



Impact of COVID19 towards Hotel Industry in Malaysia

Siti Hafsa Zulkarnain¹, Mohd Azuan Mohd Alias², Zakiah Hasan³, Mustafa Kamal Mat⁴,
Abdol Samad Nawi⁵

¹Centre of Studies of Estate Management, Faculty of Architecture Planning and Surveying, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia

²Center of Studies of Foodservice Management, Faculty of Hotel and Tourism Management, Universiti Teknologi MARA, 42300 Puncak Alam, Selangor, Malaysia

³Department of Industrial Design College of Creative Arts, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia

⁴Department of Economics and Financial Studies Faculty of Business and Management Universiti Teknologi MARA (Negeri Sembilan) 71300 Rembau, Negeri Sembilan, Malaysia

⁵Department of Postgraduate and Professional Studies, Faculty of Business and Management, Universiti Teknologi MARA Kelantan Branch, 18500 Machang, Kelantan, Malaysia

¹siti_hafsah@uitm.edu.my, ²azuan@uitm.edu.my, ³zakiyahasan@uitm.edu.my, ⁴muskamal@uitm.edu.my, ⁵samad252@uitm.edu.my

ABSTRACT

The hotel industry is one of the important economic sectors as a driver of national economic growth as large investments continue to flow into its development around the world. Therefore, the tourism sector is an important driver that affects the economy of a country. The main objective of this research is to identify the relationship between the hotel industry and the impact of COVID-19 on economic growth in Malaysia. Findings obtained from this research of previous studies show that the COVID-19 pandemic has had a huge impact and may collapse the operating system of the hotel industry. Based on the comprehensive review of the related literature this research finds that the key issues and challenges faced by the COVID-19 pandemic in the Malaysian hotel industry, lessons learned from its devastating effects on the industry, and to contemplate possible solutions and strategies for post-pandemic recovery from a global perspective. A more comprehensive management strategy and method is needed in rebuilding the hotel industry post COVID-19 pandemic that hit the whole world.

Keywords: covid-19; economic; hotel; impact; tourism.

INTRODUCTION

The COVID-19 pandemic has had a major impact in the economic, social, and political aspects of Malaysia. By the end of January 2020, the Bursa Malaysia stock market had fallen as investors sold their shares in response to the economic uncertainty caused by the outbreak. Various sectors have also been affected including the entertainment, retail, hospitality, and tourism sectors (Smart, et.al, 2021) due to various closure and social distancing restrictions in response to the COVID-19 outbreak

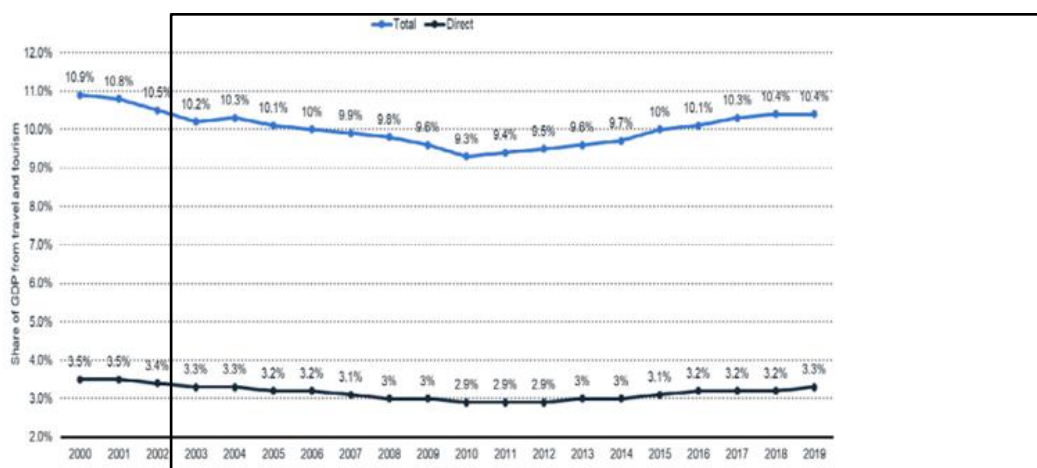
throughout 2020 and 2021. In addition, the COVID-19 pandemic has led to social distancing restrictions on various activities including weddings, death ceremonies, religious gatherings, education, and sporting events (Fizza Zubair, et. al., 2021). The panic caused by this rapidly spreading epidemic also has a very critical effect on Malaysian politics and the decisions made by the government in the face of this crisis need to refine all aspects including the risk to the local community. The sudden occurrence of COVID19 causes the world community to face the risk and manage the epidemic more efficiently and quickly to prevent it from spreading further. Therefore, the research gap whether COVID-19 has a significant impact on the hotel industry in Malaysia.

LITERATURE REVIEW

The impact of the global outbreak of COVID-19 on the hotel industry can be divided into two aspects, namely supply and demand. On the supply side, with many countries announcing the closure of borders and causing the rate of tourist arrivals from abroad to decline. On the demand side, most local tourists are also very cautious in making travel and accommodation decisions due to health and hygiene concerns. With both supply and demand drastically reduced, hotel industry has suffered huge losses (Fu, Y. K.,2020). Significant changes to the demand for services offered in hotels will affect the economic sector and the employment of workers in the hotel industry.

Figure 1 shows the worldwide GDP share for the travel and tourism industry for the years 2000 to 2019. The data shows that the tourism industry provided a relatively stable direct contribution for a period of 19 years with a contribution of 3.3% to the Global Gross Domestic Product (GDP) in 2019. Besides, the GDP contribution was in a stable state in 3.2% from 2016 to 2018. The contribution to the Global Gross Domestic Product of the tourism industry was at its highest level of 10.9% in 2000 and its lowest level at 9.3% in 2010. This clearly shows that direct contribution refers to internal expenditure spent by travelers for the purpose of travel and tourism.

Figure 1. **Worldwide GDP share (travel and tourism industry)**

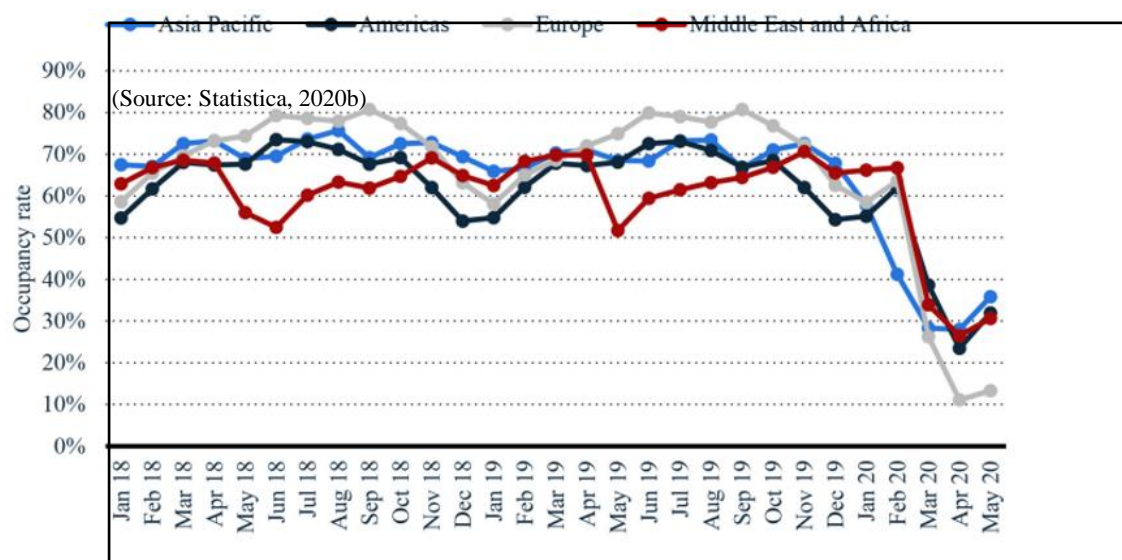


(Source: Statista, 2020a)

As a result of the spread of COVID-19 worldwide, the Malaysian Government has been forced to close the country's borders to tourists from abroad. This action at the same time caused the rate of tourist arrivals from abroad to decrease and caused the hotel occupancy rate to decrease (Soehardi, S., 2020). Figure 2 shows the monthly hotel occupancy rate from Jan 2018 to May 2020. The COVID-19 pandemic that is spreading around the world can be seen to have a very significant effect on hotel

occupancy. The results show that hotel occupancy has dropped significantly due to travel restrictions. European hotel occupancy has decreased by 82.3% in May 2020. While countries in Asia Pacific, Americas, Middle East and Africa are at the level of occupancy rate of only around 20% - 30% per month during the critical stage of the pandemic.

Figure 2. **Worldwide monthly hotel occupancy rates (2018-2020)**



METHODS

Various research has been carried out during the pandemic and the critical period of COVID-19 with a strict lockdown situation around the world. This research considered as conceptual research that aim to identify the impact of COVID-19 on the hotel industry in Malaysia. This research method involves a literature review, including research reports, journal articles, official websites, and encyclopedias that record data relevant to the research (Hoque et al., 2020). These sources are considered secondary data used for analysis published in academic journals, historical records, government documents and statistical databases. The analysis of statistical data from the results reporting by the Malaysia Hotel Association will indirectly show the impact before and after the occurrence of COVID-19 on the hotel industry in Malaysia.

DISCUSSION AND FINDINGS

COVID-19 pandemic which has hit the whole world indirectly has a very significant impact on various sectors related business to consumer services, especially the hotel industry (Hanafiah et. al., 2021). Various effects resulting from the Movement Control Order (MCO) introduced by the Malaysian Government to ensure that the spread of the COVID-19 epidemic can be fully controlled. This significant impact can be seen in various aspects, namely (i) the changing demand pattern, (ii) the revenue loss, (iii) increased costs associated with public health measures, and (iv) the need for reduce staff (Asia, et.al, 2022).

This research uses data collection methods by analysing at trends and the effects of COVID-19 based on statistical data obtained from the annual report issued by Malaysian Association of Hotels. The main impacts of the COVID-19 pandemic affecting activities and operations involving the hotel industry are as follows:

a) Hotel room cancellation and losses

During the outbreak of the COVID-19 pandemic in Malaysia and the announcement of the Movement Control Order throughout the state (Idris et. al., 2020), the hotel's operating system was affected. In the period January - March 2020, a loss of RM75,692,028 was recorded because of the cancellation of reservations for a total of 193,057 hotel rooms as Table 1. Hotels located in Kuala Lumpur recorded the highest loss with a value of RM24,912,199 followed by Sabah with a value of RM11,788,551. While the states that recorded the lowest losses due to cancellation of hotel room bookings were Sarawak and Pahang with total losses of RM37,775 and RM215,756 respectively.

Table 1. **Hotel room cancellation and losses due to travel fear and restrictions (from January – March 2020)**

State	Losses due to Cancellations (RM)	Room Cancellations
Kedah	3,291,500	3,239
Perak	1,354,206	3,646
Pulau Pinang	8,962,185	18,476
Kuala Lumpur	24,912,199	61,859
Selangor	9,053,751	25,940
Pahang	215,756	259
Melaka	708,499	4,128
Negeri Sembilan	7,655,685	20,665
Johor	7,711,922	20,977
Sabah	11,788,551	33,769
Sarawak	37,775	99
Terengganu	446,406	466
Total (as of 20 March 2020)	75,692,028	193,057

(Source: Malaysian Association of Hotels, 2020)

Several game-changing technological developments in the hotel industry, especially in Asia and the Pacific, are made possible by significant growth in trends in broadband and internet access. Consumers also have easy accessibility and increased digitization. Xiang S. et. al. (2021) reveals that the vital role of Information Technology and digitization supports the economies in their fight against the pandemic and helps them sustain themselves amid crises. This research also suggesting IT-based solutions for various industries to elevate effective responsiveness and avoid significant losses. Besides, during the post pandemic of COVID-19 the increasing need for investment in the digital infrastructure and smart technologies for the hotel industry (Khan, et.al, 2021). The hotel management and employees also need to change the paradigm and way of working using the latest technology in providing the best service.

b) Hotel employment status

The COVID-19 pandemic that hit Malaysia also affected the employment status of workers involved in the hotel industry. Most of the workers who were badly affected had to face the issue of reduction in number of employees, reduction in wages, unpaid leave, and layoffs as Table 2. COVID-19 has affected a total of 54,299 employees working in the hotel industry. The effect of this can be clearly seen when a total of 5,054 (9%) had their salaries cut, 9,773 (17%) had to take unpaid leave while 2,041 (4%) were layoff.

A very significant effect can be seen in Kuala Lumpur involving a total of 17,826 workers with 2,880 (16%) having to face a pay cut and 3,641 (20%) workers having to take unpaid leave. While 542 (3%)

will be layoff. The states of Kelantan and Kedah recorded the lowest impact faced by hotel workers involving a total of 560 and 692 workers respectively affected by the COVID-19 pandemic.

Table 2. **COVID-19 impact on employee status in hotel industry (as 26 Mar 2020)**

State	Total Employees (Sampling size)	Pay cut	% of Employees	Unpaid leave	% of Employees	Layoff	% of Employees
Johor	3,215	108	3	202	6	72	2
Kedah	692	0	0	80	12	0	0
Langkawi	4,314	340	8	902	21	92	2
Kelantan	560	76	14	157	28	0	0
Kuala Lumpur	17,826	2,880	16	3,641	20	542	3
Melaka	1,872	65	3	191	10	85	5
Negeri Sembilan	1,452	0	0	179	12	130	9
Pahang	1,464	0	0	150	10	231	16
Pulau Pinang	5,549	240	4	430	8	84	2
Perak	1,654	91	6	595	36	245	15
Sabah	4,934	893	18	1,075	22	177	4
Sarawak	3,488	175	5	258	7	92	3
Selangor	7,981	154	2	1,812	23	238	3
Terengganu	1,298	52	4	101	8	53	4
Total	54,299	5,054	9	9,773	17	2,041	4

(Source: Malaysian Association of Hotels, 2020)

The impact on the employees involved in the hotel industry will affect the management and services that will be offered by this industry in the future. Even though the country is hit by COVID-19, the hotel building in terms of maintenance and management must still run as usual so that this building will be able to function properly when the critical phase of COVID-19 ends and the industry will start operating again. Besides that, the Malaysian government also took some early approaches by using hotels in the city as temporary quarantine places for travelers and Malaysians returning from abroad.

c) Hotel Occupancy Rate and Revenue

The hotel occupancy rate represents the share of occupied rooms during a certain period. For many hotels, an ideal occupancy rate is between 70% and 95% and it is depending on the number of rooms, location, type of hotel, target guests, and more.

Table 3 shows Malaysia Hotel occupancy rate and revenue for January - June 2019 and forecasting for 2020. The total amount of losses faced by the hotel industry during the COVID-19 pandemic amounted to RM3.3b. The hotel occupancy rate throughout the month of January - June 2019 is also between 53 - 68%. While the occupancy rate of this hotel is decreasing in 2020 to 6 - 55%.

Table 3. **Malaysia Hotel Occupancy Rate and Revenue (Jan – June 2019 / 2020 forecast)**

Month	2019		2020	
	Occupancy (%)	Average Daily Rates	Occupancy (%)	Estimated loss of room revenue*
Jan	58.5	RM227.89	55	RM49.4m
Feb	68	RM238.07	44	RM327.5m
Mar	65	RM223.64	22	RM596m
April	65	RM219.55	6	RM1.12b
May	53	RM206.70	11	RM537m
June	64	RM228.75	16	RM660m
Total:				RM3.3b

*Based on 200,000 star-rated hotel rooms only, excluding F&B and event losses

(Source: Malaysian Association of Hotels, 2020)

CONCLUSION

In conclusion, the effects of COVID-19 will be expected to be long-lasting due to the impact on the economic growth and social interaction within the community. The widespread virus has impacted the ongoing development and started a significant decline in the income generated in the hotel industry. The main objective of this research is to provide an overview of the main issues and challenges faced by the COVID-19 pandemic in the Malaysian hotel industry, thinking about possible solutions as a post-pandemic recovery from a global perspective. Based on a comprehensive literature review, this research found that for the hotel industry to develop in the post-pandemic world it can compete and adapt to the new normal approach. New way of strategies and management that are more flexible and able to compete in this post-pandemic era of new norms will be more challenging and the latest technology exploration also needs to be applied in hotel operations and services.

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