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RESEARCH NOTE



International Sanctions and Russia's Hotel Industry: The Impact on Business and Coping Mechanisms of Hoteliers

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ABSTRACT

This research aims at evaluating the impacts of the international sanctions on Russia's hotel industry and the action undertaken by the hoteliers to mitigate the negative impacts of the sanctions. The sample includes 103 hotel managers from 11 popular tourist destinations in the Russian Federation. Mann–Whitney *U*-test, Kruskal–Wallis χ^2 test and *t*-test are used to analyse differences in respondents' answers by category, size, location and chain affiliation of their properties. The findings show that hoteliers use different tactics to counteract the economic shocks to their businesses – mostly by cutting costs and increasing their marketing efforts. The findings further indicate that not all hotels experience the same shocks and that they therefore employ different tactics in response to the economic shocks experienced. This is the first research paper that measures the impact of the international sanctions on Russia's hotel industry. This paper assesses the impact on the microlevel – from the perspective of hotel managers.

KEYWORDS

Russia; sanctions; politics; impacts on tourism; hotels; political instability

Introduction

On 16 March 2014, after a highly disputed and not recognised referendum, the Autonomous Republic of Crimea left Ukraine. A few days later, it was accepted as a new federal entity of the Russian Federation. The referendum and the entrance of the Autonomous Republic of Crimea into the Russian Federation were considered illegal by Ukraine and the international community, but local residents and Russian citizens praised them as the long-awaited correction of a historical injustice. As a result the EU, the USA and other countries imposed various sanctions on citizens and companies from Crimea and Russia, which are still active as of today (May 2016). The sanctions were tightened in the second half of 2014 after the increased political tension and the outbreak of military activities in the Russian-speaking eastern territories of Ukraine, where two provinces (Donetsk and Lugansk) declared independence, which was not recognised by the international community and Ukraine. The shooting down of flight MH17 of Malaysian Airlines on 17 July 2014 in the rebel controlled territories in Eastern Ukraine internationalised the conflict and lead to even greater sanctions on Russia.

The international sanctions on Russia represent an unexpected external political and economic shock that has serious repercussions on the whole economy of the Russian Federation, including on the tourism and hospitality industry. The sanctions limit or even forbid the purchase/sale of specific products from/to specific companies/regions in the federation, but also cancel the international flights to/from certain airports, like the airports in Crimea. Canada, for example, placed a number of sanctions on Russia in March 2014, sanctions that have since been amended, making it illegal for Canadians anywhere in the world to enter into various trade or financial transactions with a number of persons or companies from Russia (Global Affairs Canada, 2016). The USA and EU introduced sanctions that prohibited travel and financial transactions with particular members of the Russian government and military, and President Putin's inner circle (BBC, 2014). Sanctions were also applied to various Russian companies, including prominent Russian banks (Gazprombank, Bank Rossiya, Vnesheconombank, Sberbank, SMP bank), energy companies (Lukoil, Gazprom, Surgutneftegaz, Novatek) and other firms (Volga Group, Kalashnikov Concern, Dobrolet) (BBC, 2014).

The sanctions led to the deterioration of the economic climate in the Russian Federation due to the significant drop in international trade and the subsequent devaluation of the local currency – the ruble – in December 2014. As early as April 2015, Russian officials had already put the cost of sanctions for 2014 at \$26.7 billion and expected another \$80 billion for 2015 (Kottasova, 2015). All this transformed the international political tension into a tangible economic shock for the economy as a whole, and tourism in particular. The tourists companies were not a direct target of the sanctions, but in any case they experienced their effect. A good indication for this is the fact that despite hosting the Winter Olympic Games in Sochi in 2014, the number of international arrivals to Russia decreased by –17.39% from 30.792 million in 2013 to 25.438 million in 2014 (Table 1). In a similar vein, the number of international departures shrank by –20.62% from 54.069 million in 2013 to 42.921 million in 2014. On the other hand, the official statistical data presented in Table 1 show that at first glance the country's hotel industry as a whole did not suffer from the sanctions: the number of accommodation establishments, beds, overnights, accommodated tourists and tourist companies increased in 2014 compared to 2013 (Table 1). We consider that this is due to the inclusion of the Autonomous Republic of Crimea into the aggregate statistics for the Russian Federation in 2014 (thus boosting the tourism statistics), the import substitution strategy of the federal government intended to divert the outbound trips of Russian citizens to domestic holidays, and the fact that probably the accommodation establishments that entered the hospitality market in 2014 were constructed before the sanctions when the economic conditions of the macro-environment were different. Unfortunately, the lack of publicly available statistical data for 2015 at the time of writing of this paper (May 2016) does not allow us to illustrate the continuing effect of the sanctions on Russia's tourism industry and to delve deeper into the reasons for the observed dynamics of the aggregate tourism statistics. That is why this paper looks at the opinions of the hoteliers instead of the aggregate statistical data. Specifically, this research aims at evaluating the impacts of the international sanctions (as an external political and economic shock) on Russia's hotel industry from the perspective of the hoteliers and the approaches used by them to mitigate the potential negative impacts of the sanctions on their business. The legal issues of the sanctions, their causes and legitimacy remain out of the scope of this paper.

Table 1. Key tourism indicators (2010–2014).

| Indicators | 2010 | 2011 | 2012 | 2013 | 2014 |
|-------------------------------------------------------------------|---------|---------|---------|---------|---------|
| Number of accommodation establishments, including: | 12,585 | 13,062 | 14,019 | 14,583 | 15,590 |
| Hotels and similar | 7,866 | 8,416 | 9,316 | 9,869 | 10,714 |
| Specialised accommodation establishments | 4,719 | 4,646 | 4,703 | 4,714 | 4,876 |
| Number of beds (in thousands), including: | 1,263 | 1,294 | 1,345 | 1,387 | 1,573 |
| Hotels and similar | 530 | 571 | 618 | 676 | 815 |
| Specialised accommodation establishments | 734 | 723 | 727 | 711 | 758 |
| Number of overnights (in thousands), including: | 162,988 | 166,197 | 173,614 | 172,630 | 184,018 |
| Hotels and similar | 60,425 | 67,271 | 73,492 | 76,880 | 84,119 |
| Specialised accommodation establishments | 102,562 | 98,926 | 100,122 | 95,751 | 99,899 |
| Number of accommodated tourists (in thousands), including: | 34,746 | 37,399 | 41,065 | 42,635 | 44,219 |
| Hotels and similar | 24,026 | 27,112 | 30,235 | 31,733 | 33,160 |
| Specialised accommodation establishments | 10,721 | 10,287 | 10,830 | 10,902 | 11,059 |
| Number of tourist companies, including: | 9,133 | 10,266 | 10,773 | 11,324 | 11,614 |
| Tour operator licence | 1,193 | 548 | 463 | 478 | 445 |
| Travel agent licence | 6,941 | 7,787 | 8,265 | 8,936 | 9,307 |
| Tour operator and travel agent licence | – | 1,351 | 1,441 | 1,362 | 1,306 |
| Guiding services | 483 | 580 | 604 | 548 | 556 |
| Other | 516 | – | – | – | – |
| Number of people employed in accommodation establishments | 394,223 | 391,336 | 386,359 | 375,322 | 399,146 |
| Number of people employed in tourist companies | 48,000 | 47,000 | 48,662 | 50,144 | 45,463 |
| Number of international tourists (in thousands) | | | | | |
| International tourist arrivals | 22,281 | 24,933 | 28,177 | 30,792 | 25,438 |
| International tourist departures | 39,323 | 43,726 | 47,813 | 54,069 | 42,921 |

Note: Specialised accommodation establishments include sanatoria, campsites, recreation homes, recreational hospitals and chalets as per the classification of Rosstat.

Source: Prepared by the authors on the basis of data generated from Rosstat databases (www.gks.ru and fedstat.ru) and UNWTO (2015).

Brief literature review

In the field of tourism studies, there is substantial literature that deals with the factors that influence the hospitality and tourism industries, especially regarding the way in which tourist arrivals suffer from the political factors deemed unpleasant to tourists, like human rights violations, conflict, terrorism, and other political/violent events. Llorca-Vivero (2008) and Neumayer (2004), for example, find that those political factors play a negative role in tourist flows which has been confirmed in other studies as well (Araña & León, 2008; Björk & Kauppinen-Räsänen, 2011; Causevic & Lynch, 2013; Larsen, Brun, Øgaard, & Selstad, 2011; Wolff & Larsen, 2014). The broader crisis management literature in tourism and hospitality (Aimable & Rosselló, 2009; Boukas & Ziakas, 2013, 2014; Machado, 2012; Paraskevas, Altinay, McLean, & Cooper, 2013; Ritchie, Crotts, Zehrer, & Volsky, 2014; Som, Ooi, & Hooy, 2014) recognises the importance of such external shocks for the development and operation of tourism and hospitality enterprises. In general, when political (e.g. acts of terrorism, war, civil war, civil unrest, etc.), economic (economic crisis, currency devaluation, hyperinflation, strikes, sharp increase/decrease in commodity prices, etc.), environmental (e.g. natural disasters, tsunamis, oil spills, etc.) or other external shocks happen, the destination becomes less attractive to tourists, the number of tourists decreases, revenues and profits of tourists companies drop and their costs surge. Companies may try to mitigate the negative consequences of such negative shocks by cutting costs (e.g. laying off employees, paying later to suppliers), stimulating demand through lower prices, moving some of their economic activities into the

shadow economy (e.g. requiring cash payments or payments in foreign currency), increase their marketing efforts in order to attract more tourists, etc.

Since the invention of economic sanctions as a response to Italy's invasion of Ethiopia, there has been discussion regarding the effectiveness and impact of sanctions (Hoffmann, 1967). In recent years, a vibrant and growing literature in the field of Political Science focused upon sanctions because of the increased frequency of the use of sanctions internationally (Bapat, Heinrich, Kobayashi, & Morgan, 2013; Bapat & Morgan, 2009; Early, 2011; Gottemoeller, 2007; Jon, Huseby, & Sprinz, 2005; Morgan & Schwebach, 1997; Morgan, Bapat, & Krustev, 2009; Servettaz, 2014; Whang, McLean, & Kuberski, 2013). The field focusses upon the question of how effective sanctions are in terms of changing state behaviour. In theory, states that experience sanctions should change their behaviour to be in line with those countries that have placed the sanctions upon them. While the literature does not make it clear that sanctions work as they are intended to, unless very specific conditions are met (Drezner, 2011; Morgan & Schwebach, 1997), there are still many that have faith in the theory for why sanctions should work as intended. Some even call for sanctions, with full faith that they will work as intended (Braun, 2014), although others express scepticism in the theory behind the sanctions (Chesterman & Pouligny, 2003), while yet others are very concerned about the externalities of such sanctions (Drury & Peksen, 2014).

While the prevailing concern of the social science literature focusses upon the impact of sanctions and the ability of the sanctions to change state behaviour, no attention has been given to how sanctions are experienced by the hotel industry. In this paper, we look at how specific sanctions have hurt a particular industry to determine whether the differential impact that various players experience (as mentioned by Morgan and Schwebach (1997) and Drury and Peksen (2014)) will result in different counterstrategies for hotels to survive or thrive under severely changed economic conditions. So, the intention of this research is to look at how hotels in Russian Federation perceive the sanctions and how they counteract the sanctions in order to remain in business.

Methodology

Data collection took place in January–March 2015 by distributing questionnaires to hotels in the Russian Federation. During the development of the sampling frame, the authors did not find any official comprehensive publicly available list of the hotels in the Russian Federation and their contact details and had to develop their own data base with contact details of hotels in the country. Considering the fact that the Russian hotel industry boasted 9,869 hotels and similar accommodation establishments with 676,800 beds in 2013 (Rosstat, 2014), it was not feasible to cover all of them due to time and budgetary constraints. That is why the authors included in the database of the sampling frame the contact details of over 1,000 hotels located in the cities and resorts that concentrate much of the business/leisure tourism demand in the country and represent diverse geographical regions of Russia: Moscow (capital city), Saint Petersburg (second largest city in the country and former imperial capital), Sochi (Olympic city, popular tourist destination), Ekaterinburg, Voronezh, Novosibirsk (the largest city in Siberia), Kazan, Ufa, Nizhny Novgorod (historical city), Adler and Anapa (popular seaside destination). The questionnaire was sent to the managers of the hotels and 103 returned it completed, yielding a 10%

Table 2. Sample characteristics.

| Grouping criteria | Groups | Number of respondents |
|-------------------|-----------------|-----------------------|
| Category | 1 star | 8 |
| | 2 stars | 15 |
| | 3 stars | 40 |
| | 4 stars | 29 |
| | 5 stars | 11 |
| Location | Moscow | 26 |
| | Outside Moscow | 77 |
| Size | Up to 50 rooms | 42 |
| | 51–100 rooms | 39 |
| | 101–150 rooms | 14 |
| | Over 150 rooms | 8 |
| Chain affiliation | Part of a chain | 26 |
| | Independent | 77 |
| Total | | 103 |

response rate. The response rate is similar to or even higher than the response rates of hotel industry representatives in other surveys in Eastern Europe (Ivanov, 2014; Ivanova & Ivanov, 2015). The sample's characteristics are presented in Table 2.

The questionnaire consisted of several groups of questions. The first group measured the dynamics of selected operational statistics in 2014, when the international sanctions were imposed on the Russian Federation, compared to 2013, when there were no such sanctions. The second and the third groups included questions related with the importance and the impact of various factors influencing the tourism business, resulting from the international sanctions and increased political instability. The fourth and the fifth groups evaluated the level of agreement with statements related to impacts of the sanctions on company's business and the ways to mitigate the negative consequences of the international sanctions on the Russian Federation. The last question measured respondents' expectations about the duration of the sanctions.

The results of the Kolmogorov–Smirnov z-test showed that the distributions of the answers were statistically different from normal. That is why the differences in respondents' opinions were analysed with non-parametric tests (Baggio & Klobas, 2011). In particular, the Kruskal–Wallis χ^2 test was used to identify the differences in the responses of hoteliers on the basis of the category and size of their properties. The Mann–Whitney *U*-test was adopted to identify differences in the opinions of the hoteliers on the basis of the chain affiliation of the hotels and the location of their properties (in or outside Moscow). A paired samples *t*-test was used to identify the differences in respondents' answers to some questions.

Discussion of findings

Impact of the international sanctions on the performance metrics of the hotels

Table 3 presents the impact of the international sanctions on the operational statistics of the hotels. The findings depict quite an unpleasant picture. The revenues of the hotels decreased on average by –5.29%, while costs surged by 5.19%, putting much financial pressure on them. Not surprisingly, the managers reported that the number of guests from the EU/USA (the countries most involved with the sanctions) decreased on average by 11.39% and this drop was not offset by more domestic tourists, whose

Table 3. Impact of the international sanctions on the operational statistics of the hotels.

| Operational statistics | Total mean | Standard deviation | Kruskal–Wallis χ^2 test | | Mann–Whitney <i>U</i> -test | |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------|------------------------------|---------|-----------------------------|-------------------|
| | | | Category | Size | Location | Chain affiliation |
| How would you evaluate the magnitude of the impact of the international sanctions on your business in general? ^a | 3.66 | 1.168 | 4.312 | 8.256** | 977.5 | 976.5 |
| How would you assess the direction of the impact of the international sanctions on your business in general? ^b | 2.44 | 1.082 | 2.396 | 9.709** | 818 | 784.5* |
| How did the number of your guests from EU/USA change in 2014 compared to 2013? ^c | −11.36 | 12.029 | 2.403 | 3.468 | 1000 | 935 |
| How did the number of your guests from Russian Federation change in 2014 compared to 2013? ^c | −0.68 | 14.485 | 3.558 | 1.518 | 976.5 | 947.5 |
| How did the number of overnight of your guests from EU/USA change in 2014 compared to 2013? ^c | −8.54 | 12.079 | 1.157 | 3.856 | 878 | 997.5 |
| How did the number of overnight of your guests from the Russian Federation change in 2014 compared to 2013? ^c | −0.19 | 11.818 | 2.356 | 3.089 | 968 | 915.5 |
| How did the average price per room per night change in 2014 compared to 2013 year? ^c | 0.49 | 12.036 | 3.434 | 3.065 | 849 | 946 |
| How did your total revenues change in 2014 compared to 2013? ^c | −5.29 | 11.394 | 2.484 | 6.102 | 998 | 895.5 |
| How did your total costs change in 2014 compared to 2013? ^c | 5.19 | 10.957 | 3.459 | 9.026** | 972 | 827 |
| How did your total employee costs (salaries, social security payments, employee insurances etc.) change in 2014 compared to 2013? ^c | 0.63 | 8.623 | 4.498 | 0.482 | 927.5 | 834.5 |
| How did the total number of your employees change in 2014 compared to 2013? ^c | −3.13 | 4.601 | 6.713 | 2.065 | 974.5 | 840 |
| How did the average stay for your guests from EU/USA change in 2014 compared to 2013? ^d | −0.65 | 1.078 | 3.905 | 3.929 | 999 | 900.5 |
| How did the average stay for your guests from the Russian Federation change in 2014 compared to 2013? ^d | −0.068 | 1.1862 | 1.871 | 4.746 | 899.5 | 892 |

Notes: Differences by category, size, location and chain affiliation.

Measurement scales:

^a1 – no impact, 5 – very high impact;

^b1 – very negative, 5 – very positive;

^c in percentage points;

^d in number of overnights.

Grouping of respondents: *Size* (up to 50, 51–100, 101–150 and over 150 rooms), *Location* (Moscow, Outside Moscow), *Category* (1–5 stars), *Chain affiliation* (affiliated to a chain, independent hotels).

**Significant at 5% level; *significant at 10% level.

number remained nearly the same (−0.68%). Faced with financial difficulties, hoteliers reported that in 2014 they hired 3.13% less employees than in 2013. In general, the international sanctions were perceived as having a negative impact on hotels' business ($m = 2.44$). Category, location and chain affiliation of the hotel do not seem to influence the impact of the sanctions because no statistically significant differences were identified in managers' responses. The size of the hotel influenced the managers' perceptions about the magnitude and the direction of the impact of the international sanctions: managers of smaller (up to 50 rooms) and midsized (51–100 rooms) hotels felt the sanctions had greater and strongly negative impacts on their businesses than managers of larger hotels did ($p < .05$), thus revealing greater financial vulnerability of smaller hotels compared to larger properties. On the other hand, the total costs of the largest hotels (with over 150 rooms) increased by 12.5% on average, while the total costs of the small (up

Table 4. Factors, influencing the business, resulting from the international sanctions.

| Factors | Total mean | Standard deviation | Kruskal–Wallis χ^2 test | | Mann–Whitney U -test | |
|--------------------------------------------------------------------------------------------------------|------------|--------------------|------------------------------|---------|------------------------|-------------------|
| | | | Category | Size | Location | Chain affiliation |
| | | | | | | |
| <i>Level of importance of the factors influencing the business, resulting from the sanctions</i> | | | | | | |
| Devaluation of the ruble | 3.91 | 0.940 | 3.748 | 3.436 | 986 | 920 |
| Changes in oil prices | 3.53 | 1.018 | 3.969 | 1.183 | 834 | 820 |
| International trade restrictions | 3.68 | 0.982 | 3.759 | 8.124** | 945.5 | 929.5 |
| International travel restrictions | 3.72 | 1.042 | 1.407 | 6.944* | 972 | 912 |
| Restrictions on international financial flows | 3.54 | 1.161 | 7.511 | 5.045 | 922.5 | 920 |
| Increased international political tension | 3.61 | 1.148 | 2.407 | 3.972 | 849 | 872 |
| <i>Evaluation of the impacts of the factors influencing the business, resulting from the sanctions</i> | | | | | | |
| Devaluation of the ruble | 2.53 | 1.385 | 10.399** | 4.364 | 925 | 797 |
| Changes in oil prices | 2.56 | 1.169 | 7.511 | 5.236 | 986 | 836 |
| International trade restrictions | 2.60 | 1.191 | 6.754 | 1.027 | 958.5 | 967.5 |
| International travel restrictions | 2.69 | 1.138 | 3.510 | 5.961 | 943 | 961 |
| Restrictions on international financial flows | 2.55 | 1.242 | 1.164 | 7.004* | 875 | 965.5 |
| Increased international political tension | 2.57 | 1.273 | 7.236 | 1.751 | 853.5 | 979.5 |

Notes: Differences by category, size, location and chain affiliation.

Measurement scales: *level of importance*: 1 – very unimportant, 5 – very important; *evaluation of the impact*: 1 – very negative, 5 – very positive.

Grouping of respondents: *Size* (up to 50, 51–100, 101–150 and over 150 rooms), *Location* (Moscow, Outside Moscow), *Category* (1–5 stars), *Chain affiliation* (affiliated to a chain, independent hotels).

**Significant at 5% level; *significant at 10% level.

to 50 rooms), mid-sized (51–100 rooms) and large (101–150 rooms) properties increased by only 6.55%, 2.44% and 4.64%, respectively, and these differences were significant ($p < .05$). Considering that the largest properties reported virtually no change in total employee costs in 2014 compared to 2013, we might attribute the higher total costs to larger marketing and operating expenses. The marketing expenses could have been increased more in the largest properties than in the smallest ones because they had more rooms to sell and thus needed more money for marketing. The operating costs might have increased due to the higher prices of imported products used in the largest hotels. A fast forward look at Table 4 and the level of importance put by the managers of the largest hotels on the impact of the international trade restrictions shows that they were more concerned than the managers of the smallest properties ($m = 4.00$ and $m = 3.38$, respectively), and these differences were significant at $p < .05$, thus confirming this conjecture.

Factors, influencing the business, resulting from the international sanctions

Table 4 presents the level of importance and the evaluation of the impacts of various factors, influencing the hotel business, resulting from the international sanctions. The devaluation of the ruble was considered as the most important factor influencing the hotel business ($m = 3.91$), followed by the international travel restrictions ($m = 3.72$) and international trade restrictions ($m = 3.68$). Changes in oil prices ($m = 3.53$) and restrictions on international financial flows ($m = 3.54$) were reported as less important and their differences with the importance of the devaluation of the ruble were both statistically significant (paired samples *t*-test values: $t = 3.730$ ($p < .01$) and $t = 2.744$ ($p < .01$), respectively). Category, location and chain affiliation had no impact on hotel managers' opinions. Size of the hotel played a role in the assessment of the importance of international trade ($\chi^2 = 8.124$, $p < .05$) and travel restrictions ($\chi^2 = 6.944$, $p < .10$). As mentioned earlier, the

managers of the largest hotels (over 150 rooms) considered international trade restrictions as more important than the managers of the smallest properties (up to 50 rooms), probably because they purchased more imported goods for their hotels. In a similar manner, managers of large hotels evaluate the international travel restrictions as very important ($m = 4.21$ for hotels with 101–150 rooms and $m = 4.25$ for hotels with over 150 rooms), while managers of smaller properties put less emphasis on these restrictions ($m = 3.48$ for hotels with up to 50 rooms and $m = 3.69$ for hotels with 51–100 rooms). We might attribute these findings to the different target markets of the small and large hotels – probably the large hotels were more dependent on foreign tourists than the smaller ones.

The respondents were unanimous that all the listed factors had negative impact on their business and the paired samples t -tests did not reveal any statistically significant differences in the evaluation of the direction of the impacts. However, we found that lower category hotels (1 and 2 stars) were hit more severely by the devaluation of the ruble than the higher category ones (4 and 5 stars) ($\chi^2 = 10.399, p < .05$), because their customers were more price and income sensitive than the customers of the luxury properties. Not surprisingly, the smaller hotels (up to 50 and 51–100 rooms) turned out to be more vulnerable to the restrictions in international financial flows than the larger hotels (101–150 and over 150 rooms) ($\chi^2 = 7.004, p < .10$).

Strategies to mitigate the negative impact of the international sanction

Table 5 presents the level of agreement of the respondents with various statements related to mitigating the negative impacts of the sanctions. Respondents reported that they focused on cutting costs ($m = 3.52$) and increased marketing efforts ($m = 3.51$) rather than requesting payments in cash ($m = 3.18$), in foreign currency ($m = 3.01$), delaying payments to suppliers ($m = 3.22$) or decreasing prices ($m = 3.28$), and these differences in the answers were mostly statistically significant (see Table 6).

The managers of the 5-star hotels were more inclined to pay later to the suppliers than the managers of 2-, 3- and 4-star hotels ($\chi^2 = 14.366, p < .01$), which might be an indication of their greater bargaining power with suppliers. On the other hand, smallest hotels (up to 50 rooms) had less bargaining power and were not considering delayed payments as a viable option ($m = 2.71$) compared to the larger properties ($\chi^2 = 13.292, p < .01$). However, the managers of smallest properties were also less eager to require payments in foreign currency ($m = 2.50, \chi^2 = 11.864, p < .01$) and considered the default of their hotel as much less likely ($m = 2.64, \chi^2 = 8.149, p < .05$) than the managers of larger hotels did. Finally, the chain affiliated hotels were more inclined to require cash payments ($m = 3.69$) than independent properties (3.01) and the difference was significant at $p < .05$. This result was surprising because the chains usually have strict procedures, stipulated in their service operations manuals (Ivanova & Ivanov, 2015), and always provide various payment modes for their customers (cash, credit card, debit card, bank transfer). Moreover, bank payments are one of the tools used by the chains for financial control of the member hotels. The cash payments required by the managers of the chain hotels might signal that some of the activities of their properties went into the shadow economy and would not be declared to the tax authorities and/or the chain headquarters. However, further research is needed in order to confirm or reject this suggestion.

Table 5. Level of agreement with statements related to mitigating the negative impacts of the sanctions.

| Question | Total mean | Standard deviation | Kruskal–Wallis χ^2 test | | Mann–Whitney <i>U</i> -test | |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------|------------------------------|-----------|-----------------------------|-------------------|
| | | | Category | Size | Location | Chain affiliation |
| <i>Level of agreement with statements related to mitigating the negative impacts of the sanctions</i> | | | | | | |
| We try to mitigate the impacts of sanctions on our business by requiring more cash payments by guests than payments by bank or credit/debit card | 3.18 | 1.507 | 5.488 | 5.982 | 941.5 | 749** |
| We try to mitigate the impacts of sanctions on our business by requiring more payments in foreign currency (USD/GBP/EUR) than payments in rubles | 3.01 | 1.302 | 5.776 | 11.864*** | 955 | 864 |
| We try to mitigate the impacts of sanctions on our business by working with fewer employees | 3.06 | 1.178 | 8.958* | 6.793* | 958 | 871 |
| We try to mitigate the impacts of sanctions on our business by paying later to suppliers | 3.22 | 1.163 | 14.366*** | 13.292*** | 1001 | 788* |
| We try to mitigate the impacts of sanctions on our business by increased marketing efforts to attract more guests | 3.51 | 1.136 | 3.786 | 4.791 | 910.5 | 975 |
| We try to mitigate the impacts of sanctions on our business by decreasing prices | 3.28 | 1.097 | 0.962 | 1.642 | 957 | 963.5 |
| We try to mitigate the impacts of sanctions on our business by decreasing costs | 3.52 | 1.008 | 3.104 | 4.097 | 773* | 895 |
| The sanctions endanger our hotel with bankruptcy | 3.00 | 1.245 | 5.514 | 8.149** | 981 | 881 |
| <i>Expectations:</i> | | | | | | |
| How long do you envision the sanctions to continue? | 3.269 | 1.6903 | 6.679 | 2.590 | 660 | 717 |

Notes: Differences by category, size, location and chain affiliation.

Measurement scales: *level of agreement*: 1 – strongly disagree, 5 – strongly agree; *expectations*: in years.

Grouping of respondents: *Size* (up to 50, 51–100, 101–150 and over 150 rooms), *Location* (Moscow, Outside Moscow), *Category* (1–5 stars), *Chain affiliation* (affiliated to a chain, independent hotels).

***Significant at 1% level; **significant at 5% level; *significant at 10% level.

Table 6. Strategies to mitigate the negative impacts of the sanctions: paired samples *t*-tests.

| | Cash payments | Payments in foreign currency | Working with fewer employees | Paying later to suppliers | Increased marketing efforts | Decreasing prices |
|------------------------------|---------------|------------------------------|------------------------------|---------------------------|-----------------------------|-------------------|
| Payments in foreign currency | 1.616 | | | | | |
| Working with fewer employees | 1.174 | –0.511 | | | | |
| Paying later to suppliers | –0.330 | –1.842* | –1.612 | | | |
| Increased marketing efforts | –1.951* | –3.288*** | –3.216*** | –2.025** | | |
| Decreasing prices | –0.609 | –1.761* | –1.697* | –0.485 | 1.830* | |
| Decreasing costs | –2.131** | –3.311*** | –3.604*** | –2.264** | –0.071 | –1.892* |

Note: ***Significant at 1% level; **significant at 5% level; *significant at 10% level.

Conclusion

This research paper analysed the impacts of the international sanctions on the Russian hotel industry and the strategies adopted by industry representatives to mitigate the negative impacts of the sanctions. From a managerial perspective, the findings indicate

that the sanctions had a definite negative influence on the hotel business in the Russian Federation, in contrast to the good looking aggregate tourism statistics in Table 1. However, the hotel managers used quite different strategies to mitigate the negative impacts of the sanctions.

The prevailing findings of this work are that size and category of hotels play a role in many of the aspects of how the sanctions have hurt hotels and how they are reacting to the sanctions. What is interesting about the findings is that they illustrate that sanctions are felt differently by different types of firms in the same industry and the characteristics of the firm (size and category) play a role in how the firm responds to the challenges put forward by the sanctions. This finding echoes what Morgan and Schwebach (1997) refer to, that different actors will be hurt differently by sanctions. All-in-all, the research shows that hoteliers are not just objects on the receiving end of economic sanctions/economic shocks but are also actors with various different tactics that they use to survive the shock.

The research is not without limitations. The questionnaire did not collect any financial data and operational statistics in absolute values but as relative percentage changes in 2014 compared to 2013 due to confidentiality reasons. That is why the percentage changes of the operational statistics were calculated as simple averages rather than weighted with the revenues of the hotels. Future research could focus on the long-term impacts of the sanctions on the hotel industry in Russia through a longitudinal study. Additionally, research could concentrate on the impact of the sanctions on other tourism characteristic activities like travel agencies, F&B outlets, and passenger transport. Finally, future research might shed light on how the public authorities in the Russian Federation help the tourist companies mitigate the negative impacts of the sanctions.

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