Influence of Effective Enterprise Risk Management on Performance of Hotels in the COVID-19 Pandemic

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Abstract

Tourism has proven to be a substantial contribution to the nation's economy, and a great deal of research has been conducted in this area. However, this research does not explain the industry's possible dangers and appropriate risk management measures to mitigate those risks. Specifically, during the COVID-19 pandemic, when the hotel industry was severely impacted, the researchers advocated identifying effective risk management measures to assist the Hotel's business performance during similar crises. Therefore, this study examined the relationship between risk management and the performance of the 157 recognized hotels in Thailand. A questionnaire was employed to collect data from all hotel executives in the study. Descriptive statistics, an analysis of correlation, and multiple regression analysis were utilized in the data analysis. Respondents' opinions on risk management and performance were at the most significant level. According to the findings, only three of the eight enterprise risk management components are relevant to corporate performance. Monitoring, objective setting, and risk response also impact hotel performance substantially. The study also has substantial theoretical and practical consequences.

Keywords: Enterprise Risk Management, Performance, Committee of Sponsoring Organization, Hotel Industry, Hotel Standard

Introduction

The tourism industry is the country's primary source of income. The tourist industry accounted for more than 10 percent of the nation's gross domestic product in 2019, according to data on earnings (Lai & Wong, 2020; Maulina, 2021). Diverse nations strive to improve their competitiveness by concentrating on tourist quality (Anusonphat, 2020). The hotel industry is directly related to tourism. Standardization and accreditation of hotels are a component of tourism growth (Cherapanukorn & Focken, 2014). Formal recognition might be a deciding factor for travelers. However, as many cases were found, the unexpected breakout of the Covid -19 pandemic, which severely impacted the business, became the subject of global contention. The pandemic produced a global panic and affected the economy on all levels (Maulina, 2021). Various nations devised protective measures, such as social distance, working from home, and the lock-down procedures implemented in many nations. Such extreme measures had an incalculable impact on society and the economy.

Consequently, several hotels were forced to close. The recommendations were enacted to address the virus-related crises while the pandemic still affected all demographics (Anusonphat, 2020; Lai & Wong, 2020). It was nearly impossible to recover from economic disasters, resulting in a significant loss of revenue and financial liquidity. Dangerous emergencies resulting in injuries or deaths are responses to crises that badly impact the organization's public image, and the system was unable to function owing to an application failure or shutdown. Without a defined structure, economic survival was unlikely, and recovery was nearly impossible (Maulina, 2021). In addition, there were countless other possible dangers, including environmental, commercial, and human resource threats. These were the fundamental variables that could affect the viability of businesses.

Enterprise Risk Management (ERM), related to the Model of Committee of Sponsoring Organization, reduces risks by using various risk management techniques based on the risk management framework (Amirudin et al., 2017). It also guides controlling organizational risks associated with company strategy and performance (Giannoukou & Beneki, 2018; Prewett & Terry, 2018). It must comprehend the uncertainties that will ensue. This may jeopardize, fail, or lower the possibility of attaining success on all levels of aims and goals. This is related to corporate governance, which necessitates concentration, projections, planning, and operational processes to deal with such risk occurrences. It includes practicing how to deal with future uncertainties by linking the implementation of business risk management. The study approach examining risk management shows the limitations of corporate risk management. Moreover, bringing a company model closer to sustainability increases the complexity of the associated risks (Stein et al., 2019).

Risk management may not guarantee the organization's existence, particularly during Covid-19 (Wang et al., 2020). The epidemic in question had a significant impact on the tourism industry. The loss and devastation caused by the Covid epidemic were considerable (Fakhruddin et al., 2020; Gössling et al., 2020). The hotel industry was inevitably struck the hardest compared to other industries. To survive the economic downturn, hotel operators had to modify their businesses. The measures employed by the operators included a drop in hotel rates, a new form of room service, a decrease in expenditures, and the acquisition of income from other linked enterprises (Maulina, 2021). Although altered operations may have kept the hotel industry afloat, they were not all-encompassing and did not endure as long as the crisis lasted (Amirudin et al., 2017; Lai & Wong, 2020). It was determined that just 58% of the hotels remained open; 75% of the hotels that remained in business had their financial capacity decreased by 20%. 52% of the hotels decided to close temporarily, while 18% decided to close permanently and pursue other business opportunities (Pattanasing et al., 2021).

The challenges mentioned above were identified and described concerning the hotel industry's survival regarding the situations and scenarios impacted by the Covid-19-related crises. The conceptual framework and guiding principles associated with risk management may favor organizational performance. Challenges and recommendations were investigated in Thailand's risk management framework. The study's outcomes may reflect the executives' risk management and monitoring practices, which may have an impact on their performance effectiveness. Nonetheless, it was necessary to manage the risks, so they did not negatively impact the organization.

Literature Review

Business Performances

Balance Score Card (BSC) is a performance measurement tool for enterprises (Areiqat et al., 2020). In this study, investor and financial decision-making characteristics will be explored. Investing in human capital to enhance their abilities, skills, and production processes through supportive education is central to the learning and growth approach. This strategy focuses on the core human resource assets of systems, instructions, rules, laws, and procedures (Moneim et al., 2017). Firms or organizations could choose a suitable investment plan to maximize their investment of considerable sums of capital to earn the best possible return over a certain period, taking into account the potential risk (Altanashat et al., 2019). Maximizing the utilization of available resources is feasible to achieve desired outcomes while maintaining affordable expenditures. Return on investment is the capacity of an asset to create income that reflects the profitability of an organization's operational activities. This return is calculated by dividing the net profit by the average asset rate. Standard approaches based on historical data are no longer suitable for making crucial decisions. Therefore, BSC is designed to account for an assessment system that incorporates required activities (Abofaied, 2017).

According to academics, BSC is a technique for translating an organization's vision and strategy into precise goals and standards that can aid in its success and provide a road map for accomplishing these objectives. Consequently, it is a criterion for evaluating an organization's performance and capacity to achieve its goals (Anggadini et al., 2021). Some of the advantages of BSC, including its emphasis on analyzing organizations' short- and long-term success rather than merely their financial performance, are highlighted below (Debnath et al., 2018). Business managers must comprehend the relationship between strategic objectives and decision-making (Muda et al., 2018). Monitoring and analyzing intangible assets such as knowledge and client connections should be integral to every institute's everyday operations (Rapitasari et al., 2019). The BSC framework, which is meant to measure and assess these difficult-to-quantify outputs, balances measurement and evaluation procedures for outputs that can significantly impact the organization's growth (Raval et al., 2019). Without requiring managers to waste time on unimportant details, BSC equips them with the information necessary to make well-informed decisions (Giannoukou & Beneki, 2018).

According to Anggadini et al. (2021), BSC enabled a company to attract personnel with the necessary competencies and skills and create a performance-based compensation structure. Customers, stakeholders, and staff will help all gain from this. In addition to preventing profit inflation, all operational operations at BSC are governed by standards and scales. According to Debnath et al. (2018), organizations should prioritize learning and development. It is usual for companies to consider their employees as a financial burden necessary for the business's operation. In addition to the need to attract and motivate highly qualified and experienced employees, human capital has become a crucial asset for companies that must compete for talented people on the global market. BSC can assist in achieving the intended objectives from a learning and development standpoint because it emphasizes the workforce's intellectual powers, abilities, and talents. In addition, this perspective considers organizations' information systems and managerial practices. It also emphasizes the importance of staying current with the most recent changes to business practices. By improving employee satisfaction, these initiatives could assist retain their people and push them to perform to the best of their skills.

People, policy, and organizational procedures may be considered when constructing infrastructure for sustainable development. Therefore, organizations need to have a perspective that emphasizes putting their goal into action (Rapitasari et al., 2019). Abofaied (2017) said that, when utilizing BSC, the organization's strategic goals should be clearly articulated. A systematic approach requires that all system components, including inputs and processes, outputs and feedback, have a consistent and interdependent relationship. These businesses are required to adapt to the ever-changing environment and intensifying competssition. Organizations must adhere to several policies and steps to ensure that BSC is utilized effectively (Moneim et al., 2017). It is widely acknowledged that there are no tried-and-true treatments. Adopting and assisting the organization's management team in light of BSC would be helpful. As part of a strategy to evaluate performance, the benchmarks must align with the strategy's objectives.

To avoid providing its management team with unneeded and redundant information that exceeds their analytical capabilities, an organization should set appropriate standards for its business model. According to the causes of BSC implementation failures, numerous organizations have attempted to implement the BSC but have been unable to obtain the expected results. Consequently, many companies are imitating other organizations' BSC designs and formats regardless of their objectives. Most organizations require a strategic plan to guarantee that they have a clearly defined set of strategic goals and performance standards to pursue. The adoption of BSC by organizations should adhere to a static and rigid paradigm; yet, applying this technology requires keeping up with business industry developments. According to Areiqat et al. (2020), a limited model prevented large organizations with diverse situations from correctly applying BSC. This would suggest a lack of commitment in the absence of administration support for BSC implementation. Frequently, BSC is created without the input of employees and other stakeholders. A lack of data analysis tools could also be a contributing factor. Inattention to all components of the BSC could result in sensitive data being regarded as though it were confidential information.

However, the BSC development team lacked the authorized personnel. The business and needs of an organization are identified, as well as the organization's existing competitiveness, market share, and level of people experience and skill. Vision and performance criteria should be aligned to build a solid basis for the future (Altanashat et al., 2019). An organization's strategic objectives can be turned into strategic objectives by establishing the plans and strategies necessary to achieve them and by transforming its vision and strategy into inclusive standards indicators (Anggadini et al., 2021). To ensure that the action plan matches the organization's vision, the final objectives of senior management, as defined in proposals, should be addressed during its preparation. BSC provides the opportunity to monitor activities and verify that they align with the company's strategic objectives (Debnath et al., 2018). With the allotted resources and responsibilities, leaders can determine the activities and processes required to achieve the objectives. Regular evaluations and monitoring are essential for determining the extent to which objectives are msset. By utilizing BSC indicators, numerous approaches improve the efficiency of an investment decision and financial success.

Consequently, sufficient information must be accessible to make an informed choice (Moneim et al., 2017). Thus, BSC will provide decision-makers with sufficient information about the methods to ensure that all employees know how to measure the operational consistency targets.

Enterprise Risk Management (ERM)

ERM is currently seeing a stratospheric growth in favor among international businesses and organizations. ERM refers to enterprise risk management, the authority by which a corporation in a particular industry gains access to, controls, exploits, and monitors risks from all sources to maximize the firm's long-term and short-term value to its stakeholders. According to Shad et al. (2019), enterprise risk management (ERM) is a coordinated effort for coordinating hazards that moves the risk management task's focus from being predominantly defensive to increasingly offensive and calculated. This shift in emphasis is because ERM is a coordinated effort for coordinating risks. Some researchers argued that enterprise risk management (ERM) is an integrated method that increases organization value by reducing the inherent uncertainties of the conventional method, reducing stock return volatility, stabilizing earnings, enhancing capital efficiency, reducing the expected costs of external capital and regulatory inspection, and maximizing shareholder value (Saeidi et al., 2019). The researchers argued that ERM is an integrated process that increases the value of an organization. Diverse researchers have built and presented ERM models (Shad et al., 2019). Despite this, earlier researchers usually recognized the COSO ERM integrated framework as one of the most trustworthy models (Yap & Yap, 2018). This framework provides an infrastructure for risk management, which may be considered eight parts that must be studied for each of the four objective categories.

As a result, each organizational level integrates the eight ERM elements into one of the four themes of the company's objectives. (1) the internal environment, which, according to this framework's description of ERM components, acts as the foundation for all other ERM components. It considers a variety of criteria, such as the entity's risk appetite, its risk management philosophy, its competency and ethical values development of workers, and how the manager assigns responsibility and authority within organizations; (2) objective setting: the process of establishing goals for an organization that is congruent with its mission and its risk tolerance. (3) the identification of events, including the identification of both risks and opportunities that could impact the achievement of the entity's goals from both the internal and external environments; (4) Risk assessment: this process allows an organization to consider both the impact and possibility of future occurrences, and it employs both quantitative and qualitative methodologies to analyze risk. It evaluates the positive and negative effects of potential occurrences on the entire organization. (5) risk response: management must select a reaction (avoidance, reduction, acceptance, or sharing) that is consistent with the entity's risk tolerance and risk appetite; (6) Control Activities: These are the policies and processes that aid managers in ensuring that risk responses are carried out successfully at every level of the organization. (8) monitoring: the ERM process and activities are evaluated through separate assessments, continuing management actions, or both, and modifications are made as necessary (Saeidi et al., 2019).

According to this notion, a company's enterprise risk management system should be positioned to fulfill the following four objectives: (1) strategy refers to high-level goals that align with the organization's mission; (2) operations refers to short-level goals that relate to the efficient and effective use of resources; (3) reporting refers to the quality of the organization's reporting system; and (4) compliance refers to acting under generally accepted regulations and standards (Baba Ahmed & Megnounif, 2020). Because this framework has been endorsed by five of the most prominent accounting and finance organizations in the United States, namely the Institute of Management Accountants, the American Accounting Association, the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and Financial Executives International, as well as due to the importance of this framework according to the research (Saeidi et al., 2019), it is recommended that organizations adopt this framework. The evaluation of ERM that considers only some questions about the organization's ERM stage (ranging from not implemented to fully implemented) or that treats ERM as a dummy variable may not be as reliable or valid as the evaluation of ERM that considers all questions about the organization's ERM stage.

Hotel' Performance and Enterprise Risk Management (ERM)

Hazards and risk management studies have increased in the hotel industry over the past four decades, as a hospitality company's numerous stakeholders are exposed to various risks (Jermsittiparsert et al., 2019). According to Saeidi et al. (2019), risk classification is essential for risk assessment. Literature gives a variety of classification schemes for hospitality risks. As the corporate context for "management" increases, human hazards and managerial risks are surfacing. Cartwright et al. (2018) divides risks into three categories: strategic (working environment, regulatory environment, brand and business relationships, strategic information and decision making, organizational design), financial (prices, complex financial products, cash flow, counterpart, retirement obligations), and operational (operations, human resources, information management, and processing, natural risks, governance, compliance, and ethics). Chaudhuri et al. (2018) focused on risk prioritization. They developed a risk classification model with eleven groups: economic, management, partners, execution, human resources, policies, legal element, social and environmental, resources and equipment, scheduling and planning, and design. Four groups were suggested by Oetzel and Miklian (2017): operational, project management, engineering, and financial.

The performance was indicative of the elements influencing the organization's performance (Chienwattanasook & Onputtha, 2022; Fakhruddin et al., 2020; Haseeb et al., 2019). In addition, it was the instrument that allowed executives to analyze the performance effectiveness in various areas. That would allow everyone involved to observe a tangible outcome. Nonetheless, ERM is provided with direction for controlling several hazards. In addition, it illustrates the relationships between performance, survival, and sustainability, which could serve as motivations for corporate executives (Gössling et al., 2020; Prewett & Terry, 2018). Companies with a sufficient operational structure could efficiently manage complex risks. A competent and efficient strategy of risk management may have a favorable effect on the company's performance and earnings. In addition, businesses with superior risk management capabilities were positioned to enjoy a substantial competitive advantage (Oetzel & Miklian, 2017; Onya, 2020).

H1: Internal environments have a positive association with hotels' performance.

H2: Objective setting has a positive association with Hotel performance.

H3: Event identification has a positive association with Hotel's performance.

H4: Risk assessment has a positive association with Hotel's performance.

H5: Risk response has a positive association with Hotel's performance.

H6: Control activities have a positive association with Hotel's performance.

H7: Informational communication has a positive association with Hotel's performance.

H8: Monitoring has a positive association with Hotel's performance.

Research Hypotheses could be illustrated below:

Research Framework

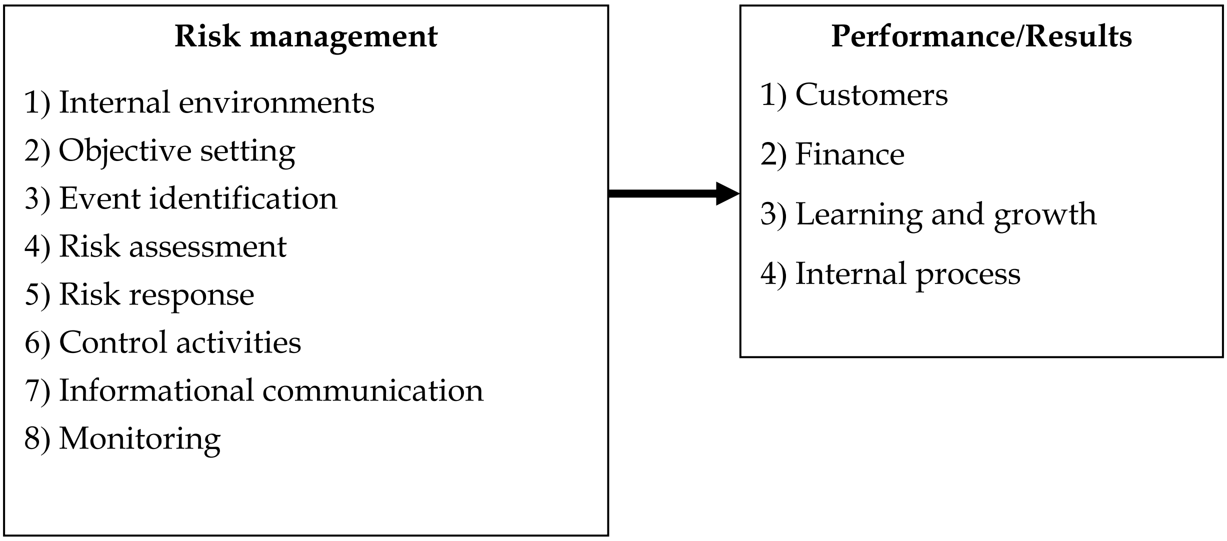

Figure 1 Research Framework

Research method

Population and Sample

The present study has adopted a cross-sectional research design. The population in the research was 260 accredited hotels in Thailand. There were 74 hotels with five stars, 115 hotels with four stars, 66 with three stars, and five hotels with two stars (Jermsittiparsert et al., 2019). The proportional stratified random sampling randomly obtained them.

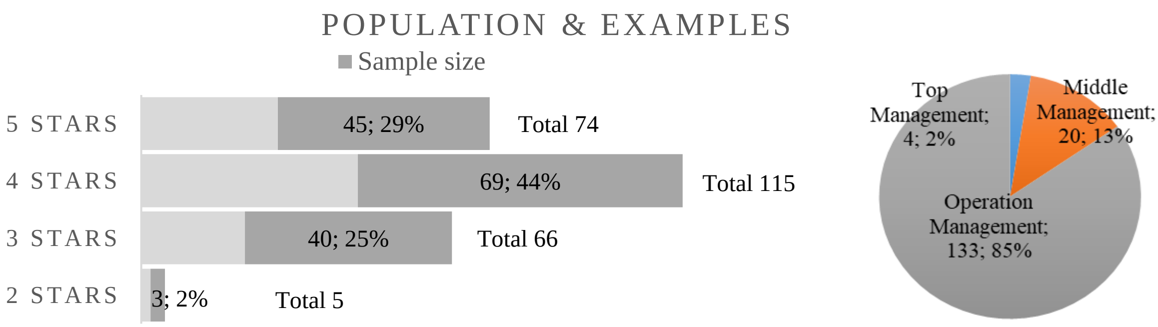

Figure 2 Population and Proportion Stratified Random Sampling Thai hotels certified for tourism accommodation standards

Figure 2 shows the samples of 157 accredited hotels selected. They were 45 five-star hotels (25%), 69 four-star hotels (44%), 40 three-star hotels (25%), and 5 two-star hotels (2%). The personnel were divided as follows: 133 executives (85%), 20 middle-level executive (13%), and 4 top-level executive (2%).

Data collection & Data analysis

Primary data were collected using a questionnaire with IOC (index of consistency > 0.7) and Cronbach's Alpha Coefficient of 0.775. The multidimensional constructs of enterprise risk management and business performance were measured using scales adapted from (Areiqat et al., 2020; Saeidi et al., 2019). SPSS V22 was used to analyze the gathered information. Frequency, percentage, mean, standard deviation, correlation analysis, and multiple regression analysis were utilized as statistical measures.

Research Result

The ospinions on risk management and performance can be shown in the table below.

Table 1 The average and standard deviation of the risk management and the firm performance

Variables	No	$\bar{X}$	SD.	Level
Risk Management				
1. Internal Environment (IE)	157	4.68	0.53	Very High
2. Objective Setting (OS)	157	4.64	0.56	Very High
3. Event Identification (EI)	157	4.67	0.51	Very High

Variables	No	$\bar{X}$	SD.	Level
4. Risk Assessment (RA)	157	4.56	0.69	Very High
5. Risk Response (RR)	157	4.64	0.64	Very High
6. Control Activities (CA)	157	4.63	0.58	Very High
7. Information and Communication (IC)	157	4.60	0.58	Very High
8. Monitoring (M)	157	4.64	0.60	Very High
Firm Performance (FP)				
Customer Perspective	157	4.79	0.42	Very High
Financial Perspective	157	4.67	0.58	Very High
Learning and Growth Perspectives	157	4.68	0.53	Very High
Internal Process Perspective	157	4.74	0.47	Very High

In Table 1, the opinions of the executives on the risk were found at a high level in all aspects as arranged in descending order: 1) internal environments, 2) event identification, 3) objective setting, 4) monitoring, 5) risk response, 6) control activities, 7) information and communication, and 8) risk assessments. The opinions on the performance were high in all aspects as shown in descending order: 1) customers, 2) internal process, 3) learning and development, and 4) finance.

Multiple Regression Analysis

An analysis of the correlation with risk management could be illustrated as follows.

Table 2 shows an analysis of the correlation between risk management and performance

	IE	OS	EI	RA	RR	CA	IAC	M
OS	.683**							
EI	.673**	.790**						
RA	.557**	.694**	.720**					
RR	.654**	.682**	.714**	.834**				
CA	.673**	.750**	.767**	.767**	.810**			
IAC	.643**	.751**	.719**	.722**	.713**	.824**		
M	.624**	.792**	.755**	.805**	.761**	.810**	.841**	
FP	.360**	.524**	.411**	.473**	.381**	.487**	.541**	.579**

** Statistically significant at 0.01

In Table 2, it was found that the risk management in all eight aspects was uni-directionally related to the performance results. VIF (variance inflation factor) was also found at a maximum of 5.479. Hence, it can be said that in the risk management in eight aspects, there was no multi-collinearity because VIF was less than 10 (Black & Babin, 2019).

Table 3 Multiple Regression Analysis

Variable	B	Beta	t	p. Value
Constant	2.817		10.197	0.000**
H1. Internal Environment (IE)	-0.006	-0.007	-0.073	0.942
H2. Objective Setting (OS)	0.188	0.244	1.92	0.049**
H3. Event Identification (EI)	-0.156	-0.185	-1.522	0.130
H4. Risk Assessment (RA)	0.101	0.163	1.196	0.233
H5. Risk Response (RR)	-0.189	-0.281	-2.038	0.043**
H6. Control Activities (CA)	0.070	0.095	0.655	0.513
H7. Information and Communication (IC)	0.126	0.169	1.245	0.215
H8. Monitoring (M)	0.280	0.394	2.611	0.010**

$F = 10.197$, $p = 0.000$, R Square = 0.385, Adjusted R Square = 0.352

*0.05 statistically significant at 0.05

Table 3 shows that risk management influenced the performance of accredited hotels. It was found that factors confirmed the positive relation and influence at a significance level of 5%. The monitoring effect was significant with hotel performance (B = 0.280, p-Value = 0.010**), and it confirmed hypothesis H8. Risk Response has significant impact on hotel performance (B = -0.189, p-Value = 0.043**) consequently the hypothesis H5 is accepted. Finally, Objective Setting has significant association with hotel performance (B = 0.188, p-Value = 0.049) thus, H2 is accepted. Event Identification was found to be negative, whereas risk assessment, control activities, and information and communication were found to have a positive relation. However, all of these relationships were found insignificant. Thus, the hypotheses H1, H3, H4, H6, and H7 were rejected.

Discussion and Conclusion

According to Oetzel and Miklian (2017), risk management must assess how the firm responds to the world's complex issues. In every respect, the opinions of hotel executives about risk management and hotel performance were found to be exceptionally high. The data contradicted the severity of the Covid-19 effect. Thus, the following possibilities existed: 1) Why did the management consider the risks minimal? Amirudin et al. (2017) answered the issue by describing the fundamental ways to manage the risks the company has encountered to minimize hazards and likely repercussions. 2) The majority of the participants were executives. Consequently, they had a global viewpoint. In this regard, Amirudin et al. (2017) asserted that the risks that could result in unintended outcomes were of numerous categories, including financial and non-financial risks, static and dynamic risks, arbitrage risks, primary risks, and particular risks. When assessing company risk issues, one must have more knowledge from a strategy department to comprehend and identify the internal and external risk coverage (Chaudhuri et al., 2018). By understanding and learning from the COVID-19 issue, corporate processes and confidence should be altered. As a result, the management, executives, and staff will have contingency plans to deal with potential threats (Lai & Wong, 2020).

Regarding the monitoring components of risk management that could affect the operation of the hotels, importance was given. This point suggested an appropriate and consistent monitoring and evaluation of the operation of the activities. Errors and troublesome issues had to be recognized and corrected to address the current crisis and other difficulties more effectively. Regarding the risks that can affect the Hotel's operations, more emphasis was placed on objective setting (OS). Employees were required to participate and embrace the aims. Everyone should share a shared objective. With the accepted objectives in place, a favorable outcome may be anticipated. Regarding risk management, Amirudin et al. (2017) observed that resort executives had to make decisions based on predetermined objectives, most of which addressed the business's survival and the reduction of risks.

Taking into account the risk response (RR) regarding the risk management that could impact the operation, the operation required the funds. Yet, the time and effort could be wasted if the response was insufficient and insufficiently detailed. Consequently, it may be required to enhance or discover an alternative option. When viewed from a global perspective, monitoring had a positive influence, objective setting had a good influence, and risk response had a negative influence. If a positive influence was identified, it indicated that the organization could perhaps survive the crisis. Amirudin et al. (2017) explained the risk management's receptive rather than active relationships. The operation needed to adapt to current and future situations. Notably, a plan had to be developed, and the organization's risk management had to be executed more consistently.

After a detailed examination of the risk management components, the factors having a positive impact were risk assessment, control activities, and information and communication. Also present, but without statistical significance, were negative characteristics such as event identification and internal environments. The finding supported the notion that organizations needed to be able to deal with more complicated issues to withstand the crisis (Prewett & Terry, 2018). The executives had to locate and analyze the risks using specialized techniques to identify the associated hazards. Added to these were the search for information, the evaluation of anticipated loss, the ranking of risks, and the procedures to eliminate the various hazards (Amirudin et al., 2017). COSO ERM was utilized. However, it was a minor component of the process. According to Oetzel and Miklian (2017), risk management would only be advantageous if there were an accurate assessment of the risks in various scenarios.

Research Implications

This research has numerous implications for philosophy and practice. First, the performance, strategy to deal with risks, and capacity to adapt were derived from the executives' ability to recognize and implement the plans through various metrics. Second, enhanced risk perception enables firms to adapt readily. However, it should be remembered that larger businesses may have more incredible difficulty changing than smaller ones (Abofaied, 2017). Lastly, risk management should be founded on: (1) the executives must be aware of the dangers they face to evaluate the relationship between risk management and the rewards they stand to achieve; and (2) there are no other methods or alternatives for mitigating or preventing the risks. This is because there were too many hazards to manage (Amirudin et al., 2017).

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