PROFITABILITY PERFORMANCE ANALYSIS ON MALAYSIAN HOTEL INDUSTRY DURING COVID-19 PANDEMIC

Nur Hanisah Mohamad Said[*], Nurul Labanihuda Abdull Rahman, Hasyeilla Abd Mutalib, Noor Sharida Badri Shah

Universiti Teknologi MARA (UiTM), Cawangan Perlis, Kampus Arau, 02600 Arau, Perlis, Malaysia

[*]*Corresponding author: nuranneesa29@gmail.com*

Abstract

The COVID-19 pandemic is becoming the worst worldwide and the increasing number of cases in Malaysia has impacted the tourism industry heavily, especially hotel businesses. The cancellation by travelling agencies due to the pandemic has affected various hotels. As a result, the companies had to shut down their businesses and stop operating as they failed to maintain their profits and they suffered losses. This study aims to examine the determinants of profitability in the hotel sectors in Malaysia from 2010 to 2019. The profitability level of the firms is evaluated using four different variables which are leverage, liquidity, net asset turnover, size of the company and panel data analysis techniques. The present study gathered data on hotels listed under Bursa Malaysia. The findings showed that the leverage and net asset turnover have a positive relationship with profitability while liquidity and size of a company have a negative relationship with profitability. The study also found that leverage and size of the company have a statistically significant relationship with profitability while liquidity and net asset turnover do not have a statistically significant relationship with profitability. This finding provides a better understanding for hotels to improve their financial performance and to have a better plan of their spending assets and leverage. Therefore, it can help the hotel sector to sustain and have recovery planning to prevent issues related to debt default payment in the future.

Keywords: profitability, leverage, liquidity, net asset turnover, size of the company

Introduction

Tourism is one of the fast-moving industries globally. As an important pillar of the hospitality and tourism industry, hotels in Malaysia have contributed to the country' economy from different perspectives. It creates more job opportunities, increases foreign exchange export earnings, boosts the country's investments and enhances the country's GDP. Tourism contributes RM86.14 billion to the Malaysian economy in 2019 with 26.1 million tourists. Hotel operators are one of the many main players in moving and supporting the tourism industry over the year. There is a significant increase in the number of hotels in Malaysia over the last few decades. While some hotels strive to gain more and more income, a few of them are struggling to survive and are unable to maintain their operation as they failed to sustain their profitability.

An in-depth understanding of why one company is more profitable than another, learning to determine when a company can be considered to have a good economic situation or, on the contrary, are crucial aspects in business planning (Alvarez-Ferrer et al., 2018). Considering the importance of the hotel sector to the country' economy, the country must have a sustainable and profitable hotel sector (Dimitric et al., 2019). However, the empirical literature and academic scholars have not paid enough attention to the development and particularly, the profitability of the hotel companies in Malaysia. Realizing that hotels are the drivers of investment, employment and innovation in tourism, this paper aims to analyze the firm-specific factors affecting the profitability of hotels.

Tourism is the third biggest GDP's contributor in Malaysia as it contributes around 5.9% of total GDP after manufacturing and commodities. Hotels are the key players that play prominent roles in maintaining and attracting tourists to this country considering that they provided value-added amounting to nine billion Malaysian ringgit in 2017. The hotel industry faces a huge development over the year as the number of hotels in Malaysia increases two-fold in 2019 as compared to 2009 as in 2019, there are 4.83 thousand hotels in Malaysia.

However, the current economic situation which is mainly affected by the pandemic Covid-19 has resulted in several hotels shut their business and stop operating as they failed to maintain their profits and suffered losses. Due to global border closure and travel bans, there are no foreign tourists to sustain the tourism business. The implementation of travel restrictions across the country has worsened the situation as it is impossible for hotels to maintain room revenues. Hotel Equatorial Penang and G City Club Hotel are among those hotel operators who were forced to shut down due to low occupancy rates and negative profit (Emmanuel 2021; *The Star*, 2020). Prior studies had been made on the impact of profitability and its importance on firm survival. Some has investigated the determinants of firms' profitability such as firm size, liquidity, leverage and age. Unfortunately, most of the studies cannot be generalized to represent the hotels in Malaysia.

Therefore, further study is needed to identify the firm-specific factors that will contribute to profit in hotels specifically in Malaysia. The firm-specific determinants that might affect the profitability of hotels are firm size, liquidity, leverage and net asset turnover. This study will give insight to hotel owners on the aspect that they should focus on maintaining their operations, especially during this difficult period.

Generally, this study aims to investigate the relationship between the profitability of hotels and four firm-specific variables which are leverage, liquidity, net asset turnover and size of the company. This research is important as it can give insight to hotels on the aspect, they should pay more attention to and enable them to plan their business well for a longer period.

Therefore, the objectives of this research are:

1. To investigate the factors influencing profitability in the hospitality and tourism industry.
2. To examine the impact of leverage, liquidity, net asset turnover and size of company on profitability in hospitality and tourism industry during COVID 19 Pandemic.

Literature Review

Profitability

Profitability refers to the degree to which a company is to generate revenue and able to reap financial gain. In other words, it indicates a firm capability to utilize its asset and resources to gain income. Considering the importance of maintaining profitability, previous researches investigated the factors or determinants of hotel profitability from different perspectives in other countries. Some of the studies have covered the external determinants, internal determinants and the effects on policy implementation towards the profitability of hotels. Tan (2017) has conducted a study not only on hotel specific factors but also on the industry-specific factors and macroeconomic determinants of hotel profitability where he concludes that some hotel-specific and industry-specific determinants do affect profitability while macroeconomic determinants have no effects on the profitability of the hotel. Previous studies by Abdulla (2020), Alemu (2020), Ben Aissa & Goaied (2016) and Kalas et al. (2019) used return on asset (ROA), return on equity (ROE), hazard risk and return on capital employed (ROCE) to represent profitability. This generally represents the amount of profit they can generate as compared to the amount they spent on the asset, equity and capital. Based on the previous studies, profitability performance is very crucial to the hotel industry to sustain the financial performance in the long term and there are specific factors that contribute to the competitive advantage of the hotel companies.

Leverage

Leverage is the ratio of total liabilities to total assets and this variable will be calculated from firms' balance sheets. In corporate finance, few companies prefer to use debt instruments to raise funds, either for short term or long term capital. A company that depends on high debt tends to associate with high bankruptcy risk and becomes more sensitive to its cash flow. Vivel-Bua et al. (2019) and Ben Aissa & Goaied (2016) have found that leverage or indebtedness of a company has a negative significant impact on companies' profitability as it is still considered as a high-risk business by lenders and mortgage investors, thus, high leverage may cause harm to the profitability of hotels. While Alvarez-Ferrer et al. (2018) argue that indebtedness will have greater incidence in small and medium-sized companies than a larger company due to the power of negotiation they have in terms of financial negotiation. According to the researchers, companies with high levels of indebtedness are less likely to achieve profitability over time. Olang (2017) and Onyenwe & Glory (2017) found a positive correlation between leverage and profitability. Leverage has the advantage of providing an interest tax shield, which will have a positive impact on profitability. However, the usage of debt also increases the risk of distress, so it could have a negative effect on profitability (Abdulla, 2020). Therefore, the present study proposes the following hypothesis (H_1):

H_1: There is a significant relationship between leverage and profitability of the hotel.

Liquidity

Liquidity refers to how easily assets of a company can be converted into cash (Hiadlovsky et al., 2016). Assets like stocks and bonds are very liquid since they can be converted to cash within days. However, large assets such as property, plants, and equipment are not easily converted. The liquidity of a company is to raise cash to pay their obligations on the company current liabilities which are also known as short term liabilities. The liquidity of a company can also determine the performance of a company. Several studies have been conducted and shown that liquidity may influence the profitability of a company. According to Tan (2017), the liquidity ratio is significantly and positively related to the profitability of London hotel industry. The higher level of liquidity reduces the possibility of the hotel borrowing the money externally, resulting in a reduction in the cost of borrowing which improves the profitability of the hotel. Kalas et al. (2019) however, shows a different result where the increase in liquidity will result in to decline in ROA and ROE of the company. According to Syen (2019), increasing liquidity risk will bring a negative impact to the organization's performance, and cause the financial stability and performance of the organization more volatile. Thus, the present study proposes the following second hypothesis (H_2):

H_2: There is a significant relationship between liquidity and profitability of the hotel

Net Asset Turnover

Net asset turnover measures how efficiently a company uses its machines and equipment to generate revenue. A higher turnover ratio implies that the firm is using its fixed assets efficiently and generating a large amount of revenue using a small number of assets (Abdulla, 2020). Hence, a higher net asset turnover is preferable for a company as the higher the asset turnover produced by the company, the more effective the level of use of these assets in generating net total sales (Dimitric et al., 2019). Asset turnover must be considered as one of the most important variables for improving profitability, since a decrease in sales has a direct impact on the ROI, resulting in a decrease in the margin. The reduction in asset turnover affects hotel establishment in terms of its investments and sales volume (Alvarez-Ferrer et al., 2018). Previous researches by Efendi et al. (2019), Vivel-Bua et al. (2019) and Karanovic et al. (2020) have come to the same conclusion where they proved that net asset turnover has a significant correlation towards the profitability of companies. Karanovic et al. (2020) also has proven that net asset turnover has the highest impact on profitability as compared to other independent variables used in the study. Therefore, the present study proposes the following hypotheses:

H_3: There is a significant relationship between total asset turnover and profitability of the hotel

Size of the Company

Many empirical studies previously have named the size of a company as one of the important determinants of profitability of a company. Interestingly, researchers have divided their opinion on the significance of firm size towards profitability. Ben Aissa & Goaied (2016) concluded that firm size has a negative significant effect on hotel profitability as huge hotels benefit from high occupancy and sales revenues but they are confronted by low profitability. In other words, large hotels generate better revenues but worse corporate performance in terms of profitability. The focus should be rather put on efficiency and cost control. Abdulla (2020) on the other hand, found there is no significant relationship between firm size to profitability. Most of the researchers, however, agreed that firm size has a positive significant relationship to hotel profitability. Alemu (2020) and Tan (2017) proved that hotel size is significantly and positively related to ROA and ROCE, indicating that large hotels have a higher ability to achieve higher profits. In addition, it is attributed to the fact that larger hotels can reduce the cost resulting from the economies of scale, further which precedes an improvement in the profitability of the hotel. Dimitric et al. (2019) however, stated that firm size is not significant to hotel companies operating in Greece and Croatia. Therefore, the present study proposes the following hypotheses:

H_4: There is a significant relationship between firm size and profitability of the hotel

Methods

Research Framework

Figure 1 shows the research framework used to examine the factors influencing profitability (firm size, leverage, liquidity and net asset turnover). Based on the framework, four hypotheses have been proposed and they would be examined in the study.
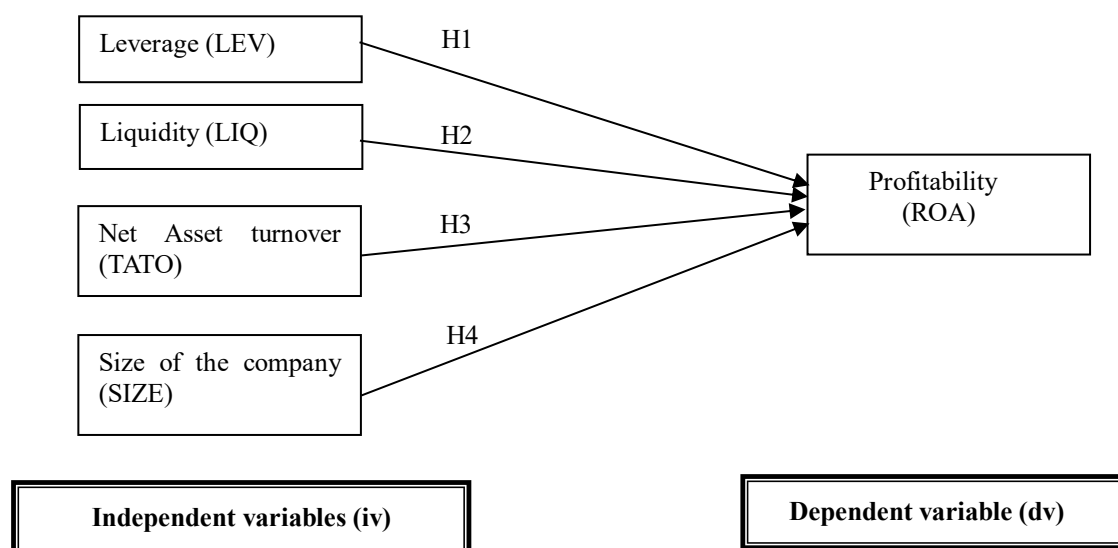

Figure 1: Framework showing the relationship between profitability, leverage, liquidity, net asset turnover and size of the company

Regression model

To confirm the hypotheses of the study, the empirical analysis carried out was based on the regression model as is shown in Equation (1).

$$ROA_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 LIQ_t + \beta_3 TATO_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \qquad (1)$$

where,

ROA_{it} = Return on Asset

LEV$_{it}$ = Leverage
LIQit = Liquidity
TATO$_{it}$ = Net Asset Turnover
SIZE$_{it}$ = Size of the Company
β$_i$ = Coefficients (i = 1,2,3,4)
ε = Error Term

Measurement of Variables

As for the measurement of variables, the study employed return on asset as a proxy of profitability, which was the dependent variable. The four independent variables were firm leverage, liquidity, total asset turnover and size of the company. Table 1 displays the measurement and variables for the study.

Table 1: Variables and their measurement

Variables	Measurement
Dependent variable: Profitability	Return on Asset (ROA) = Earnings Before Interest and Tax / Total Asset
Independent variables: Leverage	Total Liabilities / Total Equity
Liquidity	Current Assets / Current Liabilities
Net asset turnover	(Total Sales / Total Asset) * 100
Size of the company	Natural Log of Total Asset

Data and Sampling Method

This study has collected data on the factors that influenced profitability from Thomson Reuters Eikon online database. Furthermore, to confirm the presence of the factors that contributed to the profitability of hotels performance within ten years (2010-2019), this study has employed STATA 14 Software. The study has also conducted a panel data analysis, which included the following: descriptive statistics, panel specification test (F-Test, BP-LM Test, Hausman Test), diagnostic test (multicollinearity, serial correlation, heteroskedasticity) and panel regression.

The sample of the study comprised five selected hotel companies in Malaysia which were Shangri-La Hotels (Malaysia) Berhad, Landmarks Berhad, Genting Malaysia Berhad, Avillion Berhad and Grand Central Enterprise Berhad. The selected hotel companies have been chosen as the sample for this study because they showed good profitability performance trends and were listed in a top-ranked in the hotel industry. Specifically, the study concerned with the factors that affected the profitability of hotels performance during the COVID -19 pandemic

Result and Discussion

The results of this study were obtained from different modes of analyses carried out, namely the descriptive analysis to determine the minimum, maximum, mean and standard deviation, the diagnostic test, the panel specification test to decide the final model, and the panel regression analysis.

Descriptive Analysis

Table 2 shows the descriptive statistics for firm-specific factors affecting the profitability of hotels in Malaysia. The total number of observations is 50. The highest mean is SIZE with 14.2684 followed by LIQ which indicates 4.2526, ROA 0.3614 and TATO 0.2722. The lowest mean is LEV with 0.1182. For standard deviation, LIQ shows the highest value of 4.506234 followed by TATO 1.923251 and SIZE 1.557612. LIQ is proven to have wider data spread compared to other variables while LEV has the least data spread as it has the lowest standard deviation of 0.114708. SIZE shows the highest figure for minimum and maximum value with 12.37 minimum value and 17.32 maximum value. ROA has the

lowest minimum value with -0.03 while LEV shows the lowest maximum value with only 0.38.

Table 2: Descriptive analysis for five (5) hotels in Malaysia

Variables	Obs	Mean	Standard Deviation	Min	Max
ROA	50	0.3614	0.6522614	-0.03	1.82
LEV	50	0.1182	0.114708	0.00	0.38
LIQ	50	4.2526	4.506234	0.38	14.89
TATO	50	0.2722	1.923251	0.02	0.86
SIZE	50	14.2684	1.557612	12.37	17.32

Panel Specification Test

Panel Specification Test was conducted to choose the most suitable model to be used in this study. The three tests conducted were F-Test, Breusch and Pagan Lagrangian Multiplier test (BP-LM) and Hausman Test. Based on Table 3, the F-test result is 0.0000 which is less than 0.05. This indicates that Fixed Effect Model is more appropriate than POLS. Next, the BP-LM test result is 1.000 which is higher than 0.05. This indicates that for this study, POLS is more appropriate than the Random Effect model. Hausman test was conducted to compare between Fixed Effect model and Random Effect model. The result shows a p-value of 0.000 which is less than 0.05. Thus, the most appropriate model is Fixed Effect Model (FE).

Table 3: Panel specification test for five (5) hotels in Malaysia

Model	F-Test	BP-LM Test	Hausman Test	Technique
Model 1	0.000	1.000	0.0000	Fixed Effect (FE)
	Choose FE	Choose POLS	Choose FE	

Diagnostic Test

A diagnostic test was conducted to check the problem of the study by using three tests which were Multicollinearity, Heteroscedasticity and Serial Correlation. Based on Table 4, there is no multicollinearity problem in this study as its variance inflation factor (VIF) is 1.82, lower than 10. Next, heteroscedasticity was conducted to check the consistency of the data. The p-value is 0.000, lower than 0.05 thus, the variance is not constant due to the heteroscedasticity problem. Serial Correlation can verify the autocorrelation problem. The resulting p-value of 0.0306 is lower than 0.05, which indicates that there is a serial correlation problem in this study. To rectify the problem of Heteroscedasticity and Serial Correlation, Fixed-effect (within) regression with cluster options are suggested.

Table 4: Diagnostic test for five (5) hotels in Malaysia

Model	Multicollinearity	Heteroscedasticity	Serial Correlation	Strategy to rectify
Model 1	1.82	0.0000	0.0306	Fixed Effect (within) regression with cluster option

Estimation Result

As shown in Table 5, the regression result suggests that the model fitted the data well at the one per cent level. The Adjusted R^2 is 99.30 per cent. It means that the 99.30 per cent variation in the Return on Asset (ROA) can be explained by all the independent variables in the model. The findings also have suggested that leverage and firm size had a statistically significant relationship with Return on Asset (ROA). The positive coefficient of leverage indicates that leverage has a significant positive relationship with Return on asset (ROA). Thus, one-unit increases in leverage will increase ROA by 4.4695 units when other variables are constant. The results are supported by Olang (2017) where they indicate that higher leverage will result in higher profitability. Fixed interest charged on long term loans will reduce tax remitted thus increases profit after tax. According to Onyenwe & Glory (2017), it is in line with the Trade-off theory where the usage of debt has a positive effect on profitability when optimized. Thus,

hypothesis 1 (H$_1$) is accepted.

Table 5: Regression Analysis

	Fixed-effect (within) regression with cluster option
LEV	4.4695***
	(2.58)
LIQ	-0.0114
	(-0.54)
TATO	0.1708
	(0.24)
SIZE	-0.2044***
	(-4.61)
Constant	2.7510***
	(3.56)
N	50.0000
r2	0.9941
r2_a	0.9930
r2_w	0.0190
r2_b	0.9515
r2_o	0.8504
F	1.91
P	0.0000
chi2	76.8011
	Notes: t statistics in parentheses
	*significant at 10% level
	**significant at 5% level
	***significant at 1% level

Regression Model

$$ROA_{it} = 2.7510 + 4.4695\ LEV_{it} - 0.0114\ LIQ_{it} + 0.1708\ TATO_{it} - 0.2044\ SIZE_{it} + e_{it}$$

According to Hiadlovsky et al., (2016), most research done previously showed a significant relationship between liquidity and profitability. This study, however, has found that liquidity has no statistically significant relationship to ROA. Despite no significant relationship, liquidity has a negative relationship to profitability where any one-unit increase in liquidity will reduce profitability by 0.0114 units. This is supported by previous research by Kalas et al. (2019) where there is a negative correlation between liquidity and profitability of a firm. According to Alarussi & Alhaderi (2017), the insignificant relationship arises as profitability does not depend on cash base, and while liquidity is deemed to be important in financial institutions, such as banks, it does not hold much significance in non-financial companies. Hence, the second hypothesis (H$_2$) cannot be accepted.

Contrary to a study by Vivel-Bua et al. (2019), the findings found that net asset turnover is not statistically significant to ROA. There is, however, a positive correlation between net asset turnover and profitability which indicates that a one-unit increase in net asset turnover will increase profitability by 0.1708 units. Efendi et al. (2019) in their study justify the positive correlation as high net asset turnover signals the effectiveness of using company assets to generating sales to earn profit. The insignificant relationship from the finding is supported by research by Herdiyana et al. (2020), where net asset turnover has no effect and it is not significant to profitability. It is illustrated that high net asset turnover does not necessarily cause high company profitability thus, it has a very low impact profit in the hotel sector. Hence, hypothesis 3 (H$_3$) is rejected.

The negative coefficient of firm size has implied that firm size has a significant negative relationship

with Return on Asset (ROA). It means that for every one-unit increase of firm size, ROA will decrease by 0.2044 units, that is when other variables are held constant. This result is supported by Ben Aissa & Goaied (2016) who found that the size of a company had a negative relationship with ROA and it is one of the indicators for profitability performance. The implication is that the smaller the firm size is, the more profitable it is. As compared to bigger firms, the smaller firms are usually concentrated in niche markets. Therefore, in such niche markets, there will be less competition and the hotel companies will generate more profit. This is also consistent with the finding in studies by Alemu (2020) and Tan (2017) which showed that there was a significant relationship between the size of the company and the profitability of the company. Thus, hypothesis 4 (H$_4$) can be accepted.

Discussion and Recommendation

In general, the result shows that leverage and size of a company are statistically significant to hotel profitability while liquidity and net asset turnover are not significant to the profitability of the hotel. Particularly, any increase in leverage will increase profitability while any increase in the size of the hotel will reduce its profitability. Due to the pandemic, hotels are not allowed to operate to prevent the spreading of the virus by following the standard operation procedure (SOP) from the government. Thus, it is inevitable that certain hotels need to take loans to cover their expenses to survive. It is therefore important for the hotels to control and manage their assets efficiently to increase their profitability. The negative impact of hotel size on the profitability of hotels can be further explained by the fact that a large hotel tends to bear larger expenses. In short, the sales or profit generated during this pandemic might not be able to cover the cost, be it the current cost or the cost of an asset that the hotel needs to maintain to operate. Hence, it leads to loss and even worse, bankruptcy. Despite not showing a statistically significant relationship towards profitability, the results show that liquidity has a negative relationship to profitability. It is not a good sign to have high liquidity during this pandemic as it indicates that hotels hold too little investment and despite the ability to pay for short term obligations, they might face difficulties to manage their finances in near future. On the other hand, net asset turnover has a positive relationship to profitability. High net asset turnover shows that the hotel can efficiently use its asset to generate sales despite the temporary closing period and strict SOP imposed by the government. It is crucial for hotel operators to reduce their dependency on room revenue and to look for other opportunities in generating profit.

For further research, it is best to study a broader set of variables that determine the profitability of hotels. Other firm-specific factors such as structure ownership and organizational relationship of hotels could be applied as independent variables (Vivel-Bua et al., 2019). Organizational relationship refers to hotel chains and independent hotels. There could be differences between the profitability of hotel chains which comprises big hotel companies and independent hotels which are usually small and family-owned in terms of the factors that affect their profitability. Other than that, it is best to analyze the hotels from geographic factors (Alvarez-Ferrer et al., 2018). For example, a comparison between hotels operated in tourist attraction sites and hotels in less well-known areas should be further investigated. Other external variables from macroeconomic factors, financial issues and monetary policy should be included in the future study. By identifying those aspects, it would enable the possibility to predict a hotels future evolution and how they can maintain or increase the profitability in the upcoming period.

Conclusion

The hotel sector is growing rapidly and has become one of the essential sectors in attracting tourists to our country. In 2019, almost 4.83 thousand hotels were operating in Malaysia and it indicates a massive increase in the number as compared to 2009. However, amidst the current pandemic Covid-19, almost 15% of hotel operators had been forced to shut down their business as they were unable to maintain business operations. Thus, researchers had the initiative to investigate the hotel specific factors that affect the profitability of hotels in Malaysia. Data from five hotel companies listed under Bursa Malaysia was collected from 2010 to 2019 to perform this study.

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