# THE VALUE OF THE FIRM, EVIDENCE FROM THE TOURISM SECTOR IN THE REGION OF VLORA

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**Abstract -** In the recent years in Albania investments in tourism are steadily increasing resulting thus an important sector especially for the Vlora's Region, where most of the new businesses are tourism oriented, proving the vital and irreplaceable role that this sector has in the economy of this region. The focus of this paper is the study of the main methods for estimating the value of the firms, which, in this case are tourism companies and in the same time, the study of various factors that affect the value of tourism companies. This study is based on analyzing the financial statements of tourism companies declared in the Regional Taxation Directorate of Vlora's city, composing 19 cross-section data in four time-series periods (2013-2016) and generating so 56 observations. Estimations and results analysis are based on testing panel data fixed and random effect models.

**Index Terms** - Firm value, financial statements, tourism companies, econometric models.

## I. INTRODUCTION

Since the concept of the firm value is of great importance in assessing of the firm's performance, I have analyzed in particular the value of tourism companies in the Region of Vlora, driven by the importance of this sector for the economy in this region. The largest part of the private investments in this sector is held by hospitality companies, becoming so an important factor for the economic prosperity of the whole region. The focus of this paper is the evaluation of factors that influence the growth and the reduction of tourism firm's value. In this analysis, I rely on the financial statements provided by the Regional Tax Office of the city of Vlora.

## II. INTERNAL FACTORS THAT AFFECT THE VALUE OF TOURIST COMPANY

Based on the fact that a firm must be placed effectively in the market by satisfying the needs and preferences of its consumers, but also by gaining and increasing its value, we need to consider and analyze several internal factors, which are:

- **Basic and additional services:** The basic service is what the customer subscribes, e.g. (hotel rooms) and additional services are the support services within the structure (bar, restaurant, etc.), and also outside the facility (information provided by the staff, booking of tickets for various activities etc.). While the basic service is linked to its activity, the additional service is used to increase the quality of the basic service and the customer's satisfaction and increasing so the value of the company.
- **Immediate supply and consumption:** Unlike the manufacturing industry, products or services in tourism are intangible and cannot be stored, so they are both characterized by simultaneous supply and consumption. An additional specificity of the tourism sector is that, if other products can be easily transferred and distributed, the tourist product requires the consumer's presence at the place of production or supply, so it cannot be transported. In this case, the customer is directly involved in the system.
- **The price:** the price is one of the most important factors for increasing the value of a company in the tourism sector. Certainly, it should be adapted to the typology of the segment to which it belongs and the type of product / service offered (luxury, comfort or consumption).Furthermore, in tourism companies, prices depend not only on the production cost, but also on the value of the location and the type of destination.
- **Activity panning:** Tourist companies may also be affected by unpredicted external factors, before interacting with the client (atmospheric conditions, political situation, destination economy, etc.). The size of the tourist companies involves the centralization of many functions in a single image, represented by the owner or director of the company, confirming the important role of the human resources in organizational policies and their professional development for increasing the value of the company.
- **Standardization and quality control:** While industrial companies are focused on the product they produce and placing it in the market with a "tangible" product, tourist companies enter the market and try to understand the basic needs of the client to determine the basic elements of the service they provide.
- **The relationship between the producer and the consumer:** The success is also due to the

infrastructural aspect (hotels that offer comfortable rooms) and also the quality of the relationship between the producer and the consumer, the consumer and the environment, the customer and the local population, the customer and the intermediaries.

- **The personnel role and the client relation quality:**The lack of qualified human resources in the market undoubtedly affects the success of tourist companies: even though the human element is important, high quality service also depends on the infrastructure and technology. Such infrastructural and technological support creates the conditions to provide a qualitative service and also improves the use of the basic services.

## III. EXTERNAL FACTORS THAT AFFECT THE VALUE OF TOURIST COMPANY

The external factors which affect the competitiveness of a company are those which are not directly controllable by management and are therefore outside the firms' boundaries. These comprise mainly the global tourism product, which is part of the company's specific product, meaning a product that is positioned in the overall tourism market and that within the specific company can play different roles.
In particular, the firm's location can play a key role, since in many cases it makes the main difference in the competition between firms, especially in the international aspect.

The location can be interpreted in several levels:

- The location as the specific place in which the company is located (coastal, urban, etc.);
- The location of the company within the city and in proximity to the main attractions;The access and connections within the area.
- Social, economic and production factors at destination: Since firms are linked to the characteristics of the system, it is necessary to consider the social, economic and production factors in which tourism enterprises are located that affect competitiveness, strategies, and development opportunities.These factors influence the organization of the inputs that are used in the enterprise, as well as in human resources, affecting the investment opportunities, infrastructure, policy choices, resource allocation choices, etc.
- Price and type of demand. The price of the destination plays an important role in the competition and in the performance of the company, e.g. the amount of services to be paid, including non-touristic prices (prices in clothing stores, local, etc.). The other important element is the type of demand present in the area, which should be in line with the product offered by the company.

## IV. THE MODEL

Relying on the econometric analysis by using a multiple regression model, it is assessed the impact of different factors that determine the value of a company in the tourism sector, specifically in the Region of Vlora. The generalized form of the model is following:
The value of firm i = f (exp. var. i) = f (x1i, x2i, x3i, xni)

In this case, the absence of an active market that would lead to the determination of the market value, the dependent variable would be the value of the assets rather than the market value, because according to various studies (see for e.g. McConnell, J.J. and C.J. Muscarella, 1985, and Peng, K.T; Hsu, H. T. 2006, Fernandez, P. 2008, Levasseur, M., and Quintart, A., 2013), the assets are the most representative and most significant component in evaluating a company. However, the choice of the total assets as a substitute for the market value is accompanied by some weaknesses:

- The assets are estimated at historical cost;
- Usually they are expressed in individual values, while it is needed the total value combined;
- Absence of a complete and reliable statistics system;
- Lack of a unique format for financial statements;
- There is no market for all assets;
- There are assets which are not registered, etc.

So, as discussed above, the firm's value concept is represented by the Total Asset (TA) variable and this is considered as the dependent variable. The other factors instead, affect the TA variable and so they also affect the firm's value.
These factors are grouped and represented by the following variables:

**1. Balance Indicators:**

- TA (total assets) - measured by the company's balance sheet.
- Total capital (KT).

**2. Profitability Indicators:**

- ROA (return on assets) - measured as the ratio of net income / assets.
- ROE (return on equity) - measured as a ratio of net income / capital.

**3. Statement of Income and Expenses:**

- FN (net profit from the activity),
- FB (gross profit from the activity),

**4. Other indicators**

-Age (years since establishment of the enterprise);

Replacing these factors the general model form we get the following theoretical equation:

$Log(TA)it= \beta 0 + \beta 1FBit1 + \beta 2FNit2 + \beta 3KTit3 + \beta 4AGEit4 + \beta 5ROAit5 + \beta 6ROEit6\ ai + uit$

Where the Log(TA) variable is the log of the total assets and it is a dependent variable, FB stands for the gross profit, NF stands for the net profit, KT stands for the total capital, AGE represents the years that the company is in the market, and Roa and Roe complete the group of independent variables. The variable ai represents the fixed effect error term and uit represents the time effect error term.

## V. THE DATA

All dependent and independent variables are grouped into time series and cross- sections for their estimation. The data are obtained from the Regional Taxation Directorate of Vlora's city region, having available 19 cross-section data in four time-periods (2013-2016), and generating so 56 observations.

## VI. EMPIRICAL RESULTS

In order to estimate the fixed or random time effect that the independent variables have on the dependent variable, the models in panel data are represented in the following tables:

Dependent Variable: LogTA
Method: Panel Least Squares
Date: 07/08/17 Time: 17:29
Sample: 2013 -2016
Periods included: 4
Cross-sections included: 19
Total panel (unbalanced) observations: 56

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 14.27669 | 0.963752 | 14.81365 | 0.0000 |
| FB | 5.95E-07 | 5.60E-07 | 1.062328 | 0.2963 |
| FN | -6.42E-07 | 5.94E-07 | -1.08186 | 0.2877 |
| KT | 2.14E-08 | 8.90E-08 | 0.239978 | 0.8119 |
| AGE | 0.228224 | 0.110531 | 2.064799 | 0.0474 |
| ROA | -1.235802 | 0.350634 | -3.52447 | 0.0013 |
| ROE | -1.012104 | 0.538867 | -1.87820 | 0.0698 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|---|---|---|---|
| R-squared | 0.953645 | Mean dependent var | 16.40685 |
| Adjusted R-squared | 0.917757 | S.D. dependent var | 1.882175 |
| S.E. of regression | 0.539772 | Akaike info criterion | 1.906152 |
| Sum squared resid | 9.031959 | Schwarz criterion | 2.810327 |
| Log likelihood | -28.37225 | Hannan-Quinn criter. | 2.256698 |
| F-statistic | 26.57284 | Durbin-Watson stat | 2.313682 |
| Prob(F-statistic) | 0.000000 | | |

**Table I. Fixed Effect Model**

**Source: Author's calculation in Eviews 9. This model is statistically significant under the Fisher test with a p-value less than 5% of probability and has a high (adjusted) R-squared coefficient of approximately 91%.**

Dependent Variable: LogTA
Method: Panel EGLS (Cross-section random effects)
Date: 07/08/17 Time: 17:40
Sample: 2013- 2016
Periods included: 4
Cross-sections included: 19
Total panel (unbalanced) observations: 56
Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 16.55997 | 0.381474 | 43.41050 | 0.0000 |
| FB | 7.26E-07 | 3.94E-07 | 1.840485 | 0.0718 |
| FN | -4.46E-07 | 4.51E-07 | -0.987395 | 0.3283 |
| KT | 5.92E-08 | 1.20E-08 | 4.954229 | 0.0000 |
| AGE | -0.074036 | 0.040579 | -1.824474 | 0.0742 |
| ROA | -1.577925 | 0.331718 | -4.756825 | 0.0000 |
| ROE | -1.108294 | 0.348063 | -3.184177 | 0.0025 |

| Effects Specification | S.D. | Rho |
|---|---|---|
| Cross-section random | 0.694893 | 0.6237 |
| Idiosyncratic random | 0.539772 | 0.3763 |

| Weighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.507956 | Mean dependent var | 6.586719 |
| Adjusted R-squared | 0.447705 | S.D. dependent var | 1.277783 |
| S.E. of regression | 0.679772 | Sum squared resid | 22.64238 |
| F-statistic | 8.430758 | Durbin-Watson stat | 1.178858 |
| Prob(F-statistic) | 0.000003 | | |

| Unweighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.627390 | Mean dependent var | 16.40685 |
| Sum squared resid | 72.60002 | Durbin-Watson stat | 0.367660 |

**Table II. The Random Effect Model**
**Source: Author's calculation in Eviews 9.**

The Random-effect model shows that most of the independent variables are statistically significant at p <5% (t-test statistics, except for FB and FN variables) and the determination coefficient, R-squared is approximately 50%.

Since both models are statistically significant, Table III represents the results of the Housman Test used in order to decide which the most appropriate model is between the two.

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 34.921606 | 6 | 0.0000 |

**Table III. The Hausman Test**
**Source: Author's calculation in Eviews 9.**

According to the results of the Husman test, it is verified that the best model is the fixed-effect model (p <5%), which is in the alternative hypothesis. The conclusion is that in relation to the tourism companies surveyed, the profitability ratios (ROA and ROE) included in the model and the years the firms are in activity, give a permanent impact on the TA variable (Total Assets) making these results useful for further forecasts.

## CONCLUSIONS

Based on Table I of the Fixed Effects results, the estimated equation is:

$$Log(TA)_{it} = 16.55 + 0.000000595FB_{it1} - 0.000000642FN_{it2} + 0.0000000214KT_{it3} + 0.228224AGE_{it4} - 1.235802ROA_{it5} - 1.012104ROE_{it6}$$

According to these results, the conclusion for the period analyzed from 2013 to 2016 is that the profitability indicators (ROAs) along with the years of experience of the company have a consistent and constant impact on total assets in the tourism sector companies.

While, according to the data declared by the companies, the financial indicators (FN and FB) not only result numerically insignificant, but they also result irrelevant and statistically insignificant. In this case, an increase of 1% in ROA causes a steady decrease in the logTA (Total Assets) by 1.23%, whereas for every year in the market, the firms result on average with a 22.8% .increase in the log –assets.

These results (even after statistical tests for autocorrelation, heteroscedasticity and multicollinearity), make some of the independent variables statistically insignificant. A possible reason for this conclusion may be related to the credibility of the financial statements declared where many truism companies often result in low or negative profits and yet keep on in the business.

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