NEVIANA KRASTEVA

International Business School, Botevgrad, Bulgaria

A METHODOLOGY FOR DETERMINING THE IMPACT OF THE POLITICAL ENVIRONMENT ON MARKETING AND TOURISM

Abstract:

A method for the quantitative measurement of the political environment is developed, allowing for a reasonably accurate evaluation of the risk factors and their impact on the competitiveness of the companies in view. The quantitative part of the analysis is based on expert evaluations. The model is an adaptation of the foundation laid by Michael Porter – which is a classification of the factors of international competitiveness; for the purposes of the analysis the determinants of national competitiveness are decomposed into separate components-turned-variables (as per Shafael).

From the derived results, a reasonably clear picture can be drawn about the true condition of the political factors and their impact. On that basis, conclusions can be drawn about the intensity of impact of each outside factor for the period of analysis. Revealed are those factors and determinants of the political environment which are conducive to business and competitiveness, and those who are not. Comparison between different companies in tourism becomes possible.

A case study which is offered is the impact of the recent international events in and around Russia on the Spanish tourism market.

Keywords:

political environment, risk factors

JEL Classification: M31

Introduction

The likelihood of certain events coming to pass and the realization of political risks cannot be precisely computed based just on historic observations and measurements, because it is possible that events like those that will happen are unprecedented. In such an environment of unpredictable outcomes, a solution to risk modeling for specific events can be delegated to an evaluation by "experts."

A model for the quantitative evaluation of the factors of the political environment

The model we present here allows for a clear representation of the political conditions to emerge in aid of increasing the competitiveness of the companies in tourism. The analysis is approached quantitatively and based on expert evaluations of the key factors. The model is adapted from Michael Porter's (Porter, 2004) classification of the factors of international competitiveness. For the purposes of the analysis, the determinants of national advantages are analyzed separately, and each of those separate determinants is predicated on certain variables.

Every variable is assigned based on an evaluation of the development or presence of the factor in the country; the scores are integers between 1 and 7 (1 being the "worst" score and 7 being the "best" score). These values are denoted in the "S" columns. Simultaneously, each variable is also assigned a measure "Z" of relative importance to the competitiveness of the tourism industry; these values are integers between 1 (lowest possible importance of note) and 10 (highest importance). The Z values are weights in themselves, normalizing the impact of the variables according to the formula:

$$C = \frac{S.Z}{10}$$

where C is the normalized/weighed measure of the impact of the political environment variable and S and Z are as above.

The rationale behind the S and Z factors is that they provide an immediately accessible numerical way to illustrate the importance of the variables they relate to, with the aid of the commonplace intuition that "more" is better than "less"; higher C values are better for the competitiveness of local markets while lower C values represent political factors which detract from the market. This line of reasoning, thus, provides a reasonable measure of the positive influence of factors.

Factors/determinants:	Relative measure of importance (Z):	Measure of development or presence (S):	Weighed measure of importance $$C* = \frac{z}{10}\frac{1}{s}$$
Military coup*			
Armed uprising*			
Political terrorism*			
Political murders*			
Civil war*			
Civil uprisings*			
Strikes and the laying off of workers*			
Kidnapping of foreigners*			
Government ineffectiveness*			
Military mobilization or a small-scale war*			
A large-scale war*			

Figure 1: A Template for the Evaluation of the Influencing Factors

It is important to realize that all of the factors we are looking at have a negative impact on tourism; instead of resorting to negative numbers to denote the variable S in that case, instead we take the reciprocal of S as the value P and use the amended formula for C* as in the last column. In practice, we can measure P, and infer S as its reciprocal. Here we follow Porter; an alternative approach would be to use negative values of S for events with negative impact.

To derive a useful measure of the political environment and its negative impact on tourism, we would average the last column out, to arrive at a singular C value representative of all the factors we have captured above.

In addition to that, as discussed before, each factor/determinant is a composite measure representing numerous variables behind it and those can further be broken down. At each level of abstraction, from the atomic factors all the way up to the singular C value, it is conceptually useful to think of averaging the analogous C values out. A different way to deal with this issue, as an alternative to providing expert evaluations of the S and Z factors immediately leading to a computation of the final C value, is to attempt a statistical approach, quantitatively assessing every miniscule factor and its correlation with other factors. Often enough, though, rigorous data relating to the variables is either not gathered or of dubious quality, making that approach unfruitful.

However, if one settles for a loss of rigor, data relating to the occupancy rates and frequency of visits of different markets is routinely gathered by local ministries and tax

agencies. Thus, by eyeballing (expertly) a few key factors relating to the political stability of a country or aggregating opinions from related literature or media perception, we arrive at a useful metric to measure current and future flows in the market.

There are a few theoretical and practical points of interest which we note before presenting a case study based on this method:

1) Whether on the government level or the managerial level in a tourism-related company, it is important to realistically gage which of the factors we are discussing can be influenced (either in reality or in their perception), and which can't. It is unrealistic for a hotel chain to hope to stop a war, but changing a resort from an unsecure or dangerous place to a family oriented safe space is feasible both in reality and in the public perception. Similarly, a government may be able to positively resolve civil unrest or strikes, but be unable to stop immigrant and refugee waves from creating negative impacts.

2) If certain political environment risks or their outcomes cannot be accurately measured, it is important to at least be subjectively and imaginatively be aware of them so contingencies can be prepared.

3) Like other practically oriented models in marketing, it shouldn't be surprising that there is significant oversimplification of the factors involved, which is why the key risk categories have to be defined (as we did in Table 1).

4) The risks that one chooses to factor in the model have to have some monetary measurements (e.g. revenue lost or property damaged). If there is a need to measure the susceptibility of a project with respect to political risk, it is preferable that the quantitative damages on the result can be accounted for in advance, and that the risk itself is not marginal, but "realistic" (for marginal risks, refer to 2) above)

A Case Study of the Impact of Political Events in Russia on the Spanish Tourism Market

The presence of Russia[1] on the tourism market in Spain has its specific dynamics and developments in time. In the recent years, the flow of customers from Russia has become an important element of that specific industry. The relative openness of the borders, the milder visa requirements and the stabilization of the Russian economy have all contributed to the increased volumes of Russian tourists, and in turn to the increased importance of targeting those tourists (Figure 2). The Russian language is becoming one of the "tourist" languages adopted by the tourism infrastructure (hotels, restaurants, bars and shops); as far as services are concerned – menus in restaurants, hotel reception services, promotional materials for transportation and entertainment, even direction signs – there is an increased importance on the ease of communication, assisting the creation of a positive customer experience.

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[1] The data refers to CIS countries as a while, not just the Russian Federation
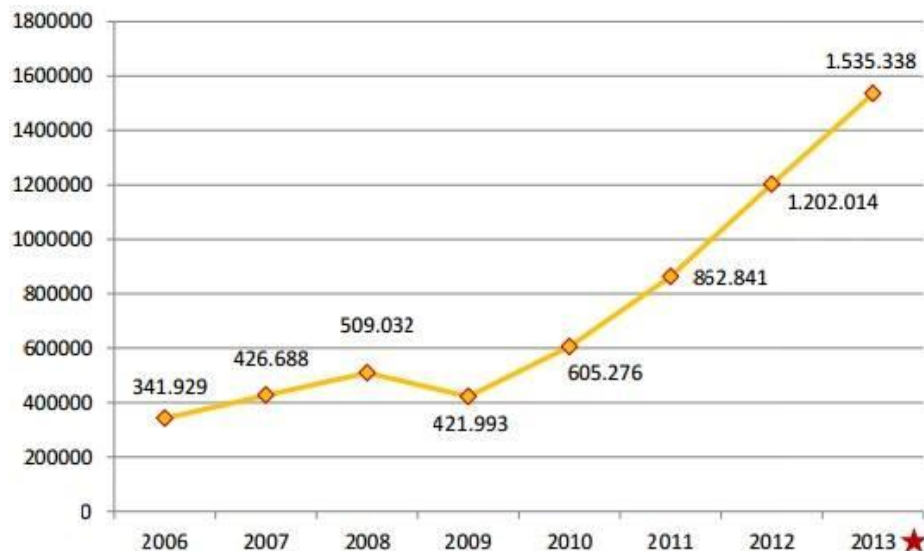
Figure 2: Russian Tourist Numbers on the Spanish Market for 2006-2013[2]

The data in Figure 2 are derived from the tourist visa numbers; those illustrate the dynamics and growth of the flow of Russian tourists. In just 2013, the growth is 31.3%, a record of sorts. Through additional considerations, it can be seen that the Russian tourists are second in terms of individual expenditure (average money spent by tourist) in Spain (Global Blue, 2013); collectively, they represent 4% of the total foreign tourist spending. In 2013, the Russian tourists have spent 2.2 billion Euro in Spain; the average spending per person is 1483 Euro per a 10 day visit. The length of stay is also a significant trait for this market, as the average stay for all tourists in Spain is 3.36 days, while for the Russian tourists it is times higher. Combined with the higher spending, this makes Russian tourists a crucial part of the Spanish tourism industry with a key contribution towards the economy of the sector in that country.

A key characteristic of Russian tourism is the emphasis on shopping tours, for which Barcelona, Marbella and Madrid are primary destinations. Most preferred locales for shopping are Paceo de Gracia in Barcelona (32.4%), followed by Puerto Banus in Marbella and Barrio Salamanca in Madrid (Global Blue, 2013).

The high-intensity season for Russian tourists begins significantly earlier and ends later, as the Spanish climate in May and is acceptable even for beach vacations. For the average tourist, beach season is 3.5 months (June to mid-September), while for the Russian market it is 5 months (May to early October), almost 40% more time.

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[2]As per Alvaro Renedo Sedano - director of the Tourism Office of the Spanish Embassy in Moscow and coordinator of tourism for Eastern Europe on the International Tourism Expo in Moscow, 2014.

The Influence of the Political Situation in Russia on the Tourist Flow in Spain

After a period of fast growth of the Russian tourist presence in Spain, 2015 marks a significant decline, which signifies an inverse trend. With the outbreak of the military conflict in Crimea, the resulting financial instability and insecurity corresponded to that marked decrease. The upward trend plateaued in 2014, both in terms of spending and raw tourist numbers.

Here we will apply the model for quantitative evaluation of political risk to judge the impact of the different factors of the events in Russia on the Spanish tourism market. This approach might seem counterintuitive at first, but we can assume that the political situation in Spain is perceived similarly across all potential markets; thus, any significant impact we observe for particular markets (in this case, the Russian), can be accounted for by the changes of the local political/social situation. The expert evaluations below are derived by the author from specialized literature.

Factors/determinants:	Relative measure of importance (Z):	Measure of development or presence (S):	Weighed measure of importance $C* = \dfrac{z}{10}\dfrac{1}{s}$
Military coup*	5	1	0,5
Armed uprising*	8	2	0,4
Political terrorism*	9	4	0,225
Political murders*	7	3	0,233
Civil war*	9	5	0,18
Civil uprisings*	8	3	0,266
Strikes and the laying off of workers*	5	2	0,25
Kidnapping of foreigners*	8	1	0,8
Government ineffectiveness*	5	1	0,5
Military mobilization or a small-scale war*	9	6	0,15
A large-scale war*	10	2	0,5

Figure 3: Evaluating the Political Risk Factors in Russia

It becomes apparent from our analysis above that while there may be some residual risks from former times or general political unrest (which remain unchanged from the early 2010's), the key factors that have changed are those accounting for the Civil War and Small Scale War aspects.

Due to those changes, the forecasts of sustained increase of the share of Russian tourists in Spain are not fulfilled. After the drastic deprecation of the Russian ruble at the end of 2014, there is a general abstinence from making reservations or buying vacation packages. The 2015 summer season was scheduled to be sold in the spring

of that same year and the collapse of the Ruble and the political unrest resulted in greatly decreased sales. In April, there was a slight stabilization and increase in the value of the Russian currency, but the political risks still kept the populace cautious. At the same time, the Spanish operators, encouraged by past growth, were counting on a substantially higher turnout, leading to a significant mismatch between forecasts and reality.

In other words, the analysis we did in Figure 3 was not followed in accessing political risk, or if they were, there was no adequate reaction to come up with contingencies. This has negative impacts on short-term revenue streams for the operators, but also on the levels of seasonal employment in the sector. Many hotels remained closed until mid-May, something unheard of in recent years. Just in the periods from Match to mid-May, there was a decrease of 45% in occupancy compared to the previous year.[3]

The unmet forecasts lead to financial losses, as the Spanish operators resort to selling packages Last Minute to cover their sunk costs. From a highly profitable market, the misjudgment turns the potential Russian market into a tale of losses coming from high volumes offered below market prices so that some losses can be negated.

Important factors in tourism are of course the visa requirements. At the moment, there are negotiations for the unilateral relaxation of the conditions for Russian citizens for visits specifically to Spain, in the context of the Schengen agreement. This could turn back the tide and reinvigorate interest in this previously attractive destination.

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