

CONTRIBUTIONS TO A POSSIBLE RISK MANAGEMENT MODEL FOR THE TOURISM INDUSTRY IN ROMANIA

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ABSTRACT. Contributions to a possible risk management model for the tourism industry in Romania. This paper tries to design a possible risk management process and model for the tourism industry in Romania, based on the existing models in literature. In the end we propose an empirical analysis; a survey relied on the questionnaire presented in appendix. The data collected from this survey could improve and change the risk management model that was recommended.

Key-words: tourism, risk management, risk management process, risk management model

1. Introduction

It is well known today that tourism is considered as the industry with the highest growth rate and potential for job creation world-wide. Moreover, tourism, as any other industry, is susceptible to risk. The risk could manifest itself in many forms that can have disastrous consequences upon the tourism industry if they are not managed effectively.

The literature defining the **risk** terminology is indeed abundant:

- On a web resource (What is risk?) ,the concept of risk is defined as follows: “*the probability that a hazard will turn into a disaster. Vulnerability and hazards are not dangerous, taken separately. But, if they come together, they become a risk or, in other words, the probability that a disaster will happen.*”

- Raval & Fichadia (2007:29) appreciate that risk can be seen as the potential of loss or harm to an entity, (where) such an entity can be a person, a group, an organization a system or a resource, or modification to programs or data, theft of data and the unauthorized use of information.

- Kerzner (2001:07) refers to risk as constituting a lack of knowledge regarding future events, especially those events that have a negative impact on the business, also referred to as unfavorable events.

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It can therefore be accepted that, unless risk is controlled and managed, growth in the industry and job creation will not be achieved. This is substantiated by the works of various authors, who have identified risks relating to tourism and the tourism industry (Shaw, 2010:05). These risks can be broadly categorized as follows: nature, crime, health and safety risks, political factors, socio-demographic, technological and economic risks (as illustrated in Table 1).

Table 1 Risk Categories Associated with Tourism and the Tourism Industry

Risk Category	Examples
Nature	- Natural disaster (Floods, etc.) - Weather and climatic conditions - Climate change - Environmental factors
Crime	- Fraud - Hijacking - Acts of terrorism
Health and Safety	- Infectious diseases
Political Factors	- War - Political instability
Economic	- Strikes - Lack of funding - Exchange rates - Rising oil and fuel prices - Economic recession (local and worldwide) - Financial crises
Technology	- Transport - Transport development - Information technology (IT) - Reservation systems - Computer programs
Socio-demographic	- Age & sex - Family life - New/ageing markets - New routes

Source: Adapted from G. K. Shaw, *A risk management model for the tourism industry in South Africa*, 2010, pp. 5-6

Added to the above classification, risk can also be divided into two groups, internal (domestic) and external (international). Domestic risks occur within the host country and are usually of a detrimental nature that can adversely affect tourism to the country. External (or international) risks are risks that occur outside the host country's borders, and affect tourism to those countries negatively, but to other Countries, present opportunities that can possibly be exploited to attract more tourists.

2. Risk Management

We agree with the authors Baltzan, Phillips and Haag (2009:524) that describe the **risk management** as *a process of ongoing risk identification, analysis and developing responses to risk factors*. This process by which challenges and deviations from expected outcomes can be confidently managed by being prepared in advance. Therefore it is very important to identify, assess and analyze the risk issues, as well as plan for the occurrence of risk, including the development of a management system in order to handle risk. This system should be designed to allow for the monitoring of risks to determine how they have changed.

If the economic subjects ignore the risks that apply to business activities that could affect the health and safety of employees and customers, the businesses reputation, credibility and status, the public and customer confidence, the financial position, the equipment and the environment.

Neitlich (2009) considers, justly, that an adoption of some effective risk management methods and techniques can improve the safety and business performance in the organization and thus ameliorate the potential damage of any risk.

3. Analysis of the Existing Risk Management Models

It is important that the risks associated with the tourism industry be identified and that appropriate methods be selected to manage these risks. However, before developing any kind of a model, it is imperative that the differences and/or the combination of processes, strategies and models be known. According to Cooper and Schindler (2001:53), there are different versions of the definition of these aspects of model derivative. They include the following:

- Processes - a series of actions, directed at a specific aim. A series of natural occurrences that produce change or development;
- Strategy - a carefully devised plan of action to achieve a goal. The art of developing or carrying out a plan;
- Model - something that is used for a related idea, process or system.

Given the above definitions, processes or systems could perhaps also be regarded as models. Various risk management models are used in business, particularly in the project management environment. The risk management models used in the project management environment tends to be more general as they are applicable to a variety of circumstances depending on the type of project. They are not developed for a specific business sector, such as finance or the banking industry, and therefore they appear to be more adaptable and can easily be changed to suit the tourism industry. As it will be seen, these models do not differ significantly from one another, but some have limitations that others do not and may not be suitable for the tourism industry (Shaw, 2010:43). We present a few

models encountered in the literature in an attempt to establish their suitability for use in the tourism industry.

a. **Valsamakis et al.** (2000:80) postulate that risk management is an ongoing process, not to be seen in isolation or as a single event. Figure 1 shows that the process starts with risk identification, with evaluation being the main feature to identify for risk control (for both business and event risks), before finally providing financially for the consequences of event risk. To manage a risk situation, it must first be recognized and/or identified, before any type of risk management program can be put into action. This part of the process should be viewed as the most important function of the risk management program and should be approached in a structured, systematic and well-managed manner.

The risk control and risk finance elements of the model could be presented in greater detail. Thereby, **the risk control** is about risk/loss severity reduction or loss frequency reduction with the following elements: fire, security, safety, occupational health, emergency planning, motor vehicle loss control, general and products, liability and engineering losses. **The risk financing** is about retention (cash flow, provisions, reserves, and equity), pre-loss external financing (captive insurance companies, commercial insurance, state risk financing and capital market instruments) or post-loss external financing (financing facilities).

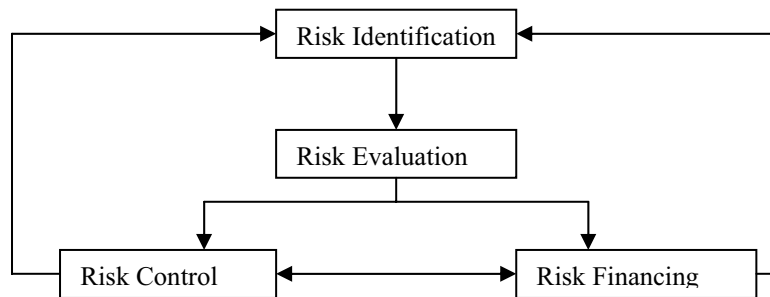


Figure 1. Risk Management Model
(Adapted from Valsamakis et al., 2004:96)

This model may be suitable for managing risks that lead to financial losses and so the Romanian tourism industry could use such a model *to manage financial risk*. However, it is not ideally suitable for adaptation as a risk management model to manage the other risks associated with the tourism industry. The model also has some shortcomings in what concerns the two important steps of implementation and the evaluation and review that are omitted.

b. Burke's Model. Burke's risk management model clearly shows the logical sequence of the process outlined and how each part integrates with the whole. Defining the objectives can be seen as determining the risk tolerance of the business, and of what the business is prepared to accept - or not - in terms of risk impact. Risk identification, quantification and response, together with monitoring and control, constitute the risk management plan that then becomes formal documents detailing how the business will manage and respond to identified risk.

The integration and interactions of the Burke's risk management processes are illustrated in Figure 2.

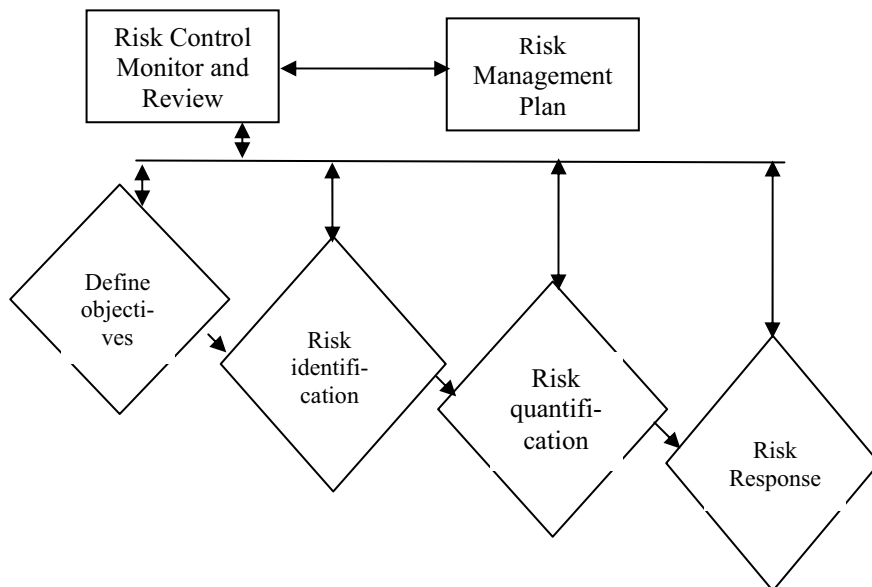


Figure 2. Risk Management Model (Adapted from Burke, 2000)

c. The Gray & Larson Model. Gray and Larson (2006:209) detail a process similar to that of Burke (2000). This is shown as Figure 3. Although there are again four steps in the process, each is a little different to those of Burke's model.

An important element that is missing from Gray & Larson's model, but one that is included in Burke's model is the setting of an objective. In other words, what is to be achieved by risk management? This is not always as self-evident as might be thought. A further essential difference between the two models is that Burke starts with risk control whereas this step is just part of the implementation of risk responses and, therefore, the last step in the Gray & Larson model. The model presented by Gray & Larson (2006) also explains what needs to take place at each step of the process.



Figure 3. The Risk Management Model (Adapted from Gray & Larson, 2006:209)

d. The AS/NZS (Australian/New Zealand Standard) Model. A very comprehensive model, known as the „Risk Treatment Process was developed by the Australian and New Zealand Standards Body in 1995.

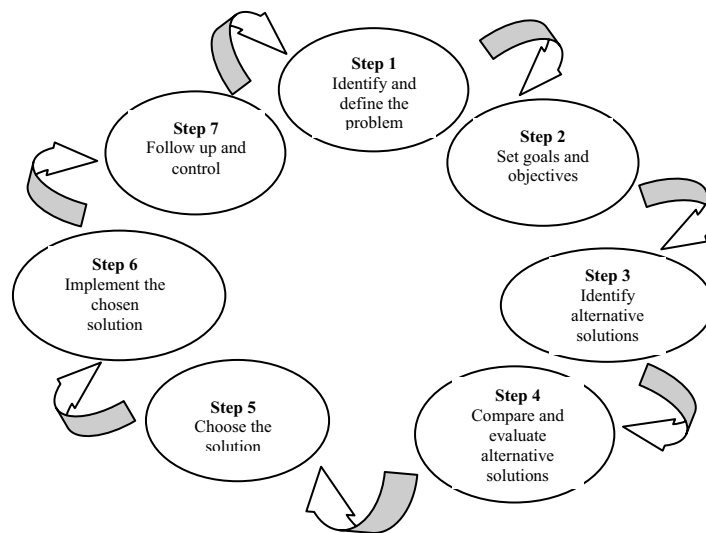


Figure 4. Decision-making Process – Problem-solving Model (Adapted from Nieman et al., 2003:121)

This model is very similar to those of Nieman & Niewenhuizen (2009), of Gray & Larson (2006) and of Burke (2000), but provides much greater detail with respect to the decision-making processes. The model also includes the decision making process associated with each of the four or five steps found in the other models.

Nieman et al. (2003:121) suggest that successful decisions follow a well-constructed process, which includes situation analysis and planning. Nieman et al. are of the opinion that rational decision making can be described as a logical and systematic approach to identifying a problem, further adding that developing alternative situations and then selecting the most appropriate solution is required.

The decision-making (problem-solving) model is illustrated in Figure 4. According to Nieman et al. (2003:131), following the steps in the model will not, however, guarantee good decisions, but will increase the chances of success in decision making. The concept of risk and risk management discussed could be summarized in Figure 5, which illustrates a few of the many complex aspects that need to be considered when developing a risk management model for the tourism industry.

Figure 5 shows that risk impacts not only upon the businesses associated with the tourism industry, but upon the industry as a whole. The impact can be either positive or negative and therefore might be exploited beneficially or perhaps minimized if adverse, by choosing the best strategy through the effective use of a suitably designed risk management model.

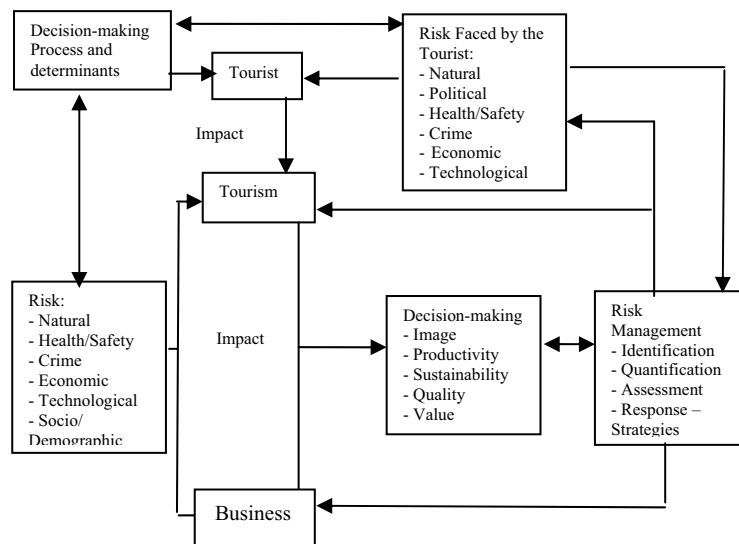


Figure 5. Risk and Risk Management in the Tourism Industry
(Adapted from Shaw, 2010:53)

The tourism industry has now advanced sufficiently that a risk management model can be developed to incorporate the multidimensional nature of risk management in the Romania tourism industry.

4. The possibility to development a risk management process and model for the Romanian tourism industry. An empirical analysis propose

a. The Risk Management Process

The final risk management process is based on the research of processes used by other industries, businesses and disciplines and has evolved to make it user friendly. The process is based on a combination of the processes presented above and illustrated in Figure 6.

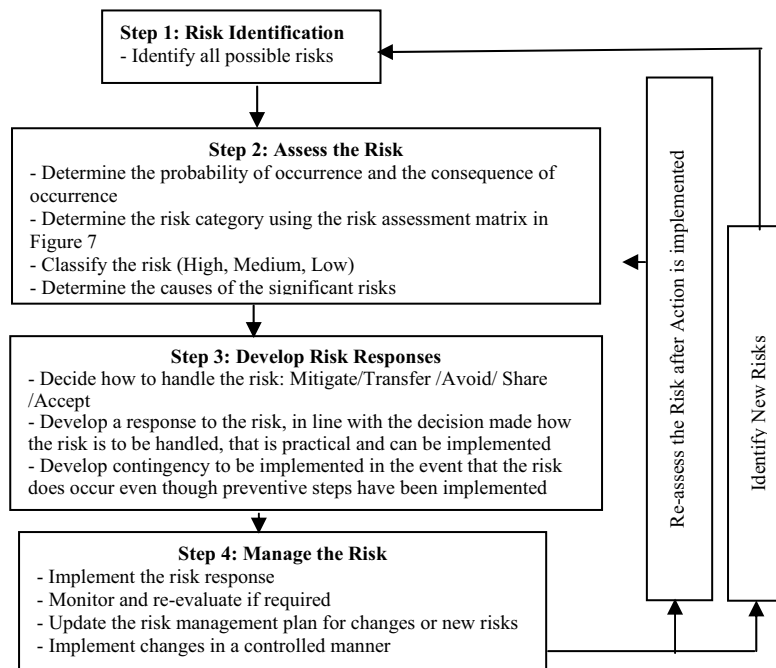


Figure 6. Risk Management Process Proposed
(Adapted from Shaw, 2010:205)

The probability of occurrence and consequence could determined using Table 2 as a guideline.

Table 2 Probability and Consequence of Occurrence

Probability		Consequence	
1	Regular (>80% Chance)	1	Extremely High Cost or Loss of Life
2	Probable (60-79% Chance)	2	High Cost or Serious Injuries
3	Can Happen (40-59% Chance)	3	Moderate Cost or Moderate Injuries
4	Low Likelihood (20-39% Chance)	4	Low Cost or Minor Injuries
5	Rare (6 – 19% Chance)	5	Extremely Low Cost or No injuries
6	Highly Unlikely (<5% Chance)	6	No Cost or Near Miss

The risk assessment matrix in Figure 7 is used to classify the risk's severity as high (1-4), medium (5-7) or low (8-11). The severity ranking in the matrix is a logical derivation from the ranking of occurrence and consequence. Starting in the top right corner with the highest ranking of 1, which is derived from a probability rating of 1 and a consequence rating of 1, the severity ratings are then increased by 1 for every square moving from top to bottom in the right hand column and the left to right in the top row as the risk severity decreases. The lowest severity risk has a matrix ranking of 11 (bottom left corner).

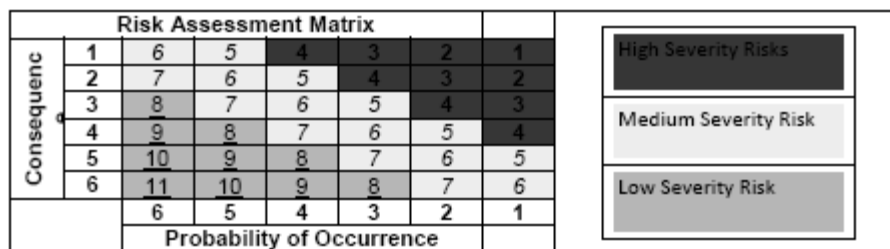


Figure 7. Risk Assessment Matrix (Adapted from Shaw, 2010:206)

High severity risks (1-4) require immediate action to eliminate or at least reduce the occurrence of risk or its impact. When the risk is classified as one of medium severity (5-7) then preventive measures need to be implemented. Risks in the low severity category (8-11) do not require action in the immediate future and can be accepted, but personnel must be aware of the risk.

It recommended that every operator/owner of a business associated with the tourism industry in Romania uses the risk severity matrix in Figure 7 to categorise and classify the risks that have been identified.

The process of quantifying the risk is subjective as it is based on the user's ability to determine the probability of occurrence and the cost of the consequence (or benefit) should the risk occur. Risk management is not an exact science, but still a useful tool to minimise the negative impact or maximise the benefit to the individual business, its owners and the industry as a whole.

b. The Risk Management Model

The risk management model in Figure 8 illustrates the risk management process in Figure 6. The individual risks found under the risk factors can be domestic or international risks. Some of these risks can be of both a domestic and international nature and will fall into the overlap. Internal or external risks to the business are included in the domestic risks. The individual risks are now assessed, categorised and classified by determining the probability of occurrence and the consequence of the risk (Table 2) and using the risk severity matrix Figure 7) to categorise and classify the risk severity as high, medium or low. The next stage of the process illustrated in the model is to identify the causes of the risk after which a response (action) is formulated for implementation to reduce the loss incurred by the business should the risk occur. Once the response is implemented it must be determined if the action taken was successful by repeating the risk assessment process and, if necessary, formulating and implementing further action. New risks may arise as a result of this process or are otherwise identified and the process starts again. This is part of risk management.

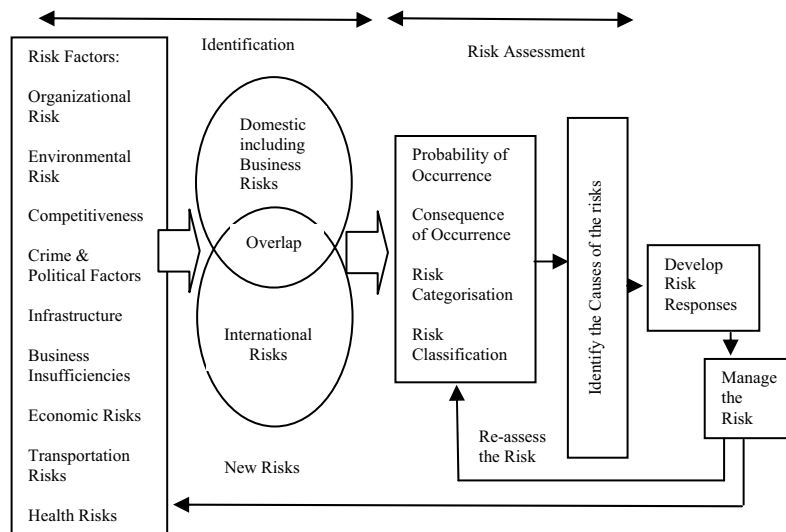


Figure 8. Proposed Risk Management Model
(Based on the risk management process in Figure 6)

Domestic risks includes internal and external risks faced by a business. The overlap indicates risks that can be of a domestic and international nature (occurring inside and outside Romania's borders).

c. An empirical analysis propose

We propose a structured questionnaire designed to establish how the operators in the Romanian tourism industry rate risk and the impact thereof on the business or industry. The questionnaire is divided into two sections, demographic (institutional information) and rating of risk.

The demographic information includes:

- Type of business
- Level of education of operator or owner
- The region in which the business is situated

Other information requested in the demographic section was in respect of the mechanism used to determine and evaluate risk in the business and the key factors considered to be important when determining risk.

The purpose of this questionnaire section is to establish the distribution of data across different types of businesses in the tourism industry within the region in which they are situated. This is important, since the research aims to encompass the tourism industry and not just one specific part of the industry (such as accommodation). It is therefore necessary to ensure that the responses that are received are not biased towards one specific business type or sector within the industry. Although this research is mainly concerned with the development of a risk management model for the Romanian tourism industry, this information will also be useful for further research purposes.

The second section, consisting of 53 statements, is concerned with the risks associated with the tourism industry and how the operators rate the identified risks in respect of intensity (impact) to their business. Although the risks are associated with specific types of businesses situated in different regions in Romania, this research is concerned mainly with the Romanian tourism industry as a whole. The questions included in the questionnaire are based on the initial risks listed in Table 1 and the literature study. A 5-point Likert scale is used to assist with statistical evaluation of the responses received, with 1 indicating an extremely low risk and 5 an extremely high risk to the business. Refer to Appendix 1 for the questionnaire and accompanying letter.

5. Conclusions

This paper has focused on risks that are likely to occur and impact on the supply side of the Romanian tourism industry. This implies that until now tourism only focused on the provision of services for the use of tourists, who represent the demand side of the tourism industry, and it has not considered the risks faced by tourists in the model.

It is therefore recommended that the risks likely to occur on the demand side of the tourist industry be researched for inclusion in the risk management model.

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