



Research note

Impacts of the entry of the Autonomous Republic of Crimea into the Russian Federation on its tourism industry: An exploratory study



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HIGHLIGHTS

- The impacts of Crimea's secession on its tourism industry are investigated.
- The sample includes 60 hotels and 31 travel agencies.
- Performance metrics deteriorated in 2014 compared to 2013.
- Hotels cut prices, travel agencies cut costs.

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ABSTRACT

In an unique political scenario, Crimea was integrated into the Russian Federation in 2014, making the legal, political, and economic environment in which the tourism and hospitality industries in Crimea very different from what it had been. In this research, we surveyed the managers of 60 hotels and 31 travel agencies in Crimea to learn about how their businesses were impacted by the Crimea's entry into the Russian Federation and how they have responded to the changes in the macroenvironment. The findings indicate that travel agencies and hoteliers have responded differently to the crisis and have very different concerns regarding the way in which this political event has impacted upon their industries.

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1. Introduction

After World War Two, the world witnessed many secession events – the Soviet Union broke down into 15 countries, Yugoslavia – into 7, Czechoslovakia, Yemen, Sudan, Ethiopia – into 2, etc. In all of these cases, one or more of the republics/provinces/territories constituting the country declared independence. However, the world also witnessed the unprecedented situation in which one province of a country declared independence and then joined another country – after the referendum on 16th March 2014 the

Autonomous Republic of Crimea left Ukraine and entered into the Russian Federation a few days later. The referendum and the subsequent entrance into the Russian Federation were largely considered illegal by Ukraine and the international community, while local residents and Russian citizens hailed them as the historical return of the peninsula to the motherland. As a result the EU, USA and other countries imposed various sanctions on citizens and companies from Crimea and Russia, which are still active as of today (September 2015). This research note aims at evaluating the impacts of this political event (the entry of the Autonomous Republic of Crimea into the Russian Federation) on Crimea's tourism industry. The legal issues of the referendum and its international recognition remain out of the scope of this research note.

Since the 2014 crisis in Crimea is rather recent, there is little

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academic literature on the topic and its impact upon the tourism and hospitality industry in Crimea. Much of the literature that is directly relevant to the crisis includes analyses in newspapers or magazines that look into the economic and other costs of the crisis. For example, the *Financial Times* (Alushta, 2014) and the *New York Times* (MacFarquhar, 2014) report on how the crisis has had a negative impact on tourist flows to the Crimea. While the popular media outlets have reported widely on the political, military, economic and human side of the conflict, there has still been some notice of the linkage of the continuing crisis with tourism.

Apart from the idiosyncratic aspects of the crisis, the crisis has some parallels with other situations in which there are significant political, economic, or natural occurrences that impact upon the tourism and hospitality industries. For example, Neumayer (2004) found that tourism arrivals suffer from a negative impact of many political factors (human rights violations, conflict, and other political/violent events) that many tourists would like to avoid. The findings may be somewhat intuitive (that tourists avoid unpleasant political situations/violence) and Llorca-Vivero (2008), looking at 134 destinations, largely verified what had been found by Neumayer (2004). There are also a number of publications that investigate the external shocks like terrorist attacks, the perceptions of political risk, or other political issues and their impact upon tourist flows and behaviour in a particular destination or in response to a particular political/terrorist event (see, for example, Aimable & Rosselló, 2009; Araña & León, 2008; Björk & Kauppinen-Räsänen, 2011; Causevic & Lynch, 2013; Ingram, Tabari, & Watthanakhomprathip, 2013; Larsen, Brun, Øgaard, & Selstad, 2011; de Sausmarez, 2013; Solarin, 2015; Wolff & Larsen, 2014). Most of these findings indicate that tourists are risk-averse, although Wolff and Larsen (2014) find that tourists in Norway see violent attacks as an anomaly that do not seem to have a substantial impact upon perceptions of the location as a tourist destination. In general, these events negatively influence the number of tourists and the performance of tourist companies in the destination. Moreover, Saha and Yap (2014) reveal that the effect of political instability on tourism is far more severe than the effects of one-off terrorist attacks and countries that experience high levels of political risk witness significant reductions in their tourism businesses. There is also a significant literature that deals with crisis management. Some of which looks at repairing or managing images of places tarnished by something that tourists will likely find unattractive (Avraham, 2015; de Sausmarez, 2013) or looking at national strategies to recover from economic shocks impacting upon tourism flows (Purwomarwanto & Ramachandran, 2015), while some looks at particular strategies that firms have during or following crises (Alegre & Sard, 2015; Jallat & Shultz, 2010).

In this research note, we look into how the Crimean crisis has made an impact upon the hospitality and tourism industry in Crimea, as previous research indicates that there is an impact upon tourist flows. This research also enables us to gain insight into how the industry reacts to radical changes in the inflow of tourists and in the political and economic macroenvironment it operates in.

2. Methodology

Data collection took place in February–April 2015 by distributing questionnaires to two respondent populations – hotels and travel agencies in the Autonomous Republic of Crimea. The authors contacted the statistical office of Autonomous Republic of Crimea (CrimeaStat) with a request to provide data about the number of hotels and travel agencies and other statistical data. The number of hotels in Crimea in 2014 was reported by CrimeaStat to be 194 accommodation establishments with 13,967 rooms. The database of the Unified Interdepartmental Statistical Information System of

the Russian Federation reported that the licenced travel agencies in Crimea for 2014 were 94 (UISIS, 2015). The authors developed a database with the contact details of 178 hotels and 120 travel agencies in Crimea, constituting the two sampling frames, through extensive internet search and utilising industry contracts. It should be noted that the authors identified more travel agencies than the number of agencies reported in the UISIS (2015), meaning that either the UISIS register was incomplete or that some of the agencies were working in the shadow economy. Unfortunately, CrimeaStat did not provide statistical data on the number and share of Russian tourists in Crimea before and after its entry into the Russian Federation. Furthermore, the Ukrainian statistical authorities (UrkStat) did not publish the breakdown of the number of tourists that visited Crimea by nationality when Crimea was still part of the Ukraine. That is why the authors were not able to determine the level of dependence of the peninsula on Russian tourist before and after its entry into the Russian Federation, which is a limitation of this research.

Two questionnaires were developed and sent to all hotels and travel agencies in the two respondent populations from the sampling frames. Of these, 60 and 31 questionnaires were returned completed by the hotels and the travel agencies, respectively, yielding a 33.71% response rate for the hotels and a 25.83% response rate for the travel agencies. The samples' characteristics are presented in Table 1.

The questionnaires consisted of several groups of questions. The first group measured the dynamics of selected operational statistics in 2014, when Crimea joined the Russian Federation, compared to 2013, when Crimea was still part of the Ukraine. The second and the third groups included questions related with the importance and the impact of various factors influencing the tourism business, resulting from the entry of the Autonomous Republic of Crimea into the Russian Federation. The fourth and the fifth groups evaluated the level of agreement with statements related to impacts of the entry on company's business and the ways to mitigate the negative consequences of the international sanctions on Crimea. The last question measured respondents' expectations about the duration of the sanctions.

Due to the small sample sizes (60 hotels and 31 travel agencies) and the results of the Kolmogorov–Smirnov z-test, showing that the distributions of the answers were statistically different from normal, the differences in respondents' opinions were analysed with non-parametric tests (Baggio & Klobas, 2011). In particular, the Kruskal–Wallis χ^2 test was used to identify the differences in the responses of hoteliers on the basis of the category, location and size of their properties. The Mann–Whitney U-test was adopted to identify the differences in the answers of travel agency managers on the basis of the licence type, main market segment and IATA certification of the agency. The Mann–Whitney U-test was also adopted to identify differences in the opinions of the hoteliers on the basis of the chain affiliation of the hotels, and between the responses of hoteliers and travel agency managers. A paired samples t-test was used to identify the differences in respondents' answers to some questions.

3. Discussion of findings

3.1. Hotels' perspective

Table 2 presents the responses of the hoteliers. Findings indicate that the hotels' performance in 2014 was worse than in 2013 (Section A in Table 2) – decreased number of tourists, rising total costs and employee costs, and shrinking revenues. This was expected, considering the loss of the Ukrainian market which was one of the main sources of tourists until 2013 and the international

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