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An Analytical Study of the financial performance of a luxury hotel startup in Southern Algeria
The Case of the Golden Gazelle Hotel – Eloued, Algeria

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Abstract:

In this study we investigate the financial performance situation of the hotel service in a luxurious hotel in southern Algeria, through an analytical study by the measuring of profitability, liquidity, debt ratio in the period between 2013-2017.

We have concluded that the profitability position shows an increasing trend till 2012. But in the last two years the ratio was negative because the hotel has recorded a deficit. While liquidity, is at highest level in 2010 and it begins a decreasing trend from till 2015. While, the Debt is at its lowest level in 2010, the ratio begins an increasing trend in 2011 and 2012 where records its highest level.

Keywords: Financial performance, Profitability, Liquidity, hotel، Southern algeria.

JEL Classification: G32; G38; H30

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Introduction

The hotel sector is considered to be one of the main pillars in the tourism industry. It requires developing operational strategies for its affiliated institutions, and following an effective monitoring system at the level of all functions and activities, whether major or supportive to implement these strategies and achieve the desired goals and objectives, by setting performance measurement standards according to the sector's specifics. The hotel and analysis of indicators to identify deviations and their places of occurrence, link responsibilities to events, then find the necessary actions to correct these deviations, this greatly contributes to improving performance and achieving value.

The hotel provides moral services in addition to material products such as clean rooms and good food. Conscious management of marketing methods focuses on services because it gives the full experience of the hospitality that the customer enjoys. Also, the difficulties facing the marketing staff for hotel services is their attempt to make the moral service palpable so that the customer always remembers it and does not forget it after a period of his hospitality and their attempt to create a good and clear reputation and general image of the hotel in the market in front of competitors where the moral service and the material product is the basis of that image that distinguishes the hotel from the rest Hotels. Marketing personnel should put a general picture of their hotel, their services, the quality of the clients they want to serve, and express their commitment to providing the appropriate service that satisfies that type of customer. The level of hotel service is a difficult idea to market and a difficult program to implement in light of competitors from multiple hotels and the diversity of existing services.

Through this intervention, we will get acquainted with the reality of the hotel service in one of the most luxurious hotels in Algeria, located in the southern region through an analytical study of the Golden Gazelle Hotel in the wilaya of El-Oued and the extent of financial performance through the measuring profitability, liquidity, and debt ratio in the period between 2013 and 2017 all this raises the following problem:

What is the financial performance situation of the luxury hotel tourism service in southern Algeria?

Are the luxury tourist hotels in southern Algeria profitable?

Do the luxury tourist hotels in southern Algeria maintain comfortable level of liquidity?

Do luxury tourist hotels in southern Algeria have high debt ratios?

Hypotheses

To answer the main problem, we can formulate the following hypothesis:

The luxury tourist hotels in southern Algeria have strong financial performance

Fall under this main hypothesis group the following sub-hypotheses:

The luxury tourist hotels in southern Algeria are profitable.

The luxury tourist hotels in southern Algeria maintain comfortable a high level of liquidity.

The luxury tourist hotels in southern Algeria have high debt ratios.

Objectives of the study:

The importance of the study lies in the fact that it tries to know the characteristics of the luxury hotel service in southern Algeria, to shed light on the standards and indicators of measuring hotel performance and methods of using them to improve performance. As well as raising the efficiency and effectiveness of the main operational activities in the hotel sector in southern Algeria.

Study methodology

In order to achieve the objectives of the study, we will rely on the descriptive method, the analytical method, and the deductive method.

In order to answer the present problem, we divided the study into three main areas, which we will elaborate on first part the details of the financial performance and indicators measurement, in the second part theoretical parameters of the hotel service, and in the third part, an analytical study of the Golden Gazelle Hotel Eloued, Algeria.

1. Theoretical framework of financial performance

1.1. The concept of financial performance and its importance

The International Organization for Standardization ISO 9000 Edition 2000 defines performance as: It includes efficiency and effectiveness. The latter is the extent to which results are achieved, and efficiency is the relationship between the result obtained and the resources used.

according to (Miller & Bromiley, 1990) view, performance is: a reflection of how the organization uses financial resources and human resources, and using it efficiently and effectively in a way that makes it able to achieve its goals.

We note through this definition that performance is the result of the interaction of two basic elements, namely the method of using the resources of the organization, and by that we mean the efficiency factor, and the results (goals) achieved from that use, and by that we mean the effectiveness factor.

The performance according to (Kaisergruber & Landrieu, 2000) expresses a judgment on the social legitimacy of a particular activity.

From the (Khemakhem, 1976) point of view, performance indicates: The performance of an action or the completion of an activity or the implementation of a task, meaning taking an action that helps to reach the established goals.

For That: (Ljiljana et al., 2016) "The end result of the activity, assuming that this activity occurs through the performance of work responsibilities in the most efficient and effective manner, the expected impact is the result of the activity that was carried out"

1.2. Performance Management

It refers to the purposeful efforts by various organizations, ministries and companies to plan, organize and direct individual and collective allegations, and set clear and acceptable standards and standards as goals that everyone seeks to accept.

Performance Measurement: It aims to measure the work that has actually been done or that will be done, using the control standards that have been previously decided.

Performance evaluation: Which is a field and actual comparison between the actual achievement that has been performed and what must be accomplished, with the aim of identifying and identifying the level and size of the quality of the performance that has been done.

It also defines performance evaluation as: "the process of making decisions based on control information, to redirect the project's activity paths to achieve pre-defined goals."(Kaisergruber & Landrieu, 2000)

Performance improvement and development: After monitoring and evaluating the results of the implementation against the goals and rates set.

Performance measurement criteria and indicators:

Different performance standards and indicators according to the main activities and ancillary activities, around a general standard of performance that takes into consideration

Taking into consideration setting all available capabilities and resources (inputs) necessary to achieve the expected results, setting levels and linking them to responsibilities.

Before dealing with standards and indicators for measuring performance, it is necessary to know the difference between the Benchmark and the indicator, as:

“The Benchmark represents judging the results by using ratios in order to reach the target performance, and it depends on the foundations and rules for measuring and evaluating specific services, and it shows the rate of return. high output or lower output” (Hajar Mouatassim Lahmini and Abdelamajid Ibenrissoul, 2015).

Performance Standards: It is defined as "standard rates that the organization, or the local unit administration, can use as a basis for evaluation and review, by comparing the results achieved by these rates."(Gaud & Jani, 2002)

Financial performance indicators: A numerical measure of the degree to which a goal is achieved, it can also be defined as quantitative measures and control points for individual performance. Indicators also indicate the necessity of keeping the following points under study: Fully understand the organization's values, mission, and vision; Understand the nature of the business and its customers; Knowledge of standard operating procedures and what must be achieved in each step(Nandin& Rekha, 2016).

1.3. Financial performance ratios

1.3.1 Profitability

The profitability is defined as the relationship between corporate profits and investments that contributed to their realization.

Net Profit Margin: The net profit calculation removes the total costs of the business. In general, that includes any interest and tax it owes too but there is some ambiguity over the tax point within the UK. This margin is a simple idea to grasp, yet its comprehensive nature can make it a blunt instrument compared to rival metrics.

Net profit margin = Net profit / Revenue

Return on Equity (RoE): The return on equity profitability ratio tends to be calculated alongside the return on capital employed as it expresses the profit per pound invested into the business by shareholders.

It’s a great way to gauge how well the business is managing its investment.

Return on equity = Net profit / Equity.

Return on Assets (RoA)

This ratio is useful to businesses which spend significant amounts of money on assets, such as those in the manufacturing or telecoms sectors. A higher return on assets percentage indicates the business is using its assets efficiently to generate profits relative to this cost.

Return on assets = Net profit / Total assets

1.3.2. Liquidity

Liquidity is defined as the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due.

Generally, the higher the liquidity ratios are, the higher the margin of safety that the company posses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties(Miller & Bromiley, 1990)

The quick ratio is basically used for evaluating whether a company has adequate liquid assets that can be instantly converted into cash to pay the company’s short-term liabilities. In order to calculate the asset-test ratio one should divide the company’s liquid current assets by its current liabilities.

The formula for the ratio is:

Quick ratio = (Cash + Accounts receivable + Marketable securities) / Current liabilities

Cash ratio is the ratio of a company's cash and cash equivalent assets to its current liabilities. Cash ratio is a refinement of quick ratio and indicates the extent to which readily available funds can pay off current liabilities. Potential creditors use this ratio as a measure of a company's liquidity and how easily it can service debt and cover short-term liabilities.

Cash ratio is calculated by dividing absolute liquid assets by current liabilities:

Cash ratio = Cash and cash equivalents / Current Liabilities

The current ratio is balance-sheet financial performance measure of company liquidity.

The current ratio indicates a company's ability to meet short-term debt obligations. The current ratio measures whether or not a firm has enough resources to pay its debts over the next 12 months. Potential creditors use this ratio in determining whether or not to make short-term loans. The current ratio can also give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. The current ratio is also known as the working capital ratio.

The current ratio is calculated by:

The current ratio = Current Assets / Current Liabilities.

1.3.3. Debt

Debt ratios measure the extent to which an organization uses debt to fund its operations. They can also be used to study an entity’s ability to pay for that debt.

The key debt ratios are as follows:

Debt to equity ratio. Calculated by dividing the total amount of debt by the total amount of equity. The intent is to see if funding is coming from a reasonable proportion of debt. Lenders like to see a large equity stake in a business.

Debt ratio. Calculated by dividing total debt by total assets. A high ratio implies that assets are being financed primarily with debt, rather than equity, and is considered to be a risky approach to financing.

The debt to income ratio can be expressed as a personal finance measure that is helpful in comparing an individual’s debt payments to the income generated, Calculated by dividing total debt by net profit.

2. Conceptual framework for the hotel sector

2.1. Definition of a hotel

Algerian legislation defines the hotel as: "an institution that provides for rent accommodation units, in the form of rooms and suites when necessary, located in a building or in separate wing structures. It can also guarantee catering and activation services."(“Official Journal,” 2019)

The researchers (John R Goodwin and james M. Rovhelstand) also defined the hotel as: "an organization that provides accommodation and food to guests for a specific price."

The hotel defined that: "A building that differs in size from one hotel to another, in which the basic accommodation service is provided, and a group of services including food and drink, entertainment places and clubs ... for a specific price for each service."(Boussena & Boucheriba, 2019)

Hotel quality: Hotel quality is defined as the degrees of satisfaction provided by the service provided to its student, and it is also known as a set of characteristics and characteristics that should be characterized by the hotel services provided to the customer that meet their requirements and exceed their expectations(Benaichi, 2013).

The Applied Study: Evaluating the financial performance of the Golden Gazelle hotel in Eloued using financial performance indicators.

2.2. About the Golden Gazelle hotel in Eloued:

is a luxury hotel located at the entrance of the Algerian city of Oued Saouf, owner and founder of Algerian billionaire Gilali Mehri, whose completion lasted 40 years, and was allocated a financial envelope of 100 billion cents.

It sits on an area of 280 hectares, decorated with more than 30,000 palm trees, and includes 12 villas, 100 rooms in the form of "bungalows", 52 tents as rooms, two three-room villas, all with an Arab, Maghrebian and first-class Sufi, and inside there are 5 luxurious restaurants and two large swimming pools, In addition to a large bathroom with a gymnasium and recovery center, two function rooms, and a multi conference room. -services with a capacity of 500 places, in addition to a large conference tent that can accommodate 150 places.

The tourist resort also includes a hotel with 120 rooms serving both economic customers and passers-by. The "golden gazelle" is the only one of its kind in Algeria capable of receiving all customers, thus becoming the largest tourist resort in Africa.

3. Data and Empirical results

We will try to answer the main question of our study, by identifying the appropriate indicators (Profitability, liquidity & debt), then highlighting the main ones tools to be used, and ultimately performing the appropriate tests, analyses and interpretations. Our final database consists of the certified financial statements of Golden Gazelle hotel in Eloued, Algeria, between the year 2012 and 2017, collected from the database of the National Centre of the Trade Register (CNRC), via their online platform called "Sidjilkom".

1. Profitability Ratios:

Table number (1): Profitability ratios of the hotel between 2010-2017

Year	Net profit ratio	Return on Assets	Return on Equity
2010	0,0001	0,000008	0,02338
2011	0,0099	0,000010	0,00001
2012	0,2155	0,626761	1,50078
2013	0,0055	0,000294	0,00130
2014	0,0015	0,000020	0,00003
2015	0,0008	0,000017	0,00003
2016	-2,1381	-0,021828	-0,04593
2017	-1,4099	-0,046568	-0,10512

Source: Done by the authors.

The net profit ratio reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. The above table has the net profit ratio for 8 years. From 2010 to 2017 Net Profit is raising in the first three years. But in the year 2013 it is getting decreased. And in the last two years the net profit was negative because the hotel recorded a deficit. The highest net profit was in the year 2012(0,2155). The graph given below clearly shows that there is an increasing trend for net profit till 2012 then it was a fall in the ratio value till the last two years where the ratio value is negative.

The return on total assets is considered to be an indicator of how effectively a company is using its assets to generate earnings before contractual obligations must be paid. Table no 1 shows the ratio of Return on Asset shows an increasing trend in 2010 and 2011 till 2012 where the ratio realises its maximum value (0,626761). But in the year 2013 it is getting decreased. And in the last two years the ratio was negative because the hotel recorded a deficit in that year.

Return on Equity is calculated as: ROE = Earnings Before Interest and Tax (EBIT) / Equity. The above table shows the highest ratio was in the year 2012 (1,50078) and the lowest positive ratio was in the year 2011 (0,00001). The table shows a negative value in the last two 2016 to 2017.

2. Liquidity Ratios:

Table number (2): Liquidity ratios of the hotel between 2010-2017

Year	Quick ratio	Cash ratio	Current ratio
2010	1,2374	1,2365	1,3358
2011	2,1487	2,1441	0,3392
2012	0,0215	0,0510	0,2249
2013	0,1234	0,0509	0,0696
2014	0,0692	0,0472	0,0519
2015	0,0364	0,0152	0,0295
2016	0,0589	0,0228	0,1412
2017	0,0651	0,0242	0,1501

Source: Done by the authors.

The quick ratio is a financial ratio used to gauge a company’s liquidity. The quick ratio is also known as the acid test ratio. The quick ratio compares the total amount of Cash + Accounts receivable + Marketable securities to the amount of current liabilities. The table shows an increasing trend of quick ratio in the first two years (2010 and 2011). However in 2012 the quick ratio is recording the lowest value (0,0215). The highest ratio was in the year 2011 (2,1487).

The cash ratio is a measure of a company's cash and cash equivalent assets to its current liabilities. Cash ratio is a refinement of quick ratio and indicates the extent to which readily available funds can pay off current liabilities. The above table shows about the cash Ratio, in that we can see an increasing trend in 2010 the ratio was (1,2365) and in 2011 the ratio was in its highest value (2,1441). when it become 2012 the ratio decreased to (0,0510) and continue its decreasing till 2015. The ratio was again increased to approximately (0,02).

The current ratio is a liquidity ratio that measures a company's ability to pay short-term. To gauge this ability, the current ratio considers the current total assets of a company relative to that company's current liabilities. In the above table the Current ratio is at highest level in the first year 2010 (1,3358) and it begins a decreasing trend from 2011 till 2015, where it was at its lowest level (0,0295 becomes very low in the year 2017 (2.72215). Current Ratio Shows an increasing trend in the last two years (0,1412 and 0,1501).

3. Debt Ratios:

Table number (3): Debt ratios of the hotel between 2010-2017

Year	Debt to Equity	Debt ratio	Debt to income
2010	19,9500	0,0066	853,30
2011	1,0706	0,4438	13 591,41
2012	2,5508	1,0653	1,69
2013	1,4529	0,3281	1 117,63
2014	0,0652	0,0493	2 413,12
2015	0,0507	0,0341	1 992,95
2016	0,5752	0,2734	-12,52
2017	0,6180	0,2738	-5,87

Source: Done by the authors.

The Debt to Equity ratio is measured by dividing the total amount of debt by the total amount of equity. The above table shows about the debt to equity Ratio, in that we can see a decreasing trend in 2010 the ratio was (19,9500) which is the highest amount of the ratio during the study period, and in 2011 the ratio was (1,0706). when it become 2012 the ratio increased to (2,5508) and take back a decrease trend its decreasing till 2016. The ratio was again increased to approximately (0,5752) in 2016 then to (0,6180) in 2017.

Debt ratio is The debt ratio is a financial ratio that measures the extent of a company's leverage. The debt ratio is defined as the ratio of total debt to total assets, expressed as a decimal or percentage. It can also be interpreted as the proportion of a company's assets that are financed by debt. In the above table the Debt ratio is at its lowest level in the first year 2010 (0,0066) which means a greater portion of a company's assets is funded by equity. However, the ratio begins a increasing trend in 2011 and 2012 where records its highest level (1,0653), greater than one; which means that a considerable portion of debt is funded by assets. In other words, the company has more liabilities than assets in 2012. In the following years the ratio observes a decrease in 2014 and 2015, than an increasing in the last two years of study period (0,2734 and 0,2738).

Debt to income measures the amount of income an organization generates in order to service a debt. Typically, borrowers with low debt-to-income ratios are likely to manage their monthly debt payments effectively. As a result, lenders want to see low debt to income ratios before issuing loans to a potential borrower. In the first two years, the table shows very important values for this ratio which means that the Golden Gazelle hotel has very important amount of debt comparing to its profit in 2010 and 2011. But in 2012 it is observing a huge decrease. However in 2014 and 2015 an increase was again observed (2 413,12 and 1 992,95) And in the last two years the debt to income was negative because the hotel recorded a deficit in 2016 and 2017.

4. Conclusion:

Financial performance analysis is the specific area of performance analysis dealing with the financial decision for companies. The study of financial performance of Golden Gazelle hotel, Eloued, Algeria, has revealed that the profitability position of the hotel calculated Return on Asset shows an increasing trend in 2010 and 2011 till 2012 where the ratio realises a maximum value (0,626761). But in the year 2013 it is getting decreased. And in the last two years the ratio was negative because the hotel recorded a deficit in that year. The study has been conducted on liquidity position analysis, the current ratio is at highest level in the first year 2010 (1,3358) and it begins a decreasing trend from 2011 till 2015, where it was at its lowest level (0,0295). Current Ratio Shows an increasing trend in the last two years (0,1412 and 0,1501); thereby the Debt ratio is at its lowest level in the first year 2010 (0,0066) which means a greater portion of a company's assets is funded by equity. However, the ratio begins a increasing trend in 2011 and 2012 where records its highest level (1,0653), greater than one; which means that a considerable portion of debt is funded by assets. In other words, the company has more liabilities than assets in 2012. In the following years the ratio observe a decrease in 2014 and 2015, than an increasing in the last two years of study period (0,2734 and 0,2738). So in future the hotel will be into a good financial position. To conclude The Golden Gazelle hotel has sound an effective management of fund, which helps them to control cost and increase the profit in future, especially with the opening of international lines from Guemar eloued airport.

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