Impacts of Global Economic Crisis on Tourism Business in Penang

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ABSTRACT

The current paper investigates the impacts of recent global economic crisis on tourism business in Penang. Tourism industry is vulnerable to various crises and disasters, and its growth has been impeding due to unpleasant situations. This paper is part of a research which has been conducted in Penang and uses qualitative research methodology. It was found that the recent global economic crisis created many negative impacts for business stakeholders in Penang and various strategies have been applied to mitigate the negative effects. The level of impacts was different for industry players and their businesses decreased for a certain period of time. The paper argues that the crisis had ripple effects and created many challenges for tourism business operators.

KEYWORDS: Economic Crisis, Tourism Impacts, Business Stakeholders, Penang.

Introduction

Tourism industry is one of the most susceptible and vulnerable industries to the economic crisis (Henderson, 2007). Recent economic and financial downturn that affected tourism industry from 2007 through 2010 and beyond has cast substantial attention on the role that crisis events play in tourism (Hall, 2010). The scope and magnitude of impacts were so severe, which the World Tourism Organization (UNWTO) (2010) estimated that international tourist arrivals fell by 4% in 2009, and many destinations in the world reported negative growth. Penang as a mature tourist destination
in Malaysia and in the region was also affected by recent global economic downturn. Attracting many international leisure and business tourists from various markets gives both threats and opportunities to this destination. Threats because these markets highly depend on global economic situations and fluctuation in the number of arrivals can create negative impacts for business stakeholders.

Despite this vulnerability, these markets provide many economic benefits in terms of revenue and job creation for industry players. According to tourism authorities, approximately 3 million international tourists visited Penang in 2009 (My sinchew, 2010), and they contributed huge amount of income to stakeholders. As an area of concern, this study focuses on impacts of global economic crisis on tourism business in Penang, and how the industry responded to this crisis?

**Literature Review**

Although there have been a substantial number of publications that have looked at crises and their impacts on tourism business in recent years (Hall, 2010), this field of study is still new compared to other fields such as business and management. There is an extensive literature dating back to the 1970s (Fink, 1986; Meyers & Holusha, 1986; Mitroff, Pearson & Harrington, 1989; de Sausmarez, 2003).

Hall (2010) listed a timeline for various crisis events in tourism from the early 1970s to the present day. He adds that many researches in tourism crises concentrate on economic and financial crises (Hall, 2010). Faulkner (2001) also noted that relatively little systematic researches have been done on crisis phenomena in tourism, the impacts of such events on the tourism industry and the responses of the industry and governments agencies to cope with these impacts. He further states that because of disruption of this nature, research is requiring, assisting the tourism industry to recover from events that are usually unforeseeable.

Despite a relatively increasing number of researches subjected to Asian crises, few studies have assessed the impacts of such crises on Malaysia tourism industry. Of much greater relevance to this research is Sausmarez’s (2003) study on “Malaysia’s response to the Asian financial crisis: Implications for tourism and sectoral crisis management. The financial crisis had a major impact on the Malaysian economy and tourism did not escape unchanged. He concludes that due to the absence of reliable data, his
Research neither considers other political and environmental factors, nor does it make a distinction between the impacts of the several crises that occurred in Malaysia. However, this study has more focused on tourism crisis management and Malaysian response at sectoral level than estimating the effects of crisis on tourism sector.

Another relevant study has carried out by Lean and Smyth (2009) on Asian financial crisis, Avian flu and Terrorist threats as shocks to Malaysian tourist arrivals permanently or transitory. The purpose of this study was to examine whether shocks have had a permanent or transitory effect on tourist arrivals in Malaysia through analyzing the time series properties of data on international tourist arrivals. The results of their study indicate that the impact of crises on Malaysian international tourist arrivals from 10 major source markets was temporary, and after a short time, these markets returned to their long-term growth (Lean and Smith, 2009). They also suggested that during the crises, the growth in international arrivals from Malaysia's source markets has generally slowed.

Research Methodology

In order to undertake this research, qualitative research approach was applied. Qualitative semi-structured snowball interview was chosen as data collection tool. Respondents have been selected from main industry stakeholders in Penang, primarily tourism authorities, hoteliers, tour and travel agencies and airlines. Interview was selected to obtain in-depth merits and richness of data from respondents through purposive sampling. The qualitative thematic analysis was applied to analyze the data.

Research Findings

The financial crisis originated in the developed countries, but it spread quickly to the developing world, sparing no country (World Bank and IMF, 2009). This crisis came at the heel of food, and fuel crisis and creates repercussions for developing countries that their resources are not enough to overcome (World Bank and IMF, 2009). It has also struck travel and tourism industry severely. In 2009, international tourist arrivals declined worldwide by 4% to 880 million and foreign receipts reduced by 5.7% compared to the previous year (UNWTO, 2010). Asia and the Pacific, as the second most visited region, struck in the first half of the year. While arrivals declined by 7% between January and June, the second half of 2009 saw 3% growth reflecting improved regional economic results and prospects
(UNWTO, 2010). In spite of the decreases suffered by most destinations in 2009, Malaysia reported 7.2% growth in terms of international tourist arrivals and 7.8% increase in foreign receipts (UNWTO, 2010). This is a considerable growth as most countries reported significant drop in their arrivals and receipts. It means that Malaysia has undertaken successful promotional strategies in responding the recent financial crisis and threat around H1N1 (UNWTO, 2009).

Nevertheless, this study demonstrates that unlike general growth of tourism and tourism revenue in Malaysia in the era of current global financial downturn, Penang's tourism players received negative impacts due to the ripple effect of the crisis. These negative stories were considerable for stakeholders in leisure and business hotels, airlines and tour operators and travel agencies as well.

Relatively, business and leisure hotels in Penang received many negative impacts as there were less business meetings, events, conferences and corporate activities during this period. Those leisure hotels, which depended on Europe, North America, Australia, China and Japan markets lost their customers as they reduced their expenditures and length of stays. Therefore, they failed to get enough revenues. For example, one of the respondents in hotel sector said:

"Global financial crisis hit us for almost 14-18 months" ... "crises hit us twice. During the crisis, we had less business meetings. We had Business corporation cancelling meetings, postponing or delaying meetings. So we lost this market during the crisis. Almost, 60% of guests in this hotel were businesspersons or families. There was no meeting for IT companies, no meeting for banks, etc. So we saw quite a big decrease during crisis".

Airlines were other victims of global economic downturn. According to respondents in this sector, airlines were severely affected from fuel price increase due to global economic fluctuations. As 35% of airline's expenses come from fuel cost, any increase in fuel costs will affect travelling expenses. Hence, travel is considered as an expensive product. It is also true that whenever there is an economic recession, the first thing people will cut is travel. Some respondents claimed that because of financial crisis they had to cease flight operation to non-profitable destinations. For example, one
respondent said:

"Regionally, we are quite a big airline because we have worldwide flights, and we fly to almost all the targets in the world. We severely affected by the global economic crisis. We had had to close some incomputable destinations like Zurich in Switzerland".

Global economic crisis also affected travel agencies and tour operators that were relying on long haul markets such as in Europe, North America and Australia. Heavy reliance of these companies to the mentioned markets created severe challenges since many tours were cancelled or postponed. One respondent said:

"During global economic crisis, a lot of tour operators and travel agents that relied on long-haul inbound tourism in UK market could hardly survive"

The impacts of the crisis have been outlined as booking cancellation, reducing occupation rates, lack of customers' confidence, low demand, decreasing travellers' expenses. Nevertheless, one positive impact identified was organizational learning as organizations were more prepared to handle crises in future.

**Discussion of Findings**

Industry players applied various strategies to overcome the crisis. These strategies were different from one sector to another. Hotel operators attempted to develop domestic tourism, as there was a recession in the economy. Some hotels also changed their international target markets to new emerging markets such as Middle East and other regional markets. The regional focus was because this part of the world was experiencing faster economic recovery than Europe and the United States. Hence, tourism stakeholders in Penang shifted their short-term strategy to attracting tourists from regional markets like Singapore, Hong Kong, Thailand, Indonesia, Macau and Taiwan– places with good flight connections to Penang.

Airlines used hedging fuel and reducing airfares during the crisis. It is common when there is high increase of oil airlines buy fuel in advance at a set rate for future uses (Tamirisa et al, 1997). This recovery strategy was used by airlines when they faced with fuel and economic crises. This strategy was in response to volatile oil prices, which seems to continue, but
civil aviation industry appeared to have learned lessons from recent experiences about the necessity of planning and taking action to reduce exposure to escalating charges. Another strategies used by airlines were renovation programs and reducing airfare to encourage people to travel. Low-cost airline such as Air Asia reduced the flight fares and introduced promotions for customers to travel frequently. Tour operators and travel agencies on the other hand, switched to outbound tourism. They conducted many outbound tours to different countries like China, Thailand and Indonesia by designing cheap package tours to encourage domestic tourists to travel overseas.

**Conclusion**

This study demonstrates tourism industry in Penang was struck by recent global financial and economic downturn. The level and scope of impacts however, were not equal for different business stakeholders in Penang, although they acknowledged that the crisis created many opportunities for their business. It is also worth to note that although global economic downturn affected Penang as a tourist destination, the level of impacts were much less than other destinations like Bali in Indonesia, Phuket in Thailand and even Singapore. Tourism stakeholders in Penang also looked at this crisis as an opportunity for organizational learning and they obtained valuable experiences on how to manage the difficult situations. They also believed that there is an immediate need to develop a tourism crisis management plan that integrates all tourism stakeholders in the State as the industry is very fragile to externalities.

**REFERENCES**


