EVOLUTION OF CRISIS MANAGEMENT IN TOUR OPERATING BUSINESS

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ABSTRACT

Despite the increasing research on crises in tourism, there are still very few analyses on crisis management in specific organisations. Therefore, the purpose of the proposed research paper is to critically analyse the evolution of crisis management system in tour operating companies in the period 2000 - 2011. For this purpose a sample of the key risks and crisis types are analysed, and the cases of tour operators' handling specific crises are revealed.

Key words: crisis management, risk management, tour operators**.**

INTRODUCTION

In the last two decades tourism has been confronted with a significant increase in different types of serious crises that affected tourism more than ever before in its entire history. Not only natural disasters such as earthquakes and tsunamis (Southeast Asia, 2004; Haiti, Chile, 2010; Japan, 2011), floods (Australia – Queensland, Brisbane 2010; Thailand, Bangkok 2011), forest fires (Australia – East Coast including Sydney, 2002, 2003, Victoria, 2006), hurricanes (Katrina, 2005) volcanic eruptions (Iceland, 2010), but also epidemic diseases such as (SARS, 2003; Avian Flu Scare, 2005; Pandemic H1N1 – swine flu in 2009 started in Mexico) affected tourism severely. The sadness fact is that human-caused disasters and catastrophes such as wars (Iraq, 2003; Libya, 2011), terrorist attacks (New York and Pentagon, 2001; Jerba and Bali, 2002; Madrid, 2004; London, 2005; Mumbai, 2008; Moscow, 2011), political instability, riots and civil unrests (North Africa, 2011), nuclear pollutions (Fukushima, Japan, 2011), oil spills (Golf of Mexico, 2010; The Rena in New Zealand, 2011) made an even greater negative impact on tourism. Although theory makes a clear distinction between disaster and crisis depending on the scale of origin (Faulkner, 2001; Ritchie, 2004; Laws and Prideaux, 2005), for the purpose of this analysis the term crisis will be used in its widest sense since crises and disasters share many features and sometimes crises even evolve into disasters for organisations. In both cases it is up to the companies to respond by taking extraordinary measures.

With a significant increase in different types of crises that have affected tourism in different parts of the world the number of case studies with the examples of crises management started to appear in academic journals (Barton, 1994; Drabek, 1994, 1995; Ioannides and Apostolopoulos, 1999; Radnić, Ivandić, 1999; Mansfield, 1999; Santana, 1999; Sonmez, Apostolopoulos and Tarlow, 1999; Čavlek, 2002). Booth (1993) and Faulkner (2001) rightly pointed out that management theory in the past did not provide a firm foundation for coping with change and crisis. Crisis management and emergency planning specifically for tourism is still a relatively new concept within tourism and therefore still not widely theoretically developed (Faulkner, 2001; Blake and Sinclair, 2003; Glaesser, 2003; Ritchie, 2004; Evans and Elphick, 2005; Blackman and Ritchie, 2007; Pforr and Hosie, 2007). Despite the increasing research on crisis in tourism, there is still a limited number of analyses of crisis management in given tourism organisations (Alderighi and Cento, 2004; Gillen and Lall, 2003; Henderson, 2005; Jallat and Shultz, 2011), with tour operators in particular (Čavlek, 2003; Evans and Elphic, 2005).

Hence, the purpose of this research paper is to shed some more light on the crisis management system in the tour operating business by using the examples of the two world's largest leisure travel groups – TUI Travel PLC and Thomas Cook Group PLC in the period 2000 - 2011. The data were collected from internal documents of the companies, their websites, information from national and international associations of travel agents and tour operators, specific tourism trade forums, articles in tourism trade press and academic journals. All available data were critically analysed and interpreted using the usual research methods in such cases (Jallat and Shultz, 2011).

VULNERABILITY OF TOUR OPERATORS TO CRISES

Crises have become an integral part of any business activity, and no company can exclude the possibility of crises occurring. Since "tourism demand presents a higher elasticity index per level of perceived risk than any other industry because of the hedonistic ... benefits consumers ascribe to its products and services" (Gonzalez-Herrero, Pratt, 1998:86; Faulkner, 2001:142), crises that affect companies in tourism have much greater negative effects on them than it is the case of any other industry. Perishability of the tourism product and the interdependence of the elements of the products add to the complexity of impacts of crises.

In the tour operating business the possibility of a crisis occurring is even higher compared to some other business activities since a tour operator deals with many different companies that deliver the services for which the entire responsibility towards the client rests on the tour operator's shoulders (from transport, accommodation, entertainment, excursions in destinations, etc.). It means that according to the EC Directive (90/134/EEC) on Package Holidays, Package Travel and Package Tours (Perez and East, 1991) tour operators are responsible not only for the non-performance or improper performance of services incorporated in the package, but also for the physical injury of their clients if this should be in any way linked to negligence due to them, or even to any of their service providers. They cannot avoid responsibility by attributing it to their sub-contractors and can be relieved of such liabilities only if they result from *vis major* or in cases when the damage or accident cannot be linked to the tour operator, or to any of its service providers. Since tour operating business to a large extent relies upon "customer goodwill accumulated partly as the result of delivering safe and reliable products" (Evans and Elphic, 2005:140), tour operating companies are particularly sensitive to safety and security issues where their clients could become victims, such as accidents in transport, fire accidents in accommodation facilities, food poisoning, kidnapping, terrorist attacks with tourist as their main targets, etc. For this reason, tour operators constantly tighten the requirements regarding the safety of their clients with the service providers. For example, the demands, which the accommodation facilities must satisfy for foreign tour operators, comprise a large range of obligations, including a valid certificate that it satisfies fire-safety regulations, special regulations regarding the safety of gas installations, regulations regarding hygiene, general safety requirements (for swimming pools, for play areas, balconies, glass doors, etc.). These regulations greatly help tour operators to impose and improve standards in the properties they use.

In addition, it is noteworthy that safety and security are inextricably connected to issues of international law and political relationships, and therefore have a "ripple" effect that goes far beyond the destinations and companies directly hit by crises (Drabek, 2000:352). It is also important to mention that tourists are sometimes more exposed to danger than anyone else (Drabek, 1995). Therefore, tour operators in such cases have to react as quickly and efficiently as possible to diminish the risk that can heavily affect their business (Čavlek 2003:37). No wonder that therefore tour operators usually assess clients' safety even more critically than an individual would. The whole complexity of the problem becomes even more obvious if we bear in mind that the service providers whose services the tour operator incorporates into a package are mostly located in different destinations abroad, with different levels of control so that crises can occur at any level of operation and sometimes even thousands of miles away of the tour operator's head office. Also, tour operators' crisis management strategy may sometimes be in some ways restricted by government regulations and public perceptions often created by the media. This is also why tourists, despite the independent trends in organizing travel, use services of tour operators to "de-risk their holidays and book with a company that (also) provides financial protection" (TUI, 2010:13). The problem of sudden disruptions caused by different types of crisis in a destination is all the more serious when a tour operator is vertically integrated with hotel company through ownership, as is the case with the leading leisure travel concerns such as TUI Travel PLC and Thomas Cook Group PLC.

The proof of the well developed risk assessment and risk management among the British Federation of Tour Operators (FTO) lies in the fact that going on a package holiday is extremely safe. According to FTO's conducted research, in the investigated period of 4 years not one person amongst the 50 million who went on a

holiday with FTO members had lost his/her life in a fire accident (FTO, 2004). Furthermore, FTO published a comprehensive Health and Safety Preferred Code of Practice Book, designed to help tour operators to improve standards in this particular field. The same association also formed crisis management teams which help members to deal with crises. The association of travel agents (like ABTA, DRV) organizes seminars and workshops to prepare its members for more effective crisis management in the future. The association's role is to support its member, customers and destinations in a crisis, as well as help with media management (ABTA, 2008). This is especially important when there is a need for a consistent approach to an incident and particularly important for smaller tour operators which lack resources for such campaigns.

Although tour operating business has developed into a multibillion euro business (in 2010 the sales of package holidays in The European Union alone, reached 155 billion Euros) (de Blust, 2011)) and although tour operators are increasingly considered to be one of the most powerful and most influential components of the modern tourism system that can even shape the image of many tourism destinations (Čavlek, 2002), the fact is that this is one of the riskiest businesses in tourism that makes managers feeling like dancing on thin ice almost every day. Due to their very low-net-profit business tour operators are extremely vulnerable to all sorts of crises. Industrial records show that average tour operator's return on turnover in a prosperous year is on average 2 percent. Compared to other non-travel companies which supply customer products, this is between 10 to12 percent (FTO, 2011). Therefore, tour operators face considerable risks that other industries with higher margins do not face.

Being especially prone to different types of crises one could expect that risk and crisis management in the tour operating business was established a long time ago. On the contrary, just a decade ago many companies did not even have general written instructions or procedures to deal with various crises effectively. They did not want to invest in something they considered they might never need. However, recent developments with different types of crises have raised tour operators' awareness of their vulnerability and therefore changed their attitude in favour of risk and crisis management. Most large and medium size tour operators have by now developed crisis management strategies that comprise many different scenarios (not only for internal risks but also for external shocks like terrorist attacks, plane, train or bus accidents, different epidemic diseases, kidnapping, natural disasters, as well as individual accidents which the media could develop into catastrophes for tour operators). However, one has to bear in mind that risk management should precede crisis management to minimize losses when crisis arise. "Good crisis management is essential, but never a substitute for daily risk management" (Duffy, 2004:49). The statement of Kash and Darling (1998:179) that it is no longer a case "if an organization will face a crisis, it is rather a question of when, and what type and how prepared the organization is to deal with it" it can be a motto for tour operating companies. As also stressed by Ritchie "Although, it is difficult to predict or control crises and disasters, managers are still able to reduce risk and prepare so that they can deal with such incidents more effectively than without any preparation" (2004:673).

FROM REACTIVE TO PROACTIVE ROLE IN MANAGING CRISIS

To be able to reveal the changes in tour operators' approach towards crisis management a comparative analysis was used to assess internal documents and Annual Reports of the two world's largest leisure travel groups – TUI and Thomas Cook in the period 2000 – 2011. It is important to stress that during this period The European organized travel market went through significant structural changes. The most intensive consolidation processes resulted in creation of the two largest leisure travel concerns in the world that operate and control nearly 30 source markets. Their strength can be also illustrated by the following data: in 2010 they realised revenue of almost 55 billion Euros and recorded 52.5 million customers. Through mergers and acquisitions TUI and Thomas Cook have gained control over the chains of distribution, fleet of aircraft and a significant number of accommodation facilities in tourism receiving countries, of incoming travel agencies and other parts of the supply chain. TUI AG and Thomas Cook Group as highly integrated travel concerns can benefit from the integrated approach to mitigate some common risks spreading across the Group's value chain. However, at the same time such organisational structure also represents an increased level of risk for the number of crises occurring in different source markets and in different segments of their business which could result in highly destabilising effects for the company.

The starting point of every successful crisis management is risk management. Implementation of effective company risk management takes time and evolves though the time. The first step in risk management is to identify risks. The research data reveal that TUI AG and Thomas Cook Group PLC address the issue of risk management in their Annual Reports together with the list of principle risks and uncertainties, impacts and necessary actions for risks mitigation. In the contrast to Thomas Cook, TUI relates to every type of risk with his

strategic focus. TUI AG states the following major risks in its management report: *Risks related to future development* (like environmental and industry risks that can relate from macroeconomic developments on the key generating markets to increases in oil prices, or risks from information technology); *Business risks in Tourism* (in theory these risks are associated with natural or human-caused crisis which affects customers' booking behaviour); *Risks from the equity stake in Container Shipping; Financial risks* (e.g. liquidity funds) *Environmental risks; Other risks* (e.g. financial charges from court or arbitration proceedings). Thomas Cook on the other hand divides risks into 3 main categories: *Operational and strategic risks, Financial risks, and Other risks.*

Since tour operators' strategic objectives can be reduced to profitability and enhanced returns on investment, it is understandable that it is of utmost importance for tour operators "to identify potential risks of any kind as early as possible, assess them and contain them so that the economic benefit outweighs the threats" (TUI, 2011:125). Customers' health, safety and security related risks are dealt with the prior importance. In addition one has to remember that safety and security are inextricably connected to the issues of international law and political relationships, and therefore have a "ripple" effect that goes far beyond the destinations and companies directly hit by crises (Drabek, 2000:352). Therefore, tour operators' crisis management strategy can sometimes in some ways be restricted by government regulations and public perceptions often created by the media. The problem of sudden disruptions caused by different types of crises in a destination is all the more serious when a tour operator is vertically integrated with an owned hotel company, as is the case with the leisure travel concerns such as TUI and Thomas Cook. Therefore, knowledge management in this particular business is of crucial importance. Well educated, highly professional and skilled employees that can efficiently conduct business in a highly competitive and dynamical changing market have therefore become a *condition sine qua non* for every tour operator.

The most changes in relation to identifying of principal risks were observed in TUI's reports. This simply proves the fact that list of principal risks is a "living" document that needs constant adjustments to on-going changes on dynamic tourism market. Bearing in mind all kinds of risks that threaten tour operators in their everyday business it would be probably easier to list what does not represent a threat to a tour operating business than what does. Therefore tour operators do not create an exhaustive list of all kinds of risks that could arise, but rather group them into several categories. The mottos of TUI's Risk reports best illustrate the way in which improvements in risk management have been evolved. From 2006 - 2010 the Risk Reports were highlighted with the following mottos accordingly: *Proven systems for control and management of risks; Sizing opportunities and limiting risks; Study systems to detect, monitor and manage risk. Tapping opportunities to the full; Systematically detecting, monitoring and managing risk* (TUI, 2006, 2007, 2008, 2009, 2010). This also clearly relates risk management to strategic management, as it should be.

It is understandable that with the increased risk of crisis occurring in their most complex field of operation, tour operating companies have evolved their crisis management from reactive to more proactive systems and even to emergency assistance supplied by professional crisis management. While most tour operators started to implement risk management after the event of 9/11, TUI by then had already extended its emergency network within the leisure travel group by setting up two teams to improve the situation in handling crises. The Family Assistance Team (trained volunteers ready for handling of victims and relatives in case of airline disaster) got in place in November 1998 and Emergency Care Team, established in February 2001, (340 volunteer Group employees) trained to help TUI clients during emergency situations (TUI, 2007). TUI has in many ways always been the forerunner in innovations in the tour operating business. The same applies to the implementation of proactive rather than reactive crisis management.

At a glance it seems that the organisational schemes of both tour operating companies are more alike but a detailed analysis reveals more obvious differences. However, the difference between mentioned organizational schemes rests in the fact that Thomas Cook group has the function of internal control and risk management joined together at the same organizational level. Thomas Cook's Board "recognises its ultimate accountability for maintaining an effective system of internal control and risk management that is appropriate in relation to both the scope and the nature of the Group's activities and complies with the Turnbull Committee Guidance on the Combined Code (the 'Turnbull Guidance') and has approved the framework and the standards implemented... The Board has delegated responsibility for the implementation of the Group risk management policy to the Group Risk Management Committee ('GMRC'), which is chaired by the Group Chief Financial Officer and comprises senior executives from across the Group" (Thomas Cook Group, 2010:57). The Group Risk Management Committee is in charge of supervising a thorough and regular evaluation of the nature and extent of the risks to which the Company is exposed; reviewing the corporate risk profile and recommending

risk management strategies; and supervising and assessing the overall effectiveness of the risk management process (Thomas Cook Group, 2010). Below the GMRC are six segments divided by the geographical key together with type of business (UK Risk Management Committee, Central Europe Risk Management Committee, West & East Europe Risk Management Committee…and Airlines Germany Risk Management Committee) and each of the six segments has a risk management committee who are responsible for maintaining and updating risk reporting; managing risk action implementation and measurement systems; and maintaining and reviewing risk performance and measurement systems (Thomas Cook Group, 2010).

On the other hand, TUI AG has developed central risk management system which "comprises the independently organized reporting system for the early identification of risks threatening the existence of the Company (German Act on Control and Transparency in Business, KonTraG), initiated, coordinated and monitored by the KonTraG working group as an independent body... Risk management is supported by the Group-wide audit departments, which examine risk reporting in accordance with KonTraG, both regularly and case-by-case basis" (TUI AG, 2010a:121). Internal Group Audit as well as separate Group Auditor audits the operability, adequacy and efficiency of the KonTraG system. Group Controlling, except its planning and controlling processes is responsible for risk reporting to the risk management system, as well as Decentralised Business Areas who deal with operative risk management and also report to the Risk management system (TUI AG, 2010a). Less rigid structures are likely to react more promptly; and more precise and defined relations of reporting together with responsibilities create good basis for secure business relations.

THE ENHANCED MANAGEMENT RISK PHYLOSOPHY

As rightly stated by Ritchie (2004:673), "...at all the stages of the strategic management process there needs to be flexibility, evaluation and potential modification to strategy development and implementation..." depending on all factors mentioned above. However, it is highly important for tour operators to create a very strong partnership and coordinated work among the government, national tourism organizations, tour operators, travel agencies, and local hospitality official in the destinations.

The data analyses reveal that each company develops its own "risk management philosophy". However, TUI AG and Thomas Cook Group PLC stress that the main objective of adopted risk management framework is to reduce and to manage rather than to eliminate the risks turning into crises as much as possible, to derive the maximum benefit from any opportunities identified through risks analysis. TUI additionally stresses in its risk management philosophy its strategic pillar to achieve excellence through managing risks effectively throughout the organisation (TUI, 2008). TUI Deutschland has become the first tour operator that tested and certified its crisis management system by PricewaterhouseCoopers (PwC). "Ten standard elements overall were defined and examined: tourism crisis management objectives, crisis prevention, crisis identification, crisis analysis and evaluation, tourism crisis management control activities, crisis communication, monitoring and adaptation measures, tourism crisis management organisation and documentation" (TUI, 2007:34).

As in other parts of tourism business divisions, the new technology has helped to improve the risk and crisis management, too. As emphasised by many authors, and experienced by tour operating companies, "there is enormous time pressure, particularly in the early phases of major crises …Every minute counts (Heuer, 2011). Crises require organizations to make decisions and take actions under intense time pressure, and, according to Burnett (1998), this is precisely what differentiates crisis management from normal strategic management. The strategic options have to be evaluated and chosen quickly so that the organization can give better control of the situation (Heath, 1995). Risks have become challenges to tour operating companies – those who can adjust an essentially inelastic offer to continual fluctuations in demand faster and more successfully gain better chances of survival in a very competitive market. "Good management can avoid crises to some degree, but must equally incorporate strategies for coping with the unexpected event over which the organization has little control" (Faulkner, 2001:137).

In 2010 TUI dealt with 17 major crises that required quick actions in different destinations, change of reservations, re-rotation of airplanes, to name a few examples (Lührs, Hildebrandt, 2011: 18). From 2007 to 2011 there were 1-3 major ones per year. The volcanic eruption and ash cloud paralysed Europe's air space from 15 to 21 April, 2010. A total of 180,000 of TUI's clients were directly affected in their holiday resorts, and another 175,000 guests cancelled their holidays due to the same reason. TUI reported a turnover loss and 127 million Euros in earnings (Frenzel, 2010). The same number of customers was reported by Thomas Cook to be stranded in resorts and a further 190,000 were unable to depart. Frenzel (more quickly and more successfully 2010) stressed that the way TUI handled the ash cloud was the best possible image advertising for the TUI

brand, their business model and organised travel in general. Both companies demonstrated efficient crisis management practice, and in spite of no previous experience with this particular type of crisis, they responded efficiently to the crisis.

Although tour operating companies have developed robust plans for dealing with crises in case they occur, there have been many cases of "bottle necks" in handling the crises in the past, as was well documented by the tour operating companies. Thomas Cook used for many years the so called "a manual cascade process" (Thomas Cook, 2008) where the appointed Duty Officer would contact 4-5 personnel informing them of the incident and consequently these personnel would each contact another 4-5 personnel and so on. One does not need to explain what damage could be done if one person only had not been contacted. Owing to new technology inefficient processes have been improved to very high standards as the solution was found to mobilise crisis teams for any situation. Emergency contact numbers are stored for each of their employees, line communication jams are avoided thanks to the system that filters the calls and only urgent calls in such situations are put through.

To be able to ensure alerting and notification process to take place as rapidly as possible, Thomas Cook and TUI installed **FACT24**, "Europe's leading notification, alerting and crisis management service from F24 AG. The service offers fully automated notification and alerting services and also calls telephone conferences" (F24 Press Release, 2011). The system enables crisis management care teams to assemble faster on the bases of tailored criteria such as location, qualifications and skills of the personnel and can be notified at once. There are some additional functions, as for example the Case Manager function which enables crisis squad to exchange news, documents and media in real time using a protected online portal (F24, Press Release, 2011). Additionally, the service can incorporate subscriptions to relevant message feeds from new portals to social networks.

Evidence from practice and existing literature dealing with crisis management strategies emphasise the need for a precise communication strategy with the media. "The role of the media in crisis management strategies can be crucial to such an extent that it might make a difference between whether or not a different situation evolves into disaster" (Faulkner, 2001:141). Since the media like to "bombard" the readers and viewers with news during the time of crises, and since people find negative reports far more interesting than positive ones, tourism companies have to make use of media interest in the crisis to broadcast positive facts (the case related to PATA and SARS can serve as an example of past best practice in crisis management). Therefore, public relations using Fact 24 comes as perfect solution highly ranked on the tour operators' priority list. The improvement of tour operators' crisis management strategies in the future will increasingly be focused on using IT to mitigate risks and to reduce waste of time to minimum since the latter is the greatest enemy of efficient crisis management.

CONCLUSION

The evolution of crisis management in tour operating business was assessed using the examples of policy and practice in risk and crisis management in two largest leisure travel concerns - TUI AG and Thomas Cook Group PLC. The analysis has revealed that tour operators have moved from mostly reactive to increasingly proactive crisis management with well established risk management policies, defined processes for risk identification and evaluation as well as strategies for risk and crisis mitigation. Since crisis management in the tour operating business has been insufficiently discussed among tourism academics, the purpose of the paper was to stimulate more extensive research in this growingly intriguing field. Although the research benefited from one of the authors' insider information deriving from her experience of working in the tour operating business, further primary research studies are needed to deepen the theoretical contribution to this aspect of tourism studies.

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