

Business model adaptation as a strategic response to crises:

Navigating the COVID-19 pandemic

Abstract

Purpose: This study explores how hotels adapt their business models as a strategic response to crisis situations. It sheds light on the processes and methods of business model adaptation during severe crisis situations such as the COVID-19 outbreak.

Design: A single-case study was conducted. Data were collected from the owner/manager of a boutique hotel chain in Chiang Mai, Thailand through an extensive interviewing process. We also examined corporate documents. We then re-organized the material as a coherent narrative about how the company navigated the COVID-19 crisis.

Findings: The findings show that the hotels in our study adapted their business models by 1) cutting costs through stopping non-essential operations, 2) increasing non-room revenues and adding new revenue channels, 3) bringing in cash from advance bookings, 4) securing financial support from creditors, 5) leveraging government support and 6) training staff for the “new normal”.

Originality: Few previous studies have focused on business model adaptation during the COVID-19 crisis. Our investigation of this largely neglected area provides two main contributions. Firstly, it extends the literature on crisis management in hospitality firms by examining business model adaptation patterns and processes during unprecedented crisis conditions. Second, it provides managerial insights and a business model adjustment framework to help practitioners in urban settings in their efforts towards recovery from the COVID crisis.

Keywords: Business Model Innovation; Business Strategy; Crisis; Chiang Mai; COVID-19; Pandemics, Thailand

INTRODUCTION

Over recent decades the hospitality and tourism industries have experienced many crises both global and regional. These have included natural disasters, the Asian financial crisis, the Global Financial Crisis (Kosova &ENZ, 2012), terrorist outbreaks like 9/11 (Kubickova, Kirimhan & Lee, 2019; Cohen, 2012), and regional health scares ranging from SARS to MERS (Henderson & Ng, 2004; Chen, Jang & Kim, 2007). However, the wider impacts of the COVID-19 pandemic on the hospitality industry have been unprecedented (Zheng *et al.*, 2021; Jaipuria *et al.*, 2020; Ying *et al.*, 2020). After the discovery of the coronavirus in China in late 2019, there was an exponential growth in the number of infected patients reaching more than 3 million cases by April 2020 with over 200,000 deaths globally (World Health Organization, 2020). It is anticipated that numbers will continue to grow until all countries have contained the virus and a vaccine is available (The Economist, 2020). Many territories have implemented containment measures through “lockdowns” with city-wide curfews imposed. Businesses have been shuttered or regulated to modify their operations, including hotels and shops (McKinsey & Company, 2020). The previously booming global travel and tourism industry is negligible at the time of writing and its future is imperiled (Gursoy & Chi, 2020). Given the severity of the outbreak, hospitality firms require robust coping mechanisms to recover from the crisis.

Businesses are confronting three main types of challenge due to the COVID-19 crisis: operational (customer and employee safety) (Pappas & Glyptou, 2021; Kim, Kim & Lee, 2021), budgetary (cash flow, revenues, and fixed costs) (Song, Yeun & Lee, 2021) and strategic (Yeh, 2020). The strategic challenges identified by Yeh (2020) center around the disruption caused by the outbreak and its negative impacts on strategic foresight capabilities. Since the COVID-19 crisis revealed vulnerabilities in terms of strategic planning and implementation, it also offers an opportunity for organizations to be better prepared for the future. Thus, there has been an increasing urgency to address these questions, particularly amongst small businesses and entrepreneurs with limited access to resources (Thorgren & Williams, 2020; Eggers, 2020). The literature on the responses of hospitality and tourism firms to the current crisis has highlighted various coping strategies. The focus falls into three main groupings: public policy responses, business responses and consumer responses. The first grouping observed the critical role of government policies. For example, Anguera-Torrel *et al.* (2020) found that hotel stock prices are positively influenced by economic policies if they impact directly on public budgeting,

while Yeh (2020) stressed the crucial role of government loans for business survival. The second grouping focused on the strategic efforts of hospitality businesses. Topics under this category included the role of key customers in business model innovation as a crisis response (Breier *et al.*, 2021) and responses from peer-to-peer platforms (Zhang *et al.*, 2021). The third grouping emphasized the demand side during crises. Topics have included: predicting the travel intentions of potential customers (Das & Tiwari, 2020; Jaipuria, Parida & Ray, 2020), priority expectations from hotels (Roy & Sharma, 2020) and factors affecting event participation (Madininos *et al.*, 2020). The various coping strategies that have been adopted place external factors at the centre and have envisaged businesses as reacting somewhat passively to events outside their control. However, most hospitality and tourism organizations have been required to exercise greater proactivity when navigating the unprecedented circumstances of the COVID-19 pandemic and have prepared themselves to confront new and unpredictable demands. Such requirements mean that businesses should rethink what constitutes the value that they are offering to customers - adapting to this dynamic environment demands a reassessment of business models. Although the literature on business models and business model innovation is substantial, tourism and hospitality scholars have given less attention to adapting business models as a strategic response to crises. This is unfortunate when the distinct operational characteristics of hotels are considered - capital intensity, high fixed costs, and benefitting from scale of operations (Koseoglu *et al.*, 2020; Singal, 2015). Such distinguishing features are particularly challenged for hotels during crises - flexibility and agility are keys to survival. Given this context, the current study explores how a small entrepreneurial hotel chain has navigated the COVID-19 crisis. The relevant organization has survived the crisis through the proactive adaption of its business model, despite lacking the resources of larger hotel chains. The study poses the following research questions to shed light on an important and under-researched area:

1. How do hotels navigate crisis situations such as the COVID-19 outbreak?
2. What are the implications for hospitality businesses and for city tourism ecosystems as a whole?

There is a considerable accumulation of research about the COVID-19 crisis and its consequences for hospitality firms. However, Breier *et al.* (2021) have noted that few studies have addressed business model challenges in the tourism and hospitality industry. Furthermore,

even fewer studies have examined how small and entrepreneurial hotel chains have adapted their business models. This topic is of particular importance since researchers have shown the extreme vulnerability of small businesses when faced by the COVID-19 crisis (Gursoy & Chi, 2020). Cheah *et al.* (2018) showed that business model innovation mediated the relationship between environmental turbulence and performance. However more studies are undoubtedly needed in light of the high potential of business model innovations to mitigate the negative effects of COVID-19 (Kraus *et al.*, 2020).

The next section reviews the literature on business model adaptation and innovation during crisis situations.

LITERATURE REVIEW

Business models and business model innovation

According to a literature review by Zott, Amit and Massa (2011), there is little agreement about how a business model should be defined. The same authors observed that scholars have frequently adapted existing business model definitions to fit their particular study characteristics. Nevertheless, three common characteristics of business models may be observed. Such models tend to: (i) emphasize a holistic approach to explaining *how* firms do business as opposed to *what* they do; (ii) are firm-centric, and (iii) attempt to explain value creation and capture.

Other authors have approached business models based on the *levels* at which they operate. Morris, Schindehutte and Allen (2005) identified three levels of operation: economic, operational, and strategic.

1. **Economic level** responds to the ways through which the business model generates profit. Relevant factors include pricing, cost structure, and sources of revenue.
2. **Operational level** responds to the internal processes and design of infrastructure that enables the firm to create value. This includes, for example, procedures, delivery methods, administrative processes, and resource flows.

3. **Strategic level** responds to the market positioning of the business and the overall direction of the firm. Key determinants include: differentiation strategy, cost-focused, stakeholder identification, and networks.

There are parallels between this *level*-based viewpoint and George and Bock's (2011) conceptualization of organizational structure. The latter authors have suggested that a business model encompasses three dimensions: resource structure, transactive structure, and value structure.

1. Offering parallels to *the economic level*, **resource structure** refers to the static architecture of the firm's organization, production technology, and core resources that are leveraged to serve customers.
2. Similar to *the operational level* **transactive structure** refers to the organizational configuration that determines key transactions with partners and stakeholders.
3. Similar to *the strategic level* **value structure** refers to the system of rules, expectations, and mechanisms that determine the firm's value creation and capture activities.

Several alternative perspectives have been adopted by scholars investigating business model innovation, namely sources of business model innovation (Chesbrough, 2003), corporate transformation (Johnson, Christensen & Kagermann, 2008), processes of innovation (Hayashi, 2009), firm performance (Demil & Lecocq, 2010), and barriers to innovation (Chesbrough, 2010). Mitchell & Coles (2003) have argued that a business model comprises the combined components of *who*, *what*, *when*, *why*, *where*, *how*, and *how much* involved in providing customers with products and services. The different levels of change to business models depend on the number of components and their degree of change. The scope extends from business model *improvement* (one element changes), *catch-up* (matching competitor offerings), *replacement* (more than four core components), and *innovation*. Business model innovation refers to replacing a business model in order to provide customers with previously unavailable products and/or service offerings.

Figure 1 outlines three *types* of business model innovation that have been proposed by Giesen, Berman, Bell & Blitz (2007):

1. **Revenue model innovation** - changing how the company generates revenue.

2. **Enterprise model innovation** - changing the internal structure of the enterprise.
3. **Industry model innovation** - redefining existing industries or creating new ones.

The proposed business model innovation framework embraces a holistic view that incorporates multiple interrelated components. Additionally, because there are similarities between the approaches adopted by Giesen *et al.*'s (2007) *types* of business model innovation and Morris *et al.*'s (2005) *operating levels*, integration is possible:

1. **Revenue model innovation** involves the company's *economic level*, e.g., innovating the pricing strategy and cost structure.
2. **Enterprise model innovation** involves the company's *operational level*, e.g., being a specialist vs generalist, and the outsourcing model.
3. **Industry model innovation** involves the company's *strategic level*, e.g., focused strategy, the economy of scope vs scale strategy (especially in the hotel industry).

Insert Figure 1 here

Business model innovation during crises

When businesses expect low or even no incoming cash during economic downturns, it is imperative to cut costs. However, scholars have cautioned companies about the risks of implementing broad, mandated cost cutting such as a 20% budget reduction across all departments (Kotler & Caslione, 2009). A preferable option may be to secure liquidity, ensure access to capital, and engage with policymakers (Monson, 2020). Several researchers have suggested that companies should look beyond the immediate financial threat, noting that those maintaining their marketing investments have performed better (Hunt, 2009; Mattsson, 2009; Srinivasan, Rangaswamy & Lilien, 2005).

Raggio and Leone (2009) adopt a product positioning approach in proposing a strategy of *just good enough* and *altered amortization*.

- **Just Good Enough.** Products are offered at the lowest price while meeting customers' minimum quality expectations. This strategy, however, risks undermining brand equity.

- **Altered Amortization.** Position the product over the long-term as offering better value. This approach will maintain brand equity.

It has been observed that crises may prompt a paradigm shift for business practice. The 2008 global financial crisis was a notable example. Corporate governance and the financial system were tightened afterwards, there was more scrutiny over capital financing, and consumers became warier in their purchasing. In this context the most successful companies were those that adapted to the new business landscape. Piercy, Cravens and Lane (2010) observed that companies seeking to prosper after a crisis should give particular attention to the following aspects of their strategies:

- Adapt to the changing economic environment,
- Better market analysis,
- Refocus marketing communications,
- Adopt a value-oriented business model.

The immediate challenges of COVID-19 for hotel businesses centered around restricted mobility and social distancing (Gössling *et al.*, 2020). As tourist destinations continued to lose prospective visitors due to travel restrictions, hotels struggled to generate revenues (Gursoy & Chi, 2020). Smaller-scale businesses across all industries were the most seriously threatened by the crisis (Bartik *et al.*, 2020). Scholars have called for the tourism industry to adopt a strategic approach when managing crises that encompasses pre-crisis, crisis, and post-crisis phases (Ritchie, 2004). If tourism enterprises are to be prepared during the pre-crisis phase, they will need to allocate adequate resources for planning (Pennington-Gray *et al.*, 2011). However, researchers have exposed the inadequacies of existing planning by industry when confronted by a global-scale crisis (Bhaskara and Filimonau, 2021).

Whilst the precise nature of the coming changes remains unclear, the hospitality industry will undoubtedly experience long-lasting impacts (Deloitte, 2020; Gössling *et al.*, 2020; McKinsey & Company, 2020). For example, easing travel restrictions and social distancing rules will be insufficient to guarantee a full recovery of restaurants and hotels (Gursoy *et al.*, 2020). Besides its immediate impacts, the COVID-19 pandemic has meant a highly uncertain future business environment. Examples of businesses with traditional business models rendered useless by the COVID crisis have been airline companies (Agrawal, 2021; Kökeny *et al.*, 2021),

accommodation sharing services (Gerwe, 2021; Gyodi, 2021) and restaurants (Bivona & Cruz, 2021). Meanwhile other sectors such as online food delivery (Dsouza & Sharma, 2021) have been better positioned to take advantage of the crisis. Increasing uncertainty has meant both higher risks and greater opportunities for small and medium-sized hospitality enterprises (Harms et al., 2021). Flexibility and agility can mitigate the vulnerabilities associated with a lack of resources and needs to be better understood. When hospitality businesses are seeking to recover customer trust and increase legitimacy, they will need to make significant changes to their business models (Gössling *et al.*, 2020). Flexible hospitality operations and an increased focus on corporate social responsibility are among the critical elements that should be integrated into current business models (Higgins-Desbioles, 2020). Smaller-scale chains operating in particular destination settings will need to acknowledge the co-dependency of their relationship with stakeholders to prosper beyond the current and future crises. This may involve leveraging suppliers, engaging in co-operation with peers and showing good intent to support government and community initiatives. CSR may help companies in various ways during emergency situations - easing stakeholder concerns, showing determination to combat the crisis and concern for societal well-being. Souto (2009) noted that CSR can help improve relationships with local communities, enhance brand image and reputation and improve the work climate in crisis situations. Of particular relevance to city tourism, some scholars have suggested that hotels should respond to large-scale crises by connecting with governments, local residents and complementary industries (Chien, & Law, 2003; Hung et al., 2018; Yu *et al.*, 2005). Dobie, Schneider, Kesgin, and Lagiewski (2018) highlighted that hotel CSR activities can contribute to destination resilience during disasters. Another prospective approach to business model adaptation is including customers as change partners through open innovation initiatives (Breier et al., 2021). This applies particularly in the case of tightly-knit and tourism-dependent regional cities and secondary destinations such as Chiang Mai.

The present case study focuses on how the two aforementioned hotels deployed *business model innovation* to cope with the crisis and to enhance their future preparedness, taking account of the CSR element. The following section provides a background to the COVID-19 crisis and its impacts on hospitality businesses in the Chiang Mai tourism region.

THE COVID-19 PANDEMIC AND CHIANG MAI HOTELS

Thailand was one of the first countries in Asia to encounter COVID-19 – in January 2020. The government responded by implementing nationwide preventive measures in February 2020, starting with mandated social distancing. Stricter policies were introduced in mid-March, including a city-based lockdown from March 27, 2020, until April or May depending on the city, and a 14-day quarantine for overseas arrivals into Thailand. All commercial flights entering Thailand were banned until the end of May 2020. Chiang Mai’s high season concluded abruptly in February 2020 with a sharp drop to a low season in March and then no season in April. Hotel companies announced the closure of their business operations to varying degrees; some decided to close for 1-3 months while a few closed down with little prospect of re-opening. Many hotels were placed on sale on the market. Hotel staff found themselves in a difficult employment situation, including the prospect of salary cuts, temporary leave without pay, and job termination. Following two months of uncertainty and confusion amongst hotels and workers, the Thai social security office finally issued a subsidy scheme for hotel workers in mid-April 2020. The government would pay hotel workers 62% of their salary for 3 months, up to a maximum ceiling. This was in addition to the standard 70% support for 200 days when unemployed. All hotels closed in April 2020 either formally or informally in order to take advantage of the government subsidy.

The hotel industry in Chiang Mai was in disarray during the two-months from March to April 2020. Table 1 groups the various properties into three categories, based on their status and some observations are noted underneath.

Insert Table 1 here

- No obvious pattern was evident by star-rating, type, or size of hotels currently operating or closed.
- Four hotels continued to operate both rooms and restaurants, albeit with extremely low demand.
- The hotels currently operating lowered their fixed salary costs by asking staff to take leave for some days every month. They may have been implementing other human resource policies, though did not disclose such practices when information was sought by the authors.

Hotel operators in Chiang Mai reacted differentially to the crisis. Some announced temporary closures whereas others terminated all or some of their workforce and others again mandated staff to take temporary leave. It is notable that the core asset of the hotel operation - staff - were the first to be targeted. A small number of hotels shifted their focus to new products and services that aligned with their core competencies such as food delivery.

Each hotel adopted a unique approach suited to their circumstances. The current authors acknowledge that practitioners and scholars can benefit from understanding management decision-making processes across different hotel types. However, this is out of scope for the present investigation and is suggested as a topic for future research.

Next, the rationale behind the methodological decisions of the study are explained and the findings are presented

SAMPLING AND DATA COLLECTION

The current authors have adopted a case-based research approach. Such a methodology is appropriate for an exploratory study and has relevance when the research question seeks to explain some present circumstances, e.g., *how* or *why* a social phenomenon occurs (Yin, 2013). Why conduct the study in Chiang Mai? The city was ranked as the third best city in the world by Travel+Leisure in 2019 (Travel+Leisure, 2019). It is one of Thailand's most visited tourist destinations. Visitation to the city grew from 4.6 million overnight visitors in 2012 to approximately 8 million in 2019. By way of context, Thailand as a whole attracted 39.8 million visitors during 2019. Of all top 20 TripAdvisor ranking and international chain hotels in Chiang Mai, only four remained in operation in April 2020 and the remainder were temporarily closed. As previously mentioned, the larger-scale hotels were the first to announce a temporary closure. Out of these four hotels, two accepted our request for access. The two luxury boutique properties potentially provide valuable perspectives on a viable business model which lends itself to flexible modifications to stay relevant through different circumstances.

The sampling base for the study consists of hotels in the Chiang Mai region. The research is mainly based on primary data gathered from the owner of two hotels (Hotels 1 and 2). In addition to semi-structured interviews with the owner, the research team accessed company documents and the accounts of the key staff about how the crisis unfolded, and how strategies

were adopted. To acquire comprehensive insights about the situation, the authors gathered data from diverse sources. They also addressed an important element of validating qualitative studies through the adoption of triangulation (Yin, 2013). Firstly, an interview guide was developed to understand respondent perspectives of the phenomenon (See Appendix 1). The research team decided to adopt semi-structured interviews as the primary data collection method following internal discussions, deploying probing and enquiry as necessary. The listed questions provide a starting point for what was asked of the owner and key managers. Besides interview data, various company documents were examined to observe the financial and operational actions taken during the crisis. The central question concerned how the hotels adjusted their business model to survive the COVID-19 crisis, with particular reference to financial and operational dimensions. The research is supplemented by secondary data about the policies and practices adopted by other hotels, by the Thai government, and financial institutions and from various sources such as newspapers, press releases, and hotels' websites and social media posts.

DATA ANALYSIS

As was described in the preceding literature review, the proposed theoretical framework draws upon combined inputs from Giesen *et al.*'s (2007) *types* of business model innovation and Morris *et al.*'s (2005) *operating levels: revenue model, enterprise model, and industry model innovations*. We integrated the interview data with company documents in a coherent structure in order to present a comprehensive view of the situation. We also tried to position the hotels under consideration within the wider industry context. After completing the interviews, each researcher independently searched for the most notable themes. Next, we compared and discussed our findings in order to determine common themes. We then examined the company documents for further elaboration of strategies that were followed during the crisis. As a result, we summarized our findings in a business model innovation framework that emerged from the data. The first author was excluded from data analysis processes in order to retain the most neutral perspective on the data.

FINDINGS

Case study of a small luxury boutique hotel group

This section will explain how the two hotels adjusted their business models during COVID-19. Some background to the two properties is appropriate. Hotel 1 opened in December 2015 and is situated by the main river south of the city. Hotel 2 opened more recently (in mid-2019) and is located in the historic city center. Prior to the current pandemic, it was already performing strongly in terms of both occupancies and revenues, albeit still in the early opening stage. Over the recent period, both properties received recognition including World's Luxury Hotel Awards, Boutique Hotel Awards, and TripAdvisor's Travelers' Choice Awards as luxury boutique hotels. This is an indicator of management proactivity to build a strong operation.

The two properties form part of a multidisciplinary group of companies providing integrated solutions for investment, property development, and hospitality. The companies across the group are now intertwined through three platforms:

1. **Investment:** private equity investments in real estate.
2. **Property development:** interior design and build, furniture, and materials for interior and exterior furnishings.
3. **Hospitality:** hotel, restaurant, spa, and travel.

Table 2 presents the business model of the hotels, drawing from the respective approaches of Giesen *et al.* (2007) and Morris *et al.* (2005). The proposed framework is divided into the pre, during and post-crisis stages. Pre-crisis, the hotels used their hotel-based offerings and resources to maximize profit. Hence, the properties were in a sufficiently strong financial situation to retain staff through a prolonged closure. While the hotels were eyeing the future post-crisis, management took immediate action to retain their limited cash. Strategically, the hotels adjusted their business model at every critical level including revenue, operation, and enterprise model elements. The hotel leadership formulated a future model with the end in mind – it would be insufficient to maintain operations and survive the crisis.

The primary financial objective of the hotels during the crisis was to maintain positive cash flow and the crisis provided the opportunity for a rethink. In the pursuit of greater resilience, management set a future path to balance profit and cash flows along with flexible adjustments in response to changing situations. Several changes of structure were required during the crisis and were implemented. These included sharing resources with other businesses (reducing fixed costs), adding responsibilities for staff with a focus on non-hotel product

offerings (unlike rooms, this would provide potentially unlimited revenues), and replacing fully fixed salaries with a partial incentive compensation plan.

Insert Table 2 here

Anticipated changes to customer behaviors post COVID-19 are likely to propel the hotel industry into what has been described as the “new normal”. Decreased customer trust in destinations and hotels, increased sensitivity to sanitation concerns, avoidance of human contact are among the significant behavioral changes that will challenge hospitality businesses (Gursoy & Chi, 2020). In preparing for this eventuality, the subjects of the current investigation have been adjusting their product offerings (e.g. adding delivery services; converting the spa area where near-term was reduced to a shop selling hotel amenities). Many operational details were revisited. During the crisis, all hotel personnel from the two properties were combined into a single team operating from one of the hotels. The other property was temporarily closed. It was also important to consider different guest behaviors. When making reservations, guests were less likely to make bookings under a non-refundable condition; however, a refundable condition would add little value to the hotels. The hotels responded with a flexible, non-refundable scheme. This allowed the hotels to charge advance stays immediately, thereby generating a small amount of extra cash which would be invaluable during the crisis. In terms of personnel, housekeeping would be a critical success factor compared with the situation pre-crisis. Relatively speaking, others might be less valuable. The end-game was always considered when managing resources during the crisis. For example, all hotel housekeeping staff were retained and received special training. Meanwhile, a few staff in less critical departments opted to leave the company, though this was not a hotel requirement or policy.

From an enterprise model perspective, a hotel is an asset-heavy, income-generating property and is typically managed by a hotel management company. This typically works best when the property has a scale threshold, typically 200 keys and above. However, in Chiang Mai where city regulations limit the scale of new developments, new hotels can anticipate a range of between 15-30 keys. An optimal and successful model must balance the development, investment and operational models. The current hotel subjects have the advantage that much of the development was undertaken in-house. An owner-operator model was adopted, providing management significant cost savings and operational flexibility. The future longer-term development plan is to evaluate an asset-light model, including a lease model, co-investment

(i.e., with landowners), franchising, and hotel management (manage other hotels). As another example of investing for future growth potential, the hotels recently created an academy program in association with a Chiang Mai hotel school - the first such collaboration in the city.

From a cash flow perspective, Table 3 illustrates how the hotels transformed themselves when revenues dropped to below 10% compared with the pre-crisis performance. More importantly, the properties focused their efforts on programs that fit the longer-term plans. Managing the crisis needs right-minded leadership and the involvement of everyone in the organization with timing being critical. The hotels started crisis management early – in January 2020. There was pressure to make swift decisions with plans being frequently revised during the early stages. Weekly corporate-wide communications were arranged. Staff fears about uncertainties were mitigated through constant communications and managing expectations. The declared intention of keeping staff employed was turned into a positive spirit and winning team mentality. A spirit was adopted of “going the extra mile”, e.g., food and beverage service staff and butlers drove their bikes to deliver food.

Insert Table 3 here.

The drive for reduced fixed costs and even lower expenses

Staff constitute the major fixed cost for the two properties. Under normal circumstances management deploy part-timers and trainees to handle the demand spikes in the high season and peak periods. This pre-crisis approach to human resources allowed the hotels to manage a pool and peel off the extra part-time staff when demand dropped. Table 4 displays the number of staff per available rooms in luxury boutique hotels for the TripAdvisor top 20 ranking, before the COVID-19 crisis. The Chiang Mai hotels had a relatively low number of full-time staff. The hotels’ full-time staff per room ratio was much lower than in other luxury boutique hotels by a factor of 1.5-2.5.

Insert Table 4 here

During COVID-19, the Chiang Mai hotels opted to 1) terminate all part-time staff, 2) share or relocate some staff to other businesses in the group of companies including furniture, materials and hotel supplies companies, and 3) adjust the salary of the remaining staff from fixed salary to a mix of fixed salary and incentive scheme. Thus, the already modest staff fixed

costs became even lower. To avoid burdening the other businesses, the shared and relocated staff were placed on an incentive program. The more they could sell, the more they would earn. Another benefit is that the staff have been equipped with new skills including sales, coordination, stocking, and social media. It is anticipated that the performance of the team will be further enhanced when the economy is back to more normal trading conditions. Staff offer the prospect of generating another source of income for both the hotels and for the various companies across the group.

Cutting costs and expenses

The hotels deployed an aggressive cost-cutting program on every front. All non-critical expenses were eliminated. Spending was reduced on nonessential items, the hotels generated incoming cash by selling off stock, and of course avoiding a complete restocking. As some of the expenses were unavoidable, the hotels tried to negotiate with suppliers to defer payments until after the crisis.

Increase non-room revenues and add new channels

Before the city shutdown, the hotels tested the market by lowering room rates by 20-30% to show that rates were not a barrier for immediate stays. As the country implemented stricter policies in April 2020, there was no room demand. In the circumstances the Chiang Mai hotels focused on a few initiatives:

- **Food.** The government ordered a shut-down of dine-in restaurants in April 2020. The hotels started a food delivery initiative since February and ramped up the operations very quickly. The hotels created followers on Facebook and LINE. Daily promotions were sent out to members. Because all restaurants and hotels would turn to food delivery, the proposed value proposition was on sought-after, quality food targeting the medium to high-income segments. The hotels decided to invest in a new wood-fired pizza during this time to position themselves among a few restaurants in the city offering this type of cuisine.
- **Cleaning service.** The hotels promoted cleaning services for homes. This would utilize the free time of the housekeeping staff. The five-star hotel cleaning quality during this

time when hygiene was important made the service attractive and was gaining traction. Management believe that this segment offers good potential.

- **Operating supplies & equipment (OS&E) and furniture sale.** The hotels are part of a group of companies that sell furniture, materials, and hotel supplies. Utilizing the rich database of previously hotel guests who reside in Thailand, the hotels created an initiative to focus on selling hotel amenities, supplies, and furniture to their domestic customers.

Bringing in cash from advance bookings

The traditional division into refundable and non-refundable rates was not working during the crisis, and this pattern may continue post-crisis. Customers were not booking and paying for non-refundable rates when there was so much uncertainty with the COVID-19 and their future travels. On the other hand, refundable rates might attract customers. However, the hotels might not benefit from this approach because customers could always cancel after making reservations. A *flexible, non-refundable* scheme was implemented, intending to bring in cash now on future stays. This scheme provided customers with peace of mind and generated sizable chargeable future revenue as a consequence. Furthermore, as bookings could only be made directly with the hotels, this allowed the properties to communicate and customize the packages according to each customer, thus enhancing satisfaction. The hotels may have been the first to implement such a *rate which whilst non-refundable is flexible*. Leading OTAs such as Agoda, Expedia, and booking.com have not yet configured their systems for such schemes.

Secure financial support

It has been noted previously that hotels are capital intensive. It is commonplace for properties to have taken out loans from banks and investors. In the case of the current hotels, monthly debt servicing accounts for a large portion of the monthly cash outflows. The hotel management anticipated the upcoming difficult period and started negotiations with the banks during January 2020. Though the banks had no immediate relief programs in place until April 2020, the hotels managed to persuade the banks to defer principal payments by 24 months starting February in 2020. The hotels also negotiated successfully with their banks to give special reductions on interest rates and to defer the payment of certain interest amounts to 2021. As a result of the effort, the hotels were able to keep their limited cash in reserve during the lowest time. In April

2020, the Bank of Thailand announced the issuance of a large stimulus package to companies. A low-interest Soft Loan (2%) would add financial safety to hotels to survive the crisis period. An application was being submitted for a Soft Loan at the time of writing.

Leveraging government support

While other hotel groups were announcing temporary or permanent closures of their properties from March 2020, The Chiang Mai hotels management adopted a “wait-and-see” approach premised on the expectation that the government would introduce a support program. The reason that other hotels adopted a strategy of closing abruptly may be seen to stop the bleeding during an uncertain situation. Hundreds of hotels in Chiang Mai announced a temporary closure of their business for 1-3 months. Some were more aggressive and closed for at least six months. For some, there was a real prospect of permanent closure. Tens of thousands of hotel staff were on temporary leave without pay and some lost their jobs. Hotels were closed in March 2020, and staff were compensated with a half to three months salary. The Chiang Mai hotels' strategy finally paid off in April 2020 when the government announced financial support. In summary, the hotel staff could get 62% from the government for 3 months from April to June 2020. There was also a way to add 70% for a further 7 months. This would mean a 62%-70% government subsidy. The hotels would support the remaining amount to reach 100% or more based, on their income generation performance. In other words, the hotels had shifted their staff from fixed to variable costs.

Staff training

An important opportunity arose from the crisis. Previously, there was an exclusive focus on day-to-day operations. During the crisis, about 20% of the staff's time was allocated to training with a particular focus on reskilling and upskilling. Enhancing future skills was essential as the hotels were redesigning their products and services to accommodate the new normal.

The findings, contributions and limitations of the study are discussed in the following section.

DISCUSSION

The COVID-19 pandemic has caused dramatic impacts globally - health, economic, social, and financial – and at every level (individuals, companies, and countries). At the time of writing in April 2020, the spread of infections in Thailand has fallen. The tourism industry has been on pause since March 2020 and is expected to resume slowly starting in the final quarter of 2020, albeit with persistent uncertainties. Most hotels in Chiang Mai closed their operations. Some laid off staff and the future for many is unclear.

Theoretical Implications

As mentioned earlier, Figure 1 presents a holistic view of the components of business model innovation, including revenue innovation, enterprise model, and industry model. Such innovation models help firms to leverage competitive advantage and thereby survive during crises. However, such models are limited to building leads or maintaining relationships between firms and their stakeholders, including customers, employees, government agencies, competitors, unions, suppliers, local communities, and the general public, who monitor firms' actions during or post- crisis. Strong relationships help firms to build a strong brand image which can help chart a future direction for the organization. As is noted in Figure 2, the crisis has provided a potential starting point for the various business model innovations.

Discussions have occurred through the COVID-19 crisis about how firms can benefit society by minimizing the negative impacts. It has been widely observed that the crisis has led to layoffs in firms, thereby generating social problems for both governments and enterprises. Employees are an internal stakeholder for firms within the micro-environment, leading to responsibilities for their well-being during crises. Since current business models have focused on revenue maximization or cost minimization, firms have been unable to develop dynamic business models to meet social aspects relating to internal stakeholders such as employees. In the current cases, the hotels restructured employee positions based on responsibility and a sustainable payments plan, instead of layoffs.

Another discussion has considered how firms can benefit the local community as external stakeholders from a macro environment perspective, with a view to establishing strong ties during the crisis. Such activities will potentially shape firms' revenue-generating and brand-building strategies. For example, some hotels globally have opened their doors to healthcare employees who have been treating COVID-19 patients. However, many hotels have declined

to follow such a strategy due to concerns that the virus may undermine their brand and thereby influence future operations. From this perspective and since the support of local communities is critical for operational effectiveness, firms need to adapt their business models to meet community requirements for longer term survival. Therefore, the current authors deploy the “rings of an onion” metaphor to explain the interplay between the social and the economic and between the enterprise (operational) and the industry (strategic) from a micro through macro environment. As can be seen this case, firms should adopt business models with social aspects to minimize the effects of different types of crisis. Employees should be the first consideration, since human capital is critical in formulating/implementing unique strategies and for the dissemination of social practices. The second point should be meso level, including competitors, suppliers, and customers. The actors are critical because they shape the position of a firm within the wider industry. The last point should be communities and governments that monitor the operations of the firm to certify their legitimacy as sustainable businesses in the market.

Insert Figure 2 here

Though generally congruent with the relevant literature, our study extends previous findings. Monson’s (2020) identification of responses to crisis noted the securing of liquidity and engagement with policy makers. Other scholars recommended looking beyond the immediate threat and anticipating the post-crisis period (Hunt, 2009; Matsson, 2009). This has included recommendations to increase CSR efforts as an effective coping mechanism (Higgins-Desbioles, 2020) and connecting with governments and local residents (Huang *et al.*, 2018; Yu *et al.*, 2005). There are certainly commonalities between previous findings and the actions of hotel managers in the current case. Nevertheless, this study contributes to the growing body of knowledge on the adaptation mechanisms of hospitality firms during crisis situations. Firstly, studies of crisis management in hospitality have rarely examined the long-term strategic aspect of managerial behaviors (Leta & Chan, 2021). Our findings indicate that hospitality managers should consider both the short- and long-term when making decisions during a crisis. This requires a commitment to envisioning the future marketplace while coping with the present. Our paper has extended previous work by observing the importance of adopting an ambidextrous approach when dealing with multiple time horizons. Secondly, crisis management stakeholder relationships have been an under-explored topic in hospitality (Leta

& Chan, 2021; Wut, Xu & Mong, 2021). Our study has identified stakeholders as key actors in crisis management and has shed light on their roles (see Figure 2). We also maintain that strong stakeholder relationships are critical for hospitality firms seeking to chart a new direction post-pandemic. We have extended the previous work on crisis management stakeholder relations into the hospitality management domain. Thirdly, it is noted that tourism in urban areas across the world has received a devastating blow from the COVID-19 crisis (Anguera-Torrell *et al.*, 2021). This is forcing policy makers and business owners to adapt to new urban tourism norms (Koh, 2020). Though many scholars have emphasized the prominence of government and business collaborations in managing the COVID-19 crisis (e.g. Im *et al.*, 2021; Koh, 2020), few have examined the operational business mechanisms underpinning such initiatives (e.g. Usher *et al.*, 2020). The current study contributes to the urban tourism literature by providing a business model adjustment framework that includes government and other stakeholders in seeking crisis resilience. We locate hospitality businesses within a larger ecosystem and suggest guiding principles towards recovery from the current crisis.

Practical Implications

This paper has provided a case study of two hotels. It has been revealed that the hotel group followed four strategies in an effort to survive the crisis brought by the COVID-19 outbreak as managerial implications. These are to: 1) identify critical components to survive the crisis, 2) envision the future post-crisis, 3) align the critical components of the crisis and post-crisis periods, and 4) take action immediately.

1. **Identify critical components to survive the crisis.** The main objective is to maintain positive cash flows. This includes generating revenues in new ways and cutting costs and expenses to a bare minimum. Finance plays a big role. It is important to win support from the government and to negotiate with banks and creditors for debt service reductions and deferment.
2. **Envision the future post-crisis.** It is uncertain when and whether business will return to previous pre-crisis levels. The market environment and customer behaviors will change. Thus, the strategies and business models prevalent in the pre-crisis era will not guarantee future success. The hotels will keep their fixed salaries low with a mix of full- and part-time staff and the sharing of resources with other businesses. The fully fixed salary is also

changed to an incentive scheme. Furthermore, revenue streams are enhanced through non-hotel offerings (hotel amenities, hotel supplies, furniture).

3. **Align the critical components of the crisis and post-crisis periods.** All critical components for the crisis and post-crisis periods are listed and prioritized.
4. **Take action immediately.** The hotels were able to prolong the business and retain their staff because they took early pre-emptive actions. They relentlessly pursued their objectives and were successful even before any formalities, i.e., when successfully requesting that their banks reduce and defer debt servicing prior to the introduction of the banks' countrywide policies.

Limitations of the Study

This case study was assembled during March-April 2020 when most hotels in Chiang Mai were closed and serves as a prospective framework for future researchers. Hence, it has some limitations. The authors used their personal connections to contact the managers of various hotels for the purposes of gathering insights. However, due to their priorities and concerns about confidentiality during a competitive crisis environment, all contacts declined to provide insightful information in response to probing questions. For this reason, the information gathered was limited and somewhat generic. Therefore, we do not claim broad generalizations from the research findings. The researchers urge the conduct of comprehensive macro-level studies to obtain a more complete picture about the topic of interest once the longer-term impacts of COVID-19 have become more evident.

CONCLUSION

Many industries have been undergoing transformational changes due to the COVID-19 crisis, including hospitality and tourism. While the crisis has caused major environmental uncertainty for both tourism regions in general and businesses in particular, the latter have handled adversity using a variety of methods. We have examined how a small hotel chain has overcome its disadvantages in terms of size and resources to navigate the crisis. Meanwhile the unpredictability of processes associated with the pandemic are still pointing towards an uncertain industry future. Our findings provide extensions to theory as well as contributions to

practice. Although we do not claim generalizability for our findings, we believe this study will serve as a stepping-stone to fruitful future research possibilities.

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APPENDIX 1: INTERVIEW GUIDE

- 1) Could you inform us about your business in general?
- 2) Could you describe how the hotels operate?
- 3) How did you react when the pandemics started?
- 4) What actions have you taken to react to the crisis? What were your priorities?
- 5) Have you formed any strategies to mitigate the effects of COVID-19? How did they play out during execution?
- 6) How did you coordinate the efforts of your staff during the crisis?
- 7) What is your guess for the immediate effects of the pandemics to the hotel industry?