

Impact of Social Instability on Tourism Industry (Regional Case Study)

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Abstract

Social Instability and threats to national security are documented to have impact on tourism demand. This research focuses on the impact of terrorist activities on the hotel industry of Swat⁴ during the period of 2006 to 2010. The proposed model based on two different points in time to terrorist attacks. This study uses panel data in order to estimate the impact of Social Instability on hotel industry of Swat. Results show that terrorist activities have negatively affected the Swat' hotel industry as observed from the cases of Mingora and Fizzagat. The attacks caused a shock to tourist's utility and a change in the image profile of the region. Moreover, it is found that while some places experienced a strongly negative impact in their image and attractiveness, others were upgraded as a consequence of terror events. But surprising results are obtained that after social stability in 2010 the business level of hotel industry rose by many fold. JEL classification: J21, J28, O18, L83

Key words: Social stability; rural development; hotel industries; tourism.

1. Introduction

This research analyses the impact of social instability on the hotel industry of district Swat with the method of stratified random sampling, for this purpose two main tourist's spots are interviewed in District Swat, i-e Mingora⁵ and Fizzagat⁶ where Mingora is the central city of the district Swat. It is situated at the distance of 1 km from the capital of Swat (Saidu Sharif), where all the commercial and business

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⁴Swat is situated in North West of the Pakistan's province Khyber Pakhtunkhwa. Swat is basically a tourist place in Pakistan

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activities take place, while Fizzagat is situated at the distance of 7 km away from Mingora.

Service of hotel and hospitality industry is considered as an important component of tourism sector. Northwestern regions of Pakistan are considered main source of tourism inside the country and attract foreign reserves in the similar context. Northwest of Pakistan owes a series of beautiful mountain and rivers. But at the same time it is bordering with Afghanistan, home to the emergence of long-lasting wars. Therefore, Pakistan and particularly northwestern regions received terrorism shocks at different occasions which resulted into loss of the tourists trust and also loss of the foreign reserves. However, little attention has been given to the hotel and hospitality industry and social distress at a particular region.

Henderson (2008) is one of the prominent authors who described that tourists continually consider and ask themselves whether a region confronted terrorist acts in past few years would be a safe place to visit. The tourists' anticipation about such place effect their decision whether they prefer to stay for a week, a month and maybe even a year. Similarly, Stafford et al., (2002) contemplated the same reasoning for the hotel sector that terrorist' activities at a particular destination proved to be contrary for the local hotel sector and as a whole create uncertainty and decreases the number of tourist' arrivals. Tarlow (2006) suggested that the tourists' awareness regarding treats in vicinity and their demand for required safeguards will increase the number of tourists' arrival to the particular region.⁷

The importance of hotel industry to Tourism and Travel (T &T) sectors make it relevant to terrorists because a terrorist activity causes a negative effect on revenues and employment have a destabilizing repercussion for destination economies, societies and politics (Pizam et al, 2002; Sonmez, 1998). And Jeffrey et al.,(1988), examined the effectiveness of local hotel industry by observing 266 hotels in England and he found that revenues generated through hotel sector have positive effect on the regional economy and further, by creating sources of employment, reduces regional economic imbalances. Safety and availability of tourism-facilities are the prerequisites to tourists' visitation. According to Hall (1994) besides terrorism, protests, civil-war, prolonged social instability or even the expectation of these or similar kind of activities deteriorates the image of particular location.⁸ Levantiset. al., (2000) presented a study to analyze the effect of crime on tourist' locations available at

⁷See, Tarlow (2005) and Tarlow et al, (1996)

⁸ For further details, see Hall and O'Sullivan (1996).

Caribbean and South Pacific islands. While in case of social instability, Richter (1980) and Richter et. al., (1986) explained the symbolic relationship between tourism and regional instability that tourists at large are considered as soft-targets to attack because are being considered as the ambassadors of their nation. Furthermore, in case of future expectation of social unrest, Grainger et.al., (1995) collected the tourist's arrival data from the hotels in Portsmouth for the purpose to observe the seasonal variation in tourists' arrivals meanwhile they found that the effect of a terrorist' activity on tourist's behavior depends on personal experiences, risk-aversion and cultural aspects.

Besides the previous discussion, Becker et. al., (2004) conducted a research to observe the effectiveness of terrorist' activity and degree of substitution among product on tourism and they pointed out that when the degree of substitution is low then the tourists' response to terrorist' activity will be low.⁹

The present study will focus on the hotel industry of Swat before, during and after social instability. For the purpose this study focuses on the income, expenditures, tourism and losses or profits of the hotel industry in Swat during 2006 to 2010, where 2006 is pre social instability period, while 2007, 2008 and 2009 are the years of social instability and 2010 is the post social instability period.

2. Methodology

In this section, this research analyzes the dynamics of hotel industry to social instability occurred in Swat during 2006 to 2010. The data for this research has been collected through the method of questionnaire as qualitative approach. For the purpose this research 20 questionnaire were filled in each destination.

This research attempted to explore the economic impact on the hotel industry of District Swat after the Social Instability. This study is confined with the aim to analyze the impact of Social Instability on the hotel industry of Swat as a special case of Mingora and Fizzagat. Mingora is the main city of Swat where all the commercial and business activities took place and Fizzagat is the main park view of the Swat. To analyze the impact of Social Instability on the hotel industry of District Swat this research will focus on the following four main objectives. First it will assess the economic losses to the hotel industry of Swat due to the Social Instability in District Swat during 2007 to 2009. Second it will observe the current business circumstances in Swat hotel industry after Social Instability. Third it will

⁹ See Yechiamet. al.,(2005).

examine the employment situation in the hotel industry of Swat during 2006-2010. And fourth to find that how many losses were incurred during and after the Social Instability.

3. Diagrammatic Results

3.1. Demographic Analysis

The table of demographic information is divided into two parts according to the area such as first part is related to Mingora city and second part is related to the Fizzagat Park. In each part hotel or motel name is given, in which some hotels are of upper level and some are of middle level. Each hotel is being represented with the name of its manager, age of the manager, sex and education. In the table of demographic information it is observed that the maximum average age rate of managers in Mingora city is 33.4 and incase of Fizzagat it is 35.3, which shows that age ratio of Mingora is less than that of Fizzagat which means that maturity level of age in Mingora is greater than that of Fizzagat. And next all the respondents were educated male and Managers of the hotels. The table of the demographic analysis is available in Appendix 1 and Appendix 2.

3.2. Cost of Rooms

Cost of rooms of each hotel is given for 2006 to 2010, which shows that initially the rent of rooms in both the areas were higher but because of the Social Instability between 2007 to 2009 these costs were declined. Because that the inflow of tourists to Swat was fallen because of Social Instability in Swat. When 2010 started the era of Social Instability was over and the economic position of the hotels started an upward turn, because tourist again started to visit to Swat.

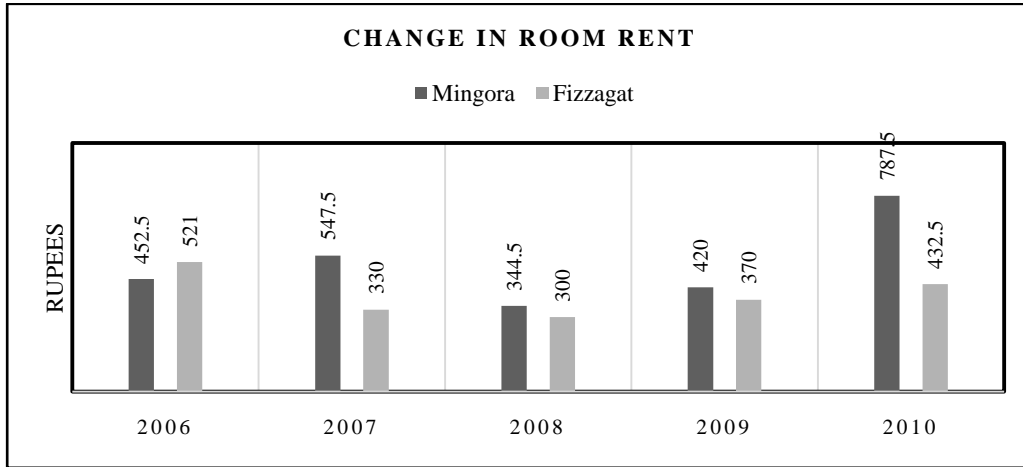


Figure 3.2: Average change in room rent for the hotels in Mingora and Fizzagat from 2006-2010

From this figure it is observed that initially in 2006 the cost of rooms per night were lower and with the start of 2007 cost rose in Mingora but in Fizzagat it declined because Social Instability first started in Fizzagat, then continuously two years it goes into a very low rate and after Social Instability in 2010 it again started an upward moment in case of Mingora and in case of Fizzagat it remained at a lower rate because the hotel industry of Fizzagat was destroyed by the terrorists.

3.3. Tourists Arrival

This research shows that initially the number of tourists in Swat was much greater, which means that guests were very large in number as compared to Hotels.

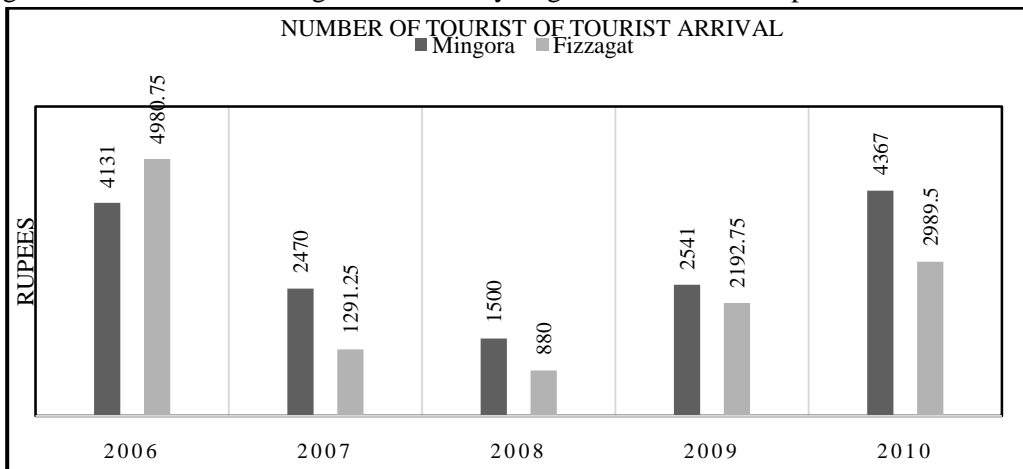


Figure 3.3: Average change in Tourist Arrival for the hotels in Mingora and Fizzagat from 2006-2010

Before the era of Social Instability in 2006, it is recorded that annual guests served in Mingora and Fizzagat was much higher than the other period of hotel industry, in 2007 the average number of guests declined and the lowest points of guests were recorded in 2008 when Mingora and Fizzagat has lost maximum of its visitors because of the long run impact of Social Instability in Swat valley. In 2009 when terrorist lost their power than once again tourist started to visit the Swat valley for some or other reasons such as NGO's and other Government officials who started to visit the valley and observe the mass destruction made by the terrorist and the number of tourist improved on multiples and raise to the level 4367 guests annually at each hotel in Mingora.

3.4. Employment

In this research it is found that Social Instability has also a lasting impact on the income of the employees and number of employees both in Mingora and Fizzagat. The level of employment depends upon the circumstances of business prevailed in the market. This research is observing that how much Social Instability affected the level of employment both in Mingora and Fizzagat.

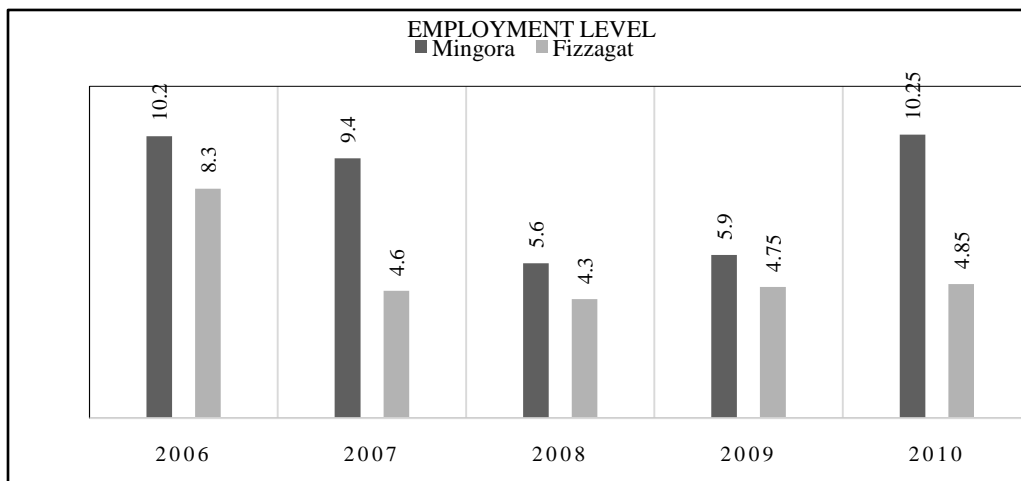


Figure 3.4: Average change in Employment level for the hotels in Mingora and Fizzagat from 2006-2010

The level of employment was high before the era of Social Instability in 2006 the average number of employment in Mingora and Fizzagat hotel industry was high. When Social Instability started in 2007 in Swat then the whole business was crashed to earth and the employment level in Swat hotel industry was lower than the previous one as in 2006 and the long run impacts were felt in 2008 when the average number of employee's decreased and at the average employment was constant in 2009. And in 2010 the average number of employees again increased. Now this fluctuation in the level of employment was the direct impact of Social Instability because Social Instability caused shut down of many hotels and also decreases in the level of business. As in 2008 the number of employment decreased because of higher level of losses which caused a decrease in the number of guests. And in 2009 Social Instability was over but the impacts of Social Instability were still present which caused the same level of employment as in 2007.

3.5. Staff Salaries

Staff salaries vary with the change in the number of employees, therefore at the pre war period the employees were higher and their salaries were also at the highest level, in 2007 the salaries were higher than before but it should be kept in mind that 2007 is also the period of Social Instability but initially hotel owner were unaware of the condition and they were operating at losses as will be observed in the figure of Net Income at the end of this section and lasting effects were felt when the number of employees were decreased to decrease the losses and ultimately the average level of salaries started to decline from 2008 and the same case was in 2009 but with the start of 2010 which also the period of post war the average level of salaries were again in case of only in Mingora and in case of Fizzagat the hotel business situations was same as was in 2007, 2008 and in 2009 this was because of the factor that the hotel industry was destroyed by the terrorists.

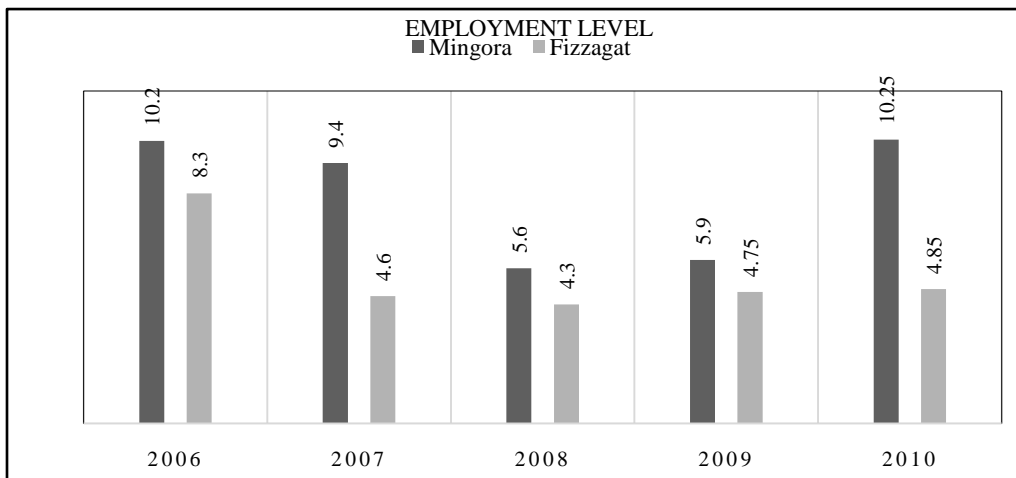


Figure 3.5: Average change in Annual Salaries in the hotels of Mingora and Fizzagat from 2006-2010

3.6. Expenditures

Total expenditures are the combination of salaries paid to the workers, miscellaneous expenditures such as electricity, gas, water, telephone, worker’s food expenditures etc. the results about the expenditures level of swat hotel industry is shown in the following figure.

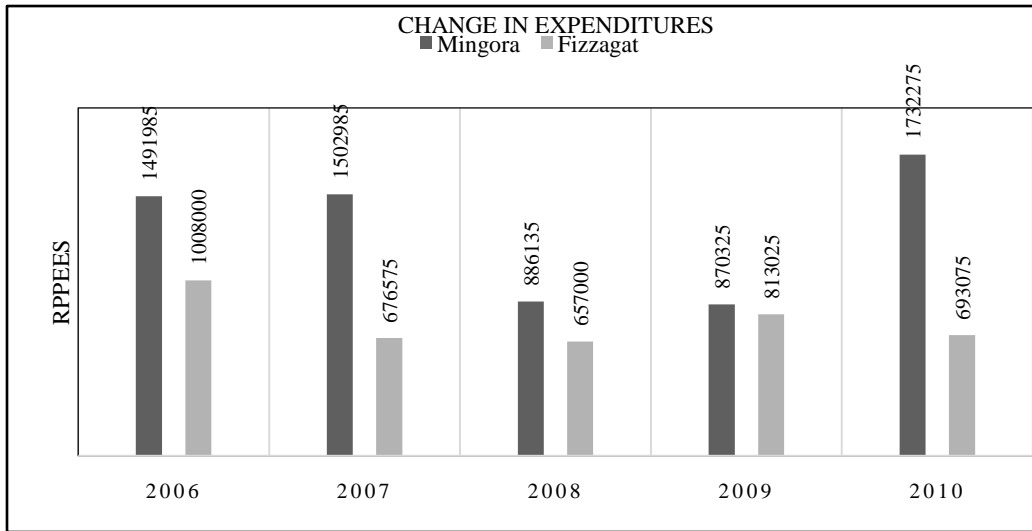


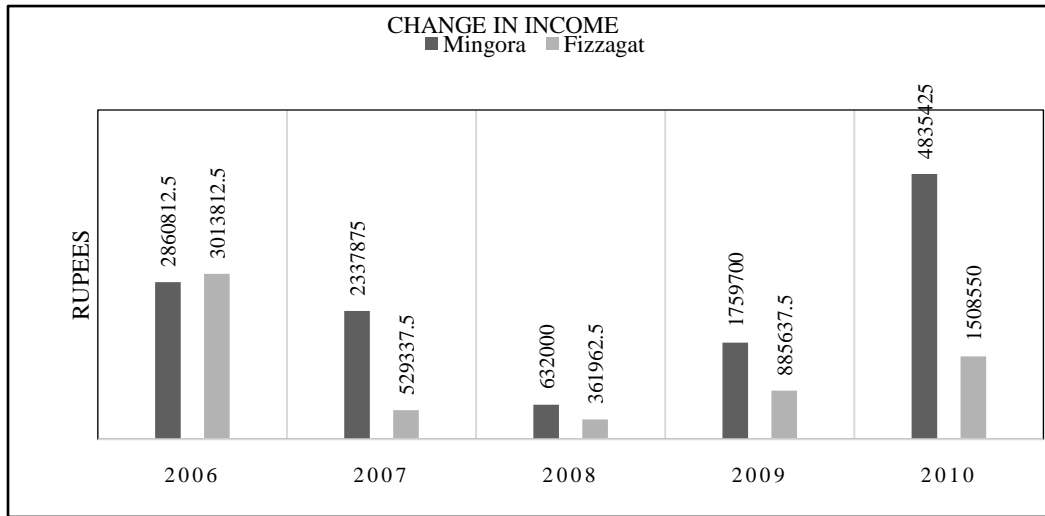
Figure 3.6: Average change in Expenditure for the hotels in Mingora and Fizzagat from 2006-2010

Form this figure it is observed that till 2007 the level of expenditure increased. After 2007 it decreased till 2009 and the lowest point of expenditure occurred in 2009 and in 2010 expenditure shown an upward movement because after Social Instability situation the process of rehabilitation has started which caused an increase in the level of expenditure along with the level of employees’ salaries and wear and tear expenses in the hotel building and the lower cost of service which is done for the purpose that more and more visitors and tourists start to travel to Swat.

3.7. Revenue to the Hotels

Income depends upon the level of the business and the circumstances prevailed in the market. The business level in Swat region before Social Instability was at the peak level both in Mingora and Fizzagat.

From this figure it is observed that the average level of income in swat hotel industry falls continuously till 2008 end at which the lowest point of income occurred. And after 2008 the average level of income of the hotel industry increased and the highest point occurred at 2010 in case of Mingora and Fizzagat remained at the lowest level as was in the previous years.



* Figure 3.7: Average change in Income for the hotels in Mingora and Fizzagat from 2006-2010

3.8. Net Income

Profits or Net incomes in case of the swat hotel industry were very high initially, because the income of the Swat hotel industry and tourist demand for hotels were at the peak.

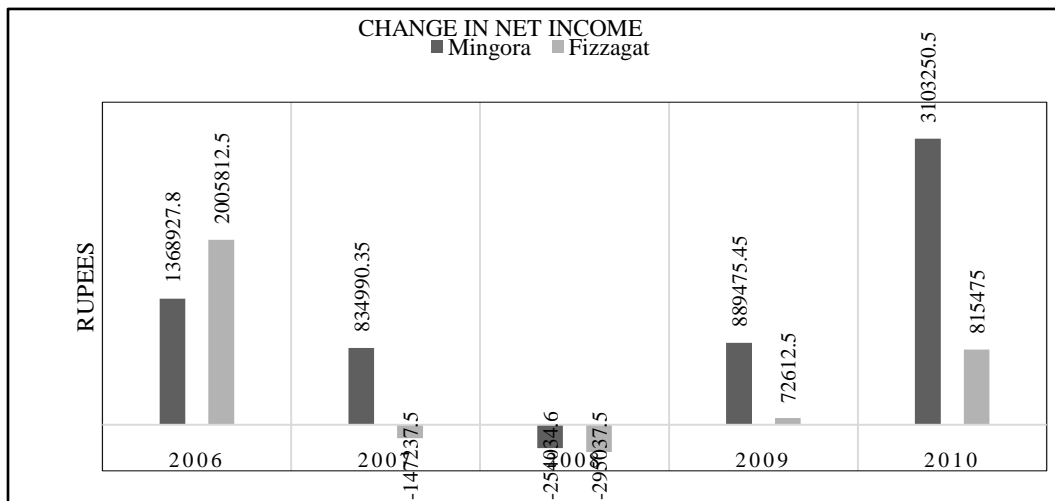


Figure 3.8: Average change in Net Income for the hotels in Mingora and Fizzagat from 2006-2010

From this figure it is observed that in 2006 the Mingora and Fizzagat hotel industry gained profits, but when 2007 started than the average rate of profits are declined, in 2008 the average rate of profits turns into losses both in case of Mingora and Fizzagat and the hotel industry in Swat suffered from heavy losses. In 2009 the losses are turned into profits and the net income slopes upward and in 2010 the net incomes of the mingora hotel industry increased and in case of Fizzagat net incomes were lower as compared to mingora hotel industry this was because of the less business activities in the fizzagat hotel industry.

There are some important observations made in this research which are presented in the following table

Categories	Mingora			Fizzagat		
	Before	After	Percent Change	Before	After	Percent Change
	2006	2010		2006	2010	
Number of Rooms	23	23	100	19	19	100
Room Price	453	788	173.95 1	521	433	83.109 4
Guests	4131	4367	105.71 3	4981	2990	60.028 1
Number Of Employees	10	10	100	8	5	62.5
Staff Salaries	769560	981600	127.55 3	457200	256200	56.036 7
Expenditure	149198 5	173227 5	116.10 5	100800 0	693075	68.757 4
Income	286081 3	483542 5	169.02 3	301381 3	150855 0	50.054 5

4. Conclusion

This research is conducted to find out the impact of Social Instability on the economic position of the hotel industry in Swat where two regions were taken such as Mingora and Fizzagat and the method of stratified random sampling is used to identify the impact of Social Instability on the hotel industry in Swat based on these two regions.

In case of Swat, this research has concluded that Social Instability in 2007 to 2009 has affected the hotel industry in every aspect such as cost of rooms, level of employment, number of guest's arrivals, demand for the rooms in the hotel, image of the hotel, everlasting impact on the level of income and expenditures and finally Social Instability in Swat has affected the profits of the hotel industry negatively.

There are some exceptional aspects of this research as

a) Some of the hotels in Mingora are persistently earning profits as before Social Instability and after Social Instability such as Swat Continental Hotel, Hotel D Papa and Mid City Hotel. And in case of Fizzagat Park Way Hotel and Hotel Rahman.

Persistent profits of these hotels would be the cause of never losing the image, quality and service provision in the better way or these hotels are situated at the central points where all business transactions are made.

b) Some of the hotels are persistently going into losses such as Safeena Hotel, Mehran Hotel, Zeeshan Hotel, Al Harmain and Al Meezan in case of Mingora and Marhaba Hotel in case of Fizzagat.

Persistent losses of these hotels would be the poor quality, quantity and poor service provision which discourage the guests and lower their business and ultimately they lost the image of their hotels.

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