Rosen Research Focus | Hyoungju Song

RESILIENCE IN HOSPITALITY

Lessons from the 2008 financial crisis and COVID-19

Insights on the effects of the 2008 financial crisis and the COVID-19 pandemic reveal the industry's vulnerabilities.

In groundbreaking research from UCF Rosen College of Hospitality Management, Dr. Hyoungju Song and co-researchers compare the effects of the 2008 financial crisis and the COVID-19 pandemic on the hospitality industry. The study explores how firm-specific financial characteristics and business strategies shaped resilience during these crises, offering valuable insights for industry leaders and policymakers on how to navigate future disruptions.

The hospitality industry is no stranger to crises, but few events in recent memory have tested its resilience as profoundly as the 2008 financial crisis (FC) and the COVID-19 pandemic. In research conducted at UCF Rosen College of Hospitality Management, Dr. Hyoungju Song and co-researchers explored how firm-specific financial characteristics and business strategies influenced the ability of hospitality firms to endure and recover from these crises. The study involved analyzing financial data from a range of hospitality firms, comparing their performance during both crises to understand which factors contributed to greater resilience in the face of economic downturns and global disruptions. These insights not only reveal the vulnerabilities within the industry but also provide a roadmap for future crisis management—offering valuable lessons that hospitality leaders cannot afford to miss.

INDUSTRY-WIDE IMPACTS: COVID-19 VS. THE 2008 FINANCIAL CRISIS

The hospitality industry is particularly sensitive to external forces, with its fortunes rising and falling in response to global economic trends, pandemics, and social upheaval. The study explored the impacts of both the 2008 financial crisis and the COVID-19 pandemic on the industry, revealing distinct differences in firm performance, measured by both Tobin's q (market-based performance) and ROA (operating performance).

Operating performance (ROA) was stronger during the 2008 financial crisis, as firms managed quicker recovery from financial disruptions without prolonged operational shutdowns. During the 2008 financial crisis, consumer spending dropped significantly, and the hospitality industry experienced revenue declines. However, hotels remained open, restaurants adapted, and while the industry took a hit, it recovered in the years following. In contrast, the COVID-19 pandemic brought the industry to a near standstill. Travel restrictions, social distancing measures, and widespread lockdowns led to dramatic drops in occupancy rates, closures, and a sudden shift in consumer behavior. Consumers gravitated toward domestic tourism and sought out safe, contactless service encounters, prompting the industry to adopt new technologies quickly to meet these demands. The severity of the pandemic's impact prompted the need for businesses to rethink their resilience strategies.

Conversely, market-based performance (Tobin's q) was higher during COVID-19. During the 2008 FC, market-based performance suffered more significantly because it was primarily a financial crisis that directly affected investor sentiment, credit markets, and liquidity. In contrast, COVID-19 saw a relatively faster recovery in market-based performance, as reflected in higher Tobin's q values. This improvement was driven by substantial government support measures (e.g., stimulus packages and loan programs), which restored investor confidence and provided a more optimistic market outlook. The financial markets anticipated future recovery, boosting the valuation of firms despite ongoing operational challenges.

The hospitality industry is particularly sensitive to external forces.

This contrast underscores that the 2008 FC primarily affected financial liquidity and credit markets, while COVID-19 imposed deeper, longer-lasting operational disruptions, yet saw faster stock market recovery due to broad economic support measures.

KEY FACTORS OF RESILIENCE: FIRM-SPECIFIC FINANCIAL CHARACTERISTICS

The study zeroed in on the role of firm-specific characteristics in determining how resilient a hospitality firm could be during a crisis. These characteristics included firm size, leverage, dividend payouts, retained earnings, capital intensity, cash holdings, and previous return on assets. Each of these elements played a role in shaping a firm's ability to weather the storm, whether during the 2008 financial crisis or the COVID-19 pandemic.

COVID-19 CAUSED ABRUPT AND WIDESPREAD CLOSURES, LEADING TO MASSIVE REVENUE LOSSES, ESPECIALLY IN THE U.S. HOSPITALITY AND RESTAURANT SECTORS.

FIRM SIZE

Larger firm size had a positive impact on ROA during the 2008 FC. The findings indicate that larger firms had better operational resilience during financial challenges, benefiting from economies of scale and market power. However, this effect was not significant during COVID-19, suggesting that size alone was insufficient against operational disruptions during COVID-19.

LEVERAGE

Leverage, or the amount of debt a company holds, proved to be a double-edged sword. During both the 2008 financial crisis and COVID-19, leverage did not significantly affect a firm's operation measured by ROA. However, leverage positively affected Tobin's q during COVID-19 but not during the 2008 FC, indicating that debt financing became more beneficial during COVID-19, likely due to government-backed loan guarantees.

DIVIDEND

Dividend payouts were detrimental to ROA during COVID-19, as maintaining dividends under financial strain depleted resources needed for survival. This impact was not observed during the 2008 FC.

The pandemic's effects were immediate and far-reaching.

RETAINED EARNINGS

Retained earnings positively influenced both ROA and Tobin's q during COVID-19, reflecting the importance of internal cash reserves in managing prolonged operational downturns. But the effect was not significant during the 2008 FC.

CAPITAL INTENSITY

Capital intensity, which refers to the amount of capital tied up in physical assets like building and equipment, negatively affected ROA during COVID-19, likely due to higher fixed costs amid demand drops, while it had an insignificant impact during the 2008 FC. That is, companies with high capital intensity faced greater difficulties in reducing costs, making them more vulnerable to operational downturns during COVID-19, likely due to lockdowns and restrictions. However, the capital intensity positively affected financial market valuation (Tobin's q) during COVID-19 but not during the 2008 FC, suggesting that higher capital intensity was perceived as financial strength during COVID-19.

CASH HOLDINGS

Cash holdings positively influenced Tobin's q during COVID-19, reflecting liquidity's importance in market valuation, but showed no significant impact in the 2008 FC. This result highlights liquidity's role in enhancing both operational stability and investors' confidence during the pandemic.

BUSINESS STRATEGIES: FRANCHISING AND INTERNATIONALIZATION

In addition to firm-specific financial characteristics, the study explored the role of business strategies, particularly franchising and internationalization, in building resilience.

Franchising enhanced both ROA and Tobin's q during COVID-19 by providing stable franchise fees and risk distribution, while it was less effective during the 2008 FC. Expanding franchising should be a strategic focus for risk-sharing, particularly when facing crises that directly affect operations like COVID-19.

> *COVID-19 WILL HAVE A MORE ENDURING INFLUENCE ON HOW THE HOSPITALITY INDUSTRY OPERATES MOVING FORWARD.*

Internationalization positively influenced Tobin's q during COVID-19 but not during the 2008 FC, suggesting that geographic diversification helped manage pandemic-related risks by leveraging varying regional impacts. Hospitality firms should strategically diversify across markets to mitigate global crises, benefiting from different recovery timelines and regional conditions.

INDUSTRY-WIDE IMPACTS

While both the 2008 financial crisis and the COVID-19 pandemic significantly impacted the hospitality industry, the pandemic's effects were more immediate and far-reaching. The financial crisis led to a gradual decline in consumer spending and a slow recovery, but the hospitality industry never fully shut down. In contrast, COVID-19 caused abrupt and widespread closures, leading to massive revenue losses, especially in the U.S. hospitality and restaurant sectors.

During the pandemic, hospitality firms had to adapt to entirely new ways of operating, with many adopting contactless check-ins, enhanced cleaning protocols, and other safety measures to address consumer concerns. The lasting impact of these changes is still unfolding, but it's clear that COVID-19 will have a more enduring influence on how the hospitality industry operates moving forward.

PRACTICAL IMPLICATIONS FOR MANAGERS AND POLICYMAKERS

One of the most important takeaways from this Rosen College study is the practical implications for hospitality industry managers, investors, and policymakers. The findings suggest that managers should focus on building resilience by carefully managing firm-specific characteristics, such as maintaining healthy cash reserves and being mindful of their firm's leverage. Business strategies, such as franchising and internationalization, also play a role but must be approached with an understanding of their limitations during different types of crises.

For policymakers, the research offers interesting insights into how different crises impact the hospitality industry and highlights the importance of targeted government support. Whether through financial relief programs or policies designed to stimulate demand, governments have a critical role to play in helping the hospitality industry recover from crises.

RESEARCHERS IN FOCUS

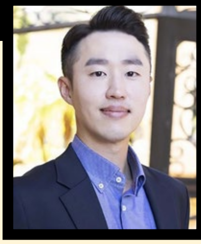
RESEARCH OBJECTIVES

Dr. Hyoungju Song's research aims to compare how firm-specific financial characteristics and business strategies contribute to resilience in the hospitality industry during crises.

CO-AUTHORS

- Seoki Lee, School of Hospitality Management, The Pennsylvania State University, USA, hhd.psu.edu/contact/seoki-lee
- Hyejin Yoon, Department of Global Tourism, Baewha Women's University, Seoul, South Korea, www.bu.edu/bhr/profile/hyejin-yoon
- Chang-Sik Kim, Department of Global Tourism, Baewha Women's University, Seoul, South Korea, www.bu.edu/bhr/profile/chang-sik-kim
- Sunny Ham, Department of Food and Nutrition, Yonsei University, Seoul, South Korea, www.apacchrie.org/team/prof-sunny-ham

Dr. Hyoungju Song



Dr. Hyoungju Song, Assistant Professor at UCF Rosen College of Hospitality Management, specializes in Environmental, Social, and Governance issues and growth strategies within the hospitality sector from a financial analysis perspective. His research has expanded to include regulatory changes and entrepreneurship, with a focus on small and medium enterprises (SMEs).

E: Hyoung.Song@ucf.edu **T:** +1 407.903.8031
W: hospitality.ucf.edu/person/hyoung-ju-song

LIMITATIONS AND FUTURE RESEARCH

While Dr. Hyoungju Song 's analysis provides valuable insights, it also has limitations. The findings are largely based on data from U.S. firms, and further research is needed to explore the external validity of these results in other regions. Additionally, future studies could examine a wider range of firm-specific characteristics and strategies, as well as look at different sectors within the hospitality industry to provide a more comprehensive understanding of resilience.

This Rosen College research offers a compelling look at how firm-specific characteristics and business strategies contribute to resilience in the hospitality industry during crises. By comparing the 2008 financial crisis and the COVID-19 pandemic, this highlights both the vulnerabilities and strengths within the industry, providing practical insights for managers and policymakers alike. As the hospitality industry continues to recover from the pandemic, the lessons learned from this study will be invaluable in building a more resilient future.

REFERENCES

Lee, S., Song, H.J., Yoon, H., Kim, C-S., Ham, S. (2024). Resilience of the hospitality industry during crises: A comparison between the 2008 financial crisis and COVID-19. *International Journal of Hospitality Management,* 116, N.PAG. doi.org/10.1016/j.ijhm.2023.103622

PERSONAL RESPONSE

What inspired you to explore the resilience of hospitality firms during crises like the 2008 financial crisis and COVID-19, and how has this research shaped your perspective on the future of the industry in navigating unforeseen challenges?

" The inspiration to explore the resilience of hospitality firms during two different crises came from the industry's acute vulnerability to diverse external shocks. Resilience is crucial in the hospitality industry because it is highly susceptible to external shocks, which can severely disrupt operations and financial performance. Given the hospitality sector's dependence on travel, tourism, and consumer spending, the ability to adapt quickly to unforeseen challenges ensures business continuity, protects jobs, and maintains customer trust. This research's findings have shaped our perspective on the importance of proactive, crisis-specific strategies to ensure the industry's sustained growth amid future uncertainties. "