

# The Importance of Risk and Decision Making in Hospitality and Tourism Industry

**Xiao Ruan, Yue Tian**

*College of Science & Arts of Jiangnan University, Wuhan 430345, China*

**ABSTRACT.** *The key features for the tourism and hospitality in the contemporary era have been associated with the extremely dynamic and fast changing business environment. The fast changing nature for the world has created huge uncertainties as well as the ever untapped opportunity for the business. Therefore it is vital for the business in the industry to make the rational and suitable strategic decision, to therefore ensure the business could mitigate the risk and uncertainties, as well as capturing the opportunity to lead the success. The risk focused strategic decision making is particularly vital to ensure the business could cope with the increasing demand for the clients.*

**KEYWORDS:** *Risk; Decision; Hospitality; Tourism Industry*

## 1. Introduction

The aim of the essay is to deliver critical evaluation for the risk component in the tourism industry, and its influence and impact for the strategic decision for the finding. To ensure the purpose of report has been fulfilled and achieved, the study is going to be divided largely into 2 parts: first, some of the academic and theoretical reviews for the relevant concepts are driving the background for the finding; second, the study is going to critical examine the tourism industry in the contemporary era and seeing how the business has conducted the strategic goal for the influences. The combined academic literatures and business cases are leading the success for the finding.

The concept of the strategic decision for the tourism business is playing the key influences for the success for the business. On one hand, the suitable and effective strategic decision could ensure the tourism business to meet and exceed the expectation for the clients to lead the customer satisfaction [1]; on the other hand, the strategic decision could be seen as the key capability to empower the business to weather the extremely competitive tourism industry and lead success. The success for the strategic decision could not live without the structural and rigorous decision plan[2]. The effective strategic analysis has analyzed both the external environment for the industry and the internal capability for the business as well as the attitude risk;

this has therefore further escalated into the different choices, which have provided the opportunities for the business to take on different strategic routes on leading the success for the strategic formation[3]. This has also enabled the business to critical compare and evaluates the strategic decision, and lead to the selection of the strategic choices with the comprehensive strategic implementation and beyond to lead the success. Thus the finding has seen that strategic decision has been made in the comprehensive manner to fill the gap underpinning by the business.

From the external consideration, the tourism and hospitality industry has experienced the huge boost in the past few years. This has not only associated with the improvement of the technology such as social media which could enable the customer to share the experiences, but also the clients themselves are demanding for the high standard of the products and services in the heavily competitive industry [4]. On top of that, from the macro-economic and social consideration, the emerging trend of the terrorist attacks; the increasing awareness for the pollution and environmental protection as well as the financial credit challenges such as cheat and frauds have all led to the uncertainties for the business and the industry, which could therefore promote the influence for the strategic decision in the comprehensive manner[5].

## **2. Findings and Analysis**

Although with different risk management model, the shell risk management strategy has been viewed one of the most widely used and popular among the businesses to lead the risk aware strategic decision in the consistent manner via the following strategic steps:

First, the understanding of business has focused on clarifying the context and boundary in terms of the business mission, vision, product offering as well as the culture. This has provided the insight for the internal capability and resource to drive the strategic formation [6]. Second, the risk focused strategic decision could not be successful without the supports and effective communication for the objectives, offering and strategic focus to the stakeholders, such as clients and suppliers. Followed by that, the key approach is associated with the identification for the risk, which has captured the key trend for the potential influencing factors and uncertainties which may affect the achievement and fulfillment for the objectives [7]. The identification has then followed by the assessment for the risk, where the classic risk assessment matrix is used to drive the impacts.

The risk assessment matrix[8] has captured the mixed considerations for the scope of the likelihood/probability and severity for the risk, to therefore lead the priority for the assessment. This could help the business to deploy the limited resources to the most likely and severe impacts for the finding, to therefore further streamline the strategic formations.

The risk dimension has been used in order to further clarify the risk consideration, including the scope of the time series dimension, event and communication awareness as well as the different categories of the risk [9] This has

thus promoted the risks assessment to drive the actions for the consideration. The Shell model has further advanced for the scope of the risk response, to lead the consideration for the scope of risk reeducation, risk avoidance, risk retention and risk transfer based on the capability and core competencies [10]. This has therefore promoted the key incentives and catalyst to drive the success for the strategic management for the tourism and hospitality industry.

While the above studies and evaluation has outlined the key focuses for the scope of the risk management, the contemporary industry itself has shown the high features for the study in the comprehensive manner. From the financial perspective, it has seen that the world has experiences the huge volatility for the financial market, foreign currency exchange and other to lead to the uncertainties in the long run [11]. From the political consideration, the different hard negotiation for the European Union regarding the recent migrant crisis has led to the challenges and political instability. However, one of the major risk for the global tourism and hospitality: the terrorist attack in Paris have cost more than 130 lives; where the recent suicide bombing in Brussels have cost more than 30 lives, the completely stop of the national airport and the metro system; the attack for the Russian plane has made majority of the European airlines banning from flying into Egypt, which is one of the most traditional holiday resort destination for the country; on top of that, various bombs have occurred in Turkey, where the mass terrorist attack happened in the African continent are focused on the western tourists and all[12]. The terrorist attack has emerged as the probably biggest threats for the world, this is particularly going to hit the tourism and hospitality industry in the world, where the tourists could be concerned with the safety which is not driving the challenges. Therefore to overcome the challenges and risks as those outlined could be seen as the key considerations for industry, and this has required the significant focus for the strategic management for leading the success for the business [13]. Thus this has also indicated the strong influences for leading the interpretation of risk consideration and management for the strategic decision for the tourism and hospitality industry.

The critical evaluation for the business cases have played the key role for leading the success for the business, this is the key to interpret the academic theories for the understanding into the major consideration [14]. The study is further to deliver the discussion for the real business examples to lead the success.

EasyJet is the largest British airline in the UK based on numbers of passenger growth. The airline has not only delivered the cost efficient flights to cover the tourism passengers who normally have the high price sensitivity, but also the airline has optimized the flight model by offering flight to primary airport in high frequencies, combining with flexibility for change for business passengers to lead the success[15].

Although the aviation industry has seen some of the benefits such as the lower oil price and stronger demand, it has still been seen for the significant risks in terms of the stiff competitions in the airlines; the low yield due to the over capacity and low cost; the continuous risk for the terrorist attacks such as the recent Russian plan

bombing, Cyprian airplane hijacking as well as the serious political unrest in the countries such as Middle East, North Africa and Turkey. All of these have delivered the significant risks for the business [16].

The strategic management has seen that EasyJet has managed the risk by optimizing the flight plan and deploy of the resources to cover the shortfalls. In order to capture the potential challenge for the tourism industries, the business has seen it has taken the decision to further expand and increase the coverage for the business clients: the airline has further deployed the resources for the key business routes such as London and Amsterdam, with up to 20 daily flights which have already beyond the major airlines such as British Airway and KLM Dutch airlines [17]. This has therefore seen that airline has formed the strategy to move away from the risky areas. For the more bulk and more price sensitive clients, EasyJet has shifted the flights with the massively cut of capacities to the affect areas as outlined above reflecting the demand for the tourism, but to increase the capacity to the more favorable and also safer destinations with the particularly focuses for Spain [18] This has provided the still feasible nature for the holiday seekers but to cover their needs and demand for the business in terms of finding the safer and more stable environments for the flights[19]

Thus the case study for EasyJet has seen that the identification, assessment and evaluation for the risk have played the key role to lead the success for the strategic formation for the business. For EasyJet, the business has taken the strategy in terms of leading the effective management of the risk factors, to therefore shift the focus to the business clients to maintain the margin, while to also lead the transfer of the destination and flight capacity to destinations such as Spain where targeted tourism passengers to satisfy their needs[20]. Therefore the finding has seen that for the tourism and hospitality industry, the strategic management needs to be designed in the risk for minimizing the various risks to therefore lead the success.

Ryanair is the largest low cost airline in the European, although with similar operational model with EasyJet as outlined above, the airline has much more focused on the strict cost cutting and cost controls, to therefore win out in the competitive markets[21].

The finding has seen that the risk for the stiff competitive aviation industry, and therefore to capture the client schedule and demand is the key for the strategic management. Ryanair has conducted a very flexible schedule, which has maintained the high level of the flexibility for the industry to drive the client and margin.

One of the best examples to demonstrate this flexible strategic management for the business is associated with the Europa League: when Liverpool has beaten Manchester United to progress to quarter final of the League, this has marked the much expected clash with the German Dortmund, which has also marked the famous manager returned back to the old club. Ryanair has not only immediately increase the price for the flight between Liverpool and Dortmund to cover the excessively demand for transferring the fans, but also to announced that two additional flights will be made in order to accommodate the additional demands [22]. This has created the flexible strategic management nature for the business, and therefore to lead the

success for the business to manage the risk and improve the margins.

Thus the finding has seen that the effective risk management focused approach for the tourism and hospitality industry has not only led the more effective consideration for the risk management strategy, but also it has created the opportunities for the business to develop and capture the market trend [23]. Therefore the risk and uncertainty have also created the opportunities, where business could capture to lead the success in the future from the strategic decision points of view.

With all the challenges and difficulties, the finding has also seen the key risk for the tourism and hospitality industry has been associated with the continuous and increasing scope of the competition and therefore the challenge for the business in the industry. Therefore the strategic management has also seen the risk focused approach to address on these points; out of which, the continuous consolidation has been viewed as the key to manage the risk. The effective mergers and acquisitions could enable the business to better weather the competition, as well as leading more capability for building the competitive advantage and beyond for the business.

One of the most noticeable transactions in the industry is that the Alaska airline has acquired the Virgin America airline, to therefore form the 5th largest US airline, with the particularly strong footprints in the west coast of the country. This has seen that the US aviation market is extremely concentrated where the top 4 airlines accounting more than 85% of the flights (Alaska airline website). The acquisition of Virgin American has enlarged the Alaska airline, and therefore to ensure that business could conduct more cost saving activities and better compete with the airline giants in the industry.

Another similar example happened in the industry has seen the mergers between Sherwood and Marriott hotel group; therefore the merger has become the largest hotel chain in the group with more than 5,500 hotels in the world. The merger is expected to be seen that the business could save up to \$150 million for the operational cost in terms of centralized the management and support functions, as well as renegotiate the deals with the suppliers.

Therefore all of these business examples have demonstrated that in the highly competitive and dynamic environment for the tourism and hospitality industry, it has seen the appropriate strategic management such as merger and acquisition is the appropriate strategic response for the changing market. This has provided huge benefits for the business to drive the cost efficiency by promoting the scale of economies, to therefore improve the competitiveness. Moreover, the focus for the study has further addressed the considerations in terms of the development and innovations, where the merged business has more capabilities to lead the success in the areas[24]. All of these have seen strategic management and decision for the business needs to reflect the risk consideration, and ensure they are driving the long term success for the business in the continuous manner.

The concept of the risk for tourism and hospitality industry has represented the continuous uncertainties for the operating environment; this has created both the

challenges and opportunities for the business. Out of which, the continuous competition and the dynamic and fast changing business environment has been seen as the major sources for the risk.

Strategic management and decision has governed the overall strategy and operation for the business; it is vital to ensure the strategic decision has taken the consideration for the risk factors, and therefore to deliver the suitable and appropriate actions. The finding has further discussed the business examples of EasyJet for shifting the focuses for the clients and routes to avoid the risk associated with the terrorist challenges for the aviation; Ryanair has maintained the flexible schedule to reflect the demand and change in the market to capture the growth and margins; and finally the example for the acquisition between Alaska and Virgin America airline and merger between Starwood and Marriott to drive the scale of economics and cost efficiency to lead the success.

### 3. Conclusion

In conclusion, risk is the key factor for the strategic management for the increasingly competitive and dynamic tourism and hospitality industry. The strategic decision for the business needs to embed and consider the key risk factors, to therefore lead the suitable and value adding option to drive the success for the business. The study has also recommended all stakeholders such as managers of the tourism and hospitality industry, to conduct the critical risk assessment and evaluation in order to further optimize the decision making for the strategy.

### References

- [1] Bastmeijer.K., Lamers.M, Harcha(2008). Permanent Land-based Facilities for Tourism in Antarctica: The Need for Regulation. Review of European Community & International Environmental Law, no.17,p. 84-99
- [2] Borch.T., Aas, Ø., Policansky (2008) .International Fishing Tourism: Past, Present and Future, in Global Challenges in Recreational Fisheries (ed Ø. Aas), Blackwell Publishing Ltd, Oxford, UK
- [3] Boukas.N, Ziakas (2013). Impacts of the Global Economic Crisis on Cyprus Tourism and Policy Responses. Int. J. Tourism Res., no.15,p. 329-345
- [4] CARR.L.M, HEYMAN.W.D(2009). Jamaica bound? Marine resources and management at a crossroads in Antigua and Barbuda. The Geographical Journal, no.175, p.17-38.
- [5] Chapman.R.J(2012). Operational Risk Management, in Simple Tools and Techniques for Enterprise Risk Management, Second Edition, John Wiley & Sons, Ltd., Chichester, West Sussex, UK.
- [6] Evans.N,Elphick.S(2014). Models of crisis management: an evaluation of their value for strategic planning in the international travel industry. Tourism Res, no.7,p. 135-150
- [7] Fjelstul.J,Fyall.A (2015).Sustainable Drive Tourism: A Catalyst for Change. Tourism Res., no.17,p. 460-470

- [8] Gössling,S, Scott,D,Hall.C.M (2013). Challenges of tourism in a low-carbon economy. *WIREs Clim Change*, no.4,p. 525-538
- [9] Hall.D,Brown.F(1996). Towards a welfare focus for tourism research. *Progr. Tourism Hospit. Res.*, no.2, p. 41-57.
- [10] Hall. J,Matos.S, Sheehan.L.,Silvestre.B(2012).Entrepreneurship and Innovation at the Base of the Pyramid: A Recipe for Inclusive Growth or Social Exclusion?. *Journal of Management Studies*,no. 49,p. 785-812.
- [11] Kerzner.H(2014).Global Project Management Excellence, in *Project Management Best Practices*, John Wiley & Sons, Inc., Hoboken, NJ, USA.
- [12] Kozak.M, Crotts.J.C, Law.R(2013). The impact of the perception of risk on international travellers. *Tourism Res.*, no.9, p. 233-242.
- [13] Marrs.F. O,Mundt.B.M(2001) Enterprise Concept: Business Modeling Analysis and Design, in *Handbook of Industrial Engineering: Technology and Operations Management*, Third Edition (ed G. Salvendy), John Wiley & Sons, Inc., Hoboken, NJ, USA
- [14] Morakabati.Y (2011), Deterrents to tourism development in Iran. *Tourism Res.*, no.13,p. 103-123
- [15] Scheyvens.R(2011), The challenge of sustainable tourism development in the Maldives: Understanding the social and political dimensions of sustainability. *Asia Pacific Viewpoint*, no.52,p.148-164.
- [16] Schott.C(2013). Selling adventure tourism: a distribution channels perspective. *Tourism Res.*, no.09,p. 257-274.
- [17] Scott.D, Gössling,S, Hall.C.M(2012).International tourism and climate change. *WIREs Clim Change*, no.3,p.213-232.
- [18] SEQUEIRA.T.N,NUNES,P.M(2008). Does Country Risk Influence International Tourism? A Dynamic Panel Data Analysis. *Economic Record*, no.84,p. 223-236
- [19] Sim ã.J. N,Partidário.M. d. R(2012). How Does Tourism Planning Contribute to Sustainable Development?. *Sust. Dev.*, no.20,p. 372-385.
- [20] Steiner.C(2010), An overestimated relationship? Violent political unrest and tourism foreign direct investment in the Middle East. . *Tourism Res.*, no.12,p.726-738
- [21] Taylor.P.A(2016). Getting them to forgive and forget: cognitive based marketing responses to terrorist acts. *Int. J. Tourism Res.*,no,08,p. 171-183.
- [22] Weinhofer.G,Busch.T (2013), Corporate Strategies for Managing Climate Risks. *Bus. Strat. Env.*, no,22, p.121-144.
- [23] Y.Yang (2015) Agglomeration Density and Labor Productivity in China's Tourism Industry. *Tourism Res*
- [24] Y.Yuan,Gretzel.U and Tseng.Y.-H(2015). Revealing the Nature of Contemporary Tourism Research: Extracting Common Subject Areas through Bibliographic Coupling. *Tourism Res.*, no.17, p.417-431.