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## COMPLAINEE CONTROL IN THE HOTEL BUSINESS

*It is carried out an analysis of the preconditions and outlines the prospects for implementation of compliance into the hotel business entities in the service market. The theoretical basis is defined and the methodology of compliance control is developed. The main problems are identified. The directions of the application of compliance control in the management of the hotel business entities are given.*

*Keywords:* hotel business entity, compliance, compliance control, compliance risks.

*Бовш Л., Гопкало Л. Комплаенс-контроль в гостиничном бизнесе. Проведен анализ предпосылок и очерчены перспективы внедрения комплаенса в деятельность субъектов гостиничного бизнеса на рынке услуг. Определен теоретический базис и разработана методология комплаенс-контроля. Установлены основные проблемы и приведены направления использования комплаенс-контроля в менеджменте субъектов гостиничного бизнеса.*

*Ключевые слова:* субъект гостиничного рынка, комплаенс, комплаенс-контроль, комплаенс-риски.

**Background.** The concept of compliance is actively applied in the management of companies worldwide. Gradually, according to the tendencies in integration processes, compliance is implemented into domestic companies' activities as a preventive mechanism of protection against economic risks. The relevance of the hotel business entities, which are components of the tourism system, including quality assurance of service and formation of corporate reputation.

That is why it is advisable to analyze the perspectives of implementing compliance control into activities of hotels as a factor of business success in the view of transparency and compliance, initiated by investors, owners and franchisors.

**Analysis of recent research and publications.** Compliance as a theoretical and practical concept of management has recently become an object of interest for domestic scientists and market practitioners.

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However, the attention of both Ukrainian and foreign researchers is mainly related to the objects of industry, pharmaceutical manufacturing and banking, public administration [1–8; 19–20]. Thus, M. Pieth considered compliance as anti-corruption mechanisms [9], J. Wieland, R. Steinmeyer [10] and S. Behringer [1] – as an effective tool for companies management. Arguments for compliance control were made by L. Klyusko [5], T. Kobeleva [6], M. Dumitru [11] et. al. The need for control as an integral part of the management policy of the national tourism system is mentioned in the works by A. Mazaraki, M. Bosovska and others [12], as an element of crowd-funding technology – N. Vedmid, M. Boiko, A. Okhrimenko [13].

There is reason to expand research on this issue because the hotel industry is not sufficiently covered by the methodology of compliance.

The **aim** of the article is the development of theoretical and methodological provisions of the compliance control of the entities' activities in the hotel services market.

Tasks that outline the achievement of this goal are following:

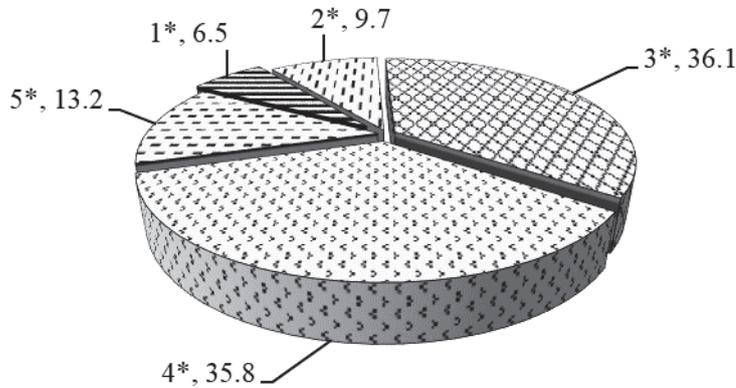
- to define the definition and meaning of the concepts "compliance" and "compliance control";
- to determine the perspectives of implementation of the compliance control of the activity of domestic hotel business entity in the services market;
- to develop a methodology of compliance control for domestic hotel business entities in the services market;
- to determine the directions of its application in hotel management.

**Materials and methods.** Methods of analysis and synthesis, scientific generalization and induction were used, including generalization of scientific literature on the content and functions of compliance and compliance control.

**Results.** Compliance (English: *compliance* – conformity; accordance) means an action according to a request. In other words, compliance with specific activities of the company for internal or external requirements (laws, standards, norms, regulations, instructions) [7, c. 13]. Compliance is also a part of the management and control system for quality standards, corporate standards, compliance with legislation, regulations and etc. Therefore, compliance control should be considered as a corporate image standard that the company's representatives are guided.

Today the hotel services market needs an upgrade of the requirements for the material and technical base, internal and external control system, standardization of quality, given the fact that in the period from 01.01.2016 to 01.10.2019 the Certificate of Assignment of the Category was terminated in 96 hotels and Certificates of 14 entities will have been terminated by the end of 2019. In addition, to evaluate the extent of external independent compliance, it should be noted that according to the Tourism Department of the Ministry for Development of Economy, Trade and Agriculture of Ukraine at the beginning of October 2019 hotel services of different levels of comfort offered 4719 accommodations [14]. However, only 341 of them have been certified. Their categories are established: 5\* – 41 (13.2 %), 4\* – 122 (35.8 %) 3\* – 123 (36.1 %),

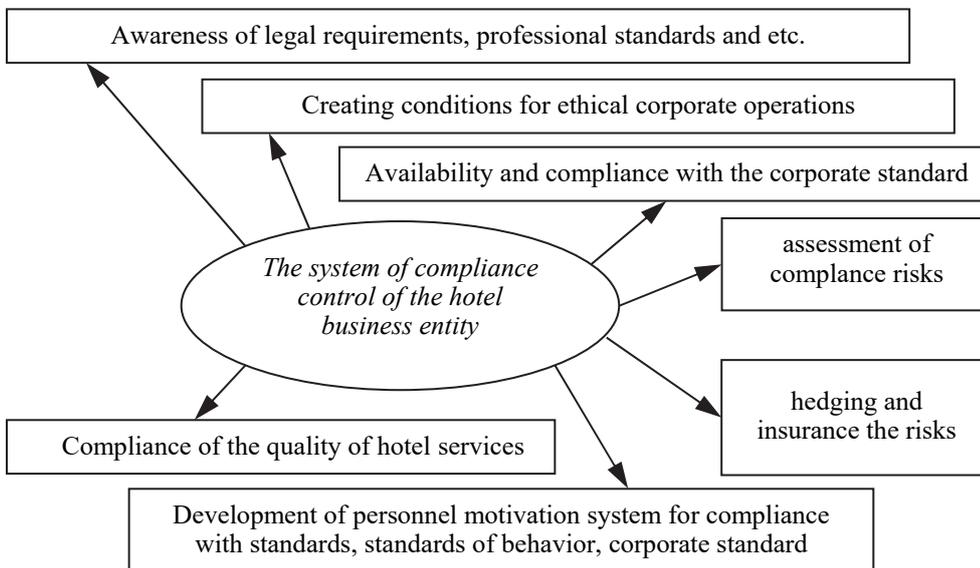
2\* – 33 (9.7 %), 1\* – 22 (6.5 %) [15] (figure 1). This situation requires compliance in the course of service activities in the legal field, because pursuant to Chapter 5 of Article 19 of the Law of Ukraine "About Tourism" "...it is forbidden to provide accommodation services without a certificate of establishment of the relevant category" [16].



**Figure 1. Structure of Certified Hotel Business Entities, %**

Source: authors based on [14; 15].

Implementation of external compliance control of hotel business entities and creation of a system of compliance management will contribute to the growth of the investment attractiveness and value of reputation capital, will form the preconditions for improving the quality of services and maintenance in accordance with corporate standards (figure 2).



**Figure 2. The compliance control functions of the hotel business entity**

Source: authors based on [3; 19].

At the same time, compliance goals can be summarized as follows [3]:

- monitor and enforce the fulfillment of legislative requirements;
- abide by provisions, professional standards and internal rules;
- to provide the expectations of consumers and stakeholders holding the ethical conditions for the image and reputation of the hotel;
- hedging the risks and preventing the negative consequences and problems that arise in the process of realization of economic functions, etc.

Compliance control is based on compliance with legal requirements and internal standards in accordance with ethical principles and norms. As a management element, the compliance program is constructed in this order [3, p. 12]:

- implementing a culture and compliance policy at the hotel. At this stage, goals and compliance risks are identified and experience of business practices based on ethical principles are implemented;
- organizational and resource support of the compliance system;
- identification and assessment of economic risks;
- forming a profile of compliance management: documentation (provisions, standards, instructions, etc.), directions of coordination and subordination, methods and means of control;
- creating a system for reporting possible violations;
- conducting an internal review and disciplinary actions in the case of a violation of company policies by hotel representatives.

To test the above hypotheses of formation the system of compliance control in the activity of domestic hotels, we will construct a complex of identities according to two criteria: ascriptive and activity related attributes (*figure 3*). The first is the compliance prospects that a hotel receives regardless of its own actions, that is, under the influence of certification or standardization requirements; the second is characteristics that are driven by conscious and purposeful activity.

		Activity related attributes	
		+	-
Ascriptive Characteristic	+	<i>intensive</i>	<i>ascriptive</i>
	-	<i>consecutive (consequential)</i>	<i>unspecified</i>

**Figure 3. Types of compliance identity of hotel business entities**

Source: authors based on [17; 18].

The types of identity of compliance control systems in domestic hotel business entities are formed according to the criteria of ascriptive and activity related attributes (*figure 3*). To test this typology, the research were conducted to determine the importance of certain attributes in compliance of hotel entities with the exploratory factor analysis by the method of categorical analysis of main components, which allows to quantify ordinal data in metric.

The survey was conducted among a selection of certified hotel brands (*figure 1*), including international chains, national chains and autonomous hotels.

The results *table 1* confirm the validity of the distribution of identity determination criteria of the types of compliance control, which demonstrates the tendencies of the communicative environment in the hotel market, which have been transformed into activity related attributes.

Table 1

**Pattern matrix**

Criteria	Factors	
	ascriptive	active
Certification of activity	0.43	0.44
Certification of quality of hotel services	0.4	0.25
Compliance of professional standards	0.91	-0.09
Compliance of corporate standards	0.1	0.72
Control of management methods and technologies	-0.1	0.89

Source: authors based on [17; 18].

From the *table 2* it follows that a consecutive type of identity is the most common in the market of hotel services (72 %). It exists under the influence of trends and is also a consequence of market requirements, legislative requirements.

Table 2

**Distribution of hotels in Kyiv by type of compliance control identity**

Type of identity	%	n
Intensive	6	1
Consecutive	72	18
Ascriptive	8	2
Unspecified	14	3
Total	100	24

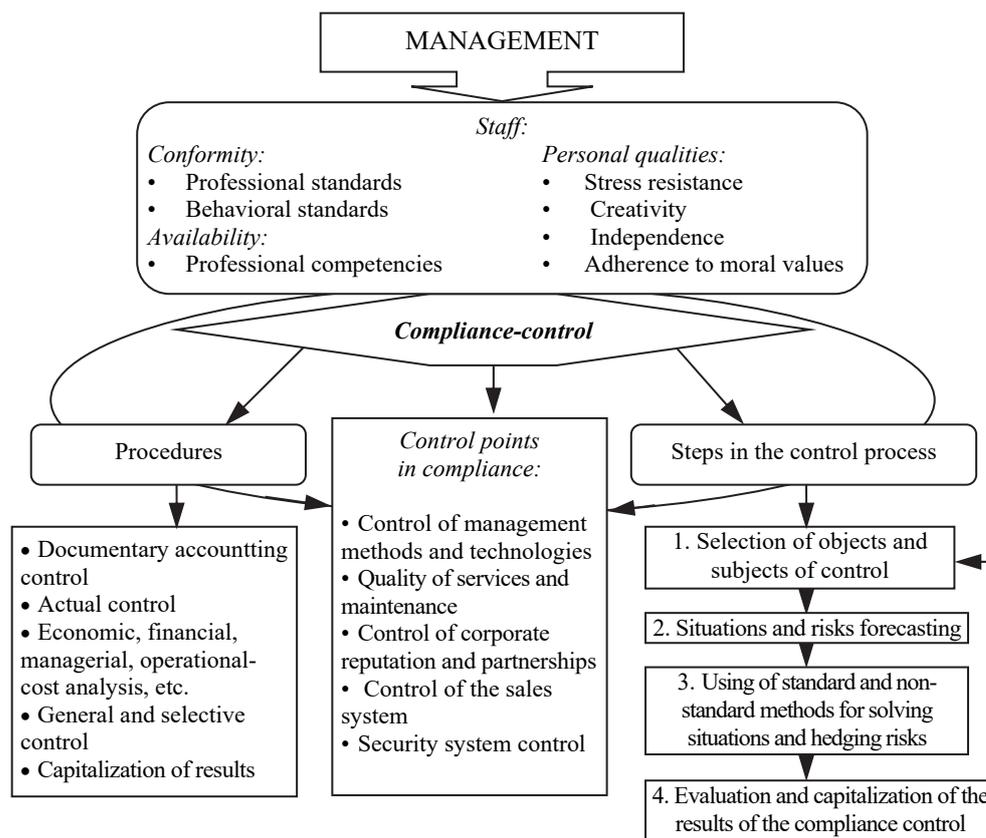
Source: authors based on [17; 18].

The identity complex influences not only on the identification of the hotel brand in the hotel services market, but also on the relationship system.

The identification of the compliance system should be considered through the architectonics of the management system, which provides for documentary and methodological support, within each business process forms the procedures where compliance is applied (*figure 4*).

The main analytical method during the implementation of procedures described on *figure 4* is comparing consumer expectations with the real level of service quality and maintenance, business partners – with corporate reputation; owners and top managers – with goals.

That is why any control and evaluation entity is investigated not only by itself but also by comparison with the best practices, desired results, expected risks.



**Figure 4. Methods of implementation of compliance control by hotel business entity**

Source: authors based on [1–11; 19–20].

Each of these procedures has its own meaning and degree of impact on the financial result. Therefore, an aggregation of control results should be formulated to prevent the occurrence of risks. These results must be substantiated in the conclusions, proposals and actual actions.

Thus, the implementation of compliance control into the hotel business entity must be phased in. This ensures awareness of the relevance of compliance policies, as well as meeting goals and functions of compliance control i.e. to formulate a risk-oriented approach.

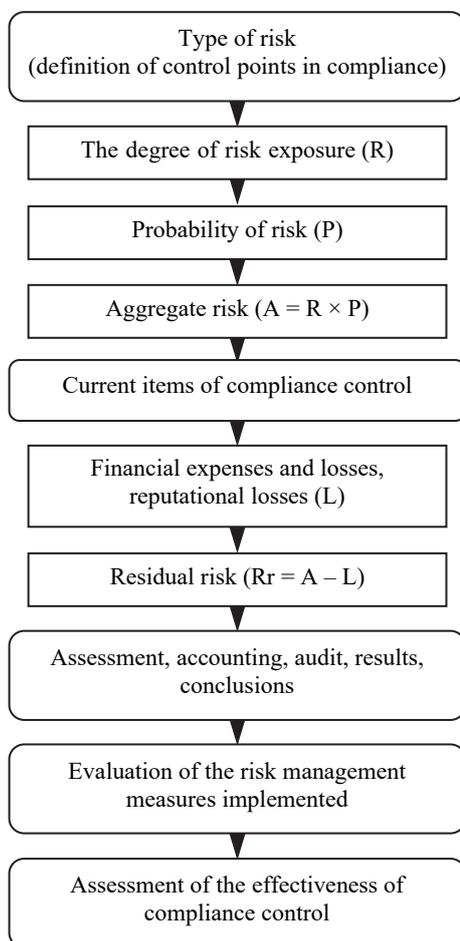
At the same time, the established internal standards and procedures reflect the validity of key compliance risks that have a negative impact on reputation, penalties and sanctions, costs of legal services, invalidity of contracts, financial and intellectual losses, damages.

In view of the above, determining the type and probability of risk is an important tool to minimize it and ensuring of financial and reputational security in the hotel entity's compliance control system (figure 5).

At the same time, the points of compliance risks in the hotel services market could be the following:

- market conditions, political and economic situation in the location, in the whole country;

- change of legislation, tax burden;
- condition of the infrastructure of the hotel services market;
- condition of financial and investment markets, an investment attractiveness of location;
- volume of domestic and inbound tourist traffic, the tourist attractiveness of the location;
- corporate reputation;
- forms and systems of payment, financial discipline of consumers, stakeholders;
- non-revenue generating departments of the hotel;
- loss-making departments that define and complement the aggregate quality of the hotel service, the hotel category;
- the reputation and image of the hotel;
- information and security systems;
- staff, etc.



**Figure 5. Compliance risk management and accounting**

Source: authors based on [1–11; 19].

These include macro risks that are worth adapting to, and those that can be minimized and insured. With regard to internal risks, the management of the hotel market entity should develop a system of control and response with a proven methodology for decisions. In other words, the management of the entity determines the measures that should be taken to eliminate and prevent deviations by applying disciplinary actions and establishing liability and/or subordination to legal rules and legislation that require the training and motivation of all departments.

Therefore, perfect knowledge and compliance with behavioral and corporate standards by employees and owners of the company, understandable to contractors, consumers and society as a whole is the goal of compliance control implemented in hotel management.

This will help to establish long-term partnerships, increase the sales of hotel products, because compliance with high standards in the activity is a guarantee of quality of services and maintenance, positive reputation of the hotel business entity.

The foregoing focuses on the compliance control of the hotel business entity with respect to compliance with the requirements, standards and the anti-corruption counteraction of the following directions (control points):

- availability of all permits for land management, construction, landscaping and ownership (joint ownership/management, business partnership);
- obtaining licenses, certificates of conformity, patents for copyright ideas;
- timely certification and assessing quality services and maintenance criteria of the hotel's activity for further assignment;
- effective hotel branding and naming;
- efficient logistics and transport: prompt transportation and convenience;
- partnerships with stakeholders and consumers.

Public accent on the compliance of the hotel business entity will improve marketing relationships and effectiveness of the activity in general, and will generate positive reputational capital.

Thus, compliance is not only the right work from a legal and moral point of view, but also a means of ensuring economic efficiency. For a hotel, taking measures to limit the probability and impact of risks on infringement of its corporate reputation, that may arise in the course of its activity is a central part of an effective risk management system.

It is also a prerequisite for establishing a long-term trust relationship with consumers, partners and counterparties. This is why compliance control is a key business imperative in the domestic hotel services market.

**Conclusion.** The identified theoretical foundations of compliance control form an analytical set of approaches to assessing of the economic and social effectiveness of hotel entity management.

It has been proved that hotel business entities require a professional approach to the formation and management of business processes in accordance with the requirements of corporate cooperation and quality standards of services and relationships, which ensure and make it possible to implement a system of compliance control.

It was found that certification and standardization of activities and services was intensified among the accommodation establishments, which is related to consumer safety and competitiveness issues within both national and world tourism systems.

The identification of the level of compliance control allows to determine the level of responsibility of the management system and controllability of the quality system.

Analytical methods of formation and assessment of the level of compliance control of the activities of hotel business entities (that were proposed for the implementation of polled hotels) form a clear system of compliance with standards, rules, requirements, etc., the evaluation of which will be the subject of further research.

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**Бови Л., Гопкало Л. Комплаєнс-контроль у готельному бізнесі.**

**Постановка проблеми.** Питання комплаєнсу є одним з найбільш актуальних питань для операторів готельного ринку у всіх сферах: нормативна підтримка; якість послуг; корпоративна репутація. Комплаєнс – це система вимог та умов, розроблена для встановлення відповідності прийнятним стандартам та регламентам.

**Мета статті** – дослідити зміст і напрями здійснення комплаєнсу та комплаєнс-контролю у діяльності суб'єктів готельного ринку.

**Матеріали та методи.** Використано методи аналізу й синтезу, наукового узагальнення та індукції, зокрема узагальнення наукової літератури щодо змісту та функцій комплаєнсу та комплаєнс-контролю.

**Результати дослідження.** Комплаєнс-контроль є важливою складовою системи управління підприємством, яка забезпечує та гарантує якість послуг і відносин між суб'єктом господарювання та всіма учасниками готельного ринку. Комплаєнс-система повинна бути невід'ємною частиною місії готельного суб'єкта, закладеною у свідомості кожного працівника.

Суб'єкти готельного ринку потребують професійного підходу до формування та управління бізнес-процесами відповідно до вимог і тенденцій корпоративного співробітництва та стандартів якості послуг і відносин, що гарантує комплаєнс-контроль.

Посилено сертифікацію і стандартизацію діяльності та послуг серед закладів розміщення, пов'язаних з питаннями безпеки споживачів та конкурентоспроможності як у національній, так і світовій туристичній системі.

**Висновки.** Виявлення рівня комплаєнс-контролю уможливило визначення рівня відповідальності системи управління та керованості системою якості.

Описані аналітичні методи формування та оцінки рівня комплаєнс-контролю діяльності готельних підприємств формують чітку систему відповідності стандартам, правилам, вимогам тощо, визначення ефективності яких стане предметом подальших досліджень.

*Ключові слова:* готель, комплаєнс, комплаєнс-контроль, комплаєнс-ризиками.

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## **RISK MANAGEMENT MODELS**

*The basic business processes of the enterprise that are the basis for building a risk management system are identified. The main components of the enterprise risk management model have been established in accordance with the planning, operation and control of the enterprise activity. Based on the proposed model, risk identification techniques and key indicators that influence the performance of risk analysis and management at the enterprise are identified.*

*Keywords:* risk, risk management, model, business processes, risk analysis, impact on risk.

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