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Romanian Hotel Industry Profile through the Traded Hotel Companies

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Abstract

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Peer-review under responsibility of University of Economics, Prague, Faculty of Finance and Accounting on Romanian stock exchange. The findings imply that the listed hotel companies are rather traded by those investors who are involved in the ownership concentration process. For the analyzed period, the free float of a company, the market capitalization seem to be factors that play a role in the trading decision of portfolio investors, while financial ratios are almost ignored.

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Keywords: Equity market; Hotel sector; OLS regression; RASDAQ; Bucharest Stock Exchange

1. Introduction

The hotel industry is an important component of any tourist destination. Tourism development within a destination is interlinked with an adequate supply of accommodation facilities combined to the tourist needs and demands. Furthermore, the hotel industry represents an essential component of the tourist image of a country (Kainthola, 2009). The hotel sector can support the attractiveness of a tourist destination or can contribute to its degradation.

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The present study completes the profile of Romanian hotel industry by analyzing the traded hotel companies on Romanian stock exchange, using the information available on Bucharest Stock Exchange and RASDAQ websites.

The situation of listed hotel companies on European stock exchanges and the low profile of hotel industry on capital markets were highlighted by Pop et al. (2008). When the research was conducted regarding the presence of hotel companies on Romania's capital market, the situation yielded a surprise given the important number of identified companies. Nevertheless, the RASDAQ component of Romanian capital market is the one which allowed the presence of a high number of Romanian publicly listed hotel companies.

It must be mentioned that most of the hotel companies on RASDAQ are located on the Romanian littoral (Constanta county), in correlation with the 'traditional' and most important (from authorities point of view) Romanian tourist product: sun tourism at the Black Sea side. The concentration of hotel portfolios in the same region (Romanian littoral) or in one resort, popular mainly among Romanian tourists, exposes the hotel industry to a higher risk if the tourist preferences will change. In a better position are those hotels located in spa resorts given the all year round available spa treatments or the hotels located in the main cities due to the combined demand expressed by various types of travelers.

2. Review of literature

While the international academic literature on various aspects regarding hotels is vast, the studies dedicated to a specific country hotel industry profile are relatively scarce.

The academic literature on Romanian hotel industry is relatively thin and covers a variety of topics. However, fewer studies are dedicated to hotel industry than to the tourism and travel sector as a whole. Even less studies are available on hotel companies listed on stock exchanges around the world.

The article of Pop et al. (2008) presented for the first time the situation of the Romanian hotel groups listed at Bucharest Stock Exchange, compared with the situation in Europe. Duma & Paun (2011) make a brief analysis regarding the classic methods of attracting capital and discuss the alternative of using the Romanian capital market for financing the company's activity, pointing out that the increase in equity capital can be achieved by means of an initial public offering (IPO) presenting the case of SC Bucovina Club de Munte (BCM) listed on the Bucharest Stock Exchange main market since 2008.

The present paper is the first to investigate the factors that influence the trading activity of the Romanian hotel companies and the findings are confirmed by the studies of Pop (2014) regarding the hotel industry profile, and Pop et al (2014) regarding the insider trading of the companies under scrutiny.

The study adds to the scarce literature on country hotel industry profile updated information regarding the listed Romanian hotel companies. Moreover, the study can represent a base for further researches regarding various problems of the Romanian hotel sector.

3. Methodology and results

The data were collected from RASDAQ and Bucharest Stock Exchange (BVB) as of December 2014 and for the trades and free float the information was extracted as of December 9th 2014 for 52 weeks. The financial ratios were calculated based on the simplified financial reports for 2013 available on Bucharest Stock Exchange or Ministry of Finance when the data reported at Bucharest Stock Exchange were not up to date. The dividend yield could not be taken in consideration as a factor since neither of the traded companies paid dividends during the past 3 years (2011-2013).

For current analysis only 34 out of 49 listed hotel companies on RASDAQ were taken into account and 3 out of 3 listed companies on BVB main market. The companies considered were those that registered trading activity (at least 1 trade during the 52 weeks). The company Zodiac 2000 (ZODI) was excluded from the calculation of financial ratios, given to the absence of financial reports.

Based on the survey presented in Annex 1, the question that arose was if the 5 independent factors considered (net profit/loss ratio, debt to equity ratio, Tobin's q ratio, market capitalization and free-float) influence the number of trades of the listed hotel companies. To test this relationship the OLS regression was used given the limited

amount of data. The relationship between the depended variable Y and various independent variables (X_i) is given by the general formula:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \varepsilon \quad (1)$$

where Y = dependent variable and X_i = independent variables.

4. Results and discussions

Based on the Annex 1, the situation of the 37 listed hotel companies is the following:

- 19 companies (51%) do not have a website;
- 19 companies own/ operate just 1 hotel; 8 companies own/ operate 2 hotels; 2 companies own/ operate 3 hotels, 1 owns/ operates 7 hotels and just one (Turism Hoteluri si Restaurante Marea Neagra, EFO symbol) can be considered a hotel group with 23 owned/operated hotels. One company owns/ operates only villas (Neptun-Olimp, symbol NEOL). The other lodgings owned/ operated by the respective companies were ignored since the hotels are the dominating type of accommodation according to Pop (2014);
- in 5 cases the existence of hotels among the respective companies' assets could not be established.

Regarding the ownership structure as reported by Bucharest Stock Exchange, it can be observed that 6 companies are controlled by Micula brothers and 2 by Mr. Murad. In fact 35% of the hotel companies are owned/ controlled by men in top 300 richest Romanian persons. For the remaining companies, the two closed-end Romanian investment funds have a majority position in 9 hotel companies.

The 37 listed hotel companies under scrutiny are listed both on RASDAQ (34 companies) and on Bucharest Stock Exchange (3 companies).

Table 1: Descriptive statistics for RASDAQ (2014)

	All market					
	trades	market capitalization	free float	net profit/loss ratio	debt to equity ratio	Tobin's q
Mean	135	12,667,430.24	0.2131	-69.12	5.033	0.4647
Standard Deviation	546	26,841,597.16	0.1727	610.05	14.153	0.9056
Minimum	1	12,058.48	0.0027	-10234.08	0.000	0.0000
Maximum	7302	184,604,256.00	1	2457.61	174.767	10.2188
Count	448	448	448	430	440	440
	Hotel sector					
	trades	market capitalization	free float	net profit/loss ratio	debt to equity ratio	Tobin's q
Mean	63	14,111,200.16	0.1117	45.39	1.729	0.8148
Standard Deviation	114	29,375,823.23	0.0915	439.55	2.022	1.4999
Minimum	1	101,016.30	0.0034	-252.07	0.008	0.0208
Maximum	509	147,693,144.00	0.3935	2457.61	7.123	6.9812
Count	34	34	34	33	33	33

Source: authors' computation

Table 1 above reveals that hotel sector registered relative low level of trading compared with the whole market, while the average market capitalization is slightly higher than the whole market average. The free float is lower, given the high level of control mentioned above. The financial ratios show that RASDAQ traded hotel companies are profitable, have a lower debt to equity ratio and have an average Tobin's q closer to 1 being less undervalued than other RASDAQ companies.

In the case of the hotel companies traded at Bucharest Stock Exchange (Table 2), the same low level of trading can be observed, compared with the whole market. Thus, in this case the hotel companies' average market capitalization is low compared with the other BVB companies, while the free float is almost the same with the whole market. Similar with RASDAQ hotel companies, BVB hotel companies have a better profitability and a better debt to equity ratio than the whole market. Nevertheless, BVB traded hotel companies are rather undervalued despite their financial performances.

Table 2: Descriptive statistics for Bucharest Stock Exchange (2014)

	Standard category					
	trades	market capitalization	free float	net profit/loss ratio	debt to equity ratio	Tobin's q
Mean	2,391	115,824,257.17	0.2723	-2.04	2.913	0.4082
Standard Deviation	3,797	298,811,398.34	0.1637	21.97	2.902	0.3460
Minimum	54	1,079,573.68	0.0032	-92.45	0.018	0.0351
Maximum	20,255	1,940,805,051.94	0.7032	55.69	13.278	1.7629
Count	53	53	53	53	53	53
	Hotels within standard category					
	trades	market capitalization	free float	net profit/loss ratio	debt to equity ratio	Tobin's q
Mean	1,053	44,349,507.27	0.2509	7.85	0.273	0.3060
Standard Deviation	580	36,331,416.94	0.0706	5.05	0.101	0.1474
Minimum	642	13,387,168.00	0.1993	2.54	0.163	0.1461
Maximum	1,716	84,345,407.52	0.3313	12.59	0.360	0.4363
Count	3	3	3	3	3	3

Source: authors' computation

Further on, the OLS regression (equation 1) was used in order to establish if the dependent variable (trades) is influenced by the independent factors.

First, all the 5 independent factors (net profit/loss ratio, debt to equity ratio, Tobin's q ratio, market capitalization and free-float) were taken into consideration. The results are presented in Table 3, below.

Table 3: Model results for the 5 independent factors established initially

		Standard	T	
Parameter	Estimate	Error	Statistic	P-Value
constant	17.2539	115.962	0.148789	0.8827
net profit/loss	-0.0187034	0.124076	-0.150741	0.8812
debt/equity	-24.3876	28.9575	-0.842186	0.4063
Tobin's q	-39.9646	37.4445	-1.0673	0.2943
capitalization	0.00000303377	0.00000174318	1.74037	0.0920
free float	1158.94	534.76	2.16721	0.0383

Model				0.0710
adjusted R-squared (%)				15.5394

Source: authors' computation

The net profit/ loss ratio is the factor with the lowest influence within the model. The factors that seem to be important are the market capitalization and the free float. Thus, the model explains only 15.54% of trades' variability at about 93% level of confidence.

Given its lack of importance within the model, the net profit/ loss ratio was replaced by the return on equity (ROE). The results are presented in Table 4. The change triggered no important alteration in the importance of all other independent factors, while revealing the lack of importance of profitability for the trading decisions. Thus, the model explains only 15.49% of trades at the same 93% confidence level.

Table 4: Model results for the modified 5 independent factors

		Standard	T	
Parameter	Estimate	Error	Statistic	P-Value
constant	14.7635	114.764	0.128643	0.8985
ROE	8.56508	142.008	0.0603139	0.9523
debt/equity	-22.8116	31.239	-0.730227	0.4709
Tobin's q	-39.7325	37.4232	-1.06171	0.2968
capitalization	0.00000303482	0.00000175313	1.73109	0.0937
free float	1158.82	534.935	2.16629	0.0384
Model				0.0715
adjusted R-squared (%)				15.4857

Source: authors' computation

For the last testing, only 4 independent variables were taken into consideration, eliminating the profit related ratios. The results are presented in Table 5 and reveal that the least important factor is debt to equity ratio, thus T-statistic is closer to 1. The other factors seem to influence the trading decision, while the most important remains the free float, followed by the market capitalization. The importance of free float might suggest the common investors' awareness regarding the availability of tradable shares and/ or the fact that the existing shareholders (insiders) are following a concentration process of the remaining shares.

Table 5: Model results for the remaining 4 independent factors

		Standard	T	
Parameter	Estimate	Error	Statistic	P-Value
constant	14.7054	112.901	0.130251	0.8972
debt/equity	-23.5865	28.0134	-0.841973	0.4063
Tobin's q	-39.6502	36.7924	-1.07768	0.2895
capitalization	0.00000304696	0.00000171332	1.77839	0.0851
free float	1158.96	526.263	2.20225	0.0352
Model				0.0357
adjusted R-squared (%)				18.202

Source: authors' computation

The results presented above indicate that financial ratios are almost ignored by those who decide to trade the Romanian listed hotel companies. The disregard of company's profitability and the constant absence of dividend can only point toward insider transactions rather than toward common investors interested in a portfolio diversification. Moreover, the blurry asset situation seems not to have an impact on trading decision, at least in the cases of symbols

ATPA, NORD, and DACC which are overvalued while no direct hotel ownership/ operation could be established. These findings are supported by the general profile of the RASDAQ market as presented by Pop et al (2014). The 3 companies traded at Bucharest Stock Exchange are too few to influence the results and in their case the trading is discouraged by the dominant position of closed-end investment funds.

Also, the presence of top 300 richest persons in the ownership structure of 35% of traded hotel companies might also be discouraging for common investors since these persons are related to corruption and shady transactions. Moreover, as highlighted by Pop & Coros (2011) they consider the hotels as trophy properties. The result suggesting the inside trading and the tendency of further share concentration are rather confirming the idea of ownership of such prize properties.

5. Conclusions

The current paper reveals the following profile for listed hotel companies: they are profitable companies and have relative low level of debt to equity ratio, revealing that they rely rather on internal financing sources. Thus, the RASDAQ listed companies exhibit a relative low free float and a low level of trading. RASDAQ hotel companies are less undervalued compared with those listed on BVB main market. The dominant investors trading these companies are the insiders given the lack of importance of financial ratios within the trading decision. This finding is further confirmed by the absence of websites in the case of 51% of the hotel companies under scrutiny. Furthermore, the findings of Pop (2014) support also this finding by revealing Romanian hotel companies lack of development strategies and the absence of domestic brands for the same companies.

For a further research, it will be interesting to observe what path the RASDAQ listed hotel companies will choose given the expected dissolution of RASDAQ for October/November 2015 and to monitor how many of these companies will choose to remain public companies, given their chronic unwillingness to provide transparent and appropriately presented information for investors.

Appendix A. The situation of the listed hotel companies

Name	Symbol/ Market	County	Website	Ownership structure as reported by Bucharest Stock Exchange (BVB)	Hotels owned/operated	Comments
Athenee Palace SA	ATPA RASDAQ	Bucharest	www.athenee- palace.ro	Ana Hotels SA 41.58% Tehnofrig Palace SA 19.07%	No	Athenee Palace Hilton Hotel is owned and operated by Ana Hotels ¹ . ATPA owns only some land ² .
Balea Estival 2002 SA	BLEA RASDAQ	Constanta	NO	Bucegi SA 54.03% Rieni Drinks 39.62%	1 hotel/260 rooms	Controlled by Micula brothers ⁴ through a series of companies where they hold the majority shareholder position.
Banat Estival 2002 SA	BNAT RASDAQ	Constanta	NO	Comtexin SA 54.03% Rieni Drinks 39.62%	1 hotel/12 rooms	Controlled by Micula brothers ⁴ through a series of companies where they hold the majority shareholder position.
Bega Turism SA	SCDE RASDAQ	Timis	NO	Cristescu V-M. 65.02% Cristescu E. 30.04%	2 hotels/248 rooms	The two shareholders are brothers ⁴ .
Biroul de Turism pentru Tineret (BTT) SA	BIBU RASDAQ	Bucharest	www.btt.ro	Ministerul Tineretului si Sportului 87.92% SIF (3) Transilvania 10.64%	1 hotel/139 rooms	State owned
Bucuresti Turism SA	BUTU RASDAQ	Bucharest	www.hbu.ro	Bea Hotels Eastern Europe BV 76.83% SIF (3) Transilvania 11.29%	1 hotel/424 rooms 1 apart-hotel/293 rooms	Branded hotel: Radisson Blu Bucharest
Casa de Bucovina – Club de Munte SA	BCM BVB	Suceava	www.bestwesternbucovina.ro	SIF (4) Muntenia 66.87%	1 hotel/130 rooms	Branded hotel: Bestwestern Bucovina
Compania Hoteliera Intercontinental Romania SA	RCHI RASDAQ	Bucharest	www.interconti.ro	Mountbay Ltd 32.90% SC Asigurare-Reasigurare Astra SA 16.32% The Nova Group SA 15.71% Lido SA 11.89%	1 hotel/257 rooms	Controlled by Adamescu family ⁴ . RCHI owns the hotel; the hotel is operated under management contract by ICH for the flagship

						brand Intercontinental. Branded hotel: Intercontinental Bucharest
Complex Hotelier Parc SA	COPF RASDAQ	Olt	www.hotelparc-slatina.ro	SIF (3) Transilvania 27.87%; Goanta Turism Invest SNC 42.07% Goanta Holding Invest SNC 24.34%	1 hotel/70 rooms	Controlled by Mr.Goanta.
Dacia 2001 SA	DACC RASDAQ	Constanta	NO	Marina & Santis SRL 96.53%	No	The majority shareholder of DACC appears to be the operator/owner of Hotel Bavaria Blu (former Hotel Dacia Nord): 4 stars/139 rooms. Controlled through Marina & Santis SRL by Dumitrache Ion and his wife ⁴ .
Dorna Turism	DOIS RASDAQ	Suceava	www.dornaturism.ro	SIF (3) Transilvania 32.01% Vezeteu Gh. 50.00%	2 hotels/298 rooms	
Durau SA	DURN RASDAQ	Neamt	NO	Diprest Consulting SRL 32.00% Columna Com SRL 32.00% Botezatu Ctin 20.05%	1 hotel/33 rooms	
Granat SA	GRAO RASDAQ	Constanta	NO	Dumitrescu M. 24.27% Sucu D-V. 23.84% Stanescu D. 17.58% Economic Rental Services 15.38%; Professional Rental Services 15.38%	1 hotel/114 rooms	The hotel is currently operated by Delta Aurora SA.
Hebe SA	HEBE RASDAQ	Bistrita-Nasaud	NO	Phoenicia Express SRL 31.06% Murad Mohammad 23.38% Simion family 32.84%	1 hotel/230 rooms	Controlled my Mr. Murad ⁴ in similar way as Micula brothers.
Hercules SA	ERCA RASDAQ	Caras-Severin	www.herculane.ro	Argirom International SA 61.14%	2 hotels/302 rooms	Controlled by Mr. Iosif Armas ^{3,4} who owns 89.16% of Argirom The company website is not up to date.
Hotel Club Estival 2002 SA	CLUB RASDAQ	Constanta	NO	Certinvest SRL 39.65% Star SA 35.18%	2 hotels/388 rooms	Controlled by Micula brothers ⁴ through a series of companies where they hold the majority

				Transilvania Complex 18.85%		shareholder position.
Imparatul Romanilor Turism SA	IMPR RASDAQ	Sibiu	http://sibiu.imparatulromanilor.ro	Imparatul Romanilor SRL 82.68%	1 hotel/86 rooms	The website also has links towards other 4 hotels in various locations. All these hotels are under the majority control of the same person: Muntean Aurel Eugen ⁴ .
International SA	INTE RASDAQ	Prahova	www.international-sinaia.ro and www.hotelinternational.ro	Radan 2000 SRL 44.16% Rusanu sisters 46.94%	1 hotel/173 rooms	Radan 2000 SRL is 100% owned by one of the Rusanu sisters. The second website redirects to www.international-bucharest.ro dedicated to Hotel International Bucharest. This hotel is operated Comity Prod Exim SRL Bucharest. It is not clear if INTE owns or not the hotel in Bucharest.
Miorita 2001 SA	MIOM RASDAQ	Constanta	NO	M. Ctii, Transport, Turism 96.53%	Not clear Possible to own/ operate Hotel Miorita in Mamaia The hotel is not in the official data base since 2012	Important discrepancy exists between what BVB data regarding the shareholder's structure and ONCR data where 2 private companies own each about 40% of the shares. Further details can be provided upon request.
Neptun-Olimp SA	NEOL RASDAQ	Constanta	www.neptunolimp.com	M.Economiei 52.22% SIF Transilvania 41.18%	According to the website the company currently owns and operates only 5 villas of 3 rooms each, classified at 4 stars.	
Nord SA	NORD RASDAQ	Bucharest	NO	Central European Financial Services 50.02% SIF (5) Oltenia 18.12% Victoria Art & Business Center 18.53%	NO Not clear if the company still owns through other companies the building of former Hotel Nord, currently Ibis Gara de Nord operated by Continental Hotels	There are some discrepancies between the BVB report on shareholder structure and ONCR data.
Oltenia Estival 2002	OLTE	Constanta	NO	Histria Shipmanagement SRL 93.67%	1 hotel/10 rooms	

SA	RASDAQ					
Orizont Turism SA	ORTU RASDAQ	Brasov	www.orizontturismsa.ro www.hotelorizont.ro		1 hotel/140 rooms	The first website is dedicated to shareholders. The second website presents the hotel.
Palace SA Sinaia	PACY RASDAQ	Prahova	NO	Fondul Proprietatea 15.43% Broadhurst Investments Ltd 21.39% Cozma Angela 32.00% MHC Explorer SRL 14.54%	2 hotels/216 rooms	
Parangul SA	PRGL RASDAQ	Hunedoara	NO	Tunaru sisters 63.47% AVAS 14.31%	2 hotels/187 rooms	ONCR does not mention the individual persons as shareholders
Prahova Estival 2002 SA	PRAH RASDAQ	Constanta	NO	Comtexin SA 54.03% SIF (3) Transilvania 39.62%	1 hotel/46 rooms	Controlled by Micula brothers ⁴ through a series of companies where they hold the majority shareholder position.
Resib SA	RESI RASDAQ	Sibiu	NO	Serban M. 95.35%	1 hotel/74 rooms	
Robinson Turism SA	ROPR RASDAQ	Bucharest	NO	Salberg Dezvoltare SRL 57.06% Trioni Investment Ltd 14.77% Predeal Investitii SRL 11.45%	1 hotel/45 rooms	Company formerly known as Robison Predeal SA. ONCR gives more details about 'other shareholders'
Romanta Estival 2002 SA	ANTA RASDAQ	Constanta	NO	Bucegi SA 54.03% Certinvest SRL 39.65%	1 hotel/275 rooms	Controlled by Micula brothers ⁴ through a series of companies where they hold the majority shareholder position.
Transilvania Estival 2002 SA	ANIA RASDAQ	Constanta	NO	Perla Majestic SA (MAJE) 86.81% SIF (3) Transilvania 11.14%	1 hotel/219 rooms	Controlled by Mr. Murad ⁴ through the listed Perla Majestic SA (MAJE).
Tratament Balnear Buzias SA	BALN RASDAQ	Timis	www.buzias.ro	SIF (3) Transilvania 91.87%	3 hotels/306 rooms	
Turism Covasna SA	TUAA RASDAQ	Covasna	www.turismcovasna.ro	SIF (3) Transilvania 89.12%	3 hotels/388 rooms	Hotel Caprioara is not in the official ANT data base as of December 2014.
Turism Hoteluri si Restaurante Prahova	TUSI RASDAQ	Prahova	www.thr.ro	SIF (3) Transilvania 89.52%	1 hotel/166 rooms	

Tusnad SA	TSND RASDAQ	Harghita	www.tusnad.ro	SIF (3) Transilvania 80.67% SIF (5) Oltenia 11.79%	2 hotels/225 rooms	
Turism Hoteluri si Restaurante Marea Neagra SA	EFO BVB	Constanta	www.thrmareaneagra.ro	SIF (3) Transilvania 77.71%	23 hotels/3906 rooms	
Turism Felix SA	TUFE BVB	Bihor	www.felixspa.ro	SIF (3) Transilvania 63.20% SIF (5) Oltenia 16.97%	7 hotels/1329 rooms	
Zodiac 2000 SA	ZODI RASDAQ	Constanta	NO	Buzdun N.R. 89.56%	Not clear if it still owns hotels or other types of lodgings. No hotels owned/ operated according to official ANT database.	This company did provided any reports to BVB/ RASDAQ market since 2004 and to Ministry of Finance since 2008.

Source: authors' compilation based on the data provided by the hotel companies' websites, by Autoritatea Nationala pentru Turism (ANT) at <http://turism.gov.ro/informatii-publice/>, by Oficiul National al Registrului Comertului (ONCR) at www.oncr.ro and by Bursa de Valori Bucuresti (BVB) at www.bvb.ro

Note 1: Ana Hotels SA is controlled by George Copos⁴. Ana Hotels SA is registered as operator/owner of following hotels (as of December 2014): Hotel Athenee Palace Hilton Bucharest (5 stars/272 rooms); Hotel Crowne Plaza-Flora Bucharest (4 stars/164 rooms); Hotel Europa Eforie Nord Constanta (4 stars/221 rooms), Hotel Bradul Poiana Brasov (4 stars/59 rooms), Hotel Sport & Spa Poiana Brasov (4 stars/104 rooms), Hotel Poiana Poiana Brasov (3 stars/53 rooms).

Note 2: This was established by screening the financial situations reported on the website. They clearly indicate the absence of any buildings among ATPA assets.

Note 3: Iosif Armas is a controversial figure; it was accused with neglecting and almost destroying the hotels he acquired when privatized and owned. Currently he is under investigation for various criminal activities. It is not clear how many hotels Mr.Armas owned; at least four of them are reported by various newspapers to be sold between 2006 and 2011.

Note 4: All the persons marked for this note are ranked among Top 300 the richest Romanian by the weekly Romanian magazine Capital. For more details regarding their interest within the hotel industry please see Pop & Coros (2011).

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