Risk Management in Indian Hotel Industry

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Abstract

This paper focuses on aspects of risk management and risk of risk management. The paper starts with a brief introduction about the risk and risk management and then it identifies current risk related issues in hospitality and tourism. Then the paper looks at various sources and points out the key source. Then a risk management for the source is discussed and then the paper looks at the risk of risk management of the source.

Key Words

Risk, Risk Management, Hazards, Brand loyalty, Risk of risk management, Indian Hospitality Industry.

Objectives

1. To understand the need of risk management.
2. To learn about different sources of risks in hospitality industry.
3. To understand the risk of risk management.

Research Methodology

This paper looks at risk management in hospitality industry. All the data taken for writing this paper is from the secondary data which has been gathered from various books, research papers, articles and online publications. This paper does not build its case on the primary data collected by the researcher.

What is risk and risk management?

Risk is a threat to anything that we value. These risks can be categorised under –

- Strategic risks
- Financial risks
- Operational risks
- Natural or hazard risks.

Risks cannot be created nor be destroyed. They are uncertain and uncertainty hampers all businesses. But it is possible to reduce the impact and the frequency of the risk. Risk management is the formal process that enables identification, assessment, planning and management of risks (Merna& Al-Thani 2008). For keeping the effectiveness of risk management, all the levels of the organisations must be included. There are three main aims of risk management which are identifying risks, undertaking an objective analysis of risks and responding to the risk in an effective and correct manner.(Merna & Khu 2003). The risk perceived by Hotel management has been increasing with many new dimensions.

Issues & Sources

Rushmore (2010), Walsh (2003) identify that property **damage risk** is one of the leading issues faced by hospitality industry. This risk is covered under operational and financial risk as this type of risks can occur through operations and have an impact of the finances of the company. Waikar et al. (2016) also identifies this risk as the most recurrent risk in Indian hospitality. It is that causes damage to the infrastructure which costs on higher scale. A hotel has many ignition sources as well as many combustible contents. Most of the hotel area can be easily accessed by guests. So it creates many chances of damages due to guest behaviour or intention (Rushmore 2010). Hotel infrastructure is considered to be a high quality asset. This is directly proportional to the costs involved. So the impact of the risks tends to be on higher side. These are not exceptional risks but they have a greater impact and can occur easily. (Walsh, 2003) It also becomes very hard to control this risk as a management cannot control guest behaviour even after informing the guests about the property rules of the hotel.

Risk of property damage can evolve through many sources. Hotels are easily accessed by public. So intention and behaviour of customers can damage hotel property. Intentions like increasing terrorist activities play a vital role in property risk, as terrorist activities damage infrastructure of hotel (Cetron&DeMicco 2004). Another source of property damage is fire. Hotel has many easily combustible materials that come across to many ignition points. Sometimes behaviour of drunkard guests will lead to fire in the hotel. Like LPG in kitchen area where the production depends on gas rages which sometimes operate throughout the day. (Rushmore 2010) Guest behaviour also plays an important role causing this kind of risk. As the behaviour of the person walking in as a customer cannot be controlled by management, that is the reason it has also been recognised as one of the most important reasons of the risk to the property. The management tries to inform the guest, specially availing the accommodation facility, the property rules and regulations. This is just a step in creating awareness amongst the guest by suggesting them what should not be done in property.

This risk can also occur due to natural reasons. Like in case of Tsunami, the hotels near the beaches were washed off, taking a toll on human life as well. There is a little possibility of predicting these disasters and even preparing for these calamities as the scale of the risk can not be predicted before the occurrence of it.

Any hotel relies on better quality employees. Often the hospitality industry is termed as people run industry. Employees play an important role in hospitality operations. So another important risk many researchers regard is the **risk to employees' health** (read in Bates et al. 2002; Cleveland et al. 2007). This is one of the most important operational risks. These are the risks which can be sourced from the day to day operations carried out in the hotels or in the hospitality industry. These risks can arise from handling of hazardous chemicals by housekeeping staff, working on heavy and sharp equipments in kitchen like bone saw, mechanical peelers, or even through smaller jobs like mopping the floors etc.

Many a time employees come across through materials which can be hazardous to **employee health**. This happens many a time with housekeeping employees and housekeeping storekeepers who come in contacts with hazardous chemicals for cleaning and stain removal purposes (Trevino and Nelson 2004, p208). Another source that leads to accident causing problems is poor training or no training provided. Another important source is tobacco smoke in bars which creates health problems especially for the non smoking employees. (Baites et al. 2002) Though the training has been provided to all the employees about at various departments, the follow up of the training should be done on frequent basis. Some brands have created a refreshers' training which makes sure that the trainings are revisited frequently. Kitchen staff often works with and around

Another important risk issue in hospitality as quoted by Tepeci (1999) is the **risk of low brand loyalty**. It is very difficult for the hospitality firms to have loyal customers. This is mainly due to the increasing competition. Jacoby and Kyner (cited in Tepeci 1999) describe brand loyalty as behavioural response and function of psychological process. Brand loyalty is important in hospitality because a large share of hotel revenue come from repeated loyal customers. Hospitality firms can increase their market share and growth rates by increasing brand loyalty. It is a profitable activity than marketing as it incurs less cost. It becomes difficult for the companies to get market share and revenue without loyal customer base.

A major source that leads **to low brand loyalty** isrisks of poor advertising and promotional activities. Many a time perceived quality play an important role in selecting products which is being promoted. Brand names are always tied with the products and quality of service and products. Poor promotional activities also lead to low brand loyalty as they fail in creating awareness and promoting the product or they fail in portraying the product as it is being served. Many a time companies fail to inform the guests about the activities carried out at the company by not keeping any contact with them. (Tepeci, 1999)

Risk Management of the key sources

The main principle used in risk management of the **risk of property damage** is 'reduce' strategy. Reducing imposes the acceptance of the source of risk and work to reduce the impact of the source with frequency. This risk is because of the behaviour and intention of people. When related to hospitality this can be done through strict security checks carried out throughout the property, so the suspicious customers could be monitored and the necessary action could be taken to minimise the damage to the property. Some hotel properties rely on close circuit cameras for security, but as per Cetron and DeMicco (2004), the CCTV is becoming less effective way to monitor. This calls for the sercurity checks in person. In case of intoxicated guests, supervisors should stop serving drinks to them so the chances of inappropriate behaviour can be reduced.

Many a time people get in contact with hazardous chemicals. This happens especially with room attendants and housekeeping storekeepers who always work with these hazardous chemicals. The strategy used to manage the **risk that affect employees health**is 're-fencing'. It is the strategy where certain areas are restricted from direct access. Only expert and specially trained employees should be allowed to access such areas. This should be used in conjunction with proper staff training provided to the room attendants when they need to use the chemicals. The safety way to use these chemicals should be taught so the risk of health problems will be minimal. (Waikar et. Al, 2016)

To avoid the **risk of low brand loyalty** the firm shall start from satisfying guests. Then is the step where advertising and promotion starts. It is a vital role of the advertising department to keep in touch with customers. This can be done through relationship marketing and frequent guest programmes. Programme like 'guest loyalty programme' will help to enhance the brand loyalty of the firm. Such programmes reward customers for repeat business in kinds. This aims at increasing customers' sense of membership and belonging. This strategy can be looked as ‘reduction’ strategy where firm tries to earn revenue from repeat customers by reducing the chances of not informing them about the programmes and activities carried out in the company.

Risk of risk management

The risk lies in perspective of an evaluator. Value for anything comes from the cognitive process we have and from the sensory capabilities we inhibit which creates confusion about reality. Everyone hold a combination of personal and common realities. So it becomes easy to alter the reality by changing physical parameters or by changing descriptive parameters. So it is important to consider risk of risk management.

Risk of risk management is any unfavourable change done by a firm in course of reducing some risk (Ansell & Wharton, 1992). So the solution implemented to fix the risk may worsen the overall outcome. In risk of risk management we consider the things that might go wrong.

In safe guarding the **property from damage**, when a firm implements the strict security checks it will adversely hamper the guest privacy. So in the end it will lower down the guest satisfaction level. It also increases labour cost as security services charge high if a firm doesn’t have its own and in turn it lowers down the profits. To avoid this a company can internalise the security aspect, which will lower the cost. The company can also train front of the house staff for security checks.

In case of **risk of employee health**, the strategy of re-fencing is implemented it might delay the process. When the area is restricted then at peak period, employees working in the area will be less which will hamper on the timeliness which will then delay the processes in queue. This might create stress on the person working in restricted area which might lead to employee dissatisfaction. Frequent and vigorous training of health and safety to all the employees may be implied to reduce the risk of risk management.

To avoid **low brand loyalty**, making customers aware of the products and running loyalty programmes will help in retaining customers (Vij, 2019). But in the due course there is a risk that the advertising department may end to forget about the aim to get new customers as well. So this might again lead in lowering the profitability as an organisation doesn’t solely depend on repeat customers but it also need new customers to run business. So to reduce this instead of involving whole department in such activities, a project head can be appointed who will work with front of the house staff.

Conclusion

Careful risk management is essential for any organisation. So the cost of risks evolve during managing other risks will be reduced. It is possible to control man made or man led risks, than controlling natural risks and disasters. The dominant objective of managers should be to develop a conscious approach to tackle risks. Once this is done, and then the tools and techniques related to this will be automatically taken care.

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