The Role of Stakeholder Relationship Management – Crisis Management Processes within the Hotel Industry in a Tourism Context

Nicola ZECH*

Zech-Hotelmarketing, Germany

Rates of worldwide environmental, social, technological and other crises are perceived to be constantly increasing - if nothing else due to almost instant broadcasting by media and internet. The Tourism Industry is especially vulnerable to such crises as numerous Stakeholder Groups on the one hand and large numbers of travelers on the other hand are or might be affected. Therefore, Tourism Industry Stakeholder Groups’ claims regarding transparency can’t be denied. This Research Paper focuses on Crisis Management processes from the aspect of the Hotel Industry in a Tourism Context considering a variety of Tourism Market Players. Theoretical foundations combined with empirical research reveal prerequisites, Status Quo as well as opportunities and challenges towards an integrated Crisis Management Model. Finally, key success factors for a Stakeholder Relationship Management based approach are introduced.

Keywords: stakeholder relationship management, crisis management, hotel industry, tourism, destination management

JEL Classification: M100

1. Introduction

As a matter of fact, a company crisis which does not affect any Stakeholder is hard to imagine. On the contrary, typically multiple Stakeholder Groups are affected and involved – to a varying extent. Stakeholders’ needs and demands have to be balanced and prioritized wherever applicable. One aspect which can never be neglected is the importance of “true engagement” as stated by McEuen (2011) in her paper “The Game has Changed: A New Paradigm for Stakeholder Engagement”: A company may never forget about what its Stakeholders value and view as important. For establishing a sustainable partnership with Stakeholders it is therefore not sufficient to consider the company’s needs for generating profit but placing equal attention on the Stakeholders’ needs. Sautter and Leisen (1999) even go a step further by underlining the philosophy that

* Corresponding Author:
Nicola Zech, Zech-Hotelmarketing, Munchen, Germany

Article History:
Received 27 March 2015 | Accepted 9 April 2015 | Available Online 11 April 2015

Cite Reference:
the entire purpose of an organization is the co-operation of Stakeholder interests. This seems to be especially true in a Tourism Context.

Henderson (2007, p. 8) summarizes very clearly the reason for the vulnerability of the Tourism Industry to crises: “It has a complex structure and sells experiential products which are the collective work of several suppliers, leading to possible problems of fragmentation and control. Relationships of mutual dependence among components also mean that a crisis for one may spread to another.” In other words: “Organizations within the service sector are faced with a wide array of potential crisis issues and this is due to both the nature of the service sector itself and the extent of interactions between elements of the industry.” (Smith, 2005, p. 310)

The Tourism Market is currently undergoing a fundamental change: standardized products are being replaced by a broad range of individualized products inspired by market dynamics, change in values and breaks in trends. This leads to an increase of vulnerability. (Kreilkamp, 2005) Therefore no standardized Crisis Management Procedure can be established – individualized procedures based on specific crisis situations have to be developed.

Apart from population growth, increased urbanization and global economic pressures as reasons for our environment apparently having become increasingly turbulent and crisis prone, Faulkner (2001) brings more powerful technology and associated computer failures into play. These days, it is also undeniable that modern communication brings even most distant crises to our attention. (Hystad and Keller, 2008) In addition, sensationalistic media coverage “may mislead public concerning the actual magnitude of a disaster (crisis) and its consequences” (Murphy and Bayley, 1989, p. 38). On the one hand this more and more interdependent and connected world implies that a small-scale crisis in one part of the world may have a significant impact on other parts of the world. (Ritchie, 2004) But on the other hand this lays the ground for learning from others’ experiences.

A Tourism-related crisis classification scheme set up by the author (Zech, 2014a) lays a foundation for subsequent source-based scenarios. The focus of this research paper is set on macro-level crises which affect various Tourism Market Players. Stakeholder (Relationship Management) specifications for the focused Industries were investigated. These prerequisites led to the subsequent empirical analysis of the status quo as well as perceptions and expectations of Stakeholders. Three Stakeholder Groups (Hotel Guests, Internal Stakeholders and Destination Management Organizations/DMOs) were surveyed ceteris paribus. Among others, findings were achieved in the fields of Stakeholder cooperation in pre-/acute/post-crisis stages. The primary data analysis reveals that all Stakeholder Groups surveyed are convinced that the cooperation of several or all Stakeholder Groups in Tourism-related crises may lower its impact.

As a conclusion based on the theoretical and empirical findings, key success factors of professional Crisis Management within the Hotel Industry focusing on the Tourism Context and its Stakeholder Relationships are introduced. Over the course of the further and final development of the author’s dissertation, an Integrated Crisis Management Model for the Hotel Industry based on a Stakeholder Relationship Management Approach will be developed on this basis.

2. Literature Review

The Tourism Industry “consists of all the commercial and non-commercial enterprises and agencies which make Tourism possible, encourage it and deal with the consequences. (…) Core industry sectors are Tourism administration and development, passenger transportation, hospitality, attractions, tour operation and retail travel.” (Henderson, 2007, p. 7) This implies that the “hospitality and tourism industry is a fragmented, complex mix of mix of Stakeholders. [Furthermore,] in times of crises, only a cooperative and concerted effort by these entities will help mitigate the adverse effects” (Racherla and Hu, 2009, p. 562).

Tourism as an industry sector differentiates notably from other industries due to its lack of homogeneity and standardization. Numerous producers (of goods and services) representing a variety of company sizes as well as management maturity levels are involved in the production service. Consumers tend to see the final product and its features undifferentiated. This indicates that the individual services provided have to be seen as complementary. For managing crisis situations, Tourisms’ unique characteristics play a decisive role:

- Intangibility – products cannot be tested or touched prior to purchase
- Perishability – inventory cannot be carried or stored away for later use
- Volatility – depending on a wide range of external factors. (Ritchie 2009)
Notably the aspect of volatility respectively the dependence on external factors (e.g. electrical; Communication and other critical infrastructure failures) makes the Tourism industry extremely vulnerable to crises and disasters. (Ritchie, 2009) All of these unique characteristics apply particularly to the Hotel product. An individual to be considered a tourist has to be on travel including at least on overnight stay. In general, tourists are classified based on their motivations or purpose of visit:

- Leisure Travelers - sightseeing or visiting friends and relatives
- Business Travelers
- Other Travelers – students or people traveling for medical reasons (Ritchie, 2004)

These tourist classifications have one aspect in common: They are persons away from home, confiding in Tourism companies – specifically Hotels – and with limited information, communication and action alternatives in crisis situations. Generally, crisis management focuses on the needs and demands of permanent residents, “but in an increasingly mobile and service-oriented society, the requirements of visitors and the Tourism industry should be incorporated into the process. Because they may be relatively unfamiliar with an area and its local emergency plans, tourists are often at greater risk than are local residents. (Murphy and Bayley, 1989)

Considering a destination and the associated Destination Management Organization (DMO), no upper or lower limits of the respective geographical limits exist. It is more linked to the market segmentation as well as the consumer’s perception. Therefore, the considered geographical area can even be component of more than one destination. E.g. a beach resort may be administered as a destination itself and be part of the country or continental destination at the same time. (Glaesser, 2006) A DMO is mostly referred to as a convention and visitor bureau in metropolitan areas which coordinates efforts to attract tourists (Business and Leisure) to their geographic area (Destination). Numerous DMOs are predominantly financed by public funds thought of as an investment in accordance with an estimated ROI. (Sheehan and Ritchie, 2005)

According to McDonald et al. (2010, p. 264) two major determinants of Stakeholders’ reactions to a company crisis have been identified: “the company’s crisis communication and the crisis cause. Among others, both aspects will be considered in detail in the course of this paper. Pearson and Clair (1998) found out that generally organizations building alliances, achieving coordination, and sharing accurate information with its Stakeholders may be able to benefit from early detection of warning signals, minimal downtime, effective containment of damage, and positive effects on corporate reputation.

Conclusively it can be determined that so far a lack of research on Crisis Management within the Tourism Industry and especially the Hotel Industry exists. (Faulkner, 2001; Pennington-Gray et al., 2011; Ritchie, 2004) Furthermore, there are only few authors considering the importance of Stakeholder Relationship Management before, during and after Tourism crises. (Ritchie, 2009)

3. Research Premises

3.1. Tourism-related Crisis Management Specifics

In common business, a crisis can be defined as an “undesired, extraordinary, often unexpected and timely limited process with ambivalent development possibilities” (Glaesser 2006, p. 14). Fink (2002) considers a crisis as not necessarily being bad but as merely being characterized by a certain degree of risk and uncertainty. Commonly, a crisis is characterized by the following conditions:

- Time constraint
- Limited information (both in quality and quantity)
- Decision load constraint (Cosgrave, 1996)

All of these aspects seem as true for Tourism crises as the notion that all (Tourism and other) companies and institutions have to deal with crises at varying extents at some stage. Remark: In this paper no clear distinction between crisis and disaster (as some authors do) has been conducted. A disaster is interpreted as a large-scale and more intensive crisis.

In a crisis situation the above mentioned multiple Tourism Industry entities are forced to coordinate “within organizations, between Stakeholders, both within the Tourism Industry and between the Tourism Industry and external Stakeholders, such as emergency services personnel” (Ritchie, 2009, p. 145).

Crisis Management is predicted to be among the top 3 challenges for the Tourism Industry in the future. Not only the vulnerability of the Tourism Industry has to be considered but also the Industry’s position as early warning indicator for other Industries. (Glaesser, 2005) In addition, tourists nowadays seem to be exposed to even greater levels of risk due to an increased level of global Tourism activity as well as the attractiveness of high-risk exotic destinations. (Faulkner, 2001; Murphy and Bayley, 1989) Hotels – however
– seem still not aware enough of the imminent risk of severe crisis situations. Surveys of selected Stakeholder groups revealed that the perception of crisis awareness and preparedness of Hotel companies are perceived to be below average. For most, a “crisis” was linked to fire or an economic crisis. Other crisis categories are rarely considered. In addition, crisis detection is realized much more professionally by Tour Operators. For that reason a majority of the Hotel companies relies on the early warning systems of Tour Operators and their associated partners (e.g. A3M). (Zech, 2013a)

The following crisis classification focuses on Tourism-related macro-level Hotel crises:

- Economic crisis
- Environmental crisis
- Health crisis
- Structural crisis
- Political crisis
- Sociocultural crisis
- Technological crisis (Zech, 2014a)

This macro-level crisis classification may serve as a foundation for further scenario-based Crisis Management procedures.

Fig 1. reveals that while a Hotel for sure has to suffer most from an expected decline in tourist arrivals and its associated decline in accommodation and possible extra expenditure, a crisis will never only hit a Hotel but all market players to a certain extent.

\[ LR = (ETA \times ADS \times ADE) - MC \]

\[ LR = \text{Loss of revenue for the destination} \]
\[ ETA = \text{Expected change of tourist arrival} \]
\[ ADS = \text{Average duration of stay} \]
\[ ADE = \text{Average daily expenditure} \]
\[ MC = \text{Material cost} \]

**Figure 1. Estimation of the loss of revenue**
Source: Glaesser (2006, p. 181)

### 3.2. Tourism-related Stakeholder Relationship Management in Crisis Situations

The Stakeholder approach for Tourism crises is closely linked to the “need of an interdisciplinary, systematic and holistic approach” as to managing change in the field of the complex phenomenon of Tourism as proposed by Keller and Bieger (2010, p. 2). Interpreting “Tourism Crisis Management” as stated by Henderson: “Planning for and managing Tourism crises in order to protect the interests of the industry, tourists and other Stakeholders involved and contain any long-term damage” (Henderson, 2007, p. 13), no Hotel company can or should for logical reasons try to solve crisis situations as an isolated business unit. Fig. 2 displays major Hotel Stakeholders focusing on the most important ones during Tourism crises:

**Figure 2. Hotel Company Stakeholder Map focusing the Tourism context**
Source: author’s construction
One major Stakeholder group which might change dramatically in crisis situations is that of “Tourists”. They have been customers prior to the crisis but now some or all of them might have become victims. (Stephens et al., 2005) This implies a fundamental change in need and demands.

While DMOs have predominantly do not have formal, contractual, or official relationships with Hotels, they still consider them being their most important Stakeholders. (Sheehan and Ritchie, 2005) Harrison (2003, p. 144) stresses in his article “Strategic Analysis for the Hospitality Industry” that “powerful Stakeholders are attractive candidates for partnerships” as these partnerships may reduce uncertainty or even stabilize an organization. In this sense, “power” has to be divided into economic and political power. This implies a regular review of Stakeholders’ power and influence – especially for crisis situations. (Harrison, 2003)

According to Rousaki and Alcott (2006, p. 31), “research supports that the size of the organization is a variable that is likely to influence crisis readiness”. E.g. still more mid-sized and large Hotel categories work closely with DMOs. (Yu et al. 2005) Obviously, as the majority of Hotel companies are SME (small and medium sized enterprises), they lack financial, knowledge and staffing background necessary for establishing professional Crisis Management procedures. They could compensate this lack by bonding with cooperation partners. However, one of the main reasons for Hotels conducting active Crisis Management is crisis experience. “An organization which has experienced a crisis is more likely to invest in the development of a plan.” (Pennington-Gray et al., 2011, p. 314) Transferring this aspect to the Stakeholder approach this implies that the chance that at least one or several members have already experienced a crisis and the associated willingness of the network as a whole to embed active Crisis Management is comparatively high. Key questions regarding Stakeholders in Crisis Management are:

1. “Which Stakeholders affect Crisis Management?
2. Which Stakeholders are affected by Crisis Management?
3. How can the Stakeholders be systematically analyzed and anticipated for any crisis?” (Pearson and Mitroff, 1993, p. 50)

It has to be considered that all Stakeholder Relations are two-way processes with Stakeholders possibly influencing crisis policy either explicitly or implicitly. Nevertheless, this aspect has largely been ignored to day. (Ritchie, 2009; Zech, 2014b) In this context however, two conditions are of major importance:

- Stakeholder awareness and claims may vary in the course of a crisis
- Crisis impact and duration may be dependent on Stakeholders actions

All Crisis Management actions considering the Stakeholder Relationship approach have to start with the internal Stakeholders (Managers and Employees). According to Rousaki and Alcott (Rousaki and Alcott, 2006, p. 28), the first facet of Crisis Readiness is “the internal functionality of the organization”. This implies, that Stakeholder-related Crisis Management does not imply transferring own duties to others. But in order to set up a promising network, all participating entities have to do their homework first.

At best, DMOs are coordinating Tourism crisis response and recovery. They take the “coordinating role between industry associations, industry Stakeholders and the central government” (Ritchie, 2009, p. 149). In this context, major industry Stakeholders are represented by local Hotels and their respective employees and guests one the one hand. On the other hand, Hotels usually play an important role in housing and feeding people affected by a crisis as well as emergency workers. (Ritchie, 2009) Sheehan and Ritchie analyzed the Stakeholder Relationship of DMOs and Hotels closely. They found out that Hotels and Hotel associations are DMOs most important Stakeholder group. But in contrast, less than half of the 91 DMOs (from U.S., Canada and abroad) surveyed via a self-administered questionnaire reported of formal, contractual, or official relationships with them. A reason for still considering them as most important may be seen in the Hotel’s attraction of high-yield events to the destination. (Sheehan and Ritchie, 2005)

As crisis situations signify little information, time pressure and psychological stress, a predefined Crisis Management Team may ensure response and reaction. (Ritchie, 2009) Generally, the intensity of time pressure can be broken down into three components:

- “Limitation on the time available, i.e. the decision time;
- Individual sensitivity of the participants towards external pressure;
- The magnitude of the problem.” (Glaesser, 2006, p. 13)

Especially within the Tourism context, the component of external pressure plays an essential role: External pressure is intensified not just by persons directly affected but also by tour operators, incoming agencies, airlines, embassies and not least the media. If nothing else, this external pressure reduces the time to reach a consensus of opinions or to hold a debate. The “top down”-approach has proved to be successful in
many occasions. But – this is only true for organizations in which the senior executives take crisis management and its consequences to the organization, its environment and Stakeholders serious. Considering a Crisis Management Manual the ultimate evidence of Crisis Readiness might not be enough in this context. (Rousaki and Alcott, 2006; Arbel and Bargur, 1980) Instead, “it is generally recognized that prepared businesses are in a more competitive and advantageous position to negative events, and that decisions made before a crisis or disaster will enable a quicker and more organized response by providing a clear direction to follow.” (Hystad and Keller, 2008, p. 152) A Crisis Management Manual will always represent only one facet of Crisis Management Readiness. Additional exemplary facets would be regular scenario-based Trainings, pre-definition of a Crisis Management Team, a Crisis Communication Plan including determination of a spokesperson or incorporation of lessons learned from previous crises.

Yu et al. (2005, p. 104) propose three aspects which shall be considered by Hotels while developing a Crisis Management Plan:

1. “A rich understanding of how specific crises affecting the tourist industry and other organizations have been responded to and recovered from;
2. A state of mindfulness about conditions that may lead to future crises deeply and pervasively throughout its membership;
3. A carefully defined crisis response and recovery which is networked with the larger community crisis management plan.”

The complete external communication should be coordinated and conducted by one designated spokesperson by a simultaneous ban on speaking for all other persons involved. According to Ritchie, poor communication strategies can make a crisis even worse. Especially, if the response takes too long (and the media have deadlines to work to and are looking for quick sources of information) someone else will answer – maybe not in the way and with the details the organization itself would have preferred. (Ritchie, 2004) A key success factor in Crisis Communication is targeting Stakeholders with different – appropriate – messages regarding content, extent and channel. (Stephens et al., 2005)

For realizing a structured and strategic implementation of the concluded Crisis Management procedures, “Regular meetings (perhaps even daily) are required to assess the effectiveness of strategies, the response of various Stakeholders to strategies and to review the development of the crisis or disaster as it evolves over its lifecycle.” (Ritchie, 2004, p. 675)

4. Research Methodology

Three crucial Hotel Stakeholder Groups were surveyed (time-frame October 2013 – January 2014) ceteris paribus:

- 81 Internal Stakeholders
- 70 Hotel Guests
- 84 DMOs

The survey was conducted in form of a semi-structured questionnaire. In order to achieve comparability, the key questions were either the same or only slightly adjusted to the respective Stakeholder Group specifics.

Hereinafter, a quantitative evaluation of some particular research results displays the individual Stakeholder Groups’ as well as the general attitude towards Tourism-related Crisis Management within the Hotel Industry.

5. Analysis and Results

First of all, the survey aimed for assessing the Stakeholders’ general perception both of the Hotel Industry’s Crisis Awareness and Crisis Preparedness. Hereinafter the results of the two introductory questions are displayed tabularly at first and graphically after that:

| Table 1. Survey results for question “How would you rate the Crisis Awareness within the Hotel Industry in general?” |
|---|---|---|---|---|---|---|
| | Not at all 1 | In need of improvement 2 | Neutral 3 | Good 4 | Excellent 5 | Average |
| Internal Stakeholders | 1,23 % | 32,10 % | 48,15 % | 18,52 % | 0 % | 2,84 |
Tables 1 and 2 in detail and Fig. 3 considering the average ratings reveal that the perception of Crisis Awareness is rated slightly higher than that of Crisis Preparedness. However, both perceptions are clearly rated as being neutral or even in need of improvement compared to the maximum possible. An additional finding of the question is that internal Stakeholders who are expected to have more insight into a Hotel’s Crisis Management setup than external Stakeholders (Hotel Guests and DMOs) are valuating both Crisis Awareness and Crisis Preparedness lower than the other Stakeholder Groups. This fact might be an indicator for either indeed poor crisis management efforts or poor information respectively lack of an image campaign regarding crisis management efforts.

The more specific survey question with reference to this paper was the following “Do you think that the active involvement of Stakeholders might help reducing the impact of crises?” Table 3 shows the survey results:

<table>
<thead>
<tr>
<th></th>
<th>Internal Stakeholders</th>
<th>Hotel Guests</th>
<th>DMOs</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>pre-crisis</td>
<td>3.89</td>
<td>3.50</td>
<td>3.57</td>
<td>5</td>
</tr>
<tr>
<td>acute crisis</td>
<td>3.84</td>
<td>3.69</td>
<td>3.99</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 3. Survey results (average ratings) for question “Do you think that the active involvement of Stakeholders might help reducing the impact of crises?”

Source: author’s construction
Comparing the results of Table 3 resp. the average ratings of Fig. 4 to the previous Fig. 3 it becomes apparent that all Stakeholder Groups valuate active Stakeholder Engagement throughout the Crisis Management process as helpful in order to reduce possible crisis impacts. In this context all three surveyed Stakeholder Groups valuate the effect of active Stakeholder Engagement in the post-crisis/learning-phase highest.

6. Discussion and Conclusion

The following illustration (fig. 5) displays a compilation of the Theoretical and Empirical Findings with reference to possible Stakeholder Engagement in the respective Crisis Management Phases. In an adapted Crisis Management Circle, phases in which Tourism-Industry Stakeholders might successfully and supportingly be implemented are marked:

Conclusively, Table 4 offers a more detailed option to plan the tactics for the decisive Tourism-related Stakeholder Relationships in the different steps throughout the Crisis Management Circle. It seems advisable that Hotel companies – after identifying all (Tourism-related) Stakeholders – prepare and fill-in this matrix for each Tourism-related macro-level Hotel crisis scenario. Stakeholder Classification as well as prioritization or power and influence may differ significantly based on the respective crisis scenario. Some Tactics might already be established as a crisis reduction or readiness tools, others might support the response or recovery phases.
Table 4. Tactics Matrix for Managing Tourism-Industry Stakeholders in Crisis Situations within the Hotel Industry

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Tourism-related Stakeholders</th>
<th>Classification</th>
<th>Prioritization in crisis situation</th>
<th>Economic/Political Power</th>
<th>Influenc e</th>
<th>Partnering Tactics</th>
<th>Communication Tactics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
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<td>Managers</td>
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<td>Customers</td>
<td>Tourists</td>
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<td>Competitors</td>
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<td>Suppliers</td>
<td>Attractions</td>
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<td>Stockholders</td>
<td></td>
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<tr>
<td>Distribution Partners</td>
<td>Tour Operators/ Wholesalers Travel Agencies OTAs GDS</td>
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<td>Media</td>
<td></td>
<td>Residents</td>
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<tr>
<td>Local Community</td>
<td>Infrastructure &amp; Passenger Transportation Convention Centers</td>
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<td>Regulators</td>
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<tr>
<td>Natural Environment</td>
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</table>

Source: author’s construction based on Bourne (2009), Harrison and St. John (1996), and own empirical findings

There exist only few very good practical examples of professional, structured, and planned cooperation between Tourism Industry Stakeholders worth mentioning. These exemplary cooperation are mainly located in especially vulnerable geographical areas where the necessity of crisis preparedness as well as fast crisis response seems even more obvious:

1. PATA = Pacific Asia Travel Association; www.pata.org; establishment of a “Rapid Recovery Taskforce” (PRRT)

The Checklists of both Organizations mention “Stakeholders” explicitly taking their needs and demands into consideration on the one hand and involving them actively into the Crisis Management Process on the other hand.

Based on general instructions evolved in the research paper “Stakeholder Relationship Management in the context of Crisis Management” (Zech, 2013b) and supplemented by the specifics of the Tourism context, conclusions regarding a Tourism-related Stakeholder Relationship Management approach to Crisis Management within the Hotel Industry are:

1. A Stakeholder Relationship Management approach to Crisis Management cannot be seen as a once only tactic but has to be implemented into the companies’ General Management as a paradigm shift.
2. All crucial Stakeholders of the Hotel Company need to be identified and a Stakeholder map focusing on the Tourism context has to be drawn. Both formal and informal agreements have to be considered. Networks and cooperation have to be established before and tightened in a crisis situation. It is too late to establish them in a crisis situation!
3. A pre-crisis audit including interviews with both internal and external Stakeholders should be conducted in order to determine the crisis-preparedness of an organization.

4. A Tactics Matrix as proposed in Table 4 has to be filled-in for different Tourism-related macro-level crisis scenarios in order to determine respective Stakeholder prioritizations as well as partnering and communication tactics. Non-Tourism companies and Stakeholders (e.g. police, fire department, medical authorities, media, etc.) may be of crucial importance in crisis situations as well and have to be considered where applicable.

5. For testing the Crisis Management Plan, it seems advisable to prepare a detailed crisis scenario for each crisis type defined. Best case and worst case scenarios shall be implemented.

6. Training shall include general training, table-top exercises, workshops and real time and live simulations including flexible elements with the aim to test the organization, communications and the teamwork of those concerned and the ability of individual actions.

7. Crisis management audits and training have to be implemented into business activity plans and reiterated on a regular basis.

8. The learning process of the own crisis history has to be extended by the learnings of the Stakeholders’ crisis histories.

References


