Company’s value creation, widely described in theoretical papers, is slightly recognized in the specific field of lodging industry. It results from sparse practical implications of value-based management in hotel enterprises. Research question is contained in the following question – which characteristics of hotel enterprises affect their value in the context of the revised economic value added ratio (REVA). The purpose of present paper is to identify the characteristics, which affect the value of the hotel enterprise in respect of revised economic value added ratio. The emphasis will be put on the differences between EVA and REVA. Paper presents the results of conceptual study on value creation of entities operation in lodging industry and characteristic features influencing their value. The basis of the reasoning is an adaptation of the concept of the revised economic value added. The main result of the research was to identify five features affecting the hotel company’s value creation. Results show that the effectiveness of evaluation is derived from the extent to which the characteristics of hotels were taken into account. Thus the discussion delivered in present paper has important managerial implications. The first section of the paper, concentrates on the creation of value by the enterprise. The continuation takes a form of a sketch of the possibilities for the application of the revised economic value added ratio. The third section focuses on specific features of the hotel enterprises and implications affecting their value.

**Keywords:** revised economic value added, REVA, value creation, lodging industry, hospitality, hotel.

**Introduction**
Revised economic value added is a ratio used in measuring the performance of the company for the assessment of the value created for the capital providers. Present paper aims at identifying characteristics of hotel companies that affect its value from the REVA ratio perspective. The standpoint in present paper emphasises the differences between EVA anr REVA. Hospitality was chosen due to its’ importance for world economy [Politis et al., 2009]. In the context of European Union one of every thirteen jobs is supplied by this sector [The Hospitality Sector in Europe, 2013]. There are more than 10 million people employed in hospitality in EU. At the same time, hospitality is considered as a potential vehicle of growth in the EU. Hospitality enterprises stimulate advancement in the other sectors, as they are strongly related to them [Skuras et al., 2005].

**Value for shareholders**
To determine the motive of sanctioning of the existence of an enterprise we should take a look at the classic American studies, pointing value creation for the owners as a main primacy of the company [Copeland, Koller i Murrin 1997]. From this point of view we can conclude that objectives such as maintaining the employment, care for the environment and social responsibility, descend into the background both in the hierarchy of importance and in the way of achieving them. [Rappaport 1998]. It is assumed that these are variables based on achieving the main objective. In order to maximize the value the company has to invest in human capital, which is of great importance in this industry, where the whole business is focused on service delivery, in which the customer-employee interaction is vital [Hartline & Ferrell 1996; Young, McManus, Canale, 2005]. Training, investing in new technologies and reorganizing the workplace, are only a few of the advantages from which the employees would benefit. Increasing the profit of the owners, by increasing the competitiveness and productiveness, results in ability to grant a loan to the receivers, adjust timely obligations to suppliers, increase the tax base and apply the rules of corporate-social responsibility, such as stimulating the employment [Rappaport 1998].

Paradoxically, giving these variables a secondary character can result in an optimum implementation solution. Inherent feature of the approach based on management by the value is the selfishness egoism of the owners, which is manifested by maximization of their demands (and benefits) and is equivalent to maximization of requests (and benefits) of other stakeholders. [Wilimowska 2008]. But what happens if the owner is guided by the desire to maximize the profits of other financial entities?

**Revised economic value added**
The revised economic value added first introduced in 1997 [Bacidore et al. 1997] was designed to illustrate the value of the company by using its actual market value in the equation which has proven to produce a different but also relevant to investors ratio compared to having the invested capital in the equation. The calculation of both ratios and their outcomes could differ greatly but what would be the reason to use the market value instead of the invested capital? The market value being the component of REVA indicates the value of the actual strategy of a company as well as the physical assets compared to the invested capital which only indicates the value of the physical assets which proves that EVA would be in many cases inferior to REVA as will be illustrated further in the empirical studies.

The empirical results regarding REVA are very promising when compared to the regular EVA. The 1997 study conducted using empirical data regarding 600 randomly chosen companies and their REVA, EVA, total shareholder return for each year and risk – adjusted abnormal return also proves that EVA and REVA are very relevant when it comes to investment decisions for shareholders. The study mentioned above was to calculate abnormal returns when using these ratios and concluded that EVA has a positive correlation regarding shareholder value creation, however it should be noted that REVA because of the fact that it uses the actual market value of the company instead of just the invested capital allows the flow of calculations to flows of equity which would be impossible to accomplish just by calculating the regular EVA ratio.
These empirical results also clearly show that REVA statistically outperforms EVA in predicting the shareholder value creation, additionally the companies for which those calculations were made had actually higher realized returns for 25 top REVA companies when compared to the realized returns for 25 top EVA firms.

Revised economic value added is a ratio of the results obtained in the course of business activity, which is based on deducting the cost from the profit of the invested capital [Mackowiak 2009]. Its dynamic nature of the practice is to monitor the increase in the value of the business during one fiscal year, thanks to which it could be treated as an internal measurement of the effectiveness of its resource management.

Revised economic value added illustrates what are the profits for the investors after subtracting the expected amount of the base cost of capital; therefore it is the surplus which is attributable to him in over standard rate of return in an analogous investment [Kocjan 2010]. In respect of the cost, the use of REVA ratio prevents the distortion of the view of the financial state within the business by highlighting only the company revenue [Makeläninen 2011]. The basic components of the ratio – the return on investment capital and its cost are included in the sole basic calculus formula of the revised economic value added:

\[
\text{REVA} = \frac{\text{MV}^*\text{(ROI-WACC)}}{\text{NOPAT-MV^*WACC}}
\]

Where: MV – market value, ROI – return on investment, WACC – weighted average cost of capital, NOPAT – net operating profit after tax.

The key difference between EVA and its modification REVA is the replacement of invested capital (IC) by market value (MV). In the analysis the emphasis will be put on the features of hotel companies, which affect these two categories. Consecutively other characteristics will be simply named at the end of following section.

**Method**

This paper is a conceptual study and is based on secondary sources of information, including both English and Polish literature on corporate finance, financial analysis and economics of tourism. High availability of sources within the area of the value creation for the enterprise, as well as the revised economic value added contrasts with a small amount of any data regarding the link between REVA and the lodging industry. The only few available resources were American and western – European journals. The selection of analysed publication was based on their direct reference to the subject.

**Results**

Hotels because of the specific nature of their services have a group of characteristics related specifically to them. Managers should take them into consideration while using specific managerial techniques. Including them is crucial to properly determine their economic value. Below are five such features with the postulated effect on each of the basic components of revised economic value added ratio – market value (MV), weighted average capital cost (WACC) and return on investment (ROI); as well as their basic adjustments [Hamrol 2007]. In present paper only the first component will be taken into consideration in details. The analysis of hotel characteristic features’ impact on WACC and ROI is already delivered in literature [Sztutowski, 2013].

In hospitality the spending on R&D is relatively low [Cheng 2011]. Thus every new project has a substantial risk attributed to it. New projects revealed to the market will have an impact on market value. It will not be captured in the invested capital component of classic EVA calculation formula thus it will not be incorporated during the calculation of EVA.

A fundamental feature of the hotel’s services is that they provide and consume in the same place with no way of changing it [Harris 1999]. A hotel room, that wasn’t booked or rented is the irreversible loss of potential revenue. This is the principle, which proves a lack of storage possibility, and therefore excludes the possibility of over production and sale in the future. Lack of possibility to store will cause a difference between EVA and REVA. It will prevent one of the basic adjustments [Hamrol 2007] of the invested capital (IC) in equity – adjustment of the reserve related to the inventory valuation with LIFO. From this perspective it will not have any impact on the calculation of REVA.

Symptomatic to the hotel activity is the existence of reserves for replacement investments such as furniture, installations and equipment, necessary to maintain the standard [Rushmore & Rubin 1984]. The need to maintain it is sanctioned by a fact, that despite the average vitality with averaging in around 6-10 years, the nature of the exchange is irregular. Taking into account the replacement reserve in the „other reserves” group of which value is adjusted by the investment capital (IC) as part of the equities are typical for the hotel enterprises. Consecutively it will be neglected in the process of calculating REVA.

Receivable collection period for the hotel companies is short [Harris 1999]. The payment for the service takes place, when the client finds himself in the actual hotel and agreeing to its offer. Therefore, the correction of the value of the invested capital (IC) in the equity part of reserves for receivables at risk will be low for the hotel or won’t occur at all. As it minimises risk it will also have an impact on market value. Therefore to some extent it will be incorporated in both EVA and REVA.

Hotels have a specific model of funding [Harris 1999]. Financing of the projects is undertaken with the highest possible amount of equity, which increases by using the methods that facilitate the operation activity (symbiotic marketing, franchise, lease), or as a result of structural changes (creating partnerships from sole proprietor enterprises and corporations from partnerships as well as holdings from corporations) [Golembski 2007]. Formed this way liability structure affects capital structure thus have an effect on invested capital and will be contained in EVA. However capital stricter is an important category taken into consideration by investors’ while determining company’s market value. Therefore it is inducted that this hotel characteristic will not be omitted by REVA.

Hotels posed a variety of other characteristics, many of which have
important implications for financial variables contained in both EVA and REV A calculation formulas. However in present paper they will not be analysed in details, as they are common for both ratios. These characteristics are: categorisation, centralization of responsibilities, dominant position of fixed costs, importance of human factor, strong pressure on product differentiation to avoid seasonality (spa, sports facilities, restaurants, catering, organizing conferences, business services) [Golembski 2007; Vila et al. 2012; Young, McManus, Canale, 2005; Chow et al. 2003].

The above set of characteristics of the hotel companies affecting the value of the revised economic value added ratio is not closed. Due to the relationship between economic value added and the DCF valuation method and in consequence other methods of valuation, of its further expansions should be sought based on other methods.

Summary

The revised economic value added is an important managerial tool, which is applicable for valuation of the hotel companies. In present research the hotel specific characteristics were analysed in order to determine their impact on REV A calculation. The emphasis was put on the differences between EVA and REV A. The study allowed the determination of five characteristics of hotels that have a specific impact on their market value and differentiate EVA and REV A. As hospitality is just a part of tourism sector future research could refer to characteristics of other tourism companies. It would be also advisable to analyse other financial measures.

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