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FACTORS EFFECTING TO THE PROFITABILITY OF HOTEL AND TRAVELING COMPANIES LISTED IN COLOMBO STOCK EXCHANGE

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ABSTRACT

Hotel and travelling sector is one of a growing area in Sri Lankan economy earning highest profits comparing with the other sectors. The study explores factors effecting to the profitability of hotel and tourism sector companies in Colombo Stock Exchange (CSE) during the period 2015-2019. The research employs 35 hotel and travelling sector companies for the study. Different factors affecting to profitability of hotel and travelling sector such as Firm size, Investment, Debt, Firm age were identified as the independent variables where the profitability was the dependent variable. The data were analyzed and hypotheses were tested using descriptive statistics, correlation analysis and regression analysis. The findings revealed that, firm size and investment have a significant positive effect on profitabilityof hotel and traveling sector companies in Sri Lanka. Therefore, Sri Lankan hotel and travelling sector companies should be given high attention for these two factors.

Keywords
Profitability, Hotel and Travelling Sector, Colombo Stock Exchange

INTRODUCTION

Each organization has its own missions to accomplish. Profitability is an important factor they want to achieve. In a competitive market an entrepreneur must learn to achieve a satisfactory level of profitability. Increasing profitability means identifying which areas of a financial strategy work and which ones need to be improved. Understanding the key factors driving profitability helps managers develop an effective profitability strategy for their business (Niresh & Velnampy, 2014). Hotel and travelling industry has been received immense attention on the agenda of scholars, policy holders, decision makers and other important stakeholders (Kovic et al., 2016). Sri Lanka has a growing hotel and tourism sector especially after ending of the civil war in 2009. Now a day's hotel and travelling sector earn highest profits as comparing with the other sectors. It gives huge contribution to the Sri Lankan economic growth. According to the Sri Lanka Tourism Development Authority Annual statistical report 2017, hotel and travelling sector gives 4.5 percent direct contributions to the Sri Lankan GDP and total employment generation is 359,215 as a direct employments 156,369 and indirect employments 202,846 (Sri Lanka Tourism Development Authority , 2017). Therefore, this study is expected to investigate the impact of different factors like firm size, investment, debt and firm age on profitability of Hotel and travelling sector companies in CSE.

PROBLEM STATEMENT

There are many studies relating to the profitability in global context (Jafari & Samman , 2015). But in Sri Lankan context, only a limited number of research based on factors that affect profitability of hotel and travelling sector. Therefore, in order to fulfil this gap, the present study examine, Does different factors like size, investment, debt and age effect on profitabilityof Hotel and travelling sector companies in CSE?.

Objective of the Study

The main objective of this study is to examine the effect of different factors on profitability of Hotel and Travelling Sector

Specific Objectives

- To examine the effect of firm size on profitability of hotel and travelling sector
- To examine the effect of investment on profitability of hotel and travelling sector
- To identify the effect of debt on profitability of hotel and travelling sector
- To identify the effect of age on profitability of hotel and travelling sector

LITERATURE REVIEW

4.1. Firm Size and the Profitability

According to (Kigen, 2014) the firm size has a strong positive effect on profitability of insurance companies in Kenya during the period of 2009-2013. (Lee, 2009) sited that the role of firm size in explaining firm performance have been on going in the fields of business organization and industrial economics and said that the absolute size of a firm is highly considered as a key determinant to measure the profitability. (Niresh and Velnampy, 2014) intended to assess the firm size and profitability with reference to listed manufacturing firms in Sri Lanka and found that there is no any indicative relationship between firm size and the profitability of listed manufacturing firms in Sri Lanka. The study of (Ozgulbas et al.,2006) has studied that large scale firms have higher performance with compared to the small scale firms operating in Istanbul stock exchange. The profitability is the measurement of analyzing the performance of business sector. In the similar study of Jonson (2007) studied the influence of size of the firm and profitability operating in Iceland and showed the results as that bigger firms have higher profitability as compared to smaller firms. According to (John and Adebayo, 2013) identified positive relationship among the firm size and the profitability of specified firm based on the study of Nigerian manufacturing firms listed in Nigerian stock exchange. The results of the study revealed that, both terms of total assets and total sales, firm size has a positive effect on the profitability of Nigerian manufacturing companies. According to (Jafari and Samman, 2015) revealed that the determinant of firm size shows a significant positive relationship with both net profit margin and the return on assets. In the Nigerian study of (Akinlo, 2010) investigated that it has a possibility to impact on profitability by the size if the firm. When the firm earns high profit it affects to increase the firm size to grow faster and larger firm size affects to the high profitability. Likewise there has mutual causation between firm size and profitability. All these findings are captured without considering the possible feedback effects. Based on the results of this study here is short-run and long-run casual relationship between firm size and profitability. And also this relationship shows that increased firm size can enhance the profitability in Nigerian listed manufacturing firms. As well as the increased firm's profitability can lead to enhance firm size. When consider the size of the firms the better profit can be gain with the optimal level of the firm size. According to (Gamlath and Rathiranee, 2013) noted that firm size is an important determinant in making capital structure decisions of a firm and also it effects on the firm's profitability and further revealed that the firm size and profitability has a significant positive relationship. Based on the above review of literature following hypothesis can be formulated.

H1: There is a significant effect of hotel size on profitability

4.2. Investments and the Profitability

According to (Toyin and Tajudeen, 2014) explored that there is a strong positive relationship between net profits and investment in fixed assets. None of the companies can be sustained without any investment of fixed assets. (Calcagmini et al., 2013) intended to assess firm profitability and investment and found that there is a significant positive relationship between investment and the firm profitability. According to (Ajanthan, 2013) found that when there is better wealth and better capability of generate profits by the capital investments of the shareholders the firm performance can be in high rate. According to (Silva et al., 2012) used ROA and Tobin's q coefficient to determine the relationship between investment and profitability under the topic of "Decisions on investment and profitability" by using generalized linear mixed models in non-financial Brazilian companies considering 5 scenarios with different periods of investments. Investment is important for economic development enhance the wealth of the company and the shareholders. The results regarding ROA showed a positive relation between contemporary investment and profitability in the unbalanced sample of 1,484 company year observations. Results regarding Tobin's q, of initial investment with the profitability were positive. According to

(Beld, 2014) noted that there is no any relationship between investments in research and development and the firm performance in companies from the United States. Based on the above review of literature following hypothesis can be formulated.

H2: There is a significant effect of investment on profitability

4.3. Debt Level and the Profitability

According to (Woldemariam, 2017) explored that the literatures in capital structure confirmed that a good combination of sources of finance is expected to boost the profitability of an organization. (Jafari&Samman, 2015) found that there is a significant negative relationship with profitability. According to (Habib et al., 2016) indicated a significant but negative relationship between debt level and firm profitability. (Sritharan, 2015) studied about the firm size and the firm profitability and mentioned some parts regarding the debt level of a firm and its influence to the profitability. He reveals those total debt ratio has a negative relationship with firm profitability in further. In the same context of the study by the (John and Adebayo, 2013) also reveal some descriptions about the debt and firm profitability through the study of effect of firm size on profitability.

According to (Ng'Ang'a, 2017) investigated "The effect of debt financing on financial performance of private secondary schools in Kajiado country" that in between debt financing and profitability has a positive and insignificant relationship. Debt financing does not significantly affect to the financial performance of private secondary schools in Kajiado country. According to (Kigen, 2014) the debt financing refers to the extent to which firms make use of their money borrowings. The firms which borrow large range of money during the business are most likely to pay off their debts after they mature, that will end up with high leverage and it has high probability to end of potential risk of bankrupt. Therefore his study on insurance company's profitability in Kenya intended to assess that there is a negative relationship between company borrowings and its profitability. Based on the above review of literature following hypothesis were formulated.

H3: There is a significant effect of debt on profitability

4.4. Firm Age and the Profitability

The study of firm age and performance by (Claudio and Waelchli, 2010) indicated that as firms grow older, their profitability seems to decline. They identified some causes for this negative relationship such as, rising of costs like overheads, slow growth, assets become obsolete, decline the investments in R&D activities and capital expenditures, diffusion of rent-seeking behaviour inside the firm, supported by the poorer governance, larger managerial boards and should hire a CEO and should pay more in older firms. They found highly significant negative relationship between firm age and the profitability. According to (Kigen, 2014) found a negative relationship among firm age and the profitability of the firm. (Selcuk, 2016) studied to investigate the firm age on the profitability of Turkish firms listed in Borsa Istanbul with the result of there is a negative and convex relationship between firm age and profitability. According to (Ilaboya and Ohiokha, 2016) firm age, size and profitability dynamics revealed there are conflicts of the relationship among firm age, size and the profitability on the Nigerian stock exchange market. With growing of firm age learning theory composites that increasing

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knowledge leads to acquire effective production techniques and improve firm performance. But this position will criticize by the internal efficiency and liabilities resulting from the age.

H4: There is a significant effect of firm age on profitability

5. METHODOLOGY

5.1 Study Period and Data Coverage

This study analyses the listed firms in the CSE in Sri Lanka for five year period from 2015 to 2019. The 35 listed companies in the hotel and travelling were selected as the sample.

5.2 Variables and Measures of variables

This study uses one dependent variable and three independent variables for derived the conclusion. Firm size (Natural logarithm of total assets), investment (Natural logarithm of total investments), debt (Total debt/Total assets) and firm age (Base year- Established year) are used as independent variables and also profitability (Natural logarithm of profit after tax) is used as dependent variable.

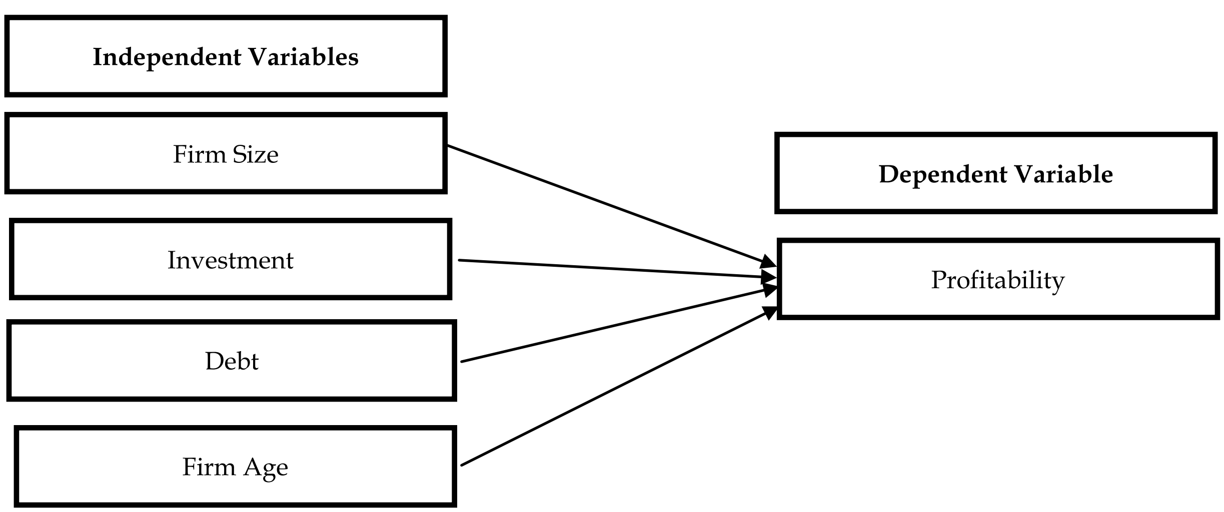
5.3 Population and Sample

Population of this study consist with 40 listed hotel and travelling sector companies listed in CSE. As the sample of this study selected all companies listed in hotel and travelling sector. But, final sample was 35 companies because of unavailability of data.

5.4 Conceptualization

It is evident that there are several variables that influence profitability of a firm. Therefore, this study develops the following conceptual framework model for identifying the four attributes which are considered important in affecting firm's profitability.

Figure 3.1. Conceptual Framework



Source: Developed by the Researcher (2019)

5.5 Techniques of Data Analysis

This research mainly considers factors effecting to the profitability of the companies. The data were analyzed by using E-Views software and mainly descriptive statistics, correlation analysis and regression analysis statistical techniques used to analyses the data.

5.6 Research Model

Linear equation is developed using above mentioned variables

$Y= \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + ... + \beta_n X_n + \varepsilon_i$

$PNL = \beta_0 + \beta_1 FZ + \beta_2 INV + \beta_3 DBT + \beta_4 FA + \varepsilon$

Where,

PNL = Profitability
FZ = Firm Size
INV = Investment
DBT = Debt Ratio
FA = Firm Age
β_0 = Intercept
β_i = Coefficient
ε = Error Term

6. DATA ANALYSIS & RESULTS

6.1 Descriptive Statistics Analysis

Descriptive statistics are useful to make general conclusions about collect data. As a whole these provide information for the selected sector. By handling these statistics can be got basic idea about the behavior of hotel and travelling sector.

Table 1. Results of Descriptive Analysis

	N	Mean	Maximum	Minimum	Std. Deviation
PNL	175	18.153	21.590	-21.236	2.500
FZ	175	21.485	24.254	19.540	2.541
INV	175	14.439	22.323	4.605	7.691
DBT	175	0.238	0.683	0.001	0.189
FA	175	31.583	90.000	2.000	16.069

Source: E-Views Result (2019)

According to table 1, Mean value of the PNL is 18.153and its standard deviation is 2.500. It means the value of profitability can be deviate from mean to positive and negative sides by 2.500. The maximum value of PNL is 21.590 and minimum value is -21.236. Thus when considering the average value of PNL selected hotel and travelling companies those are in favorable position by profitability.

6.2 Correlation Analysis

Correlation analysis shows the relationship between variables. In this study the correlation co-efficient analysis was under taken to find out the relationship between different attributes and profitability. The significance of the correlation was tested at the different levels of significance and detailed results of correlation analysis were reported in Table 2.

Table 2: Results of Correlation Analysis

	PNL	**FZ**	**INV**	**DBT**	**FA**
PNL	1				
FZ	0.897*	1			
INV	0.351*	0.308*	1		
DBT	0.059	0.071	-0.001	1	
FA	0.132	0.193**	0.178**	-0.074	1

** Correlation is significant at the 0.01 level (2 – tailed)
* Correlation is significant at the 0.05 level (2 – tailed)
Source: E-Views Result (2019)

According to the table 2, firm size and investment has significant positive relationship on profitability of listed hotel and traveling companies in CSE.

6.3 Multiple Regression Analysis

In this study, multiple linear regression analysis used to measure the impact of independent variables (FZ, INV, DBT and FA) on the dependent variable (PNL).

Table 3: Results of Regression Analysis

Model	Variable	Coefficient	Std. Error	t-Statistic	Prob.
1	C	-0.584	0.711	-0.820	0.413
	FZ	0.866	0.035	24.905	0.000
	INV	0.029	0.011	2.542	0.012
	DBT	-0.104	0.441	-0.235	0.815
	FA	-0.009	0.005	-1.596	0.112
R		0.902			
R-Square		0.813			
Adjusted R-Square		0.809			
Std. Error		1.093			
Prob.		0.000			
Note – Significant at the 5% level					

Source: E-Views Result (2019)

According to Table 3, R value is 0.902.It represent there is a strong positive correlation because it is close to 1. R square value is 0.813, it denotes that 81.3% variations of the profitability are explained by independent variables (Firm size, investment, debt and firm age).

The regression result shows that, there is positive and significant relationship between profitability and firm size. The coefficient beta value of profitability and investment is 0.029. So, there is positive relationship between profitability and investment. And also actual p - 0.012 value of investment is less than critical p value of 0.05. This represents investment has significantly effect on profitability.

6.4 Hypothesis Testing

According to the above results it can be summarized the results of the hypothesis testing as Table 4

Table 4: Summary of Testing Hypotheses

Hypothesis	Significant/ Insignificant	Accepted/ Rejected	Tools
H_1. There is a significant relationship between hotel size and profitability	Significance	Accept	Regression
H_2. There is a significant relationship between investment and profitability	Significance	Accept	Regression
H_3. There is a significant relationship between debt and profitability	Insignificance	Reject	Regression
H_4. There is a significant relationship between hotel age and profitability	Insignificance	Reject	Regression

Source: Developed by the Researcher (2019)

7. CONCLUTION AND RECOMMENDATIONS

The main objective of this study is to empirically examine whether the various factors influence the profitability. The study developed a set of hypotheses and multiple regression analysis was carried out to test them. The results of the test confirmed the hypothesis developed as there is significant positive relationship between firm size and investment with profitability and rejected other hypothesizes. These findings are compatible with findings of (Sritharan (2015), (Akbas and Karaduman, 2012), (Kigen, 2014), (Jafari and Samman, 2015), (Elisa, 2017), (Toyin and Tajudeen, 2014), (Calcagmini et al., 2013), (Nord, 2011). Assets and investment would appear to be the important factors in determining the profitability of hotel and travelling sector. And also other factors which determine the profitability of a company such as the degree of competition a firm faces, market competitiveness, the strength of demand, the State of the economy. level of advertising campaign , Substitutes, degree of costs, economies of scale and firm size, dynamically efficiency, price discriminate etc. are also not considered for this study. Furthermore, for the availability of data and analysis, the size of sample is also restricted to only 35 hotels and travelling companies in the Sri Lanka. So there is a wide area to additional investigation is to be required by examining the firms in the different sectors to ascertain their different profitability patterns. And also future researchers can consider large sample and many sectors and some large period for future research purpose.

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