

Original Article

Evaluating Risk Management Readiness of Organizations towards COVID-19: A Case of the Small-scale Boutique Hotels

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Abstract

COVID-19 is a pandemic that has disrupted the tourism industry worldwide. This study identifies the risk-response strategies of small-scale boutique hotels to analyse business readiness in the face of COVID-19. A similar study has not been previously conducted in the Sri Lankan context. The research was conducted on small-scale boutique hotels in Sri Lanka using the convenience sampling method whereby four boutique hotels were selected from the Southern province. The gathered data were analysed using thematic analysis and the key variables identified were the managers' perception and resource availability. The study found that 1) the boutique hotels were mainly dependent on foreign customers and thus faced heavy losses and 2) the strategy for continuing their business operations was based on downsizing, pay cuts, and targeting local customers through promotional offers on social media. The findings also revealed that efforts to attract local tourism were not successful. The lack of a contingency plan in the case of disruption of foreign tourism was evident. Based on the analysis, the risk-response strategies used for recurring shocks (e.g. floods, fire, etc.) are inadequate to face a crisis that has a long and unpredictable impact in nature. It was further evident that the hotel owners did not understand how to evaluate the risks of their business apart

from what they have been facing continuously over the years.

Keywords: *COVID-19, Tourism, Risk Management, Small-Scale Boutique Hotels*

Introduction

An organization is an interconnected system of internal and external parties comprised of customers, suppliers, and employees. A shock wave causes this system to disrupt, misaligning the supply and demand [1] which could result in downsizing and even threatening the survival of the organization [2],[3]. A crisis can impact multiple levels – e.g. global, country, economy, industry, company etc. [4].

The COVID-19 pandemic has produced significant local and global impacts [5]. The tourism industry is an important sector in the global economy with an annual average GDP growth of 8% and 10% employment [6]. Due to the drop in tourist arrival in 2020 compared to 2019, a loss between 290 million to 440 million resulted in a single year [7]. COVID-19 is the worst crisis the tourism industry has faced over the years [7].

The spontaneous nature of these external shockwaves makes it difficult to predict and

anticipate such events [8]. Organizations need to be prepared for such external crises [9].

A. *Background of Study*

Sri Lanka is a country that depends heavily on the service sector, where the tourism industry plays a major role in the country's development [10]. Tourism is the third-largest Sri Lankan industry based on foreign exchange earnings [11]. The Sri Lankan government banned inbound passenger flights to the island during the pandemic. The room occupancy rate of Sri Lanka Tourism Development Authority (SLTDA) registered classified and unclassified accommodation declined from 76.4% to 52.0% in the first quarter of 2020, compared to the first quarter of 2019 [10]. The generated gross value addition from the accommodation and F&B (food and beverage) sector declined by 6.2% in the first quarter of 2020, in comparison to 2019[10].

Past research identifies managers' perception and resource availability as two factors determining an organization's preparedness towards a crisis. Resource availability is focused on the human resource management and financial capabilities of an organization. During a crisis, the top management's focus shifts towards ensuring business continuity [12]. Crisis demands a greater involvement of top management [13] as they have the authority to easily deploy resources [12]. Active engagement of employees should be increased to effectively execute the decisions made by the top management [14]. While most organizations simultaneously focus on cutting costs through layoffs and pay cuts, the availability of adequate financial resources supports organizations to face a crisis [15]. Lack of knowledge regarding a crisis causes organizations to use uninformed, ineffective strategies to mitigate it.

A. *Problem Statement*

In a business cycle, the possibility of a crisis cannot be avoided [4]. Some enterprises can survive a crisis, while some cannot [16]. The Sri Lankan business sector has had no prior experience in facing a pandemic. Since this crisis was not initiated within an organization, most companies ranging from small-scale to industry giants were impacted. With the commercial acceptance of the work-from-home concept due to island-wide curfews, organizations could not resume their normal activities as soon as they hoped to. Lack of preparation has led businesses to lay off employees, impose salary cuts, and in worst cases halt operations due to disruptions in the supply chain [17].

COVID-19 affected industries such as apparel, tourism, retail, banking, and construction [18] while lack of organizational preparedness was demonstrated by the struggle for the survival of many [18]. A crisis may not be entirely preventable, however, prior preparedness may minimize the impact [19].

B. *Research Objectives*

This research aims to evaluate the risk management readiness of boutique hotels towards COVID-19. Accordingly, the following objectives were formulated.

Main objective:

- To evaluate crisis readiness of boutique hotels towards COVID-19

Sub-objective:

- To determine the influence of COVID-19 on boutique hotels in Sri Lanka
- To determine the drawbacks of existing crisis management activities followed by the organizations

- To determine the strategies followed to overcome the crisis faced by the boutique hotels in Sri Lanka.

C. *Significance of Study*

An organizations' survival during a crisis depends on how well it caters to its stakeholders' demands. The operations of an organization should be at a satisfactory level. Past research stresses the importance of crisis management and practices that should be adopted by an organization to thrive through catastrophes. Preparedness is the initial key step to be taken in crisis management. A crisis can be of many types such as war, natural disasters, man-made errors, and pandemics [20]. While there are many studies conducted on crisis management, little research is available related to COVID-19. Many theories and factors have not undergone empirical testing.

One aspect of the knowledge gap would be that most studies are carried out in western countries and limited studies are carried out in non-western countries. Most organizations struggled to survive through this pandemic due to a decline in demand. This research focuses on identifying the risk-response strategies in Sri Lanka to analyze organizational preparedness in the face of COVID-19.

Literature Review

A. *Crisis Management*

Crisis management involves making strategic decisions in a complex and unstable situation where the damage inflicted by the crisis can be mitigated [3], [21]. Crisis management can be divided into three stages 1) pre-crisis, 2) crisis response, 3) post-crisis. The pre-crisis phase includes steps taken for preparation and prevention. The crisis response stage is where the organization faces the catastrophe while the post-crisis focuses on learning from the previous experience and preparing for the next crisis [3].

Another model for crisis management phases consists of four stages 1) incubation 2) detection 3) crisis and 4) repair and learning. However, a crisis does not pass all these stages in theoretical models. A crisis continues from one phase to another based on many factors such as early detection, preparation, and decisions made by the management at each phase [22]. Preparedness is the initial key step to be taken in crisis management [20]. Preparation for handling a crisis involves creating a crisis management plan that is updated frequently, selecting a crisis management team, testing the plan, training the crisis management teams, and pre-draft crisis-related messages[22]. The crisis management plan is misunderstood as a guideline to be used in such situations although it only serves as a framework that can be used to make good decisions [3], [21].

A. Carmeli and J. Schaubroeck[21] have identified six reasons why organizations do not engage in proper crisis management. These reasons include denial, disavowal, grandiosity, idealization, intellectualization, and compartmentalization.

- Denial - organizations assume that they have no threats from a crisis.
- Disavowal - organizations are aware of the impact a crisis would have on the organization but the magnitude of the impact is diminished.
- Grandiosity - a crisis will not threaten organizations that are big and powerful.
- Idealization - organizations ignore crisis signals assuming the crisis does not have an impact on good organizations.
- Intellectualization - organizations take necessary actions to mitigate crisis occurrences.
- Compartmentalization - a crisis will not affect the entire organization but only one department.

B. *Managers' Perception*

Managers' key responsibility during a crisis is to analyse and minimize the negative impacts. High involvement of top management is needed to support the teams to ensure the firm does not fail [23]. Crisis preparedness starts with the top management's perception of the crisis and the immediate actions for survival as they have the authority to manage and allocate resources appropriately [12]. Proper leadership from managers at the strategic level play a crucial role to overcome business disruptions [13].

Some of the strategic actions taken by the top management during a crisis are, improving the quality of their products, training the employees, focusing on customer satisfaction, and allocating a budget for research and development [24].

C. *Resource Availability*

Resources play a crucial role in crisis management as the availability of resources facilitates rapid delivery and cost-effectiveness of a project while insufficient resources will lead the organization to collapse [25]. Readily available resources increase the readiness and allow organizations to continue by minimizing disturbances to disruptions [12], [26].

Organizations prone to crisis prepare for it by focusing on the ability to deploy resources hence organizations give employees and managers access to the organizational resources [14]. The organization's financial stability collapses if the company's management fails to acquire the right amount of financial resources during a crisis [27].

However, most organizations do not allocate a necessary amount of emergency funds, instead, they use their working capital to resolve crisis issues. There is a direct impact on the financial status of the organization during an unexpected crisis. Pay cuts, employee layoffs are used to overcome such impacts [15]. Proper budgeting

helps to mitigate the risk for a certain amount in the absence of an insurance scheme [28].

Companies should shift their policies to hybrid working systems and should develop crisis management plans with the help of HR managers to face ongoing and future crises [29]. There is a deficiency in resource availability during a crisis regarding human resources [30]. Human resources are vital to continue business processes and to certify the balance in work life. Some companies went through a higher turnover due to COVID-19 which led to poor employee motivation. This impacts the organization in short and medium terms. The remaining employees face psychological insecurity which leads to poor performance [31].

Methodology

This study focuses on small-scale boutique hotels in Sri Lanka. Hotels were categorized based on their listing under the Sri Lanka Tourism Development Authority [32]. The research follows a qualitative approach where thematic analysis and pattern matching was used to elucidate the findings.

A. *Data Collection*

Primary data was collected to achieve the stated objectives of the research. Due to the COVID-19 pandemic, the data collection method was restricted to telephone interviews with the hotel owners via a structured questionnaire where 20 open-ended questions were designed to capture the organizational insights and behaviour on risk management to gather information.

B. *Research Design*

The population considered for the study were all the registered boutique hotels listed under the Sri Lanka Tourism Development Authority which were 36 boutique hotels [32].

The convenience sampling method was used to select the sample, which was restricted to four, small-scale boutique hotels located in the Southern province of Sri Lanka. The Southern Province recorded the highest occupancy rate in 2019, 59.68% in comparison to all the other regions in the given year [32].

All the organizations had the experience of operating in the industry for more than one and half years and had an average of 10 employees. The names of the owners and hotels are not disclosed due to confidentiality reasons.

Data Analysis

A. *Influence of COVID-19*

Based on the data analysis, COVID-19 severely impacted businesses because of its global reach and prolonged nature. Any crisis affects the rules and regulations in a country. Similarly, COVID-19 resulted in government policy changes for the Sri Lankan tourism industry, such as temperature readings of every individual, provision of sanitary kits, maintaining guest details, and maintaining a logbook of staff duties. Hotels had to temporarily shut down any activities that required direct human contact such as spa facilities.

For the smooth functioning of hotel operations, suppliers must cater to the requested services without any disruptions. Examples of supplier services include kitchen needs, chemicals, utensils, and laundry. These services were more severely impacted during the COVID-19 period. The main reasons for this were a) import regulations and b) island-wide lockdowns. To deal with the import regulations, a local supplier base was developed. Supplies were also delayed due to route changes.

B. *Existing Crisis Management Activities*

The findings suggest organizations operating in the tourism industry lack knowledge in crisis management. Only forms of crisis management used were limited to 1) a percentage allocation of financial resources and 2) investing in insurance policy schemes. It was observed that the organizations that had cash reserves as a part of their contingency plan could continue operations even during an unexpected event. On the other hand, organizations that did not plan for the unforeseen crises had to terminate their operations. It should be noted that despite owners allocating financial resources like a risk management measure, this method is not immune to impacts from long-lasting shocks such as COVID-19.

C. *Strategies Followed to Overcome Crisis*

Organizations that were unprepared for the crises took measures to lay off employees, reduce consumption of utilities, and temporarily cease operations. Hotels that had some degree of preparedness extended a smaller margin of pay cuts to employees, e.g. 20% instead of 50%. Demand is the most critical factor for the survival of a business. A drop in demand cuts off the cash flow essential to maintain an organization. Most hotels were targeting foreign customers and had to shift to targeting local customers suddenly. This was done via social media platforms such as Facebook and Instagram through attractive offers (to target the local customer base). Travel websites such as Booking.com, Agoda, and Airbnb were also used for their promotional efforts.

These efforts were not successful due to the following reasons:

1. Increased marketing efforts were required to target locals as opposed to foreign clientele. The increased marketing efforts were required due to the large variety of options available to locals.

2. Boutique hotels could not compete with the rates offered by five-star hotels for locals.

Conclusion

The research focuses on evaluating the crisis readiness of small-scale boutique hotels towards COVID-19. This was evaluated based on three sub-objectives evaluating the influence of COVID-19 on boutique hotels, to determine the existing crisis management activities followed by the organizations, and strategies followed to overcome the crisis faced. A hotel risk management plan can be commonly addressed as either establishing an insurance policy or having capital reserved from the budget. Lack of knowledge on crisis management was evident among the owners of the hotels. It was identified that hotel owners were reluctant to invest in a crisis management plan due to their lack of knowledge in crisis management and due to the difficulty of allocating additional resources for a crisis management plan. Hence small-scale boutique hotels in Sri Lanka were less prepared to face a crisis.

A. Recommendations

To increase preparedness towards crises the following recommendations can be suggested:

1. To educate the upcoming and existing leaders on the importance and alternative methods of risk management. Moreover, the government can introduce an insurance scheme on unexpected risks to ensure the survival of small and medium-scale tourist organizations.
2. To diversify the supplier networks to ensure the supply chain does not get disrupted due to the incapability of one supplier. Having a supplier-balanced scorecard [33] to assess the performance and create a dynamic supplier base would avoid disruptions in the supply chain.
3. To have in place different strategies to target different customer segments.

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