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FINANCIALS MENU AT EUROPEAN RESTAURANTS

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This paper highlights the main profiles of SME's (small and medium enterprises) financial structures, focusing particularly on hospitality and tourism. A sample of European hotels and restaurants is empirically investigated. Financial and accounting statements are analysed through comparisons between several European countries. Tourism is known to experience two different management issues: real estate and industry-specific management. Although they are very similar, tourism property management is strongly related to seasonality. The business cycle impact on financial structure is significant, and so does the effect on risk. Therefore, this research also investigates both short and long-term financing. The former needs specific control of cash inflows and outflows. It is necessary to deal with specific financial needs to set up specialized financing facilities. Seasonality also impacts on the financing cycle. Operation management is smoothed during overloaded periods by using various strategies. Additionally, cash flow management benefits from better financial forecasts.

Keywords: *European tourism sector, financial structure, liquidity ratio, corporate finance, small medium enterprises*

JEL Classification: M1, G3, L83

INTRODUCTION

The present study investigates the financial structure of the tourism industry across different European countries. Many studies have been published regarding SMEs, especially in Europe, and numerous innovative research programs have been produced to permit a methodical development. However, despite the fact that tourism companies have an important role in many European countries, few analytical studies have explored the financial structure of these companies.

The fundamental idea that justifies this research starts from the need to understand the financial structure of tourism companies with regard to their assets and liabilities. The first part requires a comparison with other SMEs in order to understand similarities and differences in the financial structures. Other contributions on SMEs in Europe are linked to those described by Wagenvoort (2003).

Moreover, many specific contributions on French and Italian SMEs are those provided by Hommel and Schneider (2003), which are used as a term of comparison for the tourism industry. Considering Greece and Italy, we find a cost analysis investigation in Pavlatos and Paggios (2007) and Marino (2010). Similarly, analysis are conducted for Spain, (Such Devesa at. al 2009).

In the second place, the analysis involves only tourism companies belonging to various European countries grouped into two main areas (EU[i] area and NEW EU a.k.a. Eastern European countries) and among the EU comparing Belgium, France, Greece, Italy, Spain, Sweden, and United Kingdom. This selection was made considering the sample specificity of companies extracted from AMADEUS database. Finally, a simple model describes the effects of country and relevant balance sheet entries on long-term debt.

SMES AND TOURISM INDUSTRY IN EUROPE

Financial overview

Using AMADEUS dataset[ii] we select 'Hotel and restaurants' firms as a proxy of tourism companies. Starting with a comparison between H&Rs and all European companies (All_C) used in (Wagenvoort, 2003), we move to a specific analysis for H&Rs. Note that, for sake of conciseness, we identify the sample of firms used in Wagenvoort (2003) with the symbol All_C. To compare the capital structure of the firms, and for homogeneity reasons toward previous SMEs studies, we group European Hotel and Restaurants (H&Rs) into several classes (by size, by area, country, etc…).

Table 1 describes the structure of two samples considered in this section: the first includes all companies All_C used in Wagenvoort (2003) and the second represents the tourism industry (H&Rs). In the latter case, we change the last class upper limit from 5000 to 1000 employees. Hotel and restaurants with more than 1000 employees can be reasonably defined as very large companies. The purpose is to compare diverse industries and capital structure profiles. Although the emphasis is on the liabilities side,

it is also remarkable to consider the asset structure of firms with different dimensions. The number of employees is assumed as a proxy of company size. The same analysis is performed for H&Rs.

Table 1 Distribution of firm observations per size class

Hotel & restaurants H&Rs	**XS**	**S**	**M**	**L**	**XL**	**Total**
Number of employees	< 10	11-50	51-250	251-1000	>1000	
Number of firm observations	130	244	2383	1716	110	4583
Percentage of total observations	2,84%	5,32%	52,00%	37,44%	2,40%	100%
All_companies All_C	**XS**	**S**	**M**	**L**	**XL**	**Total**
Number of employees	< 10	11-50	51-250	251-5000	>5000	
Number of firm observations	9152	84800	73359	25582	1315	194208
Percentage of total observations	4,71%	43,66%	37,77%	13,17%	0,68%	100%

In short, the asset side describes how the company runs its own operations and gives a synthetic overview of the specific business model. If there are important differences in the asset side, it is reasonable to expect divergences in liabilities as well.

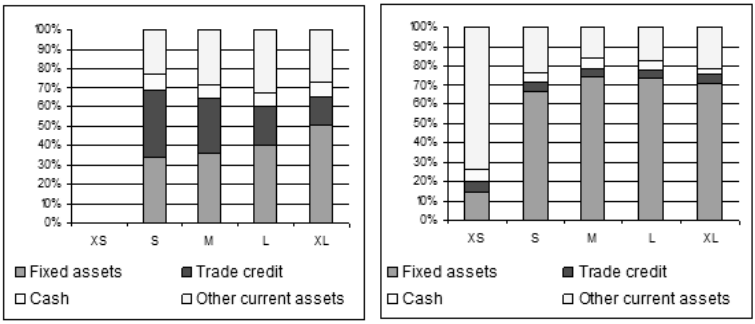
Assets are grouped into four categories: fixed assets, trade credit, other current assets, and cash. Fixed assets include tangible assets (e.g. machinery and buildings), intangible assets (e.g. patents, royalties), and other fixed assets such as investments in subsidiaries. Trade credit on the assets side represents a bill customers owe to the company. Cash includes cash equivalents such as bank accounts and liquid securities. Other current assets include stocks as an important component.

Figures 1 and 2 show differences in asset entries across size classes. All companies (All_C) and Hotel & Restaurants (H&Rs) exhibit very peculiar asset structures.

Table 2 Asset structure by size class, in %:
All companies vs. Hotel & Restaurants

All companies All_C	**XS**	**S**	**M**	**L**	**XL**
Fixed assets	-[iii]	34%	34%	40%	50%
Trade credit	-	35%	28%	20%	15%
Cash	-	9%	7%	7%	8%
Other current assets	-	23%	29%	33%	27%
Hotel & Restaurants H&Rs					
Fixed assets	15%	66%	74%	73%	70%
Trade credit	5%	5%	5%	5%	5%
Cash	7%	6%	5%	5%	4%
Other current assets	74%	23%	16%	17%	22%

Figure 1-2 Asset structure by size, in %: All companies (Figure 1) vs. Hotel & Restaurants (Figure 2)



In Figure 1, All_C, fixed assets are closely related to the number of employees (larger firms have a larger percentage of fixed assets). Fixed assets in small enterprises account for only one third of total assets, whereas large firms have fixed assets of more than 50%.

This is not the case for H&Rs: the proportion of fixed assets is not relatively monotonic to the firm size. There is a big gap between the very small enterprises (XS) and the larger ones. Buildings are often not owned by the very small firms and this can explain why the fixed assets are less than 15% of total assets. On the other hand, H&Rs with more than ten employees have fixed assets steady at 70%. It is possible to conjecture that the assets to employees ratio is stable for these H&Rs.

Trade credit, or receivables, is substantially lower for large firms than SMEs. The range is 15% - 35%, whereas for the H&Rs it is much lower, at 5% for all size classes. The considerable differences in receivables depend on the core business of the particular sort of service industry. Receivables (trade credit) and payables (trade debt) play a substantially different role between all industries and tourism (Hotel & Restaurants). In the next sections we analyse trade credit, trade debt and liquidity ratio.

Other current assets[iv] are relevant for XS H&R companies. The inventory plays a significant function and, considering the low percentage of fixed assets, these firms are strongly based on human capital. With an increase in employee numbers, other current assets sharply decline from 73% (XS H&Rs) to 23% (S H&Rs). There is evidence that between those two firm sizes there is a significant difference in business structures. The complexity of the business certainly increases where the fixed assets level (plants, buildings, and machineries) is strongly significant.

In the case of small H&Rs, other current assets assume value greater than 70%. Larger H&Rs use this type of resource to deal with the flexibility required to pledge an effective real-time service. Sometimes cash may not be the fastest 'tool' to respond to unexpected peaks in demand or when specific productive inputs are required. For example, the inventory is a good flexibility source to cope with seasonality and unpredictable shortages.

The percentage of cash is higher for All_C than for H&Rs. Many companies report financial information only once a year. Therefore annual balance sheets are not able to completely recognize seasonality effects in the business, and in particular in the H&R industry. In any case, smaller firms show 6.8% of cash in total assets. The cash range for All_C is 4% - 7% whereas H&Rs have the highest level of cash (range 7% - 9%). The relatively high amount of cash (Figure 2) allows a necessary elasticity in operations and facilitates treasury management. In particular, this effect is crucial when the firm experiences a strong constraint in short-term funding.

In practice, the asset structure impacts on the liability side of financial statements[v]. The fiscal benefit of debt is usually recognized in theory and in practice. A high percentage of fixed assets, in particular tangible assets, increases the debt capacity of the firms because of a large presence of collaterals. In other words, debt can provide a tax shield that increases the overall value of the firm. At the same time, the cost of financial distress can be lowered using fixed assets as collaterals as well.

Liabilities components are grouped into four wide classes: equity, financial debt, trade debt and other liabilities. Fixed assets also have an important and precise impact on the liabilities structure. Many studies assert a strong equivalence between fixed assets and debt levels.

However, that is not the case for All_Cs and H&Rs: large firms do not carry more debt than others (see Table 3 and Figures 3-4). The total debt[vi] does not increase at the same rate of fixed assets for All_C classes. In H&R, it is more plausible as a consequence of a steady level of fixed assets across firm size (except for the XS class).

Table 3 Liabilities structure by size class, in %: All companies vs. Hotel & Restaurants

All companies All_C	**XS**	**S**	**M**	**L**	**XL**
Shareholders funds	-	36%	37%	38%	37%
Financial debt	-	26%	26%	28%	19%
Trade debt	-	22%	19%	14%	11%
Other liabilities	-	16%	19%	21%	22%

Hotel & Restaurants	**XS**	**S**	**M**	**L**	**XL**
Shareholders funds	40%	32%	39%	40%	42%
Financial debt	29%	25%	22%	22%	25%
Trade debt	2%	4%	4%	6%	5%
Other liabilities	30%	38%	35%	32%	28%

The smallest H&Rs require the highest proportion of financial debt, comparable to very large companies, although the smallest often have a single owner. In fact, the largest companies are able to raise equity from

different shareholders. In contrast, the smallest H&Rs often have a single owner who provides the whole equity.

"Other liabilities" is an entry used by companies to group together current liabilities that are not assigned to common liabilities such as debt obligations or account payables. Apart from XS H&Rs, they increase along All_C classes and decrease in H&Rs.

Figure 3-4 Liabilities structure by size, in%:
All Companies (Figure 1)[vii] vs. Hotel & Restaurants (Figure 2)

Extra-small H&Rs hold the highest total equity and financial debt (69% = 40% plus 29%). Bank financing and owner's funds are the most relevant items in liabilities. In many cases they are bank dependent firms or, from a different point of view, the owner uses his personal wealth as firm obligation collaterals.

Liquidity

In this section we analyse how firms deal with the liquidity issue using trade credit, cash, and trade debt. Several studies argue that firms use trade debt for financing motives, while other explanations rely on the transaction motivation.

In the first case, the company has a list of funds sources sorted by effective costs. Retained earnings represent the cheapest source of financing. Next, the management explores other more costly sources of funds. In the long run, trade debt is considered as the most expensive way to acquire funds. Consistently with this view, firms with a high percentage of trade debt could have experienced significant financial constraints.

In the samples considered, and in clear accordance with the financing decisions, the amount of their trade debt decreases when the size of All_C rises. Small firms rely on abundant use of this 'last resort' debt, such as delayed payments to suppliers.

H&Rs trade debt does not confirm the expected trend. In any case, the percentage of trade debt is negligible (less than 6%) and it signals that these firms have a weak dependency on suppliers' financing source.

In Figure 1, L and XL firms use a decreasing amount of trade credit and this could be explained by the pressure of larger firms on market share and customers. To stay in business, small firms are not usually strong enough to require prompt payments. Therefore, they are obliged 'to finance' customers.

The H&Rs business behaves in a different manner compared to All_C. Trade credit, relevant in other industries, does not play any key role (Figure 2). Here, receivables are small and consistently stable regardless of the H&Rs size. The same phenomenon occurs for the trade debt (Figure 3). Among all the H&Rs, trade debt has its maximum value (4%) in small firm class.

Only XS H&Rs companies, with low negotiation strength towards suppliers, exhibit an insignificant trade debt (2%). In this case, they have to deal with the strongest unbalanced payables-receipts.

Figures 3 and 4 describe leverage and debt structure. In particular, Hotel & Restaurants use a low proportion of payables. Considering Figure 1 and Figure 5, trade debt is significantly high for small All_Cs. A possible explanation is the capacity of these large companies to have effective power over suppliers and over the entire business chain (i.e. vertical integration).

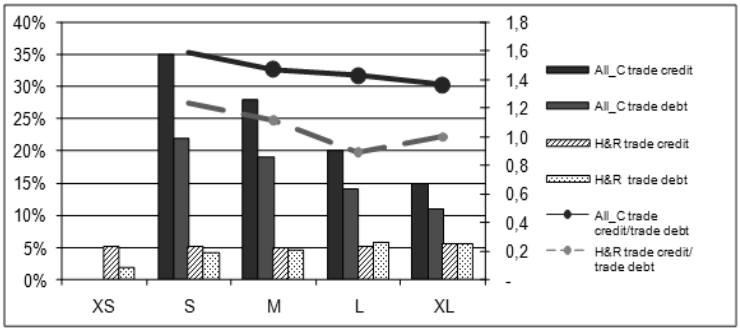
H&Rs are usually paid in a short period, and only in some circumstances do they receive part of the revenues in advance. The receivables do not perform a relevant role neither for transaction nor for finance motive.

Table 4 Trade credit/ trade debt

	S	M	L	XL
All_C trade credit/trade debt	1,59	1,47	1,43	1,36
H&R trade credit/ trade debt	1,23	1,11	0,88	0,99

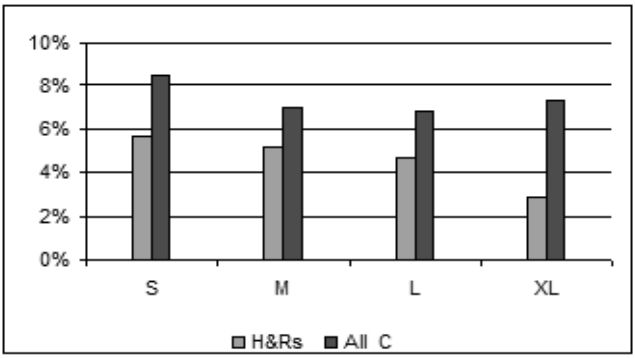
As reported in Table 4, each All_C size class extends more trade credit than their receivables. Therefore, they assume the role of net creditors to the rest of the 'economy'. The ratio is stable but the absolute value of factors decrease with size dimension.

Figure 5 Trade debt and trade credit, (%): All_C vs. H&Rs



H&Rs have a decreasing ratio although with low percentage. In other words, trade debt increases faster than trade credit. Larger H&Rs are able to redefine supplier credit settings while only small H&Rs are effective net credit suppliers. The aforementioned, cash and cash equivalents are related to the liabilities mixture. Besides, companies with a high percentage of fixed assets are generally more leveraged and keep a low level of cash.

Figure 6 Cash and cash equivalents (% of total assets): All_C vs. H&Rs



There is a trade-off between fixed asset and cash. Small All_C with a lower proportion of fixed assets have a large quantity of cash. In contrast, H&Rs show a different picture. The increase in size does not affect the level of fixed asset (excluding the gap between XS and S).

The level of cash decreases because larger firms are less constrained in financing opportunities. The cash works as insurance required by firms with restricted credit market access. The smallest H&Rs deal with severe short term financial conditions. Consequently, they have to tolerate high cash and high trade credit vs. low trade debt.

FINANCIAL RATIOS AROUND EUROPE

In this section, we focus our attention on financial ratios, considering different countries. H&R firms are grouped by size and by country to allow comparisons that are more significant. Cross-country specific effects are measured to investigate the possibility of government support programs, useful for improving specific financing conditions.

Considering the numbers of observations, we select only the first six countries (see Appendix A). It is well known that financial systems differ radically from one country to another. For instance, the Italian financial system is heavily based on the active role of banks, whereas in UK system relies more on the financial markets. Diverse importance of banks and markets generally impacts on the condition and availability of credit.

In any case, banks remain a main source of funds for industrial SMEs. In fact, loans are the best way to originate tailored financing for small, illiquid and opaque firms. Here, banks can exploit all competitive advantages resolving the issue of asymmetric information. In short, different domestic financial circumstances could also imply various capital structures in H&Rs.

There is a significant diversity across countries. Greek firms have the highest proportion of fixed assets. The greatest variability is in small firms, whereas the minimum value is in Swedish firms (60%). In these terms, Spanish firms are representative of average European H&R companies.

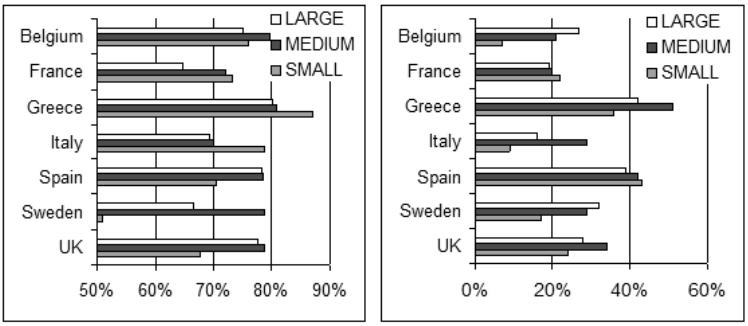
We recognize significant similarities in medium-size companies and partially in large ones. Country-specific contexts imply that any European proposal, (i.e. incentive program for acquiring and renovating buildings) aimed to improving H&R assets, should require a country-specific plan.

Table 5 Hotel & Restaurants Financial Ratios by size and country (in%)[viii]

	Fixed assets / Total assets			**Shareholders funds / Total assets**			**Fin Debt / Total assets**		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Belgium	76%	80%	75%	7%	21%	27%	30%	32%	31%
France	73%	72%	65%	22%	20%	19%	35%	38%	49%
Greece	87%	81%	80%	36%	51%	42%	20%	22%	19%
Italy	79%	70%	69%	9%	29%	16%	51%	28%	29%
Spain	70%	79%	78%	43%	42%	39%	24%	24%	25%
Sweden	51%	79%	67%	17%	29%	32%	24%	38%	32%
UK	68%	79%	78%	24%	34%	28%	44%	32%	35%

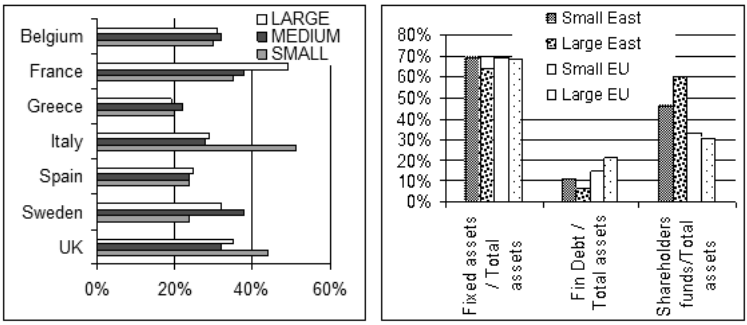
Moving to capital structure, we consider shareholders' funds divided by total assets (a.k.a. solvency ratio). Greek and Spanish firms work with the highest level of equity. In Greece, large H&R companies do not seem to take advantage of a high level of fixed assets as collateral for debt.

Figure 7-8 Fixed asset / Total assets and Shareholders funds / Total assets



As in fixed assets scrutiny, greater variability is related to the smallest firms. From a financial structure point of view, UK H&R firms could be considered a benchmark: they are very similar to the average firm.

Figure 9-10 Financial debt / Total assets and EU-Eastern countries' financial ratios



Large firms are able to work with high leverage in Italy and the UK, as a consequence of fixed assets used as collaterals. In addition, Greece has the largest proportion of fixed assets as shown in Table 5 and Figure 7. At the same time, large Italian H&Rs rely on a high level of financial debt (Figure 9).

Figure 10 exploits larger range ratio values across different areas (see Appendix A). The disparity between small and large companies is more pronounced in financial debt percentage for EU companies and in equity ratio for those in Eastern Europe.

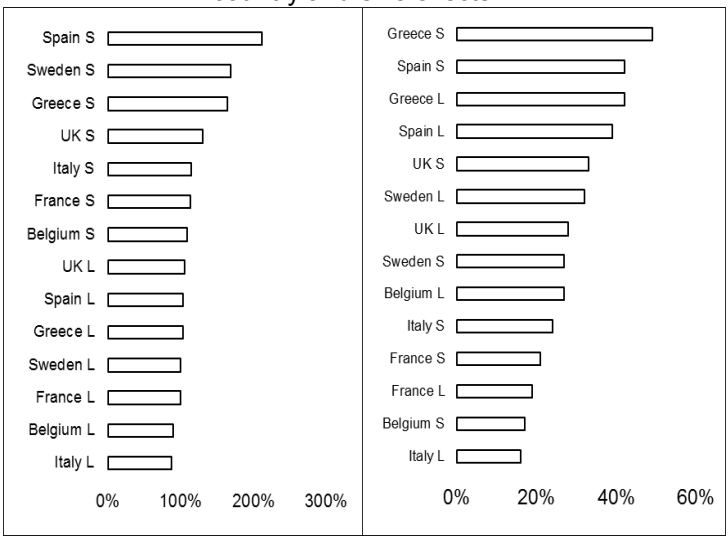
Figure 11 Current ratio and H&Rs Size

The core business, identified by the asset side, has roughly the same structure in both areas. Nevertheless, Eastern European firms utilize more equity, in particular the largest ones. The high solvency ratio for Eastern countries may be attributed to the fact that usually the State is still one of the major shareholders. Eastern local conditions reduce the credit availability as depicted by a low level of debt.

A study of Wagenwoort and Hurst (1999) shows that equity ratio varies considerably across industries, and also depend on the companies' legal form. Limited liability firms have a higher percentage of equity than others.

In a smaller area, Wagenwoort and Hurst (1999) demonstrate that companies in Eastern Germany have higher equity ratios than comparable firms in Western Germany. This could be explained by differences in age, privatisation stage, and the economic environment that followed the reunification process. A weak equity base often represents serious limitations in the credit approval process.

Figure 12-13 Current ratio and Shareholders funds / Total_assets: country and size effects:[ix]



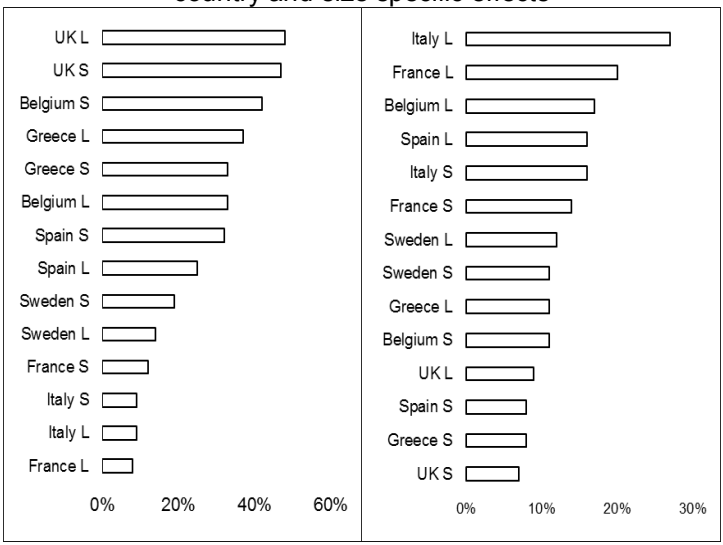
The current ratio is defined as current assets divided by current liabilities. This is an indication of a company's ability to meet short-term debt payouts: the higher the ratio is, the more liquid the company appears.

Moreover, high current ratios often reflect the equity shortage and high short-term debt level is the expected consequence (see Figure 11).

Seasonality requires a strong capacity to manage the yearly financial cycle. Generally, the smallest firms, with severe barriers to credit access, seem obliged to keep a large percentage of cash. The effect of 'safety' reason declines with size: larger firms are able to raise funds by activating various financial sources.

To better compare countries' ratios, we group the H&R companies into two wide size classes, where 'small' indicates firms with less than 250 employees and 'large' firms that employ more than 250 people. In Figure 12, country and size are ordered by current ratio. In each country we can highlight how small firms have the highest currency ratio.

Figure 14-15 Financial debt/liabilities and Trade credit/liabilities: country and size specific effects



Small firms need a robust level of current assets in each country. We do not see any strong signal of 'equity gap'x and in the worst situation (large Italian companies), assets are greater than current liabilities. The equity ratio, depicted in Figure 13, exhibits a smooth trend across countries and sizes. Again, large Italian companies could suffer restrictions due to an equity gap.

Financial debt is more closely related to the country than the size of companies (see Figure 14). UK H&Rs use financial debt four times more than Italian firms and large firms in France.

Furthermore, UK firms do not allow heavy trade credit for their customers, (in contrast to the large Italian firms, yet the consistency of trade credit is not crucial in the H&R industry).

Finally, we investigate a relation between long-term financing (in percentage) and current assets, equity ratio, fixed assets, and tangible fixed assets. The relationship between financial values is statistically significant. In brief, an increase in fixed assets, tangible fixed assets, or current asset affects the long-term debt ratio. According to theory, long-term debt is considered a strong substitute for equity (see appendix B).

Last but not least, the country specific effects are always relevant and confirm a previous descriptive analysis.

CONCLUSIONS

This paper is a concise investigation of the differences between European H&Rs financial ratios and other types of companies. For this purpose, we used H&R financial data. Our findings suggest that H&R firms, on average, tend to have very low fixed assets only for very small firms (less than ten employees). Trade credit and trade debt do not play a relevant role overall. Equity ratios are similar across different sized firms. In cash analysis, we find a negative monotonic trend by firm size. Clearly, mortgages and loans represent the most relevant medium and long term financing instruments. Bank financing is reliable structured in the SME financial requirements. By definition, the bank has developed a strong ability to provide an adequate source of funds. On the other hand, when bank financing is the most relevant liability, it can penalize growth opportunities.

Current ratio is strongly and negatively related to size. In addition, the smallest firms need a higher level of cash and current assets to acquire strong flexibility. Typically, they deal with stronger financing constraints. The strong seasonality does not imply much risker profiles. Several empirical analyses and interviews show how the whole tourism industry has a medium risk level. In addition, SMEs exhibit a lower credit risk profile, in particular when the number of employees is very small.

The solvency of Easter firms is on average higher than Western European firms: which could be due to the high number of companies with a significant degree of State ownership.

The country-specific effect is relevant in dummy variables, in particular on the liabilities side. Our findings may be particularly useful in light of the increased number of EU support programs for the SME and tourism industry: specific domestic financial conditions seem to require customized actions for each country.

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APPENDIX A: CHARACTERISTICS OF THE SAMPLE[xi]

The Amadeus database contains over 130 variables of information for the companies within the data set. Company profile variables include geographical location, legal form, etc. In addition, industry codes are included. Because of differences across countries, there are more than 15 different industry codes and corresponding descriptions. In this study, we select a sample considering an ATECO code equal to 55. Therefore, the industry identified is 'Hotel and Restaurants'. The exact financial information captured can differ depending upon the data collected within the country.

Table A1

Country	Number of Obs	%	
United Kingdom	1727	32,8%	EU
Spain	1216	23,1%	EU
France	576	10,9%	EU
Greece	266	5,0%	EU
Italy	258	4,9%	EU
Belgium	181	3,4%	EU
Sweden	172	3,3%	EU
Romania	157	3,0%	EAST
Portugal	136	2,6%	EU
Poland	92	1,7%	EAST
Netherlands	82	1,6%	EU
Denmark	77	1,5%	EU
Czech_Republic	76	1,4%	EAST
Ireland	51	1,0%	EU
Hungary	36	0,7%	EAST
Germany	34	0,6%	EU
Malta	31	0,6%	EAST
Bulgaria	24	0,5%	EAST
Estonia	22	0,4%	EAST
Latvia	19	0,4%	EAST
Slovak Republic	16	0,3%	EAST
Slovenia	10	0,2%	EAST
Austria	5	0,1%	EU
Cyprus	4	0,1%	EAST
Lithuania	1	0,0%	EAST
Total	**5269**		

The inclusion criteria used by Bureau van Dijk AMADEUS differ by country, relying on individual national filing requirements for the core data. State-owned companies as well as privately owned firms are included. Banks and insurance companies are not included.

Our analysis exploits industry level information in the data across countries. As such, we need to have common industry definitions within the data. All firms in the Amadeus data have an identifier used by the national body collecting the data. Typically, these codes are unique to each individual country. Table A1 describes the sample used in this study. The European comparison focuses on the first seven countries ordered by number of observations.

APPENDIX B

Table B1 - Model - Linear regression OLS. Dependent Variable: Long Term Financing / Total Asset

Parameter Estimates

Variable	Description	Parameter Estimate		Pr> |t|
Intercept	Intercept	0,35350	***	<,0001
Current_assets	Current_assets	0,00004	**	0,0284
Equity/Total asset	Equity ratio	-0,37951	***	<,0001
Fixed_assets	Fixed_assets	0,00006	***	0,0001
Tangible_fixed_assets	Tangible_fixed_assets	0,00005	***	0,0117
D_Belgium		0,09020	***	<,0001
D_France		-0,18530	***	<,0001
D_Greece		0,14600	***	<,0001
D_Italy		-0,21268	***	<,0001
D_Spain		0,07641	***	<,0001
D_Sweden		-0,09595	***	<,0001
D_UK		0,19816	***	<,0001

Analysis of Variance

Origin	DF	Sum of Squares	Mean Square	F	Pr > F
Model	1	182,4	16,50	309,95	<,0001
Error	4519	241,8	0,05351		
Corrected Total	4530	424,7			

Root MSE	0,23	R-Square	0,43
Dependent Mean	0,31	Adj R-Sq	0,42
Coeff Var	73,88		

ENDNOTES

[i]Western European countries as indicated in Appendix A.

[ii] We report from Wagenvoort, 2003 for (All_C). Also in this research, the data source is AMADEUS DVD.
[iii] Some studies do not consider very small enterprises for data quality reasons.
[iv] Other current assets are calculated as a sum of inventory and other assets that could be converted to cash in less than one year. Current assets can be easily liquidated in case where the company goes bankrupt. Current assets are important to most companies as a source of funds for day-to-day operations.
[v] The propositions on capital structure made by Modigliani and Miller (M&M) (1958) are among the most important contributions in the theory of corporate finance. The theorems were first stated in the papers on the cost of capital, corporate valuation and capital structure.
[vi] Total debt is defined as total assets minus equity.
[vii] Wagenvoort, 2003.
[viii] We merge the two extreme classes into two groups. Therefore, the previous five size classes, described in Table 1, create three wider classes.
[ix] Desai et al. 2003.
[x] Equity ratio is defined as equity divided by total assets, whereas equity gap indicates a low equity ratio. In brief, equity gap signals an equity shortage status.
[xi] Desai et al. 2003.

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