



# Pre-crisis period planning: lessons for hospitality and tourism

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## Abstract

**Purpose** – The aim of this exploratory paper is to highlight for hospitality and tourism, the importance of an effective contingency plan – in case the worst happens. The paper critically evaluates and suggests guidelines for preparing a crisis management plan in the pre-crisis period. This could have a significant impact on the growth of the firm as well as the industry and economy.

**Design/methodology/approach** – Based on the review of crisis management literature, key issues have been identified, lack of pre-crisis planning has been witnessed and subsequently an existing model has been adapted to be used in generic format for preparing a contingency plan.

**Findings** – The paper analyzes various issues relating to readiness to address crises, different types and stages of crisis, the relative impact of these negative events on the hospitality and tourism industry, gaps found in the crisis management strategies and the lessons learnt from them.

**Originality/value** – This paper should prove useful to managers considering the development of a crisis management plan so that they are prepared for the unexpected in a strategic manner.

**Keywords** Hospitality services, Tourism, Contingency planning, Management strategy

**Paper type** Viewpoint

## Introduction

Disasters in the recent past such as the Bird Flu in 1997-1998, 2001-2002, 2003 and now in Eastern India in 2008; the 9/11 attacks in 2001; the incidence of SARS in 2002 in Southern China and in 2003 in Hong Kong; the outbreak of the Iraq War in 2003; a killer Tsunami (2004) and Hurricanes like Charley, Frances (2005); the London bombing (2005) and many others have made the world realize that the future is definitely uncertain. Man-made as well as natural disasters are seemingly on the rise and due to globalization, these events can have a wide impact. The hospitality and tourism is especially vulnerable as it operates 24/7 and for 365 days a year. Further, as guests and employees are part of the product itself, it is difficult to control services. This means that the industry is ultra sensitive to risks, which can escalate without warning. As indicated by Faulkner and Russell (1997, cited by Henderson and Ng, 2004), tourism is easily affected by internal and external influences that can disrupt ongoing operations. It is interesting to note though the results of a survey of *Fortune* 500 companies in which CEOs said that senior managers might suffer from lack of preparedness, but definitely not from the confidence that they can handle a crisis (Fink cited by Augustine, 1995). A shortsighted view can be detrimental to the fortunes of the organization and it is better to be proactive in sensing the potential threat levels posed by such events.



This paper explores the need for effective crisis planning in the pre-crisis period and the potential impact of these negative events on the industry. In the specific context of India, this assumes particular importance given the general low level of awareness and preparedness among the public as well as the state. Krishna (2006) delineates the hazard profile of India as one that has 60 percent of its land mass prone to earthquakes and 40 million hectares (8 percent) of its landmass prone to floods. It has two cyclone seasons, 8,041 kilometers of coast line (most of which is exposed to tropical cyclones risk) and a massive public infrastructure exposed to natural hazards. Krishna succinctly lists the nation's inadequacies in generic disaster coping capability as follows. He argues that India lacks: public awareness and appreciation of the need for disaster preparedness; public awareness and policy interest in disaster risk reduction; media and civil society responsiveness and academic and scientific knowledge on disaster management – where this exists, it seldom transfers into practice.

The paper also focuses on the possible responses and ways of addressing crisis management gaps that hospitality and tourism companies could adopt. After an opening review of the literature, the aim here is to offer guidelines for crisis planning, linked to an existing framework developed by the Pacific Asia Travel Association – PATA (2003).

### **The hospitality and tourism industry and the Indian economy**

One of the key motivators of focusing on hospitality and tourism in India *vis-à-vis* the potential impact of crisis events is the linkage between economic growth and sustainability. The World Travel & Tourism Council – WTTC (2008) in its annual India report ranks the Indian travel and tourism economy (TTE) as the 16th largest in its list of 176 countries. It also ranks India in first place in terms of growth prospects. As an employment generator, the TTE contribution is expected to rise from about 30.5 jobs in 2008 (6.4 percent of total employment), or 1 in every 15.6 jobs to about 39.6 million jobs (7.2 percent of total employment) or 1 in every 13.8 jobs by 2018. The Indian TTE accounted for 6.1 percent of India's gross domestic product (GDP) – equivalent to US\$73.6 billion in 2008. GDP is expected to rise to US\$171.5 billion by the year 2018.

This clearly indicates the scale of the contribution made by hospitality and tourism to the Indian economy with some 5 million international visitors in 2008 and an anticipated 10 million visitors by 2018. The WTTC (2008) study clearly indicates that most of the major Indian macro-economic indicators such as GDP, exports, employment, personal consumption, capital investment and government expenditure are correlated to the TTE trends. Thus, the TTE can be said to be one of the major determinants of the health of the Indian economy and any adverse trend is likely to have a significant impact.

### **Crisis management and the hospitality and tourism industry**

A “crisis” can be defined as “any situation that has the potential to affect long-term confidence in an organization or a product, or which may interfere with its ability to continue operating normally” (PATA, 2003). “Crisis management” as a term has been used since the 1960s when it was used to describe the process of conflict resolution and diplomacy (Frei, 1978, cited by Sausmarez, 2005). Recently, crises, disaster and crisis management are commonly used terms. It is no longer a question of whether they will

arise, but essentially a matter of time before they occur and the key challenge is to find the best way(s) of responding (Barton, 1994; Kash and Darling, 1998, cited by Henderson and Ng, 2004).

Negative events that might affect the hospitality and tourism industry can be divided into natural crises like earthquakes, medical epidemics, hurricane, etc. on one hand and man-made crises like acts of terrorism, fire, war, etc. on the other (PATA, 2003). Henderson (2005) argues that crises can unfold rapidly and in a chaotic manner as they are difficult to anticipate. This unpredictability results in a situation where those responding to the aftermath of the crisis do so intuitively and in a relative state of un-preparedness. To appreciate the dynamics of these negative events, there are models proposed by researchers based on variables such as – impact, frequency, control, speed, etc. Gee and Gain (1986, cited by Glaesser, 2003) have proposed a matrix with degree of control and speed of onset as the control variables. These events could be hotel overbooking, reduction in number of flights, terrorism, hurricanes and other natural calamities.

Similarly, Walker and Page (2003) discuss the potential events that can affect hospitality and tourism by categorizing them on the basis of the severity of the incident and the frequency of the incident. Given the characteristics of such events, it is helpful to examine the impact of recent crises, including the SARS epidemic and the Iraq War. The impact of these two events was felt across Asia and the Pacific Region, including destinations and countries which were not directly affected by these two events such as Japan, Korea, Australia, Thailand, Indonesia and the Philippines. Here, the decline in tourist arrivals ranged from 10 to 50 percent as an indirect outcome of the uncertainty and increased levels of anxiety. Similarly, the impact of the 9/11 attacks on travel and tourism in 2001 was drastic. The forecasted demand for travel and tourism during this period in the USA was 3.8 percent, however due to this single event the forecast dipped by 5.1 percent (Belau, 2003). Such events and their related impacts underline the economic importance of travel and tourism and the need for positive, rapid responses to such catastrophes (Wilks and Moore, 2004, cited by Glaesser, 2003).

Crisis management is an issue for government as well as for industry. For example, tourism to the UK contributes substantially more to the British economy than agriculture does and yet the British Government had to close the countryside to visitors as its emergency response to the foot-and-mouth crisis in 2001. This action had a damaging impact on inbound UK tourism, resulting in a loss of revenue for hospitality and tourism operators (Sharpley and Craven, 2001, cited by Sausmarez, 2005).

### **Driving force of organizations that are said to be in crisis ready**

Pauchant and Mitroff (1992) cited by Sausmarez (2004) categorized crisis management approaches as either proactive or reactive responses. Proactive crisis management includes planning for a crisis before it happens whereas reactive crisis management includes planning after the crisis when it has already affected the organization. In most cases, hospitality firms have contingency plans for dealing with fire or food poisoning outbreaks as there is a mandatory requirement to prepare for such eventualities (Shiu, 2003, cited by Strauss and Weinstein, 2003). Crisis management planning is also linked to the size of the organization and the relative levels of experience of its managers. In general terms, the larger the organization,

the more important it is to prepare proactive responses and in larger organizations, the pool of management experience more readily facilitates this process (Rousaki and Alcott, 2006). To illustrate, a large organization like the McDonald's restaurant company has to address multiple sources of criticism and potential vulnerabilities. The company has been widely criticized in popular books like *Fast Food Nation* and movies like *Super Size Me* and has had to react to accusations that it is partly responsible for national obesity problems (Jennings, 2006).

"Being an organization, which has crisis experience, will show higher perceived crisis readiness scores than an organization that has not experienced a crisis" (Rousaki and Alcott, 2006, p. 31). Higgins (2005) reports on Walt Disney's response to an initial hurricane enable their Florida resort to prepare and respond effectively to three further hurricanes (Frances, Ivan and Jeanne) in the same season. In the aftermath, they invested time and resources to reviewing their plans and by learning from their experiences, were able to reopen for business swiftly and continue providing exceptional service. However, Walt Disney's response is somewhat exceptional and the majority of companies do not adopt this kind of proactive stance (Charles, 2007).

Jauncey (1999) observes that senior hospitality managers tend to have spent a long time in the industry and might therefore be well-equipped to contribute to proactive crisis planning. Typically, however, responsiveness varies from person to person and on a manager's ability to "think out-of-the-box" when crises occur. Bibeault (1982, cited by Rousaki and Alcott, 2006) thinks that there is evidence to suggest that senior hospitality managers often overlook exogenous changes in their environment, especially when success and relative stability reinforces a personal sense of security. In these circumstances, managers may fail to perceive warning signs in so doing contribute indirectly to organizational vulnerability.

In summary, these factors may not fully explain the ability/inability or success/failure of the business to cope with crisis events, but the literature suggests that hospitality and tourism businesses are not generally well-prepared in terms of proactive planning.

### **How have we responded so far?**

The contrast between the impacts of tourism on Thailand and Hong Kong, respectively, is demonstrated by their different planning approaches and reactions to the Tsunami and SARS outbreak. The Thai Government's response was relatively ineffective whereas the Hong Kong Government reacted more swiftly and effectively.

In the context of the 2004 Tsunami, the Thai Government did not have a proactive crisis plan, though in 1990, the Chief of the Thai Meteorological Department had evolved a ten-point plan in preparation for a Tsunami, although the authorities seemingly ignored this proposal and accused him of inflating the risks to the tourism and real estate industries. As a result, on the day of Tsunami – the 26 December 2004, the meteorological authorities, though aware of the approaching Tsunami, with a two-hour lead-time, did not issue a warning. They apparently decided that if they issued a warning, it might unnecessarily disturb the tourists on the beach. Therefore, lack of preparations, the absence of warning and unfamiliarity with the signs of an approaching Tsunami, combined with high-occupancy rates, maximized the disaster's impact (Cohen, 2007). Immediately, after this tragedy the authorities faced lots of criticism and approbation and the occupancy levels of the hotels dropped to as low

as 10 percent. The lack of pre-crisis planning meant that the Government and Tourism Authority of Thailand did not have enough time to implement effective responses and this had disastrous consequences. This scenario clearly indicates the importance of a well-conceived recovery plan (Faulkner, 2001, cited by Rittichainuwat, 2006) and that pre-crisis planning should include preventive measures too.

The Hong Kong Government had been proactive in facing its own aspect of this and other crises events. An interview with Lily Shum, a former Director, Hong Kong Tourism Board, shows how alert they were to the environment and that the strategies they used were far more effective than the Thai's to respond to SARS and the Tsunami (Plog, 2005). The key difference here is pre-planning – in the aftermath of the Tsunami, to bring tourists back, the Thai Government marketed a deeply discounted “fun package” geared towards nearby Asian markets. First, the “fun” aspect was rather insensitive (given the scale of the tragedy that unfolded in Thailand) and second, their strategy focused on adjoining Asian countries even though their tourism industry was not geared specifically for regional travellers. In contrast, long haul visitors stay longer, use upscale hotels and spend more during their visits. Like Thailand, Hong Kong also promoted discounted packages, but with a positioning strategy that emphasized the destination's dynamic energy: “Hong Kong: City of Life” and marketed to long haul travellers (Rittichainuwat, 2006).

From the experience of the Tsunami disaster and the management thereof, it is clear that the absence of a proactive approach can have serious consequences at both national and corporate levels. It makes sense to develop a framework that can be used to assess different scenarios. For example, if and when another devastating disaster strikes, will the tourism industry be able to cope effectively? How do we minimize damage to life and property? Will our crisis management plan be effective in coping with the aftermath? Will our employees know how to respond?

### **The generic framework**

There are many frameworks and approaches proposed for risk and crisis management (Faulkner, 2001; Sausmarez, 2004; Glaesser, 2003) though they mostly focus on recovery or national level strategies rather than proactive and practical guidance for corporate/unit level operations. However, the framework proposed by PATA (2003) could be used as a framework to formulate individual solutions to crisis management scenarios. This framework suggests four distinct phases:

- (1) *Reduction*. Detecting early warning signals of negative events.
- (2) *Readiness*. Preparing plans and running exercises to deal with them.
- (3) *Response*. Executing operational and communication plans at the time of crisis.
- (4) *Recovery*. Returning the organization to normal operating level after a crisis.

The proposals for pre-planning (reduction and readiness phases) are especially useful in the context of this paper.

#### *Reduction*

In preparing for crisis management, it is important to anticipate events so as to prevent and reduce the impact of a crisis by detecting and responding to the warning signs. “Prevention” is certainly a better cause of action than “cure” (Caponigro, 2000, cited in

Jennings, 2006). This phase involves heightened awareness and appraisal of standard operating procedures, in the context of strengths, weaknesses, opportunities and threats (SWOT). The type of SWOT analysis needed here should focus on the existing crisis management and control programmes; hazards within the organization, its building, policies and processes; potential socio-political, economical, technological and environmental events that might cause a crisis and relationships with the media, the public and emergency services (Wilks and Moore, 2004). Charles (2007) suggests that a checklist could be used to ensure that a thorough and systematic review has been undertaken.

In addition to these steps, it is important to ensure top management commitment to the review process and that a related policy statement on threat reduction, with clearly defined goals and commitments is an accepted part of the corporate culture. Crisis management is not a one off-exercise but a core theme in strategic planning. Second, it is important to take into account any financial implications, especially as reserve funds may be needed in support of corrective action (Boss, 2006). Third, it is important to undertake a careful review of the legal regulations and their implications in any given operating environment. For example, in the wake of the problems experienced in Thailand, the government re-shaped its legal framework as it relates to disaster management. These laws need to be enforced as they have positive impact on outcomes of disaster management, and they will create an enabling environment for managing disasters (Moe and Pathranarakul, 2006). Lastly, building goodwill in the community both before and after the crisis is the key to success in crisis planning (Jennings, 2006). Therefore, obviously, some of the items on the lists prepared will prove to be outside the CEO's control, but the response to those items is very much within it (Augustine, 1995).

### *Readiness*

In normal trading conditions, senior management are typically preoccupied with the pressures and deadlines of a market-driven economy, rather than the implications of a prospective crisis. This brings us to the second step of crisis management – the preparation of an action plan for unforeseen circumstances. The rationale is simply to be prepared to face whatever situation might arise (Fink, cited by Augustine, 1995), for instance, it is now possible to detect the development of a Tsunami very much earlier, and much improved warning systems have been implemented and fully tested (Das, 2007). Although this is helpful to the hospitality and tourism industry it does not negate the need to react quickly and effectively. It does however, greatly improve the options for evacuating guests and staff and protecting property – providing that businesses have planned and are ready for such eventualities.

In practical terms, it is essential to reflect crisis pre-planning in employee training programmes and to ensure that staffs are empowered to take appropriate action. One of the most important aspects of a crisis manual is a continually updated contact list of all relevant personnel. Starwood Hotels & Resorts provide a good example, as they have empowered employees to take key decisions in the event of a crisis (*Hotels*, 2006). The PATA framework suggests that simulation exercises might be used to prepare employees to implement plans and here, speed of response is a key issue in terms of the effectiveness of threat reduction (Charles, 2007). Third, it is important to include plans for an emergency response centre that has computers, fax, web-access and



telephone lines. Along with this, it is important to secure business records and documentation in the event of a disaster, not least because insurance companies and other agencies require access to relevant documentation to coordinate and support crisis management and compensate for losses incurred. Fourth, inadequate resources can add to the problem and reserve funds, equipment and other resources should be available for immediate deployment (Charles, 2007). As advocated here, if pre-crisis planning has been carefully considered then the response and recovery phases are much more likely to achieve their objective.

### **Conclusion and implications**

It is clear that hospitality and tourism businesses face a broader-based threat to their stability and longevity than ever before and by utilizing a planning framework during pre-crisis periods, they can plan to cope and respond to the challenges they might face in the aftermath of crisis or a large-scale disaster. In terms of the implications for the industry in India, it is vitally important to raise awareness and to prioritize pre-crisis planning at all organizational levels and plan for implementation. This goes well beyond operational planning as it should encompass communication, familiarization, drills and training programmes. The key action point here is for top management: They need to be fully involved and committed to pre-crisis planning.

Second, crisis management has particular implications for organizational design and the need for relatively fluid structures and procedures in order to accommodate the unpredictable. Clear action plans and instructions regarding who is responsible for what in the event of a disaster, need to be communicated and implemented in order to minimize *ad hoc* responses. This implies a readiness to empower all staff to take rapid decisions in keeping with a crisis management policy that has been disseminated and is understood by all employees. Finally, an inbuilt system with allocated responsibilities for liaising with public agencies and early warning systems as a matter of routine, will help to ensure that advance information has been received and can be acted upon. The knowledge, understanding and competence regarding this state of preparedness amongst employees and then guests will consequently increase goodwill in the market, employees will feel well-prepared and guests will feel confident about the level of professionalism they experience.

At the institutional level, there is a need to enact and implement a legislative framework that encourages and supports disaster planning. The apex industry associations in hospitality and tourism should be party to these discussions and developments so as to ensure buy-in from the inception stage. There are numerous examples and lessons learnt from recent disasters, especially in relation to the failure of early warning systems. It is therefore equally important that India's apex associations engage more proactively in collecting and collating information from public agencies and coordinate their efforts to interpret and communicate key updates relating to all events that are likely to impact on the industry.

Effective pre-crisis planning thus emerges as an essential responsibility of the hospitality and the tourism industry as a whole and it is hoped that this account has helped to make the point that pre-crisis planning is an essential step in preparing for the unexpected.

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