

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/373035704>

# Understanding the Assumed Risks By Travel Agents in Tourism Industry

Research · August 2017

DOI: 10.13140/RG.2.2.30277.42722

---

CITATIONS

0

READS

55

1 author:



Chandra Shekhar

Rani Durgawati Vishwavidyalaya, Jabalpur

31 PUBLICATIONS 4 CITATIONS

SEE PROFILE

# Understanding the Assumed Risks By Travel Agents in Tourism Industry

Chandra Shekhar  
G.S. College of Commerce & Economics, R.D.V.V.

**Abstract:** Understanding the risk management and risk assessment in tourism industry in India is important. This will be an important factor to know how the industry operates. In tourism industry, there are many circumstances where the risk becomes contemptible tragedy or hazardous events, and due to this the business development will be low. This paper is trying to find out the tourism spots and small entrepreneurs who can effortlessly beat and control the four stages of a crisis by execute the theory of the four R: Reduction, Readiness, Response and Recovery. An active management in tourism has to implement to beat the growing exposure to different risks, such as political, economic, social and not least the technologic risks.

The effectual crisis management is one of the tools which identify the problem areas on time and takes action before the cumulative risks to turn into a growing crisis. The 4R Theory, suggests such a pattern through which all the crisis management strategies should be updated and improved continuously in order to demonstrate the efficiency and effectiveness of such a tool in an era of globalization in which the risks has become a subject of this globalization, getting a global perspective. The paper also states that although crisis and disasters can not be stopped, their impact can be limited through effective management strategies. It concludes with the idea that although there is great difficulty in responding to risk generating chaotic situations, they are an important part of risk management in both public and private sectors and should be taken into account in the management of modern tourism.

## **1. Tourism and its Importance**

To discover the unknown, new and eccentric places, , to look for transform in the environment and to undergo new experiences, by the group of people is one of the form of tourism. The business is very competitive business, dependent on many external factors over which a region or a destination has little or no control.

So, both physical and human management strategies will be required to satisfy the tourist anticipation within the limitations of a region or a destination. The coordination of plans of tourist regions has to be the wise use of resources and harmonizing these with minimum conflict with the environment.

Tourism started as a social trend, but within a short span of time, has grown into a considerable economic activity. Of late, the social and economic consequences have raised various environmental issues affecting the ecosystem and the social impact of tourism on the host.

Tourism is a business both for the individual entrepreneur and the community as an economic activity. It is based on the consistent system of demand and supply factors. On the demand side,different level of markets are there. The supply side involves the tourism package comprising of appeal, expediency, amenities and infrastructure. It is an industry with enormous dependence on attraction and amenities, along with dependence on the goodwill of the locals. Therefore, the distribution of profitable benefits has to be more widespread than in the case of the traditional industry.

It should facilitate the growth of tourism to a broader prospect and reasonable approach, identifying the requirements and views of the tourists and developers both in the wider society. The strategic planning and approach towards tourism begins at a much earlier stage than the determination of development strategy. It starts with an achieved analysis, i.e., the critical assessment of various impacts, both positive and negative, previous tourism development initiatives and an analysis of the political significance of tourism.

About 600 million tourists go to travel throughout the world every year, of which India receives only 2.30 million, yet it stands as the third largest foreign exchange grosser for the country (Dr. A. Satish Babu).

## **2. Investigating the exiting theories and risks models in relation with the tourism business**

All business activity in the market economy take an assured risk. Entrepreneurs generally are ready to go at risk under uncertainty, because along with the taken risks there is a possibility of obtaining additional revenues. In the market economy the acceptance of risk is realised under certain information through analysis and forecasting. The basis of any activity is a business plan

and every business has its specific way of designing and developing. Prevention of failure is subject to compliance with certain rules and knowledge: knowledge in depth of the business tourism, business development after a well-defined business plan, financial administration of resources, recruiting qualified staff, flexibility and adaptation to tourism market.

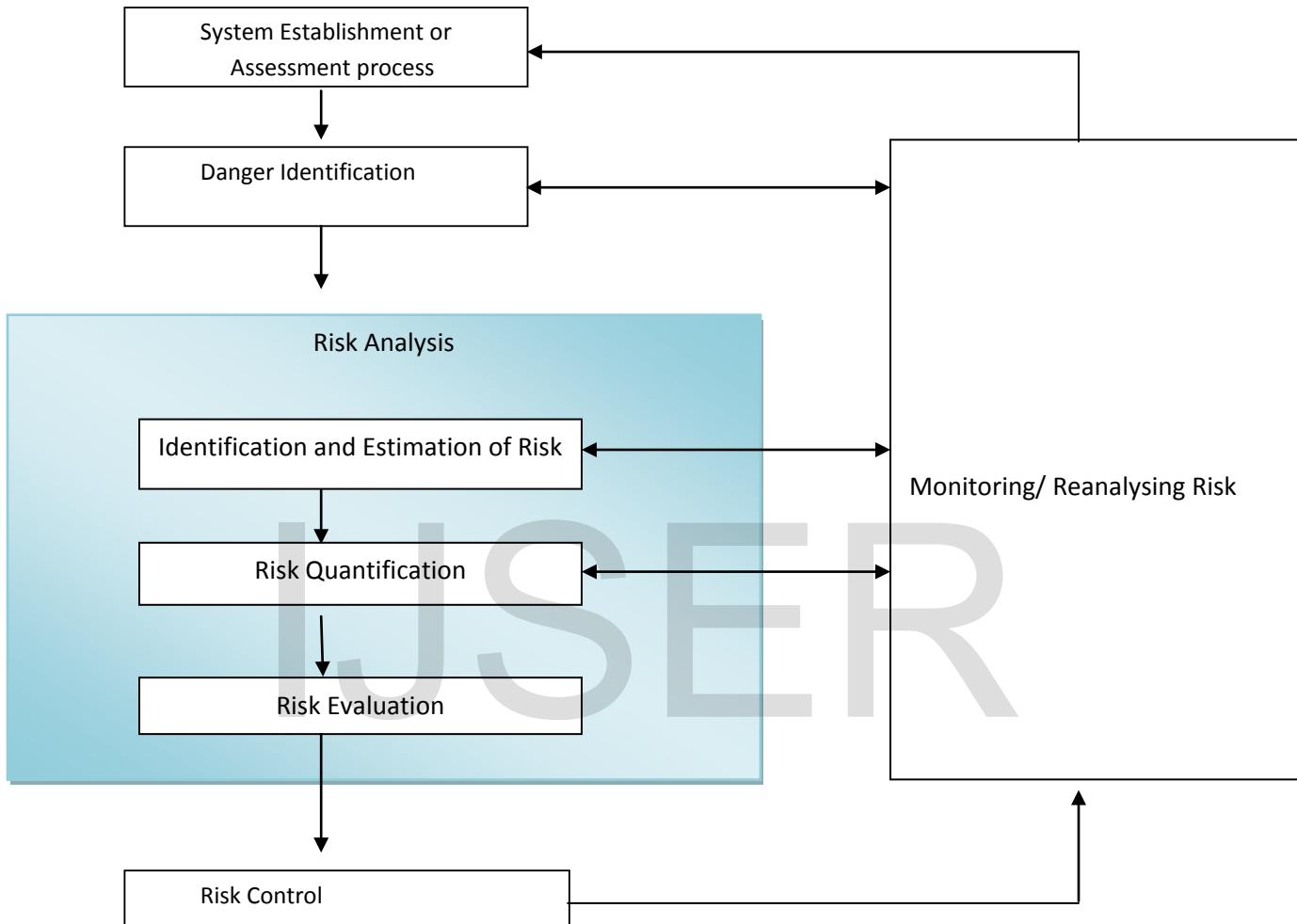
### **3. Risks and threats which affect travel agencies**

The travel agency, the main intermediate in the tourism industry, is a company with an intermediary role between economic agents, direct tourism services providers and tourists. Its activity consists in organizing, providing and marketing service packages or related components.

After the way of making and marketing tourism products, the travel agency is divided into two categories: tour-operator travel agency and retail travel agency. Tour-operator travel agencies deal mainly with organizing and selling their own travel packages or related components, directly or through intermediaries, while the retail travel agencies sell or offer for sale on behalf of a tour-operator travel agency service packages or related components. Risks exist in all types of payment instruments and in the payment system as a whole and are determined mainly by three major causes: the bad timing of fulfilling their contractual obligations of payment, the insolvency of partners, failure to complete the transfer of funds due to the clearing environment.

Major and minor travel agencies compete and few of the risks factors which they deal with are electronic ticketing, Internet, new distributors, integration of larger groups. These risks are increasing according to the positioning of the weaknesses of each agency.

Figure 1. Risk at the Travel Agencies



The expansion of new computersied reservation systems (CRS) and distribution systems (DS) of online travel agencies are very common.

The Internet is now a major distribution channel for tourism products, led by computer in real time -a true "substitute" for travel agents. If the Internet is widely used in this way can drastically reduce distribution costs. The bidders will have the opportunity to eliminate one of the most important components of the distribution cost for trips: the labor costs for people who come in direct contact with customers. Currently, several airlines offer the service to issue electronic tickets.

Developing electronic distribution systems creates a fundamental change in marketing. Many tourism marketers now recognize the potential of the Internet as a mean of communication and distribution channel. Other technological innovations have facilitated the distribution of trips, reducing costs and increasing responsiveness.

Travel agency's risks can be grouped based on their origin: risk of loss of income, risks of lowering the working activity, related to loss of intermediaries' function (disintermediation) agency risk and other risks. The base of a travel agency's revenues are both the developing tourism market in a certain period of time and also the policies used by manufacturers. As a result of low incomes we might find lower prices or perception of lower fees. With regard to travel agencies that have suffered a decreased activity this is mainly due to the multiplication of the number of such agents, thus offering consumers the opportunity to "run" from one agency to another seeking to obtain services as satisfactory as possible. Other causes that may lead to a decrease of activity include: tech travel agencies, producers strategies and emerging technologies. The competition of new distributors, generally associated with new technologies related to computer systems reveals a structural weakness of the travel agency, which normally does not have the capacity of organization or movement of capital and interests. Effects of such a downturn might be: the globalization of business, excess production capacity or loss of competitiveness.

The risk that a travel agency could no longer be an intermediary between tour-operators and consumers is given primarily by the increase of Internet use on a larger and larger scale. Most manufacturers post their offers and packages online and consumers prefer to choose their own tourist destinations directly from the Internet, instead of using the services of a travel agency. Electronic selling tickets, automatic distributors and direct sales can be real cause of deleveraging, which lead to new distributors and new sales channels. Other risks arising in the functioning of a travel agency have their origins in economic recessions, the crisis costs and the productivity crisis and the economic crisis latent effects.

The development of a Privacy strategy must be on the risk agenda of every chief executive. Important benefits that it brings are: a way to separate the company from competition, privacy strategy can reduce risks, even though we talk about brand, reputation, litigation and compliance, ensures cost-effective processes and practices of confidentiality, a privacy strategy is desirable in order to protect a company's intellectual capital. The most important thing is that a successful strategy can bring satisfaction and comfort to the client and on the other hand greater revenues.

There is a huge number of frameworks and theoretical approaches of risk and crisis management.

The strategy was defined by Johnson and Scholes (1993) as the direction in which an organization directs its efforts to meet long-term changes in operating environment, while falling in the amount of resources availability and responding to market needs, consumers and interested groups. Strategic planning and management includes four main stages. Analysis is the first stage

in assessing micro and macro economic environment. The second stage consists in choosing strategic directions that resonate with the medium and long term goals of the organization. Implementation and control is a very important strategy in the developing organizational structures, human resources and capital, the establishment of leadership in order to closely control the process of implementing strategy. The last stage is the most important is the assessment of strategy and feed-back. Further development of strategic management is an essential stage that the management team develop the strategic management and it teaches organization, how to develop and implement more effective future strategies.

The achievement of the company's objectives means mainly the knowledge and the acceptance of multiple risks existence. Risk management process has three stages: risk identification, risk analysis and risk response. The risk identification phase to assess potential hazards, effects and their likelihood means the ability to decide which risks must be prevented. Also in this stage takes place the elimination of risks inconsistencies, like risk factors with low probabilities of occurrence or an insignificant effect. Risk identification should be carried out regularly. This should take into account both internal risks as well as external ones. Internal risks are risks that the management team can control or influence, while external risks are not under their control. The risk analysis phase takes into account the risks identified in the first stage and performs a quantification of their depth.

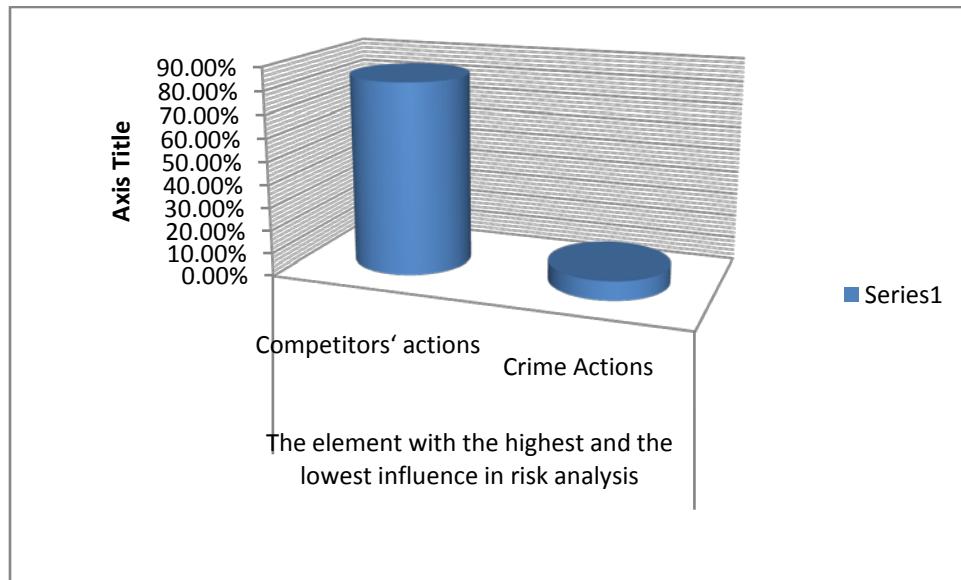
#### **4. The results of the research**

An analysis is conducted among travel agencies in India to test all the theoretical aspects presented above. In the analysis of the results of the questionnaires applied to travel agents, one can see how some elements influence risk more than others. The analysis considered both structured individually and cross-analysis and correlations. But cross analysis, was not possible. The reason was that complete received questionnaires back was 45 in number. For cross-analysis and correlations minimum requirement of filled questionnaires is about 250.

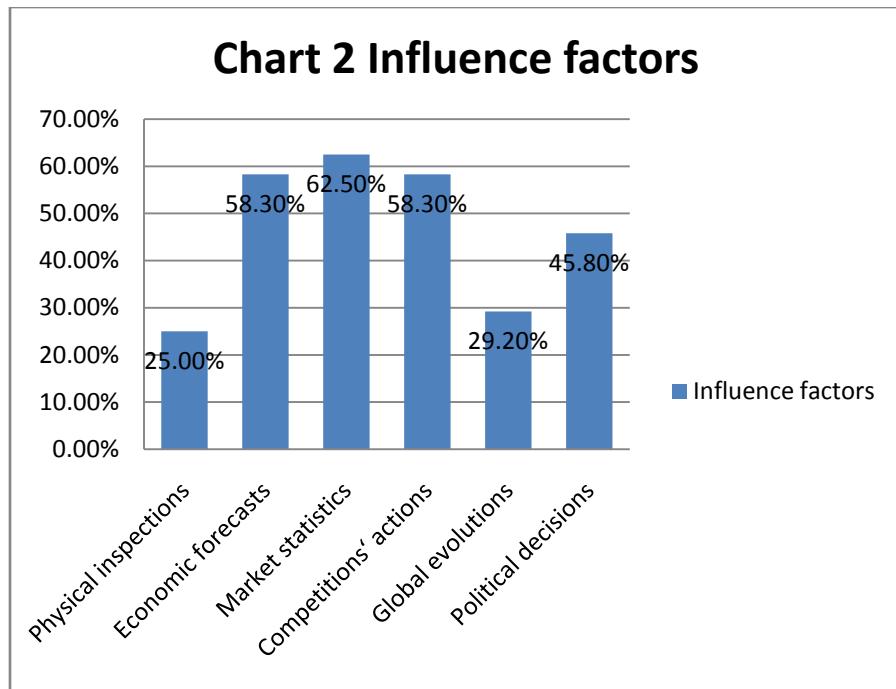
#### **5. Individual analysis of the questions**

When asked "Which of the following items are used to determine and assess the risks in your work?", The results were as follows: The chart below presents the most influential element in the analysis and interpretation of the risk in business and the element with the smallest influence. To note is that each item was analyzed separately, so their percentages are not equally to 100%. In each case there were missing answers which justify the creation of the 100% percentage.

Chart 1. The element with the highest and the lowest influence in risk analysis



The element with the greatest influence on risk assessment in a travel agency remains the competition and the element with the least influence is working with a government institution. Many agencies take into consideration when assessing the business' risk, economic forecasts and market-related statistics. Another crucial element in risk assessment is the low income, on which the agencies' activity depends. One agency identified and noted a new element in the determination and assessment of business risk that of "info-tour in recognition." There is a slight modification of the trend, if we may say like that in the interest of the travel agencies which are heading towards identifying other methods for determining and assessing business risk, with other words we can observe a slight interest among agencies in the field of risk control.



The most important factor in determining risk is related to market statistics (more than half of agencies have indicated this factor). The least considered is related to physical inspections, which managed to gather 25% of responses. The next question in the questionnaire, being also the most complex, tried to classify a number of risks on a scale that starts from a very low risk and reaches an extreme risk. The test results are presented in the table below, where are expressed the highest rates and are chosen for each category of risk, factors that achieved the highest percentages:

**Table 1 Risk classification**

Very low risk	Low risk	Moderate risk	High risk	Extreme risk
Limited range of products(37%)	Tourism markets' age, water pollutions (41,7%)	Crime(41,7%), Increasing of international competition (54,2%), Demonetisation(15%)	Country's image, inflation (50%), Seasonality (41,7%), Road safety (54,2%)	Wars(33,3%), Terorist activities, High prices of competition (37,5%)

The risks from the table above as it can be seen from the percentages were the most common risks mentioned by all the interviewed agencies. One can still can see that even though the

extreme risk in the case of a crisis have the biggest impact, most of the interviewed agencies meaning 50% of them or more consider that moderate and high risks tend to affect their business faster. Therefore the most common risk that tend to affect tourism agencies are the international competitors, than their worries are directed towards local problems such as inflation or road safety.

## 6. Conclusions

In an era where globalization dictates society's trends, these risks produced in a part of the globe can affect not only that area, but also others in the immediate vicinity. In business, a risk is when you face an opportunity to win, but can end up with a loss. Risk management recognizes that tourism must be prepared for crises and establish a response model to such events. A risk management plan allows for a destination or organization to prepare for a possible crisis and its potential to reduce the impact. Such effects can be severe, not only in terms of loss of life or property damage, but also in negative coverage in the media, leading to the loss of image and customers, of course.

To have a correct approach to risk the tourism business other factors specific to the tourism sector must be involved such as: communication, promotion, safety and security, not only local and personal and market research. Finally, the main objective of this industry is to determine the tourist to return to that destination as quickly as possible and an efficient risk management can hasten this process.

Unattended risks can develop into crisis, tourism entrepreneurs and consumers should be aware and try to prevent risks given the fact that all elements are interconnected directly or indirectly as a result, if an element is under risk for certainly that it will affect more or less other items, too.

Whatever the tourism model or the crisis model or risk threatens the main techniques are effectively similar in most cases. All should be based on good communication, to be built on the principles of transparency and fairness. Disaster prevention can not be considered only a function of the public sector. It is the responsibility of all actors in the tourism arena to ensure continuity of economic transactions as soon as possible across all destinations during the crisis. It is also their responsibility to penetrate beyond traditional boundaries and establish new patterns of cooperation with various national organizations, planners and disaster management.

The risk treatment is to develop plans to meet and begin a recovery after crises and disasters.

## Bibliography

Allen, K.R. (2007) *Growing and managing an entrepreneurial business*, 2nd ed., Mass.: Houghton Mifflin, Boston

Baranoff, E. (2004) *Risk management and insurance*, Wiley, Hoboken, N.J.

Brunt, P., Mawby, R. & Hambly, Z. (2000) Tourist victimisation and the fear of crime on holiday, *Tourism management*, vol.21, no.4:417-424

Callaghan, P., Long, P. & Robinson, M., eds. (1994) *Travel and tourism*, 2nd ed., Newcastle Upon Tyne: Centre for Travel & Tourism in Association with Business Education Publishers

Cater,C.I. (2006) Playing with risk? Participant perceptions of risk and management implications in adventure tourism, *Tourism Management*, vol.27:317–325

Cooper, C., Fletcher, J., Gilbert, D., Shepard, R. & Wanhill, S. (2005) *Tourism: principles and practice*, 5th ed., Pearson Education, Harlow

Faulkner, B. (2001) Towards a framework for tourism disaster management, *Tourism Management*, vol. 22: 135-147

McKercher, B. (1999) A chaos approach to tourism, *Tourism Management* , vol.20: 425-434

Poirier, R.A. (1997), Political Risk Analysis and Tourism, *Annals of Tourism Research*, vol. 24, no. 3:675-680

Queensland Tourism (2009) —Risk management & crisis planning||, available on-line at <http://www.tq.com.au/resource-centre/industry-assistance/growing-your-tourism-business/risk-management--crisis-planning.cfm>.

Yaoqing, Y. (2010) Evaluation and Solutions of Tourism Developing Risk, In *International Conference on Internet Technology and Applications*, 20-22 August , Wuhan

“Tourism Risk Management for the Asia Pacific Region: an authoritative guide for managing crises and disasters”, available on-line <http://www.world-tourism.org/>