Financial- and business risks analysis of Oy Korpilampi Ab

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Abstract

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This paper presents the project of developing a financial and business risk analysis report for Oy Korpilampi Ab. The goal is to identify the major risks the company faces. The main risk categories analyzed are financing risks, credit/default risks, currency risks, liquidity and solvency risks, compliance and taxation risks and accounting risks. The theory explains these risks from the hospitality industry's point-of view.

The project is completed by acquiring relevant information from the commissioning company and analyzing it to see what are the risks that the commissioning company is exposed to. The information consists of financial statements and information about the procedures related to the company's finances and accounting. The methods used in the analysis include some financial ratios as well as interviewing the commissioning company's management about its procedures and comparing this information to the theories to see if the procedures expose the company to certain risks.

The results of the analysis are shown in a risk mapping report that states the major risks and factors that cause the exposure to them. The commissioning company currently manages many of the risks presented in the paper to some extent. However, it is subject to minor risks in the categories that are analyzed. The rmost imminent risks faced are financing risks, credit risks and accounting related risks originating from outsourced accounting activities of the commissioning company. No imminent major risks can be found without further profound analysis.

The commissioning company is recommended to develop its risk management strategy further and implement new methods focusing on various risk categories.

Keywords
Risk management, financial risk, business risk, risk mapping, risk identification

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1 Introduction

This chapter includes background information about the project, such as why the project is carried out, the project scope, and the benefits to affiliated parties, key concepts and the introduction of the commissioning company.

1.1 Background

My thesis fits in today's way of doing business since the study of risks as a separate branch of science is a rather new field of study and not as widespread as many other traditional business related sciences.

The importance of the thesis for the commissioning company is clear. The company is required to produce a risk mapping project by its parent company. It has not completed such project in the past so this will be the first one to be carried out. The project will lead to the commissioning company being aware of its financial- and business risks more comprehensively than earlier.

The importance of the topic for me as a professional is that I get to carry out a project that is related to my specialization for a real-life company. This gives me experience on how the financial operations in a business are run since my topic covers the commissioning company's financial operations as a whole. I've worked various times as a part time employee during summers and autumns in the company so I already have a bit of knowledge of how operations are handled. After conducting this project, I believe I have a deeper understanding of the company's operations.

1.2 Project objective

This thesis aims to produce a financial- business risk mapping for the commissioning company as the final product.

The project objective can be worded as “Developing a financial- and business risk mapping for the commissioning company.”

The five stages of the project are summarized in the following project tasks:

PT 1. Developing theoretical framework

PT 2. Confining the relevant data to use from the information received

PT 3. Combining the data and the theory to map specific risks

PT 4. Putting together the risk mapping report

PT 5. Getting the product evaluated by the commissioning company

Table 1 below presents the theoretical framework, project management methods and outcomes for each project task.

Table 1. Overlay matrix

Project Task	Theoretical Framework	Project Management Methods	Outcomes
PT 1. Developing theoretical framework		Desktop study, Interviews with case company	Theoretical framework
PT 2. Confining the relevant data to use from the information received	Risk identification, financial data analysis, analysing accounting procedures, reviewing accounting standards	Desktop study	Collection of relevant data for the project
PT 3. Combining the data and the theory to map specific risks	Risk identification, financial data analysis, analysing accounting procedures, reviewing accounting standards	Desktop study	The relevant risks identified through the usage of the theory
PT 4. Putting together the risk mapping report		Desktop study, meetings with the case company	The risk mapping final product
PT 5. Getting the product evaluated by the commissioning company		Interviews, meetings with the case company	Evaluation of the final product

1.3 Project Scope

The project focuses on financial- and business risks and the mapping will include only these risks. Other operational and strategic risks will not be included in this project. The parent company’s insurance company requires the risk mapping from all hotels operating under the chain. Therefore, the requirement includes only financial aspects.

1.4 International Aspect

This topic fulfils the international aspect of the BBA thesis, because the company I will complete the risk mapping for is part of a multinational hotel chain. Various other hotels in the same chain have completed a risk mapping and it is a part of the procedures required by the parent company.

1.5 Benefits

The commissioning company will benefit from my thesis by receiving a comprehensive mapping of the financial- and business risks included in its operations. The risk mapping is required by the parent company that owns the commissioning company so this requirement will be fulfilled in the process.

The company's B2B clients will also benefit from the risk mapping. It is less risky also for them to conduct business with the commissioning company when the commissioning company is aware of all the risks included in its operations. This is due to the reason that the a B2B customer will face less risks related to a failure in the commissioning company's operations which may affect the business between the two.

B2C customers that are the hotel's customers benefit from the risk mapping in a sense that when the hotel is aware of the risks in its operations, it can control the risks that may affect the transactions between it and its customers. Many of these customers are businesses or associations organizing a meeting or a conference at the hotel's premises.

I personally benefit from the project by learning how to cooperate with a business as an individual who is providing consultancy for it. In this case completing a risk mapping project on the behalf of the business. The parent company will also inspect the risk mapping since it initially required it from my commissioning company. This way I may form new business contacts in the parent company's direction too and in turn this can open new employment opportunities.

1.6 Key Concepts

Enterprise risk management is the main phenomenon from which I start to narrow down my focus towards my research topic. The US 'Committee Of Sponsoring Organizations Of Treadway Commission' (COSO) defines enterprise risk management as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." (BusinessDictionary 2016.)

Financial risk management is the specific area of risk management that my thesis will focus on. Financial risk management is defined as “The process of evaluating and managing current and possible financial risk at a firm as a method of decreasing the firm's exposure to the risk.” The risks are often handled with suitable financial instruments that are used in counteracting the consequences of these risks. (InvestorWords 2016.)

Internal controls are related to risks in accounting and auditing. They are defined as “methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets and transmit management policies throughout the organization.” (Investopedia 2016.)

Risk mapping is a typically graphical depiction of a select number of a company’s risks designed to (1) illustrate the impact or significance of risk on one axis, and (2) the likelihood or frequency on the other axis. (Williams & Saporito.) Risk mapping can also be done in the form of a report, that states major risks of a company.

Financial risk refers to risks arising when “business’s cash flows are not enough to pay the creditors and fulfil other financial responsibilities.” This risk is related more to the amount of debt the business uses to finance its operations and and less to the actual operations themselves. Thus, high levels of financial liability result in increased levels of financial risk. (Chron 2017.)

Business risk refers to “the chance a business’s cash flows are not enough to cover its operational expenses”. These expenses include costs such as cost of goods sold, rents and wages. Business risk is not related to the amount of debt the company has, whereas the financial risk is. (Chron 2017.)

Risk factors are the factors affecting the success of a company’s objectives. They can be either internal (from inside the company, can be influenced) or external (out of the company’s control). (Suciu & Barsân-Pipu 2014, 180.)

Hospitality industry consists of “businesses such as hotels, bars, and restaurants that offer people food, drink, or a place to sleep” (Cambridge Dictionary 2017).

1.7 Case Company

The case company was established in 2011. Previously the hotel operated under Lomaliitto Ry from 1984 and was opened 1977 under HOK Elanto. Lomaliitto went bankrupt in 2009 and the hotel continued its' operations in 2011 under Pandox AB. It has its' headquarters in Espoo an it operates only in Finland. The company operates only one hotel, Hotelli Korpilampi in Espoo, Finland.

The main services provided by the hotel include accommodation, providing facilities for conferences and special events such as weddings, hosting events such as small concerts and restaurant services. The hotel labels itself as a conference hotel.

The revenue of the company was 2 782 000 € in the year 2014. It employs 23 people.

The need for the thesis arose from the requirements of the insurance company associated with my commissioning company. The parent company, Pandox AB, informed the hotel it needs to complete a risk mapping, since various other Pandox hotels have already done so. Thus, my commissioning company offered this project for me as my thesis topic.

2 Theoretical framework for defining key risks

The purpose of this chapter is to form the theoretical framework for the project. It will include the relevant theories that will be used to define the risks for the mapping process. This will be done by applying the chosen theories to analyze the raw data received from the commissioning company. These theories and the relevant data combined will be used as the basis to map the risks included in the risk mapping.

Risk management includes many different areas and risks that affect a business entity and can be categorized according to their nature. The focus of this project is to map out the financial and business risks related to the operations of the company. These risk categories are directly related to the finances and monetary aspects of the business.

Other risks such as strategic risks are out of the scope of this project. These risks are related mainly to factors such as organizational structure, management strategies, corporate culture and other functions not in direct connection with the finances. Other examples include risks related to HR such as problems in hiring staff or risks in work safety. Categories such as these are not directly in relation with the finances, however it should be noted that these factors can also indirectly affect the financial performance and situation of a business. However, due to their nature as secondary factors considering the aim of the project, they will be ruled out.

Figure 1 below illustrates the theoretical framework for this paper.

Figure 1. Theoretical framework for the project

Bharwani and Mathews (2012, 417.) argue that the risks faced by a company can be divided into four broad risk categories: strategic risks, commercial and financial risks, other external risks, and operational risks. This paper focuses on the second category, commercial and financial risks. However, the term business risk is used to refer to the risks related to insufficient cash flows for covering operational expenses, as defined in the key concepts earlier.

2.1 Risk idenfitication

This chapter identifies common risks and risk factors for the industry where the commissioning company operates. The financial and business risks faced by a company operating in the hospitality industry include, but are not limited to, credit risks, hedging risks, property risks and risks connected to the compliance with laws and regulations, as well as taxation related risks and environmental laws. These risks arise largely due to the impact of external factors. (Bharwani & Mathews 2012, 416.)

2.1.1 Financing risks

The nature of the business in hospitality industry is such, that the companies have a large amount of assets, such as real estate or equipment needed to maintain all the operations (Bharwani & Mathews 2012, 420). This leads to heightened capital expenditure, which in turn develops the need to use external capital markets to acquire the needed financing.

Thus, the company faces risks such as the risk of having insufficient cash flows from operations for being able to pay the principal and/or the interest. The need to use external financing to cover the capital expenditure also exposes the company to risks arising from changes in interest rates, costs of financing or terms and conditions of the financing activities. These risks also apply when using external financing to finance investments. (Bharwani & Mathews 2012, 420.)

2.1.2 Credit/default risks

The businesses in hospitality industry often extend credit, i.e. allow payments with credit, to their customers. These customers often include other companies as well as individuals. This introduces the risk of a customer, whether a company or an individual, defaulting, or in other words not being able to pay the required payment, for which the credit was extended. (Bharwani & Mathews 2012, 420.)

2.1.3 Foreign exchange and currency risks

Hotels often operate internationally or have a large internationally oriented customer-base. This can lead to earning revenues and incurring costs in foreign currencies. Thus, the companies are exposed to foreign exchange risks, i.e. possible unfavourable changes in exchange rates. (Bharwani & Mathews 2012, 420)

2.1.4 Liquidity and solvency risks

Liquidity is the company's ability to meet its short-term obligations. Liquidity risks are related to the lack of assets so that the company is not able to cover short term debts and other obligations. Liquidity risks are effectively managed by implementing a plan to control current assets and current liabilities. The goals of managing liquidity risks are to avoid a situation where the company is not able to meet its short-term liabilities but on the other hand to avoid over-investment. (Lozic, Lozic & Miljak 2016, 216.)

Solvency is the company's ability to meet its long-term liabilities. Solvency risks are related to the lack of a company's cash flows in covering all its obligations, whether short-term or long-term. This could mean for example a company's inability to cover its interest payments or pay its long-term loan obligations.

2.1.5 Compliance to laws, regulations and taxation

Organizations in general face risks related to complying with the laws and regulations imposed by the local government and those of the areas where they operate. There are often certain costs included in the compliance with these regulations, such as fees paid for some licences, for instance for a license to serve alcohol to customers. (Bharwani & Mathews 2012, 419.) Monetary penalties for not complying with certain regulations pose another threat to the company. For hotels, there is a specific risk for not complying with regulations related to serving and preparing food and beverages, hygiene, safety and the alcohol license. There are also certain other legal risks such as those related to contracts. Considering a hotel, an example could be an accommodation contract that is not in accordance to the law.

Possible changes in taxation pose a risk as well. Increased taxation rates can have a negative effect on the operating results. When tax audits and other similar procedures take place, additional taxes, interest or penalties might incur and these can also have a negative effect on the profitability of the business. (Bharwani & Mathews 2012, 420.)

2.1.6 Accounting risks

The commissioning company has mostly outsourced its accounting. Thus, for the purposes of this paper the accounting risks are viewed as risks arising from outsourced accounting. Various risks can arise when the accounting processes are outsourced. These can originate from the actions of both, the client (the company who’s accounting is outsourced) or the vendor (the company who provides the accounting services).

Probably the biggest single risk is the case, where the vendor does not fulfil its obligations, i.e. does not perform or performs incorrectly an accounting task that is stated in the contract between the two parties. Another risk related to this is that the vendor may provide less personnel to handle the client’s accounting than promised when making the contract. (Aman & Rahman 2011, 57.) This may lead to delays in the accounting operations. There is also a risk that the vendor uses the accounting information of the client to its own benefit or distribute it to parties that do not have a permission to access it (Aman & Rahman 2011, 57).

One of the risks arising from the actions of the client company is lack of expertise from the client’s side This may lead to the vendor trying to charge a higher fee from the client or to negotiate new terms for the contract that are more favourable for the vendor itself. (Aman & Rahman 2011, 57.) The client company needs to have enough expertise in its own staff to understand what goes on in the accounting processes and not trust the vendor without inspecting said processes. The client needs to be aware of the scope of the processes and that they are executed as agreed.

Another reason for sufficient expertise from the client’s side is that if the accounting is not entirely outsourced, some functions are still performed by the client. Thus, the client needs to be able to properly perform the functions the have left at its own responsibility, e.g. form reports and financial documents correctly so that the vendor can understand and use them in the accounting functions they are responsible for.

All the previously mentioned risks may lead to extra costs incurred for the company. This can be caused by a significant failure, causing the accounting not to comply with all the accounting rules and regulations, which may lead to penalties or investigations that cause financial losses. Another way these risks may affect the company's finances negatively is the additional costs caused if there is a need to change the outsourcing processes. This may mean completely changing the vendor, changing the amount of accounting procedures that are outsourced or having to take the responsibility of the accounting completely, instead of continuing outsourcing.

2.2 Risk assessment and mitigation

The key elements of risk management are assessing the risks and taking measures to try and avoid or minimize them. Risk assessment uses analytical and statistical methods to measure the risks. (Bordeianu, Paraschivescu, Pavaloaia & Radu 2011, 248.) This chapter introduces some tools that can be used to assess the level of a risk and to prevent, mitigate or minimize it. Some of the tools are specifically aimed to address risks with a financial nature.

2.2.1 Preemptive & reactive risk management methods

Risk management methods can be divided into main categories, preemptive methods and reactive methods. Preemptive means that the risks are managed before they affect the business entity. This is done by trying to reduce the factors that may lead to major risks occurring, i.e. making the circumstances less risky. (Hosseinzadehdastak & Underdown 2012, 1.)

Reactive methods are the ones that are implemented after the risk has already appeared and possibly caused some damage to the business. These methods aim to minimize the damage and to prevent the same kind of risk from affecting the business in the future. (Hosseinzadehdastak & Underdown 2012, 1.)

The basis of the risk management should be preemptive methods. This means that the risks should be actively monitored and assessed to prevent them before they affect the business negatively. Basing the risk management processes on reactive methods would mean waiting for the accident to happen and not trying to prevent it beforehand. Reactive methods should only be used if there is a case where the preemptive methods fail to prevent all the risks, thus leading to a situation where a risk causes a negative impact on the business. This is when the reactive methods step in to minimize the impact and try to prevent the same type of event from happening in the future.

The process of implementing the preemptive methods is illustrated below in Figure 2.

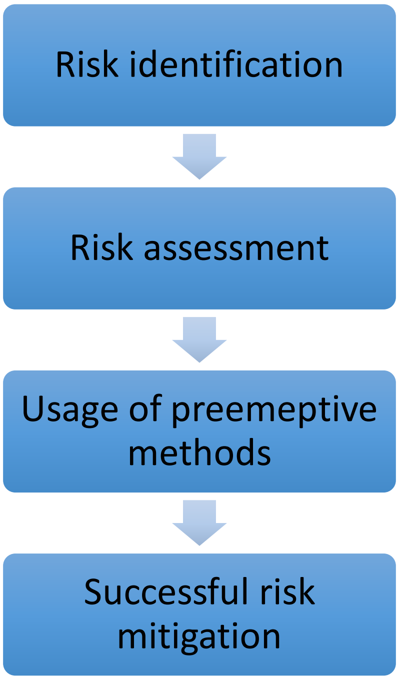

Figure 2. The process of implementing the preemptive methods

To implement the preemptive methods, the possible risks need to be identified to know what are the actual risks that need to be prevented. It is also beneficial to assess, which risks are the most severe, thus making it clear on which risks the preemptive methods should focus. After the risks have been identified, the methods are implemented, and if done correctly, this leads to a successful process of mitigating the identified risks.

The process of implementing reactive methods is illustrated next in Figure 3.

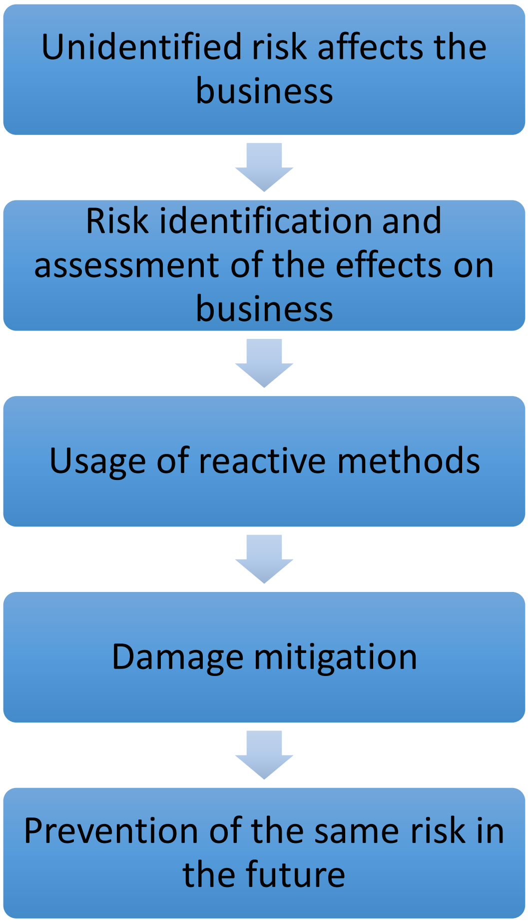

Figure 3. The process of implementing the reactive methods

The reactive methods are implemented after a formerly unidentified risk affects the business and is identified and the effects are assessed. The reactive methods are implemented, the damage is minimized and the occurrence of the same risk is eliminated.

2.2.2 Financial ratios as a way of measuring risk

Certain financial performance ratios can give a rather good indication of the most significant large scale risks in terms of a company's financials. The most suitable ratios should be determined to apply to each type of risk. The collection of ratios chosen must consist of ones that measure profitability, liquidity, solvency, debt structure etc. taking all the aspects of a company's financial performance into consideration.

Sharifi (2014, 86) suggests that ratios be chosen for three main types of risks: financing risk, liquidity risk and solvency risk. Table 1 presents the ratios used in analyzing these risks.

Table 1. Ratios for measuring liquidity, solvency and financing risks

Liquidity ratios
$\frac{Working\ capital}{Total\ assets}$
$\frac{Current\ assets}{Current\ liabilities}$
Financing risk ratios
$\frac{Debt}{Total\ assets}$
Solvency ratios
$\frac{Debt}{Total\ equity}$

Risk environment of Oy Korpilampi Ab

The objective of this paper is to determine possible financial- and business risks and risk categories that may affect the commissioning company through the theoretical framework. The paper also aims to identify the main risks that could affect the commissioning company in its' current state. The goal is to make it easier for the commissioning company to implement risk management procedures based on the risks identified in this paper. The methods introduced are mainly the methods used in this research to identify risks rather than methods to manage the actual risks. However, some suggestions on how to manage the risks are given. The result is a type of risk profile of the commissioning company instead of a risk management strategy.

2.3 Project implementation and plan

The project is carried out by beginning with the creation of the relevant theoretical framework. This is done by introducing the possible risks in the industry in which the commissioning company is operating and introducing methods of risk identification, assessment and management. This gives a basis for the commissioning company to further develop its risk management procedures on its own and makes it aware of the possible risks that it might encounter.

The next step is to acquire financial data from the commissioning company that is then analyzed with the help of the theoretical framework. The theoretical framework provides theories and information that are used to identify the risks the commissioning company is facing or may face in the future. The data is requested from the commissioning company and the company is contacted if any issues arise regarding data or information needed in the analysis.

Through this analysis, the possible risks introduced in the theoretical framework are mapped and a report is built based on it. The goal is to see as comprehensively as possible which are the risks that apply to the business of the commissioning company. Finally, this report is given to the commissioning company to be assessed.

2.4 The product

The product is a risk mapping report of the possible risks the commissioning company may face or is already facing. It includes risks that are identified by analyzing financial information of the operations of the commissioning company using the theories and the information acquired from former studies. The product states the risks and assesses their nature and possible causes of the occurrence of said risks. It aims to give the commissioning company a comprehensive view of the current and possible future risks. The report includes the risks as they are defined and identified in the theoretical framework and compares the information about the commissioning company to this data. The risks that apply to the commissioning company's business from all these risks are found through this process.

Being aware of its risk environment, the commissioning company will be able to start implementing procedures for avoiding the possible future risks and to minimize the currently faced risks. Nevertheless, it is not a risk management guide or a complete risk management policy. However, based on the risks identified, the commissioning company can start building a risk management policy to tackle the risks found in the report. The product aims to give the commissioning company the required knowledge to be able to incorporate preemptive risk management methods.

3 Discussion

The discussion shows the results of the study. The different risks are analysed from the commissioning company's point-of-view to see which ones are relevant for the commissioning company and what are the factors that expose the commissioning company to them. Conclusions are drawn from the results and future suggestions are given based on the results. The discussion ends in the evaluation of the whole thesis process and own learning.

3.1 Results

The analysis shows that the commissioning company is not directly subject to all the types of risks identified during the research. Some of these risks do not pose a threat to the commissioning company since it is owned by a parent company that is financially sound.

Financing risks are an example of these kinds of risks. The real estate is owned by the parent company, thus the investments for the development and maintenance of it come directly from the parent company. The commissioning company does not have loans from outside the consolidated company either. The money is coming from the parent company and possible losses of the accounting period are covered by group contribution (fin. konserniavustus) received by the commissioning company from the parent company. All in all, larger investments are covered by the parent company, thus no significant risks arise in financing.

Credit/default risks are currently managed with some methods in the commissioning company. When deciding whether to extend credit to a new customer, the financial position of the company is checked and analyzed using a company information database provided by Suomen Asiakastieto Oy. Also, the risk category, solvency, and the credit rating are inspected in case of possible payment defaults and delays. Most of the customers are other companies usually operating in Finland, many of them rather large and trustworthy. Credit is normally not extended to smaller and younger companies as easily as for the larger ones. The invoices sent to the larger customers are larger than those of the smaller customers, for example single individuals paying with credit card. The risk of a single individual not paying the invoice may be higher, but the invoice usually being rather small, this would lead only to minor credit losses. The commissioning company did not record and bad debt during the last fiscal year, which means all the customers with credit have paid their invoices. However, some minor delays occurred. In conclusion, the credit/default risk is a minor risk for the commissioning company as the risks are already managed and the credit losses are currently minimal.

Solvency and liquidity risks are assessed with the ratios chosen in the theoretical framework. The ratios are calculated for the commissioning company using its income statement and balance sheet from the fiscal year 2016. The calculations are presented in table 2.

Table 2. Solvency, liquidity and financing risk ratios calculated for the commissioning company

Liquidity ratios
$\frac{Working\ capital}{Total\ assets} = \frac{507415€}{973641€} = 0{,}52$
$\frac{Current\ assets}{Current\ liabilities} = \frac{933050€}{425635€} = 2{,}3$
Financing risk ratios
$\frac{Debt}{Total\ assets} = \frac{425635€}{973641€} = 0{,}44$
Solvency ratios
$\frac{Debt}{Total\ equity} = \frac{425635€}{548006€} = 0{,}78$

The ratio used for liquidity (working capital / total assets) is 0,53. The working capital is calculated by subtracting current liabilities from current assets and it results in 933050 € - 425635 € = 507415 €. The ratio shows that the company has a fair amount of working capital compared to its total assets. This may indicate that the company is able to pay its accounts payable obligations fast enough. The second ratio used is current assets divided by current liabilities 933050 € / 425635 € which is 2,3. This current ratio seems very favourable as it means that the company would be able to pay its liabilities 2,3 times with its assets. The company does not face a significant liquidity risk judging from the ratios.

The ratio in analysing financing risks is the ratio of debt to total assets 425635 € / 973614 € which results in 0,44. This leverage ratio shows that 44 % of the company's assets are financed with debt. To further interpret this ratio, a trend analysis observing the change in this ratio should be executed. The ratio however shows that the company is not as financially independent as it could be. The solvency ratio is the ratio of the company's debt to its total equity 425635 € / 548006 € resulting in 0,78. This indicates the business is financed quite much by creditors compared to investors. However, as the commissioning company receives a large portion of its financing from its parent company, it does not face a significant risk in this aspect as long as it has the current owner.

Foreign exchange and currency risks do not directly apply to the commissioning company, since all the revenues are in euros. Most of the large clients are domestic companies or international companies that operate also in Finland. The invoices are always sent in euros to the customers.

Accounting risks are relevant in the case of the commissioning company, since its has outsourced its accounting for a large part. Major parts of the bookkeeping, accounts receivables, purchase ledgers, payroll and payment of the bills have been outsourced. This exposes the company to the risks introduced in the theoretical framework. Some of the main risks include mistakes in the payment of bills, such as double payments or delayed payments. These cases have happened for the commissioning company. Delayed payments can affect the credit rating of the company. However, the risks related to the payment of the bills are managed currently. The company handling the payments sends a document with the payments and they are inspected and approved by the commissioning company before the actual payment.

The payroll management being outsourced leads to various risks. Mistakes in the payment of salaries may occur, such as delays in the payment or incorrect amounts paid. The commissioning company has faced an issue previously, where the salaries were paid in double. This was noticed fast and the company handling the payroll was informed. Mistakes like these in the payroll may upset the employees, especially delays in the payments. There is also a risk that an employee uses the money that is not his/hers in the case of a double payment. This may cause disputes inside the company. These risks are already managed quite well in the commissioning company. The work hours are input in a system by the commissioning company and the outsourcing partner receives them from there. The salaries are checked again in the commissioning company before the payments are realized, and after this, the accounting company is given a permission to pay them.

The bookkeeping is also monitored by the commissioning company to avoid any mistakes in the financial reporting. The accounting company sends all the financial statements to the commissioning company, including income statement, balance sheet and the general ledger including all the payments. The information is compared to the forecast done by the commissioning company to see if there are any easily visible, blatant mistakes in the financial statements. After this, a more thorough inspection is done. The commissioning company has the needed expertise to execute these monitoring and risk management activities.

The accounting risks seem to be monitored well, as there is a business controller working in-house. The controller’s duties are to fill in certain reports and forecasts, and send them to the accounting company, that then uses them in the bookkeeping, salary payment and other functions. After the procedures of the accounting company, everything is always inspected again by the controller.

The failures in accounting can also lead to **compliance risks**, if the bookkeeping is not completed according to all the standards of if there is a mistake that is not in line with all the regulations. Another possible compliance risk is a mistake in tax payment, i.e. not complying to the tax regulations

3.2 Conclusions

The commissioning company has some risk management methods in place already. It is controlling and monitoring its outsourced accounting activities. The credit/default risks are also in this category. Credit is not extended easily, without a thorough background check of a company.

Financing risks are minimized, because the parent company pays investments in general and supports the commissioning company if there is a need. It owns the real estate and want to keep the commissioning company running and prevent its bankruptcy even if it faces a difficult financial situation, since keeping the premises empty without operating the hotel is even more expensive than possible minor losses that the commissioning company might generate. The dependence on the parent company exposes the commissioning company to certain risks. If there is a change of ownership, i.e. the parent company sells the commissioning company to another company, it loses the support of the parent company and cannot trust on getting similar support from another owner.

The commissioning company's financial position is largely dependent on its parent company. However, this is a safer situation than owing a lot of money to creditors from outside the corporation. These risks are hard to manage directly with the current situation and are the main risks the company is currently facing. Only by generating more revenue and increasing profit, is it possible to become more financially independent and lessen these risks. The risks that are possible to manage from within the company are already being managed to some extent. These risks, such as credit/default risks or accounting risks are not major risks.

3.3 Future suggestions

As a future suggestion, the commissioning company should develop and implement a risk management strategy based on the identified risks that apply to its business model. Once it is aware of the major risks and risk categories that are introduced in the report, it can actively monitor these risks. This, in turn, makes it easier to identify new risks related to the ones currently identified. The development of the risk management strategy can be started based on the financial risks identified in the risk mapping report. However, later it should be implemented throughout the organization and expanded to other risk categories.

The strategy should consist of pre-emptive methods, which are developed to manage the currently identified risks, but also to prevent future risks from arising. As a backup, reactive methods should be implemented, to minimize the damages when a risk affects the business. The reactive methods can be developed through creating scenarios, where different identified risks have caused damage, and the goal is to minimize them. The strategy should also include procedures to constantly assess and monitor the risks that are already identified to not let them cause harm to the business.

In conclusion, the commissioning company should start developing a risk management strategy and keep monitoring the risks identified in the risk mapping report.

3.4 Thesis process

The thesis process started off rather slowly and finding a suitable topic was difficult, until I heard from the commissioning company, that I personally work for, that it would have a topic related to risk management for me. I had previously had a risk management course on my student exchange and found the topic interesting. The thesis plan came together quite effortlessly after having found a suitable topic for the whole thesis. The thesis plan course and the creation of a solid plan helped a great amount during the actual thesis-writing process.

Starting with the writing process through developing a theoretical framework turned out to be more complicated than it initially seemed. This was because when getting deeper into the topic of risk management, it turns out to be a very vast topic, a distinct field of study itself. After being able to demarcate the areas of risks that are not considered in this paper, the framework started to come together. However, it was difficult to avoid focusing too deeply in a specific theory about a specific risk, rather than building a framework that considers all the risks equally and forms a holistic picture of all the risks. Many of the most common industry specific risks were mapped in the end.

After the framework was in place, the relevant information for the analysis was requested from the commissioning company. This step was rather simple and the information was acquired fast since I work for the company and can discuss matters with a short notice. During the analysis, there was a need for additional information about the operations of the commissioning company and I performed some interviews with the management to clarify issues that I had and acquired more knowledge needed in the project.

The right format for the product had to be chosen and the choice was made between a PowerPoint slideshow and a text-based document format. The document seemed to fit better the purposes of the product, since some of the information was going to be presented in the same way as it is in this paper. The goal was to get the product working together with the future suggestions presented in this paper, so that both could be handed to the commissioning company in the same format. The product started to come together fluently after all the required information had been analyzed and structured. One reason for this was that a large portion of the information was structured in such manner already in this paper that it could be used in the product.

The analysis concluded in the product was used when writing the chapters about the results, conclusions and future suggestions. This made it more effortless to complete these chapters. The goal was to use the theories and analysis mostly in the same format in the product and in this paper. The product is meant to include only the most crucial information for the commissioning company, without the parts required in this paper that do not directly add value to the commissioning company.

The thesis process developed in a rather organized manner after getting the topic demarcated, the theories limited to the most relevant ones and acquiring all the necessary information. The start of the process was rather slow with some difficulties in demarcating and having a clear vision as to what to provide in the actual product.

3.5 Own learning

During the thesis process I have learned how vast and complicated field of study enterprise risk management is. My previous experience with it has been rather limited. I was not familiar with which areas it consists of. During the demarcation process I had to go through the different risk categories and rule out the categories not relevant for this paper. I also learned that many of the financial risk management theories are focused on the financing, banking and insurance industries. I found it difficult to find theories that apply to companies providing non-financial services.

The writing process itself taught me plenty of how to construct an academic report, the traditional structure of it and which parts does it consist of. I also learned through trial and error how to organize the workload and how to schedule this type of project. As to sources and information search, I learned source criticism and my information search became more proficient and faster.

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Appendices

Appendix 1. Risk mapping report

HOTELLI KORPILAMPI

RISK MAPPING REPORT

Pekka Tiitinen

Preface

This report summarizes the information about the possible risks that may occur in the everyday business. The report introduces and explains the risks on a theory basis and gives examples of these risks and includes a table showing the risks, specific example situations, their possible consequences and suggestions for managing the said risks.

The report is recommended to study together with the thesis report that is also handed over for the use of the management. The thesis goes more in depth with all the issues and includes the theoretical framework that may be useful. Further consultation can be requested should any questions or suggestions for further development arise.

Risk categories

The risks categories and risks that pose the most significant threat to the business' finances are introduced in this chapter.

Financing risks

These are risks such as insufficient financing to run the business, or cover the capital expenditure and lack of external financing to fund the investments. Also risks related to growing debt and not being able to pay interests or loans go to this category.

Credit/default risks

These are risks arising from extending credit (allowing payment by credit) to a customer. A customer may not be able or willing to pay an invoice and this leads to credit losses. Possible delays in payments from customers fall into this category too.

Foreign exchange and currency risks

These risks are related to revenues or costs incurring in foreign currencies. When cash inflows or outflows are in a foreign currency, the changes in exchange rates can lead to an unfavorable situation compared to dealing only in the domestic currency.

Liquidity and solvency risks

These are risks of not being able to meet the short-term and long-term liabilities. Liquidity risks are risks related to not being able to meet short-term obligations with the current assets. Solvency risks occur when the cash flows are not sufficient to cover all the short-term and long-term obligations. Examples of these are interests and long-term loans.

Compliance risks

These risk are the risks of not complying to laws and regulations and not meeting all the tax obligations. This may lead to financial losses through different types of sanctions. Failures in complying with accounting standards and rules are an example of this type of risks.

Accounting risks

These are risks that are related to mistakes in accounting. There may be mistakes in the payment of bills and salaries or a mistake in the reporting, such as in financial statements. In the case of outsourced accounting new risks arise. There is risk of the company handling the accounting (the vendor) not providing services according to the contract or making mistakes in accounting as well as causing delays in the accounting procedures.

There are also risks that stem from the actions of the company itself. These are risks such as lack of expertise in controlling and inspecting the accounting actions and financial reports provided by the vendor. Another risk of this type is that if the accounting is not fully outsourced, there is not enough expertise to execute the functions that are still operated in-house.

Risk assessment map

This table shows the types of risks, the possible specific risks the business may face, possible consequences and possible recommendations in handling the risks.

Type of risk	Possible specific risks	Possible consequences	Management methods
Financing risks	- Risk of losing financing in case of a change of owner	- Insufficient financing for covering capital expenditure - Insufficient financing for investments/projects	
Credit/default risks	- A client (debtor) not paying an invoice - A client paying with a significant delay	- Bad debt - Credit losses ➔ Decreased revenue	- Thorough analysis of a new clients creditworthiness - Creating a clear policy in case of a client defaulting in payment
Foreign exchange risks	- No significant risks, since all the revenues and costs are in euros	- Revenues in foreign currency with an unfavorable exchange rate ➔ Decreased revenue	- Sending invoices in euros to foreign customers - Accepting offers in euros when purchasing from suppliers
Liquidity and solvency risks	- Possible insolvency and liqudity problems if there is a need for a loan from the outside (i.e. in case of the change of	- Insolvency, i.e. not being able to meet short-term and long-term liabilities ➔ Possible bankruptcy	- Short-term asset and liability management - Avoiding over-investment made with own money (major investments should be avoided if possible, unless there is funding from

	ownership)		the parent company)
Compliance risks	- Illegal contracts with clients - Mistakes in tax payment	- Possible monetary sanctions	- Standardized contract procedures - Revising tax regulations regularly
Accounting risks	- Mistakes in the outsourced accounting operations - Delays in the outsourced accounting operations - Mistakes or delays in the payment of bills or salaries - Accounting not completed as agreed in the outsourcing contract - Financial information used to own advantage by the accounting company	- Incorrect financial reporting ➔ Possible sanctions ➔ Financial situation may seem more/less favorable than in reality - Mistakes in bookkeeping ➔ Possible sanctions -	- Monitoring the accounting procedures regularly - Keeping in contact regularly with the accounting company - Keeping communication and reporting transparent