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# Risk Management Practices in Tourism Industry – A Case Study of Resort Management

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## ABSTRACT

*The purpose of this research was to identify the risks that influence the operation of a resort, the impact and the risk management techniques used to reduce those risks. One resort was selected as the case study and document analysis and observation were used as data collection methods. This study found that environmental risk, business risk and human resource risk were the most important risks that could influence the sustainability of the resort's operations. These risks can be managed through the right combination of risk management techniques. Despite weak monitoring activities, incomplete operating procedures and inferior attitude by the workforce seem to impact the management of the resort, fast and intelligent response may be able to overcome the situation and prevent the worst possible outcomes.*

**Keywords:** *Resort, risk, risk management, tourism, Malaysia.*

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## INTRODUCTION

Managing and operating a resort is just like any other business. It faces various types of risks. Hence, the management must be ready to deal with them. In order to minimise the effect of these risks, the resort management has to find and propose the most suitable and best risk management solutions. For example, the management of a ski resort responds to snowfall risks by changing the location of operation to prevent direct exposure to the risk. They also can opt either for geographical diversification or just financial hedging to reduce the risk of the cash flow fluctuation during bad weather (Tang and Jang, 2011). Landslide risk assessment of the ancient imperial resort palace in Lishan, Xian, China enables the resort's management to prepare in advance for any possible landslide disaster which can save a lot of money and invaluable human lives (Fukuoka et al., 2015). Suder and Kahraman (2015) have decided on the best and most environmental friendly location for Istanbul Technical University's new campus by using environmental risk criteria. All these examples have shown that risk management is important in the management of a resort to face any unexpected event that will affect the resort's objectives and operation.

According to Vaughan (1997), risk is a condition in which there is a possibility of an adverse deviation from a desired outcome. The Committee of Sponsoring Organisations of the Treadway Commission (COSO) describes risk as the possibility of the event that will occur and adversely affect the achievement of the objectives (COSO, 2013). On the other hand, the International Organisation for Standardisation (ISO/DIS 31000:2009) suggests risk as a combination of the probability of the occurrence of a defined hazard and magnitude of consequences of the occurrence. Accordingly, the Royal Society (1983, 1992) explained risk as a probability for an adverse event to occur during a stated period of time. In short, based on these various definitions, risk is any event that negatively impacts normal situations that result in unwanted consequences. Risk can be classified into several categories such as financial and non-financial risks, static and dynamic risks, pure and speculative risks, and also fundamental and particular risks.

To manage risks and reduce the hazard, the resort management must take proactive action for the benefit of the resort and its occupants. The

action taken must satisfy both current and future conditions of the resort. Therefore, the management must continuously plan and implement risk management in their organisation. Scientific and systematic approach can be taken to solve the problems related to risks experienced by both individuals and business organisations (Vaughan, 1997).

In the hospitality and tourism industry, risks can be derived from several sources such as industrial operation, technological, and natural disaster like floods and earthquake, or even from crimes (Perrow, 1984). Bharwani and Matthews (2012) gave many examples of risks that threaten the hospitality industry and summarised them into four major groups of risks namely strategic risks, commercial risks, operating risks, and other external risks. Jauhari and Sanjeev (2012) also gave some examples of risks that can affect the revenue of the operator in the same industry like scarcity of talent management, skill shortages, inexperience leadership, land reforms, and technology illiteracy. Due to this, the resort operator needs to use a necessary method or tool to control the risks. This can be achieved by adopting effective risk management to reduce both perceived and actual risks that may impact the operation of the resort. The application of risk management in resort operations is still not fully developed and thus, deeper understanding on this problem is required.

It is therefore interesting to explore how risk management is practised and adopted in the hospitality industry, specifically by the entity or company that is involved in the resort business and operation. This study is motivated due to the fact that for a developing country like Malaysia, tourism industry is important as it generates huge revenue for the government. In 2016 for example, there were 26.8 million tourist arrivals which generated approximately RM82.1 billion of receipts. Thus, the outcome of this study is crucial in assisting tourism and hospitality players in Malaysia. This is to ensure their operation and management are not severely affected by any unexpected risks which may lead to the reduction of tourist arrivals and hence, tourism revenue. In general, this study attempts to answer the following research questions:

1. What are the risks that influence the management of the resort?
2. What are the impacts of these risks?
3. What are the mitigation techniques used to reduce the severity of the impacts?

Based on these motivation and research questions, there are three purposes of this study. First, to examine the risks that influence the resort business and operation. Secondly, to scrutinize the impact of these risks and thirdly, to investigate the effectiveness of the risk management process used in controlling and reducing the risks in the resort workplace. There are several contributions of this study. Firstly, this study will determine the risks experienced by the resort and the effectiveness of the risk management process implemented by the resort management to mitigate those risks. The findings of this study will help to improve the awareness among the top management and employees on the existence of risks at the resort, the ways to prevent and reduce the risks. Secondly, this study will help the resort management to carry out the risk management process efficiently in order to reduce and prevent risks. By reducing the risks, the resort will be able to provide better quality services and performance to the guests. Guests' satisfaction will guarantee their loyalty to the resort and consequently increase the cash flow and profit for the company. Finally, this study will aid the understanding of risk management framework and add to the body of the literature about the risks and the management issues in resorts and tourism business which are scarce in literature, particularly those focused in a developing country like Malaysia. Previous studies have emphasised research on various types of risks and risk management of large companies such as public listed companies that operate in non-tourism industries.

The next section is a review of literature, followed by research methodology. Section 4 presents the findings and discussion while Section 5 concludes this paper. Limitations and suggestions for the future research are featured in Section 6.

## LITERATURE REVIEW

The importance of risk management in sustaining the performance of the company is clearly evident. For example, in construction industry, risk management is used to reduce the cost and time overrun that will affect the profitability of the projects (Firmenich and Firmenich, 2017; Hwang and Chen, 2015; Iqbal et al., 2015). Meanwhile in agriculture industry, risk management is used to improve the prediction of the days available for field work (Tomasek, 2015) and decide the premium of crop insurance

(Cole et al., 2017; Yang et al., 2015). On the other hand, risk management can be used to sustain the aquaculture activities and coastal environment in marine industry (Gibbs and Browman, 2015; Xu et al., 2015). In Canada, risk management is used to assess snow avalanche hazard to protect local community from major incidents (Germain, 2016), while in Australia, Germany, Swiss, Netherlands, Italy and South Asia like India, Pakistan and Bangladesh, it is used to respond to natural disasters such as floods and bushfires (Ciullo et al., 2017; Gschnitzer et al., 2017; Edelenbos et al., 2017; Van Eerd et al., 2017; Howes, 2016; Kuhlicke et al., 2016; Buchecker et al., 2016; Evers et al., 2016; Abbas et al., 2016). These are just a few out of many examples of the benefits of risk management that can be also applied in managing a resort.

For instance, the management of a resort needs to implement the risk management process in order to overcome or reduce the problems faced by the resort. Bharwani and Matthews (2012) posited that to survive in a competitive business, the hospitality management needs to move from being merely reactive or responsive to crisis and emergency situations, towards being proactive to identify, analyse, and assess the risks, and consider the risks as a part of their business strategies. In addition, risk management is not an overnight effort. It needs continuous and regular monitoring so that sustainable tourism development can be achieved via good information and integrated risk management approaches implemented by the management (Prabhakaran and Ramachandran, 2013).

According to Zwikael and Sadeh (2007), the risk management process involves identifying and reducing the project's risk level, such as risk management planning, monitoring, and control. It is very important for management of a resort to properly plan the strategy to overcome the risks, regardless the level of the risks encountered. A proper and high-quality plan improves the project's success, although with the presence of high risk (Zwikael and Sadeh, 2007). The risk management process is performed to ensure the resort competitiveness and existence is intact in the industry.

There are six (6) steps in the risk management process that can be implemented by the resort management. These include:

1. **Risk Management Objectives**

Resort management has to decide the objective of the risk management programme. The main objective is usually associated with the survival of the resort and organisation, and risk minimisation.

2. **Risk Identification**

In order to identify the risks associated with the resort, the management has to apply the risk identification tools. Risk identification tools comprise risk analysis questionnaires, interviews, inspection of resort's operation, and analysis of financial statements (Vaughan, 1997).

3. **Risk Evaluation**

The evaluation of risks is based on the potential size of the loss to be suffered by the resort and the probability that the loss is likely to occur. Ranking the risks must be made by the resort management in order to determine the level of action to be taken.

a) **Considering Alternatives and Selecting the Risk Treatment Device**

After the identification and evaluation of the risks has been done, the resort management has to decide which risk management technique is suitable to be used in dealing with the risk. The technique to be used is based on the size of the potential loss, the potential loss that may occur, and the availability of the resources if a loss occurs. The risk management techniques that can be applied and adopted include risk avoidance, risk reduction, risk retention, and risk transfer. Hence, the resort management may decide which technique is more appropriate to be used in dealing with the risk.

4. **Implementing the Decision**

Resort management should implement the decisions made based on the type of risk management techniques selected previously. Each head of department is responsible for the implementation of risk techniques in their department.

5. **Evaluating and Reviewing**

After the implementation of risk management techniques, the resort

management has to review the effectiveness of those techniques in reducing risks. The same team that implements the strategies may also evaluate the result. The resort management may engage external consultants from time to time to review the risk management programme. They must also continuously evaluate and review the risk management process.

In short, performing the risk management process at the resort is expected to help to minimise the risks faced by the resort and subsequently enhance the performance of the resort and safeguard them from unexpected losses.

6. **Risk Management Framework**

Based on Enterprise Risk Management-Integrated Framework (COSO, 2013), there are several types of risk management techniques and strategies that can be used by the resort management to manage the risk such as risk avoidance, risk reduction, risk sharing, risk retention, and risk transfer. According to Vaughan (1997), risk avoidance occurs when a person or organisation refuses to accept the risk even for a while. It is a risk management technique that seeks to remove any possibility of risk through hazard prevention, or the discontinuation of activities determined to entail any level of risk. For example, physical activities outside the room like mountain climbing are cancelled due to typhoon or extreme weather conditions to avoid injury among the participants.

Risk reduction can be described as a risk management control procedure that emphasises safety management. Its purpose is to reduce the frequency and severity of potential losses. Safety programmes and loss prevention methods are some of the risk techniques that are designed to prevent loss and reduce the prospect loss if it does happen. Other than that, the installation of sprinklers in the room will avoid total damage or total loss if the building or resort caught fire. Risk sharing happens when the possibility of loss is transferred from one entity or risk bearer to another, such as insurance companies. For example, the outcome of losses that may reach a million dollars can be shared equally or based on a pre-determined portion between the resort management and the insurance company.

Risk retention is a strategy where the resort management retains or absorbs all or a part of the risks. There are generally two reasons why resort management retains risk. Firstly, the loss because of this risk is too small and negligible. This means that any effort to manage this risk is relatively expensive as compared to the benefits gained if the risks take place. Secondly, there is no other way or choice available at that point of time to reduce or prevent the risks. This is possibly because the loss is too large and cannot be insured, like war. This kind of risk is identified as voluntary risk retention. There is also involuntary risk retention, where the risks are unconsciously retained and when faced with a situation that prevents the risks from being transferred, reduced, or avoided.

The final framework is risk transfer. It is a risk management strategy in which an insurable risk is shifted to another party by purchasing an insurance policy. In return, a certain amount of money called premium is required to be paid to the insurance company. Risk transfer may be used in dealing with speculative risk and pure risk. For example, the resort management may want to purchase a policy that insures themselves from a legal liability after being sued by the resort guest who faced an accident at the resort area due to the resort's negligence.

## RESEARCH METHODOLOGY

A case study approach was used in this study in examining the issues of the research. Leedy and Omrod (2010) suggested that case study is the best approach to examine a poorly understood environment when there is an opportunity to explore the environment deeply and thoroughly (Miller and Brewer, 2013). In the context of this research, a resort in Perak, one of the states in Malaysia was selected.

Mixed method data collection and data analysis namely document analysis and observation were employed to gather the information required. This triangulation technique gives a significant advantage of enhancing the reliability and validity of the study because the study can verify the findings from various sources (Smith, 2015; Yin, 2013).

Document or content analysis was employed since Yin (2013) suggested that this method benefits the research with rich information and wealth description of the interested phenomena. It is also very helpful in understanding the research problem (Meriam, 1998). Various documents such as report and findings from internal audit department, management report, operational monthly report, incident report, bulletin and guest feedback forms were thoroughly analysed. Another method, observation was used to examine the resort operation and management. Zainudin (2010) concurred that observation is beneficial because the researcher records the required data based on what he or she observes. Hence, the data obtained via observation reflect the actual practices of risk management implemented at the resort.

The information collected and gathered from the document analysis and observation were analysed in three stages namely data reduction, data display, and data conclusion. This method is suggested by Malhotra (2010) that was appropriately applied for the analysis of qualitative-based research findings. In the first stage, data reduction, important data are selected, while less important information are removed and discarded. The common issues or themes will be established and scrutinised. In the second stage, data display, illustration via symbols and shapes are used to investigate any pattern and relationship that emerged between issues or themes. In the last stage, data conclusion, meaning of the themes or issues are evaluated and linked with the purpose of the research.

## **Background of the Case Study**

The resort used as a case study in this research was established in 2008. The ultimate owner of the resort is one of the well-known public listed companies in Malaysia involved in residential, commercial, resort, and ICT developments. The principal business of the resort is to provide hotel and lodging facilities and all other kinds of accommodation, guides, safe deposits, and baggage transport. It also serves to provide the required amenities and services which are convenient and necessary for persons touring, travelling, to develop, promote, manage, work and control holiday resorts, camps and vacation centres, and to arrange, organise and manage tours of all kinds. Most of the guests are from the European countries, followed by other Asian countries. Many of them visit the resort to escape

the winter season in their country as well as to experience the rainforest which is limited in their own country. The facilities offered by the resort are suitable for training and team building programmes.

## **FINDINGS AND DISCUSSION**

The source of data for this study came from the various reports obtained from the administration of the resort. The facts were arranged to reflect the content of the reports and the management's action with the types of risks associated with the resort. Although there are many types of risks encountered by the resort, but this study only focused on the significant risks faced by the resort. These include environmental risk, business risk, and human resource risk.

### **Environmental Risk**

This study found that there were a few issues regarding the environmental risks faced by the resort. The resort is situated in Perak's rainforest which holds a wide variety of flora and fauna.

Currently the resort has five (5) completed chalets and 70 rooms at the resort. No permission is required from the local authority to enter the resort. In order to build the chalets and rooms, the lands have to be cleared and trees have to be cut down. The chalets and boardwalk were 100% built of wood. The rooms at the resort were built with bricks and cement and the finishing were made of wood and rattan. All these actions contributed to the loss of some valuable rainforest species.

In order to reduce the impact of environmental risk at the site, management placed greater importance on the suitability of the location. They hire a specialist or professional to determine whether the chosen location is suitable for development, whether the trees are old enough to be cut down or should they change to a better location. This practice is also implemented in the current development of the resort, where there are more units being built. The resort tries to avoid using any materials that will harm the environment. The study found that the resort management does not compromise the risk to the environment for the sake of their cash flow.

The management of the resort feels responsible to protect the environment as much as they could.

The only transportation mode from the jetty, the last point of the main road to the location of the resort, is by boat. It takes a 1-hour boat journey from the jetty to the resort. During the journey, there is a possibility of fluids leaked by the boat engines that can cause pollution to the water. Hence, this increases the hazard risk to the environment. Also, the leaks may be caused by wrong handling by the boatman or having the engine stabbed by tree branches that are sticking out from the lake. In order to minimise the risk, the management has come out with standard operating procedures regarding the use of the boats. A junior boatman will follow the senior boatman during first few excursions. This is for them to familiarise with the surroundings of the lake and avoid certain places during travelling.

There was an incident regarding fuelling the houseboat which almost polluted the water and harmed the creatures in the water if it was not detected sooner. One of the staff had wrongly filled the houseboat with petrol, which actually runs by diesel. If they had not managed to detect the mistake earlier, not only would it have damaged the engine of the houseboat, but also caused the fuel spill into the water.

This incident took place due to the lack of supervision from the respective manager, no standard operating procedures for the maintenance of the houseboat, and no authorisation letter for the appointed staff. After identifying the risk associated with the maintenance of the houseboat, the management issued approved standard operating procedures, authorisation letter, and detailed job description for each staff involved. The introduction of standard operating procedures for houseboat aims to guide staff on how to maintain and manage the houseboat. The authorisation letter and detailed job description has been designed to identify which staff is responsible to maintain the houseboat.

During the excursion under the recreational packages such as the base camp package, the tour leader must ensure that his/her guests do no litter, refrain them from plucking a rare species plant such as *Rafflesia*, and avoid other actions that are inappropriate to the environment. The use of polystyrene and plastic as food containers will also pollute the

environment. This is because, if burned, polystyrene and plastic will release chlorofluorocarbon gas into the air and increase the greenhouse effect. If those food containers are being carelessly thrown in the rainforest, the place will become dirty and kill the animals if consumed. The loss of valuable flora and fauna can disturb the ecosystem of the forest, thus increasing the environmental risks.

To ensure cleanliness and to avoid pollution to the environment, all garbage and wastage from the guests and maintenance of the site will be brought back to the resort for disposal. The management keeps the site clean and free from garbage by engaging caretakers from the Temiar tribe due to their expertise on the forest. By keeping the area clean, not only it reduces the environmental risk, but also keeps animals such as elephants, tigers and wild boars away from the site.

## **Business Risk**

Based on the monthly reports, the resort faced business risk where the resort gained lower profits than what had been expected as compared to the budgeted figures. Hence, the resort suffered losses. Currently, the resort is still unable to achieve its business objectives, which is to generate profit and sustain the operation of the resort. There are many factors that contribute to business risk. The factors are sales volume, operating costs, competitors, and economic condition.

Although the sales department had achieved their targeted sales volume for monthly sales performance, the resort still incurred losses due to high operating costs. This led to an increase in business risk faced by the resort. In order to reduce the risk, the management has developed a plan to reduce the risk. The plan requires the staff of each department to keep track of their operating costs. Moreover, they have to regularly review their department cost and expenditure, and rationalise those expenses in order to compensate any inability to achieve potential revenues. The progress will be monitored by the management, with the help of internal audit department. The internal audit department performs a monthly inspection by comparing the reported costs with the supporting documents. If the cost exceeds, the head of department must provide an explanation and the methods to reduce the costs.

The resort also faced fluctuation risk of the sales of rooms and packages. For instance, most of the rooms are only fully booked during school holidays, festive seasons, and when there is a visit from dignitaries. Fluctuation in sales may be because the industry has more capacity of rooms and weak demand from guest and tourists at other times. This is why it is difficult for the resort to compete with other competitors with the current facilities and attractions. The nearest competitor is Lost World of Tambun, managed by Sunway Group. The Lost World of Tambun provides a variety of attractions such as tiger valley, hot springs and spa, tin valley, zoo, water park, amusement park, and recreation, as well as a Lost World hotel for guests to stay.

In order to overcome the threat from the competitors, a few strategies have been adopted. The resort actively participates in local and international travel trade shows. The resort also takes part in the marketing initiatives organised by local tourism authorities. Besides, the sales staff also frequently meet the personnel from the government offices to introduce the attractive packages offered by the resort. The resort also maintains a good relationship with a few travel agencies. This is to ensure the travel operator will choose the resort as the choice of destination, allowing the resort to sustain good cash flow position.

The internal audit department also has been summoned to perform an analysis and review the feedback forms filled by the guests. Majority of the suggestions by the guests from the feedback form are related to the quality of facilities and service improvement, for example, the packages that include an excursion to the rainforest are impressive. However, the resort needs to upgrade the boat for the comfort of guests, because the journey takes more than an hour by boat to the respective places. The boatmen, particularly the new boatmen, need to have the knowledge about the surrounding areas along the journey so that they can share interesting, attractive, and informative details about the forest to the guests while they are on the boat.

Therefore, new boatmen are required to enhance their knowledge by learning from experienced boatmen, have more reading, and surf information through the internet. It is important for the boatmen to be knowledgeable because they are the first representatives of the resort. The good feedback are related to the highly praised staff, especially the recreation staff who

provide good services to the guests during their excursion. It is also due to their extensive knowledge of the rainforest and surrounding areas, their communication skills, and interpersonal skills that impress the guests.

## **Human Resource Risk**

According to human resource department report, this study found that the resort is currently facing high staff turnover. In average, two staff will resign every month. The popular reason for the resignation is to seek for a better career and higher salary. There are several types of human risks faced by the resort. The risks are unavailability of workers, poor quality and productivity of the resort staff, incompetent head of department, unreasonable workload, and standard operating procedures which are not available.

The unavailability of workers is caused by having people not willing to work at the resort as the resort is located far from town. Villagers prefer to work in town due to better facilities and environment. The unavailability of workers can be translated into having lack of skilled staff in the hospitality industry. When the unavailability of workers is high, the performance of the resort is affected, leading to having slow services and the quality of service deteriorated. Therefore, the resort will suffer in terms of reduction in cash flow.

The other human resource risk is unreasonable workload. It is common that people in the hotel industry have heavy workload. But, if the normal heavy workload is combined with limited staff, it becomes unreasonable workload. Most of the heads of department in the resort have to multitask. They have to prepare reports, paperwork and at the same time, perform the technical work. For example, maintenance manager has his daily duty of monitoring the works performed by his staff. He is also responsible in preparing the monthly and weekly reports and other reports that are requested by the management of the resort and holding company. The workload becomes a burden to him when he fails to fulfil some of his responsibilities to the resort and holding company. When he fails to perform the maintenance work on the resort, some of the properties deteriorate. This situation will lead to other types of risks such as liability risk and property risk to the resort. As for the staff, verbal warning will be given and warning letter will be issued.

To reduce the human resource risk, the decision to increase the current salary and benefit was made by the management of the resort. A promotion to higher position was also granted to the staff who performed well. The management has also taken the initiative to introduce English and communication classes for the staff to increase their capability and skills while dealing with international guests.

The management also applied the risk management technique of risk reduction, where they only chose people with qualification and sufficient experience in hotel and tourism industry to lead a department. It is costly to hire people with less experience because they need to be sent for training. While in training, his or her work has to be covered by other people and the resort has to pay extra salary to that person. To get the best result, it is good to invest extra funds for one person only to cover all the work.

## CONCLUSION

The purpose of this study was to examine the factors that influence the resort business and operation, to scrutinise the impact of risks towards the companies that manage the resort, and to investigate the effectiveness of the risk management in controlling and reducing risks in the resort workplace.

This study found that environmental risk, business risk and human resource risk are the most important risks that could influence the sustainability of the resort operation. The biggest contributors of the risks in this resort are insufficient and too minimum supervision, unavailability and violation of standard operating procedures, and workforce attitudes. Various risk management strategies based on the risk management framework were employed to reduce the risks, and these efforts showed a positive sign of success. The study indicated that the risks in the resort were adequately managed and the risk management process had some favourable impacts on the operation of the resort. There are rooms for improvement and the management needs to continuously apply risk management in the operation of the resort. Therefore, there is no large impact of the risks towards the business and operation of the resort. Although the resort is currently operating at a loss, the resort management strongly believes that in the long run, the financial performance of the resort will improve and be able to achieve the break-even level.

The study has also recognised the important role played by the internal audit department in the implementation of risk management process at the resort. The involvement of internal audit department from the beginning of the process of risk management from identifying the risks until evaluating and reviewing the strategy to be used to reduce and prevent risks from occurring plays a vital part in ensuring the success of risk management process.

In terms of policy, this study implicates that the application of risk management framework is important in ensuring that the existence of the resort is not overshadowed by risks that threaten to engulf the actual capability of delivering profit to the resort and to the company as a whole. It was proven that the risk management strategies, process, and the control of the resort management help in delivering overall good results such as reduction in the number of complaints from guests and staff, reduced the operation costs from departments, increase the sales, and acquire new segment of guests.

## **LIMITATION AND SUGGESTION FOR FUTURE RESEARCH**

There are a few limitations of the study that can become the opportunity for future research. First, this study only focused on the risk management practice of one resort only. Therefore, some aspects of this study may only be applicable to the resort's unique and specific operation only. Second, some important documents like board paper and minutes of meeting cannot be accessed and analysed due to confidentiality. Thus, the risk of the resort at the strategic level cannot be evaluated and linked with other types of risks.

Therefore, future research can be conducted based on the appropriate risk management process for wider samples and more resorts should participate. Another type of data collection such as market survey and questionnaires can be used, so more similar data can be collected and analysed using structured statistical analysis.

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