Chapter 18
Impacts of Several Factors in Tourism Industry

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ABSTRACT

Generally all firms can operate only in the environment of the economy. The changes in corporate performance are closely related to expansion and contraction of the business cycle. The economic climate might have a greater impact on profits than the firm's performance within its industry. The corporate performance in the hotel industry may also rely on economic conditions. Thus, the significance of a firm is closely tied to the state of the economy (or economic climate).

1. INTRODUCTION

Generally all firms can operate only in the environment of the economy. The changes in corporate performance are closely related to expansion and contraction of the business cycle. The economic climate might have a greater impact on profits than the firm's performance within its industry. The corporate performance in the hotel industry may also rely on economic conditions. Thus, the significance of a firm is closely tied to the state of the economy (or economic climate) (Hollman & Forrest, 1991).

In other words, the expansion of tourism industry or its activities directly enhances the development of hotel industry by increasing the occupancy rate along with sales revenue. On the other hand, tourism development can significantly improve business environment, which has an indirect effect on the corporate performance of hotel firms. Verhoef, *et al.,*(2013) studied that the improved economic conditions caused by tourism expansion could raise corporate earnings and strengthen the financial performance of tourism-related firms and the expansion of tourism is expected to promote the corporate performance of hotel companies.

In commonly, the hotel industry is viewed as a cyclical industry, the reason is that the hotel companies tend to have higher fixed costs (costs that all firms in concern to their production levels) than variable costs (costs that increase or decrease as the firm produces more or less). With this high fixed costs, hotel companies are very sensitive to business conditional environmental because in economic downturns, hotel

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firms cannot reduce its costs as output falls in corresponding to falling sales. Thus the hotel profits will go more widely with sales because costs do not move to below the revenue variability. As Tiedemann (2009) noted, due to their high fixed costs, hotel industries require maintaining high revenue to survive and generate adequate profit. In addition to economic condition, tourism expansion or tourism growth can also have a strong influence on the corporate performance of hotel companies.

Thus the study analyzed the impacts of the state of economy and tourism growth on the corporate performance of tourist hotels in worldwide. To measure corporate performance, the majority of studies used return on assets/return on equity (Gursoy, *et al.,*2009; Andereck & Nyaupane, 2011)

Specifically, this study makes the following contributions to the tourism literature. First, various indicators of corporate performance are used to test the effects of economic condition and tourism growth in the hotel industry. In consequence, this study enables us to evaluate the impact of economic condition and tourism expansion on the corporate performance of tourist hotels in terms of not only their sales revenue, profitability and stock performance but also the overall financial performance.

Second, this paper considers the possible impact of some unexpected crises related to the hotel and tourism industry into consideration. Some empirical studies reported that events such as the earthquake, terrorist attacks and the outbreak of Severe Acute Respiratory Syndrome (SARS) like microbiological infections which are significantly damaged financial performance of hotel companies in worldwide (Mansfeld & Pizam, 2006).

2. ECONOMIC FACTORS IN TOURISM INDUSTRY

There was a study can offer a comparative competition between the economic factor and the industry factor towards which can exerts a greater impact on different dimensions of corporate performance in the tourist hotel industry. Changes in the economical condition can be viewed as the economic factor, whereas the expansion of the market for foreign tourism, proxies by the growth of foreign tourist arrivals, can be used as the industry-specific factor.

Since the business success of hotel companies were assumed to be tightly related to the economy and it makes sense to analyze the influence of the state of the aggregate economy on corporate performance in the hotel industry. However, there is relatively little examination of the association between business conditions and corporate performance of hotel companies in the hospitality and tourism literature. The hotel industry cycle is defined as the fluctuation in the total receipts of the entire hotel industry. The hotel industry cycle model demonstrated the growth of the hotel industry by showing that the hotel industry grew rapidly every four or five years once. The hotel industry cycle model could provide valuable guidelines for practitioners and researchers in the hotel industry.

Another area of research work focused on the significance of the key economic variables that can be used to summarize the state of the economy in explaining financial performance (stock return) of hotel firms (Nordin, 2011). There are five selected economic variables (the expected inflation rate, money supply, domestic consumption, term structure of the interest rate, and industrial production) could determine the returns of U.S. hospitality stocks. They found that the expected inflation rate, growth rates of money supply and domestic consumption had a significant impact on hospitality stock returns. In addition, not only economic variables but also non-economic events, including wars, presidential elections, natural disasters, sports mega-events, and terrorist attacks, could have a strong effect on hotel stock returns.