

THE COVID-19 PANDEMIC EFFECTS ON THE HOTEL INDUSTRY

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Abstract

The novel coronavirus pandemic has brought about significant disruptions to hotel operations, affecting demand for hotel services and guests' behavior, as well as financial stability of hotel companies and, consequently, hotel employees. A hotel company is interconnected with various partners in the supply chain, thus, the problem in hotel operation is transferred upstream the supply chain. The aim of this article is to present an overview of the COVID-19 impact on the hotel business, and provisions to cope with the new reality, including safety measures, technology application, quality of service, marketing communication, human resource management, and the supply chain management. Many authors believe that majority of these provisions will prevail in the post-COVID-19 environment, as people will be more cautious regarding safety. Apart from huge destructive impact, the present crisis will also have some positive effects, such as improved innovativeness, resilience, efficient communication and care for internal and external customers, all resulting in improved quality of hotel service.

Key Words: *hotel business, COVID-19, safety, quality, human resource management, corporate social responsibility*

JEL classification: *I15, Z31*

Introduction

A hotel is a commercial establishment which functions as a temporary home of travelers. Hotels allow people to satisfy their basic human needs during the trip, but also to relax, entertain, do business, and improve their

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physical and mental health. Many hotels today strive to provide exceptional service and create a unique experience for their guests. This goal can be achieved through a pleasant environment, variety of services tailored to the needs of a selected market segment, and with a help of committed employees. The novel coronavirus pandemic has brought about significant disruptions and challenges to hotel operations. It significantly affected demand for hotel services and guests' behavior, but also financial stability of hotel enterprises and, consequently, hotel employees who face double fear – the fear of infection and the fear of losing the job in a situation when overall economic activity stagnates. A hotel is not an island on the market as it is interconnected with various partners in the supply chain. Thus, hotel businesses suffering from sudden and unpredictable disruptions transfer the problem upstream the supply chain, affecting its main suppliers. The aim of this article is to present an overview of COVID-19 impact on hotel business and implications for coping with the new reality related to human resource management, corporate social responsibility, demand management, quality management, and supply chain management.

Discontinuity of the hotel business due to COVID-19

The contact-intensive nature of tourism industry makes it sensitive to the development of infectious diseases (Sobaih et al., 2021). Yu et al. (2021) posit that such diseases are spreading fast because of the growth in population, tourism, and transportation. According to the World Tourism Organization, there has been a 74% drop in international tourist arrivals for 2020 in the world (381 million in 2020 compared to 1.5 billion in 2019), which brings international tourism to the level of 30 years ago. Estimated loss in global GDP is over \$ 2 trillion, while there are 100-120 million of direct tourism jobs at risk (UNWTO, COVID-19 and Tourism: Tourism in Pre-Pandemic Times). As a result, COVID-19 has particularly impacted the hotel sector which faced dramatic drop in sales due to travel restrictions, event bans, and fear of getting infected.

Regarding travelers' behavior in times of COVID-19, it occurs that domestic travel gains importance, as people tend to travel closer. Moreover, tourists prefer open-air activities, nature, rural tourism, and road trips. The main travelers' concerns are health and safety measures, and cancellation policies, while last-minute bookings have increased due to volatile and unpredictable pandemic. Although closed borders and travel restrictions made domestic tourism of prevalent importance, propensity to travel even within the same country is dependent on people's available income and

savings, work arrangements, and their safety perceptions (Pappas & Glyptou, 2021). Pappas and Glyptou (2021) find that COVID-19 has affected accommodation preferences in a way that tourists prefer to rent a house than to book a hotel room. Similarly, Zhang et al. (2021) assert that COVID-19 severely impacted shared accommodation sector in which interactions between hosts and guests are more intensive than in the traditional hotel business. It was also found that, although in normal circumstances demand-driven scarcity cues positively affected guests' purchasing intentions, during the current pandemic the effect was the opposite (Li et al., 2021). Scarcity cues signal a hotel's popularity and superior quality, what motivates people to visit it. However, in the current circumstances, guests perceive such place as less safe, and prefer not to visit it. This means that the pandemic has induced a shift in perceptions and affected purchase decisions, where highly occupied places are likely to be avoided.

Table 1: The comparison of overnight stays between the first three quarters of 2019 and 2020

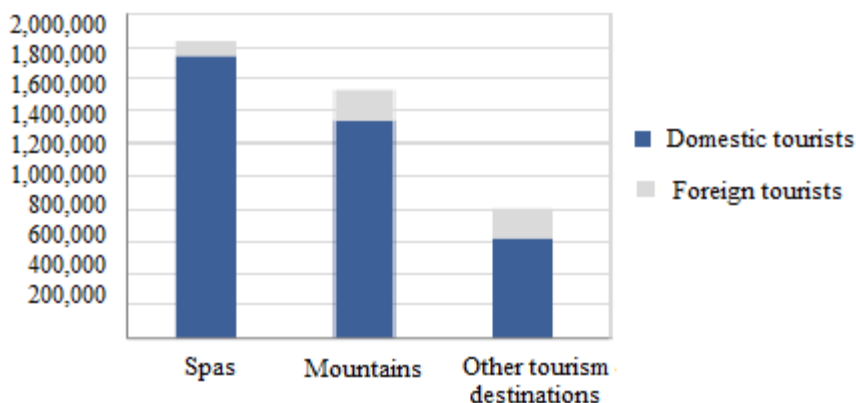
	2019			2020		
	Q1	Q2	Q3	Q1	Q2	Q3
Domestic tourists' overnight stays	101.3	107.6	105.4	101.5	39.3	113.0
Foreign tourists' overnight stays	108,3	106,4	105,8	93,2	8,9	17,9
Total overnight stays	103,9	107,2	105,6	98,3	28,1	74,9

Source: *Statistical Office of the Republic of Serbia, Trends, III Quarter 2020, p.51*

Statistical Office of the Republic of Serbia reports changes in the structure of overnight stays for the period January – September 2020 (Table 1). There was a drop of 36% in overnight stays during this period compared to the same period in 2019. The most significant year-on-year decline (94.6%) was registered in April 2020, while in later months a slightly higher number of overnight stays was recorded, but still significantly lower than in the same period last year. Domestic tourists were the dominant users of accommodation services in Serbia (80.8%), however, they realized 16% less overnight stays than in the same period last year. Interestingly, in the third quarter of 2020 the number of overnight stays of domestic tourists was 13% higher compared to the same quarter of the previous year. This could be the result of impossibility to travel abroad, especially for summer

vacation, so domestic tourists have shifted to Serbian tourism destinations, mainly to spas and mountains (Figure 2). After extremely poor results in the second quarter of 2020, when the number of overnight stays of foreign tourists compared to the same period in 2019 was lower by 91.1%, in the third quarter the number of overnight stays of foreign tourists was slightly higher, but still significantly lower (82.1%) than in the same period in 2019.

Figure 1: *The structure of overnight stays by tourism destinations for the first three quarters of 2020*



Source: *Statistical Office of the Republic of Serbia, Trends, III Quarter 2020, p.52*

Hotel companies in Serbia were offered the Government's economic support with respect to the COVID-19 crisis. The support consisted of tax policy measures (deferred payment of payroll taxes and contributions during the state of emergency, with subsequent repayment of incurred liabilities in installments beginning at the earliest from 2021; postponement of advance payment of taxes on profit in the second quarter of 2020; release of donation givers from the obligation of VAT payments), direct financial support to private companies, and credit program of the Development Fund via commercial banks for maintaining liquidity (Ministry of Economy of the Republic of Serbia). There were also subventions for hospitality and tourism companies which are among the most seriously affected by COVID-19 (Acts of the National Assembly). Further, there was no constant mandatory closure of hospitality companies, so they could function by respecting safety measures (working time, social distance, wearing masks, etc.).

Many hotels worldwide provided accommodation to people who needed isolation during quarantine period, as well as to displaced medical staff who treated COVID patients (Kaushal & Srivastava, 2021). Such a new role of hotels demands dealing with guests' physical and psychosocial needs (Jiang & Wen, 2020). Tourists being in isolation face negative sentiments because of prohibited movement, fear of getting infected, and uncertainty about the future. Wong and Yang (2020) found that hotel service quality remarkably reduces the impact of quarantined tourists' anxiety on their feeling of loneliness.

Jung et al. (2021) assert that hotels faced an employment shock in terms of significantly reduced number of employees, and a very high rise in the number of employees being on temporary leave. Apart from modern organizational changes that act as job stressors, such as new technological solutions that require skilled personnel, downsizing, higher performance expectations and other, COVID-19 has also appeared as a significant job stressor as it directly affects job insecurity and employees' fear of getting infected. Work stress negatively influences employees' wellbeing (Inoue et al., 2018), motivation (Ünsar, 2011) and performance (Wang et al., 2015), and positively affects their turnover intention (Akgunduz & Eryilmaz, 2018). Job insecurity is found to be a significant stressor for employees (Gaunt & Benjamin, 2007). Jung et al. (2021) illuminate that perceptions of job insecurity of deluxe hotel employees negatively affected job engagement, which is negatively associated with turnover intent. They further posit that job insecurity caused by COVID-19 had higher negative impact on job engagement of Generation Y than on Generation X, illuminating that hotel management should consider perceived job security as an important predictor of job engagement of the future predominant hospitality workforce.

Stergiou and Farmaki (2021) claim that pandemic is likely to influence absenteeism through employees' willingness and ability to show up for work, causing in this way workforce shortages. Nevertheless, their research shows that front-line hotel employees mainly believed they should work during COVID-19 pandemic, feeling a moral duty to fulfill professional obligation and be collegial. However, some external factors could affect their ability to report to work, such as lack of motorized transportation if they live far and are not willing to use public transportation. Also, childcare or eldercare were found as important reasons impacting employees' willingness to work in case when available care alternatives were perceived as inadequate, so they prioritized family over work. Additionally,

employees' willingness to work was affected by the lack of guidance regarding the correct use of equipment, behavior and employee performance during the pandemic. The authors therefore conclude that employees' decision to work during COVID-19 crises depends on a combination of personal beliefs/circumstances and external constraints. Therefore, the management should help them remove constraints (e.g. facilitate transportation, show care for the health protection of employees and their families, provide sufficient information and training on safety measures, etc.) in order to support their ability and willingness to work. Milovanović (2014) found generally low level of hotel management concern for employee training and motivation in Serbia, although these are key factors for ensuring employees' ability and willingness to work.

Shapoval et al. (2021) assert that during the pandemic COVID-19 personal values are likely to deviate: "the strongly individualistic and masculine American society has rediscovered compassion and empathy toward coworkers, profound connection with family and friends, and focus on emotional values, causing it to become less individualistic, materialistic, and achievement-oriented, and more collectivistic. Sweden, which scored very low on uncertainty avoidance and high on indulgence, expressed fear and strong uncertainty about the hospitality industry's future, which reverberated into personal and professional lives." The authors have identified negative effect of COVID-19 on the hospitality industry image as a workplace, so attracting skilled workforce in the future may be difficult.

The more intensive use of technology to support social distancing and economic activity during COVID-19 pandemic, especially for hotel back-office employees and managers, has created certain challenges, as Chadee et al. (2021) unveil, working from home using digital technology can lead to self-control depletion and further to employees' disengagement from work and withdrawal. Thus, physically displaced employees who work from home using digital technologies are likely to have reduced affective commitment. The authors find a moderating role of relational energy, which may have a buffering effect in the relationship between digital work connectivity and employee withdrawal through self-control depletion. They recommend to the hospitality leaders to generate relational energy by harmonizing employees' work styles and promoting positive working relationships.

The modern business environment imposes the need for customization, specialization and resilience, and, consequently, for cooperation. This means that no single company can achieve competitive advantage on its own, but rather as a member of a network. Such network comprises of all actors involved in the process of delivering the value to the end customer. Tourism supply chains are particularly vulnerable to different sorts of crises, such as natural disasters, economic and political crisis, as well as health crises, such as epidemics. Not all members of a supply chain are equally affected, but the shock is transferred from the most affected member upstream or downstream the supply chain (McCann & Myers, 2020). As tourism and hospitality companies are highly interconnected, they share risks and consequences of any disruptions anywhere in the supply chain.

Strategies and recommendations for coping with COVID-19

Nowadays, companies need to be highly flexible in order to be able to follow changing customer requirements, to ensure consistency in quality and price-competitiveness, and to create value for its owners (Milovanović & Janošević, 2019). Due to economic consequences of the current pandemic, people are more than ever prone to consider the value-for money issues, meaning that the adaptability of companies is crucial for ensuring higher quality at lower costs (Pappas & Glyptou, 2021). Hotel companies have developed a number of strategies to deal with the COVID-19 crisis, mostly relating to human resources management (HRM), demand management, safety assurance and communication. COVID-19 has affected the perceived quality of hotel services, where health protection and safety have growing importance (Pappas & Glyptou, 2021). Therefore, hygiene and other measures for health protection predominantly affect accommodation decision making during the pandemic, and these elements should be at the core of hotel marketing and quality management to reduce potential guests' fear and anxiety. As Yu et al. (2021) assert, hygiene became the key predictor of hotel guests' satisfaction, perceived service quality, word of mouth, revisit intention, and hotel image. Guests evaluate overall hygiene not only through spaces used by them, such as rooms, lobby, restaurants, and so on, but also through personal hygiene of staff, and spaces used by staff. In order to ensure effective hygiene management, and reassure guests about the high level of safety, hotels may also use services of the specialized hygiene companies.

Sobaih et al. (2021) show the importance of planned resilience for successfully coping with pandemic. Proactive managers, who developed a plan in the case a pandemic occurs, were able to positively respond to the COVID-19 crisis. Similarly, Rivera et al. (2021) suggest that hospitality management should develop contingency plans for low probability events that could have a significant harmful impact. They argue that the major elements of a crisis recovery agenda are strategy evaluation and strategic control, crisis communication and control, resource management, and collaboration with stakeholders. Furthermore, these authors find communication with the local media for positive marketing as a highly critical strategy for recovery, as it helps rebuilding tourists' trust in safety at a lodging place. Business associations and destination management organizations are also found helpful for the recovery. Kaushal & Srivastava (2021) highlight the need of multiskilling, optimism and better crisis preparedness, along with increased sense of hygiene. Hu et al. (2021) reveal that during the COVID-19 pandemic, organizations have prioritized safety and social responsibility, thus protecting employees from both physical and economic threat. This is achieved by implementing safety measures and conducting business activity in order to ensure employment, although the latter may not be the best option in financial sense.

Hu et al. (2021) showcase that employees' deep compliance with COVID-19 procedures follows a four-stage psychological process, starting with increased risk and health awareness (1st stage), which stimulates implementation of safety measures (2nd stage), which in turn motivate behavioral adaptation (3rd stage). Employees' increased confidence in the effectiveness of safety measures prompts the integration of these measures into their normal daily work practices (4th stage). To facilitate employees' deep compliance with safety measures, the hotel management should demonstrate a commitment to workplace health and safety to employees by prioritizing and promoting safety, and actively following the established safety procedures (Hu et al., 2021).

Management communication to employees during the pandemic is found to have a great impact on organizational trust (Guzzo, 2021). Employees pay attention to how management is following social norms and guidelines from experts and authorities related to crisis. If the management's attitude is not in line with safety recommendations, employees are likely to develop negative attitudes. Crisis, such as the COVID-19 pandemic, pose an uncertain context for employees who need a support and are prone to evoke different emotions toward organizations, such as gratitude, anger, fear, etc.

Thus, the management should demonstrate a concern for employees' well-being, and should not prioritize business goals over employees' safety in order to save its reputation, keep the employees and increase their psychological capital.

Wong et al. (2021) found that during the COVID-19 crisis hotel employees' job satisfaction and organizational commitment remarkably affected job performance, perceived well-being, and prosocial behavior, while the influence on turnover intention was not significant. The pandemic made hotel employees fearful about the job security, as many were laid off, sent to unpaid leave, faced cuttings in compensations etc., and they ignored traditional work stressors as long as they had the possibility to work and earn for living. That is why employees with low satisfaction and organizational commitment had low turnover intention. The mentioned authors suggest that hotel management must provide support to employees in form of mentoring, team building, stress-release workshops and other stress-management programs Kim, Kim & Lee (2021) find that employees' safety behaviors such as safety compliance and safety participation are positively influenced by workplace safety climate. Managers should therefore foster a safety climate at the workplace, and also consider communication transparency as it proved to have a significant positive moderating effect in the relationship between safety climate and safety motivation.

Agarwal (2021) points that any mishandling of guests during the current pandemic is likely to provoke their momentous negative reactions, but also to attract the attention of media, what may cause a long-term harm to the hotel's reputation. In order to ensure adequate treatment of hotel guests during the pandemic, hotels should pay special attention to the HRM practices which should result in employee's excellence in delivering high quality service. Apart from increasing employees' capabilities, training and development during the pandemic also have a motivational effect. Agarwal (2021) asserts that HRM practices should consider the employees' personal lives in order to enhance their job performance and well-being. This means that employees would be better motivated and empowered to perform well at work if they are supported to overcome certain difficulties in their personal lives, especially during the pandemic. Personal burden usually inhibits employees from performing well at work and creates stress. By responding to societal needs hotels can increase employees' wellbeing, and, consequently, their performance. Agarwal (2021) explains why some hotels cannot achieve desirable outcomes although they managed all

organizational factors of wellbeing. The key is to include personal factors of wellbeing, which means to help employees to manage their personal lives.

While job insecurity is commonly found to negatively influence employees' wellbeing and performance, whereas positively influencing turnover intention, Agarwal (2021) finds that job insecurity has actually increased work efforts and performance of hotel staff due to the fear of job loss during the pandemic. She further emphasizes that HRM flexibility helps reducing the stress and anxiety of hotel employees caused by ambiguity and uncertainty, while organizational support together with HRM practices led to reduced feeling of helplessness. Moreover, hotel employees' psychological wellbeing can be enhanced through consistent communication, positive relationships, authentic leadership, training, coaching, mentoring, personal life support, and corporate social responsibility (CSR). In fact, HRM practices enable employees to cope with new role-performance challenges brought by the pandemic, while participating in CSR activities strengthens employees' belongingness to the company. Qiu et al. (2021) argue that investment in CSR activities during crisis is useful to companies' financial welfare. Particularly, the authors find that CSR activities positively impact the value (stock returns) and stakeholder attention of hospitality companies during the COVID-19 pandemic, and that community-related CRS (such as charitable giving, voluntary services, room and/or food provision, disaster relief etc.) is more beneficial for stock returns than customer- and employee-related CSR (hygiene standard improvement, social distancing, medical assistance, training, discounts). The community especially appreciates hospitality corporate philanthropy during crises, so engaging in CSR in difficult times may significantly improve corporate image and draw tremendous public attention, which positively influences investor decisions. In order to attract public attention, hospitality companies' CSR activities during the pandemic should be reported by mass media.

Breier et al. (2021) argue that business model innovation (BMI) might be an efficient way to cope with the COVID-19 crisis. They provide evidence that BMI is applied during and after crisis to create new revenue streams and secure a higher level of liquidity. The business model represents a configuration of a company's value proposition, value creation, and value capture approach (Clauss, 2017). Thus, modifying these components of business model with respect to the nature of crisis and available opportunities, companies have potential to improve performance. Cheah et

al. (2018) find that environmental turbulence nurtures BMI, where BMI plays a mediating role the relationship between market turbulence and hospitality firms' performance. According to existing research, Breier et al. (2021) summarize that BMI helps hospitality companies working in turbulent environment to achieve sustainable competitive advantage. Moreover, they argue that BMI is crucial for companies' success in the contemporary dynamic environment, while external forces, such as globalization, changes in the competitive environment, new technological opportunities, changes in behavior, etc. foster BMI. These authors find that available time, pressure and the role of very frequent guests are driving factors for a BMI. The COVID-19 crisis has created enough pressure on hotel companies to innovate their business model, while the drop in demand and lockdown has increased available time for decision-makers. The authors further argue that "a crisis can result in new perspectives and profit potentials for firms that seize the opportunity of change" (p. 7).

González-Torres et al. (2021) assert that during the crisis, such as COVID-19 pandemic, the hotel business objectives should be redirected from cost reduction and operational efficiency to liquidity control, labor relationship and demand management, emphasizing the role of inter-organizational relationship management within the supply chain. They also accentuate the need for cooperation with competitors in order to influence favorable regulatory framework, and to promote destination so to recover the demand. This means finding balance between cooperation and competition, and focusing on differentiation based on quality and safety. In order to prevent long-lasting devastating effects of COVID-19, Pappas and Glyptou (2021) suggest the collaboration of hospitality companies and tourism destinations, local and national authorities, as well as international collaboration because tourism is predominantly based on international tourist flows. In order to control the negative effects of pandemic, there is a need to manage tourism supply chain as a whole, not each its segment independently. Furthermore, Smart et al. (2021) recommend to the hotel management to search for low cost opportunities in the financial market as a way to maintain financial stability. According to these authors, each market segment's resiliency to crises should be evaluated and new market segments should be explored in order to spread the risk and ensure demand in different scenarios.

Regarding the use of information technology and robot service in particular, it was found that during the COVID-19 pandemic these technologies are more welcome by people than it was before the crisis, and

this preference is explained by perceived threat which showed significant moderating effect (Kim, Kim, Badu-Baiden et al., 2021). Using robots helps increase protection of both guests and staff as the human contact is being minimized. Robots are useful in improving guest service as sometimes direct interaction between guests and hotel staff can lead to negative outcomes, affecting hotel's reputation and financial success. There can be achieved a higher level of consistency in quality of service, and mistakes can be substantially reduced. Kim, Kim, Badu-Baiden et al. (2021) point to the main benefits of artificial intelligence adoption in hotel operations for both hotels and guests, such as efficient service delivery, customization, reduced labor costs, increased productivity, flexibility, safety and potentially lower service costs. However, human service is at core of the hotel service and it is hard to overcome. The loss of social relationships can negatively affect customer satisfaction. Moreover, there are guests who are not conversant with technology and are therefore fearful of using robot technologies. These authors express the view that the current health crisis might change guests' mindsets and attitudes towards new technologies, especially because the concern for hygiene and safety may retain importance in the future.

Foroudi et al. (2021) assert that COVID-19 disease has resulted in "many psychological, economic and socio-cultural influences on hospitality stakeholders, some of which may last for years" (p. 5). The authors highlight that individual behavior is impacted by beliefs and perceptions, so the perceived health risk should be lowered in order to increase the customers' buying behaviors. That is, hotels should reassure the potential guests about the high level of health safety. In this regard, safety certifications proved to be useful. Business association of hotel and restaurant industry in Serbia (HORES), with the institutional support of Serbian Ministry of Trade, Tourism and Telecommunications, has created a label "Clean & Safe" (Figure 2) for hotels and other hospitality businesses that fulfill safety standards designed according to the World Travel and Tourism Council's protocol. The aim was to assure potential guests that they can have safe vacation. Standards help to achieve necessary level of hygiene and health protection of guests and employees in hotels and restaurants, thus mitigating risk of contamination with COVID-19. The label is used as a marketing tool to communicate safety to guests via hotels' website, Booking.com, as well as via the website of HORES. The certification is valid 6 months and is not mandatory.

Figure 2: "Clean & Safe" label for hotels fulfilling safety standards during COVID-19



Source: *Business association of hotel and restaurant industry – Serbia, www.hores.rs*

Conclusion

Literature overview of the hotels' struggle to cope with COVID-19 crisis in 2020 provides many practical implications for hotel managers who strive to keep the business alive. Some successful actions used by hospitality companies worldwide are related to the main stakeholders such as employees, customers, and the community. These include increasing safety provision through strict hygiene standards, employee trainings and motivation, social distancing, more intensive use of digital technology instead of human contact, intensive marketing to promote safety, safety certification, orientation towards domestic tourists, more attractive offers, medical assistance, charity giving and room/food provision for those in need especially for displaced medical staff and quarantined tourists, business model innovation, and so on. Some of the empirical findings particularly stress the importance of taking care of employees as they are concerned for the personal health and for the health of their families, while being at the same time afraid of losing the job. Also, many factors were identified to impact employees well-being, motivation, safety behavior, and turnover intention during this crisis and, accordingly, recommendations are provided for hotel managers to successfully manage human resources during the pandemic, such as building safety culture, ensuring communication transparency, helping employees' to overcome difficulties in their personal lives, providing tools, trainings and clear instructions with regard to safety, following social norms and professionals' guidelines, caring more for employees than for profit, and so

on. Many authors expressed their belief that numerous changes introduced during the COVID-19 pandemic will prevail in the future. Anyhow, to be prepared for the similar scenario that might happen in the future, hotel managers should pay more attention to crisis management, including risks identification and evaluation, development of different scenarios and strategies for coping with the potential crisis.

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