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Determinants of Profitability in Hotel Industry: A Case Study in Hawassa City Administration, Ethiopia

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ABSTRACT

The objective of this study is to determine the relationship between factors affecting hotel profitability (Age of hotels, Firm size, cost ratio, Equity ratio and profitability of four star in Hawassa. In order to carry out the study, secondary data of Four star hotels over the period of 2013-2017 was obtained on the financial performance from the annual reports and audited financial statements and secondary data. Data collected was analyzed using SPSS20 econometrics software. Regression analysis was used to analyze the data from secondary source. The study findings indicate that the variables are statistically significance to influencing profitability of four star hotels in Hawassa. This implies that Equity ratio, operation cost ratio and firm size has significant impact at five percent significance level on profitability of four star hotels in Hawassa but hotel age is insignificant. Based on the findings, the study recommends that the four star hotels must work towards improving their operating cost management. Further studies should be undertaken to analyze the different sectors in the economy to determine any significant differences in the relationship between firm characteristics and profitability in the hotels industry by incorporating other independent variable.

Keywords: *Profitability, Return on Asset (ROA), Firm Size, Equity, Cost ratio*

INTRODUCTION

In developed countries, services in general are highly heterogeneous and include a great variety of interesting, complex, and often highly innovative activities. Over the past few decades, their importance has steadily grown compared to that of tangible goods. Hotel industry is a very competitive business in which customers place great emphasis on reliability and timely service delivery. The vision of all such businesses is to provide quality high class services to customers in order to successfully thrive and achieve their mission (OECD, 2012).

Profitability refers to measure of financial performance, it is one of the main aims of Hotel Industry or Hotel sector. Profit is an essential precondition for an increasing attractiveness of a company. In addition, profit attracts investors and improves the level of solvency, and thus, strengthens consumers' confidence. The financial performance of Hotel Industry is also appropriate within the macroeconomic framework since the Hotel industry is one of the financial system components, development economic growth and stability. Hence, the determinants of Profitability have attracted the interest of academicians, practitioners and institutional supervisors (Brau et al., 2003).

Empirical Review of Related Studies and Research Gap

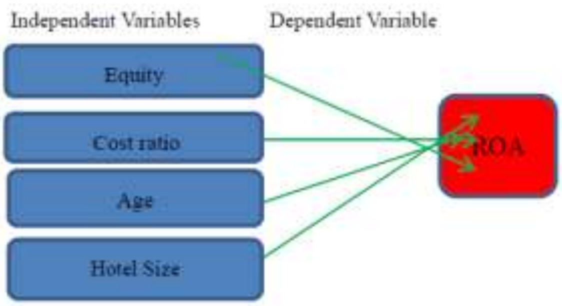
Dissimilarity of profit among Hotels Industries over the years in a given city would result to suggest that internal factors or firm specific factors and external factors play a vital role in influencing their factors affecting financial performance. It is therefore imperative to identify what are these factors as it can help Hotels Industries to take action on what will increase their factors affecting financial performance and investors to prediction the factors determining profitability of Hotel Industry in Hawassa City Administration.

Chen in 2010 originates a consensual relationship between tourism and hotel industry. In other words, the ability of hotels in expanding the economic situations and the performance of tourism related firms make it one of the most major segments of the hotel industry.

Success is based on the organization's ability to rely (Anderson and Vincze, 2000).Competition is at the core of the success or failure of firms (porter, 2009). Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation.

The main problem in this research lack of Cost management, Equity Management, unplanned Debt management, Firm Size is reduction of profitability in Hotel Industry. This Effect can account for Disorganizations in a company's operation when it is not able to pay off its due obligation and will not be able to provide service required to customer. Therefore, Hotel Industry profitability can be risked as a result. On the best of researcher knowledge, there was no doing previse study related to the topic in Hawassa City Administration in particular area. Therefore, this study was aimed to fill this gap theoretically and practically in the mentioned area.

Conceptual Framework of the Study



Source: Researcher own work 2018

Figure 1: Conceptual frame work

Objective of the Study

General Objective

The main objective of the Study was Identifying Determinants of Profitability in Hotel Industry in case of Hawassa city Administration.

Specific Objective

The specific objective of the Study is as follow:

- To examine the relationship between Equity and profitability.
- To examine the relationship between operating cost and profitability.
- To examine the relationship between hotel age and profitability.
- To examine the relationship between Firm size and profitability.

Research Hypothesis

After reviewing different Literature the Researcher propose the following directional Hypothesis:

H1: Equity has statically significant and positive effect on profitability.

H2: Cost income ratio has statically significant and negative effect on profitability.

H3: Hotel Age has statically significant and Positive effect on profitability.

H4: Firm size has statically significant Positive effect on Profitability.

Materials and Methods

Research Design

A quantitative type of data has been used based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004). According to Creswell, (1998), quantitative research is a means for testing objective theories by examining the relationship among variables.

Population and Sample

The researcher focused on four-star rated hotels; those have been served for five years and above operation and provide financial report (statement of profit and loss and statement of financial position) in Hawassa city administration. There are seven (7) four-star rated hotels in Hawassa city administration. Those are Haile Resort, Lewi Resort, Central Hotel, Lake View hotel, south star international hotel, Rori hotel and Pina Hotels.

Sample Design and Sampling Techniques

Out of these four star rated hotels found in Hawassa city the study has focused on four star hotels (i.eHaile Resort, Lewi Resort, Central Hotel, and Pina Hotels) based on their establishment that have at least a five year financial statements to make analysis by using five years balanced panel data. So, the matrix for the frame is 5*4 that included 20 observations. To have a fair representativeness of the sample size for the study of the total numbers of the seven (7) Four Star Hotels, the researcher has been selected Four (4) four-star Star Hotels purposively based on five years operation.

Data Source and Type

To gather the necessary data copies of audited financial statements in the form of statement of profit and loss and statement of financial position over the period of 2013 to2017 has been used.

Data Analysis Techniques

The collected panel date was analyzed using descriptive statistics, correlations, multiple linear regression analysis so as investigate the relation between dependent and independent variables. And also, the multiple linear regressions model was run and ordinary least square/OLS regression approach including all of its assumptions was tested. The panel data which were collected from selected hotels was analyzed by using SPSS version 20 software package.

Model Specification

The regression analysis is conducted to find out the following: The relationship between Age, Total operating cost, Equity and Hotel size and profitability in Hawassa hotel Industry: the researcher used 5 years period (2013-2017) for four star Hotel Industry; This is multivariate regression model which is presented below:

$$ROA = \alpha + \beta 1ER + \beta 2TC + \beta 3Ag + \beta 4S + \beta 5Liq + \varepsilon$$

Y-dependent variable

X- Independent variable

ε-error term

Application

ROA- profitability indicator

ER- Equity ratio indicator

TC-Total Operating cost indicator

S-Company Size indicator

Liq- Liquidity Ratio

It is the regression function which determines the relation of X (TC, ER, AG, Liq and Hotel Size) to Y (ROA). α is the constant term and β is the coefficient of the function, it is the value for the regression equation to predict the variances in dependent variable from the independent variables.

Descriptive Statistics

This section discussed the summery statistics of each variable of the study. Key descriptive statistics analysis techniques including mean, maximum, minimum and standard deviation were used by the researchers to elaborate the finding of the study.

Table1. *Descriptive Statistics of the Variables*

Variables	Minimum	Maximum	Mean	Std. Deviation
Return on Asset	0.10	0.81	0.4670	0.13034
Equity Ratio	1.68	3.82	2.6341	0.57162
Operating Cost	4.13	5.30	3.5720	0.21682
Age	1.02	3.18	1.7739	0.53202
Company Size	6.20	8.14	7.311	1.23634
Liquidity Ratio	1.11	3.29	2.0372	0.49842
N	20	20	20	20

Source: *SPSS Output of Financial statements of sampled all Hotels Industry2018*

From the above Table 1Return on Assets (ROA) was used to measure the profitability of the Hotel Industry. As indicated in the above table, the profitability measures (ROA) shows that Four Star Hotels in Hawassa City achieved on average a positive Net profit after tax over the last 5 years. For the total sample, the overall mean of ROA was 0.4670 with a maximum of 0.81 and a minimum of 0.10. That means the most profitable Hotels Industry among the sampled earned 0.81 cents of profit after tax for a single birr invested in the assets of the firm. Regarding the standard deviation, it's mean to both sides by 0.13 which indicate there was some variation from the mean. This implies that Four star Hotels need to optimize the use of their assets to increase the return on their assets.

Equity ratio Standard deviation operating income was 0.57162.This implies that on average, most Four Star Hotels from the sample is a measure of capital adequacy. The higher percentage of this ratio causes the lower risk and makes firm safer and profitable. The minimum and maximum values of the Equity Ratio are 1.68 and 3.82 respectively. The mean value of Equity ratio overall deviate from its mean to both sides by 0.57162.This indicates that there is high variation in Equity performance in four stars Hotel in Hawassa during the study period.

Table 2 indicates the level of correlation between the dependent variable (ROA) and independent variables (Equity Ratio, Operating cost, Hotels Age, company size, and liquidity ratio). In the above table, Equity ratio, Firms size, and Hotel age of this study are positively correlated with profitability of Four Star Hotels in Hawassa. But under Operating Cost and Liquidity ratio are negatively correlated with profitability of Four stars Hotels in Hawassa.

PEARSON CORRELATION

Table2. *Pearson Correlation between ROA and explanatory variables*

Variables	Return on Asset	Equity ratio	Operating cost	Hotels Age	Firms Size	Liquidity ratio
Return on Asset	1					
Equity ratio	0.321	1				
Operating Cost	-0.108	-0.150	1			
Hotels Age	0.035	0.550	0.367	1		
Firms Size	0.415	0.260	0.215	0.343	1	
Liquidity ratio	-0.237	-0.045	0.173	0.047	0.241	1
N	20	20	20	20	20	20

Source: SPSS Output of the Secondary Data, 2018

Correlation test shows that return on assets (ROA) has moderate and positive correlation between Equity ratio of Four star Hotels with the value of (0.321), Hotels age with the value of (0.035), and Firm Size with the value of (0.415). Total Operating Cost with the value of (0.108) and Liquidity ratio with the value of (-0.237) has weak and negative relationship

REGRESSION ANALYSIS

Table3. *Model summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.851	0.708	0.601	0.34275	1.758

Source: *Own Survey Result, 2018*

From the table 4.3, R=0.851, and R square=0.708. R square (0.601) shows the power of the independent variables to predict the dependent variable. It also shows approximately 85.1 % of total variation in the dependent variable is explained by the linear combination of the independent variables from sample of 20.R indicates the relationship of independents and dependent variable. This indicates high correlation between these two variables. Coefficient of determination (R Square) explains the extent to which changes in the dependent variable can be explained by changes in the independent variables or the percentage of variation in the dependent variable (profitability of Four Star Hotels in Hawassa) that is explained by all the five independent variables.

Table4. *ANOVA (Analysis of Variance)*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	14.695	8	1.942	88.501	0.000
Residual	1.012	51	0.020		
Total	15.707	59			

Source: *Own Survey Result, 2018*

The highest value of "F" shows that the regression model is good fit of the data. Table 4.4 shows that the independent variable are statistically significant to predict the dependent variable, F = 88.501, $p< 0.05$. Therefore, the regression model is a good fit of the data. Since F calculated is greater than the F critical, this means that the overall model was significant, and hence, it is good for prediction.

Table5. *Predicting Profitability by Regression Model*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.041	0.105		1.074	0.000		
Equity Ratio	0.013	0.011	0.038	2.320	0.000	0.337	2.968
Operating Cost	-0.001	0.039	0.009	0.221	-0.003	0.531	1.315
Hotel Age	0.021	0.041	0.218	3.328	0.001	0.278	3.598
Firms Size	0.018	0.059	0.018	0.106	0.002	0.339	2.953
Liquidity Ratio	-0.016	0.104	0.015	0.219	-0.012	0.201	1.432

Source: *Own Survey Result, 2018*

From table 4.5, β-value or the coefficient of the independent variables indicates that to what extent the independent variables affect dependent variable of this study.

The above coefficient table shows that there is relationship between independent variables and dependent variable. The coefficient values of these independent variables are for Equity Ratio (0.013), Total operating cost (-0.001), Hotel Age (0.021), Firm Size (0.018) and Liquidity ratio (-0.016).This Shows that Liquidity ratio and Leverage ratio have negative relationship with Profitability of the Four Star Hotels in Hawassa. This implies that, when Liquidity of the Four star Hotels increases by one unit, the profitability of the Hotel decrease. The same is true for all independent variables whose have negative relationship with dependent variables. Equity ratio, Hotel age, and Firm Size has positive relationship with Profitability of the Four Star Hotels in Hawassa City. This implies when Hotel Age of the Four Stars Hotel is large, the Profitability of the Four star Hotels increases. The same is true for all independent variables whose have positive relationship with dependent variables.

SUMMARY

- In this study, the empirical analysis of investigating the determinants of the profitability of Hotel industry was conducted using a panel data set consisting of financial data of over the period of 2013 to 20117 and supports the finding with secondary source of data**.**
- The major findings of this study are based on the analysis of the secondary data used for this study purposes. These are as follows**:**
- According to the findings of this study, Equity Ratio, Operating Cost, Hotels Age, Firm size, Liquidity ratio of this study are positively correlated with Profitability of Four star Hotels in Hawassa. Liquidity ratio and Total operating Cost are negatively correlated with Profitability of Four Star Hotels in Hawassa**.**

The researcher found that independent variables share 85.1% of Profitability in Four star Hotels in Hawassa. This means that 14.9% of the factors affecting Profitability are not explained in this study.

According to the findings of this study, there is no Independent Variable have no significant effect on Profitability of the Four Star hotels in Hawassa. Since p-value is greater than 0.05. All Independent variable have significant effect on Profitability of the Four Star Hotels in Hawassa. Since p-value is less than 0.05.

CONCLUSIONS

Hotels Industry plays a significant role in a country's economic growth and offers financial protection to an individual or firm against monetary losses suffered from unforeseen circumstances. Therefore, in order to survive negative shocks and maintain a good financial stability, it is important to identify the determinants that mostly influence the Hotels Profitability.

In the study, Equity Ratio,Total operating cost, Hotels Age, Firms Size and Liquidity ratio are considered as independent variables while return on asset (Profitability) is considered as dependent variable. The empirical findings on the effect of Determinants of Profitability in Hawassa for the sample suggested the following conclusions.

Minimizing Leverage ratio will certainly improve the insurers' Profitability since taking an excessive Leverage ratio can affect the Hotels stability through higher loss. Total assets have a positive impact on Profitability with strong significance coefficient. This indicates that as larger four stars Hotels of the country experience more significant increases in Profitability through economies of scale. Regarding Hotel Age, results in this study revealed that has a positive and significant effect on Profitability.

RECOMMENDATIONS

Based on the research findings the following recommendations were presented for this study:

Generally, the empirical findings of this study revealed that Hotels specific variables and regulatory factors have more significant Determinants of profitability of Hotel. From those variables Equity ratio, total operating Cost, Hotel Age, liquidity ratio and Leverage ratio are significant key Determinants drivers of Profitability Four star Hotels in Hawassa city. Indeed focusing and reengineering the institutions alongside these indicators could enhance the financial performance of the Ethiopian Hotels industry.

- Hotel Size is positive to have high consideration of increasing the Hotels assets. Because the size of the Hotel is an important factor as it influences its competitive power. Small companies have less power than large ones; hence they may find it difficult to compete with the large firms particularly in highly competitive markets.
- Great attention should be paid to total operating cost. Four Star Hotels that are highly incurred cost may be at risk of bankruptcy if they are unable to make payments on their operation; they may also be unable to find new lenders in the future..
- By taking evidence from other industries, increasing the number of observations through the use of longer years of data, other issues that could be covered in future research include whether Hotels Industry effectively and efficiently out of risks.
- The Government emphasis for Voluntary Investor to Join in Hotel Industry.

Finally, the study sought to investigate the determinant of Profitability in Four star Hotels in Hawassa. However, the variables used in the statistical analysis did not include all factors that can affect Profitability Hotels Industry. It only includes few firm specific and macro-economic variables. Thus, future research shall conduct on the issue like impact of government regulation policy and other directives and non-financial determinant of Profitability such as management quality, efficiency and productivity.

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