

## FACTORS IMPACTING FINANCIAL LOSS OF SMALL TOURISM BUSINESSES DUE TO COVID-19

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**Citation:** Afroz, F., Hassan, K., & Ferdous, J. (2023). FACTORS IMPACTING FINANCIAL LOSS OF SMALL TOURISM BUSINESSES DUE TO COVID-19. *GeoJournal of Tourism and Geosites*, 50(4), 1268–1275. <https://doi.org/10.30892/gtg.50407-1125>

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**Abstract:** Small tourism businesses are extremely affected by COVID-19 pandemic all over the world. The pandemic scenario in case of small tourism businesses in third-world country like Bangladesh was much critical. The study aims at evaluating factors responsible for financial loss of small tourism businesses due to COVID-19 pandemic in Bangladesh. To address the objective, Chi-square test, and logistic regression modeling have been applied to the quantitative primary data. This study finds that education of the owner/manager, type of organization, office location, year of establishment, main target customer and revenue earned before pandemic have significant relationship with financial loss during COVID-19. The results of the research would assist entrepreneurs and policy-makers in weighing different factors directly connected with the profit or loss in business and to formulate strategies for unpredicted crises.

**Key words:** Financial loss, Small tourism business, logistic regression, COVID-19, Bangladesh

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### INTRODUCTION

Small businesses constitute the largest portion of businesses operated in Bangladesh. Hence the role of small tourism businesses in the economic and social development of the country can easily be imagined (Chowdhury, 2020). The varying nature of small businesses suggests that they are likely to suffer severe losses in any crisis as they do not have enough knowledge about risk management (Litheko, 2021; Fuchs 2022). Small tourism businesses are not different from traditional small businesses (Copp and Ivy, 2001; Tinsley and Lynch, 2001; Litheko, 2021). As the service industry is prone to face the most awful scenarios of any crisis, small tourism businesses suffer great financial losses during crisis period (World Bank Group, 2020; Gössling et al., 2021). However, one such alarming crisis was COVID-19 pandemic (Hall et al., 2020; Jaipuria et al., 2021; Rosita et al., 2022; Rogerson and Rogerson, 2023). During the pandemic, most of the small tourism businesses in Bangladesh encountered the worst scenario of financial losses. The impact of this pandemic on the tourism industry was so severe that it forced almost every tourism business to rethink whether they will be able to come back to their previous position (Fotiadis et al., 2021; Rogeson, 2021; Zhang et al., 2021).

Small tourism business belongs to small industry of Bangladesh which constitutes the firms or businesses with a fixed asset (other than land and building) costing less than BDT 150 million, (Bangladesh Bank, 2011). The SME (Small and Medium Enterprise) policy of Bangladesh Bank (2011) outlines that small businesses are not public limited companies and they employ 15 to 150 staff. However, there are two categories of small industry present in Bangladesh (Hasan et al., 2021). They are small manufacturing industry and small service industry. Small manufacturing industry differs from small service industry in terms of their fixed asset and number of employees. For instance, the amount of fixed assets (other than land and buildings) of small manufacturing industry is between BDT 7.5 to 150 million and the number of employees they have would be 31-120 (Bangladesh Bank, 2011). On the other hand, the amount of fixed assets (other than land building) of the small service industry is worth between BDT 1 to 20 million and the number of employees they have would be 16-50. Small tourism businesses fall under the category of small service industry.

Core facts deriving from the SME policy of Bangladesh Bank is that the basic difference between any small and large tourism business organizations are mainly associated with the amount of their fixed asset and number of staff they have for daily operation. It implies that small tourism businesses usually start with a nominal capital unlike large tourism businesses or operations (star-rated hotels, resorts, restaurants). Hence their business revenue as well as profit and loss is small compared to large tourism business organizations. But when it comes to losses, it becomes an existential crisis for small tourism businesses (Litheko, 2021; Kim et al., 2021; Fuchs, 2022). During the COVID-19 pandemic, majority of small tourism businesses in Bangladesh had faced such a situation (Chowdhury, 2020). According to a report by the COMCEC

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Covid response program, during COVID-19 pandemic small tourism businesses were faced with almost 82.90% customer decline (Hasan et al., 2021). Besides, about 15% of small tourism businesses had to close their businesses (Hasan et al., 2021).

COVID-19 has been one of the most destructive crises the tourism industry has ever seen (Karabulut et al., 2020; Qiu et al., 2020; Islam et al., 2022). The global economic impact and trends report by World Travel and Tourism Council (WTTC) has shown the devastating impact of COVID-19 on regional tourism. The report reveals that the contribution of travel and tourism to regional GDP decreased significantly around the world such as 53.7% decrease in Asia Pacific Region followed by 51.4% in Europe, 51.1% in Middle East, 49.2% in Africa and 42.4 % in America as a result of COVID-19 pandemic (WTTC, 2021). International tourist arrival declined by 84% in 2021 due to Covid-19 pandemic (UNWTO, 2021). The pandemic started with a severe health crisis but soon it turned into an economic and social crisis (European Commission, 2020; Mehroliya et al., 2020; Foo et al., 2020). Around 62 million people have lost their jobs in travel and tourism industry during the pandemic which provides a clear idea about the acuteness of the crisis (WTTC, 2021).

The catastrophe of COVID-19 pandemic over the tourism industry of Bangladesh is unimaginable (Al-Zaman, 2020; Zafri et al., 2021; Rahman et al., 2021). Figure 1 presents data on revenue earned from the tourism sector in Bangladesh from the year 2011 to 2021 (CEIC, 2021). Where it is depicting, the tourism industry of Bangladesh was growing rapidly with an increasing amount of revenue each year. But suddenly a conspicuous decrease in revenue is noticed in the year 2020. Meanwhile, COVID-19 pandemic is primarily responsible for this visible decrease. According to Afroz et al., (2022), the travel behavior pattern of tourists changed during COVID-19 pandemic as tourists are very sensitive to any crisis, especially health crisis. Consequently, the number of tourists had noticeably decreased around the world so as in Bangladesh. According to WTTC (2021), international and domestic visitor spending decreased by 59.7% and 33.9% respectively in 2020 compared to 2019 in Bangladesh. As a result, many small tourism businesses were forced to close their business and others had to bear huge losses to come back into operation (Hasan et al., 2021).

As Bangladesh is a developing country, many people demand inexpensive trips (Bhuiyan et al., 2021). To meet such demands many small tourism businesses have sprung up such as: tour operators and travel agents providing tour management services; hotels, motels, resorts providing accommodation services; restaurants providing food services; gift shops; and others providing transportation services (Hasan et al., 2021). Such small businesses are located in different places in the country depending on the nature of their business. For instance, most of the tour management businesses are located in the capital. On the other hand, most of the accommodation and food service businesses are located on different tourist sites. Additionally, these small tourism businesses target different types of customers (e.g., domestic, inbound, and outbound tourists) based on their business operation policy (Nieman and Nieuwenhuizen, 2014; Litheko, 2021). Most of the small tourism businesses focusing on the international tourism market operate their business in the capital city Dhaka and others focusing on domestic tourism market operate their business in different tourism destinations of the country.

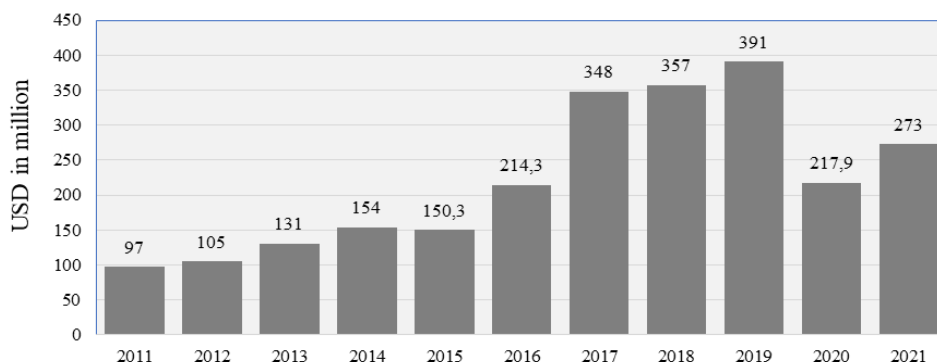


Figure 1. Revenue Earned from Tourism (2011-2020) Source: CEIC (2021) and UNWTO (2022)

The ownership structure of many small tourism businesses varies from sole proprietorship to partnership depending on the scope of business (Nieman and Nieuwenhuizen, 2014; Litheko, 2021). Generally, small tourism businesses whose scope of business is relatively very small (e.g., gift shop, single food service), operate as sole proprietorship. In opposition, relatively large-scale small tourism businesses (e.g., hotels, motels, resorts) operate under partnership.

However, the tourism industry is mainly dominated by males and most of the owners/managers of various small tourism businesses are highly educated. The education level of management people of these businesses influences profit or loss of the business (Hasan et al., 2021). In addition to the education level, the lifespan of the business also affects the possible financial profit or losses. For instance, a small business with a long lifespan has comparatively more experience in coping with sudden events than relatively new small businesses so as making profit or loss (Copp and Ivy, 2001; Fuchs, 2022; Issakov et al., 2023). Hence, experience is a significant factor in managing business effectively during crisis periods (Nikraftar and Hosseini, 2016; Lukac et al., 2023).

Though most of the tourism businesses run in Bangladesh fall under the category of small tourism businesses, they suffer most in any sudden event or crisis. Several reasons are responsible for such suffering of various small tourism businesses. For instance, not having enough resources to face crisis, lack of knowledge about identifying crisis, and managing the crisis tactfully are some notable ones (Hassan and Ferdaus, 2020; Nguyen et al., 2022; Sharma and Upneja, 2005). However, losses suffered by different small tourism businesses vary depending on a number of factors such as: demographic characteristics of the owner/manager (e.g., gender, education), type of organization, office

location, lifespan of the business, ownership structure, main target customer, and revenue. Though many researchers such as: Hall et al., (2020); Holy (2020), Fotiadis et al., (2020); Hassan and Ferdaus (2020); Kaushal and Srivastava (2021), have scrutinized the reasons behind losses in tourism businesses due to COVID-19, but no one had concentrated on the factors responsible for variation in financial losses of these businesses. Thus, this study aims at evaluating factors responsible for financial loss of small tourism businesses due to COVID-19 pandemic in Bangladesh. It examines the association between financial loss and a few factors (a couple of demographic features of owner/manager and some selected characteristics of businesses) in relation to COVID situation.

## METHODOLOGY

To meet the aim of this study a quantitative research method has been utilized. The quantitative research approach is quite a popular tool among tourism researchers (Afroz et al., 2021; Mia and Hassan, 2021) to measure different variables against other variables or factors. Hence, in order to weigh the factors for which financial losses varied between different small tourism businesses during COVID-19, the quantitative research method is considered as a suitable approach. To collect the necessary data for this study, a survey was conducted among different small tourism businesses in Bangladesh. A total of 500 people from some well-known tourist destinations (Dhaka city, Chattogram division, Khulna region, Sylhet district) of the country participated in the survey. The participants were mainly associated with various small tourism businesses. For instance, owners, managers (i.e., top-level staff) of different small tourism businesses were the main respondents to the survey. Figure 2 presents the flow chart of the methodology steps followed in this research.

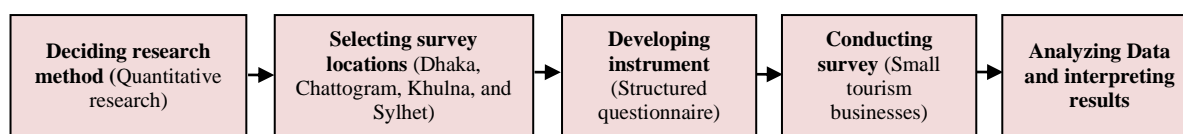


Figure 2. Flow Chart of Methodology Steps

Table 1 provides detailed information about the survey. To carry out the survey effectively, all small tourism businesses were divided into three categories such as: tour management operators, accommodation and food shops, and transportation and gift shops. Several tour operators and travel agencies were under the category of tour management group; different small hotels, motels, resorts, restaurants, and food carts were under the category of accommodation and food shops; various handicraft and souvenir shops along with some transportation operators were under the category of transportation and gift shops. The total number of participants in each group is listed in Table 1. The table shows that tour management group constitutes the largest share (64.4%) of the participants. Additionally, among the four fieldwork locations maximum number (55.4%) of responses had been collected from Dhaka city.

Table 1. Description of the Survey

Type of organization	Survey locations and number of participants				
	Dhaka city	Chattogram division	Khulna region	Sylhet district	Total
Tour Management	178 (35.6%)	85 (17.0%)	27 (5.4%)	32 (6.4%)	322 (64.4%)
Accommodation and Food Shop	62 (12.4%)	19 (3.8%)	0 (0.0%)	13 (2.6%)	94 (18.8%)
Transportation and Gift Shop	37 (7.4%)	23 (4.6%)	14 (2.8%)	10 (2.0%)	84 (16.8%)
<b>Total</b>	<b>277 (55.4%)</b>	<b>127 (25.4%)</b>	<b>41 (8.2%)</b>	<b>55 (11.0%)</b>	<b>500 (100%)</b>

A structured questionnaire was developed to support the survey and collect responses. The questionnaire contained two parts: the first part seeks information about the demographic characteristics of the respondents, and second part seeks information regarding the financial status of their business before and during the COVID-19 pandemic. The respondents were requested to share some of their business-related data through the questionnaire. Among them, some notable ones are type of organization, office location, year of establishment, ownership structure, main target customer, revenue, and approximate financial loss during COVID-19 pandemic. The questions were pre-tested by the researchers for great accuracy. Statistical Package for Social Science (SPSS) version 25.0 data analysis software was used for coding and analyzing the collected data. In addition to that, several statistical techniques (e.g., descriptive statistics, Chi-square test, and Logistic regression modeling) have been applied in this study to meet the objective.

## FINDINGS

### 1. Bivariate Analysis

Primarily, this research has carried out a bivariate analysis to examine the relationship between the chosen explanatory variables and the dependent variable 'average financial loss'. The explanatory variables of this study are education and gender of the owner/manager, type of organization, office location, year of establishment, type of ownership, main target customer and revenue earned before COVID-19. For testing the significance of the relationship, a chi-square test is conducted. Table 2 contains the results of the bivariate analysis.

From Table 2, it is evident that owners/managers with MS degrees and above tend to lose more compared to those who have Bachelor degrees or below. The result also shows that only a few numbers (15) of organizations are belong to women, also loss above 1.5M was more frequent for females compared to their male counterparts. Moreover, transportation and gift shops were less likely to lose more than 1.5M than the others. In addition, organizations with offices in Dhaka have a

higher tendency (59.6%) to have losses above 1.5M compared to those with main offices outside Dhaka (28.7%). The graphical representation of financial loss with office locations in Dhaka and outside Dhaka is presented in Figure 3.

Table 2. Association between financial loss and explanatory variables

Variables	Category	Financial Loss		Total (n)	P-value
		<1.5M	>1.5M		
Education	HSC and below	103 (78.0%)	29 (22.0%)	132	0.000
	Bachelor	98 (49.7%)	99 (50.3%)	197	
	MS and above	70 (40.9%)	101 (59.1%)	171	
Gender	Female	5 (33.3%)	10 (66.7%)	15	0.045
	Male	267 (55.1%)	218 (44.9%)	485	
Type of Organization	Transportation and gift shop	76 (86.4%)	12 (13.6%)	88	0.002
	Accommodation and food shop	36 (40.0%)	54 (60.0%)	90	
	Tour Management	159 (49.4%)	163 (50.6%)	322	
Office Location	Dhaka	112 (40.4%)	165 (59.6%)	277	0.000
	Outside Dhaka	159 (71.3%)	64 (28.7%)	223	
Year of Establishment	1962-2000	32 (45.1%)	39 (54.9%)	71	0.000
	2001-2010	55 (45.8%)	65 (54.2%)	120	
	2011-2015	62 (47.0%)	70 (53.0%)	132	
	2016-2021	122 (68.9%)	55 (31.1%)	177	
Ownership	Sole Proprietorship	212 (49.4%)	144 (50.6%)	356	0.002
	Partnership and others	59 (62.9%)	85 (37.1%)	144	
Main target customer	Domestic tourists	201 (65.9%)	104 (34.1%)	305	0.000
	Inbound and outbound	70 (35.9%)	125 (64.1%)	195	
Revenue	Below 1M	145 (77.5%)	42 (22.5%)	187	0.000
	1M and above	126 (40.3%)	187 (59.7%)	313	

Furthermore, the year of establishment seems to be an important predictor for loss. Figure 4 provides significant insight into the relationship between financial loss and the lifetime of the businesses. It is evident from the figure that small tourism businesses having a long lifetime, generally the older ones are inclined to face a greater loss compared to new ones. From Table 2, for instance, 54.9% of the businesses that were established from 1962 to 2000 have lost more than 1.5 million during the pandemic. On the other hand, 31.1% of the businesses that were established between 2016 and 2021 have lost more than 1.5 million during the pandemic. Businesses, those are of sole proprietorship (50.6%), get higher losses compared to the partnership and other forms of business (37.1%).

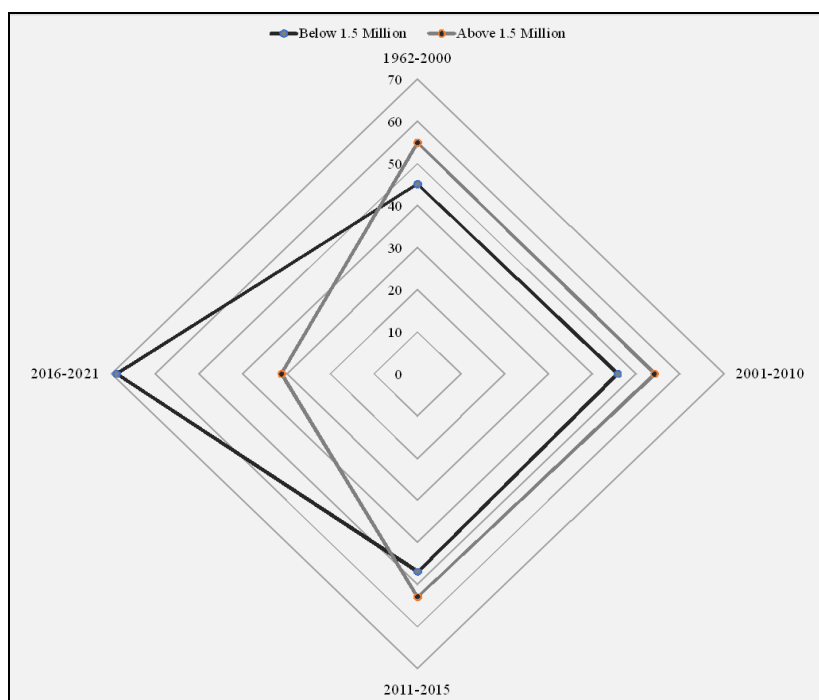
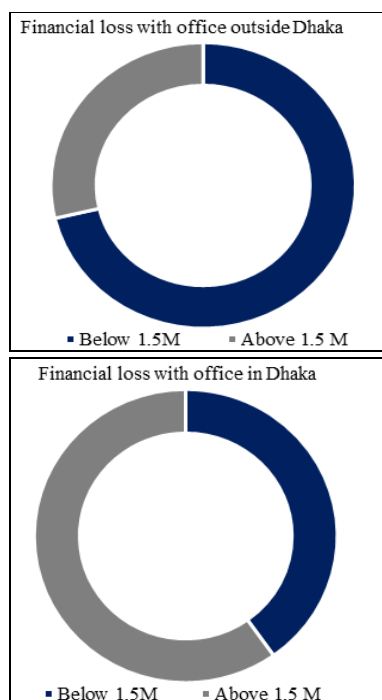


Figure 3. Financial loss depending on office location

Figure 4. Financial Loss Based on Business Lifetime

Besides, businesses targeting domestic tourists made less losses compared to those targeting inbound and outbound tourists. Disappointingly, it is found that increasing revenue resulted in greater losses. In wrapping up, from the chi-square test results, it has been found that all the explanatory variables are significantly associated with loss being higher than 1.5M.

## 2. Binary Logistic Regression

The data used in this study is cross-sectional, and the dependent variable is dichotomous. The logistic regression under cross-sectional setup provided by Cox (1958) is:

$$Pr(y_i = 1|x_i) = \pi(x_i) = \frac{\exp(x_i^T \beta)}{1 + \exp(x_i^T \beta)}$$

where,  $y_i$  is the response of the  $i^{th}$  individual,  $x_i = (x_{i1}, \dots, x_{ip})^T$  is associated covariates vector, with  $p = 8$ . The parameter estimates of  $\beta = (\beta_1 \dots \beta_p)'$  are obtained by the maximum likelihood estimation approach using the Newton-Raphson iteration procedure. In the  $m^{th}$  iteration, the MLE of  $\beta$  will be,

$$\hat{\beta}^{(m)} = \hat{\beta}^{(m-1)} + [I(\beta)]^{-1} \Big|_{\beta=\hat{\beta}^{(m-1)}} U(\beta) \Big|_{\beta=\hat{\beta}^{(m-1)}}$$

where,  $U(\beta)$  is the score function, which is defined as

$$U(\beta) = \frac{\partial}{\partial \beta} \log L(\beta)$$

with  $L(\beta)$  being the likelihood function is defined as

$$L(\beta) = \prod_{i=1}^n \pi_i(x_i)^{y_i} (1 - \pi_i(x_i))^{1-y_i}$$

Again,  $I(\beta)$  is the information matrix, which is defined as

$$I(\beta) = -E \left[ \frac{\partial}{\partial \beta} U(\beta) \right]$$

The variables that have been found significant in the bivariate analysis are included in the logistic regression model. Table 3 contains the estimates of the logistic regression model parameters along with Wald test statistics.

It is observed that the odds of making loss above 1.5M for owners/managers with MS degrees and above are 2.245 times the odds for those with HSC and below degrees. That means more educated people tend to lose more than 1.5M more often than others. This result has been found significant ( $p=0.017$ ). Male owners tend to loss less compared to their female counterparts; however, this result is found to be insignificant ( $p=0.486$ ).

The odds of loss above 1.5M for owners of accommodation and food shop and that for the tour management company are 10.532 times and 3.401 times the odds for owners of transportation and food shop respectively.

Table 3. Logistic Regression Coefficient of Explanatory Variables for Financial Loss

Variables	$\hat{\beta}$	SE	Wald	P-value	OR
<b>Education</b> (Ref: HSC and below)					
Bachelor	0.475	0.339	5.703	0.137	1.609
MS and above	0.809	0.257	1.685	0.017	2.245
<b>Gender</b> (Ref: Female)					
Male	-0.493	0.708	0.485	0.486	0.611
<b>Type of Organization</b> (Ref: Transportation and Gift Shop)					
Accommodation and Food shop	2.354	0.421	8.449	0.004	10.532
Tour Management	1.224	0.328	11.905	0.001	3.401
<b>Office Location</b> (Ref: Dhaka)					
Outside Dhaka	-1.096	0.249	19.379	0.000	0.334
<b>Year of Establishment</b> (Ref: 1962-2000)					
2001-2010	-0.513	0.365	14.832	0.000	0.599
2011-2015	-0.627	0.303	8.699	0.003	0.534
2016-2021	-1.406	0.289	7.262	0.007	0.245
<b>Ownership</b> (Ref: Partnership and others)					
Sole Proprietorship	-0.208	0.250	0.695	0.405	0.812
<b>Main target customer</b> (Ref: Inbound and outbound)					
Domestic tourists	-0.638	0.258	6.110	0.013	0.528
<b>Revenue</b> (Ref: Below 1M)					
1M and above	1.635	0.251	42.417	0.000	5.130

Business with main office located outside of Dhaka is less likely to lose more than 1.5M compared to those located in the capital city of Dhaka ( $p<0.01$ ). The odds of loss above 1.5M for businesses those are established in the years 2001-



2010, 2011-2015 and 2016-2021 are 0.599 times, 0.534 times and 0.245 times the odds for the businesses those are established in the year 1962-2000. These results have been found significant ( $p < 0.05$ ). Sole proprietorship leads to less loss compared to partnership; although, this result is found to be statistically insignificant ( $p = 0.812$ ).

Businesses that serve domestic tourists are less likely to lose more than 1.5M compared to those who entertain inbound and outbound tourists. More clearly, the odds of loss above 1.5M for businesses that serve domestic tourists is 0.528 times the odds for businesses that serve inbound and outbound tourists. In addition, businesses with revenue more than 1M and above are more likely to lose higher than 1.5M compared to those with revenue less than 1M.

## DISCUSSION

This study has evaluated some factors responsible for financial loss of small tourism businesses due to COVID-19 pandemic. The findings reflect a strong relationship between financial loss and those factors. According to this study, the education level of owners/managers has a strong relationship with financial loss which partially resembles the study by Qi and Tian (2012). However, it doesn't mean that owners/managers with higher educational qualifications have the greater capacity to incur less loss than others with lower educational qualifications. Because education is surely a significant element of managers in operating a business but there are some other elements that go before education. For instance, experience or the practical knowledge of managers is regarded as more important than education in business operations. Moreover, presence of women in the travel and tourism sector is comparatively lower than in other economic sectors and so their amount of loss is comparatively higher than their male counterparts.

The nature of business is a crucial factor in revenue and loss of any business (Hasan et al., 2021). This study also suggests so. This study finds transportation and gift shops as more proficient than others (e.g., accommodation & food shop, and tour management) as they incurred less loss. However, the underlying fact behind this could be related to the scale of the business which means transportation and gift shops may have lower investment and revenue thus they incurred less loss. Another factor associated with financial loss is office location. This study reveals that small businesses having their main office in capital Dhaka incurred higher losses than others having their main office outside Dhaka. Because operating a business from the capital city of any country has to bear a greater cost than operating the business from any other location hence when it comes to profit or loss, it is generally higher than others. Besides, the lifespan of a small tourism business affects the financial loss or profit. This study has found older businesses have faced more losses than newer ones. The reason behind this relates to the advancement of services with the passage of time. The business world is transforming rapidly with the digitalization of business technologies. So, to cope with the new business world, organizations now provide greater concentration on customer needs. Thus, newer businesses with newer technologies have stronger capacity to cope with risk than older businesses.

Partnership business excels at the experience of different persons rather than just one person. Additionally, partnership businesses combine larger scale compared to sole proprietorship. Consequently, sole proprietorship businesses have incurred more losses than partnership businesses during the pandemic. One of the biggest aspects of COVID-19 pandemic was imposing restrictions on movement of people through 'lockdown', which almost impeded the international tourism because during this time people were not allowed to travel to other countries if not having an emergency. Apart from that, when the lockdown period ended people were desperate to travel but could not travel outside the country, so they had to travel within the country. As a result, inbound and outbound tourism demands turned into domestic tourism and caused huge losses for tourism businesses operating international tourism. This result reflects the study by Afroz et al., (2021).

The final factor studied in this research is revenue where it reveals that revenue and losses are entirely connected with each other because both the terms are associated with sales. During the first phase of COVID situation, all tourism businesses faced a sales drop. Accordingly, businesses with higher revenue or sales have faced higher sales drops as well as lower revenue and greater financial loss. There exists no universally accepted definition for small tourism businesses. The meaning and characteristics vary from one country to another. Hence, there are some dissimilarities between the findings of this study and other studies conducted in different contexts (Litheko, 2021; Fuchs, 2022). Even though there are contextual differences in the reasons for financial loss by small tourism businesses under unforeseen crisis situations such as COVID-19, this study reveals the results beyond common understandings.

## CONCLUSIONS

The loss and distress suffered by many small tourism businesses during the COVID-19 pandemic in Bangladesh is indescribable. Various factors behind financial loss have not been assessed with deserved attention. This study has attempted to bridge the research gap by evaluating significant factors responsible for the financial loss of different small tourism businesses during the COVID-19 pandemic. The findings of this study suggest a strong relationship between the financial loss suffered by many small tourism businesses and the explanatory variables - education and gender of the owners/entrepreneurs/managers, type of organization, office location, year of establishment, ownership, main target customer, and revenue earned before COVID-19. The outcomes of this study can assist policymakers in formulating various strategies regarding crisis management for tourism businesses. In addition to that, this study can act as an important component for small tourism businesses in considering factors connected with managing operations during crisis situations.

Small tourism businesses have only been the prime concentration of this study. Such type of study is also required for medium and large tourism businesses. It might be interesting to know how the factors affecting financial loss of small tourism businesses during crisis work in the context of developed countries. Besides, future researchers may also examine other relevant factors associated with financial loss in tourism businesses and suggest the path to fully utilize such studies

in strengthening adaptation and resilience policy for the business. This study has recognized a limitation that the relative extent of the factors affecting financial loss is not addressed here. Incorporating some primary qualitative data in the current study could help to better understand the insights into the research objective. For the whole world, COVID-19 pandemic was a sudden crisis which has been ever seen or imagined by anyone. Among various adverse impacts of the pandemic, there was one practical thing that taught all businesses how to fight and survive in tough times. Hence, this crisis is a great learning for all the tourism businesses which will help them to face any other crisis in future.

**Author Contributions:** Conceptualization, F.A. and K.H.; methodology, K.H. and F.A.; software, F.A. and K.H.; validation, F.A. and K.H.; formal analysis, F.A. and K.H.; investigation, J.F. and K.H.; data curation, K.H. and F.A.; writing - original draft preparation, J.F. and F.A.; writing - review and editing, K.H. and J.F.; visualization, J.F. and F.A.; supervision, K.H.; project administration, K.H. All authors have read and agreed to the published version of the manuscript.

**Funding:** Not applicable.

**Institutional Review Board Statement:** Not applicable.

**Informed Consent Statement:** Not applicable.

**Data Availability Statement:** The data presented in this study may be obtained on request from the corresponding author.

**Acknowledgments:** The research undertaken was made possible by the equal scientific involvement of all the authors concerned.

**Conflicts of Interest:** The authors declare no conflict of interest.

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