

CHAPTER II

LITERATURE REVIEW

2.1. Introduction

This Chapter will introduce the basic theory which this research use as a guideline to give a clearer definition upon the terms, terminology, and strategies which the author refers to. Theories about Planning, disaster management and the importance of it towards businesses were discussed in the chapter, followed by explanation about hospitality as a part of tourism sector. A definition of both disaster and the escalation of events around the phenomenon will also be discussed, followed by a propose strategy of managing business in the midst of disaster.

2.2. Theoretical Background

2.2.1. Management

Knowing the term business, it is always attached towards the word management. The dictionary Merriam-Webster Defines management as “The act or art of managing : the conducting or supervising of something (such as a business)”. Ferrel *et al* (2014) define management as “A process designed to achieve an organization’s objectives using its resource effectively and efficiently in a changing environment”. Robbins & Coulter (2009), define management something which “involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively.” Both definition by Ferrel *et al* and Robbins & Coulter suggested that management is a

process or an activity which inside it consist of other activities. This ‘activities’ is far more recognizable in management’s term by the word of ‘functions.’

2.2.2. Management Functions & Planning

Talking about management, of course it is not far from the terms function of management. “.... Managers performs certain activities or functions as they efficiently and effectively coordinate work of others” (Robbin & Coulter, 2009). According to both Robbin & Coulter and Ferrel *et al* (2014) stated there are 4 management functions. These functions were (in order):

- Planning

Consist of defining goals, establishing strategy, developing plans and coordinating activities.

- Organizing

Determining what needs to be done, how and who will do it

- Leading

Motivating, leading and all actions involved in dealing with people

- Controlling

Monitoring activities to make sure they happened as planned.

While all functions of management is important, this study will be related towards the very first function of management which is planning.

Planning is the process of setting an objectives of the organization and deciding on how would these objectives can be accomplished (Ferrel *et al*, 2014). Robbert & Coulter (2009) suggest that in planning, “they define goals, establish strategies for achieving those goals, and develop plans to integrate and coordinate activities.” As stated before, this function of management is the first function before the other, and often a crucial one. “Planning is a crucial activity, for its design the map that lays the groundwork for other functions” (Ferrel *et al*, 2014). The function determines the details on what the other function would require and how. This in essence put planning as a crucial function since it emphasize on generating the direction that an organization would wanted to move towards to, along with the individuals and the actions which should be taken upon reaching the objectives. In shorts, plans determines the rest of the functions.

Planning itself consist of many elements, with all of them being mission, goal, objectives, and the most important, the product of planning which is plans. Plans may vary depends on the nature of its creation. Ferrel *et al* (2014) suggest that there are 4 kinds of plans as a product of the planning function of managements. *Strategic plans* is a plan which focused on long range objectives complete with its long-range objectives or course of actions. *Tactical plans* were a short-range plans which is generated to implement strategies discussed in strategic plans. *Operational plans* is an even shorter-term plans compare to tactical plans which contained specific actions for specific member of the organization, mostly individuals in their own department. The core of this study is related closely with the fourth plans which is crisis management.

2.2.3. Crisis & Disaster Management

Crisis management, still quoting Ferrel *et al* 's (2014) introduction to business, is defined as “An element in planning that deals with potential disasters such as product tampering, oil spills, fire, earthquake, computer virus, or airplane crash.” This definition suggest that crisis management is a part of planning which focused solely on averting a crisis. In other word, a product of planning that focus on answering crisis. Yet in reality this terms were often used for a bigger meaning. “Crisis management is predicated on the measurement and evaluation of threats, and then the development of strategies to management” (Aljuhmani *et al*, 2017). Ionnau (2015) suggest that “Crisis management allows for renewal, stability, and growth after crisis situations, reduces earnings fluctuations, increases stakeholder confidence, protects the organization’s assets and helps it meet insurance, legal and regulatory requirements, and avoids serious harm to stakeholders, losses for an organization, or end its very existence”. While both forms of crisis management do offers an answer for business in responding to disaster, in essence both definitions were different. The former of the definitions treated the terms crisis management as a ‘mere’ plan, while the later suggest a more complex process. While the definitions do seems to fulfill the needs of this research, it still not the most accurate. Crisis on its own is a rather broad term with many definitions and even bigger scope. Furthermore, this research adopt the word crisis only as a phase of escalation of events, right before a disaster occurs, which will be explained further in the sub-chapter after this one.

Departing from the arguments above, this research adopted a term, a more focused one, which specifically talks about a form of management that functions depends on the existence of a low probability yet high impact events known as disaster. The terms disaster management is now in focus. Defining the terms itself, According to International Federation of Red cross and Red Crescent Societies or IFRC (1919) Disaster Management can be defined as “The organization and management of resources and responsibilities for dealing with all humanitarian aspects of emergencies, in particular preparedness, response and recovery in order to lessen the impact of disasters”. Quoting from Modh (2010), “Disaster management essentially deals with management of resources and information towards a disastrous event and is measured by how efficiently, effectively and seamlessly one coordinates these resources.” Both definitions had 2 important focus, with each being management of resources in whatever forms, and answering towards disaster. A definition of disaster management can be summarize then as *an effective management of all resources in reach of business in response towards a low probability with high impact phenomenon known as disaster.*

Federal Emergency Management Agency, or known as FEMA (2015) & Pearce (2000 citing Drabek, 1986) had given 4 phase of disaster management. They are each:

1. Mitigation, which is the minimization of risk and preventing of future hazard (for example building structures with the right material).
2. Preparedness, which is the activity of preparation to face emergency or disasters (for example, generation of plans and evacuation routes or

procedure). This phase is the planning function of disaster management, and might be a crucial aspect, remembering the sudden nature of a disaster.

3. Response, which is the activity of responding directly towards disasters (for example seeking shelters, or damage containment).
4. Recovery, which is the activities do to recover from the impact and aftermaths of Disaster (for example in the form of reparation of damaged structured or any activities which helped the business to return to its normal states).

Those 4 phases happened in a cycle, whereas after a recovery of a certain disasters, business, organization or whoever subjects which run the disaster management will then went back to mitigate after evaluating themselves based on previous disaster. Then the cycle will move again in the future when another disaster took place.

Now related to the terms itself, many confused the words with contingency plan. Quoting Chourlton (2000) “Emergency preparedness consists of all activities taken in anticipation of a crisis to expedite effective emergency response. This includes contingency planning, but is not limited to it: it also covers stockpiling, the creation and management of stand-by capacities and training staff and partners in emergency response.” While a contingency plan might be a “game changer” in determining how a business respond towards disaster, it is not the main instrument of the disaster management itself, but rather an optional segment which included in the whole management process.

2.2.4. The Stages of Disaster

Wilks and Moore 2006, on their research regarding tourism industry of Asian Pacific Economic Cooperation (APEC) propose a model of escalation of events which happened in 3 stages.

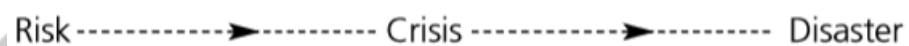


Figure 2.1
Escalation of Events

Source: Wilks and Moore (2006)

Standard of Australian and New Zealand (1999, cited by Wilks and Moore, 2004) propose that a Risk is “The chance of something happening that will have an impact upon objectives. It is measured in terms of consequences and likelihood.” Risk according to The World Tourism Organization (2003c, cited by Wilks and Moore, 2006) classify 4 sources of risk. Risk comes from human and institutional environment outside tourism sector, inside the tourism sector and related commercial sectors, personal risk for individual travelers, and Physical and environmental risks. Mt. Agung’s existence, while it has developed further from being a ‘mere risk’, used to belong to the physical and environmental risk. Uncontrolled risk will later developed into what is known as crisis.

As for crisis, the definition varies widely. It often follows the context of where and when this crisis happened. Čižmar (2010) in the research of Croatian

hospitality proposed a definition which is relevant for this study. According to them crisis is defined as “An undesired, extraordinary, often unexpected and timely limited process with ambivalent development possibilities”. Another relevant terms were proposed by Pacific Asia Travel Association or known as PATA (2003, cited by Malhotra *et al*, 2009) stated that “Any situation that has the potential to affect long-term confidence in an organization or a product, or which may interfere with its ability to continue operating normally.” These 2 definitions suggest that crisis is indeed had a broad nature of definitions.

Otto Beringer (1997, Cited by Stafford *et al*, 2002), stated there are 2 major factors of crisis which were each external factors and internal factors. External factor can be divided again towards 2 category which consist of physical disaster (natural disaster, technology failure) and human social environment (confrontation and malevolence), while internal factors consist of 1 category which is management failure (skewed values, deception, and misconduct). In relation towards Mt. Agung, the crisis that tourism business faced here is in form physical environment specifically natural disaster, since the threat came from a geographical landmark, although now it had developed above crisis state.

Zamecka and Buchanan (2002, cited by Wilks and Moore, 2006), had defined disaster as “A catastrophic event that severely disrupts the fabric of a community and requires the intervention of the various levels of government to return the community to normality”. A classic theory by Quarantelli (1985), had defined disaster as “A crisis situation that far exceeds capabilities” which in a way support that disaster is an advance development of a ‘mere crisis’. Centre of

resource Management and environmental studies of University of West Indies (2007) had define that there are 2 types of disaster, which is natural and man-made disasters. Modh (2009) stated that disaster consist of Hydro-meteorological, Geophysical which mentioned volcano eruption in it, Bio-hazards, and Non-natural. In the case of the studies, all the theories support that phenomenon which is the base focus of the study itself had clearly came from nature, making it valid to gain the title of natural disaster.

Departing from such theoretical definition, it is obvious that this natural occurring in Bali had entered the disaster stage, whereas the impact of the eruption of Mt. Agung, had disturb so many activities of community and had gained the attention of multi-level government. As a Reminder from the introduction, this phenomenon had gained attention of local, national minister and even the head of the country itself, Presiden Joko Widodo. Many adjustment had been made for example in the form of big scale debt restructuring and constant promotion packages which is urged by the government for all the tourist, in hopes of escalating the numbers of visitors.

Shaluf (2008, Cited by Sawalha *et al*, 2013) , had made a model which describe the stages of disaster. This model was seen relevant for this study since it covers the timeframe extending from pre-disaster stage until the point when the disaster impact itself had decline.

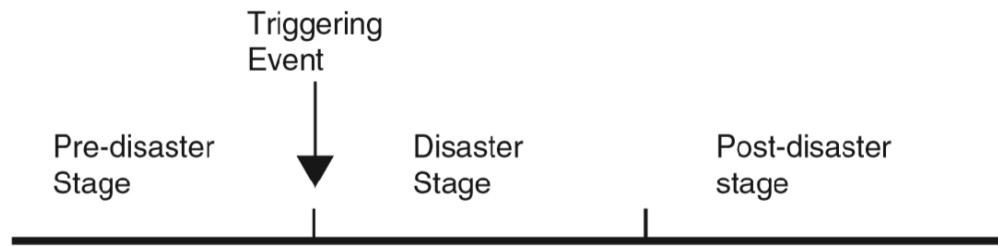


Figure 2.2

Stages of Disaster

Source: Shaluf (2008, Cited by Sawalha *et al*, 2013)

As we can see, this model proposed 3 main timeframe here. Pre-disaster stage, Disaster stage which can be marked starting from a triggering event, and Post-disaster stage. In the case of Mt. Agung itself, there are numerous warnings from the local (geographical bureau), indicating the rising activity of Mt. Agung. This research adopts the idea that from the beginning of a business towards the constant reminder of Mt. Agung's raising in activity, the phenomenon existed in pre-disaster stage. 21st November 2017, Mt Agung erupted, where in relation towards theory, this event was the triggering event that marked the phenomenon moving from pre-disaster stage to disaster stage. Up to the writing of this research the condition of Mt. Agung hadn't been reported to enter its normal state, So it is still unclear whether the stage had enter post-disaster stage.

2.2.5. Tourism and Hospitality Industry,

While the main subject of this research do revolves around hospitality industry, it is important to keep in mind that hospitality is a part of a larger sector which many acknowledge tourism, or tourism industry. A Relevant understanding

of tourism for this study can be found which is according to the United Nation World Tourism Organization or simply known as UNWTO (1998), *“Tourism comprises the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes.”* Northern Arizona University, Parks & Recreation Management’s (2018) Introduction on their online course proposed that *“Tourism is a collection of activities, services and industries that delivers a travel experience, including transportation, accommodations, eating and drinking establishments, retail shops, entertainment businesses, activity facilities and other hospitality services provided for individuals or groups traveling away from home.”* Both of the definitions stressed 2 point which both being related to the existence of individual outside their current home (travel experience) and the existence of many activities which shaped tourism.

Due to its unique characteristics which involve movements across location for its consumers and many activities which shaped tourism, this industry serves many purposes. WTO (World Trade Organization), on its official website stated *“One of the most crucial aspects of international tourism is the cross-border movement of consumers. This permits even unskilled workers in remote areas to become services exporters — for instance, by selling craft items, performing in cultural shows, or working in a tourism lodge”* Adding to the statement, according to the WTO (2018) *“International tourist arrivals reached 1.23 billion in 2016, up strongly from 674 million in 2000. Earnings reached a record US\$ 1.22 trillion, increasing impressively from US\$ 495 billion in 2000. Receipts from international*

passenger transport (i.e. visitor exports) were estimated at US\$ 216 billion in 2016, bringing total international tourism receipts to US\$ 1.4 trillion, corresponding to almost US\$ 4 billion per day.” Wilks and Moore (2006) supported the study, stating there are 5 importance of tourism Industry.

1. It helps to strengthen the growth of economy
2. Creation of jobs (skilled and semi-skilled)
3. Greater export return
4. Circulation of foreign currencies and investments
5. Economic well-being and social stability

Furthermore they add, especially looking at point number 2, tourism industry sucked many labor to them since it nature of providing a very wide range of employment opportunities, and this including woman and children. This is especially true

Now moving towards hospitality industry, Merriam-Webster dictionary had made 2 definitions on the word itself. First, “generous and friendly treatment of visitors and guest”, and second, “the activity of providing food, and drinks, etc. for people who are the guests or customers of an organization”. These meaning provide the indication that hospitality is a form of ‘friendly’ treatment given towards a certain individual or groups by a certain individual or groups. Now moving towards another definition, a more practical one can be found from Popova’s presentation (2012) which define hospitality as “... A service industry. Its task is to create shareholder wealth by servicing and satisfying guests. Industry

segments include, among others: hotels, restaurants, private clubs, managed food service, event planning, tourism related businesses, and travel providers”. This is supported by Laukova (2006), which propose that “Hospitality is, then, an umbrella term covering a variety of businesses, including restaurants, hotels, resorts and casinos. It also refers to other kinds of institutions that offer shelter or food or both to people away from their homes. The hospitality product includes both tangible goods (rooms, meals) and intangible services. Both are needed to success. However, making a guest, client or resident welcome and comfortable is the main goal of the hospitality industry.” This alone gave us pictures that *a business which provide both services and goods, where they tried to give shelters to visitors, or provide food, or any other efforts related to such area, while seeing the satisfactory aspect of the guest, can be classified as a hospitality industry.*

In the case of Bali, almost 1/5 of the working force in Bali were sucked specifically towards hospitality industry As a reminder from the introduction, the government statistical bureau (2016), stated that 728.760 of its labor forces, or around 17.6% of Bali Workforce made their earnings in restaurants, hotels and trades.

2.2.6. Proposed strategy of disaster management.

Simpkins (2009), stated that organization have the needs to stay relevant for each of their market sector. This also applies towards hospitality and tourism based industries, especially in the midst of disaster. In relation towards staying relevant in the face of disaster, the terms disaster management appears. There are 3 main time-frame of a crisis which in general were before, while the disaster, and after it had

happened. It is essential that to answer the crisis and maximize the efforts, steps were made in all corresponding sequence of a crisis. This research upon generating the instrument of data collection will adapt on the proposed crisis management model which was proposed by Sawalha *et al* (2013) whereas their research explore a similar topic, but more importantly, focused on all 3 stages of the crisis upon responding to a crisis.

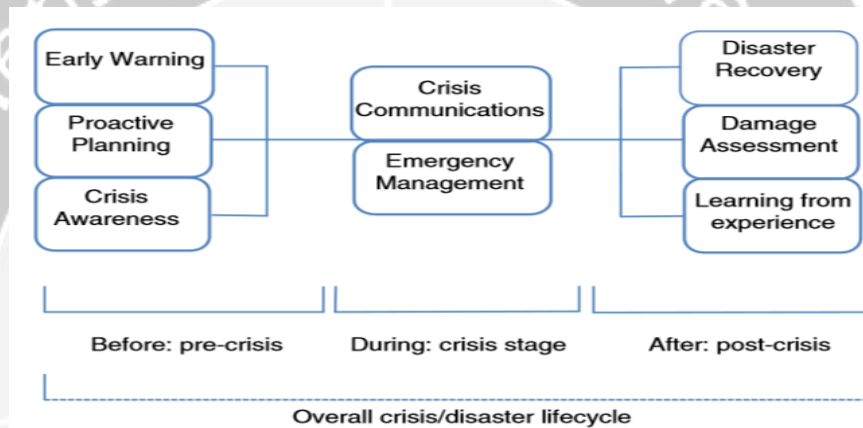


Figure 2.3 :

Model of Crisis Management

Source : Sawalha (2013)

This model provides the related responses which can be applied towards the all three specific crisis stage that occurs. It is important to see that the whole model were working in relation towards the next steps. This simply can be translated that the previous process is related towards the next. Which bring us towards the main focus of this research, the existence of an effective planning of a business.

Malhotra (2009) on research relating the pre-disaster period planning in tourism in India found that lack of pre-disaster planning happened in many hospitality and tourism industry in India. This was also supported by Čižmar & Vlahov (2010) Citing their research on analyzing Croatian hospitality companies “... Analysis of crisis management measures undertaken in Croatian hospitality companies in 2009 shows that the measures were reactive, since they have been generated when the crisis already evolved, as a reaction to the crisis impacts to operational performance of hospitality companies.” This indicates that hospitality and tourism based companies often respond to crisis without a pre-disaster plan or at least a strategy to cope before the inevitable occurs.

A form of a flexible and fluid strategy of coping with crisis is essential upon ensuring the survival of a business of all kind. Malhotra (2009) upon concluding his research stated that utilizing a framework on pre-disaster periods resulted in the ability to cope and respond to the challenges presented by a crisis or disaster. Still citing from Malhotra’s research “Crisis management has particular implications for organizational design and the need for relatively fluid structures and procedures in order to accommodate the unpredictable. Clear action plans and instructions regarding who is responsible for what in the event of a disaster, need to be communicated and implemented in order to minimize *ad hoc* responses”.

Sawalha *et al* (2013) proposed 3 course of action upon the pre-disaster stage, with each of them being early warning of a crisis or disaster, proactive planning to face the crisis, and knowledge of the crisis or disaster itself. Simpkin’s (2009) propose steps of making a contingency plan in the face of crisis. 4 Steps

were proposed by Simpkin to create a suitable contingency plan, with each of them being:

1. Ensuring the education of organization of the necessity of a contingency plan and how to manage and apply them.
2. Review of objectives and establish an ongoing environmental scans.
3. A thorough examination of each individual objective and plan, and review all variables.
4. Developing plan for each objective.

Relating to the 4 phase of emergency management, Mitigation and preparedness were logically occurs from the start of the business towards the end of pre-disaster stage. While it does seems a simple matter, often preparedness of one business towards disaster can be proven crucial. “The preparedness phase is very important for effective response and for the occurrence of any event to be properly managed and mitigated (Alsamsi & Pathirage, 2015, citing Boin & Lagadec, 2002)”. This is supported in Sawalha’s model, as the blue line do suggest that the whole process of emergency management is connected. Proper pre-disaster stage’s steps might be a crucial factor, for it determines all of the other phases.

Now after the 2 phase of disaster management, came the third phase which is responding towards the disaster. It is logical to assume that with or without plans, a company must response nevertheless. Sawalha *et al* (2013) do propose 2 strategy upon responding towards a disaster when it occurs. This strategy were in the form of effective communication and emergency management.

Communications regarding the disaster might take various forms, with a very logical assumption that different businesses will communicate towards different parties. It can be in the form of client, government, competitors, or many more.

As for the emergency management, looking towards to the research of Stafford *et al* (2002), Tew *et al* (2008), Sawalha *et al* (2012), and Čížmar and Vlahov (2010) while the geographical location & cultures yields a different results in many of this crisis management for tourism industry research, many proposed measures were seen relevant to be used as the base of this research, remembering that hospitality business had distinct characteristics compare to normal businesses. Several measures were picked as a tool to value how business fare in the midst of disaster. These measures are:

- Damage analysis & limitations
- Reducing of employees
- Reducing of operation expenses
- Debt restructuring

Upon responding to a crisis, Stafford *et al* (2002), saw both importance in internal and external response. In their research of hospitality and tourism based industry in Washington DC, coping with the crisis of 9/11 which obviously plummeted the revenue and visitors, tourism businesses did 2 kinds of responses which were internal, meaning that it happened within the environment of the hotel and external which involved other parties outside of the business itself, namely for example the government and related hotel association at the location.

For the post disaster stage, since all 3 phase of disaster management had been passed, it is time for the company to recover from the disaster. Recovery stage took place after 3 of the previous phase, and this phase occurs in post disaster stage. *Sawalha Et al (2013)*, propose 3 strategies which can be applied post crisis or disaster. This planning were used more towards the learning and evaluation aspect of a tourism based hotel. All of the strategies proposed were each Disaster recovery (which in it contain long term recovery), Assessment of the damage, and drawing the conclusion and lessons from previous disaster which occurs for the business itself. As for this part of the study, remembering the nature that the disaster is still on going by the time this study was conducted, it is still unclear whether the disaster had entered post disaster stage or not, therefore a more evaluation based were adapted instead of the original model.

With all 4 phases which spread across 3 phase of disaster stages, the cycle of disaster management will circle itself back towards mitigation phase as described on the previous section of this paper. As a reminder that the cycle will repeat itself whenever disaster appears in the way of the businesses.