

UDC 338.48(075.8)

DOI: 10.18413 /2408-9346-2015-1-4-33-38

 Zhilenko V. Yu.  
Bing Pan

TRENDS IN THE FIELD OF RISK MANAGEMENT BUSINESS TOURISM

- 1) PhD in Biology, Senior Lecturer, Belgorod State National Research University, 85 Pobedy Str., Belgorod, 308015, Russia  
*E-mail: zhilenko@bsu.edu.ru*
- 2) PhD in Technical Sciences, Assistant Professor, Department of Hospitality and Tourism Management, School of Business and Economics, College of Charleston, 66 George St., Charleston, SC 29424-001, USA.  
*E-mail: bingpan@gmail.com*

**Abstract:** The article analyzes the main risk factors in the tourist business, taking into account their specificity. We studied the sequence of steps tourism risk management. Considered a specific method to manage risk through the establishment of time limits for cancellation of the tour. Also investigated methods for transforming risk (the risk of failure, reduce the size of losses, reduce the frequency of damage or loss prevention). The main methods of reducing the account risks: insurance and diversification.

The aim of the study was to analyze the risks in the tourism and ways to address them. The main methods of investigation were: theoretical analysis, problem analysis, statistical. The study recommendations are designed to address the risks in the tourism business.

**Key words:** risks, tourist business, insurance, diversification.

 Жиленко В.Ю.  
Бинг Пан

 СОВРЕМЕННЫЕ ТЕНДЕНЦИИ УПРАВЛЕНИЯ РИСКАМИ  
В СФЕРЕ ТУРИСТСКОГО БИЗНЕСА

- 1) старший преподаватель, кандидат биологических наук, Белгородский государственный национальный исследовательский университет (НИУ «БелГУ»), ул. Победы, 85, г. Белгород, 308015, Россия  
*E-mail: zhilenko@bsu.edu.ru*
- 2) доцент, кандидат технических наук, Департамент гостеприимства и управления туризмом, Школа бизнеса и экономики, колледж Чарльстон, Джордж Стрит, 66, г. Чарльстон, Южная Каролина, 29424-001, США  
*E-mail: bingpan@gmail.com*

**Аннотация.** В статье проанализированы основные факторы риска в туристском бизнесе с учетом их специфики. Исследована последовательность этапов туристского риск-менеджмента. Рассмотрен специфический метод в управлении рисками через установление тайм-лимитов по аннуляции тура. Так же исследованы методы трансформации рисков (отказ от риска, уменьшение размера убытков, снижение частоты ущерба или предотвращение убытка). Приведены основные методы снижения рисков: страхование и диверсификация. Целью исследования являлся анализ рисков в туризме и методы их устранения. Основными методами исследования были: теоретический, статистический и проблемный анализ. В результате исследования разработаны рекомендации по устранению рисков в туристском бизнесе.

**Ключевые слова:** риски в туризме, туристский бизнес, страхование, диверсификация.

**Introduction.** On risk management problem works of such scientists are known: A.V. Vorontsovsky, S.A. Valdaytsev, V. M. Granaturova, V. V. Kovalyov, E.V. Tsvetkova and other authors, whos research formed a theoretical and methodological basis of this article.

Despite a large number of scientific works on risk problems, in these works mainly theoretical questions which not always belong to a practical side of the tourist enterprises activity are considered.

Various aspects of risk management problem are presented in works of such world economists, as:

Godfrey Harris, Robert Braymer, Thomas L. Barton, Luís Gapenski, Kenneth Katz, Paul L. Walker, William G. Shenkir, Eugene Brighkem.

According to the works analysis published on a research subject it is possible to draw a conclusion that, to risk management in tourism economy, the insufficient attention is paid to one of basic management elements. In scientific sources the analysis of risk separate problems is held, therefore there is a need for development of methods and ways of risk management for tourist business.

In Russia, one hundred travel agencies begin the activity annually. Their most part closes down because of a large number of risks capable to ruin the investor. Risks accompany any kind of entrepreneurial activity, not only tourist business. Distinction of risks consists in the emergence reasons, width of action and other indicators, but all risks are united by one – negative consequences which come after their manifestation. Tourist business is characterized as one of the most risky kinds of activity in the sphere of rendering services, in this type of business the quantity of risky cases, common only for this kind of activity prevails [1].

Specific feature of tourist business is its multiplication. Thus, risks in this business are connected with the branches interconnected, included in the tourist industry which have the specifics of risk and therefore bring additional risks in the general level of tourist risk [3].

Therefore, the transport enterprises bring risks of tourist's transportation accident rate, collective means of placement – bring the risks on service connected with tourist service, and in activity of the show business enterprises – infliction of harm to life and health is possible in operating technical game devices. Also on all firms of tourist and recreational complex universal risks make impact, that is risks which affect any subject of managing regardless of risk belonging to whatever branch and a type of organizational and legal form. Universal risks are: financial, investment, inflation, personnel and other risks.

The tourist and recreational complex is characterized by imposing risks on each other, their temporary and spatial dispersal are possible [2].

In Russia economy instability currently affected instability of demand not only in the field of tourist business, but also practically in all available spheres of business [1]. Instability of demand influenced reduction of tourist's services prices by competitors, as a result risk of customers refusal from tourist's service and from payment can lead to emergence of conflict situations, risks of financial resistance deterioration, and loss of travel agency favorable image.

Growth and change of quotations in the market of foreign currencies lead to currency risk for the tourism enterprises. In practice work of the tourist companies is being disrupted for several reasons: owing to economic crisis conditions the conflicts with customers owing to their unwillingness to carry out surcharge for the acquired service because of currencies course change.

At the present stage, because of risk to lose reputation owing to emergence of conflicts with customers, tourist firms are compelled to assume responsibility for currency risks [3].

Opening tourist firm, the businessman has to consider risks which tourist industry can face. The arising risks can be subdivided on external and internal.

When studying internal risks, it is necessary to consider:

1) business form. The businessman the to make decision as he plans to receive the business: purchase of the ready company or the franchise, or he needs to create new firm independently;

2) seasonality. When planning tourist business it is necessary to consider seasonality factor and carefully plan expenses;

3) office location. It is necessary to consider such important factor as office location. The company can suffer losses because of the office being located in inconvenient place. Also when choosing office location it is necessary to consider competitors' location;

4) specialization. When choosing specialization it is necessary to analyze activity of competitors, accurately differentiate tourist product of travel agency to be distinguished from competitors, even if their offices are in close proximity;

5) personnel. Much attention should be paid to staff recruitment as the choice of competent experts – managers – will allow to increase number of the sold permits.

Considering external risks, it is necessary to consider the following factors:

a) relations between travel agents and tour operators. When the tour operator product sells travel agency, image of the company, factor of its stability in the market depends on quality of this product;

b) unforeseen circumstances. The geopolitical situation and natural disasters are the least predicted risks during the work of travel agency and tour operator. One of the effective methods to avoid this risk during essential decrease in demand is having alternative directions in the travel agency.

**Work purpose.** The purpose of work was studying theoretical methods of risk management in the sphere of tourist business and possibility of its application in tourism organizations practice.

**Research results and discussion.** *Research methods.* In researches the following methods were used: theoretical, problem analysis, expert assessment.

*Research results.* According to results of studying the developed techniques for tourism organizations risks zones in system of risk classification according to degree (high, average, low) of risk impact extent on activity of the tourist services sphere organizations were revealed.

According to the carried-out analysis the interrelation of the existing risks and extent of their influence on the tourist enterprises under conditions of financial crisis is established. According to the analysis of theoretical sources, we made the approximate scheme of each zone compliance to

certain risks which can arise in practice of tour operators and travel agents. This scheme is submitted

in figure.

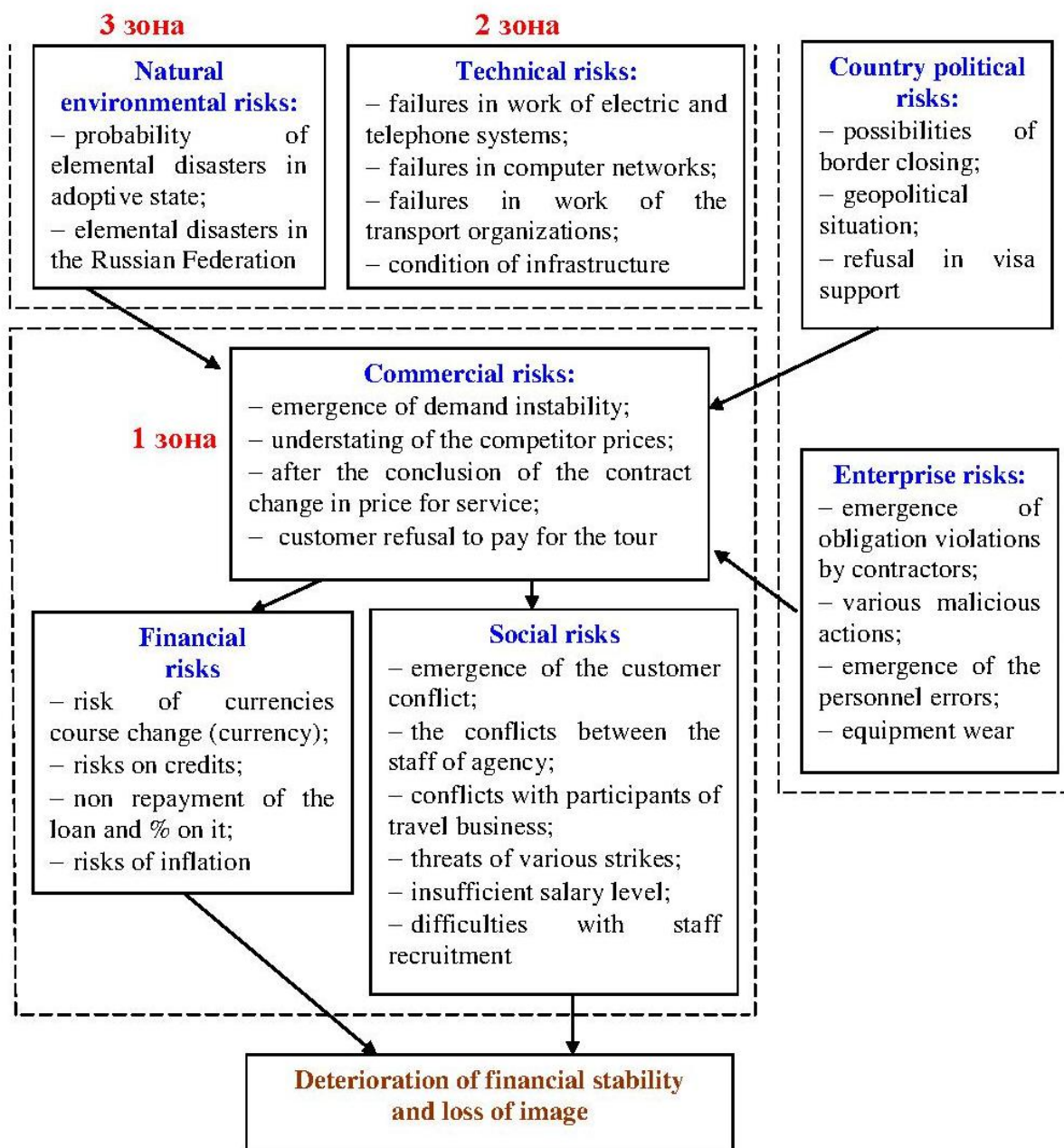


Fig. The relationship of risk and the degree of importance of their impact on tourism organizations  
Рис. Взаимосвязь рисков и степени значительности их влияния на туристские организации

As a result of the conducted researches it is revealed that risks which can tourist enterprises face, influence risk of financial stability deterioration and loss of image.

It is necessary to aggregate tourist risks on their influence extent and terms of manifestation as a result of their assessment for the purpose of risk levels determination depending on area of possible losses in the course of tourist business conducting.

As a result of researches the risk area on the basis of expert estimates was defined. The risk area according to scale from 0 to 1, depending on extent of influences and term of risk manifestations in economic activity of tourism organization was estimated in expert way. On the basis of expertized risks the following gradation of risks on degree of their influence severity and terms of application which can be used and at quantitative estimates of risks were received (tab. 1).

Table 1

**Graduations risks on terms of their symptoms and the degree of significant impact**  
**Градации рисков по срокам их проявления и степени существенности воздействия**

By extent of risk influences		By terms of risk manifestation	
Name	Risk value	Name	Risk value
High (Vv)	1-0,5	Short-term (Kp)	1-0,7
Medium (Sv)	0.4-0,3	Medium-term (Sp)	0,4-0,6
Low (Nv)	0.2-0,1	Long-term (Dp)	0,1-0,3

According to the received gradation of risks for each possible risk the empirical scale according to

risks which can be applied at quantitative risk estimates is formed (tab. 2).

Table 2

**Risk assessment scale**  
**Оценка рисков по шкале**

Risk type	Name of risk gradation (extent of influence / manifestation term)	Risk assessment	
		By extent of influence	By manifestation term
Entrepreneurial	Sv / Sp – Dp	0,3-0,4	0,3-0,6
Commercial	Vv / Dp – Sp – Kp	0,5-1	0,3-0,8
Financial	Vv / Sp – Dp	0,5-1	0,1-0,6
Social	Vv / Sp – Kp	0,5-1	0,1-0,6
Political	Sv – Nv / Sp – Dp	0,3-0,4	0,2-0,3
Technical	Nv / Sp	0,1-0,2	0,1-0,5
Nature and ecology	Nv / Dp	0,1-0,2	0,1-0,2

These methodical approaches allow to define most clearly areas of risks in relation to the sphere of tourist business by the developed scale of risk assessment. Risk analysis in the sphere of tourism showed that separation of quantitative estimates is great, therefore, there are possibilities of establishment of risk ratings by means of this scale.

Nature of maintaining an internal risk management in tourism organization is influenced by specific factors of the tourist market. The enterprise management system includes system of risk management and has impact on other subsystems by means of the available tools.

As a result of risk control system use it is possible to minimize losses (financial, personnel, material, etc.) in crisis situations.

Risk management in tourism organization is exercised on two main levels – strategic and tactical.

According to an intra organizational control system, strategic level can be realized within subsystems of strategic planning, coordination and control, and tactical – within operational control system.

As a result of element consideration for each subsystem it is possible to determine sequence of all stages by risk management which consist from:

- 1) definitions of the purposes in risk management;
- 2) analysis internal and environment of the tourist enterprise;

3) formulations of strategy and tactics of risk management;

4) choice of methods and means in risk management;

5) distributions of functional duties and resources;

6) the analysis of the major factors influencing risk;

7) identifications of risks;

8) quantitative and quality standard of risks;

9) development and realization of subsystem adaptation to risks;

10) assessment developments on control indicators;

11) comparisons of the available results of a tourist risk management to the set purposes and control indicators;

12) identifications of the main negative deviations;

13) acceptances of the correcting actions on risks;

14) developments of new recommendations on increasing efficiency in risk management.

The basic elements of a tourist risk management is development of risk adaptation mechanisms. The risk adaptation subsystem consists of package use of measures which cover all range of tourist risks influence. Various methods and receptions belong to these measures, such as risk management and economic modeling which are developed individually within an enterprise. These methods are adequately studied in activity of various economic systems

(mainly, production, and also can be applied in tourist sector). Main methods of the risk management are: insurance of risk, deduction of risk, avoiding and dissipation of risk. When using risk management in tourist business it is necessary to consider that in risk management of tourist products specific methods of risk management which are inapplicable in other spheres can be used.

One of a risk management specific methods is application of penalties in the form of tour time limits annulment [4].

**Tour time limit annulment** is used when client refuses to pay for the earlier reserved tour. When tourist refuse from the reserved tours, the tourist enterprises sustain big financial losses being unable to compensate actual incurred expenses on tours forming and sale as a consequence of numerous refusals from already accepted tours. All expenses which are connected with the organization of tour, are not compensated to travel agency by the third-party organizations as regress. Thus, the only way to minimize risk of tour annulment is to define groups of the temporary periods of annulment date before a tourist trip start date and assigning to a certain penalty each group. The size of penalties depends not only on proximity of the tour beginning, but also on a tourist product type, nature of tariff, type of transport and recreation zone. Within this method the optimum ratio between three parameters is as defined: time limit of annulment (number of nights from the date of tour confirmation before annulment date), annulment term (number of nights from the date of annulment before tour start date) and the penalty size (percent from the tourist product cost). When using this method in practice it is possible to operate risks of tour refusal effectively, to compensate part of the incurred expenses and to minimize probability of such risks, as knowledge of existence and the size of penalties will compel consumers to use annulment procedures only in extreme cases [5].

Also in risk elimination less important are diversification and insurance methods.

According to the Federal Law of the Russian Federation «About tourist's activity bases in the Russian Federation» procedure of insurance is the main form ensuring safety of tourists during temporary stay abroad. When using the insurance policy paid medical care, compensation of various property expenses in case of loss occurrence is provided to them in the country of temporary tourist stay.

The insurance policy needs to be drawn in state language of the temporary tourist stay country or in Russian. Non-compliance with these conditions deprives the tourist of the rights for receiving payments in case of loss occurrence. Features of insurance in tourism involve: risk degree; short durations (under 6 months); existence of uncertainty

from the moment of loss occurrence and the size of possible damage.

Insurance risks are subdivided on: risks of sharp sudden diseases; accidents; and also risks of baggage and other property loss; absence of snow on a ski resort; impossibility of departure on pre-paid tour; delay of planes or other transport at departure – entrance of tourists; lack of visa distribution; bad weather; non granting or incomplete rendering of services [6].

Insurance risks of travel agencies are subdivided on: financial; property; risks of civil liability on the basis of the contract with tourist.

Insurance of tourists who leave abroad, is voluntary, medical insurance for case of the bodily harms or sudden disease resulting from accidents which happened when the tourist stayed abroad. Except such help as medical, tourists often have need to address for other types of help, such as: legal, technical, administrative, etc.

The domestic companies selling policies of foreign insurance, because of these circumstances have to sign contracts with the foreign insurance companies-assistants which specialize in providing tourists with a complex of services: ticket exchange and exit visas extension, transportation, vehicles repair, repatriation home of the deceased tourist remains. On the basis of the contract with the partner the Russian insurance companies determine volumes of insurance services, and their granting is provided by the company-assistants.

Legal relations between tourists and insurance companies are reported by insurance conditions on specific types of insurance events which are developed individually by each organization according to coordination with Department of insurance supervision (federal organ of the executive authority on supervision of insurance activity) within implementation of the general rules of insurance and the current legislation.

Main types of insurance in tourism are: medical insurance – an insurance of life and health of the tourist; property insurance – an insurance of baggage, video and photo-equipment, motor transport and other property of tourists, travel agencies; civil liability – an insurance of tourist responsibility, and also an insurance of hotel owners, transport, travel agencies and other subjects of tourism. Insurance is subdivided on obligatory and voluntary, individual and group. Obligatory insurance is carried out according to the law of adoptive state. Medical insurance for for entering some countries is the integral condition for granting visa. Now two forms of tourist insurance service are used: in the form of compensations -compensatory and providing service – service (assistance). Compensation insurance provides payment by the tourist of all medical expenses and

compensation of them only upon return home that is inconvenient as compels tourists to have a considerable monetary stock with them for this case. To receive the necessary help under tourist insurance service, it is necessary to sign the contract with insurance company and it would be enough to call in one of the specified dispatching services, to report number of the policy, surname and help will be given to the victim.

The insurance policy is the obligatory document in tour. Most part of the countries of the world, such, as: Austria, Belgium, Germany, Holland, Denmark, Spain, Norway, France, Switzerland, Sweden, USA do not issue the visa without existence of the special insurance policy [7].

The insurance policy is the document which guarantees necessary paid medical attendance at a loss occurrence, contains phone number of partner firm to which it is possible to address, information on the insurer, the insured, conditions, costs of insurance and release from responsibility of the company in case of: road accidents, chronic diseases, wars, nuclear explosions, etc. In tour organization the tour operators need to cooperate with insurance companies. Insurance contribution is included in the price of the permit. The amount of insurance premium depends on tariff. Tariffs are subdivided into four types which are based on the following terms: embassy which can determine the minimum sum of an insurance premium, for example, for Western Europe it makes about 30 Eur; trip terms; a number of people in group (discounts to group from 5 to 20% are possible); the age over 60 years (in this case the insured sum can be increased twice fold) [8].

Diversification as a method of decrease in tourist business risks consists of two types of diversification. The first type represents increase in number of tourist programs, used or ready for use; expansion of the provided tourist services range; formation of the offers focused on various tourist groups. Potential of diversification method use is very wide as the modern market of tour operator services is characterized by activity in many areas of internal and international tourism [9].

The second represents diversification of tourist zones and consumers, that is work both on internal, and in the foreign market with different categories of tourists [10]. It allows tour operators one or to compensate several losses on some by progress on others.

**Conclusion.** On the basis of the carried-out analysis of the tourist enterprises functioning on the present stage, in the changing economy the scheme of risk interrelation in the sphere of tourist services on the basis of which zones of low, average and is high degree of risk influence importance on economic activity of the tourist enterprises are revealed. In the course of research for risk area definition the need of

application of this scale in risk assessment which was constructed on the basis of risks ratings in the sphere of tourist services depending on extent of influence and terms of manifestation was proved. The algorithm of risk management in the sphere of tourist services is reasonable.

Thus, risks have considerable impact on economic development of the tourist industry and can significantly limit the level of tourist activity. Development of the internal and external risk factors system, as well as identification of risk management methods allows to solve effectively many problems of the tourist enterprises economic activity.

#### References

1. Shaikhutdinova, R. R. *Insurance as a Risk Reduction of Tourist Business* / R. R. Gazetdinova // Socio-economic problems of formation and development of the market economy: Proceedings of the scientific-practical final. Conf. Kazan: Publishing house KSFEI, 2008. Pp. 531-533.
2. Zhilenko, V. Y. *Influence Ukrainian Crisis on the Development of Tourism in the Russian Federation* / V. Y. Zhilenko // scientific results. A series of «Business Technology and Service». 2014. № 2. Pp.10-17.
3. Ovcharov, A. O. *Risk Management in Tourist Enterprises* / O. A. Ovcharov, P. P. Miroshkin, M. P. Stepanova // Russian Entrepreneurship. 2010. № 6, Vol. 2 (161). Pp. 79-84.
4. Podloboshnikova, E. M. *Risk Management in Tourism* / E. M. Podloboshnikova / News RSPU. A.I. Herzen. 2008. № 55.
5. Tsydypova, T. B. *Risk Management at the Stage of Forecasting of Socio-economic Development of the Area* / T. B. Tsydypova // Russian Entrepreneurship. 2013. № 14 (236). Pp. 26-34.
6. Pan, B. *The Power of Search Engine Ranking for Tourist Destinations* / B. Pan // Tourism Management. 2015. № 47. Pp.79-87.
7. Smith, W. W. *Tracking Destination Image Across the Trip Experience With Smartphone Technology* / W. W. Smith, X. Li, B. Pan, M. Witte & S. Doherty// Tourism Management. 2015. № 47. Pp. 113-122.
8. Yang, X. *Forecasting Chinese Tourist Volume With Search Engine Data* / X. Yang P. Pan, J.A. Evans & B. Lv// Tourism Management. 2015. № 46. Pp.121-135.
9. Yang, Y. *Predicting Hotel Demand Using Destination Marketing Organizations' Web Traffic Data* / Y. Yang, B. Pan & H. Song // Journal of Travel Research. 2014. № 53(4). Pp. 433-447.
10. Pan, B. *How Contextual Cues Impact Response and Conversion Rates of Online Surveys* / B. Pan, A. Woodside & F. Meng Journal of Travel Research. 2014. № 53(1). Pp. 58-68.

#### Reviewer:

**Ternovsky D. S.**, Doctor of Economics, professor of statistics department, Belgorod University of Cooperation, Economy and Law