

Internal Control and Risks Mitigation in Tourism Sector in Portugal

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Abstract: The Covid-19 pandemic affected the operational risk of organizations, requiring its management through Internal Control Systems (ICS). The tourism sector in Portugal, one of the largest and most competitive, was also one of the most affected by the pandemic, which emerged in March 2020. The main purpose of this paper is to analyse the perception of tourism managers about the relationship between the existence of internal control and risk mitigation in their companies. We present a quantitative study carried out by questionnaire, sent to 830 managers from tourism companies in the region of Porto, Portugal. Most participants consider crucial the implementation of ICS and a competitive advantage in the current pandemic context. They also consider that the implementation of ICS is not accessible to all companies, but its absence does not necessarily make them more fragile. The study also concludes that besides internal control, the role of the Portuguese Government was crucial to overcome the difficulties caused by the pandemic and to ensure companies' recovery. Financial support from the government allows companies to invest in procedures to overcome the pandemic situation, such as strengthening cleanliness measures, focusing on new technologies and creating products and/or services more attractive to consumers. This study contributes to the perception of tourism managers about internal control, highlight the need to implement risk analysis routines to manage risks that may threaten the company activities and highlight the government's role in business recovery.

Keywords: internal control system, risk, tourism, pandemic, Portugal

1. Introduction

Internal control consists of procedures that ensure the organization's compliance with laws, regulations and internal processes. It includes actions taken by the organization to manage and assess risks (strategic, financial or operational) to achieve established objectives and targets. The design of these procedures should be run under the responsibility of the board of directors and the executive management, involving all the entity's employees. Risk assessment and management allows an organization to understand and hierarchize the impact of potential events in their objectives and to act accordingly. Therefore, a good Internal Control System (ICS) is essential for efficient risk management, facilitating the detection of errors and fraud, maximizing results with minimal resources, in search for organizational effectiveness and efficiency.

In Portugal, in March 2020 the Covid-19 pandemic generate an economic crisis. The tourism sector, with a significant weight in the Portuguese economy (around 15% to GDP in 2019), was one of the most affected sectors, leading to layoffs and reduced activities. The negative socio-economic impact of the pandemic crisis in this sector is of great concern, demanding a key action (Bera et al., 2020). Under the challenges of this uncertainty, risk analysis and assessment assume a new crucial role.

To this end, this article is a move in the study of the importance of internal control regarding the risks in the tourism sector in Portugal, addressing the perception of tourism managers on the subject.

2. Risk management in tourism sector

The American Institute of Certified Public Accountants was the first body to define Internal Control, in 1934, considering that it comprises a plan to organize and coordinate business methods and measures to guarantee the safeguarding of assets, verify the adequacy and reliability of accounting data, promote operational efficiency and encourage adherence to policies established by management. A company has an efficient ICS when its mission is performed ethically; financial statements are reliable and credible; there is an accomplishment with the organization's laws, regulations and policies; adopts an economic, effective and efficient use of resources; and promote adequate asset safeguards. These controls ensure the processes and record of valid transactions and the proper implementation, storage and maintenance of planned procedures.

In the tourism business, the risks can derive from its many dimensions: employees, suppliers, customers, investors, credit institutions, among others. Risk analysis is a fundamental step in the process of internal control

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to attain risk management; and consists of evaluating possible occurrences or circumstances that may compromise the fulfilment of organizational objectives (Susanto and Meiryani, 2018). This step takes place after identifying the potential hazards to the entity, aims to estimate possible operational losses and prevent them by establishing a strategy that involves prioritizing the most likely or dangerous risks. The risk management requires a detailed analysis of the risks implicit in the business, subdivided into four phases: identifying, evaluating, prioritizing and monitoring the risk.

Situations such as accidents at work, financial fraud or natural disasters constitute dangers for an organization. The emergence in 2020 of the crisis caused by a worldwide pandemic is the finest example of an organizational danger that has a catastrophic impact on several business sectors. This pandemic, the Covid-19 pandemic, emerged in the far away Wuhan (China) on December 1, 2019, to appear and cause a greater impact in Portugal in mid-March 2020. One of the sectors most seriously affected by the pandemic was tourism, leading to the closure of facilities due to the cancellation of trips by potential tourists (Sousa et al., 2020), almost shutting down the sector.

According to Harris and Brown (1998), this sector has a specific feature, such as sales instability and high fixed costs, which makes it very dependent on demand. Another specificity of this sector is seasonality, and its management is one of the main problems of hotel managers. In this way, and since this sector operates in a very competitive and constantly changing environment is important the constant update and alignment of management with consumer preferences. Some authors even consider that the pandemic will intensify the competition between countries for tourists, scarcer and more valuable (Grech et al., 2020). Risk management and assessment models have already been used by travel agencies and tourism companies in their operational planning (Ural, 2015; Ritchie and Jiang, 2019). The negative effects of the pandemic just stressed the importance of risk management crucial in tourism organizations.

The losses caused by the materialization of the epidemic risk can be expressed in financial terms (financial risk), heavily affecting the financial liquidity of tourist companies (Bera et al., 2020). The European Commission warns of the need for solidarity between EU countries; and identifies some financial instruments to be implemented, at the governmental level, to assist and mitigate financial effects to citizens and sectors of the economy particularly affected by the pandemic, including tourism. The instruments can be spending measures, fiscal measures - sectoral and regional - or measures other than fiscal (European Commission, 2020). Some examples implemented in Portugal were loans, credits and loan guarantees for enterprises, exemption from social security premiums.

The economic effects of the pandemic occur both on the supply side (operations of companies in the tourism sector) and the demand side (consumer behaviour), forcing risk management and systemic actions that mitigate their effects on countries' economies (Bera et al., 2020).

In 2020, the tourism sector in Portugal was responsible for more than 8% of the GDP (representing a decrease of about 50,4% compared to 2019) and, according to data published by the National Institute of Statistics of Portugal, there was a drop of more than 64% in the number of guests, compared to the previous year. Until July 2020, the tourism sector obtained 696.4 million euros of total income, 70% less than in the same period in 2019. The greatest contribution was from national tourists, with a total of 3.05 million guests, compared to the 2.35 million that came from abroad. British tourists were the ones who most sought out Portugal for holiday, but the national tourist accommodation registered 78% fewer British tourists, between January and July 2020, compared to the same period of 2019. The average visit of guests also decreases to 2.4 nights in accommodation - 6.2% less than in 2019. The resident tourists were the ones that most contributed to the number of overnight stays, in August 2021, reaching the highest monthly value ever recorded. Compared to August 2019, overnight stays from residents grew by 22.6% and overnight stays from non-residents decreased by 46.9%.

The impact of Covid-19 on tourism will be uneven across space (and time) (Hall et al., 2020). Although several studies point to a positive effect of the pandemic on rural tourism, in Portugal, the overall effect was negative, both on the demand and revenue side. There was the closure of several units (16.4%) due to pandemic circumstances (Silva, 2021). Also, an increase in expenses with cleaning and frequent disinfection of houses and tourist entertainment equipment, as well as personal protective equipment.

This impact poses several challenges to companies in the short and long term. In the short term, it is essential to ensure sufficient liquidity to reopen activities; in the long term, it is necessary to be prepared and reactive to activities in tourist demand. Some opportunities can still be explored, such as the quality of the health response, the exploitation of a less mass tourism offer based on social and environmental sustainability issues, the increase in tourism among the elderly population of countries with greater purchasing power and acceleration of the digitization of tourist operations (Almeida and Silva, 2020).

Following the pandemic context and the emerged risks, new trends and changes arise in the tourism sector. One of the trends is the safety and cleanliness in the sector - this tends to remain and to be strengthened (Villacé-Molinero, 2021). The increase in cleaning environments, the use of masks, hand disinfection and distancing in places could become definitive actions in certain spaces or moments. In addition, with the increase in cleanliness concerns, the "Clean & Safe" seal emerged, aiming to reinforce confidence in Portugal tourist destinations. This measure is optional, free of charge and covers the entire tourist sector chain. This is a relevant issue because the government must be in unison with the public health for the tourists and community safety. There are already websites comparing safety for travellers and incentives from different countries (Grech et al., 2020). The second trend is to avoid travelling abroad, promoting domestic tourism. For example, the regional government of Azores Archipelago create incentives to take a holiday exclusively for residents. The incentive covers air transport services, accommodation, food, tourism activities, car rental and booking expenses (Couto et al., 2020). Solo trips are also a good and recurrent alternative, and it will foster the tourism sector to rethink strategies for this kind of public. The third trend, with notable growth, is the use of contactless cards, avoiding contact with cash and streamlining payments.

An important change is a resource to virtual reality, a growing tendency due to technological evolution. This is a valuable tool for customer decision making, allowing them to visit tourist attractions, restaurants or hotels online and interact with them. According to Sousa et al. (2020), online communication facilitated the interaction with the citizen/tourist and strengthened the ties between the population and tourism entities. The digital revolution is increasingly present in people's daily lives and the operations of societies. In a very competitive environment as the tourism sector, the relationships with the consumer are very important even in a digital way (Martins et al., 2015). Related, there is the increasing use of artificial intelligence. It became easier to personalize the customer experience, finding trips and activities that are fully customized to their profile.

These trends and changes, along with the epidemic stress on the tourism sector, will lead to readjustments in the tourism supply, developing new tourist products, and a deep analysis of the operating costs. This will also affect the workforce, leading to its reduction and the lay-off solution, forcing the restructuration of companies. The social impacts require special attention from the policymakers to define support policies, especially for the most tourism-dependent regions (Henriques et al., 2020).

3. Method

The purpose of this paper is to analyse the perception of tourism managers about the relationship between the existence of internal control and risk mitigation in their companies. We seek to understand the knowledge in the companies about the ICS, whether they implement it, as a way of facing business risks caused by the pandemic. We also studied the relevance and nature of support granted by the Government and if it was decisive for tourist activities. In this way, four research questions were defined:

- Question 1: Is control intern related to the operational effectiveness of organizations?
- Question 2: The implementation of an ICS is reachable to all companies?
- Question 3: What is the role of the ICS in the recovery of companies, given the business risks caused by the pandemic?
- Question 4: What is the importance of Government support to recover tourism activities affected by the pandemic?

This study follows a quantitative method and data was collected through a questionnaire survey. The questionnaire is divided into two parts: one, on sociodemographic issues and company information (such as gender, age, academic qualifications, area of training, the branch of activity and number of workers); another, related to the research questions. There are questions with open-answer and multiple-choice, using a Likert scale, numbering the options from 1 to 5, ranging from Totally Disagree, corresponding to 1, and Totally Agree,

corresponding to 5. The questionnaire ends up with two optional and open-ended questions. The questionnaire was prepared using the Google Forms platform. Before sending it, a pre-test was carried out that allowed its validation, checking the accessibility and ease of understanding of the questions. In addition, it helped to detect errors or doubts that, if not detected, could threaten the credibility of the study. Subsequently, the questionnaire was sent by email to companies in the tourism sector and their response was anonymous and voluntary. The questionnaire was available from August 27 to September 12, 2021. In total, 830 questionnaires were sent to companies in the tourism sector, from Porto, listed on the *Tourism de Portugal* website. The number of valid answers was 54 and the response rate was 6,5%. Quantitative data were analysed with the IBM SPSS V26 © program. The Alpha Cronbach shows a moderate correlation on the construct, presenting a value of 0,642.

4. Results and discussion

The questionnaire was mostly answered by tourism managers, the predominant fields of activity were Accommodation and Travel Agencies and 68% of the companies have up to 10 employees. The study showed that the vast majority of respondents agree with the importance of the relationship between internal control and the operational effectiveness of organizations (Figure 1), namely for maximizing their performance.

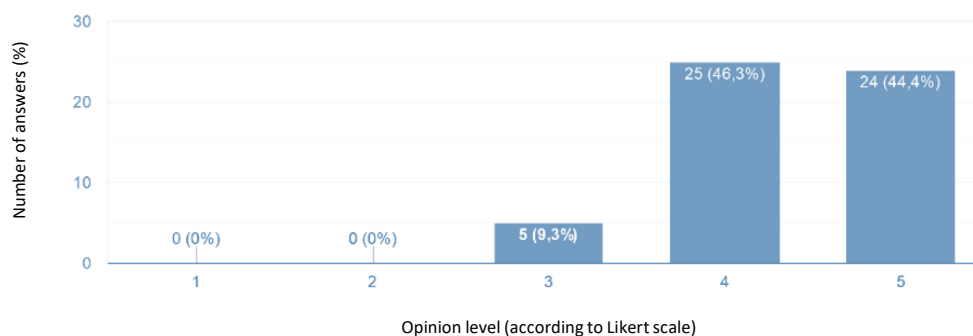


Figure 1: Perception of respondents about the relationship between Internal Control and the operational effectiveness of organizations

Although they recognized the importance of internal control to ensure greater organization, security and strategic planning, 57.4% of the participants consider that the implementation of an ICS is not accessible to all companies, particularly due to the costs and the human resources needed to be allocated to perform these functions.

There was a significant positive correlation between participants' perception about this issue, the *operational effectiveness of organizations* (V1), and *their maximization of performance* (V2) when organizations have procedures of Internal Control $r(52) = 0.73, p < 0,001$ (Table 1).

Table 1: Spearman correlation between operational effectiveness and maximization of performance in organizations with internal control procedures

		V1	V2
Spearman's Rho	V1	Correlation Coefficient	1,000
		Sig. (2 tailed)	.
		N	54
	V2	Correlation Coefficient	,737**
		Sig. (2 tailed)	<,001
		N	54

In the pandemic context, the specialists in tourism consider ICS important to face business risks and for the recovery of companies. Moreover, 74.1% totally agree that the role of the Government is crucial to ensure this recovery (Figure 2).

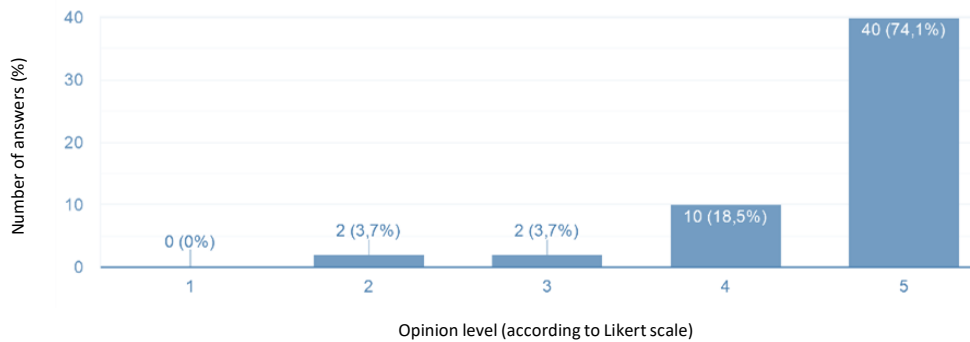


Figure 2: The role of Government to support tourism activities recovery

Despite the recognized importance, 38.9% of respondents mention not having ICS. However, 55.6% ensure that risk analysis routines are being carried out to manage unexpected events, such as the case of the pandemic. According to them, the absence of a department of risk management does not necessarily make the organization more fragile. To overcome financial difficulties 48.1% resort to Government support, 22.2% had to resort to salary cuts and 14.8% to dismissals. To maintain the operation of activities the companies reinforced the cleanness measures (66.7%), use new technologies (42.6%) and promote or create new services to maintain the loyalty of regular customers and even attract new ones (64%).

Regarding risk management, spearman's Rho presents a positive correlation between participants' perception regarding the importance of the internal control to manage risks (V3) and its identification and support to deal with the break of the tourism sector (V4) $r(52) = .54$, $p < 0,001$ (Table 2), however, this correlation is not so strong as for the previous variables (Table 1).

Table 2: Spearman correlation between risk management and break of the tourism sector

			V3	V4
Spearman's Rho	V3	Correlation Coefficient	1,000	,540**
		Sig. (2 tailed)	.	<,001
		N	54	54
	V4	Correlation Coefficient	,540**	1,000
		Sig. (2 tailed)	<,001	.
		N	54	54

In sum, the existence of ICS is very important to implement risk analysis routines and to improve the effectiveness and efficiency of operations. The Portuguese Government also have an important role in the survival of tourism activities.

5. Conclusion

Internal control enables risk management and increases the possibility of achieving organizational objectives. The emergence of the Covid-19 pandemic brought out financial and social crises. This paper analyses the perception of Portuguese tourism managers about the internal control in risk mitigation arising from the pandemic. Most respondents consider ICS to be important to improve the effectiveness and efficiency of their operations, as well as to implement risk analysis routines to manage and prevent risks that could threaten the proper operative of their activities. The Government's role was also crucial in overcoming difficulties through the implementation of several measures such as the strengthening of cleanness measures, a greater commitment to new technologies and even the creation of new products and/or services that would become more attractive for consumers.

The crisis had significant impacts on the labour market with the contraction of the economy and the increase in unemployment. In the medium and long term, employees have to get education in new technologies to keep up with tourism digitization guidance. We suggest for future research to study procedures, such as digitization of activities, to enable companies' operationalization in the context of unforeseen events, such as the pandemic case.

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