

## **CHAPTER 2: LITERATURE REVIEW**

### **Introduction**

The key objective of this chapter is to develop an understanding toward crisis management in tourism during an economic crisis. Firstly, the chapter introduces the concept of crisis and types of crisis. The impacts of crises on tourism will then be explored in detail, followed by the concept of crisis management and economic crisis management.

### **Crisis**

A crisis is an adverse incident with an unpredictable outcome (Bland 1998; Campbell 1999; Coombs 1999; Coombs & Holladay 2002; Ruff & Aziz 2003). Interestingly, it should be pointed out that there is a wide range of crisis categories, from a basic 'internal versus external' introduced by Evans and Elphick (2005, p. 135), to a more complex system proposed by Henderson (2007) who categorized crises into economic crisis; political crisis; socio-cultural crisis; environmental crisis; technological crisis; and commercial crisis. Although there are numerous approaches to crisis categorization, The Pacific Asia Travel Association (2003) has suggested that crises can be largely categorized into two major types, which are human-made and natural-made crises.

It is crucial for one to understand that not all types of crisis lead to the same consequences, differing from one another in terms of the scope and extent of damage caused (Aktas & Gunlu 2005). Different public reactions to both human-made and natural crises provide a clear example of the critical differences in the public's reaction to different types of crisis. The public normally reacts more negatively to the effects of human-made crises than to those of a natural crisis. While it is generally conceded that organizations have little control over natural crises, human-made crises can devastate the established reputation of an organization. As human-made crises are usually preventable, this type of crisis therefore often receives severe public condemnation (Pearson & Mitroff 1993).

Furthermore, different crisis types, particularly both natural and human induced crises, are neither absolutely predictable nor avoidable. This means while crises occur rarely and randomly, it is also true that no tourism destination is unaffected by those crises. In response to the near certainty of experiencing crises, it is suggested that tourism organizations come up with a plan for minimizing the damage of, and accelerating the recovering from, such crises through the development of crisis management strategies (Faulkner 2001). Therefore the concept of crisis management is discussed below.

### **Crisis Management**

Being able to effectively respond to a crisis is critical to an organization's survival. Whether or not an organization is prepared for a potential crisis depends upon senior officials and other personnel operating within an organization. More importantly, studies have shown that organizations with an established crisis management approach are able to effectively communicate and respond in the event of a crisis (King III 2002). Clearly, it is crucial for an organization to have a crisis management approach in place.

In general, a crisis management approach can be viewed simply as involving the '4 Rs' of a four-stage process, which are reduction, readiness, response and recovery (Evans & Elphick 2005). The Pacific Asia Travel Association (2003) has summarized and described each stage as follows:

1. *Reduction*. In this phase, an organization's analysis of strengths, weakness, opportunities, and threats (a SWOT analysis) will help the managers to assess a potential crisis and to prepare a contingency plan. After identifying potential crises, organizations need to be prepared by developing strategic, tactical and communication plans.
2. *Readiness*, the second phase, crisis response and crisis simulation exercises are very important in order to acquire and maintain crisis management skills as managers and staff need to be ready for the impact and stress from crises.

3. *Response*, the third phase, a contingency plan is implemented immediately after a crisis occurs, as organizations that have a well-established crisis management plan tend to be more successful in handling crises. A crisis communication strategy should be utilized to communicate with not only the customer, but also the stakeholders and the public.
4. *Recovery*. In the last phase, the crisis recovery could be measured by the speed with which an organization resumes full business operations; the degree to which a business recovers to pre-crisis levels, or the amount of crisis-resistance added since the crisis occurred.

Whilst corporate managers are faced with the reality of trying to implement this process (Evans & Elphick 2005), it should be noted that all stages of the crisis management process need to be flexible, which allows for potential evaluation and modification, depending on the nature of the crisis/disaster (its magnitude, scale and time pressure) and stakeholder response to strategies. Although crisis management is a requirement for organizations, and although business leaders recognize this, many do not undertake productive steps to address crisis situations. Managers who do take productive steps however will be in a much better position to respond when a crisis or disaster affects an organization or destination (Ritchie 2004).

### **Economic Crisis Management in Tourism**

Tourism scholars (Coombs 1999; Henderson 2007) have emphasized that every crisis is unique. Different crises require different skills from crisis team members; an emphasis on different stakeholders; as well as different crisis communication strategies. Most importantly, lessons learned from particular crises could contribute to a measure of broader applicability. Consequently, a brief review of the major differences between an economic crisis and other crisis types are discussed below.

### Economic Crisis versus Other Crisis Types

Although the tourism industry worldwide has been affected by a number of crises, the global economic recession posed the greatest risk to travel plans in 2010. This concern is reflected by research conducted in the US which investigated the relationship between the travel intentions of US residents and various risks. Data have been analyzed on leisure travel behaviors and attitudes. The study was of a nationally representative sample of 1,048 travelers who had taken a trip in the previous 12 months that was at least 50 miles from home or required an overnight stay (Wilkening 2011a).

From the research discussed above, over two-thirds of respondents reported the recession (financial risk) would affect their travel plans. The other travel impediments respondents reported were: concern about the H1N1 or swine flu, 7.7 %; having no one to travel with, 7.2 %; personal or general safety concerns, 6.2 %; and fear of terrorism, 5.3 %. The study found that respondents were less likely to travel if they had taken trips in the past 12 months. This may make sense given the financial constraints they expressed. If people have already traveled for pleasure in the past year and money is tight, then they may anticipate taking fewer trips in the next year (Wilkening 2011a).

Evidently, it is believed that an economic crisis does have a stronger negative impact than other crisis types. This is primarily why consumer demand is falling in both the business and leisure tourism sectors (Badr, Zakareya & Saleh 2009). It should also be pointed out, however, that each sector has different characteristics and reacts to an economic crisis differently as discussed below.

### Business versus Leisure Tourists

The Global Business Travel Association predicts that business travel will remain steady even if oil price pass-on costs continue to rise. The availability of hotel discounts once travelers arrive at their destination is thought to play a role in continued business travel despite the increased cost of airfares (Wilkening 2011b).

Scrutiny of the need and cost of every trip is becoming standard practice. It means a new pressure for corporate travel managers to maintain a more exact and transparent view of

travel spending. Once the financial crisis took hold, companies started scrutinizing every aspect of their business travel policies to see where money could be saved. Some have been very successful at this, saving millions of dollars. Once a CFO gets a taste of these cost savings, it is highly unlikely that he or she will want to let go of them (Brett 2009).

Leisure travel, on the other hand, may see a stronger negative shift. Instead of buying an airplane ticket, consumers who have foregone travel during the recession may decide to take their vacations within driving distance. Although rising oil prices will impact the cost of a road trip, a destination within driving distance is still likely to be less expensive than one that requires international air travel. The gas prices will almost certainly mean some cutbacks on travel expenses, at the very least. Travelers may stay at less expensive hotels, and eat at cheaper restaurants (Wilkening 2011b).

In terms of destination choice, leisure tourists in the years to come will be more likely to travel closer to home, a phenomenon recently called 'staycation.' Domestic tourism is expected to boom as a repercussion of global economic recession, and segments such as visiting friends and relatives, repeat visitors, special-interest, and independent travelers are expected to be more resilient. In the meantime, decline in the length of stay and international tourism expenditure will be more pronounced than volume (or number of arrivals); value-for-money destinations (e.g., places with favorable exchange rates) are likely to be preferred destinations among the traveling public (Papatheodorou, Rosselló & Xiao 2010).

### Economic Crisis Management

With economy the major concern, the World Tourism Organization has warned that people will think twice before deciding to travel. The trend therefore points to travelling to destinations closer to home, meaning more domestic travel. This is expected to be favored as against long-haul travel. Visiting friends and relatives, repeat visitors and special interest and independent travelers are expected to be more resilient. Moreover, the decline in the average length of stay and expenditure is likely to be more pronounced than the decline in overall volume. Destinations offering value for money and with favorable exchange rates have an advantage as price becomes a key issue. Consumers will wait for special offers before

making decisions resulting in an increase in late bookings, while companies will focus on containment of cost (UNWTO 2009).

During an economic crisis, it is therefore recommended that tourism organizations focus on markets that will generate revenue (Johnson, Scholes & Whittington 2005, p. 524). In turn, discounting has been widely used as a marketing strategy to attract potential customers. In fact, a number of tourism organizations consider discounting to be one of the most important marketing strategies. The Tourism Internet Marketing (2009) argued however that discounting is not the most effective strategy during an economic crisis and is not recommended due to a number of reasons.

Firstly, it sends a very dismissive signal to past loyal customers - essentially saying their loyalty is worthless and implying that the profit margin is so high that the supplier can afford to discount indiscriminately now. Secondly, it reinforces the notion that if the seller does not value their own product, why should the buyer? Thirdly, it further commodifies the industry and, by necessity, downgrades service levels. How do 5 star hotel properties manage to offer over 50% discounts without reducing back of house staff and dropping service levels? Fourthly, it will make it very difficult to raise prices and re-capture customers when interest rates, taxes and the price of energy, carbon and other key inputs rise, and rise they most certainly will within the next 18-24 months (Tourism Internet Marketing 2009).

To cope with an economic crisis effectively, tourism scholars have suggested a number of best practices. Cooperation between public and private sectors appears critical to sustain international tourism in a region. Arguably, while tourism in a single economy is likely to remain more vulnerable in an economic downturn, it is believed that collective strategies through collaboration, regional cooperation, and partnership will serve as effective coping strategies for the recovery of inbound and outbound tourism (Papatheodorou, Rosselló & Xiao 2010).

## **Summary**

In order to gain a profound understanding toward this research topic, this chapter has drawn literature from major areas which are central to this research. In the next chapter, Chapter 3, methodological approaches employed in this research will be discussed.