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Article Title

Investigating the impact of advertising during economic shocks on firm performance in the hospitality industry

Citation

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Abstract

This study examines the impact of advertising to determine whether advertising expenditure after economic shocks is associated with hospitality firm performance. Using the ordinary least squares (OLS) regression models for the earnings response coefficient study, it was found that firm performance was positively related to hospitality firms that spent more on advertising immediately after a global financial crisis.

Methods

The secondary data for this research were obtained from the COMPUSTAT Annual Industrial and Research File. The study selected U.S. firms only, and the SIC 7011 for hotel and motel firms and the SIC 5810 and 5812 for restaurant firms.

Results

The results indicated that the stock market reacts more positively to the earnings announcements of hospitality firms that spend more on advertising immediately after a global financial crisis. It was found that the long-term stock return is positively affected by advertising more after a financial crisis, which indicates that the hospitality market does value spending on advertising during a recession.

Conclusion

The findings suggest that shrinking marketing budgets after economic shocks may not generate good firm performance. Rather, aggressively spending on advertising can bring hospitality firms unprecedented opportunities to recover from an economic depression.