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RISK MANAGEMENT PROBLEMS AND SOLUTIONS IN RURAL TOURISM IN LATVIA

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Abstract

As project management practice expanded in national and nongovernmental organizations in Latvia, the role of various project-related activities increased. Latvia is a Member State of the EU that obtains EU funding and implements a lot of EU co-funded projects in various industries of the national economy, including rural tourism. In Latvia, rural tourism is defined as a kind of tourism aimed at offering tourists opportunities to rest or use tourist accommodation facilities in countryside based on local social, cultural and natural resources. Implementing a project involves potential problems or risks that can affect the pace of the project implementation. Rural tourism projects are exposed to both industry-specific risks and classical financial, technological, administrative, human resource, fraud and legal risks. National institutions, associations and countless private entrepreneurs that have received EU funding for their project proposals under support programs deal with project implementation. The association PierigasPartneriba, the administrations of Kurzeme planning region and Vidzeme planning region, the association Rural Traveler etc. could be referred to as one of the largest project implementers in terms of amount of funding involved. Risk management is a component of project management that deals with a successful and effective project implementation pace; therefore, it is important to identify how to minimize every potential risk. The aim of the paper is to identify risk management problems and solutions in rural tourism in Latvia based on an analysis of relevant research investigations. A content analysis revealed main risk management problems and solutions to the problems. A solution could be found to most of the problems with rural tourism projects even if a risk occurs unexpectedly, and a solution is easier to find to a timely identified risk, as well as more time is available for finding the solution.

Keywords: Risk, Risk Management, Rural Tourism, Projects.

1. Introduction

Rural tourism is popular in Latvia. An increasing number of individuals look for an opportunity to rest not only during their leave but also during weekends and short holidays near their places of residence. In Latvia, rural tourism is defined as a kind of tourism aimed at offering tourists opportunities to rest or use tourist accommodation facilities in countryside based on local social, cultural and natural resources (Tourism Law, 1999). The association Rural Traveler, which supports rural tourism entrepreneurs in Latvia and makes efforts to improve rural tourism infrastructures and implements rural tourism-related projects as well as produces informative materials for this industry, suggests the following definition: rural tourism is a kind of tourism aimed at offering tourists opportunities to rest and/or use tourist accommodation facilities in populated rural areas, except cities under state jurisdiction, based on local social, cultural and natural resources (Rural Traveler, s.a.).

One of the aspects in regard to risks is the supply of services of rural tourism in particular. A successful tour, without any problem, could be made owing to good planning and safety as well as success. Entrepreneurs have to offer tourism activities that are safe and, at the same time, attractive to clients. An understanding of risks and dangers is an important prerequisite of safety. This understanding is necessary for assessing the risks and managing them. The purpose of risk management in rural tourism is to reduce losses for clients and entrepreneurs.
Second, an assessment of risks in rural tourism should involve identifying and assessing also natural risks, climate change-related risks in particular. Assessing all climate change-related risks and preparing for them gives a possibility to avoid losses in the future. Rural tourism is affected by factors such as cross-border pollution risks and environmental degradation risks in active tourism areas. Any rural tourism business has to change to keep up with time, otherwise losses are incurred.

The third reason for assessing risks in rural tourism pertains to project management. In Latvia, countless projects have been and still are implemented in the tourism industry, being co-funded by the EU Funds. The projects are mainly aimed at developing new tourism services or enhancing the existing ones, and risk management is an important component of the management of the projects.

In Latvia, a number of research investigations focusing on risk identification and management have been carried out at Latvia University of Life Sciences and Technologies within doctoral dissertations and master papers as well as by public sector organisations. The aim of the paper is to identify risk management problems and solutions in rural tourism in Latvia based on an analysis of relevant research investigations. The main research method employed by the research is content analysis. Limitations of the research: information sources are research studies, doctoral dissertations and master papers.

2. Specifics of Risks in Rural Tourism

The first specific task of the research aims to characterize the specifics of risks in rural tourism. Usually, a risk is of an event nature that could be predicted. An event is probable, as it might occur or not occur, and it might affect other events. If an event occurs, the effect might be both positive and negative (Uzulans, 2010). From the philosophical perspective, a risk could be defined as follows: it is a situation or event, in which something is at stake (including individuals themselves), and the outcome is unclear (Jaeger et al., 2001). The definitions overlap across a number of keywords, and the authors define a risk as an event of an uncertain nature that might or might not occur, causing uncertainty over achieving a goal.

Table 1. Risk Assessment System for Rural Tourism Enterprises

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
<th>Characteristics</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Possibility of risk occurrence</strong></td>
<td>1</td>
<td>very small</td>
<td>once in a century</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>small</td>
<td>once in 10-25 years</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>minor</td>
<td>once in 5-10 years</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>medium</td>
<td>once in 3-5 years</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>high</td>
<td>once in a year</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>very high</td>
<td>several times in a year</td>
</tr>
<tr>
<td><strong>Possible amount of losses</strong></td>
<td>1</td>
<td>Insignificant losses</td>
<td>around EUR 150 per year</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>minor losses</td>
<td>around EUR 300 per year</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>acceptable losses</td>
<td>around EUR 500 per year</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>medium losses</td>
<td>around EUR 700 per year</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>significant losses</td>
<td>EUR 1400-4000 per year</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>large losses</td>
<td>more than EUR 4000 per year</td>
</tr>
<tr>
<td><strong>Period of risk influence</strong></td>
<td>1</td>
<td>Occurs in a long period, providing possibilities for reduction of its influence</td>
<td>risk occurrence is known several months/years in advance</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Occurs quickly, but its influence appears in several periods of account. Possibilities for internal warning are restricted</td>
<td>event is followed by expenses in a certain period</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Occurs suddenly, its influence appears at once</td>
<td>without a warning</td>
</tr>
</tbody>
</table>

*Source:* authors’ construction based on Zvaigzne A. (2005)
A few research investigations into risks in rural tourism in Latvia are available. The first and most extensive research was a doctoral dissertation Risk Management in Rural Tourism Enterprises in Latvia by A.Zvaigzne (Latvia University of Life Sciences and Technologies). The key findings of the dissertation are as follows:

1) risk identification in rural tourism – “risk is a possibility of an event or a set of simultaneously accidental events with positive or negative, particularly advantageous or disadvantageous economic consequences for a rural tourism enterprise”;

2) the three stage approach to risk management in rural tourism enterprises encompasses:
   • identification of the kinds of risks the enterprise might face,
   • determination of the potential impact of the risks identified,
   • minimization of each potential risk (Zvaigzne, 2005);

3) nine key problems for rural tourism enterprises, which can affect tourism project implementation, and the solutions;

4) a system designed for assessment of risks for rural tourism enterprises, which can affect tourism project implementation, with relevant explanations provided, which is useful for assessing project risks and creating a risk matrix for ranking the project risks identified (Table 1).

The research findings could be applied not only to tourism enterprises but also to project management, as projects are an integral component of enterprise operation.

3. Assessment of Natural Risks in Rural Tourism

Rural tourism services are provided in rural areas. Accordingly, the second specific task of the research aims to argue the need for assessing natural risks. Traditionally, tourism is perceived as an industry being sensitive to climate and volatile. It is important to comprehend a connection between tourism and its role in sustainability, which involves the protection and management of natural resources that represent the basis for economic and social development. Rural tourism exploits the natural environment, yet at the same time it has to take care about ecological processes in order to preserve natural heritage and its diversity. In general, there are many known risks in the tourism industry in Latvia. The key sources of relevant information are research studies done by tourism enterprises and an assessment of climate change in Latvia; besides, the researches have identified risks with both positive and negative effects (Assessment of Risks and Vulnerability…, 2016).

Entrepreneurship in rural tourism is exposed to the risks of climate change and weather conditions during all the four seasons. Weather represents a relatively unpredictable risk, which everyone is aware of, yet in Latvia the weather could be accurately forecasted for not more than two weeks. Just like risks, weather involves uncertainty, although the fact that the weather could change, is known, and as accurate a weather forecast as possible is of great importance.

The findings of the mentioned assessment that pertain to the rural tourism industry and the risks in the industry are as follows:

1. Pronounced seasonality is typical of the natural conditions in Latvia, which is one of the key factors affecting tourism in Latvia;

2. The assessment reveals the key climate-change related risks associated with the tourism industry in Latvia:
   • risk of change in the duration and other characteristics of the winter season,
   • risk of floods (high water levels in rivers and lakes),
   • risk of flooding and erosion of the coast of the Baltic Sea and the Gulf of Riga,
   • risk of change in the duration and other characteristics of the summer season (Assessment of Risks and Vulnerability …, 2016).

Table 2 presents the key risks specific to Latvia.
### Table 2. Climate-Change Related Risks for Tourism in Europe and the World

<table>
<thead>
<tr>
<th>Risks</th>
<th>With Positive Effects</th>
<th>With Negative Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Risk</td>
<td>Description</td>
</tr>
<tr>
<td></td>
<td>Increase in the average air temperature</td>
<td>Can contribute to beach and internal water tourism and longer tourist stays</td>
</tr>
<tr>
<td></td>
<td>Increase in the average water temperature</td>
<td>Can contribute to beach and internal water tourism and longer tourist stays; cruisetourism throughout the year</td>
</tr>
<tr>
<td></td>
<td>Extended swimming season</td>
<td>Can contribute to beach and internal water tourism and longer tourist stays</td>
</tr>
<tr>
<td></td>
<td>Volatile precipitation</td>
<td>Can affect any kind of outdoor tourism in case of unexpected precipitation</td>
</tr>
<tr>
<td></td>
<td>Change in the wind regime</td>
<td>Can promote wind-related tourism (surfing, kiteboarding, sailing, flying with a balloon etc.)</td>
</tr>
<tr>
<td></td>
<td>Chance in the duration and other characteristics of the tourism season</td>
<td>Can extend the summer tourism season and increase revenues</td>
</tr>
<tr>
<td></td>
<td>Change in marine, coastal and inland fauna and flora</td>
<td>Can promote the disappearance of undesired species (mosquitos, ticks, insectsetc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Authors’ construction based on Assessment of Risks and Vulnerability and the Identification of Adaptation Measures for Landscape Planning and Tourism, 2016

Some risks have both positive and negative effects and rural tourism services, depending on risk materialization, could be diversified.
4. Project Management Risks in Rural Tourism

The third specific task of the research aims to analyze risks in rural tourism in the context of project management. Latvia is a Member State of the EU that obtains EU funding and implements a lot of EU co-funded projects in various industries of the national economy. The legal framework for EU funding management is applicable to such projects and project managers. Since the achievement of any goals involves uncertainty posing risk to a successful outcome, the European Commission has set a requirement for the Member States to introduce an EU funding management framework encompassing risk management (Risk Management Strategy, 2014). This means that many projects planned and implemented in Latvia in the period 2014-2020 have to be risk-managed in accordance with the Risk Management Strategy for the Programming Period 2014-2020. In Latvia, in parallel with the strategy, Cabinet Regulation No. 326 prescribes basic internal control system requirements, including a requirement to manage risks and the procedure for organizing, supervising and enhancing risk management, forming supervision institutions (Risk Management Strategy, 2014). With regard to risk management, the Cabinet regulation stipulates identification of internal and external risks (that could hinder institutions from achieving their goals), assessment of risk occurrence probability (risk severity) and risk impact (on goal achievement) and the determination of an acceptable risk level (classifying the risks from high to low).

A single database on all rural tourism projects has not been established in Latvia. National institutions, associations and countless private entrepreneurs that have received EU funding for their project proposals under support programs deal with implementing such projects. The association Pierigas Partneriba, the administrations of Kurzeme planning region and Vidzeme planning region, the association Rural Traveler etc. could be considered to be one of the largest project implementers in terms of amount of funding involved. After summarizing information on rural tourism and rural areas, one can conclude that the rural tourism projects implemented throughout Latvia, except cities under state jurisdiction, are aimed at providing tourists an opportunity to rest and use tourist accommodation facilities based on local natural, cultural and social resources. Regardless of the size of a project or a field where the project is implemented, the project is exposed to risks. Every project involves some uncertainty related to the activities implemented during the project, which might affect the outcome of the project (Kendrick T., 2015). Risks might and might not be predicted. It depends on the risk management approach to projects. Risk management is a proactive process, and uncertainty is characteristic of risks. Risk managers (project managers or other specialists assigned to this job) often are exposed to uncertainty rather than particular risks (Loosemore et al., 2006). A team of authors in the United Kingdom define risk as the “effect of uncertainty on goals. The goals mainly represent an organization’s targets, which might include the subordinate objectives of the project or stakeholders” (Cooper et al., 2014). However, the risk management process involves systematically establishing processes for risk identification, analysis, assessment, processing, control and reviewing as well as communication about the risks (Cooper et al., 2014).

Risk management practices employed in rural tourism projects were examined within master papers at Latvia University of Life Sciences and Technologies. The present research applied a qualitative research approach to six structured interviews, questioning public sector project managers about their experience in risk management in rural tourism-related projects. All the interviewed project managers’ projects received EU funding. The projects were co-funded by the EU Funds, e.g. the project Establishment of a Nature Trail by the Lake of Babite was co-funded by the European Agricultural Fund for Rural Development, while the projects Development of a Gauja National Park Tourism Cluster and Industrial Heritage Revitalization for Tourism were co-funded by the European Regional Development Fund. Each of them was supervised and project reports had to be produced; the projects were controlled by various national institutions or bodies responsible for controlling project budget spending.

The research identified 32 risks in rural tourism projects, which are summarized in Table 3.
Table 3. Classification of Identified Risks by ex-post Risk Characteristic

<table>
<thead>
<tr>
<th>No.</th>
<th>Classification by Risk Characteristic</th>
<th>Risks</th>
</tr>
</thead>
</table>
| 1.  | Technological risks                  | • Technological problems  
|     |                                      | • Digital technologies change fast and become outdated |
| 2.  | Administrative risks                 | • Partner change  
|     |                                      | • Partner passivity  
|     |                                      | • Diverse partners organisations  
|     |                                      | • Number of partners  
|     |                                      | • Lack of experience in managing EU funding  
|     |                                      | • Slow reporting  
|     |                                      | • Language barrier  
|     |                                      | • Unstructured information  
|     |                                      | • Problems with approval of informative materials  
|     |                                      | • Problems with cooperation within the project team  
|     |                                      | • Postponement of activities  
|     |                                      | • Problems with attracting the audience |
| 3.  | Human resource risks                | • Lack of employees  
|     |                                      | • High turnover of personnel |
| 4.  | Financial risks                     | • Lack of funds  
|     |                                      | • Unpredictability of costs incurred |
| 5.  | Legal risk                          | • Lack of legal support |
| 6.  | Property risks                      | • Damaging of outdoor information boards  
|     |                                      | • Problems with property ownership  
|     |                                      | • Damaged roads |
| 7.  | Fraud risk                          | • Fraud during the project |
| 8.  | Industry risks                      | • Change in the tourism industry  
|     |                                      | • Change in trends in tourism |
| 9.  | Political risks                     | • Change in policies  
|     |                                      | • Insufficient cooperation with national institutions  
|     |                                      | • Procurement problems |
| 10. | Geopolitical risk                   | • Problems with attracting tourists |
| 11. | Seasonality risks                   | • Seasonality  
|     |                                      | • Weather conditions |
| 12. | Competition risk                    | • Competition with large enterprises |

**Source:** authors’ construction based on Apoga, 2018

Internal project management risks are as follows: technological, administrative, human resource, financial, legal, property and fraud risks, while external ones are as follows: industry, seasonality, legal, property, geopolitical, fraud, technological, financial, political and competition risks.

The research found that for rural tourism projects, the number of external risks was larger than that of internal ones, and administrative risks were the largest category of internal risks. For this reason, special attention has to be paid to administrative risks when planning and implementing a project.

The interviews revealed the following ways of tackling the risks that have materialised:

- Concluding a contract for transferring responsibility to another enterprise or organisation;
- Placing a persistent focus on risk management, which is the responsibility of the project manager who has to timely allocate extra time and funds;
• Seeking alternative solutions to the risks identified in a timely manner, as pointed out by interviewee 1 – “for example, this time the summer is expected to be rainy, that is why I am going to shift from outdoor to indoor tourism services”;
• Enhancing the internal information system to solve the problem of incompletely structured information;
• Using reserved or saved funds, as pointed out by interviewee 3 – “more funds have been allocated for some particular activity than it cost in reality. It resulted in some surplus, and then the surplus could be used to solve some problems that have emerged”;
• Concluding a contract with cooperation partners;
• Making amendments to the concluded contracts with suppliers; imposing fines for breaching the contract terms;
• Attracting extra funds from external sources – local government funding, funding from other funds (e.g. the State Cultural Capital Fund);
• Supervising and motivating cooperation partners, negotiating with them;
• Introducing new activities instead of risky project activities;
• Attracting and hiring specialists;
• Extending the project period;
• Holding risk reporting meetings as an essential component of risk management in rural tourism at the beginning, in the middle and at the end of the project or once every quarter, which is useful for the entire project team (Apoga, 2018).

In the projects examined, a focus had been placed on risks only when they materialized because the problems could threaten the achievement of the project’s goal and outcome. A solution could be found to most of the problems in rural tourism projects even if the risk occurred unexpectedly, yet finding a solution to the risk identified in advance was easier to do, and more time was available.

5. Conclusions

In Latvia, rural tourism is a kind of tourism that is exposed to both general and industry-specific risks, which has to be taken into account upon starting up a business in this industry and in tourism project management, developing new tourism products.

Rural tourism enterprises are advised to use relevant research findings and the legal framework for risk management to manage the risks in this business.

Rural tourism extensively exploits the natural environment; therefore, the risks of climate change and weather conditions have to be taken into consideration during all the four seasons. Besides, the factor of sustainability is also important if doing business in the rural tourism industry.

For rural tourism projects, the number of external risks was larger than that of internal ones, and administrative risks were the largest category of internal risks.

In Latvia, the manager of every project is the most appropriate professional for managing risks in rural tourism projects, as s/he can better understand the situation with the project and can find an adequate solution to the problem.

To minimise risks, an important role in a project team is played by cooperation to identify risks and deal with them, yet the culture of cooperation depends on the priorities set by the project manager and the overall culture of the organisation.

References


