

The Fall and Rise of Australian Tourism in the COVID-19 Pandemic (Paper # P119)

Smallman, Clive

Ryan, Peter

Higher Education Leadership Institute

Abstract:

What happens when tourism catches the virus of the century? The closing of international and domestic borders has had a devastating impact on the Australian tourism sector. In this paper we use established theory in risk and crisis management (Stead & Smallman, 1999) coupled to innovation theory and (Kirtley & O'Mahony, 2020) to chart the fall and rise of tourism in Australia.

Keywords: Tourism, Pandemic, Crisis, COVID-19

1. Introduction: Tourism Catches the Virus of a Century

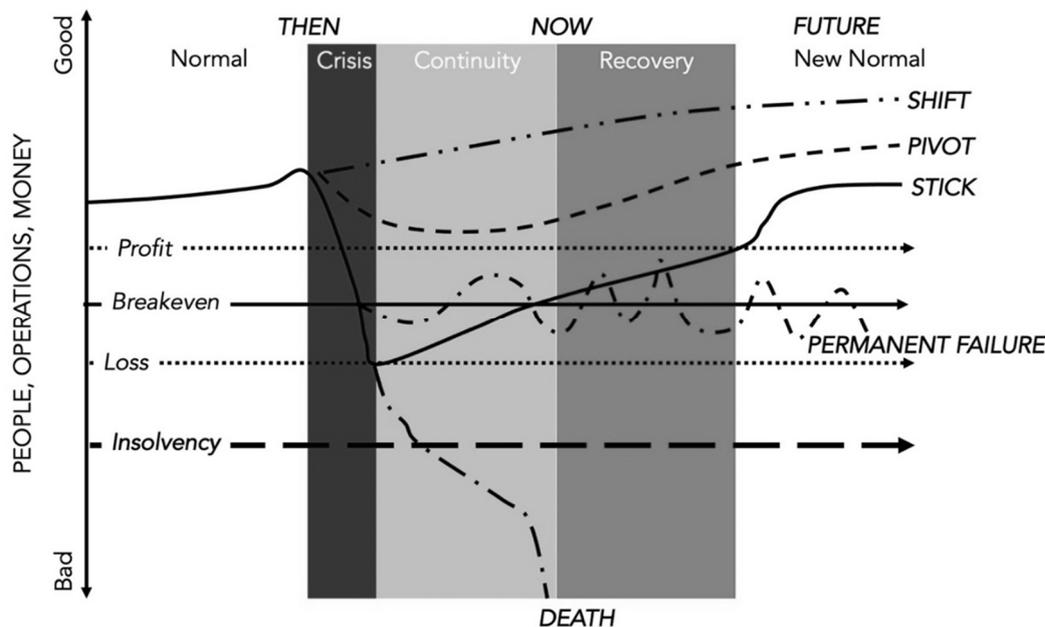
Before March 2020, the tourism sector was a significant contributor to Australia's gross domestic product (GDP). On average, in 2019, 28,000 international visitors arrived in Australia every day for leisure, study or work. Spending approximately A\$65 billion on Australian goods and services, these visitors accounted for 13% of exports and 3% of GDP. The collapse in international arrivals since the outbreak of COVID-19 has had a devastating impact on Australian businesses that service these visitors and has contributed to a sharp fall in economic activity over the first half of 2020. In early 2021, recovery is emergent, but it is far from clear what the future holds (Grozinger & Parsons, 2020).

2. Literature Review: The Critical Curves of Crises

Natural disasters, public health emergencies, industrial accidents and business failures follow a well-defined structure described in the literature (Stead & Smallman, 1999).

We have derived a summary chart that describes the paths that organisations follow before, during, and after crises. We call these the critical curves of crises (Figure 1).

Figure 1: The critical curves of crises



Before crisis events, most businesses operate in superficial normality. Most are well-positioned with good people, productive operations and well-balanced revenue, expenses and profits. When in such a position, and led and managed well, most businesses grow. Others inexorably move towards business failures through poor leadership or management. Sadly, these are regular occurrences in business life. They have substantial impacts on the economy, society and the natural environment. However, acknowledging and not belittling the loss of lives and livelihood, not to mention ecosystems' damage wrought, it is the case that the losses from natural disasters (e.g. the 2001 Japanese tsunami and consequent three Fukushima nuclear reactor meltdowns, the Australia bushfires of 2019-20) and large-scale public health emergencies (e.g. SARS in 2003 and more recently COVID-19) often dwarf the 'normal accidents' (Perrow, 1999) of industry and business.

3. Methodology: Five Phases on the Critical Curves

Whatever the scale of the crisis, they have five distinct phases (Stead & Smallman, 1999):

1. *Normality*. Engineers use the term 'nominal' for what most people call 'normal'. Nominal means that a system is operating inside acceptable tolerances. It is also an apt description of most political, economic, social, technological, industrial, business and natural systems. In crisis management theory, normality often conceals latent system failures. Business leaders commonly ignore or are not conscious of these weakly signalled latent failures (Stead & Smallman, 1999).
2. The *crisis* itself is primarily out of control, a complex concatenation of latent failures in social, technological and natural systems. A specific event triggers them. In the case of COVID-19, the trigger is still under investigation. Crises have direct and indirect, anticipated and unanticipated and often weird consequences. It is common in crises for business operations, cash flow, and people's performance to spiral down through breakeven to loss.
3. *Continuity* occurs as businesses come to terms with the crisis or not. Sadly, some do not survive, and organisational death beckons (Hager et al., 1999). Others *stick* with their current business model, relying on it to pull themselves back to breakeven. Within this group, there are those businesses that always have and probably always will exist in a state of 'permanent failure' lurching across either side of breakeven (Meyer, 1999). Other organisations react positively to a crisis, pivoting early to look for other markets using their existing business model (Kirtley & O'Mahony, 2020). A minority *shift* their business model significantly and rapidly.
4. *Recovery* sees those that stick, pivot, or shift move solidly and consistently above breakeven, moving towards a new normal (nominal)—businesses consolidate new business models and new market sectors.
5. The *new normal* (nominal) establishes as businesses operate at or above their pre-crisis levels.

4. Discussion: Are We There Yet? Continuity, Recovery and New Normality in Australian Tourism

The Australian government moved early to close the country's international borders to focus on returning nationals at the exclusion of tourists. Tourism exports cannot recover while international travel restrictions are in place. Further, potential international tourists must be confident about travelling abroad. These factors severely affect Australian businesses that typically rely on international visitors (Grozinger & Parsons, 2020). The danger is that these businesses will struggle with both continuity and recovery.

Some tourism businesses have benefited or expect to benefit from a pick-up in demand from domestic tourists unable to travel overseas, however this has been impacted by State-by State and local lockdowns during the pandemic. Australian domestic tourists have different preferences and spend less, on average, than international tourists (Grozinger & Parsons, 2020). Domestic travellers might assure continuity for some tourism businesses but are no substitute for the international travellers who will bring full recovery and a new normal.

Australia will appeal strongly as a tourist destination once travel restrictions end and international travel resumes. Overseas news coverage of Australia's pandemic management is favourable, enhancing the country's reputation as a safe destination. Potential demand for leisure travel to Australia is strong, mainly to visit friends and relatives after a long period of separation. Increased interest in outdoor experiences and visiting natural landmarks (where it is easier to practise social distancing) suggests Australia remains a popular destination for holidaymakers in the medium term (Grozinger & Parsons, 2020). Hence, the prospects for a solid new normal are promising. However, the crisis's continuity phase is likely to be unusually elongated, maintaining businesses' distress for quite some time to come.

Demand will take time to recover. The pandemic's global economic downturn has lowered household incomes, heightened unemployment, and decreased job security in countries that are significant sources of international tourists. Hence, economic volatility, uncertainty, complexity and anxiety will impact international tourism even once borders reopen. Economic activity in major tourist markets is not likely to return to pre-pandemic levels for quite some time (Grozinger & Parsons, 2020). Hence, as noted previously, the crisis's continuity phase is likely to be unusually long, maintaining businesses' distress.

Some potential tourists may choose cheaper local holidays or divert spending on other goods and services. In Australia, relative to other destinations, these substitution effects will be pronounced, given that Australia is considered a relatively expensive destination (Grozinger & Parsons, 2020). Australia's perceived and actual expensiveness is a weak signal that the tourism sector has a challenge. The issue of expensiveness (perceived or actual) will extend the continuity phase of the crisis.

More broadly, a public health event such as this commonly invokes more cautious attitudes towards travel in the medium term. In this case, the caution will reduce demand for longer-distance travel. In Australia, this will affect demand from major markets, including the United States and Europe (Grozinger & Parsons, 2020), again affecting the emergence of the sector out of continuity in the new normal.

Regardless of demand, fewer flights will be available initially. Long-haul aircraft fleets will remain reduced for the foreseeable future because of the pandemic. In response to a collapse in revenue, many airlines (especially those servicing the Australian international market) cut costs by retiring some aircraft types earlier than planned (e.g. Boeing 747s), ordering fewer new aircraft and not renewing aircraft leases. In turn, aircraft manufacturers have reduced medium-term production targets by around one third. If the recovery in demand is more robust than expected, it is not easy for manufacturers to 'ramp up' quickly. Besides, skilled labour shortages will slow the recovery in airline capacity. For example, many pilots have been unable to maintain flying hours to meet strict aviation requirements (Grozinger & Parsons, 2020). Moving from continuity to the new normal in these circumstances will be far from easy.

5. Conclusion: Stuck in Continuity

Before the COVID-19 pandemic, tourism exports had grown to become a significant contribution to economic activity in Australia. The collapse in international arrivals in 2020 led to a sharp fall in Australia's tourism exports, with no material recovery expected until the easing of international travel restrictions. After that, the speed of recovery is also highly uncertain. Potential demand is likely to provide an initial boost to tourism exports when borders reopen. However, the pandemic will have lingering adverse effects on demand for travel and long-haul airline capacity (Grozinger & Parsons, 2020).

At present, it seems that Australian tourism is stuck on a critical curve varying between deepening crisis and continuity. The forecast is that once the world emerges out of pandemic lockdown, recovery will come. However, the new normal will be very different from the old. The key question is: How many businesses will die in an extended period of business continuity, and what will be the extent of the social and economic damage?

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