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**Hotel Industry's Reactions to the Crimea Crisis**

Crimea was integrated into the Russian Federation in 2014. The annexation of Crimea was not simply a political event but also an economic event, as there were severe economic implications from the political situation. The political situation resulted in major changes for most businesses operating in Crimea, Ukraine, and Russia. To learn about how the tourism businesses reacted to the political shocks of the crisis, a survey of managers in the hotel and tourism industries was carried out in Crimea, Ukraine, and Russia. The results of the surveys illustrate a great deal about the ways that different types of businesses react to the political shock to their business environment, illustrating how the changes enabled entrepreneurs to react in ways to the new challenges and illustrating how different segments of the industries reacted differently to the political/economic changes.

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## **Introduction**

In the early 1990s, the Soviet Union dissolved, leaving behind a patchwork of ethnicities and peoples throughout the former Soviet Union that has made defining subsequent nation-state borders very difficult. For example, in the Baltic States, there are sizable Russian minorities that were moved to the area during the socialist period. The inclusion of sizable Russian minorities in independent Latvia, Lithuania, and Estonia has caused a number of political issues. The question of how to deal with the Russian minorities in the Baltics has led to problems with determination of citizenship, the funding of Russian-language schools, and other ethnicity-based issues (Best, 2013; Cheskin, 2014). One major event that stands out as problematic is the issue of the removal of a Soviet-era statue from the city centre of Tallinn in Estonia, during the Spring of 2007, as a provocation to the Russian minority. There were mass protests and riots that resulted from this (Myers, 2007). But nowhere has the issue of the ethnic problems following the aftermath of the Soviet Union been more pronounced than in Ukraine.

Apart from Russia, Ukraine is the republic with the highest concentration of Russian speakers of all the successor states of the Soviet Republics. The ethnic rift in Ukraine is very pronounced and splits the country into two different camps, one pro-Russian and one pro-Western (Huntington, 1996). In 2013, the division between the major ethnic groups in Ukraine developed into a violent clash. While the new republic in Ukraine had had political leadership that had vacillated between pro-Moscow and pro-Western political parties, in November 2013, major political changes took place that led to serious confrontations and changes that drew international attention to Ukraine. Pro-EU protests started leading to the resignation of a pro-Russian president and led to a new government. Following this, a referendum took place in Crimea, a region of Ukraine in which the Russian-minority is concentrated, voting to leave Ukraine. A few days later, the Autonomous Republic of Crimea left Ukraine and was accepted into the Russian Federation.

The entrance of the Republic of Crimea into Russia had two major political consequences. First was the demand of other regions of Ukraine in which substantial Russian minorities exist, (Donetsk and Lugansk), where other referenda were held, to declare independence from Ukraine (although these regions were not accepted into the Russian Federation). This led to sustained military clashes between various armed forces and militia that continues. Second were the international repercussions on Russia and businesses in

Crimea. Since the international community considered the referendum in Crimea and subsequent annexation of the Crimea as illegal, Western countries retaliated with sanctions against Russia and businesses in Crimea.

The purpose of this research is to learn about how the tourism and hospitality industries in Russia, Ukraine, and Crimea have reacted to the political and military shocks they have received in recent years. The shocks are somewhat different for each of these countries/territories. In Ukraine, the loss of territory and presence of military skirmishes make the situation somewhat different from that of the other countries, especially since the country did not get politically isolated from other countries due to the political events. In contrast, Russia has to deal with various sanctions that have imposed numerous economic costs on political choices, while Crimea as a traditional tourist destination struggles with the association of being in a political “crisis” while at the same time being folded into a country that is under sanctions. The impact of the Crimea crisis and the subsequent political instability in Ukraine and international sanctions on Russia on the hotel industries in Russia, Ukraine, and Crimea were elaborated in details in our previous publications (Ivanov, Idzhilova and Webster, 2016; Ivanov, Sypchenko and Webster, 2017; Ivanov, Gavrulina, Webster and Ralko, 2017). The aim of this paper is to compare the strategies used by hotel managers in each affected country to mitigate the negative consequences of the crisis.

### **Literature review**

There is substantial academic literature that deals with the relationship between political factors and the tourism and hospitality sectors of the economy, and specifically whether and how tourism leads to peace (Becken & Carmignani, 2016; Durko & Petrick, 2016). For example, two major edited works deal specifically with the complex relationship between tourism and peace building. Butler and Suntikul’s (2013) edited volume is composed of many chapters that deal with the complexities of the relationship between war and tourism. In a similar manner, Moufakkir and Kelly’s (2010) edited volume focussed upon the complexities of the relationship between tourism and peace. However, what is noteworthy in the literature on the relationships is the prevalence of liberal approaches to tourism.

Some academic literature has focussed upon the role of tourism in post-conflict environments as a catalyst to peace/peace-making (Anson, 1999; Askjellerud, 2003), working on the premise of the liberal principle—that tourism leads to contacts between peoples who may have reason to conflict and that the contacts lead to peaceful and cooperative interactions. This is a lively field in which tourism is seen as an active participant following

turmoil/violence (D'Amore, 1988, 2009; Khamouna & Zeiger, 1995; Levy & Hawkins, 2009). Webster and Ivanov (2014) find confirmation for this liberal approach, although certain specific political preconditions appear to be needed.

However, there is also a current of academic literature that looks into how political, economic, and social shocks impact upon the tourism and hospitality sectors. The best known and most cited is Neumayer's (2004) study that found that tourism arrivals drop due to a number of different factors that tourists generally find unattractive (human rights violations, conflict, and other political/violent events). In a similar vein, Llorca-Vivero (2008) confirmed in his investigation of over 130 tourist destinations that tourists generally tend to avoid unpleasant political and social realities.

A related literature focusses upon the impact of violence, with substantial empirical evidence supporting the notion that tourists avoid specific locations that are associated with violence such as political clashes or terrorist attacks (see, for example, Aimable and Rosselló, 2009; Araña and León, 2008; Björk and Kauppinen-Räsänen, 2011; Causevic and Lynch, 2013; Drakos and Kutan 2003; Feridun 2011; Ingram et al., 2013; Larsen et al., 2011; O'Connor et al 2008; Saha and Yap 2014; de Sausmarez, 2013; Solarin, 2015; Wolff and Larsen, 2014). What one can see is that it is not merely terrorist attacks that play a role in impacting upon tourism flows (see, for example, Clements and Georgiou, 1998) but also the threat of negative consequences. What is also interesting is that for some locations, terror may have a very miniscule impact upon tourism flows (Wolff & Larsen, 2014). A certain subset of those interested in violence have looked into how destinations (countries and destinations within countries) and firms manage in ways that react to political crises that may impact upon the economy (Ivanov et al., 2016; Jallat & Shultz, 2010; Purwomarwanto & Ramachandran, 2015). In terms of the Crimean crisis, this paper investigates how people within the tourism and hospitality industries have reacted in Ukraine, Crimea, and Russia to the political shock of the ongoing crisis that began in November 2013. While a great deal of attention is given to the impact of crises and shocks, there is a need to understand how these shocks are managed by the entrepreneurs who work within the business environment in which there is significant political and economic changes that are challenging.

## **Methodology**

Data collection took place in January-March 2015 by distributing questionnaires to hotels in Ukraine, Crimea and the rest of the Russian Federation. During the development of

the sampling frame the authors did not find any publicly available official nor comprehensive list of the hotels and their contact details neither in Ukraine, nor in the Russian Federation meaning that the authors had to develop their own databases with contact details of hotels in these countries. The authors successfully identified the contact details of 1001 hotels in Ukraine, 176 hotels in Crimea, and 1007 hotels in the rest of the Russian Federation. Emails were sent to the managers of the hotels (if their emails were provided on the websites of the hotels) or the general hotel emails (when only one email was provided). Several considerations need to be mentioned about the research sampling frames. First, the accommodation establishments in Ukraine, in the Autonomous Republic of Crimea and in the rest of the Russian Federation, formed three separate sampling frames and the respondents were approached with three separate but interconnected questionnaires. The accommodation establishments in Crimea were not included in the sampling frames for Ukraine or the Russian Federation because during the time of data collection the Autonomous Republic of Crimea was already admitted as a member of the Russian Federation but this political act was not recognised by the international community. Second, the sampling frame for Ukraine did not include accommodation establishments in the regions of Donetsk and Lugansk because, during the time of data collection, hotels in these two regions were closed, without electricity and water, some of them even destroyed. The two regions themselves were not accessible for tourists and were and still are under separatist control. Third, due to time and budgetary constraints and the high number of hotels, the sampling frame for the rest of the Russian Federation (i.e. the regions outside Crimea) did not cover the whole territory of the country, but it included only hotels located in the cities and resorts that concentrate much of the business/leisure tourism demand in the country and represent diverse geographical regions of Russia: Moscow (capital city), Saint Petersburg (second largest city in the country and former imperial capital), Sochi (Olympic city, popular tourist destination), Ekaterinburg, Voronezh, Novosibirsk (the largest city in Siberia), Kazan, Ufa, Nizhniy Novgorod (historical city), Adler and Anapa (popular seaside destination). The final sample included 102 hotels in Ukraine, 60 hotels in the Autonomous Republic of Crimea, and 103 hotels in the rest of the Russian Federation. The sample's characteristics are presented in Table 1.

**Table 1: Sample Characteristics**

Grouping criteria	Groups	Number of respondents		
		Ukraine	Crimea	Russia
<i>Category</i>	1 star	15	-	8
	2 stars	18	6	15
	3 stars	43	25	40
	4 stars	21	23	29
	5 stars	5	6	11
<i>Size</i>	Up to 50 rooms	70	28	42
	51-100 rooms	26	25	39
	101-150 rooms	4	5	14
	Over 150 rooms	2	2	8
<i>Chain affiliation</i>	Part of a chain	20	18	26
	Independent	82	42	77
<b>Total</b>		<b>102</b>	<b>60</b>	<b>103</b>

Each of the three questionnaires consisted of several groups of questions. The first group measured the dynamics of selected operational statistics in 2014, when the Autonomous Republic of Crimea joined the Russian Federation, military hostilities in the regions of Lugansk and Donetsk started and international sanctions were imposed on the Russian Federation, compared to 2013, when there were no such events. 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 political instability and were specific for each of the three populations and the results are reported in previous papers (Ivanov, Idzhilova and Webster, 2016; Ivanov, Sypchenko and Webster, 2017; Ivanov, Gavrulina, Webster and Ralko, 2017). The fourth group evaluated the strategies adopted by hoteliers to mitigate the negative consequences of the increased political instability in the external environment. The results of the Kolmogorov-Smirnov z-test showed that the distributions of the answers were statistically different from normal for all three respondent groups. That is why the differences in respondents' opinions were analysed with the non-parametric Kruskal-Wallis  $\chi^2$  test (Baggio and Klobas, 2011).

## **Discussion of findings**

### *Impact of political instability on the financial performance of the hotel industry*

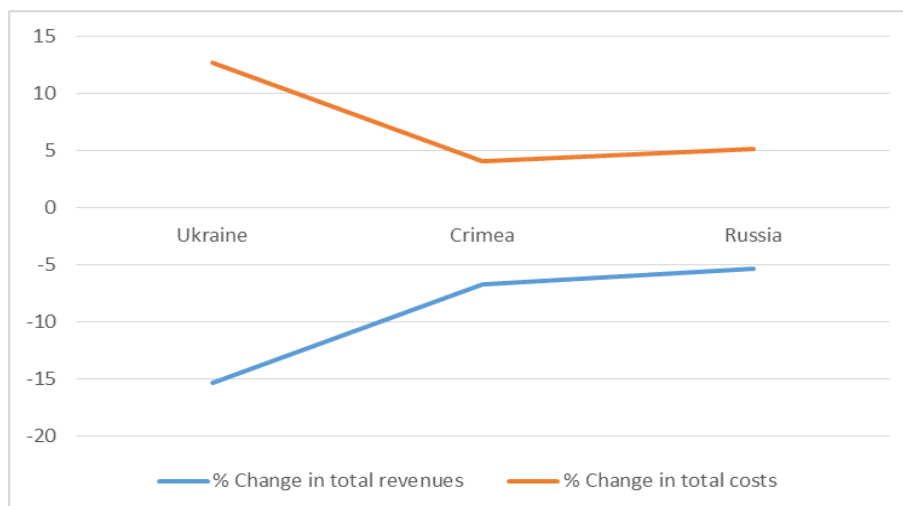
Research results reveal a very gloomy picture – plummeting revenues, rising costs, shrinking number of employees (see Table 2). However, the three groups of respondents were not equally affected by the political instability. Ukrainian hotels were more severely affected than hotels in the Autonomous Republic of Crimea and the rest of the Russian Federation –

their revenues dropped by -15.39% while revenues of hotels in Crimea and the rest of Russia decreased less (-6.69% and -5.29%, respectively) and this difference is statistically significant ( $\chi^2=41.034$ ,  $p<0.01$ ). At the same time the total costs of hotels in Ukraine surged by 12.75%, while the costs of accommodation establishments in Crimea and the rest of Russia increased less (4.08% and 5.19%, respectively) and this difference is statistically significant ( $\chi^2=46.589$ ,  $p<0.01$ ). Figure 1 illustrates the percentage change in the total revenues and the total costs for the three respondent groups.

**Table 2: Impact of the political instability on hotels' financial results**

	Mean (standard deviation)			Kruskal-Wallis $\chi^2$ test
	Ukraine	Crimea	Russia	
How did the average price per room per night change in 2014 compared to 2013 year?	-0.69 (11.081)	0.58 (7.652)	0.49 (12.036)	0.304
How did your total revenues change in 2014 compared to 2013?	-15.39 (11.447)	-6.69 (11.470)	-5.29 (11.394)	41.034***
How did your total costs change in 2014 compared to 2013?	12.75 (9.689)	4.08 (7.729)	5.19 (10.957)	46.589***
How did your total employee costs (salaries, social security payments, employee insurances etc.) change in 2014 compared to 2013?	2.55 (9.894)	3.42 (6.344)	0.63 (8.623)	4.546
How did the total number of your employees change in 2014 compared to 2013?	-1.99 (4.463)	-0.58 (2.272)	-3.13 (4.601)	12.401***

Notes: 1. Measurement scales: in percentage points. 2. \*\*\* Significant at 1% level.



**Figure 1: Percentage change of the total revenues and total costs in 2014 compared to 2013**



It is evident that the profit impact of the political instability was by far more severe in Ukraine than in Russia and Crimea. We attribute this outcome to several reasons. First, after the entry of the Autonomous Republic of Crimea into the Russian Federation, the Russian government started an active campaign to stimulate domestic tourism directed to the new province. Crimean hotels lost their Ukrainian and international guests but this was only partially compensated by the increase in the number of Russian tourists at some of them. In fact, hotels in Crimea reported that on average the number of guests from the Russian Federation decreased in 2014 compared to 2013 (Ivanov, Idzhilova and Webster, 2016). Therefore, the Russian government's strategy to stimulate tourism in Crimea was not very successful in the short-run. Second, the political turmoil in Ukraine, the loss of the Crimean peninsula and the military hostilities in the eastern regions of Lugansk and Donetsk, made the country less attractive to both international and domestic tourists. The country lost its major summer tourist destination (Crimea) which was a significant blow for its attractiveness as a destination. Moreover, the economic situation in Ukraine was far worse than in Russia thus affecting negatively the domestic tourism market. Third, although international sanctions were imposed on the Russian Federation, in 2014 the country had enough financial resources to invest into the successful integration of Crimea (e.g. construction of infrastructure and a bridge to connect the peninsula with the continental part of Russia), due to the high oil and natural gas prices. The latter have only recently dropped significantly hence putting financial strain on the federal budget of Russia.

*Strategies, adopted by hoteliers to mitigate the negative impacts of political instability*

Table 3 presents the strategies used by hoteliers in Ukraine, Crimea and the rest of the Russian Federation to mitigate the negative consequences of the political instability in the region.

**Table 3: Strategies to mitigate the negative impacts of the political instability**

	<u>Mean (standard deviation)</u>			<b>Kruskal-Wallis <math>\chi^2</math> test</b>
	<b>Ukraine</b>	<b>Crimea</b>	<b>Russia</b>	
Requiring more cash payments by guests than payments by bank or credit/debit card	2.42 (1.048)	3.29 (1.084)	3.18 (1.507)	24.916***
Requiring more payments in foreign currency (USD/GBP/EUR) than payments in local currency	2.16 (0.952)	3.83 (1.060)	3.01 (1.302)	66.342***
Working with fewer employees	2.80 (1.186)	3.38 (3.38)	3.06 (1.178)	8.739***
Paying later to suppliers	2.59 (1.146)	3.37 (1.073)	3.22 (1.163)	21.975***
Increased marketing efforts to attract more guests	4.13 (0.941)	3.28 (1.121)	3.51 (1.136)	28.491***
Decreasing prices	3.05 (1.197)	3.81 (1.152)	3.28 (1.097)	16.118***
Decreasing costs	3.68 (1.073)	2.93 (1.163)	3.52 (1.008)	18.274***

Notes: 1. Measurement scales: *level of agreement*: 1 – strongly disagree, 5 – strongly agree;  
 2. \*\*\* Significant at 1% level

It is interesting to note that, while the hoteliers in the three respondent groups faced similar challenges, they responded to them in quite different ways. For example, on the one hand, hoteliers in Crimea were more eager to cut prices ( $\chi^2=16.118$ ,  $p<0.01$ ), work with fewer employees ( $\chi^2=8.739$ ,  $p<0.01$ ) and require payments in foreign currency ( $\chi^2=66.342$ ,  $p<0.01$ ) than hoteliers in Ukraine and Russia. On the other hand, hoteliers in Crimea were least likely to cut costs ( $\chi^2=18.274$ ,  $p<0.01$ ) and increase their marketing efforts ( $\chi^2=28.491$ ,  $p<0.01$ ). Probably the low cost efficiency of hotels in Crimea could explain why they were more eager to decrease prices compared to the other respondent groups. The changes in the political status of the peninsula, the uncertain political environment and the international sanctions might be the reason why hoteliers in Crimea were more inclined to request payments in cash and in foreign currency than hoteliers in Ukraine and the rest of Russia. Furthermore, the active import substitution campaigns of the Russian federal authorities to stimulate domestic tourism demand decreased the incentives for the hoteliers in Crimea to invest in marketing. Ultimately, it seems that hoteliers in Crimea and the rest of the Russian Federation were more willing to be involved in the activities associated with the shadow economy (cash payments, payments in foreign currency) rather than hoteliers in the Ukraine which could signal greater maturity of the Ukrainian economic agents. One of the reasons could be the EU aspirations of Ukraine, resulting in the signing of the EU-Ukraine

Association Agreement in 2014 and the Deep and Comprehensive Free trade Area it regulates, thus aligning Ukrainian trade practices closer to the EU practices and laws. However, our data do not allow us to confirm or reject this conjecture. Future research needs to focus on the impact of the aligning of Ukrainian laws and business practices to the EU laws and practices on the general business environment in the country.

## **Conclusion**

### *Contribution*

This paper contributes to the advancement of knowledge by investigating the differential responses of hoteliers in Ukraine, Crimea and the rest of the Russian Federation to the political and economic instability, resulting from the entry of the Autonomous Republic of Crimea into the Russian Federation, and the military hostilities in the Eastern provinces of Ukraine and international sanctions on Russia. It builds on the findings in prior literature on the impact of the crisis on hotels in Ukraine, Crimea and the rest of the Russian Federation (Ivanov, Idzhilova and Webster, 2016; Ivanov, Sypchenko and Webster, 2017; Ivanov, Gavrilina, Webster and Ralko, 2017) by comparing the impact of the instability on financial performance of hotels and the strategies used by hoteliers to mitigate the negative impacts of the political and economic instability of the business environment. While it does not focus upon the changes in tourist flows, as much of the literature on the topic does (see for example; Aimable and Rosselló, 2009; Araña and León, 2008; Björk and Kauppinen-Räsänen, 2011; Llorca-Vivero 2008; Neumayer 2004), it contributes to the literature by focussing upon how managers react to deleterious changes in their operating environment.

### *Managerial and policy implications*

From a managerial perspective, the findings reveal that the respondents in the three groups had different preferences towards the approaches they used to mitigate the negative consequences of the instability. Ukrainian hoteliers were more likely to respond using increased marketing efforts, while hoteliers in Crimea and Russia were more inclined to adopt practices associated with hidden economic activities – cash payments and payments in foreign currency. While the adoption of cash payments were to be expected for the Autonomous Republic of Crimea after the credit card operators (e.g. Visa) stopped their operations on the territory of the peninsula in December 2014, this was not expected for the hotels from the rest of the Russian Federation. Therefore, tax authorities in the Russian

Federation need to pay more attention to some potential tax evasion by hoteliers in their country. Cultural issues could hardly be considered as factors influencing the different approaches adopted by hoteliers – Ukraine and Russia share common a religion, similar languages and common history. Nevertheless, hoteliers in these two countries reacted very differently to the external shocks. It seems the Ukrainian hoteliers prefer approaches that would make them more competitive on the market through the effective and efficient use of resources (cutting costs and increasing marketing efforts), while hoteliers in the Russian Federation probably relied more on government support, although they had not explicitly stated this.

The findings echo the general findings of Ivanov *et al.* (2016), in that they illustrate that managers react differently to deleterious changes in their operating environment based upon the different situations that they are in. While the findings may seem intuitive, they do illustrate quantitatively that different changes in the operating environment require different strategies in how managers react to the changes. This highlights the importance of entrepreneurship on the part of the managers, as they have to shift policies so that their firms may survive (or thrive) from the resulting conditions. The findings also illustrate that while the Crimean crisis is generally seen as a negative political happening by many, the negative economic aspects of the crises were not evenly experienced in Ukraine and Russia. Since the economic aspects of the crisis were not evenly experienced, it should be no surprise that the methods and entrepreneurship needed to either survive or thrive in the new operating environment would be different based upon where the hospitality enterprise does business.

#### *Limitations and future research*

The main limitation of this piece is the sample sizes. Despite the authors' efforts only 102 hoteliers in Ukraine and 103 in Russia (outside Crimea) completed the questionnaires which represent less than 2% of all accommodation establishments in these two countries. On the other hand, the sample with hoteliers from Crimea covered about one third of all accommodation establishments in the region, hence it can be considered as representative. Future research may use qualitative and mixed methods in order elicit richer data regarding the strategies used by the hoteliers. Furthermore, research may focus on other tourist companies like travel agencies, airlines, destination management organisations and other tourism stakeholders. What future research will likely find is that even different businesses in the same sector may react differently to changes in their economic operating environments, since different firms even within the same subsector of the economy are different (affiliated

with chains, size, and location). So it remains to be more fully studied which dimensions of hotels and travel firms enable them to better survive negative changes in their operating environments. Finally, future research may shed light in other factors that influence the political environment in the region like Ukraine's association agreement with the EU. Research may also focus on other political crises like the refugee crisis, Brexit and others.

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