FINANCIAL PERFORMANCE OF THE SLOVENIAN RESTAURANT SECTOR

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Abstract
Restaurant sector presents an important subsector of Slovene national economy. In 2014, there were 2.516 companies operating in the Food & Beverage (F&B) service sector (3.96 % of all companies in Slovenia), employing a total of 8.988 employees (2.08 % of all employees). An important subsector of F&B service sector (I56) is the restaurant sector (I56.101 - restaurant and inns), since it includes almost 43 % of all F&B facilities in the country. In the past, different socio-political and economic changes (e.g. implementation of Euro, entering the EU, economic crisis etc.) influenced Slovene national economy. This study tries to draw a parallel between these events and the financial performance of the restaurant sector.
Purpose – This study aims to investigate the financial performance of the restaurants sector (I56.101) for the period from 1994 to 2014.
Methodology – In order to achieve the main objective of the research, official financial data provided by the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) was analysed. Based on literature review, a set of financial indicators were included in the study. The nominal financial data were deflated to the year 1994 constant prices in order to obtain real values of financial indicators over the analysed years. In the second part of the research, financial results were presented (and commented) through major socio-political and economic changes which affected the national economy over the past 20-years.
Findings – Results indicate that restaurants have problems in achieving positive financial results (the value of operating ratio is less than one). Restaurant companies have problems in paying current obligations with cash from current assets. The share of capital in financing structure is reducing practically throughout the observed time period and as a consequence, companies are facing with indebtedness. Financial results also reveal that the EU accession process, introduction of Euro, and EU presidency had a positive impact on net sales revenues. On the contrary, financial and economic crisis negatively affected restaurants' overall financial performance.
Contribution – Research results have practical value for restaurant managers, since they enable a deeper and more profound understanding of restaurants' financial performance. This study helps us to better understand restaurant businesses' financial performance over the past 20-years.
Keywords: Benchmarking, Financial performance, Restaurant industry, Slovenia

INTRODUCTION

Tourism (and within it the restaurant sector) is an important economic sector in Slovenia. According to World Travel and Tourism Council (WTTC), 13% of people employed in Slovenia work in this sector. As far as the total contribution to gross domestic product (GDP) is concerned, tourism represent 12.7 % of Slovenian GDP (WTTC, 2015). In 2014, the Slovenian Food & Beverage (F&B) service sector comprised of 2.516 companies (3.96 % of all business entities in the country) and offered a job to 8.988 employees (2.08 % of all employees) (Ajpes, 2015). According to the European (EU) Standard Classification of Activities (the NACE codes) the F&B service sector (marked as I56) is divided into fifteen subsectors. In our study, we focuse on restaurants and inns (I56.101 – the restaurant sector). Based on official data (Ajpes, 2015), in 2014 this subsector included the vast majority of all F&B facilities in the country (1.074 companies).

As previously done by Martin, Keown, Petty and Schott (2010) financial ratios were used to evaluate the financial performance of restaurant sector in Slovenia. According to authors (ibid.) financial ratios enable to clearly identify strengths and weaknesses of companies' financial performance.

The aim of this study was to evaluate the financial performance of the restaurant sector in Slovenia for the period between 1994 and 2014. Based on literature review, basic characteristics of the Slovene restaurant sector were identified, and the importance of financial analysis and benchmarking was discussed. In the second part of the study, financial data were analysed and systematically presented.

1. RESTAURANT SECTOR IN SLOVENIA

1.1 Development of restaurant sector in the 1990s

The collapse of Yugoslavia in 1991 had in general a bad impact on restaurant sector`s development. The number of restaurant facilities and income have significantly decreased after 1991 (Kukanja, 2015). Structural changes were introduced only in the mid-nineties, with the introduction of the new legal regulation for the F&B service sector (until 1995 the ex-Yugoslav legislation was in force) and the process of privatization. The new legislation introduced several important innovations, such as a new classification for F&B service sector and the liberalization of legal provision for restaurant entrepreneurship. Despite important contributions for the sector, the new legislation had abolished systematic statistical monitoring of this important sector of national economy. Therefore, after 1994 the official, industry-specific data (i.e. number of facilities per type, location, number of seats, and turnover for different types of facilities etc.) were no longer available. Statistical data included solely some basic parameters, such as the number of companies in the activity, the number of employees, and the overall financial turnover (per month). This action still presents a major obstacle in the analysis of the restaurant service sector in Slovenia. Therefore, due to scarce statistical data the next chapters highlights some major (content) characteristics and the development of the restaurant service sector in Slovenia.

The introduction of a liberal market economy in the nineties has reflected in a rapid change (adaption) of restaurant supply. Different concepts (types) of restaurants were introduced to the market, and many existing restaurants enriched their offer, mostly with snacks, take away food, and quick meal offerings. Especially gastronomic restaurants tried to adapt to consumerism and the ever more demanding customers. This has led to some new concepts of offer, such as different combinations of restaurants and pizzerias, restaurants and grills, and to the introduction of some modernistic, state-of-the-art culinary concepts (e.g. fusion cooking, Slow Food, etc.). A growing number of restaurants introduced the possibility of quick and informal meals (e.g. light lunch menus), as well as the possibility of home delivery (catering services). Many traditional (rural) inns changed their concept of authentic (local) gastronomic offering and started to compete with modernistic restaurants – both in the form of services they provided, as well as prices they charged. At the same time some traditional facilities, such as bakeries, started to offer sandwiches and light snacks (also referred to as Paninoteke). Based on the "English" concept, pubs became very popular in the late nineties. Facilities, which were primary concerned with beverage offerings (e.g. bars and coffee shops) enriched their offer with snacks and light meals. As can be seen from Table 1, the number of restaurant facilities has constantly increased in the nineties. The average rate of growth for companies (restaurants) in the activity was 10.72 %, while the yearly average rate of growth for the number of employees was 3.70 %.

1.2 Development of the restaurant sector after EU accession

Joining the European Union (EU) in 2004 and in particular the introduction of Euro currency in 2007 had in general a positive impact on the restaurant sector (Gričar and Bojnec, 2009) (see also Table 1). One of the major benefits of entering the Euro zone was the (re)introduction of monitoring the number of business entities in restaurant sector. In 2008, Slovenia introduced the NACE methodology for monitoring business entities, which is consistent with the EU classification. The problem of the new (NACE) methodology lies in the fact that business records are inconsistent with the national (Slovene) statutory classification of restaurant facilities. As a result, the collected statistical data are not fully comparable (e.g. restaurants and inns are merged into one category).

As can be seen from table below, the number of companies was constantly increasing throughout the period. Relatively high annual rate of growth was recorded in the year 2004, when Slovenia joined the EU. According to Ferk et al. (2005), the EU accession process had a positive impact on Slovenian tourism (and consequently the restaurant sector), since it has increased the visibility of Slovenia as a tourist destination. As far as the number of employees is concerned, it has significantly increased only in 2008. In 2008 Slovenia took over the presidency of the Council of the EU. According to Slovenian Tourist Board (STB, 2008) the EU presidency boosted tourism demand which has consequently lead to a higher employment rate in the country (and the restaurant sector).

Table 1: **Companies in activity and employees**

Year	**Companies in activity**		**Employees**	
	Number	Annual rate of growth in %	Number	Annual rate of growth in %
1994	148		2.516	
1995	148	0.00	2.405	-4.41
1996	206	39.19	2.219	-7.73
1997	238	15.53	2.278	2.66
1998	276	15.97	2.400	5.36
1999	303	9.78	2.453	2.21
2000	320	5.61	2.629	7.17
2001	326	1.88	2.868	9.09
2002	384	17.79	2.970	3.56
2003	438	14.06	3.147	5.96
2004	526	20.09	3.329	5.78
2005	564	7.22	3.594	7.96
2006	612	8.51	3.832	6.62
2007	675	10.29	4.130	7.78
2008	769	13.93	4.752	15.06
2009	855	11.18	5.154	8.46
2010	890	4.09	4.809	-6.69
2011	927	4.16	4.894	1.77
2012	958	3.34	4.928	0.69
2013	995	3.86	4.799	-2.62
2014	1.074	7.94	5.059	5.42

Source: (Ajpes, 2015)

An increased number of (domestic) scientific research in the field of restaurant sector over the past decade (Gričar and Bojnec, 2009; Kukanja, 2015; Kukanja and Planinc, 2012; Lebe et al., 2006; Sibila Lebe et al., 2009; Raspor, 2008; Kukanja and Planinc, 2013; Šuligoj, 2007) may help us to better understand restaurant business activity in Slovenia. Research results reveal that the vast majority of facilities are owned and managed by entrepreneurs; restaurant facilities have on average 20–years of business tradition, and the average number of employees per restaurant is 4.7 full-time employees. There are relatively few international restaurant corporations which operate based on a franchise system (e.g. McDonalds, Marché restaurants at service stations etc.), although some private restaurateurs are also included in different international gastronomic associations (e.g. Jeunes Restaurateurs d'Europe). According to Kukanja (2015) Slovene restaurants are generally not associated in restaurant associations. In this view it is worth mentioning that the compulsory membership in the Slovene Chamber of Commerce was legally abolished in 2013 and the consequences of such (political) decision could not yet be assessed. Despite commendable engagement and achievements of some private restaurateurs, previously mentioned studies suggest that the Slovene restaurant service sector could be best described with the following industry specific characteristics: shortage of professionally trained labour force; poor motivation of employees; not compulsory F&B training and education; high seasonal staff fluctuations; a high proportion of labour force present unskilled seasonal workers and students; small speciality offerings; strict hygiene rules (HACCP); bad communication between restaurant providers; too little emphasis on authentic gastronomic offering, and generally (too) low sell-prices. One of the major problems presents the legacy of transition and non-transparent privatization since independence, as a large number of hotel companies are in bad financial situation, which in turn affects the development of gastronomic offer (especially the structure and the purchasing power of tourists in major tourist destinations). The trend of fast food eating prevails on the restaurant market, as fast food and quick-casual restaurants are widespread.

Tax inefficiency in tourism (and especially the restaurant sector) also presented one of the major fiscal problems in the country (Kosi and Bojnec, 2010). In 2015 the government of Slovenia implemented a set of measures (the cash transactions fiscalization) in order to assure an overview of cash transaction revenues. Based on the new Cash transaction and fiscalization act, fiscal cash registers were introduced in January 2016 (Pravilnik o potrjevanju računov, 2016).

2. FINANCIAL PERFORMANCE

Financial performance analysis provides an insight on organization's efficiency and it makes it feasible to compare it to some (industry) specific benchmark measures (Hales, 2005). Martin et al. (2010) state that the usage of financial ratios is the most appropriate way to measure financial performance, since they (ratios) provide the basic information about organization's strengths and weaknesses. Financial performance measures can be used as basic tools of financial management, as well as tools for implementing adequate motivational and control policies (Otley, 2002). The most important sources of information for calculating ratios are the company's balance sheet and the statement of income. According to Turk (2006) both financial statements provide numerous possibilities in calculating ratios, so the main challenge is not to get distracted with the vast amount of information. In addition, most financial ratios are correlated to each other in several ways (Turk, 2006). Despite their reporting advantages, some authors (Atkinson and Brown, 2001; Lev and Sunder, 1979; Ghalayini and Noble, 1996; Hansen, Otley, and Van der Stede, 2003; Reynolds and Biel, 2007) questioned such approach. Venanzi (2012) argues that such (financial) measures are not necessarily consistent with the company's overall value creation, since "creative accounting" practices enable financial reporting manipulations.

Financial theory for the hospitality industry (lodging and restaurant facilities) suggests five (basic) ratio groups: liquidity, solvency, activity, profitability, and operating ratios. Liquidity and solvency ratios enable assessment of organizations' short term and long term obligations, whilst activity and profitability ratios are focused on management performance (the first determine its ability to manage an organization's assets and the latter show its overall managerial effectiveness). The last group of ratios (operating ratios) are very useful in analysing hotel and restaurant facility operations (Schmidgall and Damitio, 2006). In hospitality industry, both (the lodging and the restaurant sector) have their own uniformed standards of accounting and financial reporting. In 2012 the

8th edition of The Uniform System of Accounts for Restaurants (also known as USAR standards) was published (National Restaurant Association, 2012). USAR standards are not compulsory in Slovenia. Restaurants, therefore, report in accordance with national (Slovene) accounting standards.

The majority of scientific research focuses on financial performance of the lodging (hotel) sector and Uniform system of accounts for the lodging industry (USALI) standards (Mihalič, 2009; Zigan and Zeglat, 2010; Haktanir and Harris, 2005; Phillips, 1999; Gu, 1994; Pine and Phillips, 2005; Southern, 1999; Sainaghi, 2011; Hua, Nusair, and Upneja, 2012; Heiman, 1988; Gray, Matear, and Matheson, 2000; Poorani and Smith, 1995; Atkinson and Brown, 2001). In the last decade (since 2005) there has been an increased number of studies (Assaf, Deery, and Jago, 2010; Canina and Carvell, 2008; Kim and Ayoun, 2005; Hua and Lee, 2014) focusing on the financial performance of restaurant businesses. Authors (ibid.) analysed specific financial ratios and indicators for the restaurant sector, such as: return on assets, return on equity, sales growth, liquidity, and operating ratios. In their major study, Kim and Ayoun (2005) conducted a longitudinal, cross-sector ratio analysis of different tourism sector in the USA (including restaurants). Their research revealed that restaurants manage their assets more effectively than other tourism sectors. The study also proved that there are statistically significant differences in static and dynamic measures of liquidity within the tourism sector. Therefore, when conducting a financial analysis of tourism (and restaurant sector), researchers and practitioners shouldn't rely solely on static ratios, but should also consider dynamic liquidity measures. The first systematic study of non-financial measures was reported by Kaplan and Norton in 1992. Authors presented Balanced Scorecard, where they had combined financial measures with operational measures in order to present a broader view of companies' overall performance (Kaplan and Norton, 1992).

In the analysis of restaurants' business performance in Australia, Assaf, Deery and Jago (2010) found that restaurants are operating with low level of efficiency. This view is also supported by Mun and Jang (2015), who investigated the impact of working capital on restaurants' financial performance. Authors (ibid.) determined a strong inverted U-shape relationship between working capital and profitability, meaning that an increase in working capital has a negative impact on profitability in organizations with positive working capital (and vice - versa). Overall, these studies highlight the need for inclusion of non-financial measures in restaurant service sector analysis, as financial indicators don't provide a comprehensive picture of restaurants' overall business performance.

3. BENCHMARKING

According to a definition provided by Kozak and Nield (2001, 8), benchmarking is "the continuous measurement and improvement of an organization's performance against the best".

Khurrum and Faizul (1999) state that early definitions defined benchmarking as a problem solving technique. According to authors (ibid.), scholars soon identified its potentials in analysing organisations' operational processes. Researchers (presented below) identified several types of benchmarking. Andersen and Pettersen (1995) state that the purpose of the analysis most often defines the type of benchmarking. Authors (ibid.) defined the following types of benchmarking: performance, process and strategic, and internal-external benchmarking. Performance benchmarking focuses on performance measurement, process benchmarking deals with methods and practices for performing processes, whilst strategic benchmarking focuses on company's strategic choices and dispositions (Andersen and Pettersen, 1995).

According to Wöber (2002) there are also other types of benchmarking, such as competitive, functional, and generic benchmarking. Competitive benchmarking is a form of performance benchmarking and its main aim is to measure and compare an organization's performance with competitors in the same type (branch) of industry (Wöber, 2002a). Neely, Gregory and Platts (2005) state that especially competitive benchmarking is a very useful managerial tool, as it focuses on direct measurement of competitors' overall business performance.

In tourism, benchmarking most often deals with profit and non-profit oriented businesses (Wöber, 2002). The majority of literature deals with profit-oriented tourism businesses, especially within the lodging sector (Wöber, 2001). Benchmarking activity has developed to the point, that several companies (e.g. Ernst & Young, Global Hospitality Consulting, PKF Consulting, Smith Travel Research etc.) offer payable benchmark statistics for the lodging sector (Harris and Mongiello, 2006). Although the majority of research focuses on accommodation facilities, there are also some studies focusing on benchmarking in the restaurant sector. Kim and Gu (2003) compared three subsectors of restaurant industry (full-service restaurants, economy/buffet restaurants, and fast-food restaurants) and came to the conclusion, that there are differences in business performance among different subsectors. The study also found that all subsectors' financial performance was inferior to the average market portfolio for the restaurant sector. Consequently, the case of benchmarking in restaurant industry has also raised attention among practitioners. In 2001 the Austria's national hotel and restaurant panel was developed, in order to enable benchmarking within the industry (Wöber, 2002).

In their research, Schmidgall and DeFranco (2004) identified the most often used financial ratios for the restaurant industry. These ratios are: payroll cost in %, cost of goods in %, current ratio, debt to equity ratio etc. As benchmarking has proven to be a reliable management tool, Hua and Lee (2014) proposed the development of unified guidelines for managers on how to enhance restaurants' capabilities with the help of benchmarking. This view corroborates the idea of Fuchs and Weiermair (2004), who stated that benchmarking can be considered as a "catalyst" for fast learning managers. Namely, benchmarking enables a quick and reliable identifications of company's performance gaps (Stapenhurst, 2009).

4. FINANCIAL ANALYSIS OF SLOVENIAN RESTAURANT SECTOR

Financial data for the Slovenian restaurant sector were obtained from the Agency of the Republic of Slovenia for Public Legal Records and Related Services (Ajpes). The agency manages the register of business entities, collects annual reports and other data, conducts statistical research, performs credit ratings etc. (Ajpes, 2016).

In our analysis, the business year 1994 was taken as a (research) starting point. Namely, only in 1994 Ajpes started to provide financial data and statistical information on national economic activity. Based on a literature review, we choose financial data recommended in theory (see Chapter 2). The nominal financial data were deflated to constant prices in year 1994 (the base year) in order to obtain real values of financial indicators over the analysed period (1994-2014). The deflator for value of inflation was obtained from Statistical Office of Republic of Slovenia (SORS, 2015). In the next step, financial performance analysis of restaurants and inns was conducted. With determining the financial performance of the Slovenian restaurant industry for the last 21 years, we conducted the first step in the benchmarking process. In the next step, we wanted to compare the Slovenian results with the financial performance of the restaurant industry from the neighbouring countries in order to identify best performance practices. Unfortunately, due to scarce public available data we were unable to conduct a reliable benchmarking analysis.

Table 2: **Net sales revenues and net profit/loss for the accounting period in Euro**

Year	Net sales revenues in Euro	Net profit/loss for the accounting period in Euro
1994	66.121.833	-5.101.541
1995	69.681.268	-2.020.611
1996	57.970.620	-2.916.020
1997	55.462.848	-1.435.330
1998	55.342.486	-1.501.256
1999	52.347.989	-1.228.257
2000	50.125.145	-2.058.656
2001	55.986.335	-1.382.052
2002	58.916.288	-1.345.458
2003	62.486.016	600.212
2004	64.409.182	465.637
2005	72.690.119	-150.288
2006	101.709.576	2.600.808
2007	90.203.455	-291.013
2008	141.257.622	-3.339.177
2009	108.719.079	-909.771
2010	105.541.928	-2.486.396

Year	Net sales revenues in Euro	Net profit/loss for the accounting period in Euro
2011	110.421.174	-1.641.206
2012	109.817.674	-1.816.571
2013	111.716.190	-2.787.986
2014	121.084.816	-235.211

Source: (Ajpes, 2015)

In Table 2 net sales revenues and net profit/loss for the accounting period are presented. The average annual rate of growth at net sales revenues is 4.28 %. The highest jump of revenues occurred in the years 2006 and 2008. In 2006 international economic trends were very favourable and this boosted the growth rate of sales in foreign markets. In 2006, there was also a very high level of activity in the construction sector, which consequently boosted sales revenues in the domestic market (Kmet Zupančič et al., 2007). At the end of the year 2006, the prices in restaurant sector increased for almost 4.5 %. This increase most probably occurred due to the fact that Slovenia was in the process of adopting Euro as a national currency (UMAR, 2016). An increase in prices also contributed to higher net sales revenues (Gričar and Bojnec, 2009). In 2008, net sales revenues were also relatively high. In the first six months of 2008, Slovenia took over the presidency of the Council of the EU. The country also used this opportunity for intense tourism promotion. According to a survey conducted by STB (2008), the presidency significantly influenced tourism demand, which consequently lead to a higher employment rate. In 2009, net sales revenues sharply declined, mostly due to economic crisis and the decline in demand (in this view it is also necessary to take into account the impact of tampering with the net sales revenues). In the same year (2009), the Tax Administration office discovered a large part of fiscal irregularities in the restaurant sector (e.g. issuing receipts, tax reporting etc.) (Kmet Zupančič et al., 2010).

When calculating profit/loss, we must bear in mind that the value of profit is significantly affected by different valuations and disclosures of certain economic categories (e.g. assets, inventories, receivables, amortization etc.) (Kavčič et al., 2003). On the other hand, net profit is affected by the rate of the corporate tax and by legal possibilities to enforce tax deductions. In Slovenia, the rate of the corporate tax gradually lowered from 25 % to 17 % (KPMG, 2015).

Further examination of net profit/loss reveals that the highest loss was recorded in 2008. A deeper analysis also reveals that net sales revenues and the profit from operations in 2008 were considerably higher than in the previous year. On the other hand, financial expenses were also considerably high – especially financial expenses from financial liabilities. Expenses have significantly increased as a consequence of the growing debt, which has increased due to an investment cycle. This process has led to loss in year 2008. Because of financial and economic crisis, business results deteriorated considerably in year 2008. Loss increase happened mainly due to a large financial loss, since the financial crisis had a severe negative impact on the value of shares and other financial investments (Kmet Zupančič et al., 2009).

Table 3: **ROA and ROE**

Year	ROA in %	ROE in %
1994	-8.8	-14.9
1995	-3.5	-6.1
1996	-5.9	-11.6
1997	-3.3	-6.9
1998	-3.4	-7.0
1999	-2.8	-6.0
2000	-4.7	-9.8
2001	-3.1	-5.9
2002	-2.9	-6.2
2003	1.2	3.0
2004	0.8	2.5
2005	-0.2	-0.8
2006	3.3	12.3
2007	-0.3	-1.5
2008	-2.4	-7.3
2009	-0.7	-3.3
2010	-2.0	-9.7
2011	-1.2	-5.9
2012	-1.4	-6.8
2013	-2.4	-10.9
2014	-0.2	-0.9
Average	*-2.09*	*-4.94*

Source: (Ajpes, 2015)

In Table 3 financial performance based on two financial ratios – Return on Assets (ROA) and Return on Equity (ROE), is presented. Both ratios belong to profitability indicators, which measure management's overall effectiveness. Negative ratio means, that an organization has generated loss. ROA shows the profitability of an organization's assets (Schmidgall and Damitio, 2006). We can see that the average value is -2.09 %. This means, that 2.09 cents of loss were generated for every Euro of average total assets. Number of restaurants and inns grew rapidly in the period from 2002 to 2009 (this means that the value of assets has also increased significantly). Results show that in the same period organizations mainly generated loss (see Table 3).

The ROE ratio compares the profit/loss of an organization to the owners' equity (Schmidgall and Damitio, 2006). We can see that the average value is -4.49 %. This means, that 4.94 cents of loss were generated for every Euro of (average) owners' equity. The value of equity didn't follow the rapid growth of the value of assets - hence it can be assumed, that the assets were acquired with debt obligations.

Table 4: **Profit margin, operating efficiency and current ratio**

Year	**Profit margin in %**	**Operating efficiency ratio**	**Current ratio**
1994	-7.4	0.95	0.88
1995	-2.9	0.95	0.77
1996	-4.9	0.95	0.67
1997	-2.6	0.96	0.66
1998	-2.7	0.96	0.68
1999	-2.3	0.97	0.68
2000	-4.1	0.95	0.73
2001	-2.5	0.99	0.81
2002	-2.2	0.99	0.88
2003	0.9	1.01	0.93
2004	0.7	1.02	0.85
2005	-0.2	1.01	0.75
2006	2.4	1.05	0.94
2007	-0.3	1.01	0.83
2008	-2.3	1.01	1.03
2009	-0.8	1.01	0.82
2010	-2.3	0.99	0.76
2011	-1.4	1.00	0.78
2012	-1.6	0.99	0.80
2013	-2.4	0.99	0.75
2014	-0.2	1.01	0.80
Average	*-1.86*	*0.99*	*0.80*

Source: (Ajpes, 2015)

In Table 4 another two profitability ratios, profit margin and operating efficiency ratio are shown together with the current ratio. Profit margin shows how efficiently managements generate sales and control expenses (Schmidgall and Damitio, 2006). We can see, that the average value is -1.86 %. This means that 1.86 cents of loss were generated for every 1 Euro of revenue.

Operating efficiency ratio shows the efficiency of a company's management by comparing operating revenues and operating expenses. When the ratio is lower than 1, an organization generated operating loss. As can be seen from Table 4, from year 2003 restaurants are generating more operating revenues than operating expenses. Therefore, companies were generating positive financial results from operations. A more detailed analysis reveals that the average rate of growth of operating expenses was lower than the average rate of growth of operating revenues. We can therefore conclude that managers were relatively successful in controlling operating expenses. Yet, these numbers are not very encouraging, as restaurants had to finance the constantly increasing financial expenses (see Table 5).

Current ratio shows the relationship between current assets and current liabilities (Schmidgall and Damitio, 2006). In our study, the average value of this indicator is 0.80. This means that for every Euro of current liabilities, a (restaurant) company has 80 cents of current assets. This leads to the conclusion, that restaurants were unable to pay their current obligations with cash (earnings) from current assets.

The highest values of all three ratios were achieved in year 2006, which was (as already mentioned before) the year of extremely favourable economic situation. This resulted in positive economic trends and financial performance (see also Table 4).

Table 5: **Debt to equity ratio and labour cost percentage**

Year	**Debt to equity ratio in %**	**Labour cost in %**
1994	34.20	32.47
1995	41.20	32.43
1996	48.80	31.70
1997	49.20	30.51
1998	52.10	28.91
1999	52.80	29.55
2000	50.10	30.00
2001	48.40	29.74
2002	54.10	28.30
2003	62.60	27.96
2004	67.90	28.29
2005	71.40	27.82
2006	74.20	20.97
2007	78.80	26.33
2008	68.40	21.06
2009	79.70	28.95
2010	79.90	29.32
2011	79.70	28.74
2012	79.60	27.91
2013	79.30	27.33
2014	78.20	26.95
Average	*63.36*	*28.34*

Source: (Ajpes 2015)

Table 5 presents solvency and operating ratio, debt to equity ratio, and labour cost percentage for the restaurant sector. Debt to equity ratio shows the organization's ability to meet its long-term debt obligations (Schmidgall and Damitio, 2006) and reveals the amount of debt which an organization uses to finance its assets (the higher debt to equity ratio is, the higher are financial expenses). In our study, the average value of this ratio is 63.36 %. This value significantly increased in year 2009. Because of unfavourable economic trends, companies had to increase their debts in order to finance their operations.

Labour cost in restaurant sector presents one of the major expenses (Schmidgall and Damitio, 2006). For Slovenian restaurant sector the average value of this ratio is 28.34 % (see Table above) and the average annual rate of growth is negative (-0.18 %). The average annual rate growth is negative because labour costs increased slower than operating revenues.

5. CONCLUSION

This research paper has provided an insight to the financial performance of the Slovenian restaurant sector for the period from 1994 to 2014. With determining the financial performance of the Slovenian restaurant industry for the last 21 years, we conducted the first step in the benchmarking process. The next step is to compare the Slovenian restaurant sector with financial performance of restaurant sectors from neighbouring countries in order to identify best performance practices.

Research results indicate that, on average, Slovenian restaurants have problems in achieving positive financial results (the value of operating ratio is less than one). Restaurant companies also have problems in paying current obligations with cash from current assets. The share of capital in financing structure is reducing practically throughout the whole observed period, and as a consequence companies are facing with indebtedness. Therefore, financial expenses are constantly increasing, which results in negative overall financial performance of the restaurant sector.

Based on presented data and research results we can conclude that there are some parallels between different socio-political and economic events and the financial performance of the restaurant sector. EU accession and introduction of Euro had a positive impact on net sales revenues. The Slovenian presidency to the Council of the EU also positively contributed to net sales revenues. Although it seems, that restaurant managers used all major events in their advantage, financial results reveal that all types of expenses grew faster than revenues, which resulted in losses in almost all accounting periods. Recession negatively affected financial results, especially because of its negative impact on the value of shares and other financial investments.

In future, restaurant managers should make an effort in optimizing their operations (especially the operational expenses). Managers should also consider the possibility of implementing uniformed standards of accounting and financial reporting for the restaurant sector. In addition, reintroduction of systematic statistical monitoring of some industry-specific data (i.e. number of facilities per type, location, number of seats, and turnover for different types of facilities etc.) would also enable a more thorough analysis of restaurants' performance. Studies presented in this paper highlight the importance of non-financial indicators for the restaurant service sector, also because some accounting practices still enable financial reporting manipulations. Future research should therefore concentrate on the investigation of different financial and non-financial indicators for the restaurant industry.

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