ORGANISATIONAL CRISSES IN THE HOTEL SECTOR: A PERSPECTIVE FROM SINGAPORE

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INTRODUCTION

Crisis and their management is a topic of growing interest to tourism and hospitality academics and practitioners, reflecting an awareness of the vulnerability of destinations and the industry to crises and an apparent increase in their number and scope. This paper is concerned with perceptions amongst managers of organisational crises and responses to the challenges of management within the context of Singapore’s hotel sector.

After a brief literature review, three case studies of individual hotels are presented and some general observations based on the particular examples are then offered. Organisational crises are shown to have multiple origins and be a cause of serious concern, but high levels of preparedness encompassing planning and learning from past incidents are believed to assist in effectively managing critical situations.

RESEARCH METHODOLOGY

The original intention was to survey a sample of senior managers of the Singapore hotels which were members of the national hotel association, but the response was disappointing at 7%. Nevertheless, three hotels did provide a considerable amount of qualitative data and the general managers agreed to follow up interviews designed to gather additional information and insights. Principal questions explored were causes of organisational crises, probability of occurrence, financial impacts, past experiences, management strategies and planning for future eventualities.

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Participating hotels are not named in order to preserve confidentiality, but all had a five star rating and were centrally located. They belonged to established chains, one of which had a global presence while the others operated mainly in the Asia Pacific region. Although attracting some leisure tourists, over 70% of their markets were corporate. The General Managers were expatriates and each had worked in the industry for at least ten years, although not exclusively in Singapore.

LITERATURE REVIEW

There are different interpretations of what constitutes a crisis, but it can be broadly defined as an ‘unpredicted problem seriously disrupting the functioning of an organisation, sector or nation’ (Laws and Prideaux, 2005: 6). Such problems may derive from outside developments beyond the control of those affected, evidenced by acts of terrorism and extreme weather. External forces can expose intrinsic weaknesses within organisations and, either separately or in combination, these can lead to crises. Alternatively, internal factors alone like accounting frauds or poor decision making can precipitate a crisis. Faulknr maintains that crises occur ‘where the root cause of an event is, to some extent self-inflicted through such problems as inept management structures and practices or failure to adapt to change’ (Faulknor, 2001: 136).

Crises striking organisations in the commercial world have distinct characteristics and Fink (1987: 34) proposes five main attributes of rapidly escalating intensity, close media or government scrutiny, interference with normal operations, jeopardising of public image and harm to revenue and profitability. The latter points are echoed by Pearson and Mitroff (1993: 49) who stress the manner in which crises pose a threat to the reputation and viability of companies.

These comments pertain to business in general, but the tourism and hospitality industry exhibits certain qualities which seem to predispose it to crises and shape the overall process. These include its internationalisation, the sensitivity of demand to economic, political, social and environmental conditions and the fact that tourists must move to the place of consumption. With regard to hotels, Brewton (1987) argues that an event is a crisis if it has the potential to injure guests and staff as well as company assets and is swift and unexpected, calling for immediate action. Terrorism linked to political instability has become a preoccupation (Sonmez et al., 1999; Yu et al., 2002), but there are many other forms of crisis confronting hospitality managers, not least those related to health and natural disasters (Pizam and Smith, 2000).

Faced with the multiplicity of risks, preparing for and managing crises has become an essential task and management skill (Laws and Prideaux, 2005; Ritchie, 2004). Crisis management involves devising coping strategies that depend on prior planning and allocation of responsibilities, usually within a team (Barton, 1994; Evans and Elphick, 2005; Yu et al., 2005). Crises are agreed to progress through pre-crisis, acute, chronic and resolution phases (Fink, 1987) and the primary goal is to return to normality, but full restoration of the status quo may be impossible due to the character and severity of the crisis.

The subject of tourism and hospitality crises, their consequences and management has assumed greater importance in the current century due to the prevalence of happenings around the world which have generated assorted crises for destinations and the industry. Some instances are the September 11 attacks in the USA in 2001, the 2002 Bali nightclubs bombings and the Indian Ocean tsunami at the end of 2004. A mystery virus named Severe Acute Respiratory Syndrome (SARS) erupted in many parts of Asia in 2003 and there were fears of an Avian Influenza pandemic in 2006. Forest fires burning out of control in Indonesia also led to periods of severe air pollution across parts of South East Asia which reached danger levels on several occasions in 1997 and again in 2006. The
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list illustrates the range and diversity of crises which can hit tourism and hospitality organisations, suggesting the problems of predicting future eventualities.

Analyses have mainly concentrated on North America and Europe, although the SARS outbreak and the Bali bombings have drawn the attention of researchers to the Asia Pacific region in recent years (Chien and Law, 2003; Henderson, 2003). The industry has often been shown to be reactive and commentators have highlighted the need for plans to minimise damage and ‘help make the best of a crisis situation’ (Gunter, 2005: 3). The extent to which these observations apply to the Singapore hotel sector is now examined in terms of the three case studies and the accounts below summarise the content of discussions with General Managers. Causes of organisational crises identified by interviewees are recorded in Table 1.

Table 1.
Causes of organisational crises

<table>
<thead>
<tr>
<th>Cause</th>
<th>Hotel A</th>
<th>Hotel B</th>
<th>Hotel C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>X</td>
<td>-</td>
<td>X</td>
</tr>
<tr>
<td>Competition</td>
<td>-</td>
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<td>Disease</td>
<td>X</td>
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<tr>
<td>Employee strife</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Financial mismanagement</td>
<td>X</td>
<td>-</td>
<td>X</td>
</tr>
<tr>
<td>Natural disasters</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Negative press publicity</td>
<td>X</td>
<td>-</td>
<td>X</td>
</tr>
<tr>
<td>Regulation</td>
<td>X</td>
<td>-</td>
<td>X</td>
</tr>
<tr>
<td>Product or technical failure</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Terrorism</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Other</td>
<td>-</td>
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CASE STUDIES

Hotel A: Causes of Corporate Crises

All the factors in Table 1, with the exception of competition, were perceived to be sources of corporate crises by the General Manager of Hotel A. The rationale for the selection was that such events could disrupt operations, affect large numbers of hotel guests and employees and perhaps cause injuries and loss of life. Product or technical failure, disease, terrorism and natural disasters were judged to have the greatest financial impact. Nevertheless, the likelihood of occurrence was deemed to be low due to the effectiveness of the hotel’s management and the Singapore government’s competent handling of national security matters. The hotel’s client profile also limited the repercussions of many types of destination crises as the corporate travellers who predominated were reluctant to cancel their business trips and hotel bookings.

Previous Experience of Crises

SARS had prompted a dramatic decrease in hotel occupancy and slowdown in business. Recovery had been quick, however, once the epidemic ended and this was partly explained by the activities of the Sales and Marketing and Corporate Communications Departments. Attractive packages were promoted and reassuring messages were communicated about anti-SARS measures.
Reference was made to the air pollution in 2006, but this had much less of an effect on demand. However, the management provided masks for guests and installed air purifiers in hotel rooms as well as arranging access to 24-hour medical assistance. The final experience of crises followed the 2006 Taiwan earthquake when damage to underwater cables interrupted Internet services, including emailing. Disruption was short lived and technical repairs were completed quickly by the hotel’s IT personnel, but the incident was an unwelcome reminder of the industry’s dependence on technology and hazards of its failure.

**Crisis Management**

A Loss Prevention Department was responsible for the day-to-day security of the hotel premises, guests and employees. It played a part in crisis management by reviewing procedures and conducting weekly training sessions for staff to educate them about potential crises. A specific crisis management team comprised of all Division and Department Heads, numbering 15, and was led by an Executive Committee chaired by the General Manager.

A master plan contained guidelines for handling crises and dated from the opening of the property. Such plans were initiated at a corporate level and customised to suit the local environment by the Director of Loss Prevention. Plans were revised and updated every few months and it was claimed that there were no budgetary constraints in the area of safety and security. Details of the plans were confidential, but information about some of the Standard Operating Procedures with particular reference to terrorism was disclosed. The crisis management team had to first assess the gravity of the threat which could be classified according to three colours. One required the hotel to shut down, another meant an embargo on the storage of baggage and luggage checks conducted in the presence of guests and the third necessitated the removal of all dustbins.

System Contingency Plans were also described whereby computer data for both the local and corporate offices were stored daily in a backup scheme or Night Audit, thus protecting vital information. Other preventive measures pertaining to terrorism included installation of shatter-proof windows and close circuit televisions, minimising the amount of entrances and stairways and reducing blind spots in the hotel lobby. The heavy emphasis on building safety features had led to the founding of a new department at headquarters dedicated to sound structure design. Crisis consultants were also engaged to monitor potential crises and propose appropriate responses. In addition, close contact was maintained with the Internal Security Department (ISD), a Singapore government body active in the collection and exchange of security intelligence at home and overseas.

Overall, the General Manager regarded the hotel as having an appropriate attitude towards crisis management with a stress on prevention. There was a belief that the parent group was one of the first to have a crisis management plan, most competitors only adopting contingency planning after 11 September 2001. Looking to the future, cyber terrorism was identified as a new type of crisis for the hospitality industry as demonstrated by the Taiwan earthquake which revealed the vulnerability of hotels to network breakdowns.

**Hotel B: Causes of Corporate Crises**

The five sources of corporate crises identified by the General Manager of Hotel B also appear in Table 1. All were believed to carry potentially heavy costs, but the probability of their occurring was considered low in many cases largely because of the high degree of security in Singapore and the country’s good governance and efficiency.
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Previous Experience of Crises

As in the first example, the General Manager had been exposed to crises arising from SARS and air pollution. To combat fears about SARS, anti-bacteria soaps and face masks were supplied to guests and employees had their temperature monitored for fever. Personnel also liaised closely with the Ministry of Health and sought constant updates. Although minimising expenditure was a priority, no employees were retrenched and a programme of pay cuts and compulsory unpaid leave was implemented. The air pollution was much less disruptive in its outcomes, but some guests complained about the smell of burning which they mistook for a fire. The haze additionally led the air-conditioning generator on the rooftop of an adjacent office building to over-heat and produce steam, precipitating a false alarm about a fire.

The third crisis recounted was the collapse in 2004 of a nearby elevated highway under construction and the accompanying power failure which lasted for three minutes. Even after the power was restored, it was insufficient to pump the chilled water on which the air-conditioning depended. Fans were distributed to every room and guests were informed of the circumstances as well as compensated with vouchers for the inconvenience. The problem took only hours to resolve, but there were arrangements to relocate guests to nearby hotels if it persisted.

Crisis Management

There was a crisis management team with nine Executive Committee members consisting of Department Directors and the General Manager, supported by a Marketing Communications unit. Other staff with relevant knowledge and experience could be recruited and extra teams formed on an ad hoc basis to work alongside the Executive Committee. Although the leader, the General Manager ensured that other committee members supervised occasions such as fire drill evacuations so they could take charge in his absence.

Guidelines for crisis planning were produced by the corporate office and then customised in a hotel master plan encompassing principal contingencies of natural disasters, terrorism and fires. Approximately 20 staff members were involved with the General Manager in drafting the crisis management plan and 50 in its monitoring and revising, the Security Manager and Department Heads being the key figures. The master plan was updated by the hotel every one to three years. A standard communication plan was also issued by headquarters to its hotels worldwide so that the correct personnel could be identified in a crisis and a consistent strategy pursued. About 45 minutes of the hotel’s monthly senior management meetings were allocated to discussing crisis concerns.

Sharing information with guests, employees and the press at times of crisis was deemed of utmost importance. Communication could be comparatively easy with staff by way of walkie-talkies, text messaging and emails, but face-to-face contact was still described as the best and most accurate method. More formal links with the media and authorities were the responsibility of the Marketing Communications section.

Approximately 60% of the annual crisis management budget was spent on training the team in a bid to ensure that it was cognisant with crises dynamics and management practices. The other 40% was used to upgrade equipment such as security cameras, fire extinguishers and computer systems. Ongoing preventive steps included two fire drills conducted annually in cooperation with the Singapore Civil Defence Force which then offered feedback. To obviate the risk of floods, special underground pumps for removing excess water from the building were tested twice a year. More security cameras had also been introduced alongside an increase in patrols and staff training on terrorism detection.
The General Manager concluded that, as a whole, the hotel was well prepared for crises and expressed confidence in its ability to cope. There was no standard formula because many emergencies were unpredictable and varied in nature and scale, but having a good framework was essential. Flexibility was crucial in meeting the numerous challenges and it was imperative to remain calm, carefully evaluate the circumstances and communicate honestly and openly with all stakeholders.

Crises that might threaten the hospitality industry in the years ahead were unknown infectious diseases and, although the hotel was making efforts to get ready for such dangers, not all could be anticipated. There was also a feeling that people were becoming more resilient to the global proliferation of terrorism and resigned to the fact that anything could happen. Competition was not judged to be so much of a catalyst of crisis as it had always existed and was viewed positively as a means of stimulating hotels to improve standards.

**Hotel C: Causes of Corporate Crises**

All the proposed causes of corporate crises were accepted as valid by the General Manager of Hotel C because such incidents had the capacity to seriously upset normal operations. They should therefore be taken into consideration in planning and the formulation of responses.

Competition and acquisitions were perceived to have the highest probability of occurrence. Given that there were few barriers to entry, business concepts could often be imitated and Singapore’s visitors were projected to double by 2015, it was expected that more foreign investment would be attracted to the hotel sector. Competition would thus intensify, but be low in financial impact and could be countered by excellent service delivery. Acquisition, again with marginal impact, was forecast because most of the hotels managed by the group were owned by American investment funds which were looking for capital gains and did not necessarily have a long-term commitment to the hospitality industry.

Other forms of crises were judged unlikely, especially financial mismanagement and employee strife. Nevertheless, natural disasters, disease and terrorism were acknowledged to have the greatest impacts should they strike.

**Previous Experience of Crises**

The General Manager too had experience of SARS and air pollution, the former resulting in the hotel’s occupancy rate dropping to 40%. To promote the safety of employees and guests, there was full compliance with the precautions advocated by the Singapore government and gloves, masks, thermometers and tissue dispensers were made available. The Singapore Hotel Association’s proposal that hotels appoint a SARS Manager was also accepted and the position was occupied by the General Manager.

As part of a business continuity plan, opportunities to earn revenue during the crisis were exploited. The hotel contacted airlines, embassies and organisations and succeeded in selling accommodation to international medical agencies. There was a drive to reduce operating costs and all employees had their pay cut and were asked to go on unpaid leave. None were retrenched, however, and full salaries and bonuses were again being paid by the end of 2003. The air pollution had much less of an effect on the hotel as its major clients were business travellers who were undeterred by the smog, but the engineering staff had to work hard to ensure the quality of the air from the air-conditioners.

In addition, there were occasional cases of product or technical failure exemplified by malfunctioning pumps which left the entire building without running water for four hours. Bottled water was delivered
to every room and guests were advised that the poolside showers were still working. A change in ownership and renaming had proved to be a further crisis for the General Manager who was compelled to write a five-year business plan for the new owners.

Crisis Management

An Emergency Planning Committee (EPC) was made up of the General Manager, all Head of Departments and some specially trained wardens. The EPC was in charge of risk management, including drawing up evacuation plans, and had also formed a Bird Flu Committee (BFC) to deal with a possible Avian Influenza pandemic. The BFC comprised of representatives from relevant Departments who met every month and the participation of non-managerial personnel was seen as a good way to engage lower level staff. It was decided that highly detailed written documents were inappropriate and BFC members gave oral presentations on the essence of the plan to colleagues.

Regional headquarters issued crisis management guidelines for its properties and these were adapted by the management in line with the local environment. The EPC and units such as the BFC were tasked with monitoring the crisis management plans and revising them every one to three years. In implementing the plans, the General Manager would direct all employees. Natural disasters, terrorism and disease outbreaks had been prepared for, but it was agreed that specific manifestations and additional forms of crises could not be foreseen.

Nevertheless, it was observed that the industry had been enhancing its contingency plans over the previous six years and that the hotel was investing in developing superior plans based on accumulated experience. The group also started a risk audit in early 2006, administered by an Australian company, for all its properties in order to assess their readiness for crisis and the Singapore hotel obtained over 90% conformity when benchmarked against others in the audit report.

It was opined that there would always be emerging threats in a rapidly changing world. Although it was crucial to devise plans, there was no perfect model to abide by and the hotel could only strive to continue to improve its planning and be more proactive about crisis management than in the past.

UNDERSTANDING OF CRISSES

Perceptions are subjective and the outcome of complex cognitive processes, but there was evidence of a common understanding of the sources, likelihood and repercussions of organisational crises. Hoteliers concurred that crises could have both internal and external origins and failed to make a clear distinction between those which had broader reverberations and those confined to the hotel or chain, the two often inextricably linked. Determinants of crises and measures of their severity were principally related to disruption to business, financial losses, injuries and deaths and damage to the hotel’s physical and intangible assets.

All respondents selected natural disasters, terrorism, disease, employee strife and product or technical failure as sources of crises. Two identified financial mismanagement, negative press publicity, acquisition and regulation. Competition was cited by only one. Product or technical failure, terrorism, and disease were deemed to be the most probable, followed by natural disasters and employee strife. The others were agreed to have a low probability. In terms of economic costs, disease was considered to be the most expensive with terrorism closely behind. Natural disasters, product or technical failure and employee strife were also rated above average regarding financial impact while the other types of crises were deemed to be of relatively low impact and competition to be the least severe.
The significance attached to terrorism and natural disasters may be partly attributable to the succession of noteworthy illustrations which marked the new millennium. Although Singapore has been spared to date, it cannot be isolated from events in the region and beyond. Such happenings are extensively publicised and can provoke a ‘recency’ phenomenon where ‘later information exerts a greater impact on judgments than earlier information’ (Lopez et al., 1998: 687). This may be compounded by the availability heuristic (Tversky and Kahneman, 1973) which refers to the ‘ease with which one can bring to mind exemplars of an event’ (Folkes, 1988: 13), influencing estimates of frequency.

The local environment will also have shaped responses and personal experiences of SARS meant that hoteliers were acutely conscious of the devastation which could be wreaked by a health scare. At the same time, there was a consensus that natural and man-made disasters were rare in Singapore where the government could be relied upon to act promptly to avert problems and contain the negative consequences of any that should arise.

Finally, the priority given to product or technical failure reflects the nature of the hotel offering which combines basic (material and technical) and additional (emotional and spiritual) benefits (Kotler, 1984). When a hotel is unable to deliver even the fundamentals of running water and air conditioning, guests are dissatisfied and a single instance of sufficient magnitude or the repetition of failures could represent a crisis in which its reputation is tarnished and corporate clients are alienated.

MANAGING CRISSES

All the hotels had dedicated crisis management teams which consisted of Heads of Departments and the General Managers as leaders. Plans for managing various crises had been in place since opening and were usually supplied by corporate headquarters, but then tailored to match the particular attributes of the property and Singapore and regularly revised. Hotels were willing to turn to outside agencies such as risk consultant firms to help in the task of planning and past experiences were occasions for learning, exposing shortcomings which were addressed in improvements to plans. However, there was still a strong sense of the formidable challenges of devising comprehensive and satisfactory plans which could be automatically implemented in a host of situations. Flexible mechanisms were preferred together with managers and staff who could exercise sound judgement in assessing crises conditions and respond appropriately.

In addition to corporate and hotel initiatives, certain crisis prevention measures had to be undertaken because they were mandatory for all Singapore commercial buildings such as annual fire drills and In-Place Protection (IPP) schemes. The latter was introduced in 2003 in anticipation of bioterrorism attacks and advises about what to do should hazardous substances be released. Each hotelier conducted two fire drills every year and the exercise was very helpful because assorted crises would demand the evacuation of large numbers of people from the property.

Interviewees all described the importance of looking after their employees during crises despite the imperatives of cost-cutting in which labour was a possible target. The policy was evident in the SARS epidemic when staff members were required to take unpaid leave and salary cuts, but none were retrenched and one hotel subsequently offered compensation for lost wages. The commitment to employee welfare was explained by the reliance of management on its human resources to assist in surviving a crisis and sustaining recovery thereafter.

The role of effective crisis communications embracing employees, guests, the media and relevant institutions was also stressed. Employees had to be made aware of crisis management plans and the necessary steps to take and be updated throughout the duration of the crisis. Conveying clear and accurate information without delay to guests and other interested parties was equally indispensable,
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as was the prior cultivation of good relations with the media so that they would be more inclined to report in a favourable light. Finally, liaison with government bodies and professional institutions like national hotel associations could benefit all parties in furthering resolution of existing crises and enhancing planning for those which might lie ahead.

CONCLUSION

Hoteliers thus recognised a range in causes of crises and showed awareness of their significance and impacts. Attitudes towards and approaches to managing crisis demonstrated a fairly high level of preparedness in which emphasis was placed on contingency planning. Former crises were also valued and yielded useful insights into good and bad practice in dealing with critical situations.

However, the findings of the paper are limited by the small number of respondents who were all from large luxury hotels serving mainly corporate travellers. Singapore is also unique in terms of its size, a geographical location sheltering it from natural disasters and an interventionist government with considerable funds at its disposal. These features create a distinctive climate for doing business which has implications for the evolution of certain types of crises and decisions about their management. Further studies of more and different grades of hotel must therefore be conducted in Singapore and elsewhere to permit the validity of the observations presented in this analysis to be thoroughly tested.

Nevertheless, the cases illuminate certain good principles and practices which individual properties and the hotel industry in other countries can learn from. These include the adoption of a proactive stance and allocation in advance of roles and responsibilities for managing crises with corporate offices permitting adaptations to suit local circumstances. Due regard to guest and staff welfare prior to, during and after a crisis is paramount and investment in recruitment and training of the latter pays dividends. Technology in various manifestations has a part to play as a crisis management tool and the effects of the worst of crises can be ameliorated by cooperation and information exchange at an industry level and between industry and government.

Finally, it can be concluded that there is an urgent need for crisis management which is shared by all hotels. Indeed, the tourism and hospitality industry as a whole must be constantly active in crisis management and sensitive to events in the internal and external environments, energetically engaging in planning and preparing for potential crises. Practitioners must also look for commercial opportunities should a crisis occur and endeavour to see crises as a chance for improvement and growth, not only as a threat.

REFERENCES


