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# ANALYSIS OF THE FINANCIAL PERFORMANCE OF ENTITIES FROM TOURISM INDUSTRY

Case  
Study

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## Keywords

*Tourism industry,  
Turnover,  
Profit net,  
Employees,  
Correlations*

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## JEL Classification

*C01, L25, M21, M41, Z30*

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## Abstract

*Tourism is currently one of the sectors with the most important growth potential, alongside the IT sector. A healthy tourism sector is beneficial to a country's economy, because it contributes directly to employment, contributes to the creation of added value and, last but not least, helps balancing the balance of payments. Romania is considered to be a country with a huge touristic potential, but unfortunately we do not really know how to value it. In this article I will determine what is the evolution of the financial performances of the entities in the tourism industry. Thus, in order to achieve this study, I will apply a series of performance indicators on 5 companies that are active in the tourism industry, for the time period 2012 - 2016, companies listed on the Bucharest Stock Exchange. I will try to determine the current situation with regard to the financial performance of these entities, as well as the main factors that directly influence these increases.*

## INTRODUCTION

The tourism industry, as any field, is currently being assaulted by a wave of changes that directly affect the activity of active entities in this industry. The tourism industry is currently experiencing a highly changing and unpredictable macromedia, as a result of technological developments, but also as a result of consumer behavior. However, there is a desire from many entities to invest and adopt new technologies, to attract new customers through the development of new tourism products, to meet the needs of those who use these services. I believe that satisfying the consumer by offering the best tourist services is certainly the recipe for success for a tourist entity.

The notion of tourism is that action to visit various places with attractive objectives, to relax, but also involving other elements, such as traveling from home to the place you want to visit, temporary stay in that locality, and other recreational activities. The passage of the years has also made its mark on the development of the notion of tourism, so that now tourism means an ensemble of human actions accomplished with a clear objective, namely recreation. Currently, there is a lot of emphasis on what tourist attractions can offer in a certain place in the first instance, then immediately comes the quality of the services offered by the accommodation units and the transport modes.

The most complex and comprehensive definition of the notion of tourism and accepted worldwide is *Tourism is the set of relationships and phenomena resulting from the movement and stay of people outside their home, as long as the stay and the movement are not motivated by a permanent establishment and any lucrative activity* of Swiss Professor W. Hunziker (Cristureanu, 1992).

Nowadays, compared to tourism in the past centuries, all influences on this sector have led to its change, being a true economic branch that contributes to the development of the economy in many countries. Various research has been done to highlight the considerable impact it has in developing and modernizing the economy of a society, acting from stimulating economic growth and improving the social structure to the better capitalization of natural resources. The main actor in this sector is the tourist, who from an economic point of view, is a consumer of goods and benefits from various services, against tariffs, which primarily comes to profit units, then to governments through the payment of taxes and other external partners that directly co-operate with entities in the sector by offering various products and services.

## TOURISM INDUSTRY IN ROMANIA

The tourism industry is for our country an important source of funding for the national economy, which unfortunately is not exploited to true value. As a result of interconnections with other branches of the national economy, the Romanian tourism industry is among the priority sectors in terms of economic progress. Mostly, tourism is dependent on the environment, nature with all its beauties being the raw material in tourism (Figure no. 1).

The natural and anthropogenic resources existing in our country developed some perspectives but unfortunately the lack of involvement of the authorities in tourism development makes us remain only with the existence of these resources, without exploiting them to the maximum capacity. Tourism is a branch of activity with a strong international potential, yet economic performance in this area is modest.

Tourism is, for many countries, a factor of economic progress with significant implications for the development of the whole of society. Romania is one of the countries where this sector is poorly developed, as expressed in GDP, but forecasts by various organizations show that in the future it will grow well above the European and even the world average. After approximately three decades, when the sector grew poorly, by decreasing the number of visitors and maintaining a level of underdevelopment of the main tourist attractions, the Romanian tourism industry is beginning to experience a slight increase from one year to another.

## DATA USED AND METHODOLOGICAL APPROACH

In the literature, there are many approaches to the financial performance of economic entities (Mironiuc, 2006; Petrescu, 2009; Gheorghiu, 2004). In the view of some authors, performance is *nothing but the degree to which an organization, as a social system with certain resources and means, achieves its goals*. (Tannenbaum and Shimdt, 2009). The performance, in the view of M. Lebas, represents *the set of elementary logical stages of action, from intent to outcome* (Lebas, 1995). A definition of performance is also given by G. Lavalette and M. Niculescu, which says *that the performance of the enterprise is the achievement of organizational goals regardless of their nature and diversity*. (Lavalette and Niculescu, 1999).

In order to analyze the financial performance of entities in the tourism sector, I will analyze the main indicators of financial performance measurement to determine its evolution, as well as the main factors that have led to changes.

In addition to the above indicators, once I perform a data correlation and graphical representation of the data, I will also conduct a study using a multiple linear regression model, where the net profit is the resulting dependent variable, and the turnover and the number of employees are the factorial variable.

$$Y_i = a_i + b_i x_i + c_i z_i + v_i, \text{ where:}$$

- ✓  $Y_i$  - the dependency variable, in this case the net profit
- ✓  $a_i$  - the free regression parameter;
- ✓  $b_i$  and  $c_i$  - coefficients (correlation parameter);
- ✓  $x_i$  - the factorial variable, in this case the turnover
- ✓  $z_i$  - the factorial variable, in this case the number of employees
- ✓  $v_i$  - the residual variable

Referring to all these aspects, the function of the multiple linear regression model provides a complete and detailed analysis using the calculated regression parameters.

#### **THE ANALYSIS OF THE SHORT-TERM CORRELATION BETWEEN NET PROFIT, TURNOVER AND NO. EMPLOYEES**

In Table no.1 are briefly presented the elements of financial performance for the 5 entities operating in the tourism industry listed on the Bucharest Stock Exchange. It is noticed at first sight that by 2014, these companies faced a number of problems, due to the fact that they registered a decrease in turnover and net profit, but starting with 2014, these two indicators show rising values. It is clear that, for the first period under review, this sector is still affected by the effects of the financial crisis that has just taken place in our country, and then, slowly, to record the first increases.

As can be seen in *Figure no.2*, the turnover shows increasing values from one period to another, with the exception of the period 2012-2013, when there is a decrease. In the case of net profit, there is a decrease in the period 2012 - 2013, and since 2014 there are increasing values from one period to another. So there is a direct link between turnover and net profit, so if the turnover decreases or increases, there will be the same trend and net profit. As for the number of employees, there is a significant decrease in the first analyzed period 2011 - 2014, then in the second period 2014-2016, this indicator stagnates, even slightly increasing.

Analyzing *Figure no. 3*, we can determine a positive profitability for the entire analyzed period, with an upward trend starting in 2014. Considering the presented situation, I consider that the situation of the analyzed entities is a stable one, because it falls within the recommended range of 5-25% of

the literature. This indicator shows the profit margins resulting from the capital's involvement by shareholders, a higher value of this indicator shows that the enterprise had a better activity during the analyzed period.

Analyzing *Figure no. 4*, for the period 2012-2016, the average value of the net profit of the companies working in the tourism industry was 6707045 lei, with a variation interval between 3313841 lei in 2012 and 11492136 lei in 2016, with a standard deviation of 3840281 lei. The analyzed time series follows a normal distribution, whereas the value of the Skewness asymmetry coefficient is 0.41 (within the range of  $\pm 1.96$ ), the series showing a slight positive asymmetry. The normal distribution of data is also confirmed by the probability associated with the Jarque-Bera test, which is greater than 0.05.

Regarding the number of employees *Figure no.5*, for the period 2012-2016, the average value for the analyzed companies was 767, with a variation interval between 749 persons in 2012 and 801 persons in 2016, with a standard deviation of 22.57. The analyzed time series follows a normal distribution, whereas the value of the Skewness asymmetry coefficient is 0.67 (within the range of  $\pm 1.96$ ), with a slight positive asymmetry. The normal distribution of data is also confirmed by the Jarque-Bera Test probability value, which is greater than 0.05.

In the period 2012-2016, the average value of the turnover of the companies working in the tourism sector, *Figure no. 6*, was 100136 thousand lei, with a variation interval between 92987 thousand lei in 2011 and 110663 thousand lei in 2016, with a standard deviation of 8009 thousand lei. The time series analyzed follows a normal distribution, as the value of the Skewness asymmetry coefficient is 0.46 (within the range of  $\pm 1.96$ ), the series showing a slight positive asymmetry. The normal distribution of data is also confirmed by the Jarque-Bera Test probability value, which is greater than 0.05.

Analyzing *Figure no.7* we find that between the dependency variable (net profit) and the factor variable (number of employees) there is an inversely proportional dependence, in other words, an increase in the number of employees leads to a decrease of the net profit or vice versa. At the same time, in the case of the other factorial variants, a relationship proportional to the dependent variable is observed, an increase of the turnover determining a profit increase.

R-squared, the determinative factor, is 0.997232, which determines us to claim that 99.72% of the net profit variation is explained by the turnover and number of employees, the rest being influenced by other factors.

Calculated standard errors, related to the estimated parameters (standard error turnover) = 0.0022 and

(standard error No. Employees) = 78.24 are used to test the significance of regression function parameters. The two estimators are statistically significant because prob (F-statistic) probability values are less than 0.05.

To test the validity of the model, the F statistic is used, through which the three variations are calculated: the variation explained by the model, the residual variation and the total variation. The value  $F = 360.24$  and the model is statistically significant for a probability of guaranteeing the results of 98% because Significance F has a value of 0.

### CONCLUSIONS

By using performance indicators and using multiple linear regression, I have determined that there is a modest relationship between net profit and turnover, but also between net profit and the number of employees. At first sight, we can see that the 5 analyzed entities experienced in the first period a less favorable situation due to the effects of the financial crisis. But starting with the second analyzed period there is a constant increase with a low but healthy rhythm. The indicators taken into account to determine the performances of the selected entities are representative, we can say that their activity has development perspectives.

Factors that mainly influence the permanence of tourism entities are represented by the poor development of the infrastructure, the promotion at international fairs which is almost non-existent, and last but not least the lack of vision to develop this sector.

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**ANNEXES**

Table no. 1 Performance items - for 5 tourism businesses

	2012	2013	2014	2015	2016
<b>Turnover</b>	94.829.394 lei	92.987.065 lei	95.415.981 lei	106.786.742 lei	110.663.334 lei
<b>Total income</b>	113.711.372 lei	100.911.816 lei	118.059.876 lei	119.629.877 lei	129.154.682 lei
<b>Total expenses</b>	108.410.308 lei	97.117.375 lei	111.500.609 lei	107.692.011 lei	116.098.132 lei
<b>Gross profit</b>	5.301.064 lei	3.794.441 lei	6.559.267 lei	11.937.866 lei	13.056.550 lei
<b>Net profit</b>	3.991.451 lei	3.313.841 lei	4.511.492 lei	10.226.307 lei	11.492.136 lei
<b>No. Employees</b>	801	781	749	753	754

*Source; National Administration of Tax Administration / Tax Information and Balances,  
Source: Author's calculations*



*Figure no. 1 The main tourist attractions in the historical regions of Romania.*

*Source: <http://www.capital.ro/2017-record-de-turisti-in-romania-asa-ceva-nu-s-a-mai-vazut-din-1990.html>.*

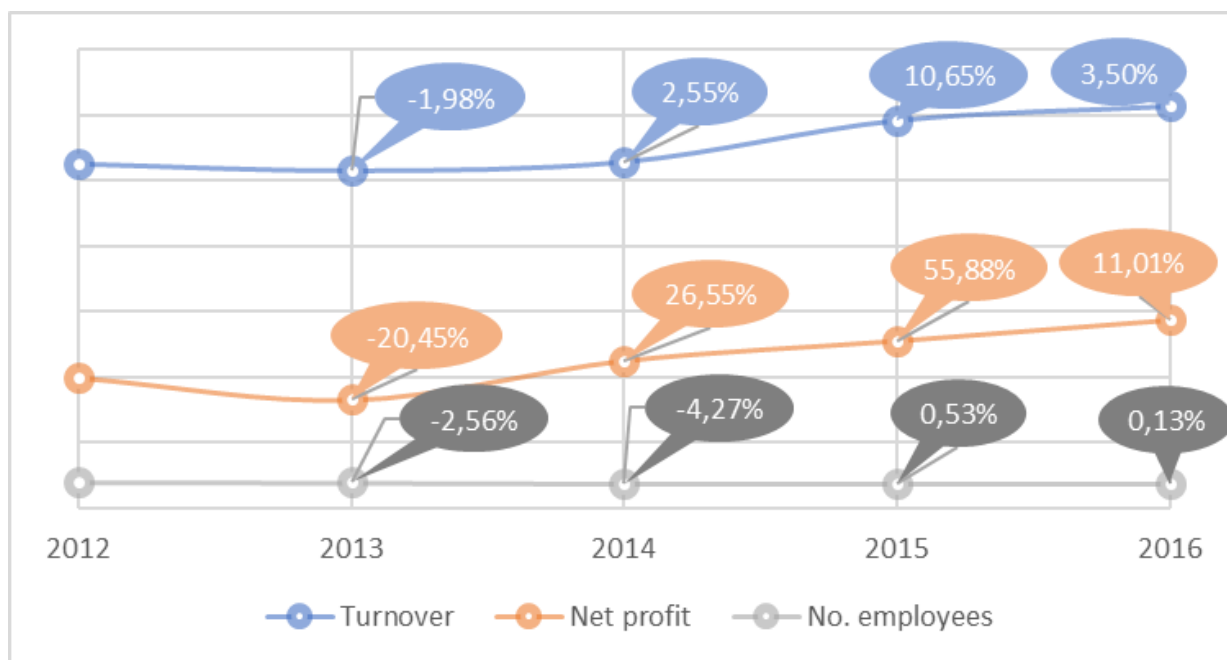


Figure no. 2 Evolution of turnover, net profit and number of employees for the period 2012 - 2016 - 5 tourism enterprises.

Source: Author's calculations

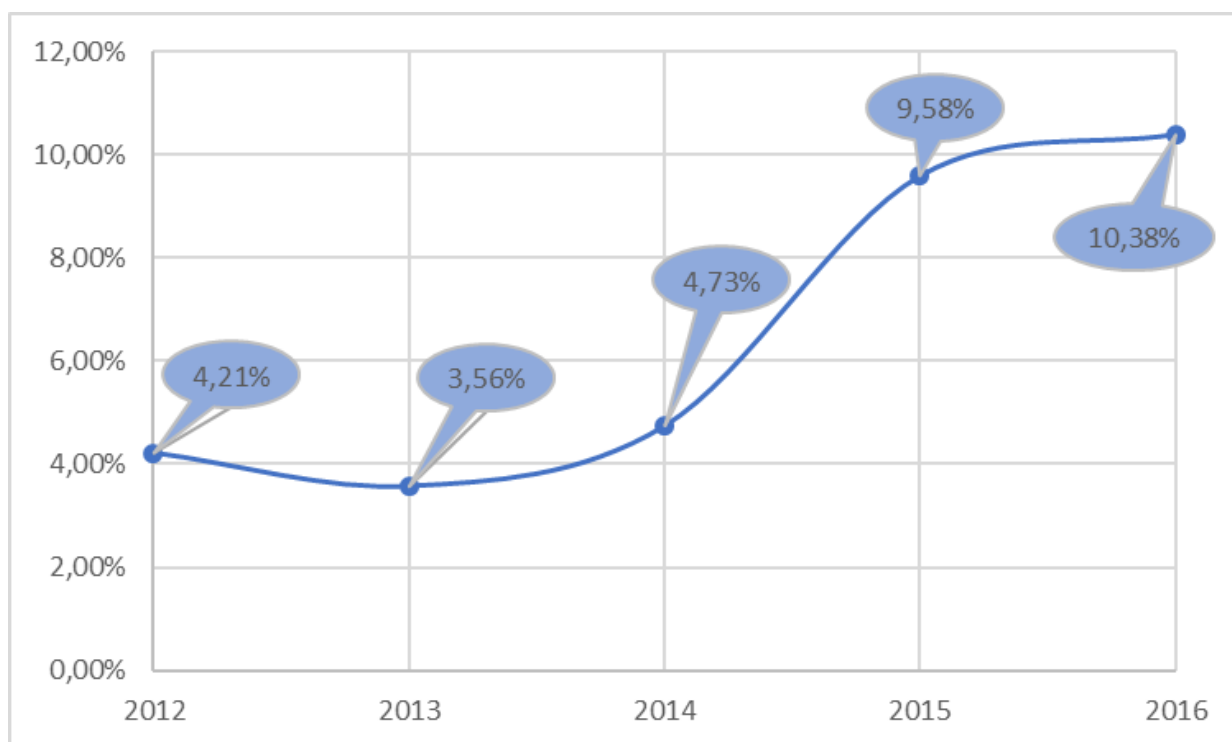


Figure. No. 3 Evolution of profitability for the period 2012 - 2015 - 5 tourism enterprises.

Source: Author's calculations

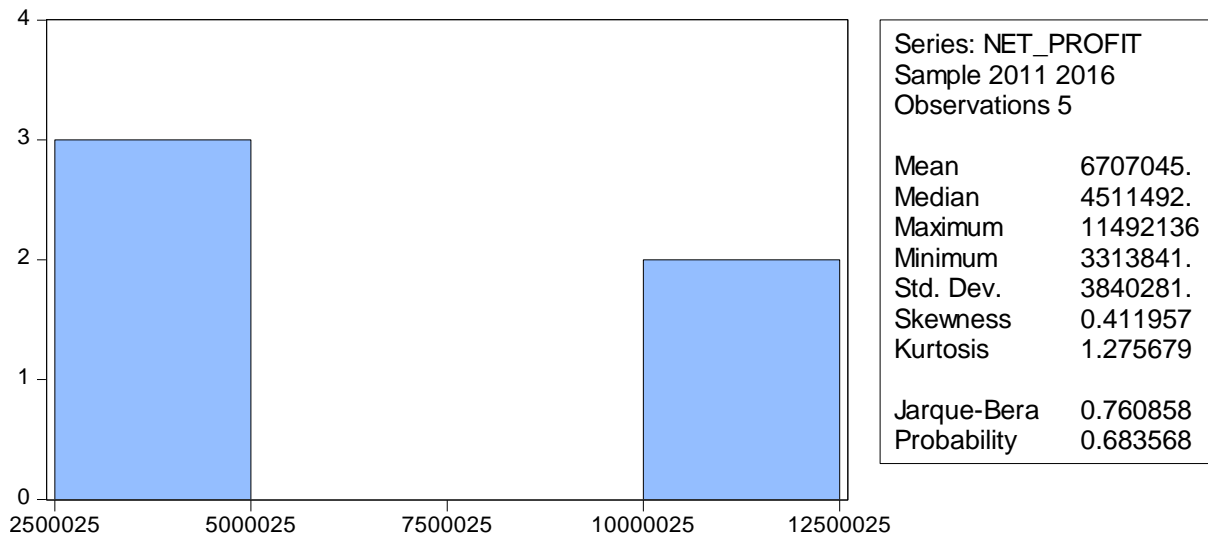


Figure. No.4 The results of the statistical tests conducted for Net Profit 2012- 2016,  
 Source: Author's calculations

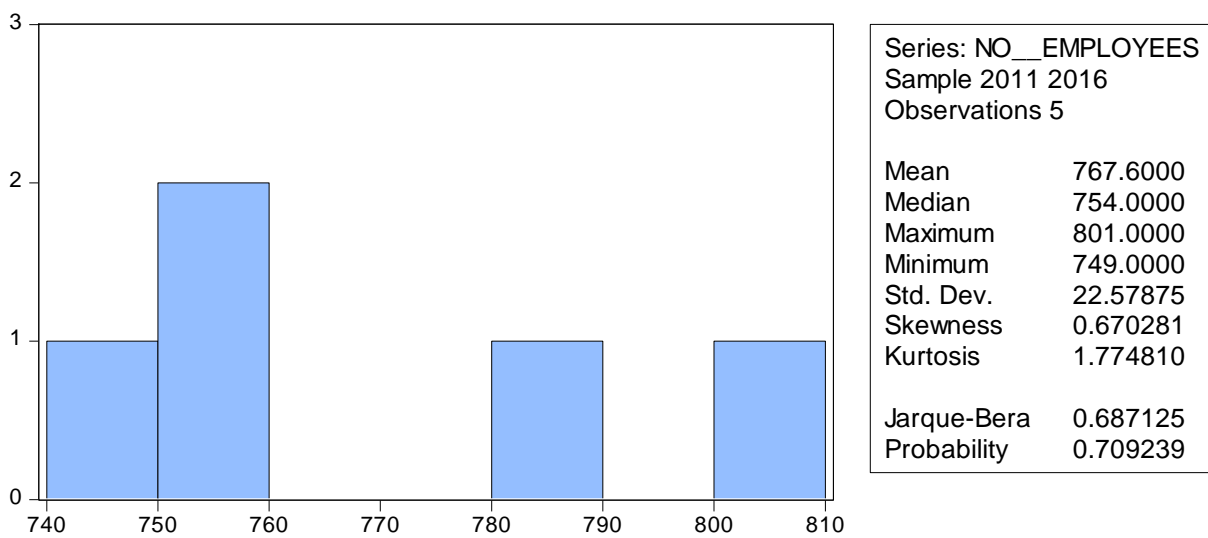


Figure. No. 5 The results of the statistical tests conducted for No. employees 2012- 2016  
 Source: Author's calculations

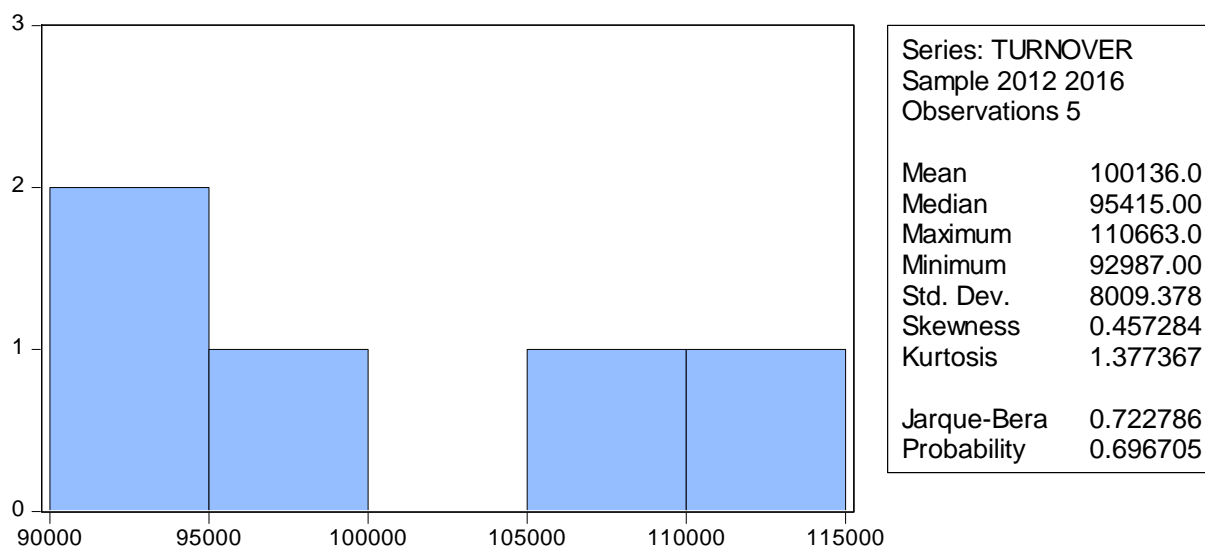


Figure No. 6 The results of the statistical tests conducted for Turnover 2012- 2016  
 Source: Author's calculations

Dependent Variable: NET\_PROFIT  
 Method: Least Squares  
 Date: 05/01/18 Time: 12:53  
 Sample (adjusted): 2012 2016  
 Included observations: 5 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NO_EMPLOYEES	-0.610	78.24742	-0.779764	0.0172
TURNOVER	0.468487	0.022058	21.23872	0.0022
C	-35522104	7521882.	-4.722502	0.0420
R-squared	0.997232	Mean dependent var		6707045.
Adjusted R-squared	0.994464	S.D. dependent var		3840281.
S.E. of regression	285745.5	Akaike info criterion		28.24730
Sum squared resid	1.63E+11	Schwarz criterion		28.01296
Log likelihood	-67.61825	Hannan-Quinn criter.		27.61836
F-statistic	360.2411	Durbin-Watson stat		2.990984
Prob(F-statistic)	0.002768			

Figure no 7. Estimation of regression parameters.  
 Source: Author's calculations