

Exploring the Impact and Survival Strategies of COVID-19 Pandemic: A Conceptual Study on Independent Hotels in Kota Kinabalu, Sabah

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Abstract: Covid-19 had a devastating effect and hugely impacted the entire global economy, particularly in the hospitality business. The accommodation sector is one of the hardest hit, especially the smaller tourism businesses like independent hotels. In line with this, this conceptual paper aims to study how Covid-19 impacted independent hotels and how these hotels respond to the pandemic's effect and remain viable in a competitive market. Given their limited ownership structure and absence of a distinct brand identity compared to chain hotels, these hotels are often short on resources and have trouble adapting their operations to crises such as Covid-19. Thus, this research is an early attempt to explore the strategies and practices adopted by the independent hotels that managed to survive during this troubled period. This study will also explore the implications of the applied strategies and practices during the various movement restriction control orders. The outcomes of this prospective study should aid independent hotels in regaining revenue following a pandemic and dealing with future pandemic scenarios. It will also be valuable to the government and other relevant agencies that support the tourism and hotel industry's growth and sustainability.

Keywords: Impact, Survival Strategies, Covid-19, Independent Hotels, Sabah

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Introduction

On December 31, 2019, the World Health Organization (WHO) office in China received the first report of a Coronavirus case. A study by Huang, Wang and Li (2020) stated that during the first week of January 2020, it was reported that there were more than 40 individuals in China who were hospitalized after being diagnosed with coronavirus infection. Due to the rapid spread of the new virus, the entire city of Wuhan was placed on lockdown, with mandatory quarantine procedures for all residents, and this number escalated quickly to more than 80,000 by the middle of February (European Centre for Disease Prevention and Control 2020) and by the middle of June 2020, a total of 7.69 million cases were reported with 428,000 number of deaths in 200 countries (Worldometer, 2021).

Travel restrictions and country lockdowns have been widely established in most countries due to the clearly possibly catastrophic global ramifications of Covid-19. In the wake of this, the global tourism industry has experienced a significant decline. In 2019, the tourism sector becoming the country's second-highest foreign exchange earner contributed 5.9 per cent to Malaysia's gross domestic product (GDP) with a total of RM86.14 billion in tourist earnings (Tourism Malaysia, 2020). Besides contributing to the GDP, this industry is also known as Malaysia's most important sector for employment, with a total number of 3.46 million people in the workforce, as the tourism industry is a highly labour-intensive sector. However, the success of this sector crumbled in 2020 when COVID-19, the highly infectious novel coronavirus, suddenly disrupted people and places on a global

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scale. The number of international tourists visiting Malaysia in 2020 plummeted by 83.4 per cent compared to the previous year. The decrease in tourist arrivals has a significant effect on the hotel industry, affecting average occupancy rates (AOR), the average length of stay (ALOS) together with the rooms revenue per available room (RevPAR) and these are not expected to recover until 2023 (International Monetary Fund, 2020).

In Malaysia, according to My Tourism Data (2020), the AOR of Malaysian hotels with star classification declined by 28.8 per cent in just half a year, and the ALOS of hotels decreased by 1.9 nights in 2020 compared to the previous year, which proved that tourism is one of the hardest-hit and lies among the damaged global industries. The repercussions have been disastrous, and no industry has been affected harder than tourism and hospitality (Dube, Nhamo & Chikodzi, 2021; Nicola et al., 2020). Not only in Malaysia but this lower tourism rate resulting from the closing down of hotels has also impacted other countries too, such as the US, Russia and Brazil, where the largest coronavirus infection case was reported (Gössling, Scott & Hall, 2020; Worldometer, 2021) and a severe measure to travel restriction were imposed to certain countries such as Germany and Greece (Worldometer, 2021).

As for the current study context, Malaysia's hotel occupancy rates have been dramatically affected since the Malaysian government imposed travel restrictions shortly after the first case was discovered in the country, which was imported cases, confirmed on January 25, 2020. In February 2020, the second outbreak wave took place, affected by the close contacts of confirmed cases who attended meetings and events together (Hashim *et al.*, 2020). In relation to the highest number of cases, several areas that reported highly concentrated cases had been placed under enhanced Movement Control Order (EMCO) to contain the local transmission rates (MOH, 2020).

The MCO significantly influenced Malaysia's hotel industry, as hotels were one of the industries that required temporary closure due to the MCO. Hotels in Malaysia began to lose revenue on January 26, 2020, before the MCO and shortly after China banned its citizens from travelling to Malaysia, as Malaysia's tourism sector highly depends on China tourist market (Malaysian Association of Hotels, 2020). A total of 95,972 room cancellations with a loss of revenues of RM40 million was recorded on February 9, 2020 (Malaysia Association of Hotels, 2020). In addition, The Visit Malaysia Year 2020 (VMY2020) campaign was cancelled, and all activities of the tourism licensing division were stopped during MCO (Rahim, 2020). Furthermore, the hotel industry is faced with not only cancellations of rooms and events but also cancellations of food and beverage orders due to the stringent restrictions on eating activities. As a result of the company's poor performance, management was compelled to lay off employees or implement a wage decrease, which was ultimately effective (Karim *et al.*, 2020).

After the virus's transmission slowed down, the Conditional Movement Control Order (CMCO) was announced on May 4 (Palansamy, 2020). CMCO's principal goal was to reopen the national economy in a controlled manner while easing some of MCO's controls. Although some states were placed under the Enhanced MCO due to an increase in COVID-19-positive cases, others were placed under the Recovery Movement Control Order (RMCO) on June 10 2020 (Povera & Chan, 2020). Following the RMCO implementation, interstate travel is permitted, which gave the hotel industry a breathing space with the staycation business.

Staycation became a trend among the local citizens with the support of domestic tourism from the government. According to the Malaysian Association of Hotels (2020), there is a privilege for Malaysians who spend in registered hotels for the years 2020 and 2021 to enjoy personal income tax relief. Besides that, many hotels boosted their room sales by enhancing the staycation package with fun sports activities for the adults and learning through playing activities for the kids. Some of the states experienced high average occupancy for July after the enforcement of RMCO. However, after introducing a second MCO in a few states, the COVID-19 pandemic rocked the hotel business again. The state election in Sabah on September 26 was one of the causes of the epidemic. Melaka, Johor, Penang, and Selangor were among the five states to re-enter the MCO phase, in addition to Sabah (The Straits Times, 2021). Malaysian Association of Hotels (2021) recorded a drastic drop to below 20% of the occupancy rates in the hotels located within these states. Hence, the present study aims to provide evidence on how hotels, specifically independent hotels in Kota Kinabalu, survived during the pandemic while at the same time slowly recovering while authorities have started to ease the restriction.

Problem Statement

There has been an increase in research on the Covid-19 impacts towards the hotel industry and hotels' strategies for surviving the crisis while striving to keep their operations running. However, the focus of research so far has been on chain hotels (Filimonau, Derqui & Matute, 2020, Hao, Xiao & Chon, 2020, Jiang & Wen, 2020), Although independent hotels were also affected by the epidemic (Piga *et al.*, 2021), they believed in smaller cushions to assist escape tragedy (Regiotels, 2022). The chain-affiliated hotels are equipped with impressive and solid global distribution networks and sales and marketing activities (O'Neill & Carlbak, 2011). During the pandemic period, the franchisees were given few discounts as aids to maintain their business continuity.

For instance, the management and franchise fees were reduced, system and marketing fees were waived, and the sanitation and prevention materials were discounted (Zhang, Xu & Cui, 2020). In contrast, independent hotels usually lack sufficient resources due to a small ownership structure and no brand affiliation (O'Neill & Carlbak, 2011). Hence, the above discussion entails that independent hotels often lack resources to sustain their business, especially during the pandemic.

Purpose of Research and Research Questions

The conceptual paper is intended to investigate the strategies and practices employed by the independent hotels in Sabah dealing with the pandemic's impacts. As such, the research questions that will be addressed are:

1. How does the crisis of COVID-10 impact the independent hotels in Kota Kinabalu, Sabah?
2. What strategies and practices are implemented by independent hotels when dealing with the pandemic?

Literature Review

The Hotel Ownership and Affiliation

Many discussions have been over brand affiliation and independent hotels (O'Neill & Carlbak, 2011; Chen & Dimou, 2005; Alon, Ni & Wan, 2012; Borges & Gustavo, 2015). Branded or chain hotels are usually the market dominant as they have high accessibility to coordinate physical, human capital, and organizational resources (Bartlett & Ghoshal, 2002). These three resources act as forces to carry out business strategies effectively (Barney, 1991). Furthermore, branded or chain hotels can influence the market rapidly as they have strong and developed central reservation systems, loyalty programs, sales and marketing programs, and effective communication channels (O'Neill & Carlbak, 2011; Enz, 2009).

In contrast, an independent hotel is a business operation that is not affiliated with any international brands in ownership or management. The owner is usually in charge, with fewer formalized corporate policies or procedures. On the other hand, this sort of corporate structure allows the owner to conduct their company in a unique and different way (O'Neill & Carlbak, 2011). Independent hotels can more quickly alter and adapt to changes due to their freedom in managing their businesses (Borges & Gustavo, 2015).

Although independent hotels faced lower occupancy levels and net operating income (NOI) during the economic recession than branded or chain hotels, according to O'Neill & Carlbak's (2011) analysis. Nonetheless, the independent hotels achieved better average daily rates (ADR) and rooms revenue per available room (RevPAR) as they are not tied to a system or tools that allow them to adjust their pricing strategies in response to changing market demand in a short period.

The Covid-19 pandemic caused luxury and independent hotels to suffer the most from the negative impacts (Hao *et al.*, 2020). However, most studies were mainly focusing on how the branded or chain hotels trying to survive during this challenging time with their strategies and practices (Hao *et al.*, 2020; Rodríguez-Antón & Alonso-Almeida, 2020; Kaushal & Srivastava, 2021; Smart *et al.*, 2021; Loi, Lei & Lourenco, 2021). During

the pandemic, independent hotels could not compete with the major market players, which in the case of the hotel industry were branded or chain hotels (GlobalData, 2021). As a result, this conceptual paper aims to look at the independent hotels that have managed to stay afloat during the crisis. This is to investigate the strategies and practices they used to stay in business during the pandemic until the study's data-gathering period ended.

Crisis Literacy

A company's incapacity or failure to apply its management strategies or procedures to respond to changes in an event causes a crisis (Faulkner, 2001). According to this researcher, disaster is a situation in which a corporation is presented with a sudden and unanticipated incident over which they have little control. Other researchers, on the other hand, have applied crisis and disaster simultaneously. According to Coombs (2014), a crisis is an unforeseeable event involving economic, health, safety and environmental issues that jeopardize the expectations of shareholders and stakeholders in a business. Pelling (2013) backs this up by arguing that crises and disasters can be linked; for example, natural disasters are also humanitarian disasters with natural triggers.

Impacts of Health-related Crisis on the Hotel Industry

Diseases, earthquakes, tsunamis, floods, typhoons and biosecurity are all threats to the hospitality and tourism business (Ritchie, 2008). Foot and Mouse disease, Severe Acute Respiratory Syndrome (SARS) and Avian Flu were just a few of the unforgettable health-related crises that hit the hotel and tourism industry in recent years (Baxter & Bowen, 2004; Chien & Law, 2003; Page, Yeoman, Munro, Connell & Walker, 2006).

In March 2003, the hotel industry in Hong Kong was severely affected by the SARS disease, followed by an outbreak in one of the hotels (Hung, 2003; McKercher & Chon, 2004). In just two months, the hotel's average occupancy rates dropped to 10 per cent, compared to an average of 86 per cent (Chien & Law, 2003). Hotels took initiatives to reduce operating costs, including forced pay cuts and no-pay leave. In just one month, 3199 Hong Kong residents filed for personal bankruptcy due to these actions (Chien & Law, 2003).

In comparison to manufacturing-based economies, countries that rely heavily on tourism have seen a more significant influence on the SARS disease (Chien & Law, 2003). Aside from Hong Kong, hotels in Taiwan saw their monthly earnings drop by 49.81 per cent to -11.14 per cent (Chen, Jang & Kim, 2007). According to these researchers, the SARS outbreak impacted various parts of the tourism industry, including restaurants, travel agencies and car rental companies, resulting in negative stock market returns.

Covid-19, a virus similar to SARS, has plagued the world, causing chaos in global economic and safety systems (Chowdhury, Sarkar, Paul & Moktadir, 2020). Due to the rising number of deaths, governments around the world have little choice but to lock their borders and implement travel restrictions, which has halted international travel activities (Farmaki, Miguel, Drotarova, Aleksić, Časni & Efthymiadou, 2020). Unsurprisingly, the reduced occupancy rates and hotel revenues have become major issues for the hotel business worldwide (García-Gómez *et al.*, 2021).

China's hotel occupancy rates decreased by eight per cent due to being the first country to experience the pandemic (Hao *et al.*, 2020). Furthermore, between January and February 2020, 74.29 per cent of hotels shuttered, resulting in a massive loss of 67 billion Yuan (China Hospitality Association, 2020). Other nations had similar declines in hotel revenues; for instance, Macau's average hotel occupancy rate fell by 78.6 per cent (Macao Statistics and Census Department, 2020), while Spain saw a significant drop in international tourists (Rodríguez-Antón & Alonso-Almeida, 2020).

Covid-19 impacts has a significant impact on the industry's unemployment rates. In India, it is anticipated that 38 million jobs could be lost (Kaushal & Srivastava, 2021). More than 1.5 billion students have been prevented from attending physical lessons due to the pandemic (UNESCO, 2020). The impact of the pandemic is undeniably significant because hotel and tourism education heavily relies on practical sessions (Kaushal &

Srivastava, 2021). The studies above primarily focused on branded or luxury chain hotels; however, research on the pandemic's impact on independent hotels is still lacking in the context of Sabah, Malaysia. Thus,

Research Objective 1: To identify the impacts of the Covid-19 pandemic on the independent hotels in Kota Kinabalu, Sabah.

The Closure of Hotels

The Covid-19 pandemic has been circulating worldwide since 2020 and is still ongoing with many uncertainties. As a result, many hotels will have to accept their fate and close their doors. Due to the pandemic, Plenitude Berhad, a publicly traded firm with core interests in property investment and hospitality, has announced the closure of its two hotels in Penang and one in Ipoh due to the pandemic (The Star, 2020).

The Chaos Theory

The global tourism and hospitality business has faced numerous crises in recent years. A few researchers have followed Faulkner's (2001) disaster management framework to study health-related crises. For example, Miller & Ritchie (2003) adopted Faulkner's (2001) disaster management framework to research food and mouth disease, focusing on how the impacts were managed at various phases. Ritchie (2004) used the same framework but emphasized the importance of considering the change and chaos that each crisis brings. As Speakman & Sharpley (2012) point out, the prescriptive framework from prediction through post-crisis recovery as a universally applicable response to crises is unlikely to consider the variances of the crises' scale, intensity, magnitude and impacts. Alternative tactics must be developed to rapidly make successful decisions when dealing with crises (Ritchie, 2004). Because the magnitude and intensity of crises can vary depending on the time constraint, the organization must be flexible and monitor the situation constantly to deal with the shift and chaos (Ritchie, 2004).

The Covid-19 Management Framework

Hao *et al.* (2020) proposed a COVID-19 management framework based on the historical experience of Chinese hotels during the SARS outbreak. This framework adopted the disaster management framework's six phases (pre-event, prodromal, emergency, intermediate, long-term recovery and resolution) by Faulkner (2001) and then applied the principles and strategies based on the present pandemic.

The four principles of this Covid-19 management framework by Hao *et al.* (2020) include disaster assessment, ensuring the safety of their employees, customers and property, self-saving mode and activating and revitalizing the business. According to these researchers, hotels should plan for various crises and change their strategies during the pre-event and prodromal phases. The hotels must first safeguard the safety of all their employees, customers, and property in the following emergency phase. Self-saving mode is necessary during the intermediate phase when the pandemic has begun to slow down. While in the final phases of long-term recovery and resolution, business activation and revitalizing strategies methods are essential.

Labor cost reduction is the most prevalent anti-pandemic strategy utilized to maintain operations during the pandemic (Loi *et al.*, 2021; Hao *et al.*, 2020). Multitasking is an emerging trend to improve cost-effectiveness by reducing employee redundancy and retaining employees in the long run (Kaushal & Srivastava, 2021). It assists hotel businesses by increasing work flexibility and optimizing human resource allocation (Hao *et al.*, 2020).

Some hotels provided enhanced service provisions as part of their initiatives to regain consumers' trust in hotels (Hao *et al.*, 2020). Customers received privileges such as free cancellation service, rebooking assistance, and loyalty program membership. Some hotels have implemented technology solutions such as self-check-in,

robotic room service, and zero-second check-out processes to provide worry-free service to their guests (Hao *et al.*, 2020; Smart *et al.*, 2021).

In a similar vein to how anti-pandemic strategies are primarily investigated through branded or luxury chain hotels and by taking into account the chaotic change of each crisis, it is crucial to focus on the independent hotel setting while dealing with Covid-19. Therefore,

Research Objective 2: To identify the strategies and practices implemented by independent hotels in their business operation during the Covid-19 pandemic.

Conceptual Framework Development

This conceptual paper attempts to investigate the strategies and practices used by independent hotels that have remained open throughout the pandemic until the data collection period for this study on their struggle to stay afloat. The research was based on various earlier studies conducted by different authors. The conceptual framework depicted in figure 1 is based on a combination of studies by Lo, Cheung & Law (2006Te); Kim, Chun & Lee (2005); Tew, Lu, Tolomiczenko & Gellatly (2008); Hao *et al.* (2020); Rodríguez-Antón & Alonso-Almeida (2020); Wut, Xu & Wong, 2021); Loi *et al.* (2021); Kaushal & Srivastava (2021); Smart *et al.* (2021). Those studies provide the strategies, implementation and practices during the pandemic, which consist of effective cost-saving, creative marketing programs, innovative communication plans, strict Covid-19 SOP, an improvement on service provisions, and seek for government and other authorities support. This study will collect suggestions from independent hotels for possible strategies and practices for future business recovery planning.

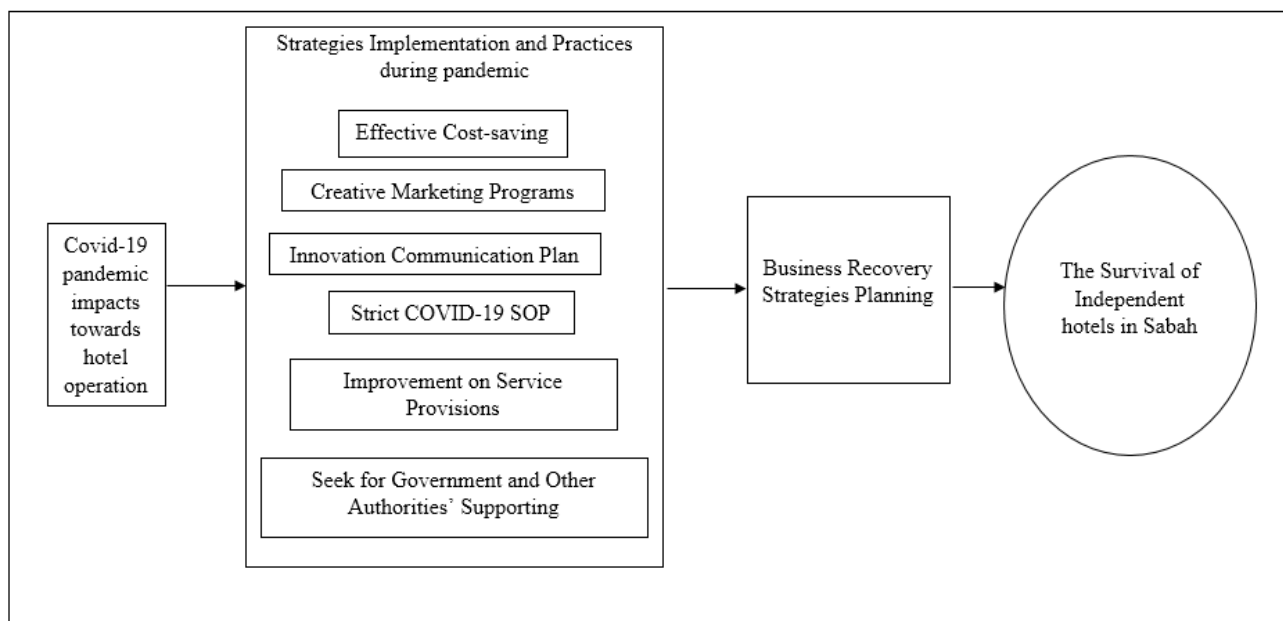


Figure 1: Proposed Conceptual Framework

Research Methodology

The present study uses an interpretive paradigm to explore distinct subjective opinions and socially constructed interpretations regarding a phenomenon, in this case, the Covid-19 pandemic (Denzin & Lincoln, 2000). This study aims to determine how independent hotels dealt with the pandemic's effect and managed to

survive. The study's research methodology is to collect data from independent hotels in Kota Kinabalu, Sabah, utilising a qualitative approach as a research design.

To learn more about the study, a semi-structured interview will be conducted. Purposive sampling will be employed to identify the best respondents for the interview to ensure they can answer the study's objectives. The respondents will be selected from independent hotels and must have five years of working experience. Aside from that, the chosen respondents must be personally involved in managing the hotel operations throughout the pandemic. The interviews will be conducted face-to-face or via video, per the social distancing regulations.

The sample size will be determined using data saturation. Data saturation is a method for analysing a sample until no new information is discovered (Patton, 2014). As a result, interviews with independent hotels will be done to collect data for this current study until no new information is uncovered from the interview participants, signalling that data collection may be ended.

Significance of the Research

The conceptual paper is significant as it will provide essential information to the owners or founders of independent hotels and the other hotel practitioners to assist them in dealing with the pandemic's effects. The study will also look into relevant suggestions from the interviewed independent hotels on business recovery strategies planning during a health-related crisis. Data from this study will be collected from independent hotels that operated before and during the pandemic. Therefore, the collected suggestions may benefit those independent hotels as guidelines to promote business recovery development and sustainability. This study is also relevant to the respective authorities, such as the Malaysia Association of Hotels and Tourism Malaysia, who design support mechanisms and schemes to assist the hotel and tourism industry during the crisis. Last but not least, this conceptual paper can contribute as a literature for scholars to reference.

The future findings provide a gateway to study the strategies and practices employed by independent hotels in Sabah, Malaysia, to sustain during the pandemic. In order to move on with the empirical research, a broader range of literature must be examined to gain insightful knowledge. Although this is a conceptual paper, it is envisaged that the work will help contribute literature for scholarly reference and have a substantial impact on the owners and related authorities after the research is completed.

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