – 2016)		Deviation (2016 – 2017)	
	Amount, th. UAH	Proportion, %	Amount, th. UAH	Proportion, %	Amount, th. UAH	Proportion, %	Absolute Deviation, th. UAH	Relative Deviation, %	Absolute Deviation, th. UAH	Relative Deviation, %
Short-term bank loans	0	0	0	0	0	0	0	0	0	0
Current debt of long term liabilities	0	0	198	1,11	0	0	198	100	-198	-100
Notes payable	189700	93,3	0	0	20400	57,8	-189700	-100	20400	100
Payables for goods, works, services	9693	4,76	12318	69,1	10668	30,2	2625	27,08	-1650	-13,40
Current liabilities estimated:										
Advances received	0	0	940	5,28	665	1,89	940	100	-275	-29,26
Budget	1525	0,75	1803	10,12	1715	4,87	278	18,23	-88	-4,88
Budgetary payments	0	0	0	0	0	0	0	0	0	0
Insurance	794	0,39	661	3,71	643	1,82	-133	-16,75	-18	-2,72
Labor payments	1107	0,54	1130	6,34	1116	3,17	23	2,08	-14	-1,24
Partners	0	0	0	0	0	0	0	0	0	0
Inside payments	0	0	0	0	0	0	0	0	0	0
Liabilities associated with non-current assets and disposal groups held for sale	0	0	0	0	0	0	0	0	0	0
Other current liabilities	664	0,33	769	4,34	44	0,12	105	15,81	-725	-94,28
Total	203483	100	17815	100	35251	100	-185668	-91,24	17436	97,87

Having analyzed the table above, we can sum up that in general current liabilities of “Radisson Blu Hotel” hotel are unstable, because in 2016 their amount decreased in 91% (185668 thousand UAH) but in the end of 2017 their amount increased in 97% (17436 thousand UAH), although retaining of this amount is not as significant as an amount of paid off short-term liabilities in 2016.

As for the other indicators – they are very unstable, although it is very difficult to find the reasons that cause this significant disjuncture. Despite unstable situation with short-term liabilities, in 2016 hotel was operating efficiently what affected indicators reached in 2017.

It is also very important to give the integral financial analysis of CACCK LLC «Radisson Blu Hotel», Kyiv since it reflects comprehensive evaluation of conditions of cumulated financial indicators formation. From both reports (“Balance Sheet” and “Report about financial results”) we could calculate and evaluate several indicators. Many ratios are used in analyzing and evaluating the financial performance of a hotel. The main ratios are divided into revenue, profit, and expense categories. We will discuss and prioritize the most important ratios in each category.

Solvency ratios indicate a company's financial health in the context of its debt obligations. As you might imagine, there are a number of different ways to measure financial health. There are basic solvency ratios such as:

- The current solvency ratio;
- The quick solvency ratio;
- Absolute solvency ratio;
- Ratio of current accounts receivable and payable;
- Ratio of current accounts receivable and payable of commercial agreements.

Each of these ratios is unique and needs to be calculated in order to get general situation about hotel’s solvency. The current solvency ratio is calculated with a formula below (2.1):

$$C_{CS} = \frac{CA}{CL}, \quad (2.1)$$

where CA – current assets,

CL – current liabilities.

Let’s count the current solvency ratio of “Radisson Blu Hotel” for 2015-2017:

$$C_{CS_{2015}} = \frac{73096}{203483} = 0,36$$

$$C_{CS_{2016}} = \frac{188794}{17815} = 10,59$$

$$C_{CS_{2017}} = \frac{58664}{35251} = 1,66$$

As we see from the calculations above, current solvency ratio has increased rapidly in 2016 (almost ten times) which is good for a company's needs, but in 2017 it remained almost the same. Current Assets are the assets that the firm expects to convert into cash in the coming year and Current Liabilities represent the liabilities which have to be paid in cash in the coming year. In different industries the best indicator of current solvency ratio is treated in different ways but definitely it must be more than 1 ("one"). In our case it means that "Radisson Blu Hotel" hotel has an ability to pay its debts.

Absolute solvency ratio is calculated with a formula below (2.2):

$$A_S = \frac{F}{CL}, \quad (2.2)$$

where F – funds,

CL – current liabilities.

So, absolute solvency of "Radisson Blu Hotel" for 2015-2017:

$$A_{S_{2015}} = \frac{2402}{203483} = 0,01$$

$$A_{S_{2016}} = \frac{1949}{17815} = 0,11$$

$$A_{S_{2017}} = \frac{1956}{35251} = 0,06$$

As we see from the formulas indicators of absolute solvency of CACCK LLC «Radisson Blu Hotel» are very unstable. Mainly it is because of big decrease of current liabilities in 2016 and because of their increase in 2017.

Among financial stability ratios we should suggest the next ones:

- The financial autonomy ratio;
- The ratio of financing;

- The debt ratio;
- The long-term financial independent ratio;
- The current debt ratio;
- The agile equity ratio.

The financial autonomy ratio is calculated as a relation between the proper capital and the total of liabilities and is described in the formula (2.3).

$$\text{Financial Autonomy Ratio} = \frac{\text{equity capital}}{\text{current liabilities}} \cdot 100 \quad (2.3)$$

This ratio is better named patrimonial solvency and it differs from one enterprise to another, according to the adopted financial politics. It is difficult to determine a size reference.

For the financial balance it is considered that a rate of the global financial autonomy bigger than 30% is satisfactory, and bigger than 70% indicates a very good financial state of the enterprise. The financial autonomy ratio of “Radisson Blu Hotel” is:

$$\text{Financial Autonomy Ratio}_{2015} = \frac{333939}{499236 + 203483} \cdot 100 = 47,52\%$$

$$\text{Financial Autonomy Ratio}_{2016} = \frac{252204}{527904 + 17815} \cdot 100 = 46,21\%$$

$$\text{Financial Autonomy Ratio}_{2017} = \frac{194643}{447095 + 35251} \cdot 100 = 40,35\%$$

So as we see from the calculation above, the hotel used to be in kind of good financial state, which means that it provided strong financial policy. However, recently the Financial Autonomy Ratio has decreased that could be explained by some changes in its financial policy and overall economic situation.

Also there are several profitability ratios:

- Return on assets;
- Return on equity;
- Return on sale;

- Return on current expenses;
- ROI.

An indicator of how profitable a company is relative to its total assets is called return on assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage (formula 2.4).

$$ROA = \frac{\text{Net income}}{\text{Total assets}} \quad (2.4)$$

ROA of “Radisson Blu Hotel» for 2015-2017:

$$ROA_{2015} = \frac{817358}{964194 + 73096} \cdot 100 = 7,88\%$$

$$ROA_{2016} = \frac{122034}{609820 + 188794} \cdot 100 = 15,28\%$$

$$ROA_{2017} = \frac{81998}{618325 + 58664} = 1,11\%$$

Worldwide statistics data says that ROA with 5% is considered to be really good. “Radisson Blu Hotel” has negative income during last three years and in 2017, despite the smallest ROA (1,11%), but taking into consideration that the economic result of the activity was negative, operated the most efficient.

One more profitability ratio is return on equity. The ratio of net income from the income statement to net worth or stockholders’ equity from the balance sheet shows you what you’ve earned on your investment in the business during the accounting period. Bankers often refer to this ratio as return on investment (ROI) and it is described at formula (2.5).

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Owner's Equity}} \cdot 100 \quad (2.5)$$

Let’s count the return on equity of “Radisson Blu Hotel” in 2017:

$$\text{Return on Equity}_{2017} = \frac{81998}{194643} \cdot 100 = 42\%$$

Historically the average ROE was from 10% to 12% so as we can see from

the formula above and taking into consideration that there was negative profit, CACCK LLC «Radisson Blu Hotel» has got very low ROE which means that the hotel doesn't cover its own expenses despite the amount of invested funds.

The integral financial analysis of CACCK LLC «Radisson Blu Hotel» that was done in this research has been gathered at the table 2.7.

Table 2.7

Integral financial analysis of “Radisson Blu Hotel”

<i>Indicator</i>	<i>Formula</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Current solvency ratio	$\frac{\text{current assets}}{\text{current liabilities}}$	0,36	10,59	1,66
Absolute solvency ratio	$\frac{\text{funds}}{\text{current liabilities}}$	0,01	0,11	0,06
Financial autonomy ratio	$\frac{\text{equity capital}}{\text{current liabilities}} \times 100$	47,52%	46,21%	40,35%
Return on assets	$\frac{\text{Net income}}{\text{Total Assets}} \times 100$	7,88%	15,28%	1,11%
Return on equity	$\frac{\text{Net Income}}{\text{Owner's Equity}} \times 100$			42%

Having analyzed so many financial indicators of CACCK LLC «Radisson Blu Hotel», we could say that this company is solvent, that is proved by its solvency indicators. However, there are a lot of difficulties in its analyzing because of lack of information, unstable indicators in different periods etc. It doesn't have return on equity (42% considering negative profit) and no return on assets (which is 1,11% considering negative profit). Those indicators show how efficient “Radisson Blu Hotel” management is at using its assets to generate earnings. So, we can conclude that hotel management failed in using assets effectively which affected the amount of earnings within last years. That means that hotel's financial policy and business processes must be revised thoroughly and in short terms in order to meet the requirements of rapid and negative changes of economic situation in Ukraine and tendencies in world economy.

2.2. Assessment of corporate governance effectiveness in of CACCK LLC «Radisson Blu Hotel», Kyiv

In order to explain the corporate management performance of CACCK LLC «Radisson Blu Hotel», we identified four main factors: (1) pressure from suppliers, (2) pressure from contractors, (3) pressure resulting from customers and (4) pressure from competitors.

In order to purchase necessary goods and products of CACCK LLC «Radisson Blu Hotel» has concluded agreements with suppliers. The largest suppliers are firms “Mannaceramics”, “Готель сервіс” (cleaning means), “Лінда” (to make the uniform), “Hotel star” (bed clothing), “Kimberli Klark” (koffice accessories).

All the agreements with suppliers are concluded by the Sales and Marketing manager, approved by the head of procurement department. Among the main partners of CACCK LLC «Radisson Blu Hotel» are “ATB - Тип”, “MGC Тип”, “Sky Line Tour”, Dialog Kiev, “Ukrintour.

The main ticket to high quality of services provided is clear vision of the customer and of the way he perceives the product. Having investigated the range of services provided by the hotel and the price list, we can make the conclusion that the typical guest of the CACCK LLC «Radisson Blu Hotel» is: a man 31-45 y.o., married, with high level of income, who travels several times per month with business purpose.

Traditional tools used for segmenting hotel clients rely on demographic and hotel-use characteristics. Therefore according to the data given by the hotel itself, we sum it up in the figure 2.5.

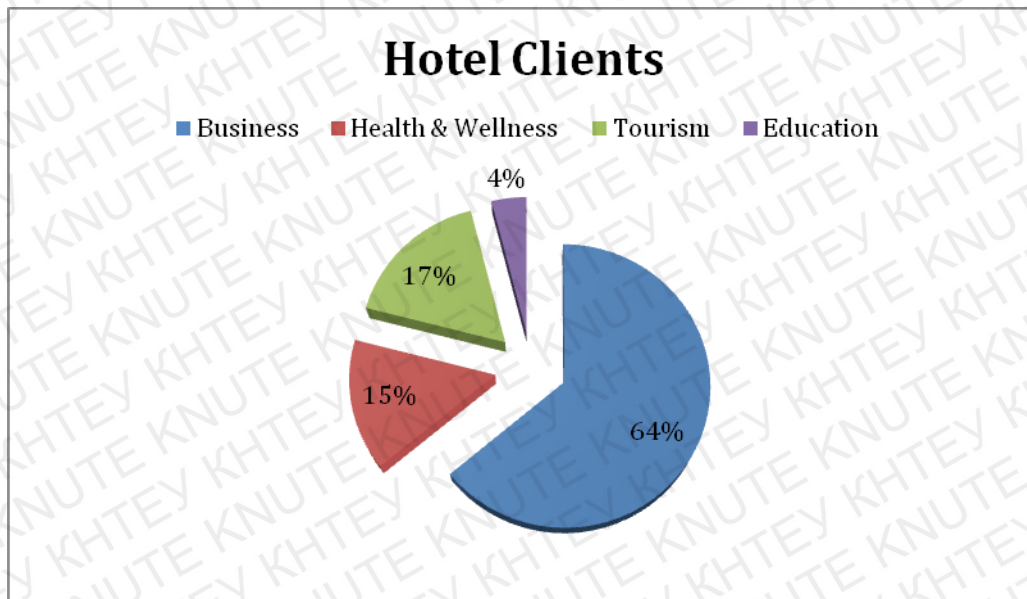


Figure 2.5. Purpose of Visiting “Radisson Blu Hotel”

The knowledge of competitors, their real and planned activities are the bases of strategic orientation of the hotel in competitive environment.

In “Radisson Blu Hotel” the analysis of competitors is held by Sales and Marketing Department. The hotel has a range of competitors on the market of hotel and tourism services of Ukraine and Kyiv. The main competitors are: “Holiday INN”, “Opera hotel”, “Premier Palace” – which are all representatives of international hotel chains. The fact that all these hotels are part of international hotel chains which are located all over the world gives them one essential competitive advantage – guests’ loyalty.

All the hotels are located in the city centre, although “Premier Palace” and Radisson Blu Hotel has more advantageous location in comparison to Opera hotel because of their close proximity to the most famous Kyiv historical and cultural sights like Saint-Sophia’s Cathedral and Saint Michael’s Monastery.

Apart from mentioned below, in order to take the decision regarding the strategy of development, it is significant to follow and revise the macro factors of external environment (table 2.3) and estimate correctly connected with them threats and opportunities of hotel development. This factors can be divided into the

groups: economic, political, social and cultural, demographic, scientific and technological and ecological factors.

Table 2.8

Determination of nature of impact of macro factors on development of CACCK LLC «Radisson Blu Hotel», Kyiv and likely response

<i>№</i>	<i>Factors</i>	<i>Tendency of factor development</i>	<i>Nature of factor impact on activity of the hotel (+,-)</i>	<i>Likely response</i>
<i>Economic</i>				
1.	Development of Ukrainian economy	Economy situation of Ukraine is on the very low level:	«-» - decrease of foreign investments because of lack of trust to the economy of Ukraine	In order to avoid significant impact of this factor it is necessary to create additional department which is going to handle economic area, to handle constant monitoring and follow the changes in government
2.	Government fiscal position	Tendency to decrease	«-» - decrease of government support	It is necessary to implement strict cost-cutting drive of budget costs spending, first of all financing of low-gain projects
3.	Inflation rate	Tendency to increase: in 2015 – 99,8%, 2016 – 100,5, 2017 – 121,2.	«-» - devaluation of currency	Indexation of payments in contracts in case of their prolonging. Change of pricing policy of the hotel
4.	Unemployment rate	Unemployment rate is decreasing: amount of registered unemployed people in 2015 was 8,1%, in 2016 – 7,7%, 2017 – 1,5.	«+» - higher solvency; «+» - change in employees motivation (from material to moral); «-» - smaller competition; «-» - difficulties with employment of professionals.	Change of HR policy of the hotel. Creation of better internal environment, psychological climate and corporate spirit. Implementation of employees trainings and career enhancement.

Table continuation 2.8

5.	Rate of income of population	Tendency to increase. Nominal yield increment in 2015 was 8,8%, in 2016 – 9,6%. Real wages increment in 2015 was 14,4%, in 2016 – 9,6%.	«+» - higher solvency; «+» - growth in production.	Growth in production. Escalation of prices on hotel's services.
<i>Political</i>				

6.	Level of political stability in society	Political situation is not stable. Revolution, war, annexing of Crimea, change of government.	«-» - decrease of investment	additional department which is going to handle economic area, to handle constant monitoring and follow the changes in government and also develop procedures of risk coverage.
<i>Legal</i>				
7.	Legislative decrees of Ukraine, which control the entrepreneurial activity	Is not definitely determined	«±» - accompany or complicates hotel's activity	In order to develop the hotel business it is viable to develop a project of Lae of Ukraine on hotel business development. Provisions of law should determine legal, economic and organizational basis of creation and further development of competitive relations on this market
<i>Demographic</i>				
8.	Population size	In Ukraine the population size is slowly decreasing. In 2015 it decreased on 144,9 thousand people, in 2016 – on 80,6 thousand and in 2017 – on 126,8 thousand. Although population of Kyiv these year has decreased also because of displaced population from Eastern Ukraine.	«-» - decrease of amount of guests	Search for new ways of demand stimulation. Take measures towards attraction of foreign guests in order to attract their attention to the hotel
<i>Scientific and technical</i>				
<i>The end of the table 2.8</i>				
9.	Innovations in field of technologies	Tendency is on the high level and continues to grow	«+» - appearance of new goods and services; «-» - growth of guests demand to the quality of services; «±» - constant change of technology that is not outdated yet	Management of the company should appropriate funds for innovation development of the hotel, and implement new hotel services and technologies of services provision
<i>Natural</i>				

10	Ecological factor	Popularization of corporate social responsibility.	«-» - decreasing of amount of guests	It is necessary to develop corporate social responsibility code in the hotel with special attention to environmental protection. Use of energy-saving technologies, recycling materials
<i>Social and cultural</i>				
11	Educational level in Ukraine	High level of education	«+» - better quality of provided services; «+» - decrease of time consumption on technology familiarization; «+» - growth of competition for higher position	Decrease of expenditures on personnel training

As we see from table 2.8, each factor impacts the operation of the hotel, and also having analyzed all the tendencies and impact on CACCK LLC «Radisson Blu Hotel», we can separate possible reaction on them.

Having estimated all the factors that can influence the corporate management and the actions that can be taken, we can assess the effectiveness of corporate management on the enterprise. The problem of corporate management comes to creation of mechanisms that can enforce the interests of investors and managers at the same time. Investors are concerned with maximization of hotel's value and, accordingly, the growth of the shares which each of them own.

Managers, on the other hand, are concerned with maximization of their helpfulness, the dimension of which is private interests of investors. Private interests are correlated with the company's value. In this way, investors as supervisory body of managers' activity and managers are interested in maximization of hotel's market value. Within this framework the main criteria of effectiveness of corporate governance is fair market value of the hotel. On the modern stage of economy investors and managers forward their activity towards management of three main elements: capital, cash flow and intangible assets.

In this case occurs a necessity to develop evaluation method that considers interrelation between fair market value and the three main elements (capital, cash flow and intangible assets). This method features assessment of growth

(impairment) of fair market value and effective corporate governance, emerge through the impact of hotel's management on the three main elements.

On the modern stage of economy transformation there are two factors that influence fair market value figure 2.6.

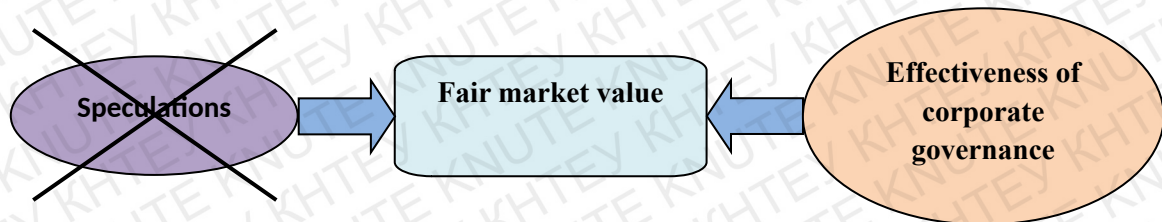


Figure 2.6. Factors that influence fair market value

First of all, value of the hotel depends on the effectiveness of management of: owned and borrowed capital, property, intangible assets and cash flows. Second of all, it is influenced by speculations which do not depend on managerial decisions, but on other factors: hotel's news, rumors, etc. That's why we will consider a fair market value as a criteria of corporate management effectiveness figure 2.7.

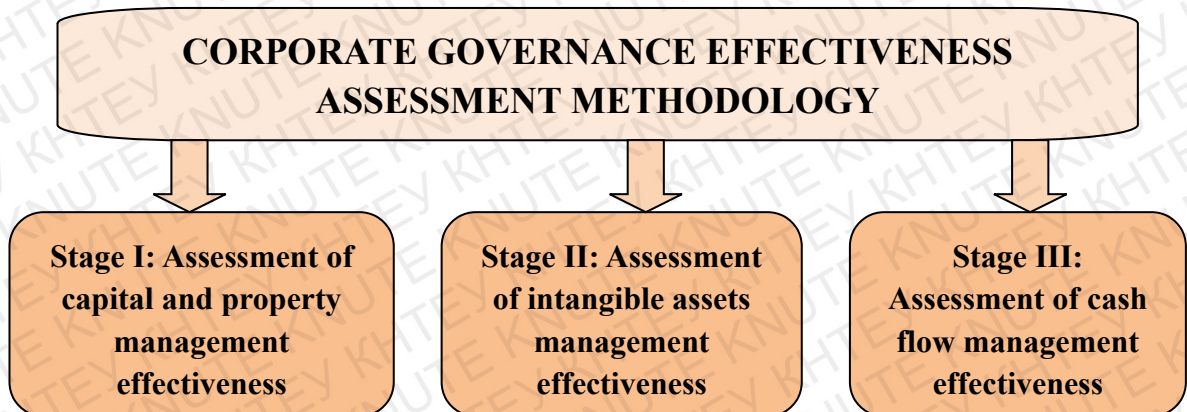


Figure 2.7. Corporate governance effectiveness assessment methodology

Stage I. In order to determine capital and property management effectiveness, we will use the “rate of return method”.

Market value of the hotel can be determines as total market value of securities issued by a company. According to the report “Annual information of investors’ issuer”, total investment is 366,700,000 UAH. It hasn't changed through the years so it remained the same in 2015, 2016 and 2017.

Stage II. Estimation of effectiveness of operational process which is determined through the market value of intangible assets. The algorithm is presented by a range of formulas (2.6).

$$k_{NTA} = \frac{NP}{NTA}; \quad (2.6)$$

$$NP_a = NTA_{ai} \times k_{NTA};$$

$$NP_{IA} = NP_{ai} - NP_a;$$

$$MVIA = \frac{NP_{ai}}{i}.$$

where NTA – net tangible assets,

k_{NTA} – indicator of removal of profit from net tangible assets,

NP – net profit,

NP_a - anticipated net profit without use of intangible assets,

NTA_{ai} – net tangible assets average for industry,

NP_{IA} – net profit from management of intangible assets,

NP_{ai} – net profit average for industry,

NTA – net tangible assets,

$MVIA$ – market value of intangible assets,

i – discounting rate (inflation rate).

So, market value of intangible assets in 2015-2017 is:

$$K_{NTA15} = \frac{25065}{417062} = 0,06,$$

$$NP_{a15} = 600000 \cdot 0,06 = 36000,$$

$$NP_{IA15} = 95000 - 36000 = 59000;$$

$$NP_{IA16} = 100000 - 84000 = 16000;$$

$$MVIA_{16} = \frac{16000}{0,2} = 80000$$

The integral analysis of corporate management effectiveness in of CACCK LLC «Radisson Blu Hotel», Kyiv that was done in this research has been gathered at the table 2.9.

Table 2.9

Dynamics of effectiveness of operational process of “Radisson Blu Hotel”

Index	2015	2016	2017	Deviation (2015 – 2016)		Deviation (2016 – 2017)	
	Amount, th. UAH	Amount, th. UAH	Amount, th. UAH	Absolute Deviation, th. UAH	Relative Deviation, %	Absolute Deviation, th. UAH	Relative Deviation, %
Market value of intangible assets	295000	80000	61400	-215000	-72,8	-18600	-23,3

Having analyzed the results of the calculations, we can conclude that market value of intangible assets decreased through 2016 and 2017. We estimated the effectiveness of the operational process management through the value of intangible assets. This way we can conclude that it is not effective due to the fact that within last year market value of intangible assets fell down in 23.3% (18600 thousand UAH) and all the business processes in the hotel should be revised precisely.

Stage III. Estimation of effectiveness of cash flow management. This indicator is determined through the calculation of market value of the company. The algorithm is presented by a range of formulas (2.7).

$$r_{PC} = \frac{PC}{TR}; \quad (2.7)$$

$$r_{AC} = \frac{AC}{TR};$$

$$R_d = \frac{2A}{VFA_{sy} + VFA_{cy}};$$

$$A = VFA \times R_d$$

$$DCF = PF + A;$$

$$CV_{fp} = \frac{DCF_{15}}{(1+i)} + \frac{DCF_{16}}{(1+i)^2} + \frac{DCF_{17}}{(1+i)^3}$$

where rPC – ratio of production costs,

TR – total revenue,

AC – administrative costs,

R_d – rate of depreciation ,

A – amortization,

VFA – fixed assets value,

VFA_{sy} – fixed assets value at the beginning of the year,

VFA_{cy} – fixed assets value at the close of the year,

DCF – discounted cash flow,

PF - profit,

CV_{fp} – company's value in forecasted period

So, market value of CACCK LLC «Radisson Blu Hotel», Kyiv

in 2017 will be:

$$rPC_{15} = \frac{161685}{25065} = 6,4$$

$$rAC_{16} = \frac{32213}{81998} = 0,39$$

$$R_{d16} = \frac{2 \times 62659}{643117 + 605431} = 0,1$$

$$R_{d17} = \frac{2 \times 64425}{605434 + 544463} = 0,11$$

$$A_{15} = 267343 \cdot 0,06 = 16040,6 ;$$

$$A_{16} = 643117 \cdot 0,1 = 64311,7$$

$$A_{17} = 605431 \cdot 0,11 = 66597 ;$$

$$DCF_{15} = 16402 + 16040,6 = 32442,6 ;$$

$$DCF_{16} = 81998 + 64311,7 = 146309,7 ;$$

$$DCF_{17} = 49656 + 66597 = 116253 ;$$

$$CV_{fp} = \frac{32442,6}{(1+0,2)} + \frac{146309,7}{(1+0,2)^2} + \frac{116253}{(1+0,5)^3} = 163084,8 .$$

The integral analysis of corporate management of cash flows effectiveness in of CACCK LLC «Radisson Blu Hotel», Kyiv that was done in this research has been gathered at the table 2.10.

Table 2.10

Integral analysis of cash flow management effectiveness of “Radisson Blu Hotel”

Indicator	Formula	2015	2016	2017
Market value of the hotel	$MV = total\ share\ denomination$	366700	366700	366700
Market value of intangible assets	$MVIA = \frac{NP_{ai}}{i}$	295000	80000	61400
Ratio of production costs	$rPC = \frac{PC}{TR}$	6,4	1,3	1,6
Ratio of administrative and commercial costs	$rAC = \frac{AC}{TR}$	1,06	0,39	0,23
Company's value in forecasted period	$CV_{fp} = \frac{DCF11}{(1+i)} + \frac{DCF12}{(1+[i])^2} + \frac{DCF13}{(1+[i])^3}$	163084,8 thousand UAH		

The method above allows to develop the conceptual aspects of the model of effective corporate management.

Corporate management affects certain factors, which leads to increase or decrease of company's value on the market. Under the influence of the factors estimated above, the decision regarding the increase of effectiveness of corporate

management of these factors is taken. The result is the increase of company's value in the market.

As a matter of fact, company's market value depends on the effectiveness of corporate management, the main elements of which are funds, cash flows and intangible assets. Whereas, each element has its own degree of impact on the effectiveness of corporate management of the company.

The market value of intangible assets has rapidly decreased within 2015 and 2016. At the same time, ratio of production costs is very high which explains from one side why the hotel has negative profit within last 2 years. Ratio of administrative costs decreased within 2015 and 2016 which is positive tendency. To sum up, company's value on the market is very low which testifies that cash flow management is not enough effective. Affected by the results of hotel's performance, hotel's market value in forecasted period is 163084,8 thousand UAH.

Having analyzed the results obtained after appliance of this method to the "Radisson Blu Hotel", we can make the conclusion that the effectiveness of corporate management is very low and needs to be seriously revised and strategic decisions regarding the improvement of hotel's performance must be made.

2.3. Assessment of investors' rights protection of CACCK LLC «Radisson Blu Hotel», Kyiv

Corporate management system of the "Radisson Blu Hotel" is an organizational model, with a help of which company represent and defense the interest of investors. This system includes: board of directors, motivation schemes of labor remuneration, mechanisms of bankruptcy. Presence of these elements is counted as indicators of corporate management effectiveness.

While analyzing international experience, we can conclude that the core task of corporate management – to provide effective work of the hotel and to satisfy the interests of investors who provided their financial resources. In case of decrease of

operational effectiveness, owners can sell the hotel and as a result interested parties can suffer.

Whereas the objective and easy-to-use method of corporate management effectiveness estimation is focused on attraction of investors, it might be also used as a tool of owners' interests defense.

The main methods of investors' rights defense which are used nowadays can be divided into next groups: organizational and economic, normative and legal, social and psychological.

To the first group next methods can be referred: observance of the principals of governance system development, methods and principals of integration, methods of management structure development, methods of formation of systems of functional separation between management company and the company which is managed, principals and mechanisms of interaction between business-units. In the system of corporate management these are methods of definition of form, composition and structure of Board of directors, recruitment of professional managers, creation of committees on directors' actions governance, development of motivation schemes.

To the group of normative and legal methods we can refer corporate legislation compliance, compilation and compliance of code on corporate behavior, corporate chart, constitution of contractual relationship between interested parties, treaty conclusion between business units and management company.

Last group of methods is related to psychological relationship between owners and managers. In case of "Radisson Blu Hotel" investors can't give a free hand to the managers and take part in operational administration. Apart from mentioned above, it is necessary to assemble the Board of directors according to principle of "effective team". For this purpose it is obligatory to use the methods of effective team building, methods of psychological compatibility of members of Board of directors.

Therefore, quality of corporate management affects investment attractiveness of the hotel. Essence of corporate management is a system of

relationship between investors and managers. That's why owners' rights protection methods must be applied because they affect investment attractiveness of the hotel. In order to check this statement, we will use the ratio of effectiveness of owners' rights protection which is shown in formula (2.8).

$$r_{orpe} = \frac{IA}{DL} \times 100\% , \quad (2.8)$$

where r_{orpe} – ratio of owners rights protection effectiveness

IA – investment attractiveness,

DL – defense level.

In order to analyze investment attractiveness, we will use the ratio of investors' equity feasibility (2.9).

$$r_{sef} = \frac{NP}{SE} \times 100\% , \quad (2.9)$$

where r_{sef} – ratio of investors' equity feasibility

NP – net profit,

SE – investors' equity.

This ratio outline the effectiveness of capital investment by the owners. Defines rate of return on capital employed. It is the main index in investment activity.

Defense level will be defined by the sum of integral indexes, which company depending on method of owners' rights defense applied (2.10).

$$R = \sum i_p , \quad (2.10)$$

where R – investors' defense level,

i – grade,

p – method of investors' defense.

For each method applied company gets from 1 to 10 grades. Lets assign priority rating to each method:

1) methods of management system:

- existence of Board of investors = 9;
 - existence of committees = 7;
 - existence of Financial department = 6;
 - Internal control service = 7;
 - system of remuneration of CEO, members of the Board = 10;
 - Provision of timely disclosure of complete and exact information.
- 2) normative and legal methods:
- existence of corporate chart = 9;
 - contractual relationship with members of the Board = 8;
 - existence of Code of corporate behavior = 7;
 - Strategies = 6.

In order to undertake empirical research, we obtained necessary information from the official web-site of CACCK LLC «Radisson Blu Hotel». The research has shown that the hotel uses each method from listed above which testifies that the hotel has effective corporate governance.

By using this simple method, potential investor is able to define, which rate of return is guaranteed by one or another level of investors' rights defense. These means that defined percentage of investment is accounted for by each grade of level of investors' rights defense. The higher is the level of defense, the more confident investor is. The higher is the rate of return, the more attractive for investors is the investment.

As mentioned above, we assigned grades to each method of investors' rights defense, depending on importance of each method for the investor. Having analyzed the system of methods of investors' rights defense in CACCK LLC «Radisson Blu Hotel», we combined a table 2.11.

Table 2.11

Values of indicator of level of investors' rights defense of CACCK LLC

«Radisson Blu Hotel», Kyiv

<i>Method</i>	<i>Method practice</i>
1) methods of management system:	

- existence of owners	9
- existence of committees	7
- existence of financial director	6
- Internal control service	7
- system of remuneration of CEO, members of the Board	10
- Provision of timely disclosure of complete and exact information	10
-2)normative and legal methods	
- compliance of Law “On companies”	10
- existence of corporate chart	9
- contractual relationship with members of the Board	8
- existence of Code of corporate behavior	7
- Strategies	6
<i>Total</i>	89

Further we need to calculate investment profitability by using the formula (2.9). The calculations results are gathered in table 2.12.

Table 2.12

Dynamics of ratio of investors' equity feasibility

<i>Index</i>	2015	2016	2017	<i>Deviation (2015 – 2016)</i>		<i>Deviation (2016 – 2017)</i>	
	<i>Amount, th. UAH</i>	<i>Amount, th. UAH</i>	<i>Amount, th. UAH</i>	<i>Absolute Deviation, th. UAH</i>	<i>Relative Deviation, %</i>	<i>Absolute Deviation, th. UAH</i>	<i>Relative Deviation, %</i>
Net profit	25065	122034	81998	-	-	-	-
Owners equity	366700	366700	366700	-	-	-	-
Ratio of investors' equity feasibility	0,07	0,33	0,22	0.26	371	-0.11	-33

Table 2.13 presents the final results of the research of effectiveness of investors rights defense (formula 2.8).

Table 2.13

Dynamics of ratio of effectiveness of investors' rights defense

<i>Index</i>	2015	2016	2017	<i>Deviation (2015 – 2016)</i>	<i>Deviation (2016 – 2017)</i>
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	<i>Amount, th. UAH</i>	<i>Amount, th. UAH</i>	<i>Amount, th. UAH</i>	<i>Absolute Deviation, th. UAH</i>	<i>Relative Deviation, %</i>	<i>Absolute Deviation, th. UAH</i>	<i>Relative Deviation, %</i>
Ratio of investors' equity feasibility	0,07	0,33	0,22	0.26	371	-0.11	-33
Level of defense	89	89	89	-	-	-	-
Ratio of owners' rights protection effectiveness	0.0008	0.003	0.002	0.0022	275	-0.001	-33

Having analyzed the results of the research, we can conclude that decrease of index of owners' rights protection is followed by decrease of ratio of investors' equity feasibility. These means that the higher is level of owners' rights protection, the higher is investment attractiveness of the hotel and ratio of effectiveness of owners' rights protection is increasing.

This way we can make the conclusion that the highest effectiveness of investors' rights protection was in 2015, but in 2016 it decreased in 33% which affects negatively the investors' satisfaction with the management performance within the year. At the same time, the interests of investors are not fully satisfied. It means that the hotel will not be attractive for the investors and will not get extra capital infusion because investors will not trust the company which doesn't protect the rights of investors.

Management of the hotel has vital importance for effective business development, herewith it is necessary to take into consideration the next aspects:

- organizational structure of management of the hotel;
- conformance of decisions, taken by managers to the modern requirements of economy;
- actuality and coherence of organizational and administrative records;
- qualification of directors and existence of educational system and personnel development system;
- quality of existing system of planning and decision making;

- quality of tax planning and optimization.

Factor of corporate management is very significant while taking investment decision because corporate management simplify company's access to the capital market, facilitate cheapening of loans, attraction of major investors.

Assessment of level of owners' or investors' rights protection is very important in order to estimate investment attractiveness of the hotel. Relationship between the owners and managers are basis of corporate management that define it's essence.

Conclusions to part 2

After conducting organizational and economical assessment of CACCK LLC «Radisson Blu Hotel», having estimated effectiveness of corporate governance and investors' rights protection, we can make the following conclusions.

1. Defined that CACCK LLC «Radisson Blu Hotel» is part of the family of Radisson Hotel group which are under the control of professional hotel operator “Radisson Blu hotel”. Radisson Hotels represents a collection of 4- and 5-star luxury hotels in Ukraine and over the world, each a one-of-a-kind property and all equally superb, hospitable and comfortable. Each hotel boasts a unique atmosphere and captures the spirit of the city in which it is located. Many Radisson Blu Hotels properties are long-standing historical or architectural landmarks, adding charm to their surroundings and existing as true city attractions in their own right. All Radisson Blu Hotels endeavor to make their guests feel at home thanks to an attentive and individual approach to service.

2. Identified that organizational structure of the company management is an assembly of interconnected elements which function and develop as a single whole. By studying the structure conclusion can be made that it is linear-functional. Company has democratic management style as all decisions are discussed by the collective body; however they are taken by and responsible is the Manager. Management chain of the Radisson Blu Hotels itself is first of all

presented by the Investors Meeting, General Manager and his or her Deputy. By analyzing this organizational structure 3 management levels can be singled out: top – Head of the Financial department, General Manager and Chief Accountant; medium – First Deputy Chairman of the Board, Head of the Procurement Department, Head of the HR Department, Executive Secretary, Head of IT Department, Head of the Front Office, Head of Sales and Marketing Department, Head of Inventory, Director of Club Service, Head of Security Service and Chief Engineer; lower - Senior Chef.

3. Analysis of financial indicators of CACCK LLC «Radisson Blu Hotel» evidence that this company is solvent, that is proved by its solvency indicators. However, there are a lot of difficulties in its analyzing because of lack of information, unstable indicators in different periods etc. Those indicators show how efficient “Radisson Blu Hotels” Hotel management is at using its assets to generate earnings. Consequently, the hotel management failed in using assets effectively which affected the amount of earnings within last years. That means that hotel’s financial policy and business processes must be revised thoroughly and in short terms in order to meet the requirements of rapid and negative changes of economic situation in Ukraine and tendencies in world economy.

4. Determined the effectiveness of corporate governance by using the method, which features assessment of growth (impairment) of fair market value and effective corporate governance, emerge through the impact of hotel’s management on the three main elements: capital, cash flow and intangible assets. Company’s value on the market is very low which testifies that cash flow management is not enough effective. Affected by the results of hotel’s performance, hotel’s market value in forecasted period is 163084,8 thousand UAH. The effectiveness of corporate management is very low and needs to be seriously revised and strategic decisions regarding the improvement of hotel’s performance must be made.

5. Estimation of the effectiveness of investors’ rights protection, with the help of the method, based on assessment of investment attractiveness and investors

protection level, has shown that in 2017 it decreased in 33% which affects negatively the investors' satisfaction with the management performance within the year. At the same time, the interests of investors are not fully satisfied. It means that the hotel will not be attractive for the investors and will not get extra capital infusion because investors will not trust the company which doesn't protect the rights of investors.

PART 3

DIRECTIONS OF CORPORATE GOVERNANCE IMPROVEMENT IN THE CACCK LLC «RADISSON BLU HOTEL», KYIV

3.1. Propositions for corporate governance improvement in CACCK LLC «Radisson Blu Hotel», Kyiv

By reference to the research of the effectiveness of corporate management in CACCK LLC «Radisson Blu Hotel» (paragraph 2.2. and paragraph 2.3.) and having estimated the main indexes of hotel's operation results, we can conclude that corporate management system improvement adds value of the hotel. It is incontestable that improvement of corporate governance leads to the appreciation of hotel's investments. Logically, the better is the system of corporate management, the more is investors' trust, the lower are risks and higher value. Apart from these, growth of company's value helps the Board of investors to realize their main task – to increase the attractiveness of the hotel for investors.

If CACCK LLC «Radisson Blu Hotel» follows the principles of effective corporate management, it will enjoy the confidence of investment society. The stock price of the hotel is higher and it's cheaper to borrow funds and the conditions are more profitable when the company is trusted.

Corporate governance is the system of fair and disclose management. Highly trusted company has obvious advantages. Increase of level of controllability of the hotel and it's accountability to the owners, task sharing between managers and

owners, let the hotel, which implemented the system of corporate governance, to deliver value of work, controllability and accountability to the investors.

Professionally operating Board of investors provide strategic planning and managers' actions control, while professional and motivated management during daily operations make maximum efforts to accomplish target tasks. With correctly built corporate governance system, owners can increase an effectiveness of control and hotel's management by cutting time they spend on caring out this control.

In order to estimate the effectiveness of control by owners, we use the formula (3.1):

$$S = NP/T, \quad (3.1)$$

where S – effectiveness of owner's control in time unit,

NP – net profit,

T – time, spent by the owner on control of activity.

It is obvious that in order to increase productivity, which is stated in spending personal time, the owner should minimize this time.

By substituting of these indexes in to the Du Pont formula, we receive the formula (3.2):

$$ROA = NP/A = (S \times T)/ATS = (A \times ROA)/T, \quad (3.2)$$

where ROA - ratio of assets feasibility,

A – assets.

Consequently, by cutting the time spent by the owner on participation in hotel management, all the functions of operative management or their biggest part should be delegated to the mercenary managers. Furthermore, part of functions of possessory control should be delegated to the system of corporate management, keeping only authority connected with perspectives of future hotel's development.

The effectiveness of corporate management system is defined by several factors which characterize peculiarities of corporations' performance.

Corporate management system can include the following main elements:

- Corporate management strategy;
- Organizational structure ensuring corporate management;
- Corporate management systems and processes;
- Corporate management style;
- Total staff corporate skills, staff structure and shared business values.

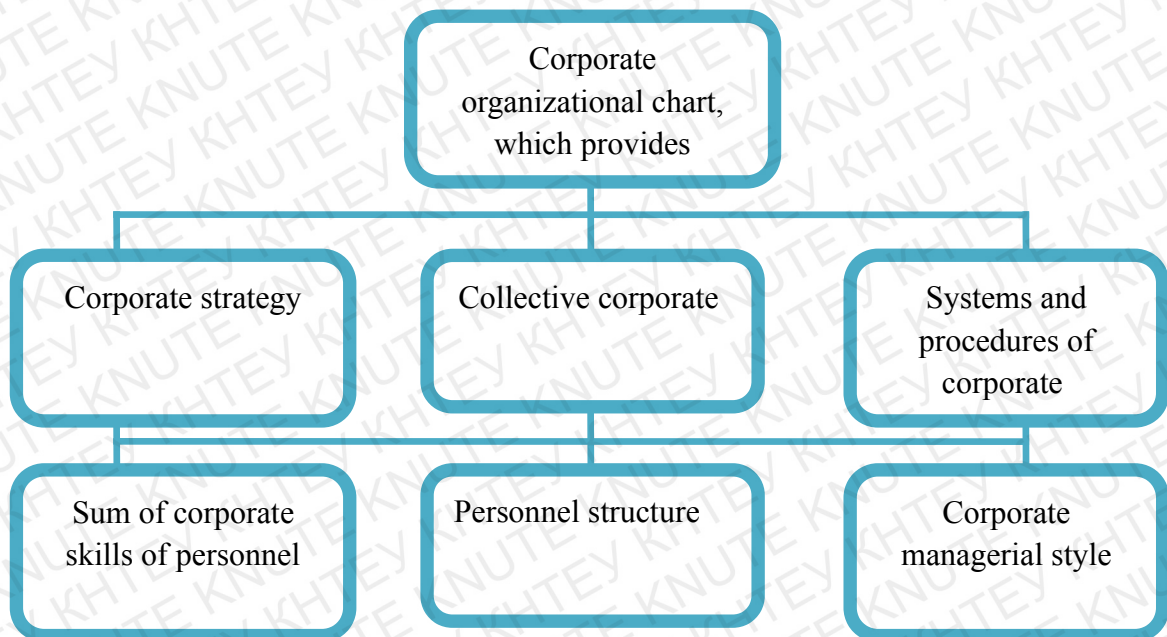


Figure 3.1. Essential elements of corporate governance CACCK LLC «Radisson Blu Hotel», Kyiv

Corporate management strategy is focused on:

- implementation of corporate management principles to reach corporate aims;
- organizational structure providing for corporate managements is the description of characteristics of divisions' cooperation organizational structure which ensure implementation of corporate strategy and corporate management principles;
- corporate management systems and procedures are the description of corporate management processes and established procedures;

- corporate management style is the description of a lead manager actions aimed at reaching corporate goals of a company;
- total staff corporate skills are abilities of staff and company as a whole aimed at implementation of corporate management principles manifested in realization of corporate strategic goals;
- shared business values are the most important business values or essential concepts which are communicated to all company employees.

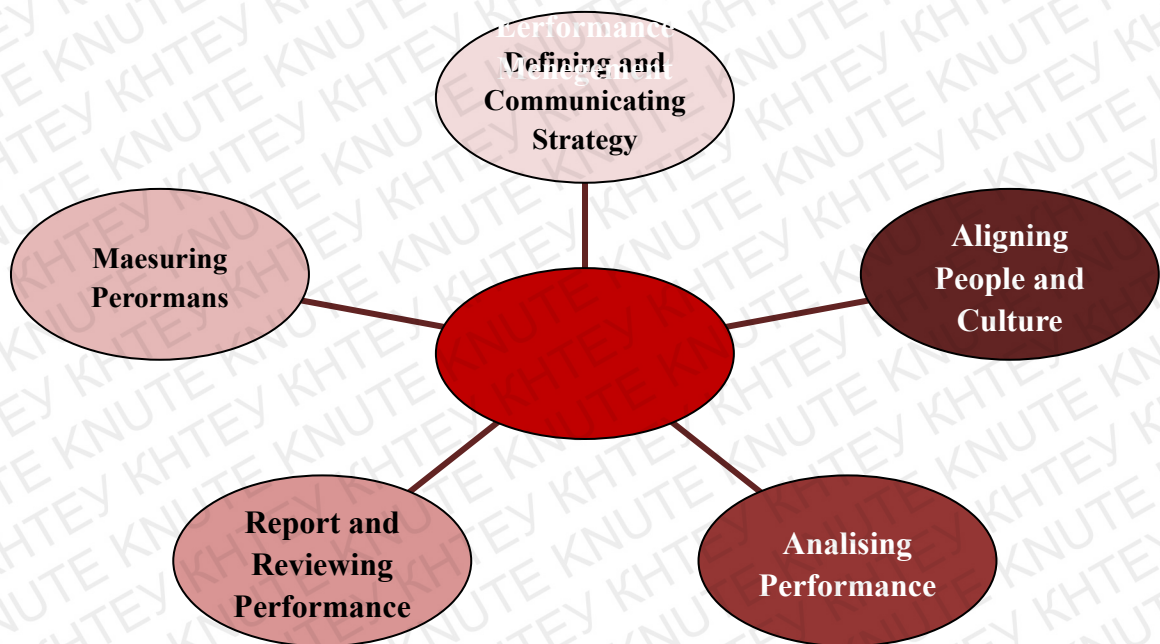
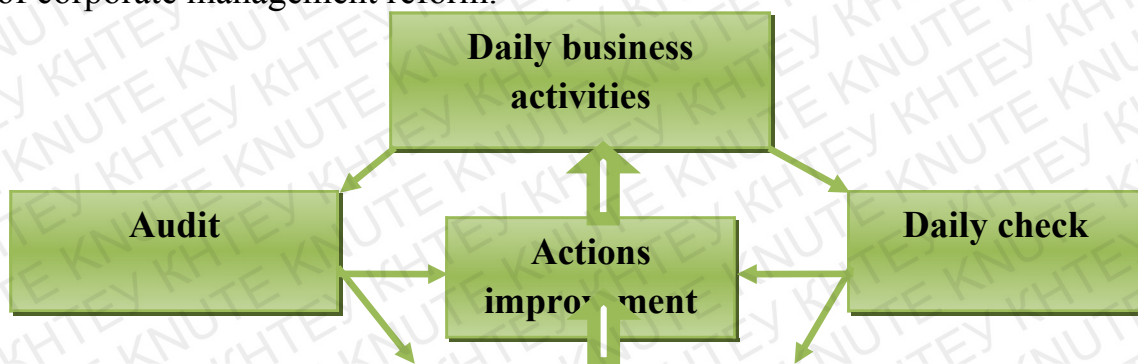


Figure 3.2. Enterprise performance management CACCK LLC «Radisson Blu Hotel», Kyiv

Improvement of corporate management is often superficial in practice and used to promote goals and not as a way of implementation of structures and procedures which allows a corporation to gain investors' confidence, reduce a risk of financial crisis and increase access to capital. Creation of internal structures and procedures based on principles of justice, transparency, accountability and responsibility is an absolute priority to be dealt with by management in the course of corporate management reform.



Management review

Figure 3.3. Process of continual improvement “Radisson Blu Hotels”, Kyiv

Corporate governance organizational structure can consist of four blocks.

First block – Corporate Management Department having the following functions:

- corporate management creation, maintenance and improvement;
- development, organization and implementation of a company corporate policy;
- preparation of proposals with regards to development and introduction of changes in internal documents of the Company (Corporate Code of Conduct, Regulation on Committees), participation in the development of the same;
- organization of works on Company business-processes and procedures unification.

Second block – Central Securities Department having the following functions:

- establishing and development of effective connections with investors, investors and information agencies;
- monitoring of domestic and international securities market;
- Managing investments liquidity;
- development of company investments;
- listing and maintaining listing at Ukrainian and Foreign trading floors as well as organization of work with registrar.

Third block – Legal Support Department responsible for the following:

- good title to documentation and subsidiaries;
- statutes and various Regulations.

Fourth block - Public Relations and Government Authorities Department. Its main function is coordination of company information policy with regards to regional and Ukrainian Media and Government Authority.

Corporate management improvement is an important measure necessary to increase the inflow of investments in all fields of economy of both domestic and foreign investors. For this purpose a mechanism of improvement of investors relations management system is required. The main objective with regards to implementation of this goal is protection of investors' rights as one of priorities of country social and economic development.

Protection of investors' rights is a goal of both state authorities and companies themselves. In 2002 Organization for Economic Cooperation and Development (OECD) made a decision on improvement of corporate management Principles published in 1999. New reduction of OECD Principles published in April, 2004 is based on comprehensive study of various countries experience in the field of corporate management and many interested parties were involved in the process of the document improvement.

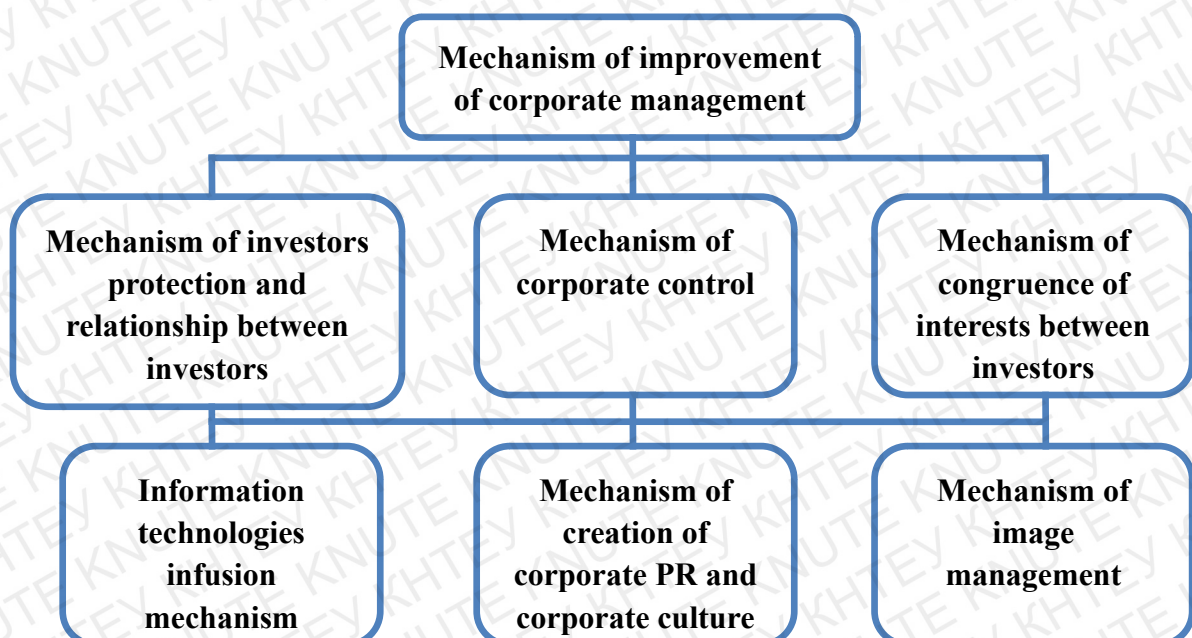


Figure 3.4. Internal mechanism of corporate governance “Radisson Blu Hotels”, Kyiv

OECD Principles specify minimum rights necessary for investors. This list includes the rights for:

- 1) reliable registration of titles to the investments;
- 2) shares handover or transfer;
- 3) timely and regular obtaining of required and important information about the corporation;
- 4) participation in general investors' meeting and voting at such meetings;
- 5) election and removal of members of Board of owners;
- 6) getting share in corporation profit.

investors and third persons' rights protection system allowing reaching high level of confidence in business relationships is the key condition in ensuring business effectiveness and competitiveness. Improvement of investors' rights protection must be based first of all on the following:

- 1) provision of comprehensive information on existing rights and how they can be exercised;
- 2) improvement of means required to effectively exercise existing rights.

In such a scenario a very important role is played by Information technologies and first of all the Internet which allowed to propel the processes information disclosure and communication between companies and their leaders and outer world to the next level.

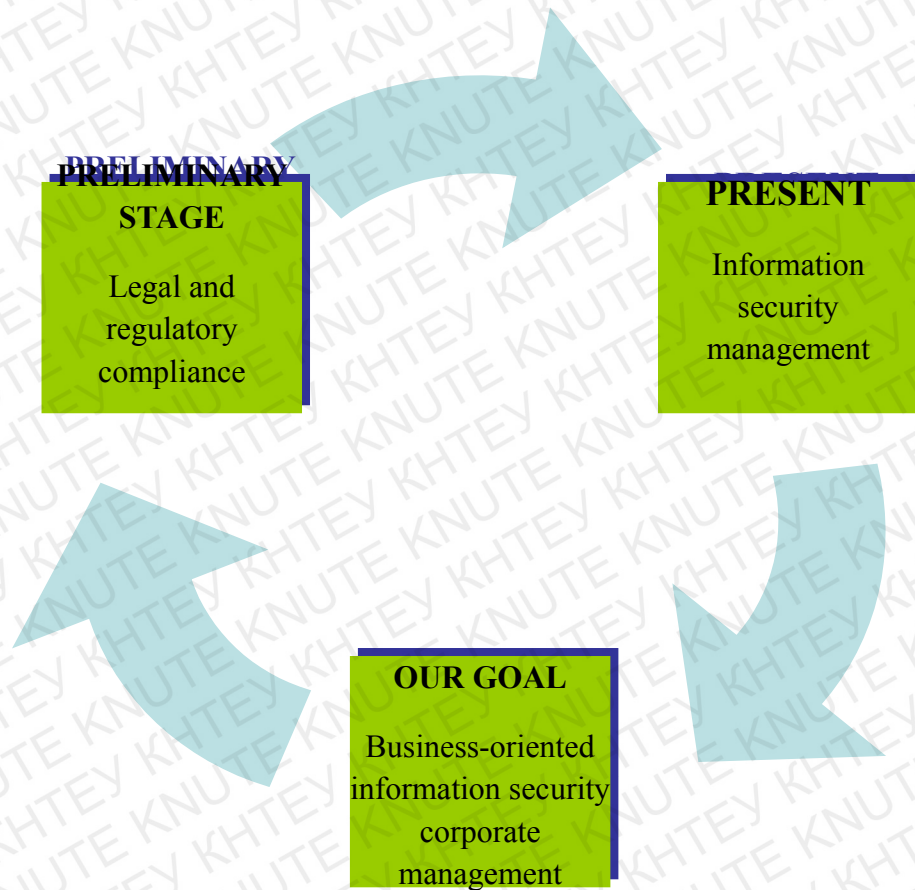


Figure 3.5. Steps to business-oriented information security corporate governance CACCK LLC «Radisson Blu Hotel», Kyiv

The six basic aspects of IT-System application in order to improve corporations cooperation with existing and future investors, creditors and other counterparties are as follows.

First, holding interactive Internet-Forums in addition to traditional road shows organized prior to the placement of new securities. Such virtual meetings are much cheaper, save managers' physical efforts and allow company to convince bigger sets of prospective buyers of bonds in their business potential – not only institutional investors in large financial centers but also individual investors in province.

Second, on-line translations of top executives tele- and video conferences and their speeches at the most important corporate, industrial and other meetings. This is important in terms of both jump in covered audience and in order to

decrease the number of personal investors' appeals to management, put down gossip and appearance of incorrect information in virtual clubs and parlors.

Third, e-voting at general investors' meetings. Saving on each investors voting via the Internet makes up about 40 percent. Increase in number of investors participating in making the most important corporate-specific decisions is also important. Finally, investors who were given opportunity to vote on agenda items at the Web-Site can take interest in benefits of company provided services and become the buyers of the same.

Fourth, on-line purchase of investments and reinvestment of capital directly via corporate sites. This allows increasing the effectiveness of stock exchange trading and stimulating the demand by individual, including foreign, investors. That particular category of capital owners can provide certain safety during difficult periods when large institutional investors start massive sales of securities in order to fix profit and avoid losses.

Fifthly, automatic distribution of notifications, press-releases, yearly reports and other information via e-mail. Average expenses for preparation and distribution of the materials decrease from 5-8 to 1 dollar per each recipient. It is possible to start developing this scenario from e-mail to in-house employees-investors and then proceed to more extensive use of this interaction channel with outer world. Thereby a hotel will be able to be in virtually continuous contact with its counterparts, track and analyze changes in bonds owners' structure, and as a result – to select the most promising categories of investors and set up relationships with target audience.

Sixthly, placement of interactive yearly reports on corporations Web-Sites. These electronic documents allow users to convert financial reporting into Excel-spreadsheet format and move to various sections of reports and other pages of corporate sites using hypertext links. In turn, companies create data bases of users and their preferences configuration during work with reports (i.e. data bases of documents sections of their main interest). All this helps investor relationship managers better understand and satisfy customers' demands.

Hence, modern corporate management is unthinkable without intensive and consecutive implementation of advanced information technologies. A key condition for achieving success in this process is maximum integration of all applicable IT-Systems which must be subject to the single aim – assistance to the General Meeting in provision of effective company management (supervision over top managers' activities in corporate strategy implementation, internal control and maintaining proper relationship between the corporation and its counterparts).

In general, corporate management mechanisms include the following elements.

Central organ is General Meeting which is provided for by the Law. General Meeting must protect their interests and build up their relationships with managers accordingly. Another important component of interests ballasting system is top managers motivation assessment system. It means not only financial reward and bonuses but also non-financial motivation.

People holding key positions, with developed personality, highly professional managers are not very interested in corporate activities; they are always interested in further professional development.

They are interested in work for large companies having long-term goals and prospective at the market which will lead them to professional growth and enhancement of their personal value at labor market. That is why interesting and complex projects are great incentive for managers.

Speaking about financial compensation only it is important to bring up a topic of bonus programs and bonus options. Unfortunately, due to the fact that Ukrainian stock market is poorly developed, it is practically impossible to copy directly western experience. It is required to preliminarily agree and regularize "rules of game" in order for owners to have clear understanding of the amount of bonuses that they are ready to provide to managers and in order for managers to understand their work assessment criteria.

Assessment of the result of company activity as a whole and work of each manager is equally important. An efficient instrument is a balanced system of

indices as it allows creating a comprehensive system helping solve long-term business objectives, consider both financial and non-financial indices, provide unprejudiced picture of company activity results.

Finally, information exchange system between managers and owners shall be established. Most conflicts appear just at this level of communication. An owner believes that this is his business and he has delegated all powers to managers. However, from owner's point of view managers do not take proper care of the business and roughly speaking try to "cut a bigger piece".

The managers being constantly aware of the owner's control feel a kind of inferiority: on the one hand, the responsible for company is placed on them, on the other hand controls are still in the hands of the owner. In such a situation conflicts are unavoidable. That is exactly why it is important to build up an information exchange system and it is corporate management that can solve this problem.

Owners shall communicate via General Meeting (by means of regulatory documents) company goals, their business expectations, maybe certain restrictions and directions of intended development. Top managers must provide impartial reporting on company everyday activity and the results the company achieved for the reporting period in order for the investors to evaluate how efficiently managers activity meets their expectations and goals.

Technical part is also important – financial, legal issues, formalization of all groups' behavior, first of all that of financial and management accounting. Currently Ukrainian companies try to entice western investors and the last prefer to work as per western financial accounting standards.

Also, a quite important issue is legal support of managers' activity, in particular provision of managers with guaranties against contingencies. Many managers are interested in guaranties in the form of monetary compensation.

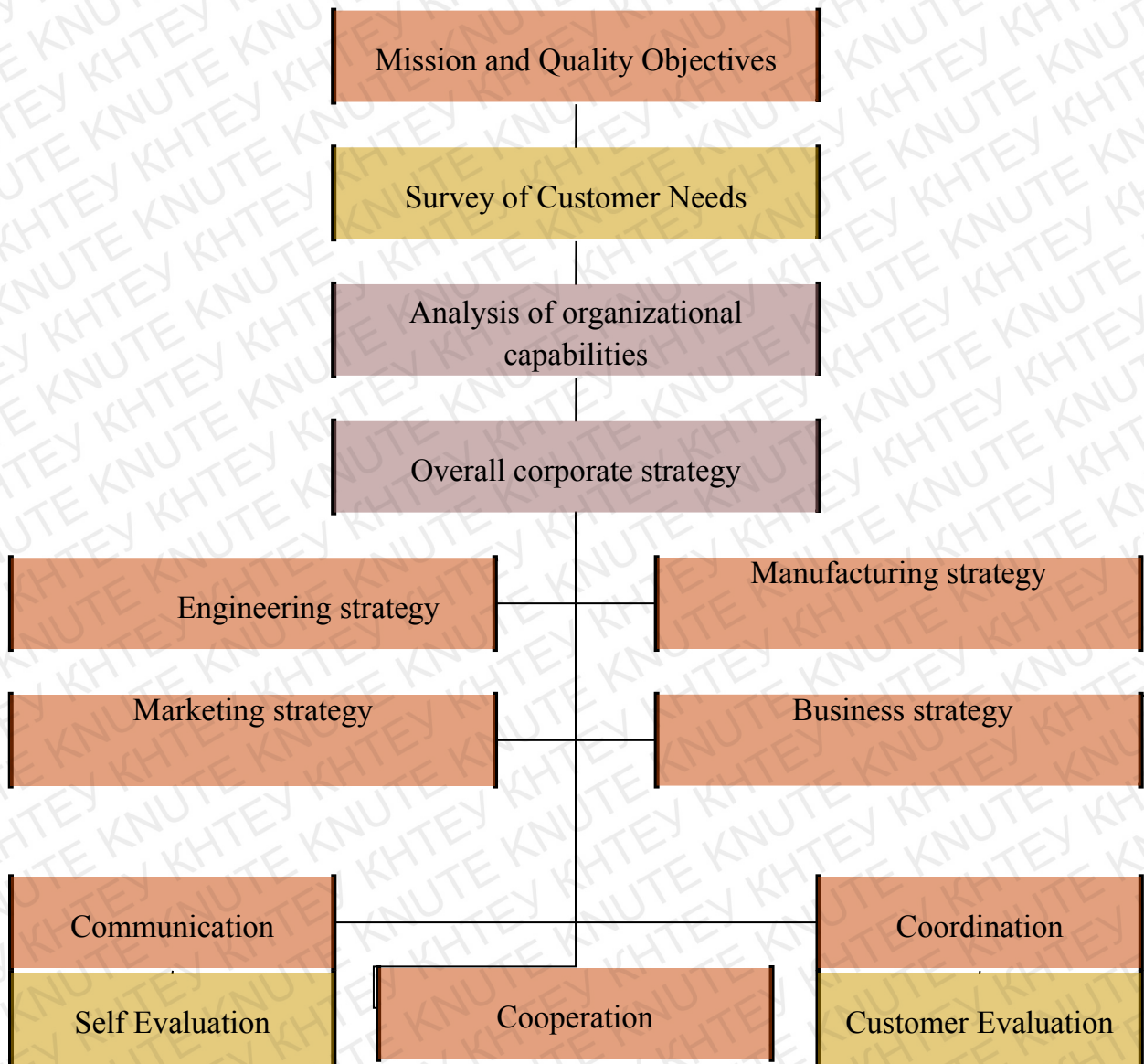


Figure 3.6. Quality improvement flowchart

In order to improve corporate management mechanisms care should be taken of company attitude towards internal and external environment which is called the “Code of Conduct”. This is an official document describing rules of conduct between the three mentioned market participants, establishing the “rules of the game”, regulating the work of investors, General Meeting` meetings as well as procedural matters, since judicial experience has proven that they are the most common cause of initiation of legal action.

3.2. Improvement of corporate social responsibility of CACCK LLC «Radisson Blu Hotel», Kyiv as an integral component of successful business

Corporate social responsibility – liability of corporation towards interested parties for its economic and social influence over internal and external environment taking into account international standards and internal mechanism of corporate governance.

In order to offer measures of corporate social responsibility improvement, we will analyze existing initiatives of “Radisson Blu Hotels” hotel.

As it was mentioned on the official web-site of the hotel - philanthropy is part of the Radisson Blu Hotel’s Mission. And part of this Mission, the Radisson Blu Hotel sees as charitable projects, support for Ukraine’s cultural heritage and campaigns to assist needy children.

“Our goal is not simply to provide charity but to actually assist children,” says Radisson Blu Hotel General Director Jesper Henrikson. “Every year, the Hotel draws up a Social Action Plan and carries it out, step by step. Our program is intended to work in three key areas: supporting cultural heritage, assistance to children and other social projects. We believe that helping out financially is only one part of proper support. In many cases, it is humaneness, sincerity and moral or psychological support that are needed! The entire team at the Hotel is keen to support various social initiatives – we help both in word and indeed.”

The “Radisson Blu Hotel” hotel responds readily to the initiatives of charitable foundations, especially those that work with children. This is why the Hotel assists the All-Ukrainian Oasis Charitable Foundation in providing free meals at the Terracotta Restaurant to orphans and the guardians from their boarding schools, who visit Kyiv every spring under the Unforgettable Weekends Foundation project.

In 2010, the “Radisson Blu Hotel” hotel supported the “Warm a Child’s Life with Care” social charitable project with the support of the International Charitable Foundation, “Ukraine! I’m behind you!” to collect money for an orphanage by

providing valuable prizes for the drawing. All money received from the sale of tickets went to help orphanages.

Also in 2010, the “Radisson Blu Hotel” hotel supported an initiative by the “Ukraine, I’m Behind You!” charitable foundation by supporting the Healthy Kids Project. This project’s goal is to buy and install medical apparatuses to clear the bronchi, to do lab tests and to carry out complicated surgery on the bronchi, larynx and trachea at the №17 Children’s Hospital in Kyiv.

The Radisson Blu Hotel assisted a group of orphans from Kyiv’s №5 Boarding School for children with vision problems to see the New Year’s story and visit the special New Year’s display.

During the course of the year, the hotel assists medical institutions and institutions that work with street kids on an ongoing basis. This assistance is in the form of bedding and clothing.

Institutions that get ongoing assistance of this nature include:

- Medical Center for Child Cardiology and Heart Surgery OHMADET;
- Children’s Hospital №9;
- Kyiv Municipal Hospital №3;
- Faith Is Your Path Foundation.

As of 2011, the Radisson Blu Hotel works with the program, “A Happy World,” by providing space for the meetings of the Making Dreams Happen Foundation and houses its guests on an ongoing basis. In Spring 2011, the Making Dreams Happen Festival took place at the Hotel, as well as a press conference and specialized workshops for teachers at children’s institutions. The main purpose of this project is to uncover the creative spirit in orphans and to offer them a path to the future through it.

The hotel created our Happy World program dedicated to three major fields: Charity, Environment, Community. The aim is to do what whatever is possible to make the world we live in healthier, more merciful and more beautiful which in total means – happier.

In the field of environmental protection there are programs regulating the consumption of natural resources – water, gas, energy and minimizing consumption of non-recyclable waste products.

In order to assist local communities, the hotel handles initiatives that aim promotion of the region as a travel destination. This includes funds for restoration and informational support for local places of interest.

The only source of information about CACCK LLC «Radisson Blu Hotel» corporate social responsibility – is official web-site of the hotel. With the help of transparency index, developed by Israel company “Beyond Business LTD”, we can conduct analysis of hotel’s web-site concerning corporate social responsibility and also to compare CACCK LLC «Radisson Blu Hotel» with other popular hotels of Kyiv. The difference between transparency index and other ratings considering CSR is because the object of estimation is company’s web-site which is viewed as a main source of society informing. The research is conducted basing on 4 main criteria (figure 3.7).

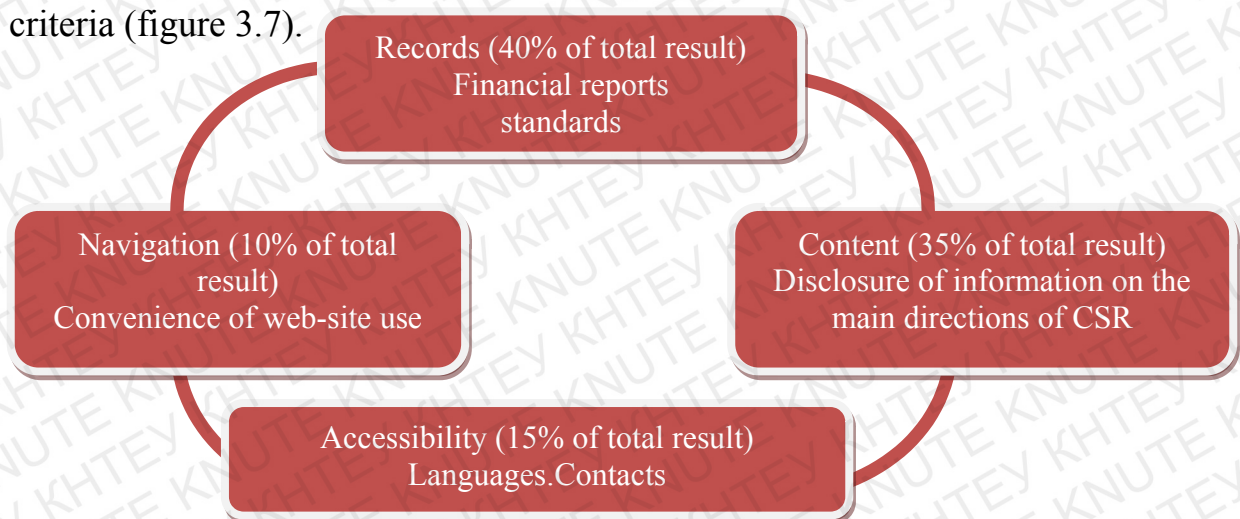


Figure 3.7. Main criteria of hotels estimation

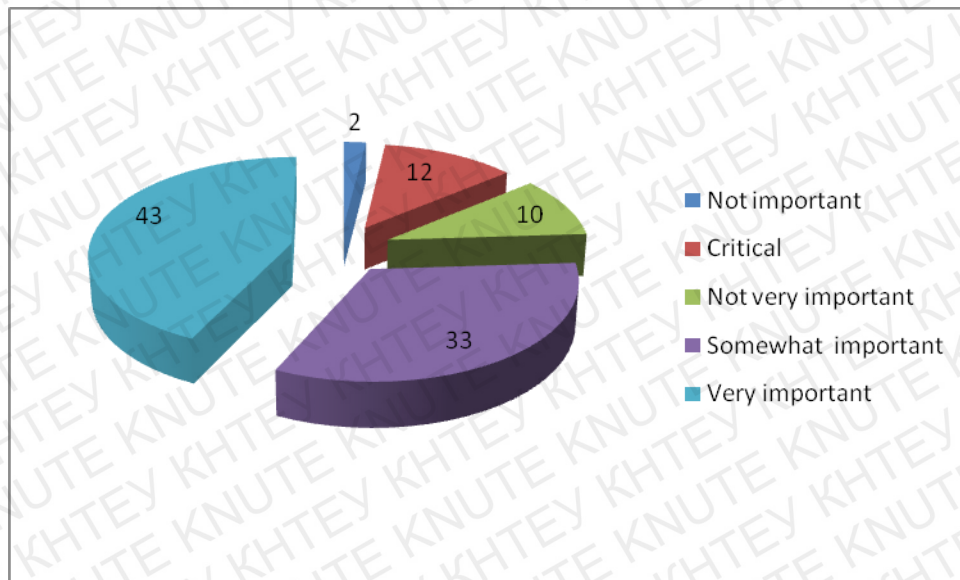


Figure 3.9. Customer Effort Score (CES) importance of CSR for the CACCK LLC «Radisson Blu Hotel»

Obviously, CSR is significant for the hotel because 43% of respondents said that it's very important, 33% - that it is somewhat important, for 12% - it is critical and only for 10% - not very important. Still, we can conclude that owners in greater degree and managers of the hotel in smaller degree do not see CSR as an important tool for attracting investors and increasing customers' loyalty towards the hotel and services it offers.

Firstly, owners should understand that CSR can promote respect for the hotel in the marketplace which can result in attracting more guests, enhance employee loyalty and attract better personnel to the firm. Also, CSR activities focusing on sustainability issues may lower costs and improve efficiencies as well. This may enhance the company's capital share, making executives' share and share options more profitable and investors happier.

Having analyzed the information regarding corporate social responsibility program, having compared "Radisson Blu Hotel" with other hotels and having estimated the results of polling which engaged investors and managers, we can conclude that CSR exists in hotel's activity, but it is not well-systematized, main principals of CSR are not stipulated in any official public documents and level of engagement of investors is insufficient.

Executives need to understand when CSR efforts can drive economic and reputational value, and how to implement them to maximize that value. In order to improve CSR, the top-level management should follow the strategic targets of corporate social responsibility implementation offered by International Organization of Standardization:

- production of goods and services of high quality for consumers;
- investments onto the production and human potential development;
- firm legislation enforcement (tax, labor, ecologic);
- establishment of good neighborly and mutually beneficial relationship with all interested parties;
- considering public expectations and generally accepted ethical principles in business custom;
- shaping the civil society with partnership programs and projects of social development.

To maximize reputational and economic value, businesses can look to several principles when deploying responsibility.

1. Authenticity: actions should be seen as motivated more by altruism and caring than self-interest.
2. Competence: actions should reflect skillful handling of the situation that demonstrates understanding of target groups' needs; this is more important than strategic fit.
3. Communication: communication about actions should reflect their warmth and competence, and avoid even the appearance of self-serving motivations

Taking this approach can transform CSR from a potentially value-destroying product of good-but-misguided intentions to a real value-generating strategy.

CSR initiatives are coming mostly from top-level managers and owners. Unfortunately Ukrainian businessmen are not acknowledged with the term corporate citizenship, which is defined as transcending philanthropy and compliance, and is addressing how companies manage their social and environmental impacts as well as their economic contribution. Corporate citizens

are accountable not just to investors, but also to stakeholders such as employees, consumers, suppliers, local communities and society at large.

We offer five steps to improve stakeholders engagement (figure 3.10).

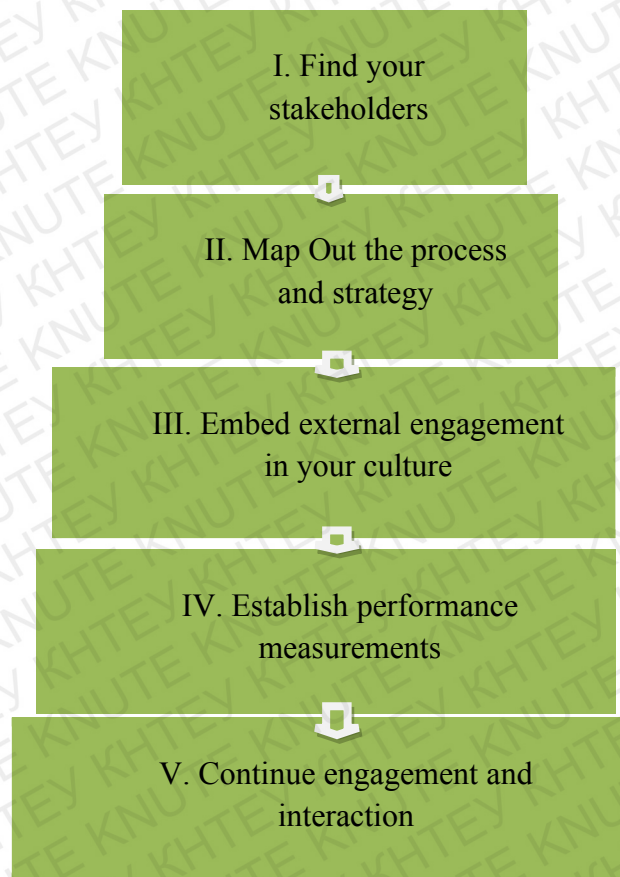


Figure 3.10. Five steps to improve stakeholders engagement

The hotel’s stakeholders are more than just board members, executives, and customers. Stakeholders are also legal interest groups, communities, other corporations, and your individual employees. If an individual or group has an interest in the hotel or are affected by it in any way, they are a stakeholder. It would be impossible to engage every single stakeholder. Thus, management needs to develop tools for finding relevant stakeholders and determine when and where they should be engaged.

Every element of the hotels activity influences stakeholders. These points of interest should be used to integrate their involvement to leverage valuable insights. This is different from the standard model of CSR, because the hotel is not focused on building initiatives that promote an image of responsibility. Instead “Radisson

Blu Hotel” is demonstrating responsibility within its activities. Such a level of transparency helps reduce perceptions of propagandizing while generating stakeholder buy-in and valuation.

In order for any strategy to succeed, it is necessary to generate internal buy-in among the employees. Employees and executives are stakeholders as well. Such internal transparency feeds into hotel’s management understanding of external engagement – the hotel should practice engagement with day-to-day business and built culture around a model that promotes external communication.

A common error in external engagement initiatives is assuming that external engagement is a propaganda exercise. “Engagement” is not sales pitches or glowing descriptions of a company’s virtuous attempts to help the community. Rather, the engagement process should be understood as a negotiation process with powerful, intelligent operators. Embedding engagement in “Radisson Blu Hotel” corporate culture helps accomplish this objective. This means that every aspect of hotels activities requires thoughtful assessment as to how the company contributes to society at large.

Once the CACCK LLC «Radisson Blu Hotel» establishes a strategy and determines how it can be integrated into every aspect of the business, key performance indicators should be built around these initiatives. Depending on the engagement, this might not be possible until the initiative have been operational for a time. However, eventually all engagement initiatives should have established measures. This serves two purposes. First, it functions as a standard performance indicators that enables benchmarking and review of effectiveness. Second, it incentivizes integration. By establishing measurements, the CACCK LLC «Radisson Blu Hotel» will establish a de facto awareness among key internal stakeholders of expectations and the reality of engagement initiatives. This means engagement becomes a matter of personal investment.

Once that initial contact is established, or that one project is accomplished the success can stifle further efforts to engage. Sometimes engagement can become a project or some side issue. Consequently, it becomes a secondary issue that is

neglected. This is not helpful for any long term stability. In fact, sporadic engagement can become counter-productive for the company because it seems like the company is managing engagement, when it is actually failing to connect. Thus, the process of external engagement should not be cyclical, but continuous. Commitment among all internal company stakeholders is key here.

Carroll (1991) organized different corporate social responsibilities as a four-layered pyramid model and called it the pyramid of responsibilities, which should be seen as a whole and the different parts should not be separated.



Figure 3.11. Carroll's pyramid of responsibilities [70]

This pyramid can be seen as a summary of 5 steps of engaging stakeholders due to the fact that it shows the company's behavior and interconnection with all the interested parties.

To be profitable, minimize cost and maximize sales or make sensible strategic decisions are at the base of economic responsibilities. Economic performance is required by the society. The second layer is the legal responsibilities and it is also required by society. In these responsibilities CACCK LLC «Radisson Blu Hotel» is expected to obey the law, because the law mirrors show the society regards as accepted or unaccepted.

The difference of the ethical responsibilities from the first two responsibilities is that the ethical responsibilities are not required but expected by society. To assert ethical leadership, avoid questionable practices or operate above the minimum standard of the law could be examples for the ethical responsibilities.

The philanthropic responsibilities stand at the top of the pyramid and to be a good corporate citizen and improve the quality of life for the society is the aim of these responsibilities. Corporate contributions, to support the community by providing programs or engagement in volunteerism can be example for the philanthropic responsibilities. To some extent the philanthropic responsibilities are desired and expected by the society.

Conclusions to part 3

Having researched the international practices of corporate governance effectiveness rising, and their efficient implementation on the enterprises, based on international principals and codes of corporate social responsibilities, we suggested the next solutions for improvement.

1. Defined that if “Radisson Blu Hotel” follows the principles of effective corporate management, it will enjoy the confidence of investment society. The capital share of the hotel is higher and it’s cheaper to borrow funds and the conditions are more profitable when the company is trusted. Corporate management system improvement adds value of the hotel. Improvement of corporate management leads to the appreciation of hotel’s investments. Logically, the better is the system of corporate management, the more is investors’ trust, the lower are risks and higher value. Growth of company’s value helps the Board of owners to realize their main task – to increase the attractiveness of the hotel for investors.

2. Has proved that by cutting the time spent by the owner on participation in hotel management, all the functions of operative management or their biggest part should be delegated to the mercenary managers. Furthermore, part of functions of possessory control should be delegated to the system of corporate management, keeping only authority connected with perspectives of future hotel’s development.

3. Identified that investors and third persons' rights protection system allowing reaching high level of confidence in business relationships is the key condition in ensuring business effectiveness and competitiveness. Improvement of investors' rights protection must be based first of all on the following: provision of comprehensive information on existing rights and how they can be exercised; improvement of means required to effectively exercise existing rights.

4. Analyzed, with the help of transparency index, developed by Israel company "Beyond Business LTD", hotel's web-site concerning corporate social responsibility and compared CACCK LLC «Radisson Blu Hotel» with other popular hotels of Kyiv. It has shown that CACCK LLC «Radisson Blu Hotel» is leader among other hotel concerning corporate social responsibility program disclosure on the web-site for society. The name of the section is "Social responsibility", where all the information about philanthropy, environmental protection and area development is presented. Also, there are all the contacts of managerial team of the hotel including personal e-mails.

5. Suggested five steps to improve stakeholders engagement: to find stakeholders; map out the process and strategy; embed external engagement in the culture; establish performance measurements; continue engagement and interaction. Also, to maximize reputational and economic value, businesses can look to several principles when deploying responsibility: authenticity; competence; communication.

6. Determined that "engagement of the stakeholders" should be understood as a negotiation process with powerful, intelligent operators. Embedding engagement in CACCK LLC «Radisson Blu Hotel» corporate culture helps accomplish this objective. This means that every aspect of hotels activities requires thoughtful assessment as to how the company contributes to society at large. By establishing measurements, the CACCK LLC «Radisson Blu Hotel» will establish a de facto awareness among key internal stakeholders of expectations and the reality of engagement initiatives. This means engagement becomes a matter of personal investment.

CONCLUSIONS AND PROPOSALS

Theoretical and scientific generalization of corporate governance was given in the master diploma paper. Methodological and practical recommendations for the corporate government efficiency rising and its implementation in overall hotel operation were grounded in this research. Generalization and systematization of the results of the study made it possible to make theoretical and practically oriented conclusions.

1. We defined that corporate governance is not just corporate management, it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives. It is a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy investors, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. As a result of scientific approaches in the research, an essence and meaning of the corporate governance was discussed and explained. Based on the analyzed approaches we defined the content of the elements of corporate governance, main actors and their authorities, identified and grounded structural relationship between them.

2. The analysis of hospitality industry helped us to emphasize the peculiarities of corporate governance in this industry and to eliminate the reasons of their distinction from corporate governance of other industries. We also described two significant approaches towards the core and basic process of corporate governance – corporate objectives setting, which are stockholder and stakeholder approaches. The method of mapping stakeholders depending on their interest in the organization and power of their influence was discussed in the scientific paper.

3. The importance of corporate-level strategies was discussed. The research has shown that corporate-level strategy is formulated by the CEO and other top managers. At the corporate level, primary strategy-formulation responsibilities include setting the direction of the entire organization, formulating a corporate strategy, selecting businesses in which to compete, selecting tactics for

diversification and growth, and managing corporate resources and capabilities. We have analyzed the main corporate-level strategies that hotels can implement, depending on the core objectives set by the top-level management and discussed their advantages and disadvantages.

4. Overall both business activity and financial analysis of LCC CACCK “Radisson Blu Hotel” have been made in this research in order to have general characteristic concerning this enterprise and to proceed with its corporate governance estimation. Having analyzed a lot of economic indexes, we have proved that the last year was not successful for the hotel in terms of financial performance.

5. The importance of this research is that we have applied newly discovered methodologies to corporate management miscellaneous estimation and analysis. Having assessed three main elements – capital, cash flow and intangible assets, we obtained fair market value which can be taken as indicator of corporate governance effectiveness. Calculations have shown that LCC CACCK “Radisson Blu Hotel” doesn’t have effective corporate governance. Thus, reconsideration of capital, cash flow and assets management will improve the performance of the hotel and affects the final result of operation and management process which witnesses for the improvement of overall corporate governance.

6. In the research we used innovative method of identifying the level of investors’ (owners) protection. We expressed the ratio of investors’ protection in terms of investment attractiveness and defense level. In order to analyze the investment attractiveness, ratio of investors’ equity feasibility was calculated. Defense level was defined by the sum of integral indexes, which company depending on method of owners’ rights defense applied – methods of management system and normative and legal method. We have proved that the level of investors’ protection is dissatisfactory and illuminated the reasons and measures to handle this problem.

7. The research conducted proved that corporate governance is the system of fair and disclose management. Highly trusted company has obvious advantages.

Increase of level of controllability of the hotel and its accountability to the owners, task sharing between managers and owners, let the hotel, which implemented the system of corporate management, to deliver value of work, controllability and accountability to the investors.

8. International practice has shown that professionally operating Board of investors provide strategic planning and managers' actions control, while professional and motivated management during daily operations make maximum efforts to accomplish target tasks. With correctly built corporate management system, owners can increase an effectiveness of control and hotel's management by cutting time they spend on caring out this control. In our scientific work we have offered the formula to estimate the effectiveness of control by owners by interconnecting Du Pont formula with productivity formula (ratio of net profit to time spent by owner on control).

9. We have interconnected effectiveness of corporate governance with functioning of interdependent essential elements of corporate management system and offered the ways of hotel's continual improvement. The mechanism of corporate governance improvement was suggested. It includes: corporate control, congruence of interests between investors and managers corporate culture, image management. Apart from this, quality improvement chart was presented.

10. Along with growth of political and economic disruption all around the world, corporate social responsibility becomes a pressing matter. We have analyzed the level of disclosure of "Radisson Blu Hotel" corporate social responsibility program. We have offered five steps to improve stakeholders engagement and came to a conclusion that in order to maximize reputational and economic value, businesses can look to several principles when deploying responsibility: authenticity; competence; communication. Finally the measures of improvement of corporate social responsibility practices in the hotel were suggested.

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