

## **Analysis on Risk Management of the Small and Medium-sized Travel Agencies**

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**Keywords:** travel agency; tourism industry; risk management.

**Abstract.** Tourism industry is a fragile industry, any element that may influence the social life can have a direct impact on tourism industry. The impact can make tourism receive a great loss. The tourism enterprises must set up risk management system, strengthen responsibility consciousness in the management through a series of the regulations, implementing a comprehensive prevention, strengthening contract management and avoiding the legal risk.

### **Introduction**

The management of tourism enterprise accompany with the risks due to the changes of their environment and resources. The risks of the tourism enterprise include natural risk, policy risk, financial risk and market risk. The degree of risk is determined by the gap between the actual output and the expectation. The purpose of the risk management is to do management actively before the uncertainty of the tourism enterprises so that the tourism enterprises can reach their goal with their corresponding high efficiency, their best methods, and complete their mission.

Combining with the definition of the ordinary enterprises risk management, the definition of tourism enterprise risk management is that some accident is uncertainty in the process of management that includes uncertainty of positive results and uncertainty of losses.

### **Development Situation of the Small and Medium-sized Travel Agencies in China**

**A. Lower Level Repeated Tourist Routes.** Lack of innovative products development is one of the important reasons that trouble the rapid development of travel agencies. The small and medium-sized travel agencies would like to act as the followers of the market due to their weakness. Once the welcomed tourist routes are found in the market, all the travel agencies will repeat the tourist routes so that the tourism products will be short of characteristics, all of them will try to simulate, consequently, results of the price wars make the benefits of all the travel agencies hurt in many respects.

**B. Imperfect Specialized Division of Labor System.** In general, the travel agencies in China practice horizontal division system. Namely, from the development to the reception, all the departments seldom have relations with business. They all do their own parts. This kind of management needs many links. On the one hand, it increases more management cost, on the other hand, it makes the project management lack in depth so that low-level development of the products weaken the attraction of the products to the tourists.

**C. Lack of Capital and Lack of Promotion.** The capital is the main element that decides the scale of the travel agencies. The travel agencies have difficulty in designing products and marketing promotion because of the limited capital, the travel agencies have no capability to resist the risk to develop the new products so that the travelling routes follow the fashion or tend to be unilateral. In addition, the travel agencies fail to establish sale outlets, building the site and employee training is also influenced due to lack of the capital.

**D. Low-price Competition Faces Credit Crunch.** The small and medium-sized travel agencies lower the price down with great effort to get more tourists for their existence and they force reception travel agencies' price down amid the severe competition. The reception travel agencies reduce their prices before the competitive pressure. But they lower the standard of service, finally leading to the tourists feeling disgusted with the group-organizing travel agencies, even the disputes taking place. The group-organizing travel agencies impose pressure on the reception travel agencies when confronting with various complaints and grievances even they do not settle this account. The vicious cycle leads to tourists, group-organizing travel agencies and reception travel agencies complaining each other so that the travel agency industry faces the severe credit crunch.

## **Tourism Industry and Risk Analysis**

**A. Natural Risk.** Tourism enterprises facing the natural risks include earthquake, flood, pestilence and so on. These risks are Force Majeure Risks. They can have negative affect on the tourism industry, such as the 911 event, SARS, the 5. 12 earthquake and so on. When these Force Majeure risks happen, the tourism industry is the first indirect victim with a long negative effect. The events cannot be avoided. The tourism enterprises must face this kind of risk so that the tourism enterprises can only receive the impact passively, taking initiative to reduce losses.

**B. Policy Risk.** Policy risk refers to the adjustment of the state and local government related to the tourism industry and the project policy produce possibility of the negative effect on the results of the tourism enterprises. As risky sensitive industry, introduction and alteration of the related support policy, change of tax and law policy, the adjustment of state-owned property rights and administrative rights are all important resources of the tourism enterprises. The risky enterprises need study relevant to laws and governmental policy, master the trend of change, understand early and avoid bad policy, they are supposed to be well prepared to cope with the bad policy beforehand.

**C. Financial Risk.** Financial risk means that various uncertain elements lead to possibility of loss in the process of financial transactions. Travel agencies mainly face the following financial risks. Firstly, foreign currency risk, when various currencies are exchanged or converted, a possibility of losses or gains may arise due to fluctuation of exchange rate. Secondly, funding risk and financing risk, funding risk takes place due to liabilities, but sovereignty capital undertakes additional risk. Thirdly, rate of interest risk, policy interest rate is adjusted in financial market in China once a while, and produce a great influence to the funding and loaning of the travel agencies.

**D. Market Risk.** In terms of the travel agencies, uncertainty of the market is a prominent question for the travel agencies, since tourism consumption is a kind of elastic consumption. For one travel agency or travel agency groups at the destination, the changes of market is impacted by politics, economy, law, culture, nature and so on, products of the travel agencies may not meet the need of market actually due to instability of market. Nobody cares about buying products, leading to them being unsalable. The travel agency industry gets a big loss on the aspects of development and promotion of products. Thus, during this period the market risk is the main risk of the travel agencies.

## **Perfect the Risk Prevention Mechanism of the Tourism Enterprises**

**A. Establishing and Perfecting the Rules and Regulations of the Enterprises.** If there are no regulations for business decisions, investment, finance management and legal affairs, random behavior will show up. The motivation and restriction leads to disorder, then, enterprises face risk. Strengthening risk management is consolidating regulations perfecting, strengthening including perfecting legal person management structure, finance management, important investment project risk early warning and so on. At the meantime, establishing emergency prevention mechanism, establishing working information collection report and analysis research mechanism.

**B. Strengthen Responsibility Forming Responsible Working Mechanism.** Lack in sense of responsibility is the main issue that the enterprises are faced with. Provided that the responsibility of

precaution is taken, this will positively affect the process, the risk prevention system will be set up. Hence, the dissension after event will lessen. The risk prevention of enterprises is the objective that needs taking precaution to implement at every level as well as clarify the obligations. Furthermore, certain measures should be carried out exactly with respect to practice.

### **Perfecting Legal Risk Prevention Mechanism**

The enterprises legal risk can be preventive or manipulative beforehand, so afterwards the investigation lacks economic significance. The enterprises should erect the idea of the previous prevention and process control. 1) The responsibility of the various departments and post is standardized by means of the rules and regulations. In the legal risk prevention, guard against together before the legal risk. 2) Three defense lines of risk management are established for the business department, legal department and audit department with exploring and establishing whole risk management system. 3) Clearing the legal risk is the main control points, further with investment, marketing, purchasing, large amount of money payment and so forth. 4) The contract management is strengthened, making various model contract forms, avoiding raising the legal risk because of the contract terms including the illegal business.

### **Conclusion**

According to National Tourism Bureau statistical data information, till the end of February 1<sup>st</sup> 2012, the insured travel agencies in China were reported 1969 cases, among which, the reasons of the tourists' heavy casualties include traffic accident 11.15%, ordinary accident 66.7% and so on. The reasons of non-heavy casualties include the cancelled travel 20.6%, the travel delay 50.3% and so on. From above on, the risk management lag of the small and medium-sized travel agencies fail to adapt to their rapid development so that risks are susceptible to take place, especially when the huge risk come, people often have no ways. It is necessary to research on the risk management of the small and medium-sized travel agencies. Its results serve travel agency management, making the small and medium-sized travel agencies develop healthily, maintaining consistency of China travel agency management and foreign countries travel agency management, so the small and medium-sized travel agencies can face danger fearlessly.

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