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An Analysis Of Internal and External Factors Affecting Peel Hotel PLC's Profitability Performance

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AN ANALYSIS OF INTERNAL AND EXTERNAL FACTORS AFFECTING PEEL HOTELS PLC'S PROFITABILITY PERFORMANCE

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Abstract

The purpose of this article is to examine Peel Hotels PLC's relative financial performance with its internal factors and external factors. The data collected from annual reports of Peel Hotels PLC for the period 2014 to 2018 has been analysed through regression correlation. Return on assets (ROA) is used as the measurement of company's performance whereas risk indicators are selected as internal factors and macroeconomic factors are used as the external factors. When these considerations are analysed, the operational risk indicators which are operational ratio and operating margin that under internal factors will most influence the performance. A few recommendations are suggested based on the results.

Keywords: Performance, ROA, Internal Factors, Operational Ratio, Operating Margin

1.0 Introduction
1.1. Introduction

This chapter explains the summary of Peel Hotels PLC, identifies the research objectives, research questions and scope of study besides addresses the organisation of the report.

1.2 Overview of Peel Hotels PLC

According to Travel & Tourism Competiveness Report 2019, United Kingdom (UK) are the world's sixth most travel-ready nations. London, the capital city of UK is a major international financial centre and one of the most visited cities in the world. Based on the Britain 's visitor economy facts, it is projected that this travel and tourism sector will expand at an annual rate of 3.8% by 2025, which is significantly faster than the UK economy as a whole. Moreover, this industry is growing even more rapidly than other sectors such as manufacturing, construction and retail. From the statements, hotel industry which is under this sector is believed to act as one of the important part of the UK economy.

Peel Hotels Plc is a United Kingdom hotel company. Peel Hotels PLC was founded in the year 1998 by Robert Peel with the headquarters located at London. It is listed on the AIM (formerly the Alternative Investment Market) and currently own nine hotels throughout UK. The Company's principal activity is focus in the operation of hotels in UK. In its hotels, banqueting suites, training and conference facilities is provided. Hotels under Peel Hotel PLC has a computer-friendly business centre and free Internet access. In addition, additional services such as photocopying and faxing services, secretarial services and audio-visual hire equipment and additional items or special requirements can be arranged in hotels on request. Peel Hotels PLC's subsidiaries include Crown & Mitre (Carlisle) Limited, Strathdon (Nottingham) Limited and King Malcolm (Dunfermline) Limited. The number of employees under this hotel company is approximate to 426 persons. The Board is chaired by Robert Peel (previously worked as the Chief Executive of Mount Charlotte Hotels) who also acts as the Group's Chief Executive. Under his stewardship, Peel Hotels PLC became UK's second largest hotel company and London's largest with more than 6,500 bedrooms.

However, Peel Hotels PLC is also facing financial risks like other companies. According to the Annual Reports of Peel Hotels PLC, Peel Hotels PLC is exposed to operational risk, credit risk, market risks such as currency risk and interest rate risk, as well

as liquidity risk. Recently, the Company has entered into a £9.9 million five-year term loan facility with Allied Irish Bank. Furthermore, when the director recognized the breach of the covenant in combination with a challenging trading outlook, this resulted in material uncertainty and increased the possibility that the company could not continue to realize its assets and discharge its liabilities in the course of normal business. These had increase the risk exposure faced by Peel Hotels PLC.

1.3 Research Objectives

This study aims to identify the relationships between company's performance and its factors in Peel Hotels PLC. This study's goals are:

1. To identify the internal factors that may influence the performance of the company.
2. To analyse the external factors which may bring direct impact to the company's performance.
3. To examine both internal as well as external factors that may influence the performance of the company.

1.4 Research Questions

The research questions of this study are:

1. Is there a connection between internal factors and company's performance?
2. Is there any relationship among external factors and company's performance?
3. Is there any impact of internal factors and external factors towards the performance of the company?

1.5 Scope of Study

This study covers Peel Hotels PLC from the hotel industry in UK. The company's performance and risks indicators are based on the 5 years' annual report of Peel Hotels PLC from 2014 to 2018.

1.6 Organisation of Report

This research is made up of five main chapters. For Chapter 1, it outlines the introduction that provides a summary of the studied company, research objectives, research questions, scope of study as well as the organisation of report. Chapter 2

discusses the risk related literature review and its determinants while research methodology will be presented in Chapter 3. In addition, Chapter 4 presents the research results and outcomes that include linear regression analysis. Lastly, Chapter 5 provides a summary and conclusion of the analysis with further suggestions.

2.0 Literature Review

The word governance is defined as the action or manner of governing a state, organization and so on. Corporate governance is defined as the mechanism and framework used to direct and manage the company's business and affairs towards the promotion of corporate stability and transparency with the ultimate goal of achieving long-term shareholder value while taking into account other stakeholders' interests (Securities Commision, 2017). Generally, corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. Effective corporate governance requires a clear understanding of the board, management and shareholders ' respective roles and their relationships with one another. Since corporate governance also offers the basis for achieving organization goals, it encompasses virtually every management area from action plans and internal controls to measuring performance and corporate reporting.

Financial risk is defined as the risk or possibility that a company's cash flow will not be sufficient for the payment of creditors and to fulfil other financial responsibilities (Guzman, n.d.). Therefore, the level of financial risk, different with business risk, is related to the operations of the business itself, but more depends on the amount of debt incurred to finance the operations. This means the higher the level of debt or liability a business is taking, the higher the financial risk it will be in the business. Financial risk can be classified into various types such as credit risk, operation risk, liquidity risk and market risk.

Operational risk is the possibility of loss due to inadequate or failed internal processes, individuals and systems or external events (Basel Committe, 2014). A poor operational risk management can bring catastrophic losses not only in monetary sense but in terms of overall business and reputation (Rouse, 2013). Banks have struggled to control operational risk with a proof of major banks lost nearly $210 billion from operation risk events since 2011 (Huber & Funaro, 2018). Hence, over recent years, management towards operational risk has become more relevant. Operational risk is inherent in all banking products, activities, processes and systems, so sound operation risk management is a reflection of the board's and senior management's effectiveness in administering its portfolio of those

products, activities, processes and systems (Basel Committee on Banking Supervision, 2011).

Basel Committee on Banking Supervision (2019) defined market risk as the on and off-balance-sheet positions losses resulting from market prices movement. Risks associated with market risk are the risks associated with interest rate of stock and securities in trading book, foreign exchange risk and commodity risk. Market risk is the potential for price changes in a market that causes investment losses and it is often measured with volatility concept that helps to predict the potential price fluctuation of an investment (Spacey, 2015). Usually, market risks are outside the control of the banks, as they are determined by overall economy factors.

Liquidity risk is the threat that a corporation or a bank may not be able to meet short term financial requirements because of the inability to turn a security into cash without a loss of revenue in the process. There are two basic types of liquidity risk, namely market liquidity risk and funding liquidity risk. Based on findings, the profitability effects on the liquidity risk significantly, so profitability of a business should be reduced by not neglecting the short term cost and obligations to manage the liquidity risk (Neoh, 2018). Besides, another study revealed a significant relationship among profitability and liquidity risk where high levels of accruals quality and timely dividends announcement reduce stocks' liquidity risk while profitability estimation error in a high percentage increases the liquidity risk of the stock (Shiri & Roshandel, 2015). Hence, return on assets (ROA) which can indicate profitability of a business should be measured in order to predict or determine a business's liquidity risk.

Credit risk refers to the chance of loss due to a borrower failed to repay a loan or meet contractual obligations. The credit risk is considering to be higher if the borrower does not have enough assets or there are no adequate cash flows to pay off the creditors. Credit risk is closely linked to an investment's potential return where bond yields are strongly correlated with its alleged credit risk. A higher credit risk is reflected by investors' higher interest rate demand to borrow their money. However, it was found out that there was a negative correlation between credit risk and interest rate risk where having both of them in portfolio could provide diversification (Tucker, 2015). Generally, there are three types of credit risk. The first category is default risk, the prevalent credit risk. Secondly, credit spread risk which occur due to volatility in the difference between the interest rate of investment and the risk free return rate and the last type is called downgrade risk. Based on financial analysis, credit risk can be measured by evaluating the debt-to-income ratio.

The debt-to-income ratio is computed by dividing a company 's ongoing monthly obligations over the gross monthly income. As reasonable credit risks, a debt-to-income ratio below 35% is considered.

Financial performance is a subjective measure of how well an organization can use its assets to generate revenues. A company's financial performance is also used over a given period as a general measure of the overall business's financial health. Investors usually compare similar companies across the same industry using company's performance in order to find out if they should risk their money. While shareholders measure performance is to study how their shares will perform (Cequea, 2017). Profitability such as return on assets (ROA) and return on equity (ROE) are used the simplest indicator to represent a company's performance generally.

3.0 Methodology

1.1 Introduction

Methodology explains the techniques of performing a study. Sampling techniques, statistical techniques, data analysis, and Statistical Package for Social Science (SPSS) are used in this section.

3.2 Sampling Technique

The population in this study is the hotel sector in UK. Jerasia Capital Berhad, one of the hotel company in UK becomes the main focus of this study. Hence, Peel Hotels PLC is taken as the sample data. The data that we sampled is mostly taken from its company's annual reports from 2014 to 2018. Since the relationship between performance and its factors are needed to be identified, the recommended dependent variable is ROA whereas the independent variables used are internal factors, external factors, as well as both internal and external factors.

3.3 Statistical Analysis

Sample data is collected based on the 5 years' annual reports from 2014 to 2018. The data from income statements and balance sheets is recorded so that the information could be used for analysing the internal factors. Bloomberg is also used as one of the resource for back up and checking purposes. If the data from the annual reports is incomplete, the data collected from Bloomberg is used. The main concepts of a sound corporate governance

which is accountability, transparency, independence, fairness as well as sustainable are also being analysed based on the 5 years' annual report and then the corporate governance index is computed. Besides, the external factors such as the gross domestic product (GDP) growth rate, inflation rate, interest rate, exchange rate and other macroeconomics' indicators are collected using Yahoo Finance, IMF and also Central Bank UK.

The ordinary least-squared linear regression is used as the main procedure. This linear regression model is used to investigate the relationship between the data which is labelled with dependent variables and independent variables. Ordinary least-square is basically the most common estimation method for linear models. This is because ordinary least-squared procedure creates best possible estimates with the smallest variance produced.

3.4 Data Analysis

The research framework is as shown below:
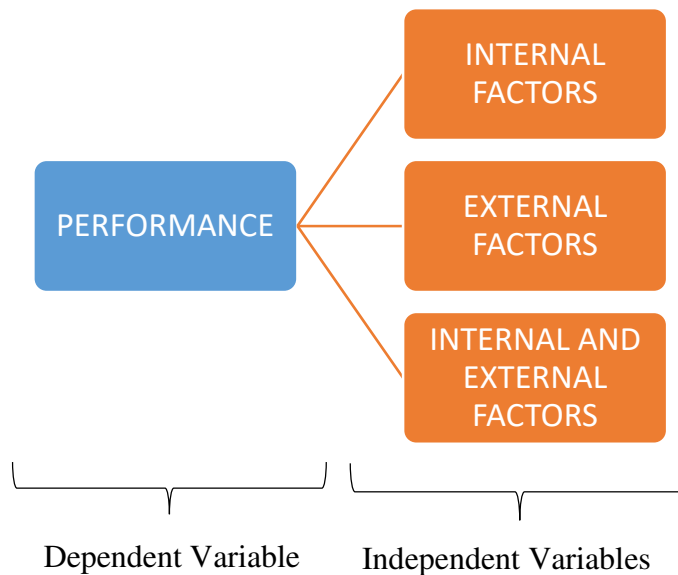
Independent variables are contrasted with the dependent variable and the output must represent the relationship between the variables in SPSS. Since the independent variable is more than 1, multiple linear regression analysis has been used to assess its effect on dependent variables. The multiple linear regression line can be represented in the equation below:

$$\hat{y} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_i x_i + e$$

where $\hat{y}$ refers to dependent variable, x_i refers to independent variables and β_i is the interception of the linear regression line while e refers to the error.

The measurement of variables is shown as the table below:

No.	Variable	Indication
1	Return on Equity (ROA)	Net income/Total equity
2	Current Ratio	Current Asset/Current Liability
3	Quick Ratio	(Current Asset – Inventory - Prepaid Expenses)/Current Liability
4	Average Collection Period	Account Receivable/(Revenue/360 Days)
5	Debt To Income	Total Liability/Total Income
6	Operational Ratio	Operating Expenses/Net Sales
7	Operating Margin	EBIT/Revenue
8	Corporate Governance Index (CG Index)	Corporate governance elements fulfilled by company over 5 years
9	Gross Domestic Product (GDP)	UK's GDP rate over 5 years
10	Inflation	UK's inflation rate over 5 years
11	Interest Rate	UK's interest rate over 5 years
12	Exchange Rate	UK's exchange rate over 5 years

3.5 Statistical Package for Social Sciences (SPSS)

In this study, results were obtained using IBM SPSS version 25 in the data computation. It is acknowledged that this program is a strong tool that helps researchers perform statistical data analysis. SPSS is widely used in data mining and researches on business studies because it is capable of carrying out descriptive statistics, predicting numeral results and predicting group identification as well. However, SPSS will only be used to evaluate linear regression and comparison between variables.

4.0 Findings and Analysis

4.1 Introduction

This chapter presents the interpretation of SPSS output, findings and analysis using linear regression analysis.

4.2 Internal Factors

4.2.1 Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
ROA	.007956058727097	.018084444598982	5
CURRENT RATIO	.426853612014085	.204915776629571	5
QUICK RATIO	.398444840232997	.196143625898144	5
AVERAGE-COLLECTION PERIOD	23.347393154086800	2.992895121441791	5
DEBT TO INCOME	.808012059424585	.087800444759149	5
OPERATIONAL RATIO	.118146057160254	.030632354165152	5
OPERATING MARGIN	.057753088283890	.043846837703493	5
CG Index	.600	.0000	5

Mean is the average value of each variable whereas standard deviation is the dispersion value of the dependent and independent variables. A higher value of standard deviation indicates a larger variability. For ROA, the indicator for profitability which may represent company's performance, is having a mean of 0.008, meaning that every unit of money invested by the company in assets will only generate 0.007956 net income averagely in the 5 years. Next, the mean of current ratio is 0.4269 while mean for quick ratio is 0.3984, where both of them are below 1. This means that the company are assumed currently unable to fully pay back its current debt. From the table, we also know that the average collection period for the company is 23.35 days and average debt to income is 0.808. For the variables under the category which may represent operational risk, the mean operational ratio is 0.118 and mean operating margin is 0.058, which can be concluded that the company managed well in the operation that might minimise the operational risk faced. Besides, the corporate governance is 0.6 on average. Based on the table, the average-collection period has the highest mean value which is 23.3474. The standard deviation of average-collection period which exceed 2 also is the highest, this means that average-collection period has the most violation among other variables. Since the CG index remains constant over the 5 years, it is having a standard deviation of 0.

4.2.2 Correlations

		ROA	CURRENT RATIO	QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	CG Index
Pearson Correlation	ROA	1.000	-.595	-.615	.789	-.330	-.975	.999	.
	CURRENT RATIO	-.595	1.000	1.000	-.453	.270	.661	-.567	.
	QUICK RATIO	-.615	1.000	1.000	-.468	.265	.679	-.587	.
	AVERAGE-COLLECTION PERIOD	.789	-.453	-.468	1.000	.002	-.876	.765	.
	DEBT TO INCOME	-.330	.270	.265	.002	1.000	.182	-.360	.
	OPERATIONAL RATIO	-.975	.661	.679	-.876	.182	1.000	-.962	.
	OPERATING MARGIN	.999	-.567	-.587	.765	-.360	-.962	1.000	.
	CG Index	.	.	.	.	.	.	.	1.000
Sig. (1-tailed)	ROA	.	.145	.135	.056	.294	.002	.000	.000
	CURRENT RATIO	.145	.	.000	.222	.330	.112	.159	.000
	QUICK RATIO	.135	.000	.	.214	.333	.104	.149	.000
	AVERAGE-COLLECTION PERIOD	.056	.222	.214	.	.499	.026	.066	.000
	DEBT TO INCOME	.294	.330	.333	.499	.	.385	.276	.000
	OPERATIONAL RATIO	.002	.112	.104	.026	.385	.	.004	.000
	OPERATING MARGIN	.000	.159	.149	.066	.276	.004	.	.000
	CG Index	.000	.000	.000	.000	.000	.000	.000	.
N	ROA	5	5	5	5	5	5	5	5
	CURRENT RATIO	5	5	5	5	5	5	5	5
	QUICK RATIO	5	5	5	5	5	5	5	5
	AVERAGE-COLLECTION PERIOD	5	5	5	5	5	5	5	5
	DEBT TO INCOME	5	5	5	5	5	5	5	5
	OPERATIONAL RATIO	5	5	5	5	5	5	5	5
	OPERATING MARGIN	5	5	5	5	5	5	5	5
	CG Index	5	5	5	5	5	5	5	5

Using Pearson correlation, the relationship between dependent and independent variables is evaluated. A positive value of Pearson Correlation indicates a positive relationship between the variables while a negative value indicates a negative relationship. A value which exceed positive or negative 0.5 is considered having a strong relationship among the variables.

However, the significance of the relationship cannot be concluded using only Pearson correlation value, so the value of significance is important. If the value Sig(1-tailed) or p-value is less than 0.05, we can conclude that the relationship between the two variables is statistically significant correlation. Instead, a Sig(1-tailed) value which is greater than 0.05 showing that the parameter does not have a significant correlation.

From the table, the independent variables which positively correlated with ROA are average-collection period and operating margin. Both of the variables having a high Pearson correlation value but operating margin is having a stronger relationship with ROA as its value of 0.999 which is tend to 1. However, based on the significant level of the variables, average-collection period is not significantly influence the ROA because of its value of significant level which is larger than 0.05. This means that average-collection period cannot be concluded will bring a direct impact towards performance although they are having a strong positive relationship. In the other hand, operating margin which having a significant level of 0.000 is perfectly affecting ROA. This implies that operating margin will affect ROA directly, whenever operating margin increases, ROA will tend to be increased.

For the variables which negatively correlated with ROA are current ratio, quick ratio, debt to income and operational ratio. Among all of these variables, only operational ratio having a significant level less than 0.05, which could be concluded to significantly affect ROA negatively.

4.2.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.999[a]	.997	.996	.001134297720642	
2	1.000[b]	1.000	1.000	.000220585400060	3.112
a. Predictors: (Constant), OPERATING MARGIN					
b. Predictors: (Constant), OPERATING MARGIN , OPERATIONAL RATIO					
c. Dependent Variable: ROA					

Model Summary[c]

ROA which may represent company's performance is used as the dependent variable. Since the method selected is Stepwise, SPSS only chose the significant variable to represent the model during the computation in the linear regression analysis. R^2 is the coefficient of determination, which is a ratio of the explained to total variation, while adjusted R^2 is the modified determination coefficient that was adjusted for the model's number of predictors. The first model choosing operating margin as the independent variable, where the adjusted R^2 value is 0.996 which is very close to 1. This means that 99.6% variation in ROA can be explained by operating margin. Hence, the linear regression is suitable for the model between ROA and

operating margin. However, both operating margin and operational ratio were chosen as the independent variables in the following model, where its adjusted R^2 value is equal to 1, showing that the linear regression line is fits perfectly with a very low standard estimation of only 0.0002. In another words, this second model has a negligible error on the regression line and can be used as a trend line for accurately predicting the missing variable. However, the Durbin-Watson statistics shows a value of 3.112. Values from 2 to 4 in Durbin-Watson statistics indicate negative autocorrelation based on Investopedia. In overall, operating margin and operating ratio representing the operational risk are the most appropriate variables to be included as the independent variables compared to other variables of internal factor.

4.2.4 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	1013.755	.000[b]
	Residual	.000	3	.000		
	Total	.001	4			
2	Regression	.001	2	.001	13441.710	.000[c]
	Residual	.000	2	.000		
	Total	.001	4			
a. Dependent Variable: ROA						
b. Predictors: (Constant), OPERATING MARGIN						
c. Predictors: (Constant), OPERATING MARGIN , OPERATIONAL RATIO						

An independent variable with significant level which is less than α=0.05 indicating there is a significant linear relationship between the dependent and independent variables. Based on the ANOVA table, the first model selected operating margin as the predictor while the second model choosing both operating margin and operational ratio as the independent variables. Both of the model having a significant value of 0.000 which means there is a perfectly significant linear relationship between the dependent and independent variables. The models can be concluded having a consistent variance that can predicts the outcome very significantly.

4.2.5 Coefficients

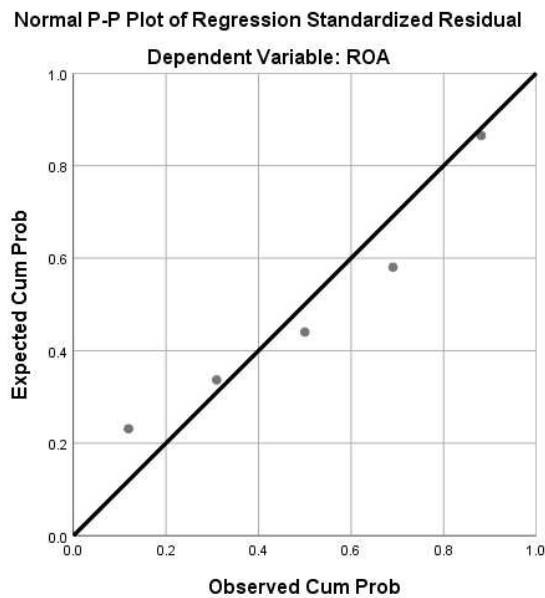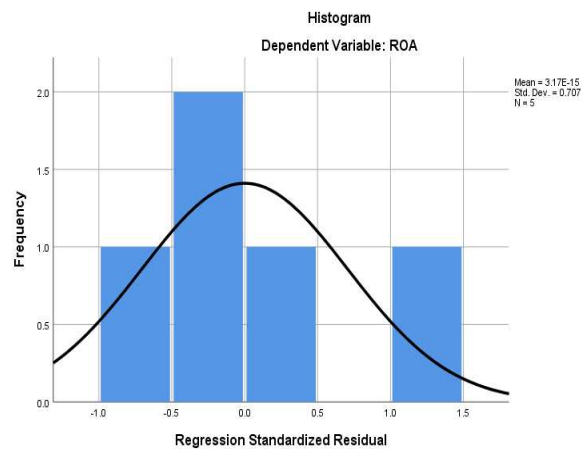| Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.016	.001		-17.530	.000	-.019	-.013
	OPERATING MARGIN	.412	.013	.999	31.840	.000	.371	.453
2	(Constant)	.002	.002		1.125	.377	-.007	.011
	OPERATING MARGIN	.334	.009	.810	36.341	.001	.295	.374
	OPERATIONAL RATIO	-.116	.013	-.196	-8.794	.013	-.172	-.059

a. Dependent Variable: ROA

In the first model, operating margin with significance of 0.000 is the most significant internal variable that will give the direct impact towards company's performance. For the second model, both internal variables selected are operating margin and operational ratio. Since both of the significant levels of 0.001 and 0.013 are less than 0.05, the operating margin and operational ratio will influence the ROA significantly.

According to the coefficients able, the dependent variable can be predicted by constructing a regression line using the value of B under the standardized coefficients. Therefore, the equation of regression line for the first model is $y=-0.016+0.412x_1$ where y refers to the ROA and x_1 refers to the operating margin. The equation can be explained as when the operating margin increases by a unit, ROA will increase by 0.412 unit. For the second model, the regression line is $y=0.002+0.334x_1-0.116x_2$ where y is the ROA, x_1 is the operating margin while x_2 is the operational ratio. This can be interpreted as when operating margin increase for 1 unit, ROA will increase for 0.334 unit given that operational ratio is inside the model or when operational ratio increases by 1 unit, ROA will decrease by 0.116 unit assuming operating margin is in the model.

4.2.6 Charts

Due to the reason linear regression model is not always appropriate for data, we should access appropriate model by defining residual and examine residual plots. Residuals is defined as the differences between the true and fitted dependent variable's values for the points in the sample.

The result of residual analysis can be visualized through the charts below such as histograms, normal P-P plots and scatterplot.

Histogram
Dependent Variable: ROA

Mean = 3.17E-15
Std. Dev. = 0.707
N = 5

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: ROA

Scatterplot
Dependent Variable: ROA
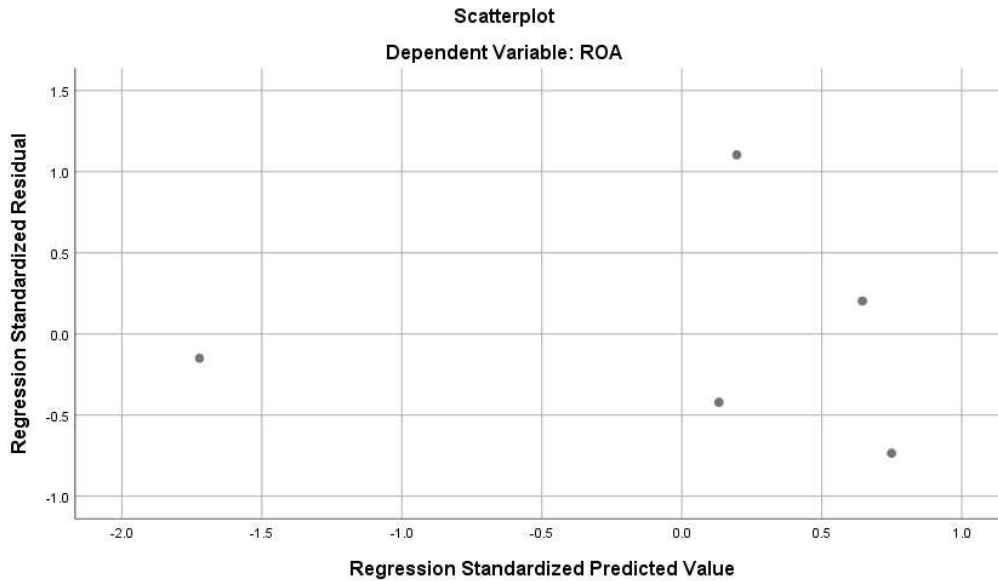
4.3 External Factors

Due to the reason of insufficient sample data, none of the independent variables significantly predicts the dependent variable, SPSS displayed only the table of descriptive statistics and correlations.

4.3.1 Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
ROA	.007956058727097	.018084444598982	5
GDP	2.040000000000000	.577061521850140	5
Inflation	1.535636010481824	.903666620037923	5
Interest Rate	.4500	.11180	5
Exchange Rate	.705883558422147	.071478662354992	5
Unemployment Rate	4.902600097656250	.843590176617031	5

Based on the table, the unemployment rate has the highest value of mean followed by GDP, inflation, exchange rate and lastly the interest rate. All of the variables having a standard deviation not more than 1. The highest standard deviation falls on inflation rate which means it may have the most violation among other variables.

4.3.2 Correlations

		ROA	GDP	Inflation	Interest Rate	Exchange Rate	Unemployment Rate
Pearson Correlation	ROA	1.000	.500	-.622	-.414	-.281	.552
	GDP	.500	1.000	-.470	.232	-.916	.979
	Inflation	-.622	-.470	1.000	.326	.602	-.596
	Interest Rate	-.414	.232	.326	1.000	-.272	.059
	Exchange Rate	-.281	-.916	.602	-.272	1.000	-.928
	Unemployment Rate	.552	.979	-.596	.059	-.928	1.000
Sig. (1-tailed)	ROA	.	.196	.131	.244	.323	.167
	GDP	.196	.	.212	.353	.014	.002
	Inflation	.131	.212	.	.296	.141	.144
	Interest Rate	.244	.353	.296	.	.329	.462
	Exchange Rate	.323	.014	.141	.329	.	.011
	Unemployment Rate	.167	.002	.144	.462	.011	.
N	ROA	5	5	5	5	5	5
	GDP	5	5	5	5	5	5
	Inflation	5	5	5	5	5	5
	Interest Rate	5	5	5	5	5	5
	Exchange Rate	5	5	5	5	5	5
	Unemployment Rate	5	5	5	5	5	5

GDP and unemployment rate are positively correlated with ROA. However, they are having high significant levels which are greater than 0.05, which indicate they are insignificantly in the influence on ROA. Therefore, GDP or unemployment rate cannot be concluded will affect the ROA although ROA increases when GDP or unemployment rate increases.

Inflation, interest rate and exchange rate correlated with ROA negatively. When inflation, interest rate or exchange rate increases, ROA will decreases. However, we still cannot conclude that inflation, interest rate and exchange rate will bring impacts directly towards performance as they didn't affect ROA significantly due to the significant levels greater than 0.05.

4.4 Internal and External Factors

4.4.1   Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
ROA	.007956058727097	.018084444598982	5
CURRENT RATIO	.426853612014085	.204915776629571	5
QUICK RATIO	.398444840232997	.196143625898144	5
AVERAGE-COLLECTION PERIOD	23.347393154086800	2.992895121441791	5
DEBT TO INCOME	.808012059424585	.087800444759149	5
OPERATIONAL RATIO	.118146057160254	.030632354165152	5
OPERATING MARGIN	.057753088283890	.043846837703493	5
CG Index	.600	.0000	5
GDP	2.040000000000000	.577061521850140	5
Inflation	1.535636010481824	.903666620037923	5
Interest Rate	.4500	.11180	5
Exchange Rate	.705883558422147	.071478662354992	5
Unemployment Rate	4.902600097656250	.843590176617031	5

All of the average value for each variable is computed and is shown as the mean in the table. Based on the table, the average-collection period still having the highest standard deviation which exceed 2 after considering all internal and external factors of the company, this means that average-collection period has the most violation compared to other variables.

4.4.2   Correlations

Correlations		ROA	CURRENT RATIO	QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	CG Index	GDP	Inflation	Interest Rate	Exchange Rate	Unemployment Rate
Pearson Correlation	ROA	1.000	-.595	-.615	.789	-.330	-.975	.999	.	.500	-.622	-.414	-.281	.552
	CURRENT RATIO	-.595	1.000	1.000	-.453	.270	.661	-.567	.	-.345	-.151	-.216	-.021	-.226
	QUICK RATIO	-.615	1.000	1.000	-.468	.265	.679	-.587	.	-.364	-.125	-.207	.000	-.248
	AVERAGE-COLLECTION PERIOD	.789	-.453	-.468	1.000	.002	-.876	.765	.	.579	-.339	-.541	-.320	.642
	DEBT TO INCOME	-.330	.270	.265	.002	1.000	.182	-.360	.	.636	-.029	.467	-.763	.602

	OPERATIONAL RATIO	-.975	.661	.679	-.876	.182	1.000	-.962	.	-.619	.524	.349	.359	-.651
	OPERATING MARGIN	.999	-.567	-.587	.765	-.360	-.962	1.000	.	.469	-.646	-.433	-.264	.527
	CG Index	.	.	.	.	.	.	.	1.000	.	.	.	.	.
	GDP	.500	-.345	-.364	.579	.636	-.619	.469	.	1.000	-.470	.232	-.916	.979
	Inflation	-.622	-.151	-.125	-.339	-.029	.524	-.646	.	-.470	1.000	.326	.602	-.596
	Interest Rate	-.414	-.216	-.207	-.541	.467	.349	-.433	.	.232	.326	1.000	-.272	.059
	Exchange Rate	-.281	-.021	.000	-.320	-.763	.359	-.264	.	-.916	.602	-.272	1.000	-.928
	Unemployment Rate	.552	-.226	-.248	.642	.602	-.651	.527	.	.979	-.596	.059	-.928	1.000
Sig. (1-tailed)	ROA	.	.145	.135	.056	.294	.002	.000	.000	.196	.131	.244	.323	.167
	CURRENT RATIO	.145	.	.000	.222	.330	.112	.159	.000	.285	.404	.364	.487	.357
	QUICK RATIO	.135	.000	.	.214	.333	.104	.149	.000	.273	.421	.369	.500	.344
	AVERAGE-COLLECTION PERIOD	.056	.222	.214	.	.499	.026	.066	.000	.153	.289	.173	.300	.121
	DEBT TO INCOME	.294	.330	.333	.499	.	.385	.276	.000	.124	.482	.214	.067	.141
	OPERATIONAL RATIO	.002	.112	.104	.026	.385	.	.004	.000	.133	.182	.283	.276	.117
	OPERATING MARGIN	.000	.159	.149	.066	.276	.004	.	.000	.213	.120	.233	.334	.180
	CG Index	.000	.000	.000	.000	.000	.000	.000	.	.000	.000	.000	.000	.000
	GDP	.196	.285	.273	.153	.124	.133	.213	.000	.	.212	.353	.014	.002
	Inflation	.131	.404	.421	.289	.482	.182	.120	.000	.212	.	.296	.141	.144
	Interest Rate	.244	.364	.369	.173	.214	.283	.233	.000	.353	.296	.	.329	.462
	Exchange Rate	.323	.487	.500	.300	.067	.276	.334	.000	.014	.141	.329	.	.011
	Unemployment Rate	.167	.357	.344	.121	.141	.117	.180	.000	.002	.144	.462	.011	.
N	ROA	5	5	5	5	5	5	5	5	5	5	5	5	5
	CURRENT RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	QUICK RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	AVERAGE-COLLEC	5	5	5	5	5	5	5	5	5	5	5	5	5

The positively correlated variables with ROA are average-collection period, operating margin, GDP and unemployment rate. Among these variables, operating margin has the strongest positive relationship with ROA as its Pearson correlation of 0.999 is the most nearest to 1. However, only significant is considered to give direct impact towards the ROA. By looking at the significant value, the most significant variable is operating margin which is having 0.000 significant value that made it becomes perfectly significant variable that positively affect ROA.

For the negatively correlated variables with ROA, there are current ratio, quick ratio, debt to income, operational ratio, inflation, interest rate and exchange rate. Operational ratio has the least significant value which is 0.002 among these variables. Therefore, operational ratio can be said to influence ROA negatively compared to other negatively correlated variables.

4.4.3 Model Summary

Model Summary[c]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.999[a]	.997	.996	.001134297720642	
2	1.000[b]	1.000	1.000	.000220585400060	3.112
a. Predictors: (Constant), OPERATING MARGIN					
b. Predictors: (Constant), OPERATING MARGIN , OPERATIONAL RATIO					
c. Dependent Variable: ROA					

Since the output of this model is same as the model using only internal factors, same explanation of the table is made. ROA which may represent company's performance is used as the dependent variable. Since the method selected is Stepwise, SPSS only chose the significant variable to represent the model during the computation in the linear regression analysis. R^2 is the coefficient of determination, which is a ratio of the explained to total variation, while adjusted R^2 is the modified determination coefficient that was adjusted for the model's number of predictors. The first model choosing operating margin as the independent variable, where the adjusted R^2 value is 0.996 which is very close to 1. This means that 99.6% variation in ROA can be explained by operating margin. Hence, the linear regression is suitable for the model between ROA and operating margin. However, both operating margin and operational ratio were chosen as the independent variables in the following model, where its adjusted R^2 value is equal to 1, showing that the linear regression line is fits perfectly with a very low standard

estimation of only 0.0002. In another words, this second model has a negligible error on the regression line and can be used as a trend line for accurately predicting the missing variable. However, the Durbin-Watson statistics shows a value of 3.112. Values from 2 to 4 in Durbin-Watson statistics indicate negative autocorrelation based on Investopedia. In overall, operating margin and operating ratio representing the operational risk are the most appropriate variables to be included as the independent variables compared to all other variables.

4.4.4 ANOVA

ANOVAᵃ						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	1013.755	.000ᵇ
	Residual	.000	3	.000		
	Total	.001	4			
2	Regression	.001	2	.001	13441.710	.000ᶜ
	Residual	.000	2	.000		
	Total	.001	4			
a. Dependent Variable: ROA						
b. Predictors: (Constant), OPERATING MARGIN						
c. Predictors: (Constant), OPERATING MARGIN , OPERATIONAL RATIO						

Based on the ANOVA table, the first model selected operating margin as the predictor while the second model choosing both operating margin and operational ratio as the independent variables. Both of the model having a significant value of 0.000 which means there is a perfectly significant linear relationship between the dependent and independent variables. The models can be concluded having a consistent variance that can predicts the outcome very significantly.

4.4.5 Coefficients

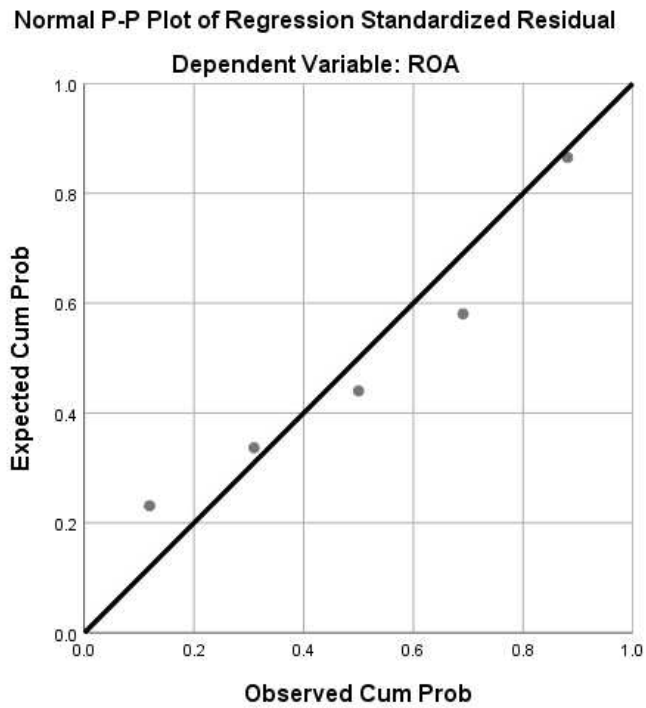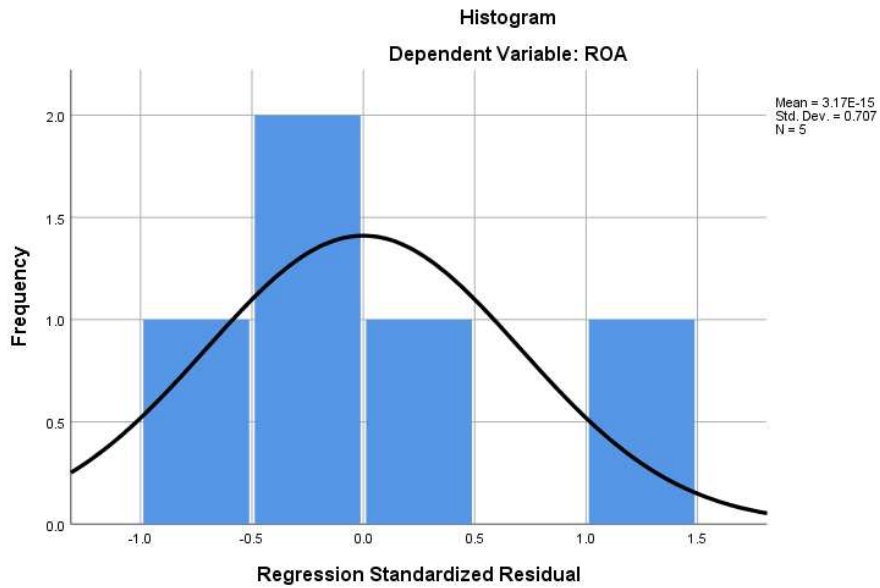| Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.016	.001		-17.530	.000	-.019	-.013
	OPERATING MARGIN	.412	.013	.999	31.840	.000	.371	.453
2	(Constant)	.002	.002		1.125	.377	-.007	.011
	OPERATING MARGIN	.334	.009	.810	36.341	.001	.295	.374
	OPERATIONAL RATIO	-.116	.013	-.196	-8.794	.013	-.172	-.059

a. Dependent Variable: ROA

In the first model, operating margin with significance of 0.000 is the most significant internal variable that will give the direct impact towards company's performance. For the second model, both internal variables selected are operating margin and operational ratio. Since both of the significant levels of 0.001 and 0.013 are less than 0.05, the operating margin and operational ratio will influence the ROA significantly.
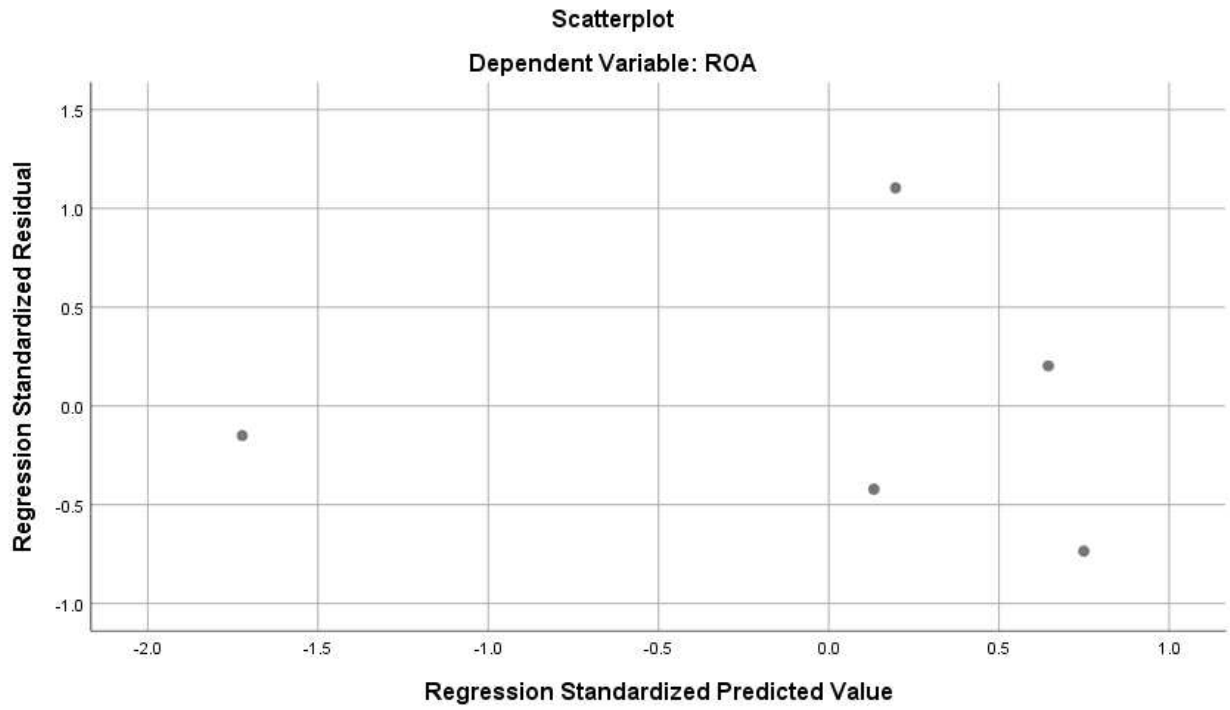
According to the coefficients table, the dependent variable can be predicted by constructing a regression line using the value of B under the standardized coefficients. Therefore, the equation of regression line for the first model is $y=-0.016+0.412x_1$ where y refers to the ROA and x_1 refers to the operating margin. The equation can be explained as when the operating margin increases by a unit, ROA will increase by 0.412 unit. For the second model, the regression line is $y=0.002+0.334x_1-0.116x_2$ where y is the ROA, x_1 is the operating margin while x_2 is the operational ratio. This can be interpreted as when operating margin increase for 1 unit, ROA will increase for 0.334 unit given that operational ratio is inside the model or when operational ratio increases by 1 unit, ROA will decrease by 0.116 unit assuming operating margin is in the model.

4.4.6 Charts

Due to the reason linear regression model is not always appropriate for data, we should access appropriate model by defining residual and examine residual plots. Residuals is defined as the differences between the true and fitted dependent variable's values for the points in the sample. The result of residual analysis can be

visualized through the charts below such as histograms, normal P-P plots and scatterplot.

Histogram
Dependent Variable: ROA

Mean = 3.17E-15
Std. Dev. = 0.707
N = 5

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: ROA

Scatterplot

Dependent Variable: ROA

5.0 Conclusion and Recommendation

5.1 Introduction

In this chapter, the results and findings are summarized in the conclusion along with some recommendations.

5.2 Conclusion

The study aims to evaluate the impacts on the Peel Hotels PLC's performance from hotel sector in UK from the internal and external factors of the firms. This analysis is conducted in order to achieve the purposes of the research:

1. To identify the internal factors that may influence the performance of the company.
2. To analyse the external factors which may bring direct impact to the company's performance.
3. To examine both internal as well as external factors that may influence the performance of the company.

There are 3 models in total based on the findings in Chapter 4, because of the sample data are evaluated in 3 different aspects which are internal factors, external factors, and internal and external factors. The results obtained when the regression model uses internal factors is same as the regression model uses both internal and external factors. Therefore, there are sufficient evidence to conclude that the internal factor will affect Peel Hotels PLC's performance the most. Instead, there is no significant linear relationship between external factors and Peel Hotels PLC's performance.

Among the internal factors of Peel Hotels PLC, ROA has been positively impacted and influenced by operating margin the most significantly followed by operational ratio which negatively affected it. This means whenever the operating margin increases, the profitability will increase as well and vice versa while whenever the operational ratio increases, the profitability performance will tend to be decreased and vice versa. Since both of the operating margin and operational ratio are classified in operational risk, it can be concluded that Peel Hotels PLC is facing the highest exposure to operational risk compared to other financial risk such as credit risk, liquidity risk and market risk.

5.3 Recommendation

Based on the results, the operational risk influences on the profitability performance significantly. Therefore, operational risk must be handle well to managed the profitability. To mitigating the operational risk, the industry should be able to always make the right decision to avoid inadequate or failed internal processes, people and systems by practicing a stable and sound framework's policies, processes and systems in order to minimise the company's operational costs.

As we all know that corporate governance is helpful to ensure corporate success and economic growth. A higher CG index may indicate a better corporate governance as the principles followed by the company is more. According to the findings in Chapter 4, there is a no linear relationship between CG index and ROA due to the constant value of standard deviation. In another words, although corporate governance is practiced by Peel Hotels PLC, it didn't help much in improving the company's performance. However, the company is still recommended that the company implement corporate governance during its daily operations, in particular by practicing the five main pillars of corporate governance which is transparency, fairness, independence, accountability and sustainability to maintain the stability of the company. This is because a good practice of corporate governance ensures a well daily operation and sound risk management in the company. Hence, Peel Hotels PLC is suggested to improve the practice of corporate governance that might lead to a better operation system of the company.

A similar study should be carried out involving a larger sample size in order to make the study to become more reliable.

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Appendices

YEAR		2014	2015	2016	2017	2018
PERFORMANCE	Net Income	389473	734464	798266	434722	-844272
	Total Assets	37956322	37359125	37408102	37004732	36347981
	ROA	**0.0103**	**0.0197**	**0.0213**	**0.0117**	**-0.0232**
	Total Equity	22443067	23177531	23765615	23920095	23075823
	ROE	**0.0174**	**0.0317**	**0.0336**	**0.0182**	**-0.0366**
LIQUIDITY RISK	Current Asset	1418388	1266248	1635529	1502168	2241606
	Current Liability	3686750	3085003	3232387	11193307	3207310
	CURRENT RATIO	**0.3847**	**0.4105**	**0.5060**	**0.1342**	**0.6989**
	Inventory	108670	103288	112585	114034	109271
	Prepaid Expenses	0	0	0	0	0
	QUICK RATIO	**0.3553**	**0.3770**	**0.4712**	**0.1240**	**0.6648**
CREDIT RISK	Account Receivable	1114703	1016130	1240178	1095481	845058
	Revenue/360 Days	43083	45706	47254	46640	44715
	AVERAGE-COLLECTION PERIOD	**25.8733**	**22.2318**	**26.2449**	**23.4881**	**18.8989**
	Total Liability	15513255	14181594	13642487	13084637	13272158
	Total Income	16439538	17908722	18571086	17888554	15829187
	DEBT TO INCOME	**0.9437**	**0.7919**	**0.7346**	**0.7315**	**0.8385**
OPERATIONAL RISK	Operating Expenses	16088337	17418544	16847877	18399777	27770579
	Net Sale	15509911	16454241	17011472	16790320	16097313
	OPERATIONAL RATIO	**0.1037**	**0.1059**	**0.0990**	**0.1096**	**0.1725**
	EBIT	929627	1454481	1559614	1098234	-268126
	Revenue	15509911	16454241	17011472	16790320	16097313
	OPERATING MARGIN	**0.0599**	**0.0884**	**0.0917**	**0.0654**	**-0.0167**

Table 1: Internal Factors Calculation of Peel Hotels PLC

Year Principles	2014	2015	2016	2017	2018
Accountability	1	1	1	1	1
Transparency	1	1	1	1	1
Independence	0	0	0	0	0
Fairness	0	0	0	0	0
Sustainable	1	1	1	1	1
CG Index	3/5	3/5	3/5	3/5	3/5

Table 2: Calculation on CG index of Peel Hotels PLC

Year	GDP	Inflation	Interest Rate	Exchange Rate	Unemployment Rate
2014	2.90	1.45	0.50	0.61	6.11
2015	2.30	0.37	0.50	0.65	5.30
2016	1.80	1.01	0.25	0.74	4.81
2017	1.80	2.56	0.50	0.78	4.34
2018	1.40	2.29	0.50	0.75	3.95

Table 3: Data of Marco-economics Factors