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Effect of COVID-19 on the Profitability of the Hospitality Industry

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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Short Communication

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ABSTRACT

By utilizing three firm-level factors (financial conditions, corporate strategy, and ownership structure), the current study investigates how the impact of COVID-19 on Indian hospitality sectors' stock returns differs depending on the firms' pre-pandemic characteristics. The results of this study, which used 795 firm-year observations from annual reports and other databases, show that restaurant businesses with past traits of greater size, greater leverage, greater cash flows, lesser ROA, and greater internationalization are more resilient to stock declines in response to COVID-19 than other businesses of a similar nature. Conversely, there was no discernible moderating influence of dividends, franchising, institutional ownership, or managerial ownership on the association between COVID-19 and stock returns. By offering insights into the factors that affected India's industrial stock returns during the COVID-19 shock, this paper illuminates its research issue. The factors and methodology utilized in the current study can be applied in subsequent studies to deepen our understanding of the problem. One of the segments of the economy that is most adversely affected by COVID-19. The ability to contain the pandemic and the macroeconomic effectiveness of the policies implemented by public institutions to promote overall economic recovery are both essential to its recovery. In this context, industry stakeholders must evaluate both the potential influence of economic policies on the hotel sector as well as the direct economic impact of the COVID-19 pandemic's evolution. The COVID-19 pandemic is thought to have had a particularly large impact on the hotel sector, and the uncertainty around how long the pandemic will last makes it difficult to predict how quickly things will turn around. In this regard, the goal of this exploratory study is to give insight into how prepared the hospitality industry is for COVID-19 risk, as motivated by their persistence and financial slack holdings. The empirical results support the notion that their risk readiness should be rated as having a low degree of financial slack. Most of the analyzed hospitality industry had little or no financial slack, and they had recently used up their financial slack resources. As a result, it is uncertain if the hospitality industry would be able to withstand the financial issues that resulted from the COVID-19 epidemic. We come to conclusions on the required system intervention design in light of this evidence that could help the hospitality industry avoid bankruptcy.

Keywords: Hospitality; industry; Covid 19; profitability; pandemic.

1. INTRODUCTION

The possibility of the pandemic has often threatened the world in the twenty-first century. Due to demographic changes, natural calamities, and technological breakthroughs, the world is constantly experiencing difficulties [1-2].

The COVID-19 pandemic, however, has become the decade's biggest threat. It has changed the way of life of the populace and negatively impacted their social, economic, and health statuses.

It is agreed that the COVID-19 epidemic, which began in China and expanded throughout the world, caused losses in profits and the insolvency of hotels, restaurants, and travel companies. Because the business depends on population movement and the individualized attention of personnel, lockdown, and social distancing policies directly contributed to sharp reductions in the hotel and tourism sectors relative to other industries. The uncertainty and possibility of loss brought about by COVID-19, including major industries in India, put the health and job security of hundreds of thousands of employees in the hotel and tourism sector in jeopardy [3-5].

The hospitality and tourism sector has seen significant disruption from COVID-19, which was unexpected and led to widespread, abrupt performance declines in the sector, where employees were threatened with layoffs or job losses. It presented previously unheard-of challenges for HRM practices in the hotel and tourism industries to embrace social responsibility and show warmth and compassion for employees. Globally, the Covid-19 pandemic abruptly disturbed individuals and environments, with profound social, psychological, and economic effects. Due to our position and reliance on tourism, I believe the seaside destination business was already having trouble being viable before the Covid 19 epidemic. We will struggle to preserve the sector if the environment changes in the future and fewer people travel outside of their immediate vicinity. Even without the additional strain of the virus, the hospitality industry is challenging. The COVID-19 pandemic, on the other hand, has never before had an epidemic with such a broad worldwide impact and is "affecting the DNA of hospitality at its core".

As a result, it is not unexpected that the travel and leisure industry, particularly the hospitality industry, is one of the most negatively impacted sectors of the economy. However, delaying the virus's transmission extends the time that businesses may experience interruptions. In reality, it is challenging to estimate how long the epidemic will last, which changes this risk to one of ill-defined persistence and heightens business worry.

The scenario calls into serious question whether the hospitality industry is capable of withstanding and properly recovering from the time of operational disruption brought on by the pandemic epidemic waves. The issue is undoubtedly a pertinent business priority, and this study attempts to address it by examining the amount of risk preparedness in the hospitality industry from a financial standpoint. The hospitality industry is susceptible to significant liquidity pressures due to the rapid loss of clients and the inability to generate cash inflows from sales, which increases the risk of a successful recovery.

However, organizations with a reserve of available funds are less likely to experience liquidity issues. As a result, the idea of financial slack is used as a resource in this study's empirical analysis of risk readiness.

In Fig. 1, we provide an illustration of the key directions of the COVID-19 epidemic's impact on the performance of hospitality organisations, motivated by the COVID-19 repercussions from a risk management perspective. A breakeven-point analysis, which is crucial for assessing the justification behind the running activity of any organization (Brigham and Ehrhardt, 2011), is the framework within which the proposed model is placed. To determine if the company can generate a reasonable operating profit margin, the breakeven-point analysis is still concentrated on the link between sales revenues and total operating costs. COVID-19 has a dual effect on the hospitality industry in this regard. First, because of the abrupt decline in demand and sales following the business lockdown, the amount of sales revenues was considerably lowered. If the companies are permitted to reopen [6-12].

The predicted sales revenues will be lower than anticipated for operating activity during the pandemic as a result of both the lower demand for hospitality services and the customarily imposed limits that are related to the lower number of clients. Second, enterprises must cover their fixed costs throughout the interruption in operating activity (between the time of lockdown and the time of the restoration to operating activity).

Due to their connection to property or workforce maintenance, these expenses in the hospitality industry may be rather substantial.

The running costs can be much greater than initially anticipated and planned if the resumption of operating activity is only achievable with further constraints. For example, new sources of expenses associated with the implementation of the required safety measures (such as sanitation or staff protection) could appear.

The result is a sharp decline in operational profit, which harms the profitability of the business.

The difference between the operating profit that was anticipated and the actual relates to how much it was cut. However, these differences could be much more significant in real-world scenarios, resulting in operating losses.

Because of the decreased sales, there are no cash inflows during this period of no operating activity, and at the same time, the company must make timely payments to its creditors. This crucial time could bring about serious liquidity issues and even bankruptcy.

Therefore, we emphasize in Fig. 1 that, if held, the operating discontinuity period results in the use of financial slack resources.

But before we can adequately address this problem, we must first define the term "financial slack" and discuss how holdings of financial slack interact with risk mitigation.

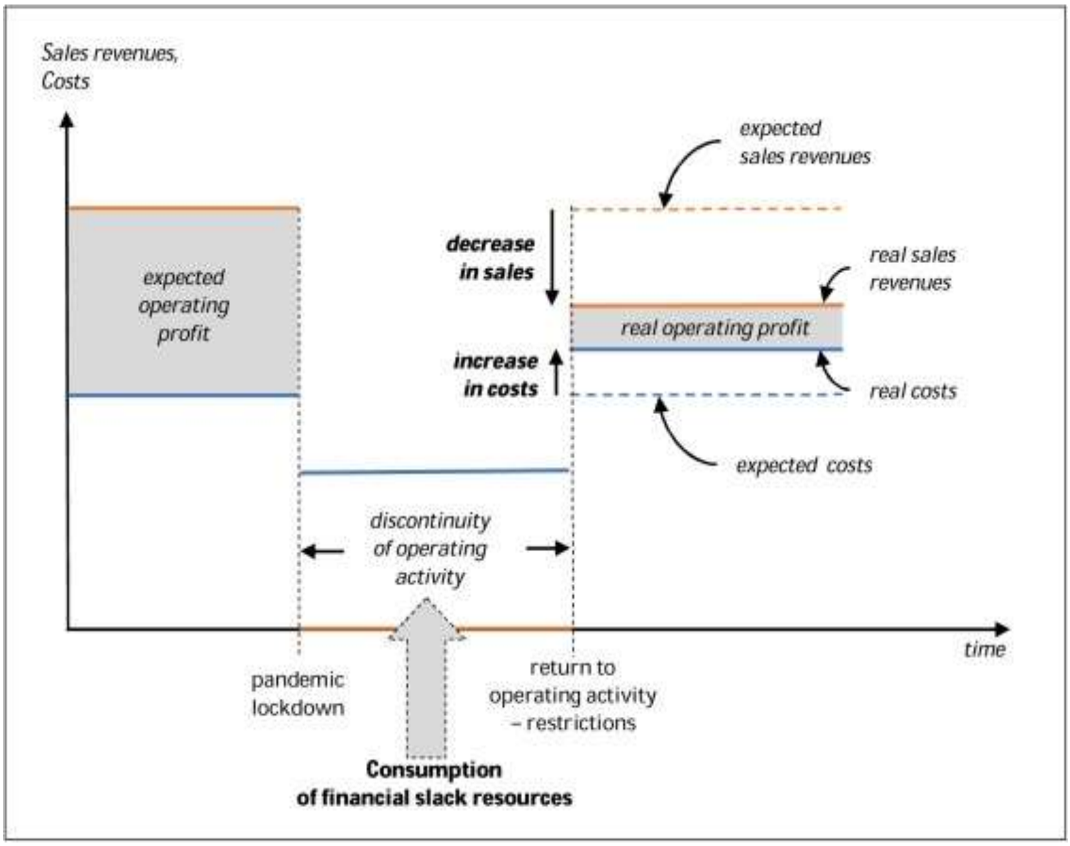

Fig. 1. shows the key effects of the COVID-19 epidemic on the performance of the hospitality industry

2. EFFECT OF COVID-19 ON THE PROFITABILITY OF THE HOSPITALITY INDUSTRY

The World Health Organisation declared COVID-19 a pandemic on March 11, 2020 (WHO, 2020). Quickly, the Indian government implemented a four-level alert system on March 21 (Indian Government, 2020), placing the nation initially on Alert Level 2 (Prepare), Alert Level 2 (Reduce), Alert Level 3 (Restrict), and Alert Level 4 (Lockdown).

The level was then upgraded to Alert Level 3 on March 23 with a warning that the nation would shift to Alert Level 4 at 11:59 p.m. on March 25. Initially, Alert Level 4 was supposed to last for four weeks. This response resulted in a national lockdown and border closures, both of which were unprecedented in India's history (India Government, 2020). The COVID-19 reaction from India was regarded as one of the harshest in the world. A "stay at home" directive was included in the Level 4 lockdown. Except for necessary services, all businesses and schools were closed. Only necessary services were allowed to be transported (India Government, 2020). The hospitality sector felt the effects of COVID-19 right away. Under Alert Level 4, all hospitality places were shut down [13-18].

3. CONCLUSION

This study was created to investigate the level of risk readiness for COVID-19's effects in the hospitality industry. The coronavirus pandemic has surely had a profound impact on many industries, but it has undoubtedly had the greatest impact on the hospitality sector. This is because hospitality enterprises were severely impacted by operating continuities as a result of systemic measures adopted to stop the disease's spread.

This study focused on liquidity tensions following customer exits and the related ability to sustain this crucial position and successfully recover from disruptions to analyze these effects from the perspectives of risk and financial management. The investigations looked at how perseverance and financial slack holdings affected the hospitality industry's risk readiness.

Not only has the COVID-19 epidemic caused a significant quantity of death and destruction in several nations around the world, but it has also had a detrimental effect on businesses across all industry sectors.

The study's findings have several practical ramifications. First, managers in this field need to pay more attention by putting in place procedures that would make their companies more resilient because shocks like the one brought on by the coronavirus have a more serious impact on the hospitality industry. While it is true that not everything is within these managers' control, as was discussed in the paper's framework, there are responsibilities they may play. One strategy to handle crises like this one, for instance, is to diversify their operations over several regions of a nation and the globe. This is because it is typically unlikely that all sites would experience the same level of impact at the same time. Thus, even when operations have either been seized or have been reduced back to other places, the corporation can nonetheless continue to function there at close to full capacity.

The investigation has produced several findings that could enable the development of efficient system interventions and improve managerial choices for reaction and recovery paths.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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