Journal of Destination Marketing & Management 7 (2018) 36–38

Contents lists available at ScienceDirect

Journal of Destination Marketing & Management

journal homepage: www.elsevier.com/locate/jdmm

Regional Spotlight

Strategic crisis management in tourism: An application of integrated risk management principles to the Croatian tourism industry

Josip Mikulić *, Danijela Miloš Sprčić, Hrvoje Holiček, Darko Prebežac

Faculty of Economics and Business, University of Zagreb, JF Kennedy Square 6, 10000 Zagreb, Croatia

ARTICLE INFO

Article history:
Received 4 March 2016
Received in revised form
7 July 2016
Accepted 5 August 2016
Available online 25 August 2016

Keywords:
Integrated risk management
Destination management
Risk assessment
Risk map

ABSTRACT

Strategic management of crises and disasters is considered a vital ingredient for managing sustainable tourism development. Contemporary tourism research has so far provided several conceptual articles and agendas for research regarding this important topic, with discussions particularly intensifying after the 9/11 events. Nowadays, this topic is more critical than ever, particularly after the beach massacre in Port El Kantaoui and the preceding terrorist attack at the Bardo National Museum in Tunisia in 2015. Since that time, with the steady rise of ISIS/ISIL, terrorism has, unfortunately, turned into a persisting threat on a global level. This regional spotlight portrays the application of integrated risk management (IRM) principles to the case of Croatian tourism as a means of thinking holistically about the exposure to risks in an economy that is heavily dependent on tourism. In particular, this study focuses on the risk-assessment phase and develops an initial risk map to quantify and prioritize industry risks that may affect Croatian tourism on a season-to-season basis.

To enhance strategic destination management with the goal to reduce risk and boost readiness when negative events occur, Ritchie (2004, 2008) suggests combining tourism-specific insight with theories/concepts from other disciplines. Even earlier, Manning (1999) had already noted that risk management is crucial to the management of sustainable tourism development, while Faulkner (2001), identified risk assessment, in particular, to be one of the key ingredients of the disaster management planning process.

The importance of taking a strategic perspective on the exposure to potential crisis events is particularly emphasized for those destinations which are characterized by high shares of tourism in their overall economic activity. With political and societal turbulence steadily increasing in many regions of the world, a holistic and proactive approach to managing undesirable events thus emerges a necessary prerequisite for maintaining sustainability of both tourism and the overall economy in many destinations.

In line with this, this regional spotlight portrays the application of an integrated risk management (IRM) process which has been developed to assist tourism policymaking in Croatia, which is a popular and fast-growing summer destination in the European Mediterranean. With a share of 84.4% of international tourists, Croatia recorded 14.34 million arrivals and 72.61 million overnights in 2015 (Croatian Bureau of Statistics, 2016). According to the Croatian National Bank, tourism revenues in 2015 amounted to 7.96 billion Euros (7.6% increase), which represents a share of 18.1% of Croatian GDP. Accordingly, Croatian tourism is highly international, while, at the same time, representing a significant pillar of Croatia's overall economy. Recent unfortunate events that have affected several competitor destinations in the Mediterranean, like the repeated terrorist attacks in Tunisia and Turkey, on the one hand, and the mass migrations from Syria and Iraq which have affected whole Southeast Europe, on the other, put further pressure on tourism policymakers to take a proactive approach towards foreseeing and subsequently managing potential crisis events.

In particular, the process portrayed in this spotlight is adapted to those risks which have a high inherent potential to affect the Croatian tourism industry on a year to year basis (i.e. short-term risks). Thereby, a general perspective on risk has been taken that is not limited to severe crisis events, only.

As IRM is a young discipline, comprehensive IRM theory does not yet exist. As such, IRM systems are implemented in many ways that can significantly differ among organizations (Bromiley, McShane, Nair, & Rustambekov, 2014). Several semi-regulatory bodies have, however, published frameworks to help organizations in implementing and designing their IRM. The present spotlight paper adapts the COSO (2004) framework to enable the process of risk identification, quantification and management of risks at the tourist destination level. Generally, the key value of an integrated approach to risk management is that it enables decision makers to

* Corresponding author.
E-mail address: jmikulic@efzg.hr (J. Mikulić).

http://dx.doi.org/10.1016/j.jdmm.2016.08.001
2212-571X/

Fig. 1. Integrated risk management process.

see *the big picture* of all risks a destination is exposed to, as well as to evaluate more effectively correlations between certain types of risks (Fig. 1).

Following the outlined IRM process, a pilot risk assessment for the Croatian tourism industry has been performed. First, a comprehensive analysis of strengths, weaknesses, opportunities and threats (SWOT) for the Croatian tourism industry was conducted. Political, economic, social, technological, legal and environmental aspects (PESTLE) were considered to define a set of the most salient risks that may affect Croatian tourism on a year to year basis. In this step, industry knowledge of the authors was paired with secondary data insight (i.e. national developmental documents, tourism action programs, academic articles). The initial list was subsequently enhanced and purified with assistance of a panel of industry experts from the academic, public and private sector using a Delphi approach (Garrod & Fyall, 2005). The panel covered leading tourism scholars, policy experts involved in the development of the 2020 Tourism development strategy for Croatia, and representatives from a major hotel operator and destination management company. The list of most salient short-term risks is presented in Table 1.

Second, to develop meaningful scales for the significance of identified risks, the expert panel was further invited to discuss competing measures. The experts agreed that a financial measure would be optimal since revenues are, in fact, one of the main *organizational goals* of any tourist destination. Due to a lack of reliable statistical data, the experts finally opted, however, for *the potential drop in next-season overnights as compared to the current season* as a proxy for financial effects. The significance measure was operationalized using ten-level rating scales with each level representing an overnight-drop of two percentage points. To assess the probability of risk occurrence, this study used a normal probability scale from the financial risk management literature (Fraser & Simkins, 2010).

Third, the scales were translated into a structured questionnaire to evaluate each risk according to its significance and probability. The questionnaire was first distributed to the expert panel for individual examination. After completion, the experts were invited for a final Delphi group to achieve agreement upon each risk's significance and probability. Based on the final results, a risk map was created and divided into four quadrants using respective grand mean values (Fig. 2).

The results signal that Croatian tourism should shift most attention towards *the risk of a bad tourist experience (7)*, the *risk of terrorist attacks* (4), and the *bad weather risk (1)*. These three risks are located in the upper-right quadrant, meaning they are not unlikely to occur, and, at the same time, they might exhibit a

Table 1
Short-term risks for Croatian tourism.

1. Bad weather	Croatian tourism is highly sensitive to weather conditions. A dominant share of arrivals is generated during the summer months, while tourism businesses are dominantly based on the sun-and-sea concept, focusing primarily on outdoor activities
2. Natural disasters	Natural disasters affecting Croatian tourism include forest fires, floods and earthquakes. Disasters cannot be reliably foreseen, but crisis management actions may relieve potential negative consequences
3. Disease outbreaks and epidemics	The Croatian health system is highly competitive according to the *WEF Travel and Tourism Competitiveness Report* (WEF, 2014). Nevertheless, tourists are potentially exposed to risks of infection while traveling, why many national health organizations suggest residents not to travel abroad during times of pandemics
4. Terrorist attack	Tourists around the globe represent potential targets of terroristic assaults. So far, no assaults involving tourists have been reported in Croatia. By entering Western-Atlantic integrations, the probability of terrorist attacks has however risen, especially with regard to potential assaults by different militant groups that are fought by the NATO
5. Political and societal instability in the region	The unresolved political and societal situations in neighboring Bosnia and Herzegovina, Serbia and Kosovo, increase the likelihood of conflict escalations that may affect the image of Croatia as a safe and secure tourist destination, and induce a prompt drop in arrivals
6. Ecological incidents	The liquefied natural gas (LNG) terminal on the island of Krk, and the planned exploitation of oil in the Croatian part of the Adriatic sea, increase the probability of ecological incidents in the coastal area. Maritime accidents can severely damage natural resources and impede tourist activity in affected areas
7. Bad tourist experience	Dissatisfied tourists are not likely to return, but very likely to spread negative word-of-mouth. Various internet platforms for exchanging thoughts and travel experiences become increasingly important media, while negative comments and reviews may discourage prospective tourists from visiting respective destinations
8. Generating market purchasing power	The recent recession has caused an economic downturn in several important generating markets for Croatian tourism (domestic-Croatia, Germany, Slovenia, Austria, Italy etc). Tourists pay more attention to price and duration of vacations, resulting in stagnation or even drop of tourism revenues for affected destinations
9. Exchange rate	Exchange rate changes for the domestic currency have a strong impact on price competitiveness of Croatian tourism. Currency depreciations negatively affect domestic tourist activity due to decreased purchasing power, while currency appreciations negatively affect inbound activity
10. Fuel price	The fuel price has a significant share in transportation costs, especially in air travel. Rising fuel prices thus result in an increase of overall travel expenses. Fuel-related energy costs may further increase operating costs of hospitality businesses and subsequently translate into higher prices of services
11. More difficult border crossings	Croatia is a member of the European Union (EU) and has to adapt joint policies regarding the outer borders of the EU. The rising risk of terrorist attacks, as well as the increasing number of immigrants to the EU, will certainly result in a more rigorous control of travel and border crossings

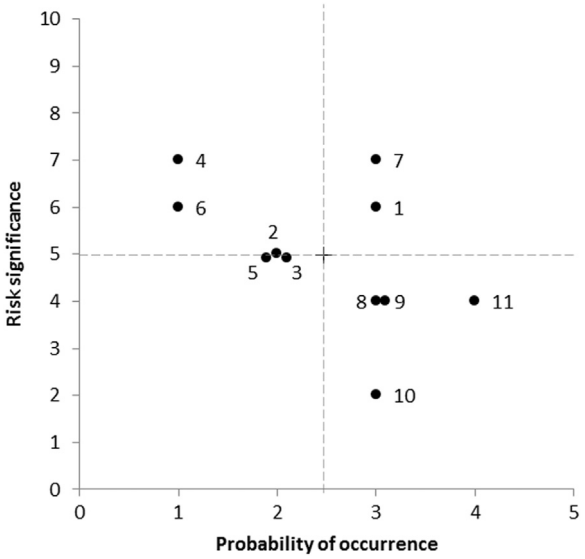

Fig. 2. Short-term risk map for Croatian tourism.

significant influence on inbound tourist flows. Tourism policymakers are thus advised to prepare strategies and action programs that will help prevent these risks, or fight them in case of occurrence. In particular, the risk of terrorist attacks should be treated with particular care, due to the recent mass migrations via the *Balkans route*, and the presence of ISIS recruitment centers in bordering Bosnia and Hercegovina and Slovenia. A similar significance-level has been achieved for the *risk of ecological incidents (6)*, but with less likelihood of occurrence. Nevertheless, although not requiring immediate action, it should be closely monitored to keep the probability low, particularly if the new Croatian government (elected at the end of 2015), decides to continue with the planned oil exploitation in the northern part of the Adriatic Sea.

Furthermore, three risks are located at the border between the upper- and lower-left quadrant with same levels of both significance and occurrence—i.e. *the risk of natural disasters (2)*, *the risk of disease outbreaks and epidemics (3)*, and *the risk of political and societal instability in the region (5)*. Although these risks have lower probabilities of occurrence, it is advised to monitor them since they are located close to crosshairs of the risk map. Consequently, even minor changes in significance and/or probability may shift these risks towards any of the other quadrants.

Finally, four risks are located in the lower right quadrant, three of which are related to economic aspects that affect tourist demand (i.e. *exchange rate risk*, *fuel price risk*, and *purchasing power risk*). Since management of these risks is outside the scope of Croatia as a tourist destination, it is advised to develop plans that may prevent significant demand drops in times of economic downturn. This could, for example, be managed through special subsidies or taxation programs for tourism businesses, which may translate into reduced prices. The fourth risk in this quadrant, i.e. the *risk of more difficult border crossings*, was classified the most likely risk event. Noteworthy, recent events provide external validity for this classification since the border between Croatia and Serbia has been completely closed after the risk assessments have been conducted (September 2015), with handicapped border crossings towards Slovenia and Hungary due to mass migrations from Syria and Iraq towards Western European countries.

In conclusion, the results of this pilot assessment revealed that Croatia is exposed to a complex set of heterogeneous risks that may severely affect both Croatia's tourism and overall economy on a season to season basis. Geographically located in a politically turbulent area, and given its high dependence on tourism, Croatia necessarily needs to adapt a proactive risk management approach at the national level, which should be embodied in the national tourism development strategy. In this regard, the IRM perspective helped to encompass all salient risks and to prioritize their importance. Accordingly, this exploratory, but holistic pilot assessment may serve as a roadmap for tourism policymakers in preparing strategies and action plans with the goal to lessen the likelihood of risk occurrence or, alternatively, to relieve effects in case the risks occur.

Acknowledgements

This work has been supported by the Croatian Science Foundation under the project DESTBRAND (project no. UIP-2014-09-7005, Period: 2015–2018).

References

Bromiley, P., McShane, M. K., Nair, A., & Rustambekov, E. (2014). Enterprise risk management: Review, critique, and research directions. *Long Range Planning*, *48* (4), 265–276.

COSO – Committee of Sponsoring Organizations of the Treadway Commission, (2004). *Enterprise risk management: Integrated framework: Executive summary*. New York, NY.

Faulkner, B. (2001). Towards a framework for tourism disaster management. *Tourism Management*, *22*(2), 135–147.

Fraser, J., & Simkins, B. J. (2010). *Enterprise risk management. Kolb series in finance*. Hoboken, NJ: John Wiley & Sons.

Garrod, B., & Fyall, A. (2005). Revisiting Delphi: The Delphi technique in tourism research In: B. W. Ritchie, P. Burns, & C. Palmer (Eds.), *Tourism research methods: Integrating theory with practice* (pp. 85–98). Oxford: CABI Publishing.

Manning, T. (1999). Indicators of tourism sustainability. *Tourism Management*, *20*, 179–182.

Ritchie, B. W. (2004). Chaos, crises and disasters: A strategic approach to crisis management in the tourism industry. *Tourism Management*, *25*(6), 669–683.

Ritchie, B. W. (2008). Tourism disaster planning and management: From response and recovery to reduction and readiness. *Current Issues in Tourism*, *11*(4), 315–348.