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## Business resilience: A study of Auckland hospitality sector

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### Abstract

Businesses in the hospitality sector play an important role in the New Zealand economy. As most businesses in this sector are of small size and subject to external disruptions, being resilient is crucial for their coping and survival during a time of crisis. This research aims to measure the resilience of hospitality businesses in the largest city Auckland. A triangulation approach was adopted, including a questionnaire survey and face-to-face interviews. It was found that the key resilience attributes for the studied businesses include: leadership and management, core competence of staff, market sensitivity, situational awareness and having preparedness plans. Resilience was viewed by these businesses as being able to stay viable and withstand the expected fluctuations such as low-demand seasons and unexpected financial issues. However, amongst the surveyed businesses, there is a lack of planning for unexpected events such as large scale disasters, an issue which needs to be brought forward along with the formulation of disaster risk reduction plans.

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### 1. Introduction

Organisational resilience has been defined as the ability to survive a crisis as well as thrive through effective planning and adaptive capability by developing innovative solutions [1, 2]. In the context of New Zealand, events

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such as the 1998 Auckland Central Business District (CBD) power outage [3] and the more recent 2011 Christchurch earthquakes [4] have brought the issue of business resilience to the forefront. Due to the unexpected nature of high impact disasters and the difficulty in quantitatively defining and measuring resilience, investment into developing resilience plans can be difficult to support. For businesses, the full impact of a disaster is often only appreciated in hindsight but a forward thinking approach needed to be applied to mitigate potential damages [5].

Resilient Organisations (ResOrgs) is a Canterbury-based research and consulting group who offer resilience benchmarking tools in order to address its importance following the Christchurch earthquakes. By incorporating the ResOrgs' business benchmarking tool, researchers in this study developed a questionnaire survey for assessing the level of resilience in Auckland businesses. Auckland, as the New Zealand's largest city, contributes 36.6% of the country's GDP [6]. Any major crisis that could incapacitate Auckland businesses would have ripple effects on a national scale.

In particular, small-to-medium enterprises (SMEs) in the Auckland's hospitality sector were chosen due to the large number of businesses within the sector and their particular issues such as high staff turnover and fluctuating seasonal demands. SMEs are defined as businesses with less than twenty full time employees and make up 97% of all businesses within New Zealand, contributing 26% of the national GDP [7]. Within the hospitality sector, SMEs represent 92% of all establishments and employ 47% of all staff in the industry [8].

Against this backdrop, this research aims to:

- Investigate how businesses in hospitality sector understand the concept of resilience;
- Identify the resilience indicators that are most relevant to SMEs in the hospitality sector; and
- Explore the means of risk mitigation and business preparedness that will enhance their resilience

## 2. Literature review

A review of previous literature was undertaken in order to identify what attributes of a business were most important in building resilience. From studies on various businesses across different industries, common indicators were identified and summarised in Table 1.

Table 1. Summary of business resilience indicators

Indicator	Description
Leadership & Management	Able to make critical decisions on how businesses should be operated
Situational Awareness	Having knowledge of internal and external environments
Network Robustness	Having an effective network of physical and social capitals
Planning and Preparedness	Having infrastructure to mitigate changes
Adaptive Ability	Having dynamic capacity to respond to changes
Market Sensitivity	Being tuned to market changes
Innovation and Diversification	Able to create additional revenue sources
Access to External Resources	Having access to additional aids from third parties.
Ability to Leverage Knowledge and Information	Being aware of and able to access available aids such as government funding
Compliance & Regulations	Operating the business in accordance to rules and regulations
Reflective Business Model	Self-monitoring performance for future decisions on business operation
Core Competence of Staff	Having core competent staff members

Leadership within a business requires managers to be aware of the state of their organisation and be able to identify any weaknesses that may lead to significant issues. In comparison to larger and more established

companies, SMEs have less experience and capital for investing into resilience planning [9]. Coupled with low staff numbers, it results in the higher vulnerability meaning that those in managerial positions have greater responsibility in deciding the direction of the business.

Furthermore, situational awareness plays an important role in the survival of an organisation. It was found that for instance, a large number of businesses in Christchurch following the 2010/11 Canterbury earthquakes were unaware of the term “organisational resilience” [9]. However, resilience is dependent on business owner’s perception and their understanding of how the state of the economy affects the sector [10]. As part of a forward looking approach, expecting the unexpected is a major key in resilience planning. Particularly for the hospitality sector, the “*small size, low level of market diversification and higher than average failure rates*” [11, p99] make the sector more vulnerable to major disasters which are not frequent enough to warrant the implementation of preparedness plans.

Resilience involves both mitigating these effects but also adapting to changes by developing flexible and innovative solutions [2, p121]. The ability to quickly make changes to business operations can be the differentiating factor across those affected by a crisis. For the hospitality industry especially, having an adequate supply of goods and services is crucial for the business’s performance. Having a range of supply options for operations creates several pathways for revenue, preventing a total halt if supplies that are necessary for particular processes become extremely scarce. In addition to physical stock, social capital is also important and comprises of networks within the community, with the intention that strong community values have the potential to outweigh the consequences of disaster [11].

Market sensitivity depends on how the future of the economy is perceived as well as how commodity pricing affects the market [12]. Alongside economic factors, awareness of current trends is also necessary in order to maintain and develop customer base. These include sourcing local, environment-friendly and healthy products [13] in order to target niches and capture a larger market share. However, diversification may be more suited to larger businesses with a variety of offerings, as many hospitality businesses are purely focused on providing food and beverage. The ability to create opportunity through innovation presents a step beyond usual business continuity. It not only focuses on restoration of business-as-usual capacity but also adapts to thrive under different circumstances.

It is crucial that SMEs also know where to obtain additional financial aid from external sources as they are likely to face cash flow issue in a disruptive crisis. Business interruption insurance can be a good option for SMEs as it covers the loss of gross profit caused by property damage to allow business-as-usual activity to resume. These resources are important in allowing businesses to quickly recover after a disaster. Following the 2010/11 Canterbury earthquakes, the NZ Government introduced the Earthquake Support Subsidy and Earthquake Job Loss Cover in an effort to reduce the strain on businesses. These plans gave businesses the opportunity to recover by providing a salary of \$500 gross per week for each full time employee for up to six weeks [14]. Knowledge of these schemes provides a significant amount of aid in recovering after a disaster. Even during normal business times, being able to make use of information such as market trends or events that may affect sales can provide an advantage over competing businesses.

Due to the nature of the hospitality sector, especially due to alcohol sales and hygiene standards, complying with local and national law is necessary for a business to function. For example, the Food Act was passed in 2014 with enforcement starting in March 2016. It introduced the implementation of Food Control Plans (FCPs) which required businesses to “*identify, control, manage and eliminate or minimise hazards*” [15, p62] in order to increase food safety. Businesses then had to pass new hygiene standards with the graded outcome in the public view. Thus, complying with law is not only necessary to operate but also affects public perception on the standard of the business.

Being able to monitor progress allows business owners to make decisions for the future as well as keeping track of current progress and milestones. This provides a platform to identify and make changes when necessary. For SMEs, the low number of staff increases the importance of each member’s contributions to resilience. A culture that emphasises the importance of teamwork alongside individual performance creates a larger pool of knowledge that can help to alleviate pressures on individuals [16]. Therefore, staff that are capable and committed to their place of employment provide a direct contribution to the business’s resilience.

### 3. Methodology

The study used a triangulation-based approach, combining both quantitative and qualitative methods alongside the literature review. The quantitative data was collected via questionnaires that were personally distributed to sampled businesses between June and July 2016. Qualitative data was obtained from follow-up face-to-face interviews in August 2016. The information from interviews was used to confirm trends present in the questionnaire results as well as provide further validity and elaboration.

#### 3.1. Questionnaire Structure

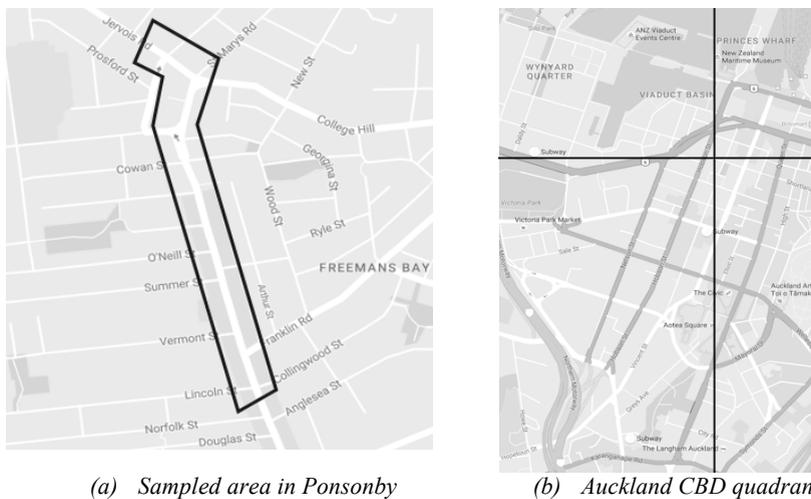
The questionnaire aimed to profile each business (e.g. ownership structure, number of years of operation, size, staff turnover rate and ownership of business premises, etc.) as well as collect the following information

- Their understanding of the term/concept of resilience
- The resilience indicators that are most relevant to the surveyed SMEs in the hospitality sector
- The risk mitigation and preparedness measures they have put in place

Aspects of the ResOrgs Benchmark Resilience Tool (BRT) was also used and consisted of Likert Scale questions that can determine each business's confidence in different indicators of resilience. Participants were asked to identify all relevant indicators they consider as important for their business resilience. Respondents were also asked to rank the top five risks that could potentially affect their business as well as what could be implemented into the business to further build resilience. This was to assess the business's understanding of resilience through their ability to identify possible vulnerabilities in their current practice.

#### 3.2. Sampling

Two business districts, namely Ponsonby and Auckland CBD, were selected in this study. Businesses along Ponsonby Road were identified while the Auckland CBD was split into four quadrants as seen in Figure 1. Each quadrant was sized according to the number of businesses in each. This was done since the large size of the area, coupled with time restrictions, meant sampling every business was infeasible. By taking smaller samples from each quadrant, a representative sample of the entire area was achieved.



(a) Sampled area in Ponsonby  
Fig. 1. Sampled business districts in Auckland

Questionnaires were distributed in person with the researchers available to answer questions respondents may have had in the questionnaire. This was to prevent the data being skewed by misinterpretations of the questionnaire.

### 3.3. Interview Structure

Face-to-face interviews were then undertaken with selected businesses following their participation in the questionnaires. A semi-structured approach was adopted to allow additional discussion and increase the amount of relevant information obtained. Questions focused on gaining a detailed view of the business's understanding of resilience including their current mitigation plans and how they could further improve. These were to supplement the quantitative data by providing more detailed responses. Information that could not be recorded in the questionnaire format such as specific examples of business resilience plans was also obtained.

### 3.4. Data Analysis

The quantitative data from questionnaires was coded into the IBM SPSS software package so that multiple types of statistical analysis could be run on the dataset. Microsoft Excel was also used to perform direct calculations on the data as well as to conveniently sort data according to ranks determined by SPSS and produce graphs. Descriptive statistics made up the bulk of the analyses, including frequency, mean and cross-tabulation procedures. The data was also first checked for internal consistency through a Cronbach's Alpha test as well as Exploratory Factor Analysis to determine any underlying factors. Interview data were analysed by using the qualitative analysis tool NVivo.

## 4. Results and discussion

### 4.1. Business profiles and their understanding of resilience

Across the entire sampled area, 87 businesses were identified with 40 respondents taking part, resulting in a response rate of 46%. A summary of these business profiles is presented in Table 2. From the survey results, it can be seen that the majority of businesses are either sole traders or partnerships and have five or fewer full-time employees. Furthermore, the majority of employees are casual staff and 39% of businesses replace staff approximately every 3 months. These traits are representative of SMEs and highlight the less formal management structure and potential issues that could arise due to low staff numbers and high turnover rates.

Table 2. Summary of surveyed businesses

Business' ownership structure		Staff turnover rate (staff replaced per year)	
Sole trader	23%	<1	13%
Partnership	29%	1-2	17%
Limited liability company	31%	2-3	17%
Branch of company incorporated overseas	3%	3-4	9%
Co-operative company	11%	4-5	39%
Others	3%	>5	4%
Company's presence in the industry		Premise Ownership	
Less than 1 year	16%	Owns the premise	8%
Less than 5 years	27%	Rents the premise	49%
Between 5 to 10 Years	27%	Leases the premise	43%
Between 10-15 years	11%	---	---
More than 15 years	19%	---	---
Number of full time employees		Description of the viability of the business	

0-5	58%	Sustainable all year round	73%
6-10	28%	Seasonal	24%
11-15	6%	Depending on the economic cycle	3%
15+	8%	---	---
<b>Proportion of full time employees to casual staff</b>		<b>Risk Awareness</b>	
<1	84%	Fully aware	54%
≥1	16%	Somewhat aware	35%

For the hospitality sector, resilience is understood by the majority of surveyed businesses as the need to withstand the constantly changing market which involves law and regulation changes along with the fluctuating market trends and customer demand. Businesses understand that the state of the economy has a direct effect on profit as the public will become less inclined to spend money during a financial crisis. However, this potential loss in revenue is mitigated by building social capital through reputation. Businesses also reported during the interviews that “damage to reputation,” “loss of customer base” and “staffing issues” were the top risks for experienced businesses. As well as keeping up with ongoing market trends, the aforementioned risks show a focus on both attracting and keeping customers by providing a positive experience that entices customers regardless of the economic situation.

#### 4.2. Relevant business resilience indicators

Resilience indicators from the literature were ranked by participants to measuring how relevant of each indicator for their business. The results of the SPSS mean ranks (where a rank of 1 indicated most relevant) are shown in 3 with the top five indicators highlighted. It can be seen that “leadership & management”, “core competence of staff,” “planning & preparedness,” and “compliance & regulations” are at the top of both lists, highlighting the importance of these factors to all sampled businesses. The slight differences in the order of indicators can be attributed to the variety of businesses and the different priorities and views of each manager. By categorising results in terms of business profiles, the relationship between business attributes and their views on resilience were further analysed.

Table 3. Frequency analysis of relevant indicators

Indicator	Percent of Cases	Mean Rank
Leadership & Management	97.2%	1.94
Core Competence of Staff	91.7%	2.42
Planning & Preparedness	86.1%	2.59
Market Sensitivity	77.8%	2.89
Compliance & Regulations	61.1%	3.14
Innovation & Diversification	58.3%	3.31
Reflective Business Practice	58.3%	3.39
Adaptive Ability to Changes	55.6%	3.43
Ability to Leverage Knowledge & Information	55.6%	3.50
Situational Awareness	52.8%	3.64
Network Robustness	50.0%	4.00
Access to External Resources	25.0%	4.75

The results highlight a focus on having capable staff, a large customer base and maintaining day-to-day operations. Discussions through interviews also identified relationships between management and front-of-house staff to also be vital as staff who are in constant interaction with the public tend to know first-hand about the level of activity during the day. Competent staff who are able to address potential issues that may bottleneck the business’s

performance and bring them to management where an effective management team can implement beneficial suggestions. This internal relationship is just as important as external relationships with suppliers as it allows the business to perform at an optimal level. In an environment where staff feel that their ideas are considered, they will be more likely to contribute to the business's reputation, building a stronger customer base and therefore building resilience.

#### *4.3. Risk mitigation and business preparedness measures*

The questionnaire survey found that due to the perceived low frequency of natural events in the Auckland region, there was little concern among the surveyed businesses. As a result, there are few mitigation plans that directly address large scale events. Although "planning and preparedness" was ranked highly, these plans include basic preparations such as health and safety, first aid, and insurance. These are typical for any business and are not reflective of any consideration of larger scale disasters. Instead, most surveyed businesses have been focused on keeping daily operations continuing and being able to quickly recover from minor but more frequent disruptions. This is evident through the fact that in the questionnaire the majority of businesses being "fully aware" of potential risks, while not considering a natural disaster as being likely.

Although the loss of critical services such as water and power happen more frequently than natural disasters, there are few mitigation plans in place, such as backup power supplies, with the only option to wait until services resume. This brings to light the issue that while the majority of businesses have a very good understanding of potential issues and key resilience indicators, there is little concern for the sudden event of a large scale disaster even after the aftermath of the Christchurch earthquakes. There is a need to address this with a focus on educating businesses about potential risks and possible improvements that can be made.

### **5. Conclusion and recommendations**

There is a clear and common view that leadership and management, the core competence of staff, and effective planning are what contribute most to a business's resilience. For the hospitality sector, this is directly reflected in the primary goals of building a large and loyal customer base through the creation of a unique and positive experience. This ability to maintain sales throughout the year is what many constitute as resilience. Utilising this definition, SMEs in the hospitality sector in Auckland demonstrate high levels of awareness and implement measures such as ensuring constant cash-flow and effective staff management.

However, with regard to being able to withstand and adapt from the aftermath of a significant disruption such as a natural disaster, there are few mitigation plans in place due to the low frequency of such events. Further efforts into this field need to be made, such as having more businesses develop disaster mitigation plans. Larger investments, such as backup power supplies, can also then be considered. Awareness of the effects of a disaster is essential in creating a forward-thinking business, rather than a purely reactive one. Therefore, the following recommendations are suggested:

- More tailored business mentoring programmes or workshops which could be organised by the Chamber of Commerce or hospitality associations will help SMEs to improve their leadership and management skills.
- A greater focus on training staff to actively contribute to resilience is needed. This requires employees to take risk mitigation initiatives and being able to work alongside the management.
- Incentives such as tax reduction, insurance subsidies, and in-kind support, can be given from the local authorities to encourage those SMEs to invest in mitigation and resilience planning.
- Supply networks should be made more robust by having multiple suppliers for major product offerings.
- There is a need for the local government (e.g. Auckland Council) to improve communication and information sharing with businesses regarding regulatory framework changes and consent application processes. This includes ensuring single points of contact and frequent communication regarding application statuses.

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