Does hospitality industry perform better during economic recession? An evidence from American hotel industry

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ABSTRACT:

This study aims to identify the relationship between advertisement spending and performance in the immediate aftermath of economic recession. Study investigated that the output of hospitality firms were positively influenced with high spending on advertisement, right after a global economic recession. This relationship was found by using ERC (earning response coefficient) analysis linked with OLS regression models. Findings revealed that after economic recession, increased advertising expenses positively influence the performance of hospitality firms in a long-run. These results have practical implications, as they provide immense guidance for hospitality managers to improve risk response strategies during financial losses caused by some economic shocks.

Keywords:

Hospitality industry, Advertisement, Recession, OLS, America

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INTRODUCTION

The recession started in the USA with subprime mortgage market and plugged the eminent insolvency of Lehman Brothers in 2008. It had crashed more than 50% of stock market (Duchin et al., 2010; Bartram & Bodnar, 2009). The Industrial Average like Dow Jones had dropped 2,380 points in October 2008. Right after two months unemployment hiked by 7.3% and it was gradually increased in 2010 and reached to 9.9%. All it happed due to the immense drastic effects of global recession. The tourism industry, experienced abrupt movements in demand (Lee et al., 2015; Eisendrath et al., 2008). The financial crisis bring cuts in the spending of tourists, consequently, it created an opportunity for the hotel industry. Moreover, it consists of strung ideas like beads on a necklace in spite of the recent industry downturn, hospitality firms performed better than others. It follows that "What makes these hospitality firms to avoid such elements?" Firms in the hospitality industry may be motivated to focus on selling both goods and services in order to avoid possible uncertainties (Jang, Park, 2014; Leon & Araña, 2014). Hospitality companies want to know where and how they can use their advertising funds most efficiently (Assaf et al., 2017). They argued that expenditure are mainly related to the performance based components of hotel industry, whereas, marketing is primarily used to attract new clients. we deliberated that that if it (advertisement) has any effect on hospitality firms' ability to recover quickly from economic recession and to find out that would it be suitable to spent more money on ads during tough economic. This relationship may be observed by understanding stock returns and earnings announcements, hence, this research curiously investigates such relationship in American hotel industry/hospitality.

The EA (earning announcement) captures the immense intention of market (Bartov et al., 2002; Easton & Zmijewsk, 1989; Collins & Kothari, 1989). Thus, ERC is an essential indicator of potential growth that also has an interoperation for earnings surprises. The OLS models for the estimating ERC have been used in this research, it brings the notion behind consumer reactions over financial crises that might leads to correspond a reduction in the spending on advertisement in US hospitality industry. Lastly, this research pursued to bridge this gap by assessing the association between advertisement of US hospitality firms during and after economic recession. Although, other studies have explored the impact of advertisement in various other economic situations except recession

(Lee, & Taylor, 2011; Everett, 1988). Hence, it has yet need to be studied more thoroughly (Deleersnyder et al., 20008). In the best of our knowledge, this relationship which is going to be researched is first time and has immense theoretical and practical contribution. Additionally, there are yet lacking in market-oriented research for hospitality industry. This study contributes the findings that consistent advertisement campaigns have significant influence on hospitality industry during economic recession. The findings of this study contributes to both the successful use of advertisement as well as it concentrates on the linkage between its high spending and firm performance in the period of recession.

Literature Review & Hypotheses Development

According to Glassner (1999) the hotel industry is mainly influenced by GDP growth or its contraction, however, some crises in other sectors may have an immediate impact on the hospitality industry. Although, external shocks virtually effects the industries. In this connection, hospitality businesses are more vulnerable with economic crises because they mainly rely on discretionary spending on most of the part of their revenue. During financial crises, travelers cut back their spending which is turned as a major challenge for hospitality industry (Youn & Gu, 2010). Moreover, rates of high business failure and low residence rates during the recession, indicate the lodging industry's susceptibility to economic downturns (O'Neill & Carlbäck, 2011; Mandelbaum, 2009). Provance (2009) revealed that external shocks have a significant effect on the hospitality industry. It is being observed that hospitality industry has been financially affected three times in the last three decades and the main cause was economic research. The first span (1990–1991) of recession documented a massive drop in domestic manufacturing and production revenues. The rates of hotel room booking in the U. S. dropped just below break-even point, and 75 percent of hotel industry went out of business (Romeo, 1997). Several American hospitality firms suffered significant difficulties as a result of economic recession of 2001, which overlapped with the dot-com boom and 9/11 terrorist attack (Youn & Gu, 2010; Edwards, 2009). People have shortened their travel as a result of increased safety issues. Most hotel companies have delayed renovation projects and laid off workers as they plan for a long recovery (Eisendrath et al., 2008). Melvin & Taylor (2009) reported that after the Great Depression of the 1930s, the crisis in 2007 had arisen pertaining the massive financial distress.

The report of National Restaurant Association [NRA] (2014) documented that restaurant revenue hit an all-time low mostly during consecutive economic downturns. Sales increased by 0.5 percent in 1990, 0.2 percent in 1991, 0.8 percent in 2001, 0.9 percent in 2008, and 3.0 percent in 2009. (2009). 2.1 percent (1992), 2.3 percent (1993), 3.0 percent (1998), 2.1 percent (2003), 3.0 percent (2004), 1.7 percent (2011), and 1.2 percent (2012) were all smaller than usual years (2014). Edwards (2009) stated that because of the declining trend of capital market and reduced spending by both corporate and leisure tourists, the hospitality industry, like most others, faced several challenges. In the period of crisis, sales of food services, concerts, accommodation, and other associated services of hospitality items had declined, and several companies got bankrupt in America (Sheel, 2008; Romeo, 1997). This massive drop was caused by few number of visitors in hotels, restaurants, and conference centers (Pizam, 2009). Consequently, the American hotel industry experienced an immediate and significant drop in room booking rates and revenue per available room. The studies of hospitality firms have reported that external shocks have a significant negative influence on overall industry. The study of Youn and Gu (2009) considered financial ratios and investigated before and after effects of recession in the service and food industry. They state that American restaurants having fast food services were adversely affected. The Financial ratios like profitability, productivity solvency, debt and liquidity revealed a drastic effect on financial position. Moreover, they further studied Youn and Gu (2010) that all financial performance aspects in the U.S. hotel industry dropped dramatically before and after the 2007 economic crisis. Thus, mainly cut travel expenses and the number of business travelers were drastically reduced as global economies declined. Consequently, economic recession in 2007 dynamically dropped the exchange rate of dollar and hits the revenue of luxury American hotels (Enz et al., 2011).

In 2008 and 2009, average hotel room rates were lower than in 2004. Many hotels, among other items, made only minor to no investments in infrastructure upgrades, advertisement, staff recruitment and training during this economic downturn (Kapiki, 2012).

Advertisement, economic crisis, firm performance

Lou (2014) sated that the after effects of advertisement may work like a value-relevant signal which leads to firm's potential earnings. This valuable indication has the potential to influence investor behavior (Joshi & Hanssens, 2010). It helps in forecasting revenue like promo of a movies. According to Chauvin & Hirschey, (1993) signaling theory reports that marketing is an advertising tool that lets investor in creating awareness of the size and uncertainty of potential cash flow. The signaling effect of advertising has been studied in recent studies. Lou (2014) discovered that irregular returns and advertisement budgets have a favorable relationship. In the same sense, Vitorino (2014) also illustrated that companies that spend money on ads do draw the interest of investors and shareholders. The studies of Frankenberger & Graham (2003), Vitorino (2014), Biel & King (1985), Kijewski (1982) and Hsu & Jang (2008) revealed that the spending on advertisement works as a signal towards the performance of firm, more spending on ads shows that firm has sound performance. The effects of advertisement on firm performance are multifaceted and can be subjected for profitability, firm's value, stock return and market capitalization etc. Although, firms sometimes earn abnormal returns. The study of Agrawal and Kamakura (1995) revealed the significance of celebrity endorsement programs, such programs boost a firm to reap abnormal returns. The studies have looked at advertisement contains immense effects on firm's revenue and recommended the consistency of advertisement in business (Young & Page, 2014). Several studies have considered the impact of advertisement on performance, but very few studies have investigated the relationship between spending on advertisement under the perspective of different economic scenarios, especially the most important scenario, "The recession". According to Picard (2001) the economic crises can be caused by political instability, loss in capital, and war situation etc. Studies report that mostly firm cut the advertisement spending during a recession as economic slowdown effects firm revenue (Tellis & Tellis, 2009; Lamey et al., 2008). Furthermore, Srinivasan et al., (2011) revealed that during economic crisis, companies are more likely to retain their capital, and firms tend to reduce marketing expenses. However, it is also argued that cutting only marketing expenses do not hold immense effect on firm's profit or revenue. In this connection, Kijewski (1982) argued that reducing marketing expenses like promotions or advertisement during recession do not necessarily increase the firm's profit.

Considering the Nielsen News Release (2009) cost reduction of businesses is mainly caused by reducing advertisement spending. According to the Nielsen survey, advertisement budgets fell by 2.6 percent in ten sectors in 2008, including telecommunication, pharmaceutical, and automobile. Despite the fact that total spending on advertisement in the restaurant industry did not shift substantially in 2008, the category of FFRs (Fast Food Restaurants) was only among top five who increased 3.8 percent spending on advertisement (Lee and Ha, 2014). In the time of economic boom, every company tend to spends more on advertisements. It happens because firms want to maintain their growth.

Hypotheses development

A possible explanation why hotel industry is being driven to keep or increase advertisement investment can be understood by analyzing the trend pattern of the industry's services/products. The studies of Taberner (2013), Mill & Morrison (2012) and Gittins (2014) revealed that the hotel industry contains the characteristics of versatility, inconsistency, intangibility and limited life span like perishability. They considered the perishability of services and products as most important element of hotel industry. The hotel industry mainly produces consumer goods and services, which means there is no need to keep or maintain the inventory system because air tickets, rental cars and hotel rooms cannot be saved for the particular use in future. This one of the main reasons that hotel industry place a greater emphasis on advertisement spending in order to promote all goods and services unless they are not available at a particular time. According to Claessens et al. (2022) the economic crisis have a negative effect on firm performance. Youn & Gu (2010) and Glassner (1999) support that the hotel industry is especially vulnerable with recessions, any economic shock such as global financial crises can put a great risk for firm's output. Beak et al. (2004) revealed that studies have been conducted on the key factors that put a risk on firm's output during economic recession. According to Singhal and Zhu (2013) diversification is essential function which is calculated by the number of market divisions or product lines, it reduces the risk of liquidation or bankruptcy. In such scenario, advertisement may have positive effect on output of firm.

A great number of studies have shed light about how advertisement affects firm performance. The studies of Lee et al., (2011) and Hsu and Jang (2008) report a positive association between advertisement spending and value of Restaurant, they further suggested that hardly any research has been done on how advertising affects hotel industry during an economic crisis. Furthermore, there are controversial findings in the literature regarding the relationship between advertisement spending and firm's output during economic crisis. Consequently, this research intend to examine whether the results or effect of advertisement spending after economic shocks is short-run or long-run. A study reports that advertisement spending has a positive effect on hotel revenue (Srinivasan et al., 2011; Assaf et al., 2015). Market reaction to a company's reported earnings has been recorded in previous ERC studies as positive and significant (Easton & Zmijewski, 1989; Collins & Kothari, 1989; Bartov et al., 2002). It is expected based on the previous studies that the ERC would be higher if advertisement investment in the hospitality industry boost the performance during an economic recession. Furthermore, we would expect hospitality companies to do better in the long run if they invest more on advertisements at the start of an economic recession. This research has developed H1 and H2 as below:

Hypothesis 1 (H1): American hotel industry spend more on advertisement during economic recession, and it brings up better firm performance, estimated by 3-days return on stock.

Hypothesis 2 (H2): American hotel industry spend more on advertisement during economic recession, and it brings up better firm performance, estimated by 1-year or 3-year Avg: retunrs on stock.

Methodology

The data

The COMPUSTAT Annual Industrial and Analysis File provided the secondary data for this study. Only U.S. companies were studied, with the SIC 7011 for hotels and motels and the SIC 5810 and 5812 for restaurants. The financial data of industry was collected from 1982 to 2016. After eliminating the missing or incomplete from OLS models this research collected 32,339 (H1) and 5,963 (H2) for all variables, resulting H1 (H2) along with 4,763 (1,571) chosen firms. Moreover, considering H1, a sum of 146 (54) hospitality companies were included. All continuous variables were synchronized at 1% and 99 percent to control for outliers. Following the structure of panel data, research has used cross-sectional dependence and potential time-series by using two-way standard clusters of firms (Petersen, 2009; Gow et al., 2010). Furthermore, ERC model examines the relationship between stock returns and earnings announcement during crisis to determine the smoothness of earnings (Lev, 1989). The research estimated the following OLS models to assess H1:

$$CAR2d_{it}(BHAR3d_{it}) = \alpha_0 + \alpha_1 UE_{it} + \alpha_2 UE_{it} * BETA_{it} + \alpha_3 UE_{it} * Size_{it} + \alpha_4 UE_{it} * BEME_{it} + \alpha_5 BEME_{it} + \alpha_6 SIZE_{it} + a_7 BEME_{it} + \alpha_8 ADV_{it} + \alpha_9 SHOCK_{it} + \alpha_{10} UE_{it} * ADV_{it} + a_{11} UE_{it} * SHOCK_{it} + \alpha_{12} ADV_{it} * SHOCK_{it} + \alpha_{13} UE_{it} * ADV_{it} * SHOCK_{it} + \varepsilon_{1it}$$

(1)

$$CAR3d_{it}(BHAR3d_{it}) = \gamma_0 + \gamma_1 UE_{it} + \gamma_2 UE_{it} * BETA_{it} + \gamma_3 UE_{it} * Size_{it} + \gamma_4 UE_{it} * BEME_{it} + \gamma_5 BETE_{it} + \gamma_6 SIZE_{it} + \gamma_7 BEME_{it} + \gamma_8 ADV_{it} + \gamma_9 SHOCK_{it} + \gamma_{10} UE_{it} * ADV_{it} + \gamma_{11} UE_{it} * SHOCK_{it} + \gamma_{12} ADV_{it} * SHOCK_{it} + 13_{13} UE_{it} * ADV_{it} * SHOCK_{it} + \gamma_{14} HOSP_{IT} + \gamma_{15} ADV_{it} * HOSP_{it} + \gamma_{16} HOSP_{it} * SHOCK_{it} + \gamma_{18} UE_{it} * HOSP_{it} + \gamma_{19} UE_{it} * ADV_{it} * HOSP_{it} + \gamma_{20} UE_{it} * HOSP_{it} * SHOCK_{it} + \gamma_{19} UE_{it} * ADV_{it} * HOSP_{it} * SHOCK_{it} + \varepsilon_{2it}$$

(2)

Where the cumulative abnormal (buy and hold back) return is changed in size (CAR3d) through the 3-day window (−1, +1). UE is the surprise (unexpected) earnings that are determined by profit projections from a random walk model; BETA is calculated for each company in the last five years based on a regression model; SIZE shall be the natural logarithm of the equity value at the close of the preceding fiscal year: BEME shows book-market value ratio (with natural logarithm) for year end (previous); SHOCK is an index factor where the fiscal year is 2009, 0 else2; HOSP is an indicator of the hotel industry, i.e. 1 where the enterprise is in the hospitality sector and 0 else. We control BEME, SIZE, and BETA, which are the determinants of market exposure to income expectation in the context of income earned on each advertising expenditure (Ng, Rusticus & Verdi, 2008). We describe SHOCK as the recent economic crisis caused by the 2008 crisis in US subprime mortgages. Given that companies prepare their advertising budget in advance, one year after 2008, we use SHOCK as the 2009 fiscal year. On the other side, continuous variables interacting with UE (ADV, BEME, SIZE, and BETA) have a quintile classification to help reduce the impact of outliers and to promote the analysis of the interaction terms of coefficients. The design of the H1 research is based on Ng et al. (2008)'s structure. We used the following OLS regression model to test H2:

$$FPERF = \beta_0 + \beta_1 * AV_{it} + \beta_2 * SHOCK_{it} + \beta_3 ADV_{it} * SHOCK_{it} + \beta_4 * BEME_{it} + \beta_5 * LEV_{it} + \beta_6 SIZE_{it} + \beta_7 * ZSCORE_{it} + \beta_8 * LOSS_{it} + \beta_9 * AGE_{it} + \beta_{10} RETVOL_{it} + \beta_{11} * INV_{it} + \beta_{12} * NFIN_{it} + \beta_{13} * HOSP_{it} + \beta_{14} ADV_{it} * HOSP_{it} + \beta_{15} HOSP_{it} * SHOCK_{it} + \beta_{16} ADV_{it} * HOSP_{it} * SHOCK_{it} + \varepsilon_{it}$$

(3)

Return on stock is shown as FPERF which is 1-year 3-years (An3BHAR) or (An1BHAR) return after the announcement of earning are being made; LEV is leverage; LOSS works as control variable and reports if profit is below zero (1) and (0) if not; Firm's age is shown as AGE; Altman score shown as ZSCORE; RETVOL reflected with std. deviation includes all returns on stock monthly basis; Total investment (INV); and another control variable like NFIN is used. The other variables are described in the same way as they were in the previous two models.

Results

Descriptive statistics

Table-1 shows the descriptive statistics of all factors. The three-day return averages 0.002 and 0.003 during earnings announcement period. The average UE for companies in the chosen period was 0.012, indicating that UE reflected positively on average. The chosen firms' total sales-adjusted advertisement expenditures are 0.028. The hospitality industry accounts for 3.2 percent of the overall sample's firm-year findings. The average beta value for SIZE, book/market ratio and leverage were 1.10, 5.76, 0.70, and 0.26 respectively. Furthermore, the average age of a company was 19 years, indicating that COMPUSTAT had accounting data for companies for an average of 19 years.

Table: 1

Variable	N	Mean	STD	Min.	Q1	Median	Q3	Max.
BHAR3d	32,339	.002	.082	−.245	−.036	−.001	.038	.287
CAR3d	-do-	.003	.083	−.247	−.035	.000	.039	.288
UE	-do-	.012	.200	−.752	−.022	.005	.029	1.082
ADV	-do-	.028	.039	.000	.007	.014	.031	.243
HOSP	-do-	.032	.176	.000	.000	.000	.000	1.00
SHOCK	-do-	.045	.207	.000	.000	.000	.000	1.00
BETA	-do-	1.103	.705	−.257	.614	1.024	1.472	3.504
SIZE	-do-	5.764	2.309	1.209	4.049	5.632	7.321	11.530
BEME	-do-	.699	.608	−.025	.313	.538	.879	3.667
An1BHAR	5,963	.062	.731	−1.153	−.260	−.026	.227	27.520
An3BHAR	-do-	.131	1.113	−1.510	−.527	−.100	.455	5.418
LEV	-do-	.225	.178	.000	.078	.199	.335	1.290
ZSCORE	-do-	88.78	420.68	−7.501	3.238	5.613	13.434	3,579
LOSS	-do-	.217	.412	.000	.000	.000	.000	1.000
AGE	-do-	19.158	11.613	2.000	10.000	16.00	26.00	56.00
RETVOL	-do-	.134	.073	.029	.083	.117	.164	.495
INV	-do-	.091	.120	−.047	.026	.056	.107	.892
NFIN	-do-	.601	.490	.000	.000	1.00	1.000	1.000

Estimating the strength or weakness in the association of variables was performed through correlation coefficients (Equations: 1–3) shown in Tables 2 and 3. For H1, Eq 1 and 2 reported in Panel A to examine the correlations among variables, while Panel B depicts the correction about Eq 3. In Panel A, three-day returns (earnings announcement) positively associated with EU, which was consistent with previous research. Advertising expenditures were positively associated with the hotel industry, indicating that hospitality firms employ more funds on advertisement expenditure than companies in other sectors. Advertising expenditures were found to be negatively related to shock, implying that companies spent less on advertising after a financial shock.

Table: 2 Pearson Correlation (H1)

Panel-A: Correlation Analysis in support of H1

Variables	1	2	3	4	5	6	7	8
BHAR3d								
CAR3D	.821							
UE	.071	.051						
ADV	-.007	-.006	-.031					
HOSP	.007	.007	-.002	.016				
SHOCK	.011	.008	.051	-.031	-.008			
BETA	-.012	-.016	.041	.031	-.056	.015		
SIZE	.005	-.005	-.065	.017	-.044	-.010	.061	
BEME	.020	.047	-.042	-.076	-.004	.070	-.072	-.332

Table: 3 Pearson Correlation (H2)

Panel-B: Correlation Analysis in support of H2

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
An1BHAR													
An3BHAR	0.350												
ADV	0.025	0.034											
HOSP	-0.002	-0.006	0.075										
SHOCK	-0.032	0.003	-0.013	-0.006									
BEME	-0.006	0.037	-0.056	0.005	0.145								
LEV	-0.017	0.024	0.016	0.033	0.000	0.011							
SIZE	-0.003	-0.017	0.165	-0.047	0.036	-0.397	-0.011						
ZSCORE	-0.012	-0.013	0.008	-0.028	0.003	-0.097	-0.233	0.050					
LOSS	0.031	0.016	-0.039	-0.036	0.078	0.194	0.022	-0.228	-0.028				
AGE	-0.017	-0.028	0.059	-0.002	0.039	-0.022	-0.016	0.281	-0.082	-0.115			

NFIN	INV	RETVOL
0.015	0.032	0.007
-0.001	0.000	0.016
-0.0008	-0.004	-0.089
0.032	0.104	-0.040
-0.032	-0.068	0.151
-0.009	-0.186	0.210
0.245	-0.059	0.035
0.105	0.086	-0.398
-0.162	-0.013	0.009
0.015	-0.090	0.281
0.041	-0.070	-0.290
-0.014	-0.054	
0.196		

The panel-B shows a positive association between 3-year (buy and hold return) and Spending on advertisement. This outcome is same as shown in Panel-A. Shock has a negative relationship with 1-year (buy/hold returns), revealing that most businesses have experienced economic shock.

Advertising expenses in ERC regressions (H 1)

OLS regression was used for estimating ERC (Eq; 1 & 2) models. The results of three-day purchase and return Table 3 are given in the first two columns of Table 4. Advertising by financial crises hospitality and ERC about earnings announcement, the relationship of income surprises and control variables, and the regression of 3-day cumulative, irregular income shown in the two columns to the right.

Table-4

Factors	Endogenous Factor = BHAR3d		Endogenous Factor = CAR3d	
UE	.034***	.034***	.022**	.021**
	(3.33)	(3.31)	(2.11)	(2.12)
UE*BETA	–.004	–.004	–.005	–.005
	(–.45)	(–.44)	(–.49)	(–.47)
UE*SIZE	.004	.005	.000	–.000
	(.28)	(.27)	(.03)	(–.00)
UE*BEME	–.003	–.003	.001	.001
	(–.16)	(–.15)	(.13)	(0.13)
BETA	–.002	–.002	–.003	–.003
	(–.55)	(–.54)	(–.74)	(–.70)
SIZE	.004***	.004***	.002	.002
	(1.44)	(1.44)	(1.10)	(1.21)
BEME	.004**	.004**	.004**	.004**
	(2.18)	(2.19)	(2.03)	(2.06)
ADV	.002	.002	.002	.002
	(0.38)	(.37)	(.71)	(0.68)
SHOCK	.003***	.003***	.001*	.001
	(2.88)	(2.63)	(1.43)	(1.36)
UE*ADV	.004	0.004	.004	.007
	(.22)	(.23)	(.44)	(.47)
UE*SHOCK	–.010	–.007	–.007	–.003
	(–.94)	(–.79)	(–.67)	(–.41)
ADV*SHOCK	.003	.003**	.003*	.004***
	(2.09)	(2.22)	(2.12)	(2.31)
UE*ADV*SHOCK	–.010	–.013	–.018	–.021
	(–.79)	(–2.06)	(–2.38)	(–2.62)
HOSP		.011*		.011*
		(1.66)		(1.78)
ADV*HOSP		.022		.036

		(.62)		(.86)
HOSP*SHOCK		-.012		–.012
		(-1.13)		(–1.21)
ADV*HOSP*SHCK		.012*		.013**
		(1.79)		(2.12)
UE*HOSP		–.044***		–.055***
		(–3.48)		(–4.13)
UE*ADV*HOSP		–.022		–.033
		(–.72)		(–.96)
UE*HOSP*SHOK		–.304***		–.320***
		(–6.00)		(–6.41)
UE*ADV*HOSP*SHOCK		.366***		.431***
		(10.10)		(11.30)
INTERCEPT	–.022	.038	.068	.116
	(–.49)	(.77)	(.89)	(.87)
N	32,339	32,339	32,339	32,339
n (HOSP = 1)	1,035	1,035	1,035	1,035
n (HOSP = 0)	31,304	31,304	31,304	31,304
Adj. R^2	.0062	.0064	.0036	.0038
F-Statistic	8.11	7.17	5.98	5.40
(p-value)	(.000)	(.000)	(.000)	(.000)

**p < .10. **p < .05. ***p < .01.*

The terms like UE*ADV*HOSP*SHOCK show four way interaction, which captures the gradual impact of advertisement expenditure amid the economic recession using ERC. The coefficient of UE was positive in its direction and has its predictive significance. Moreover, terms like UE*ADV*SHOCK represents three way interaction, it brings the estimated value of coefficient of total advertisement spending of company which has an additional impact on ERC during economic recession. The statistical insignificance and negative is direction were observed for all the coefficients for UE*ADV*SHOCK. The UE*HOSP has also negative effect showing the negative influence of hotel industry on ERC. Furthermore, UE*HOSP*SHOCK revealed negative and its significance is less than .01 level, showing that particular economic shock has a negative effect on ERC. Moreover, ADV*HOSP*SHOCK showing coefficient values positive (.012 and .013). This finding suggests that during shock times, there is a positive reaction of stock market for advertisement expenses, especially in the hospitality industry. However, this result may not be same for other firms (Proposed in H1).

Advertising expenses and long-term performance (H 2)

The OLS outcome using Equation (3) is to see something about H2 in Table-5. In the beginning (first-two columns) of table-5 revealed OLS outcome after earning announcement with a 3-year (buy/hold return). The ADV*SHOCK were negative and significant at the 1% level. These findings suggest that a company's increased advertising spending during a recession is negatively correlated with long-term prosperity after the earnings announcement. The interacting effect of ADV*HOSP*SHOCK is the vector of interest. The estimated coefficients on these interacting terms show that an increase in advertisement expenditure by hospitality firms in the stipulated time of uncertain economic shock is positively affected to long-run results, but it happens after earnings announcement (Table 4). These findings support H2, as hospitality companies invest more on advertisements, the earnings has a long-term impact on stock returns.

Robustness tests

It is seen that after economic recession may persist right after the fiscal year of 2009. Subsequently, the spreading effects of economic shock will likely to continue its iterative impact in the years ahead.

Table 5. Spending on Advertisement, economic recession and performance for future.

Factors	Endogenous Factor = An1BHAR		Endogenous Factor = An3BHAR	
ADV	.065	.069	.120*	.123*
	(1.42)	(1.44)	(1.85)	(1.87)
SHOCK	–.030	–.031	.017	.019

	(–1.27)	(–1.29)	(.39)	(.42)
ADV*SHOCK	–.145***	–.164***	–.055	–.086***
	(–3.37)	(–3.67)	(–1.60)	(–2.97)
BEME	–.004	–.004	.071	.072
	(–.15)	(–.13)	(1.46)	(1.47)
LEV	–.095	–.094	.143	.143
	(–1.30)	(–1.30)	(1.59)	(1.60)
SIZE	.001	.001	.001	.001
	(.15)	(.15)	(.09)	(.07)
ZSCORE	–.000**	–.000**	–.000	–.000
	(–2.02)	(–2.02)	(–0.60)	(–0.61)
LOSS	.062*	.062*	.021	.021
	(1.88)	(1.91)	(.30)	(.30)
AGE	–.001	–.001	–.003	–.003
	(–0.89)	(–0.90)	(–1.46)	(–1.46)
RETVOL	.058	.051	.032	.012
	(.36)	(.31)	(.10)	(.04)
INV	.173**	.178**	.081	.096
	(1.98)	(2.00)	(0.59)	(0.72)
NFIN	.017	.017	–.018	–.018
	(.96)	(.96)	(–.53)	(–.55)
HOSP		.024		–.109
		(.21)		(–.57)
ADV*HOSP		–.098		.046
		(–.85)		(.18)
HOSP*SHOCK		.074		–.053
		(.50)		(–1.00)
ADV*HOSP*SHOCK		.365*		.761**
		(1.78)		(2.53)
INTERCEPT	.025	.025	.031	.036
	(.31)	(.32)	(.19)	(.22)
N	5,963	5,963	5,963	5,963
n (= 1)	231	231	231	231
n (= 0)	5,732	5,732	5,732	5,732
Adj. R^2	.0050	.0054	.0042	.0046
F-Statistic	4.13	4.65	4.13	3.42
(p-value)	(.000)	(.000)	(.016)	(.022)

**p < .10. **p < .05. ***p < .01.*

SHOCK was replaced with an indicative variable (SHOCK3) in the models (1)-(3), which is equivalent to one if the fiscal year is 2009, 2010, or 2011. (3). Although we were unable to report that hospitality firms have a significant influence for advertisement expenditure right after eminent shocks for long-run efficiency, however, the entire outcomes shows that study observes relatively similar results in the analysis of ERC (EA and 3-day buy/hold returns).

Following that, we contrasted the hospitality industry holds certain effect of advertisement spending on performance during the utmost latest economic crisis such as crisis of 2008. Considering the invasion of Iraq on Kuwait in 1990, oil prices rise steeply. Consequently, oil price shock the US economy become weak and immediate rise in unemployment began to grow while consumer trust also plummeted. In this connection, this study substituted the fiscal year of 1991 that contain a SHOCK, which was a year after the end of economic recession (2). The outcomes revealed a positive relationship between hospitality firm and advertisement expenditure during the recession. These are for short-run analysis. However, annual return yielded no substantial results.

The American economy faced a recession in 2001, the year marked by the Enron scandal, 9/11 attacks and dot-com bubble burst. In Equation (2), this research substituted SHOCK with the year 2002, a year after the recession. Both ERC and annual return analyses yielded negligible outcomes in the unstipulated results.

Discussion

This research wanted to answer about would American hotel industry spend more on advertisement throughout an economic recession? And what connection there is in between advertising spending and performance throughout that economic recession. Our study has a number of managerial and theoretical implications.

Theoretical implications

Considering the concept of ERC (Easton & Zmijewski, 1989; Collins & Kothari, 1989), this study immensely contributes in the literature of ERC by demonstrating a connection between advertising strategies followed among hospitality businesses and the market's perception of business during economic shocks. Although other research has shown that increased advertising funding during a recession is not correlated with improved performance (Frankenberger & Graham, 2003). The outcomes of this study reports that there is positively linked between ERC and firm performance and hospitality firms increase advertising spending immediately after a recession. Because of the perishability of hospitality services, unlike other sectors, hospitality companies understand the need to boost advertisement spending during a recession, even though revenues are predicted to decline. The hospitality industry is characterized by perishability, according to Gittins (2014), Taberner (2013), and Mill and Morrison (2012) in the sense that production and consumption of goods or services occur at the same time. Inventory isn't anything that can be preserved or stored. As a result, hospitality businesses understand the importance of ads to advertise all goods and services as soon as possible before the opportunity to sell is missed. Furthermore, increasing expenditure on advertisement tends to draw new buyers and raise revenue in the period of recession. Additionally, increased advertisement spending could provide an advantage over more conservative competitors. Generally, increased advertisement spending serves as a hedge against possible losses in the period of recession. Consequently, the outcomes are consistent to Hypothesis 1, which notes that during a financial crisis, hospitality firms that spend more on ads which would lead them to perform better.

The long-run consequences of advertisement throughout the period of recession were also investigated in this research. In this regard, performance in long-run is positively correlated with increased advertising spending in the period of recession, particularly amid hotel industry. Our findings are consistent with previous research (Hruzova, 2009; Roberts, 2003; Graham & Frankenberger, 2011; Kamber, 2002; Hiller, 1999). According to Braun-LaTour & LaTour (2004) long-term advertising strategies that are consistent are successful in projecting a solid picture to customers and retaining long-term relationships. Binet (2009) in his study reports that companies cut advertising expenditures throughout the period of recession and saw a 30% to 20% drop in revenue and profits over the next two years. Although, such businesses needed more time and had trouble in recovering their revenues and profit. Consequently, persistent payout for advertisement during a recession will result a massive increase in revenue by generating an improved experience of brand for regular consumers who are aware about advertisement. According to Sojern (2015) affter a global financial crisis, one reason is that advertisement has a positive impact on hospitality companies, which relates to the time between an initial booking and the actual arrival (Hotels).

Moreover, a social phenomenon may help to explain the hospitality and tourism industry's rapid recovery from an economic downturn. During recession, people can spend small on big luxuries rather than small luxuries (Hill et al., 2012). For instance, during a recession people who would usually choose to stay in a luxurious hotel may opt to stay in a moderate hotel (Ameria, 2017). Similarly, instead of going to restaurants who provide full-service, which are typically more costly. Consequently, people may choose to go to restaurant who provide limited-services. Therefore, research outcomes support Hypothesis 2, which states that hospitality firms that spend more on ads in the period of recession may do better for firms in the long run.

Practical implications

This research recommends some essential managerial implications. In this regard, it is felt that hotel industry is considered as at risk not only to violent events such as the Boston marathon bombing or Las Vegas shooting, but also to some prevailing disruptions of economy such as recession. Since hospitality businesses offer intangible rather than tangible products, their marketing strategies are based on customer emotions. People may be hesitant to spend money on travel, housing, or food because of security concerns or reduced spending due to external shocks. In this regard, managers must emphasis on by what means to alleviate the firm in the period of external shocks and should think about how to minimize the effect of external shocks. Our results should aid them in reorganizing their protocols and policies in order to recover more quickly from economic recession. During a recession, a sales management plan is necessary which allows the availability of supply at particular price. It will assist in ensuring that all goods and services are being sold appropriately (Kimes & Anderson, 2011). In order to get a suitable deal, people normally schedule their trips or holidays at least 6 or 12 months before; but, if a severe recession strikes, they may be reluctant to spend money on potential travel. The possible solution for this issues can be a flexible pricing among hospitality firms, which provide them option for retaining these customers. Furthermore, our results indicate that increasing advertising spending has an effect on firm efficiency, not only as a short-term boost but as a long-term boost.

Conclusion

This research has investigated something unique on advertisement spending of hospitality industry and its relationship with performance after economic recession. Research has investigated that how advertisement spending in the hotel industry influences to performance in a long-run. The findings showed that after a global financial crisis, the stock market responds more favorably to earnings reports from hospitality companies that spend more on advertisement. We discovered that spending more on ads during a financial crisis has a positive impact on long-term stock returns, indicating that the hospitality industry values advertising spending after a recession. By centering on the association between spending on advertisement and performance in the period of recession, this study has immense contribution to the field of financial marketing of hospitality. Mostly of the marketing strategy makers in hospitality industry deal with economic shocks, and the outcomes of this research may immensely support them. Marketers and financial officers in the hospitality industry must understand the pattern to advertise and promote their products, which is linked to consumer throughout a period of recession. Our findings indicate that cutting marketing budgets in response to economic Recession does not lead to improved performance of firms. Rather, aggressive media investment will provide hospitality businesses with unparalleled opportunities to rebound from a recession.

Limitations and Future Research

Despite the fact that the research goals were met, the results of this study should be viewed in light of many significant limitations. Firstly, this research has used OLS models following the approach of ERC. Although ERC is a monetary indicator, non-monetary indicators such as customer satisfaction may be a better reflection of a company's success in the hospitality industry. As a result, future research into how advertisement expenditures impact non-financial performance indicators during and after economic shocks will be an important subject. Second, when assessing the impact of ads, this analysis did not take into account the advertising medium. Other research (Lodish et al., 1995; Tellis & Tellis, 2009) has shown that television ads can generate long-run revenue of sales. Subsequently, future studies should focus on determining the most appropriate advertising medium during a downturn. Third, the relationship between advertising information and firm output was not explored in this report. Financial services advertisers, according to Everett (1988), used more detail in their ads to minimize doubt, volatility, and unpredictability during an economic downturn. Future studies should look at not just the amount of money spent on ads, correspondingly the development of advertising campaigns in the period of recession. Data sampling is where the final restriction can be found. Both hotel and restaurant companies were included in the data for this report. Hotel owners, hotel management companies, luxury hotels and Casino hotels were all included in this report. Restaurant companies included fine-dining, casual, and fast-food eateries. According to Lee et al., (2015) advertisement strategies for hospitality companies can differ depending on their target audiences, as can their financial decisions. For instance, advertising strategy on luxury hotels can vary from an economy hotel or mid-scale hotel. Consequently, categorizing hotel and restaurant businesses by form of service, target market, and management style will aid in assessing the effect of ads during a downturn.

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Appendix A.

Variable	Definition
ADV	= Advertising expenses adjusted by total sales (XAD/SALE).
HOSP	= 1 if a firm is in a hospitality industry (i.e., Industry with SIC codes 5800–5819, 5820–5829, 5890–5899 , 7000, 7010–7019, 7040–7049, 7213, or 4720–4729).
SHOCK	= 1 if fiscal year = 2009, 0 otherwise.
BHAR3d	= 3-day buy and hold return around the earnings announcement date.
CAR3d	= 3-day size-adjusted cumulative abnormal return around the earnings announcement date.
An1BHAR	= Annual buy and hold return after the earnings announcement.
An3BHAR	= 3-year buy and hold return after the earnings announcement.
UE	= UE is the earnings surprise (Surprise) measured using earnings expectation from a seasonal random walk model (i.e. $IB_t - IB_{t-1}$).
BETA	= Estimated from a market model regression for each firm over 5 years before the announcement month.
SIZE	= Natural logarithm of the market value of equity at the end of the previous fiscal year.
BEME	= Ratio between the book value and the market value of equity at the end of the previous fiscal year.
LEV	= Leverage, which is equal to total debt adjusted by total assets at the end of the previous fiscal year (i.e. (DLTT+DLC)/AT).
ZSCORE	= Altman's Z-score.
LOSS	= 1 if net income is below zero, 0 otherwise.
AGE	= Natural logarithm of the number of years of accounting data for a firm from the time of coverage in COMPUSTAT.
RETVOL	= Standard deviation of monthly stock returns over a fiscal year.
INV	= Total investment measured as the sum of all outlays on capital and acquisition expenditures less receipts from the sale of property, plant, and equipment according to the study of Richardson (2006) (i.e. CAPX + AQC – $SPPE/AT_{t-1}$).
NFIN	= New finance measure (i.e. 1 if DLTIS >0 or SSTK > 0.05*CSHO*PRCC_F, 0 otherwise).