

REFLECTION OF THE PANDEMIC CRISIS EFFECTS IN THE FINANCIAL REPORTS. AN OUTLOOK ON HORECA INDUSTRY

Carmen SCORȚE¹ ORCID: 0000-0002-6959-9678
Daniela ZĂPODEANU² ORCID: 0000-0002-5770-0505
Luminița RUS³ ORCID: 0000-0003-4636-0864

Abstract: *The economic growth of a nation is given by the future of economic entities across every domain. This future represents an important objective, with the decision-making process influenced by various factors. For a better future, economic entities have to manage better the sources and resources they need: financial, non-financial, or natural. This research aims to identify the pandemic crisis's impact on the economic entity's activity in HORECA. In that sense, financial reports have been analyzed, alongside annual reports from commercial entities traded on Bucharest Stock Exchange and belong to the activity domain related to the CAEN code 55-56. The paper is empirical research based on the analysis of financial indicators of the economic entities in this branch and on the analysis of the information gathered from the financial reports, which can lead to achieving this research objective.*

Keywords: *accounting information, financial indicators, government aid, operational activities, pandemic crisis*

JEL Codes: L51, L83, M40, M41

Introduction

The progress of a nation consists of companies' progress in every sector of activity, but it is also reflected in the well-being of its citizens.

The year 2020 has brought with it a tremendous challenge for humanity, the COVID-19 pandemic, generating a crisis that affects every domain of activity and every company.

One of the most affected branches is, without a doubt, the HORECA sector. HORECA is the abbreviation of the three words "Hotels", "Restaurants," and "Cafés". The term is commonly used in the hospitality industry to encompass activities that simultaneously refer to accommodation and catering services (food and beverages).

The hospitality industry constitutes one of the most dynamic sectors of contemporary society, having an accentuated purpose in the globalization process. The hospitality industry has to face the challenges of a pandemic and the challenges of an incoming economic crisis. Nevertheless, it also has to adapt to market changes, consumer behavior, organizational behavior, technological trends, confinement of the options available, and other uncertainties that substantially impact the decision-making process.

The primary services within the hospitality industry are accommodation and restaurants. These service branches cater to the vital necessities of tourists. However, this industry also has to

¹ University of Oradea, Faculty of Economic Sciences, e-mail: carmen.scorte@yahoo.com

² University of Oradea, Faculty of Economic Sciences, e-mail: danizapodeanu@yahoo.com

³ University of Oradea, Faculty of Economic Sciences, e-mail: lrus@uoradea.ro

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meet other needs and demands, such as social status recognition, the willingness to discover a new culture and its traditions, or a pleasant leisure time.

Thus, by tourism and hospitality, one can understand the activities regarding leisure or recreation. Secondly, the goods and services industry is created to meet tourists' needs, preferences, or social drive in their chosen destination.

The following paper approaches the influence of the COVID-19 medical crisis on the economic entities in the tourism and hospitality domains in Romania. We chose to focus on companies listed on Bucharest Stock Exchange, assuming that the challenges and the impact on the microeconomic level are identical. However, the capacity to seize opportunities and certain limitations is different, depending on how the management team uses financial resources and working force at a given moment.

In March and April of 2020, the National Institute of Statistics researched the impact of the COVID-19 crisis on the economic environment in Romania. According to the research mentioned, it is reported that the HORECA sector is governed by uncertainty in estimating the future development and the foresight of closing the entire business. In this domain, the situation has been dire: 95,4% of the companies included in the research were anticipating a reduction in more than 25% activity or even closing down the business.

According to the data published by the World Tourism Organization, the COVID-19 pandemic has deeply affected tourism (regarding arrivals), both nationwide and globally, as can be observed in (table no. 1):

Table no. 1 Influence of Covid-19 on tourism in 2019 – October 2021

Influence of COVID-19 on tourism	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Globally, 2019	96790	94381	107464	118034	120659	136335	163245	164832	131859	116837	99642	108039
Romania, 2019	139818	134950	169091	204015	272636	286135	301092	312086	287763	238792	176455	148655 -9%
Globally, 2020	98001 +1%	81185 -14%	37794 -65%	3862/ -97%	5494 -95%	12263 -91%	34395 -79%	39583 -76%	30381 -77%	21076 -82%	14663 -85%	16865 -84%
Romania, 2020	127620 -9%	120803 -10%	34220 -80%	1352 -99%	1307 -100%	12986 -95%	30090 -90%	32289 -90%	32750 -89%	24682 -90%	18736 -89%	16430 -89%
Globally, 2021	13753 -86%	11971 -87%	16111 -85%	18415 -84%	23194 -81%	32952 -76%	57100 -65%	64370 -61%	53301 -60%	47835 -59%	n/a	n/a
Romania, 2021	19139 -86%	20424 -85%	24929 -85%	24572 -88%	37215 -86%	70331 -75%	127948 -58%	152590 -51%	140950 -51%	98970 -59%	n/a	n/a

Source: Authors' projection based on <https://www.unwto.org/international-tourism-and-covid-19>

Analyzing the data from the table above, we can conclude that the COVID-19 pandemic generated a drastic decrease in the number of tourists both globally and nationally. The most dramatic downfall in Romania can be seen in the first months of the pandemic, specifically April and May 2020, when the reduced number of tourists regarding the arrivals in accommodation structures was 99-100%, compared to the same months from the previous year. This fact is determined by the state of emergency that was implemented nationwide.

One can also notice the damage of the COVID-19 crisis in the year 2021, but the impact is lower than the months of 2019, the decrease being of maximum 87%. The trend in 2021 is of descent, so in October of 2021, this indicator is 59%.

The foresight is dreadful also because of the influence of this specific sector on the national economy, given the number of companies, the number of employees, the revenue, and the profit made

by these companies in particular. For example, the negative impact of the medical crisis on HORECA is similar to a snowball, creating losses in other domains of activity, considered support-branches for the hospitality industry (e.g., textile manufacturers, produce farmers, supplies providers, etc.).

The position of the two main domains that compose HORECA, compared to national values, is presented in (table no. 2). The indicators are presented in absolute and relative values and are reported to the entirety of Romania's economy.

Table no. 2 Position of activity domain CAEN code 5510 and 5610 in total

No. Crt.	Explanation	Statistic – number of companies	Statistic – number of employees	Statistic – turnover	Statistic - profit
1.	Position – companies with CAEN code 5510 in absolute values from the total in the country	2947	29725	3,5 bil Ron 804,4 mil Euro	541,4 mil Ron 123 mil Euro
2.	Position – companies with CAEN code 5510 in relative values from the total in the country	0,13%	0,77%	0,22%	0,38%
3.	Position – companies with CAEN code 5610 in absolute values from the total in the country	13992	87389	10,1 bil Ron 2,3 mil Euro	1,2 bil Ron 271,9 mil Euro
4.	Position – companies with CAEN code 5610 in relative values from the total in the country	0,63%	2,25%	0,63%	0,85%

Source: Authors' projection based on: <https://www.topfirme.com/>

Methodology of research

In this article, we started from the premise that the current COVID-19 had various adverse effects on many areas of activity. In contrast, others were only slightly affected or even had some advantages.

Analyzing the current context, we assumed that the sectors in which the COVID-19 pandemic has had adverse effects, perhaps even disastrous proportions, are the two sectors that are naturally intertwined: companies whose main activity is CANE code 55 - "Hotels and other means accommodation" and 56 "Restaurants and other catering services," namely, the tourism sector and the hospitality industry. Starting from this hypothesis, our target is to validate this hypothesis, based on information provided by financial data of companies in these sectors businesses listed on the Bucharest Stock Exchange.

Consulting the Bucharest Stock Exchange website, we concluded that companies were grouped by activity domain, and our interest was precisely HORECA.

Thereby, we discovered 25 companies listed on the market in this domain, all of them having stocks exchanged on the platform. 4 out of 25 companies have had their activity suspended, therefore have been excluded from this analysis.

To grasp the influence of COVID-19 on the businesses' activities in the tourism and hospitality industry, we have decided to analyze the information from these companies' financial data between 2018-June 2021. However, at the time of our research, we must note that the fiscal year 2021 was not closed; thus, the data was only on the first semester of this year. Because we wanted to analyze the influence of the pandemic per semester and annual, we have decided to take into account the information from both semestrial and annual reports.

Starting with 21 companies and analyzing, in detail, their information, we concluded that not all of them have published their semestrial and annual financial reports or are lacking in administration council reports for the past four years.

Therefore, we found ourselves compelled to exclude from our analysis the companies that could not fit the established criteria: public semestrial and annual financial reports for the period 2018 to 2021 and published administration council reports for each of the years, respectively. Afterward, we found that four companies were to be considered adequate for our analysis, with one advantage being the fact that these companies are located in different areas of our country: North-East, North-West, Central and South-East – more specifically, the seaside area of Romania; the four companies, found in vastly different tourist attraction locations are also recommended for different forms of tourism. Without imposing, we can ascertain that every area of Romania has been affected, and the pandemic has influenced every means of tourism.

In the end, we have analyzed information from 7 financial reports and four administration council reports for each company.

We have analyzed a part of the primary decision-making indicators of the four companies: the turnover, the number of employees, value of equity, and the influencing link between them. These indicators can present the performance of the business and can contribute to an outlook on performance fluctuation in the future. (Sabău Popa et al., 2021)

Based on the statements above, it can be concluded that this paper is based on quantitative empirical research. The main objective is to determine changes in primary decision-making indicators of economic entities changes produced in the context of the COVID-19 pandemic.

Literature review

Searching the keywords "accounting information," "financial indicators," "governmental aid," "operation activity," and "pandemic crisis" has taken us to identify a vast number of indexed articles in the Web of Science and Scopus databases. Processing this information with the help of VOSviewer is presented in (fig. no. 1), highlighting in parallel the results.

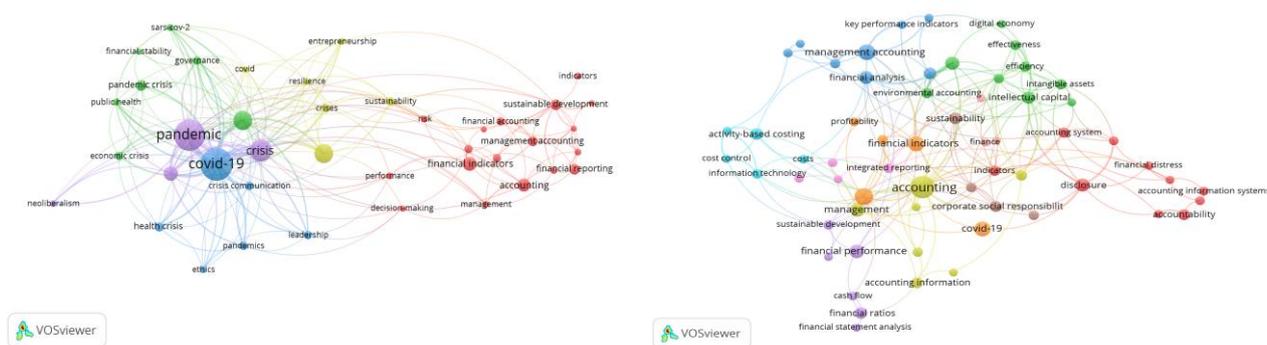


Fig. no. 1 The distribution of scientific papers on critical themes in WoS (left) and Scopus (Right)

Source: Authors' projection by <https://access-clarivate-com.am.e-nformation.ro/> with VOSviewer

We can observe that the interest and the main themes of research papers are profoundly different in the articles indexed in the two databases. In Web of Science, most articles lean towards themes such as *a pandemic, COVID-19, crisis*, or related to *accounting, financial indicators, financial reporting, sustainable development, or performance*. Categorizing the themes indicates two significant associations: one centered around the themes that relate to the *pandemic, COVID-19, crisis*, while the other one centers around themes that relate to *accounting, management, financial*

report, and financial indicators. In Scopus, most articles research themes such as *accounting, management, financial indicators* related to *management accounting, environmental accounting, and disclosure*. The COVID-19 theme is only linked to *accounting, management, or disclosure*. The distribution of the themes is heterogenic and yet homogenous; the links between the themes do not present isolated associations or ones that we can highlight.

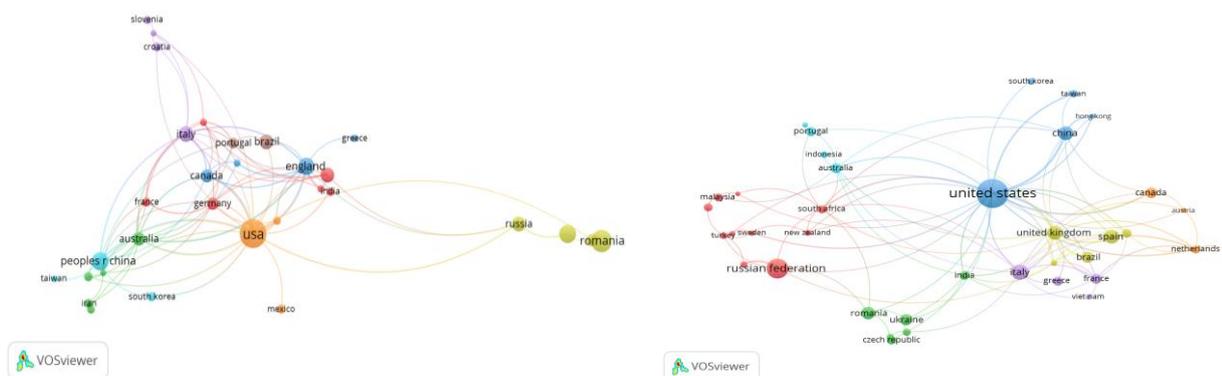


Fig. no. 2 The distribution of scientific papers on countries in WoS (left) and Scopus (Right)
 Source: Authors' projection by <https://access-clarivate-com.am.e-nformation.ro/> with VOSviewer

If we look at the countries that these authors come from, we can conclude, as it results from (fig. no. 2), that, in both databases, prevail the authors from the United States of America. In Web of Science, co-authors with solid links to the U.S.A. are from the United Kingdom, Russian Federation, China, Italy, France, etc. Romania presents weak links to authors from other countries in the same area as the Czech Republic, Ukraine, and Poland.

We can observe that our interest in the effects of the pandemic crisis on businesses has caught the attention of many others before us. The perspective that we want to approach on this theme starts from identifying the effects of a crisis on a business, the case study giving examples of identifying these.

In these times, we are going through a global crisis. It is a period in which many businesses face a significant downfall in managing the activity and resources. The moments of crisis, either short-lived or in the long term like the current pandemic, are characterized by multiple interdependent situations. This fact amplifies the complexity of management and the risk in decision-making because it is challenging to predict results in the context of unpredictable changes in the course of events. (Ostaev et al., 2020)

The global economy has been strongly affected by the COVID-19 pandemic in all areas of activity. The economic implications generated by the pandemic cannot be quantified on a large scale for the moment, as long as the pandemic does not end. Ozdemir O. et al., examining how the COVID-19 pandemic affected the hotel branch in the U.S.A., concluded that even though all hotel segments have been affected, luxury hotels have recorded the most significant decline in business compared to smaller hotels. Moreover, hotels that belong to a hotel chain are more affected than the independent or franchised ones. (Ozdemir et al., 2021)

Explicitly, tourism plays a vital role in the economic growth in more than one way: it generates income in national and foreign currency, which stimulates investments, encourages the development of other industries in the economy via intersectoral links, contributes to increasing employment rates, encourages technology prevalence, research and development overall. (Haryanto, 2020)

However, many interested participants in the industry see the crisis as a narrow window, an opportunity to reset the tourism and to create a more durable, sustainable, and inclusive sector that prioritizes responsible management and fair use of resources, and even distribution of benefits along the value chain (UNWTO 2021). The COVID-19 crisis must be seen as an opportunity to critically

reconsider the trajectory to grow the tourism industry and question the rise of the arrivals that implies more considerable benefits. The analysis can begin with the analysis of positive results of the COVID-19 pandemic: removal of old and inefficient planes from the circuit use, the use of videoconferences which eliminates non-essential traveling, a decrease of business travel, the prevalence of the home office system (Simple Flying 2020, Gössling et al., 2020, Banister & Stead, 2004, Cohen et al., 2018). All of these positive aspects of the pandemic will lead to reduced demand for transportation, with a positive impact on the decrease of fuel and energy consumption, reduced gas emissions, increased air quality, lower driving-related accidents, a decrease in expenses for companies.

Starting with the damage done to the global economy, the effect on tourism represents the evidence recognized by the market and even by the authorities.

Regardless of the conditions of carrying out the activity, the complexity of the management, or the risks that can affect its activity, a company should analyze and follow its priorities while also meeting the businessperson's interests. (Ostaev et al., 2020)

In trying to overcome the crisis of its own or its partners, some companies in the hotel industry have been involved in corporate social responsibility, such as providing accommodation to healthcare workers. The main reason for offering these services could help overcome the current crisis, even if it is done as an alternative to potential customers of the hotel or is following the concept of strategic philanthropy. (Shin et al., 2021)

Social responsibility has several dimensions in the powerful sense of the economy and from the tourism industry perspective: legal, economic, ethical, and philanthropic (Jucan and Jucan, 2010). The degree to which a business is responsible for society determines how proactive its approach towards social responsibility strategies is and how their actions bring wellness for themselves, others, and the biosphere.

Social responsibility in its ensemble implies more types of accountability (Zelezna et al., 2020, Tamdava M., 2020, Paskova and Zelenka 2019, Horng et al., 2018):

- Philanthropical Responsibility (PR) - "be a good citizen."
- Ecological and Environmental Responsibility (EER) – "respect the biosphere."
- Ethical Responsibility (ETR)– "do what is fair and just, avoid malicious behavior."
- Judicial Responsibility (JR) – "respect the legal regulations."
- Economical Responsibility (ECR) – "generate profit"

We can state that this typology of responsibilities concerns three aspects: the social and cultural dimension (PR and ETR), environment dimension (EER), and an economic dimension (JR, ECR).

A relatively recent study concluded that it could not be stated that the size and the age of a business are influential factors of its social responsibility. Rather than that, the degree of involvement, the way of action, the interest in community development, the decision to give donations or sponsorships, companies are influenced by the extent and age of small and medium-sized businesses (Bădulescu et al., 2018).

Accountancy is the tool to give information and answers to those interested in the company. Ng Frederick proposes analyzing the role of accountancy in different phases of a crisis of the business: the survival phase (accountancy's purpose is to clarify the impact of the crisis for stakeholders), the recovery phase (informing role about the resources of the business), and the revolution phase (as a support system in developing models of business and adapting to the new needs of the company) (Ng, 2021). The current moment in time belongs to some companies' survival or recovery phase.

Maintaining the stability of the business and its financial performance depends on the management team's skill to make a profit, on its ability to evaluate its activity using specific analysis indicators of operational performance, and also have an efficient decision-making process (Dutescu, A., Popa, A.F., Ponorîcă, A.G., 2014).

In these conditions, financial reporting is the one to offer clues about the risks that a business is subjected to; it is the proper tool to quantify the effects of the crisis by reflecting the risks identified

by the companies. Likewise, the accounting information, financial or non-financial, is helpful in decision-making for the stakeholders in the company.

Financial and non-financial reporting presents particular importance for the businesses belonging to every branch of activity through the information provided; this information has an overwhelming significance in identifying the risks and substantiating the decision-making process (Khaghaany et al., 2019). Companies in the tourism and hospitality industry, based on the information provided from financial and non-financial reporting, can identify more types of risks: general risks, economic-financial risks, and specific risks (Dębniewska et al., 2018, Davies, 2018, Oncioiu et al., 2021, Beleneși et al., 2021). The category of these three types of risks can be mentioned: risks associated with epidemics, disasters, natural hazards, seasonal risks, credit risks determined by the interest rate, currency risks caused by the exchange rates, price risks, liquidity risks, profit rate, client and employee safety, computer system risks, etc.

There is a series of indicators that offer clues to possible financial difficulties of the business: diminishing the operational activity through the significant decrease of the turnover, the rise of unpaid debt that reached its maturity, insufficient equities that determine a surge of borrowed capital, lower production potential, reduced number of employees, etc. (Cazac, I., 2017).

To meet the challenges posed by the COVID-19 crisis, tourism and hospitality companies need to pay close attention to the responsible management of its resources - human, financial, and material - as they have a striking influence on the company's performance as a whole, but and on decision-making indicators (Petcu and Sobolevschi, 2020)

The balance sheet offers information regarding the company's financial status; one particular element reflected in the balance sheet is equity.

Discussions and empirical results

As mentioned before, the main objective of this empirical research is to identify possible matching or relationships between specific indicators of financial performance and financial position.

Keeping in mind the purpose of proofing the evidence of damage done to the tourism sector, we have selected representative indicators from the financial report: turnover, equity, number of employees, profit for the years 2018 - June 2021.

We have oriented ourselves to these indicators for the following reasons:

- are indicators that influence each other
- are indicators between which causation links can be established
- are indicators that reflect the financial health of companies
- are indicators that highlight companies' subsistence and recovery capacity after a difficult period.

The analysis is focused on the most important indicator, the turnover of each company, concerning the following:

1. Turnover - Equity
2. Turnover - Number of employees
3. Turnover - Result

The turnover and *equity* are presented in (fig. no. 3).

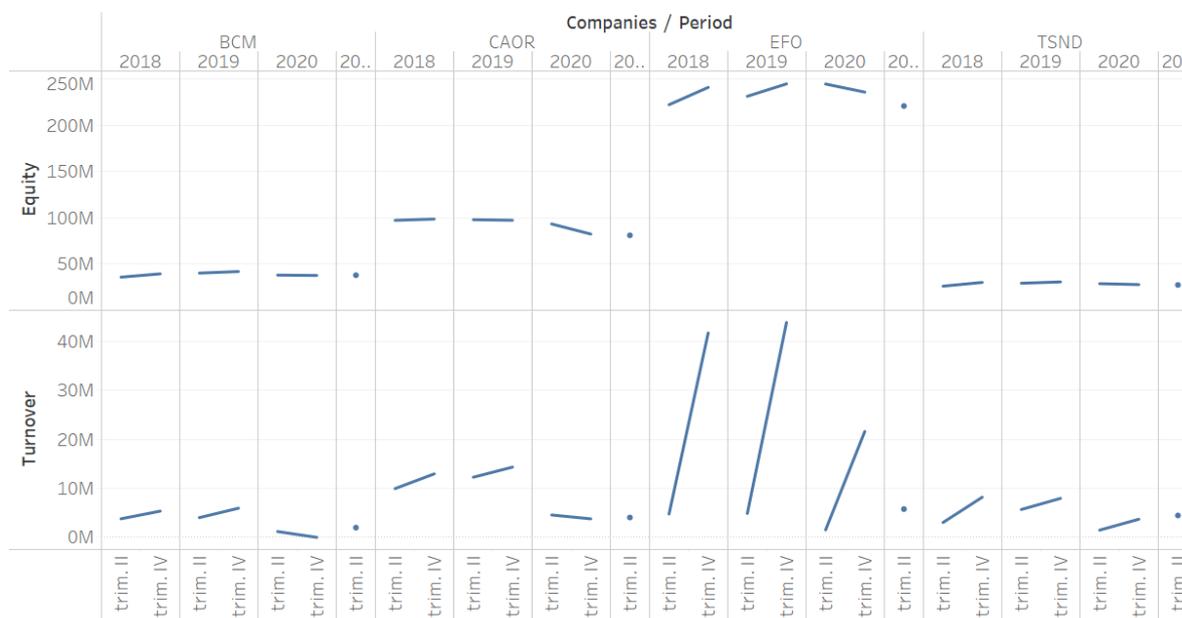


Fig. no. 3 The evolution of Turnover and of the Equity in 2018 – June 2021

Source: Authors' projection with Tableau 2021.4

The year this pandemic started brought a decrease of equity in all of the companies that have been analyzed, a telling sign of its effect on the businesses. Notable is the fact that no matter the specifics of tourism practiced, all four companies that have been analyzed have recorded negative equity numbers in the second semester of 2020. Even in the case of coastal tourism (EFO), where the peak of the summer season (July and August) takes place this semester.

Interestingly, the company that belongs to a hotel chain (CAOR) is recording a negative equity number for the same semester in the previous year, 2019. Analyzing the cause of this problem can be completed by other indicators specific to the company, such as the decrease of valuation reserves.

Moreover, we can notice that the decrease of equity numbers for the year 2020 (total) in comparison to the year 2018 is found in all businesses analyzed; this cut in the equity number is a reflection of the use of own resources in order to move across the period of crisis.

There is a strong correlation in the year 2020 between the decrease of equity numbers and the downward turnover evolution, which is also found in all of the businesses analyzed. In the case of mountain tourism (BCM), the turnover is 0 in the second semester of 2020, indicating that the company decided to suspend its activity temporarily. In the case of seaside tourism (EFO), one can notice a drastic reduction of the turnover in the first semester of 2020, which can be explained through the seasonal-dependent side of this type its activity.

The *profit and loss* statement gives insight into the company's financial performance.

As an equation between income and expenses, the financial result is a relevant index of the companies' activity and reported to the turnover; it expresses the rentability of the business.

The turnover numbers and the result/gross profit is presented in (fig. no. 4).

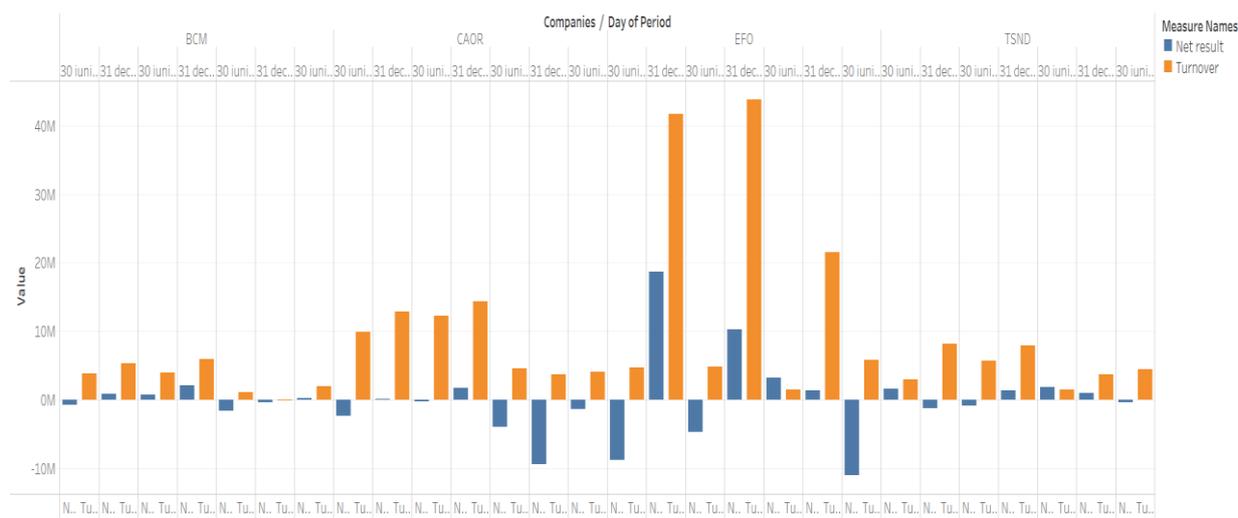


Fig. no. 4 The evolution of turnover and of the result in 2018 – June 2021
 Source: Authors' projection with Tableau 2021.4

As a tendency, in the 2018-2019 period, one can observe based on the Graphic that the result recorded is strongly linked to the evolution of the turnover. The increase in turnover influences the increase in profit.

An atypical evolution can be noticed in the case of seaside tourism (EFO). The season-dependent aspect influences its negative result in the first semesters of 2018 and 2019. The analysis of the Graphic indicates internal causes as well, inherent in obtaining a negative result: the TSND company – balneary tourism, CAOR – hotel chain, and BCM – mountain tourism.

2020, the first year of the pandemic, brings negative results recorded for the businesses that have been analyzed, both in the first and second semesters.

The positive result obtained during the year 2020 by the EFO and TSND companies can be explained by the reorientation of their activity towards event organization, business meetings, catering, etc.

Withal, a piece of vital information given by the financial reports, with effect over the economic activity, is the average number of employees that took part in the company's activity and worked on obtaining the result. The average number of employees, the intellectual capital of employees, their safety and level of satisfaction at work, employee productivity, and others are essential factors that determine the economic performance of the companies (Sardo et al., 2018, Suhartanto et al., 2018, Achim et al., 2013).

The workforce is a critical element that influences the activity of businesses in the tourism sector. Nevertheless, the workforce cannot and should not be looked at only quantity-wise, although these aspects (the personnel fluctuation) influence the quality aspects of the employees (re-employees, new employees who are less qualified, the significant number of inexperienced seasonal personnel).

In the hospitality and tourism industry, the workforce is influenced and is capable of influencing three types of factors:

- a) Organizational factors: the size of the hotel and number of rooms, workforce rotation rate, number of working hours, employee productivity, innovation, and management process (Kimm et al., 2021)
- b) Industrial factors: the trend and impact of new technologies in this sector, the fluctuating demand for certain forms of tourism, unexpected events that imply restrictions, public policies that target the hospitality industry

- c) Macroeconomic factors: the overall state of the economy, consumer prices index, the gross domestic product (GDP) (Lin et al., 2011)

The turnover and the *average number of employees* are presented in (fig. no. 5).

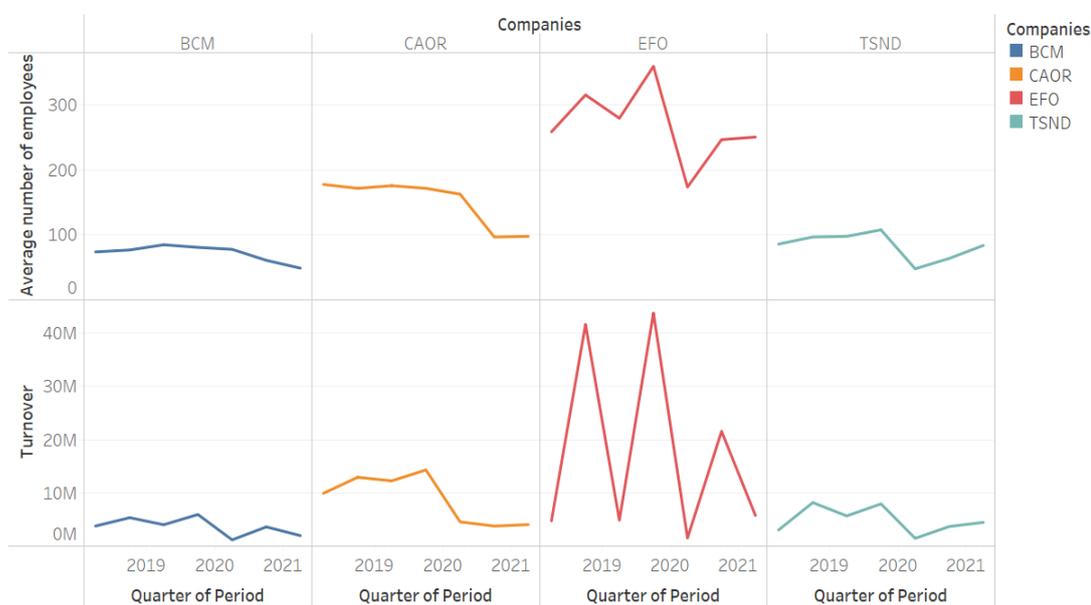


Fig. no. 5 The evolution of turnover and the average number of employees

Source: Authors' projection with Tableau 2021.4

We can ascertain a strong correlation between the turnover and the number of employees in the entire period analyzed. The size of the turnover obtained is reported to the number of employees. Also, in the year 2020, it can be noticed that a decrease in the average number of employees is an impact of the pandemic on this activity sector.

The financial report offers information that the company managers can consider relevant in presenting the business's accomplishments in the completed period. These can refer to the geographic area in which the company conducts its business, describing the activity by other criteria than the ones offered by standard forms, risks, and possible expenses, information about protecting the environment and sustainability, or about the climatic changes that can influence the activity of the company.

In the following period, but also post-pandemic, any company must take into account the capacity of subsistence and ability to come back from the following three perspectives:

- Endurance and organizational health
- Dynamic ability
- Financial health

Organizational health considers the ability to adapt and cope with the shock generated by the pandemic, the capacity in which the company can recover from difficulties (Orchison et al., 2016). The dynamic ability regards the abilities of the company to create, expand, and modify the resources intentionally so that the business will be able to adapt to the turbulent and moving market and environment (Jiang et al., 2019). Financial health is crucial to the endurance and ability of the company to answer in a flexible and timely manner to any disturbance that the business might face. Financial health considers the existence of a stock of unused resources, ready to be used and kept in a way that provides immediate access if needed (Daniel et al., 2004).

Conclusions, limitations and future directions in research

The consequences of the COVID-19 pandemic have significantly affected the tourism and hospitality industry. The countries where the economy depends significantly on tourism will face a dramatic situation. The recovery of companies in this sector and their return to normalcy will be conditioned, first and foremost, by the competitiveness they will face and their openness to innovation. Also, the ability to attract qualified staff, the ability of managers to generate a decision-making process that will increase performance (which can be reflected in financial and non-financial indicators)

Romania is a country that relies on tourism as it plays an essential part of the economy, primarily because of its geographic positioning, but also because of its ability to promote a variety of forms of it: seaside tourism, mountain tourism, balneary tourism, cultural tourism.

The study's empirical results are found in analyzing its most relevant index, turnover, correlated with the actions, the number of employees, and the financial result. These indicators can be found in the companies' financial reports in the tourism sector, which are listed on the Bucharest Stock Exchange and significantly affected the activity by the COVID-19 pandemic. Thus, the authors' contribution to the knowledge in this field highlights the influence of the number of employees and the company's financial position on financial performance.

As a result, we conclude that a reduction of demand in any form of tourism has translated into the descending trend of turnover, impacting the workforce demand, diminishing the gross profit, and even reporting losses. Moreover, the effects on the companies' activities by the factors as mentioned above lead to negative equity numbers, a significant index of solvability.

The limitations of this research were given by the inability to take a complex perspective on the effects of the pandemic reflected in more financial indicators. At the moment of the study, the year 2021 was not closed. We could not take a better look at two whole years, the fact that the pandemic did not end, hence the impact of the pandemic cannot yet be quantified on the entire sector.

As future directives of action, we propose extending our analysis to the entire year of 2021. The analysis will include more financial and non-financial indicators and specific indexes to the tourism sector in the long run.

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