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What effect did the banking crisis in 2008 have on the image of Iceland as a tourist destination?

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ABSTRACT

Iceland faced a serious banking crisis in the autumn of 2008 when three of its largest banks, with over 85% market share, went bankrupt and were taken over by the government. The international media kept a close eye on Iceland because it was the first nation to fall victim to the global financial crisis.

This paper focuses on one aspect of the banking crisis, namely its effect on the image of Iceland among foreign tourists. The research question is: *What effect did the banking crisis in the autumn of 2008 have on the image of Iceland as a tourist destination?* The research is based on two surveys done during the summer of 2009, or a few months after the crisis. The results of these surveys are then compared to a benchmark survey conducted in the summer of 2008, or a few weeks before the crisis.

The research is based on the methodology of perceptual mapping which is explained thoroughly in the paper. The results of the surveys before and after the crisis are compared and inferences drawn.

The main result is that the image of Iceland as a tourist destination has not changed very much in the minds of the tourists. The country is still connected strongly to attributes such as “Friendly and hospitable”, “Scenic and natural beauty”, “Safe place to visit” and “Opportunity for adventure”. The results of all the three surveys are almost identical which indicates that the effect of the banking crisis in 2008 on the country’s image as a tourist destination has been minimal.

INTRODUCTION

The research question is: *Has the image of Iceland, among foreign tourists, changed following the collapse of the Icelandic banks in the fall of 2008?* To answer the research question it was decided to replicate a research that was done in the summer of 2008 a few weeks before the collapse of the banks. The same attributes were used and the image of Iceland compared to that of The Faroe Islands, Finland, Greenland, Norway and Scotland. Data was collected in July and August 2009.

This paper is divided into four sections. In the first section image and image problems are discussed. The image of nations and destinations, the influence of the source country and responses to image problems are dealt with. Following that the methodology of the research is discussed. The participants, the questionnaire and the procedure are described. Finally the results of the research are presented. The research was much more extensive than presented here. Only the part dealing with the assessment of the image of Iceland, where ANOVA test and perceptual maps were used, is reported here. The rest has to wait for a better time. The emphasis is on answering the research question. That is done by comparing the results of this research with the results of a different research done during the summer 2008 (Gudlaugsson and Magnusson, 2009). In the final section of the paper the results are discussed and suggestions for further research in this field put forward.

1 IMAGE AND IMAGE PROBLEMS

Barich and Kotler (1991) define image as the “sum of beliefs, attitudes and impressions that a person or group has of an object”. The object may be a company, product, place or person. Image is a simplification of complex ideas and a shortcut to the core of the information that the mind processes (Kotler and Gertner, 2002; Nadeau, Heslop, O’Reilly and Luk, 2008).

Image has a great influence on individuals’ attitudes, how they evaluate products and their quality (Erickson, Johansson and Chao, 1984) and how they behave (Nadeau, Heslop, O’Reilly and Luk, 2008). It is therefore important to understand how individuals process information and form fixed and learned images. Even though the images individuals have of objects do not always turn out to be accurate (Barich og Kotler, 1991) managers and experts have to realize that they greatly influence individuals’ decision making whether they are buying a product (Kotler, Haider and Rein, 1993) or deciding on a place to visit (Baloglu and

McCleary, 1999; Molina, Gómez and Martín-Consuegra, 2010). It can be deduced from what has been said that it is important to understand how individuals perceive a certain product in relation to a competitor's product and how to define, measure and manage a product's image in order to attract customers and build market share (Kotler et al., 1993).

The image of a country in an individual's mind has many dimensions, some based on facts others on emotions (Papadopoulos and Heslop, 2002). The image is also based on the geographical location of the country, cultural factors such as art, famous citizens and other things. Finally the image individuals have of a country can influence their decision concerning buying, investing, moving and visiting (Kotler and Gertner, 2002).

Image and branding are interrelated concepts (Kim, Boush, Marquardt and Kahle, 2006). The idea behind creating an image or branding a nation is to create a differentiation in the minds of individuals just like in the case of companies and various products and services (Dinnie, 2008). Local and national governments have invested relatively large amounts of money and effort in improving their competitive position compared to other countries and cities (Herstein and Jaffe, 2008; Kotler et al., 1993; Porter, 1998) among other things to attract tourists, businesses and talented individuals and to make it possible for their companies to compete in foreign markets (Gilmore, 2001; Herstein and Jaffe, 2008). In order to be successful, an image that is fair, accurate, strong, simple, believable, attractive and in line with the spirit and wishes of the people who live there has to be built (Anholt, 2009; Kotler and Gertner, 2002). For the image to be true and reflect reality a research among the local population and outsiders to find out how they perceive the place has to be done and strong and weak factors identified. The difference between a stereotype and the image of a place is that stereotypes and clichés are built on the most common negative and positive images which individuals hold of a place. An image is more personal and can be different across individuals.

Cities, regions or nations have all experienced difficult times. While some places seem to experience temporary difficulties others seem to get stuck in long lasting vicious circles like for example Northern England, Western France and Southern Italy. Cities like Glasgow and New York both faced temporary difficulties but managed to change their image for the better. New York was known for its high crime rate and was experiencing financial problems but is now highly regarded as a place which has various attractions and offers many possibilities in terms of shopping and recreation (Buhalis, 2000). Anholt (2006) warns against racing off to try to find a solution to a perceived image problem before the problem has been properly understood.

Crisis like politically motivated trade embargos, epidemics (foot and mouth disease, swine flue), the collapse of the currency, natural disasters like hurricanes (Katrina), earthquakes (Haiti, China, Chile), floods (Crouch and Ritchie, 1999) or tsunamis (Asia) and terrorist acts (September 11th) (Yeoman, Munro and McMahon-Beattie, 2006) can have a substantial influence on tourism (Yeoman, Greenwood and McMahon-Beattie, 2009). According to the WEF terrorism is the greatest threat facing tourism today along with high energy prices and a reduction in consumer spending following economic recessions (Blanke, Chiesa and Herrera, 2009). In some cases events have lead to a total stop in tourist arrivals (Crouch and Ritchie, 1999).

Research has shown that media coverage can have a strong influence on individuals' perceptions and images of a subject matter (Mutz and Soss, 1997; Saunders, 2008) and remote places (Avraham, 2000; Kotler and Gertner, 2002) particularly if the coverage is negative (Saunders, 2008). Media coverage dealing with terrorist acts or political unrest has a tendency to influence the image individuals have of a tourist destination, in particular among those individuals who do not have fully developed opinions (Sönmez, 1998) and can therefore create stereotypes among the public (Kotler and Gertner, 2002). Weimann and Winn (1994) maintain that media coverage can be very effective because it is sometimes the only information source related to a particular subject and often has a limited view or perspective. Avraham (2000) points out that news from remote places often times are short and superficial. In most cases listeners or viewers assume that the news is based on facts (Mutz and Soss, 1997). The media tend to choose to cover negative events rather than positive ones and use as a justification that that's what readers prefer (Avraham, 2000).

Even though companies and individuals, in principle, use the same methods to improve their image companies can in addition use other methods and state things differently. They also often have deeper pockets than individuals do (Benoit, 1997). Companies that have been exposed react differently. While some of them respond to the exposure by using PR others are silent maybe in the hope that the media will direct its attention elsewhere. Benoit has discussed reactions to image problems (Caldiero, Taylor and Ungureanu, 2009) and categorized those reactions and attempts at image restoration into 5 groups. These groups are denial, evasion of responsibility, reducing offensiveness, corrective action and lastly attempts to restore the image by asking forgiveness (Benoit, 1997; Caldiero et al., 2009).

Image is important for nations just like companies and individuals. A negative image can come about because of factors beyond a nation's control such as natural disasters, epidemics, terrorism, political unrest to name a few (Kotler and Gertner, 2002). The threat

involved is for example a negative influence on the arrivals of tourists to a country (Ritchie, 2004). How nations respond to negative turns of events is very important (Yeoman et al., 2009). Each destination is faced with various tasks when it has to deal with a negative image, a reduction in the number of tourists and lost revenues. It is not certain if the same solution can be applied in different countries but a plan has to be made as to how to respond to a crisis which is the result of political unrest or terrorist acts (Sönmez, 1998). It is not possible to use traditional marketing campaigns when trying to restore an image and because of that the tourist industry has to use recovery marketing or marketing as a part of crisis management (Ritchie, 2004; Sönmez, 1998).

2 THE USE OF PERCEPTUAL MAPS TO MEASURE IMAGE

One of the more sophisticated research methods used in marketing is perceptual mapping. It shows how goods in a market are perceived on certain attributes and which goods are competitors seen from the customers' point of view. Perceptual maps therefore give a strong indication of a good's image and how they can be positioned to improve performance. The maps, therefore, can be of great help when marketing related decisions have to be made (Festervand, 2000; Festervand, 2002; Kara, Kaynak and Kucukemiroglu, 1996; Stanton and Lowenhar, 1977). Perceptual maps clearly show how the market is divided and indicate how it might be segmented into smaller and more homogeneous segments.

Figure 1 shows a hypothetical perceptual map. It will be used to explain how perceptual maps work.

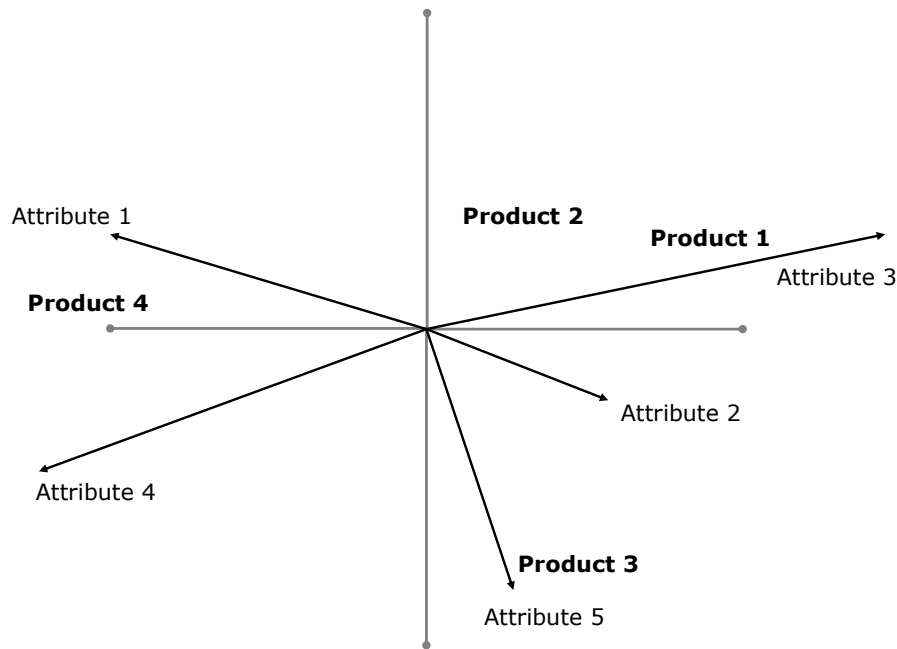


Figure 1: A hypothetical perceptual map

The map shows four products that are evaluated based on five attributes which can be both positive and negative. When choosing attributes it is important to select those that describe both the industry and individual goods. Various methods can be used to identify the attributes. It is common to start with many attributes and then use the methodology to combine them and/or narrow them down. The research reported here uses positioning analysis software developed by Lilien and Rangaswamy (2003). The results are shown in a vector format. The software positions the vectors and determines their length based on the average scores for each good's attributes. Many similar methods exist (Gwin, 2003; Sharp and Romaniuk, 2000; Bijmolt and Wedel, 1999; Sinclair and Stalling, 1990; Kohli and Leuthesser, 1993; Shugan, 2004).

The length of the vectors indicates how well or decisively the attributes can distinguish between the products. A long vector indicates that the attribute is decisive in consumers' minds. The further the product is from the center of the map the more decisive is its differentiation based on that attribute. It is important to keep in mind that the vectors are read in both directions from the center of the map even though only one of the vectors is shown (Lilien og Rangaswamy, 2003). We can for example see that product 1 is less connected to attribute 4 than the other products. The size of the angle between the vectors also gives important information. A narrow angle indicates that the attributes are closely related since the correlation between them is high.

3 THE EFFECT OF THE BANKING CRISIS ON THE IMAGE OF ICELAND

This section of the paper details the methodology used, data analysis and results.

3.1 METHODOLOGY

The questionnaire was the same as used in a research done in the summer of 2008 (Gudlaugsson and Magnússon, 2009). The results of that research are used as benchmarks. Two independent surveys among tourists visiting Iceland were conducted. The first one (2009) was administered on board the Flybus shuttles in July and August 2009. The total number of valid answers was 366. The second survey (2009b) was conducted among foreign tourist at BSÍ (the central bus station in Reykjavík) and Geysir in the Haukadalur valley (a very popular tourist attraction) in July and August 2009. The total number of valid answers was 455. (For further information see Gudlaugsson, T. and Sigurjonsdottir, M., 2010; Gudlaugsson, T. and Leosdottir, E.E., 2010).

A nine point scale was used where 1 = this attribute applies very badly to this country and 9= this attribute applies very well to this country. The countries that were evaluated in addition to Iceland were; Finland, The Faroe Islands, Greenland, Norway and Skotland. These same countries were evaluated in the benchmark research. The participants evaluated all the countries on the same attributes which were: (1) Scenic and natural beauty, (2) Peaceful and quiet, (3) Good tourist facilities, (4) Friendly and hospitable, (5) Good food and drink, (6) Safe place to visit, (7) Good entertainment and nightlife, (8) Unique and different, (9) Opportunity for adventure, (10) Modern, (11) Wild and (12) Good cultural experience. These same attributes were used in the research that was conducted before the crisis and used here as a benchmark.

3.2 DATA ANALYSIS

To analyse the data the data sets from the 2008 and 2009 surveys were combined into one database. That created a very large data set with 67.500 elements (number of attributes x number of countries x number of valid answers). To find out if answers were statistically different an ANOVA test was used with a 5% level of significance. If a difference was detected its effect was examined by calculating Eta squared. To examine the image of Iceland before and after the banking crisis the data gathered in the two surveys done in 2009 were

merged into one data set and the combined results of those surveys compared to the results of the benchmark research using perceptual mapping. (For further information see section two).

3.3 RESULTS

In table 1 the descriptive statistics for Iceland are presented. It also shows whether there are differences between the answers to the different surveys.

Tafla 1: Descriptives Statistics for Iceland

		Descriptives							
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
Scenic and natural beauty Iceland	2008	333	8,22	1,041	,057	8,11	8,33	3	9
	2009	366	8,27	1,042	,054	8,16	8,38	1	9
	2009b	425	8,11	,982	,048	8,02	8,21	3	9
	Total	1124	8,20	1,021	,030	8,14	8,26	1	9
Peaceful and quiet Iceland	2008	333	8,13	1,073	,059	8,02	8,25	2	9
	2009	366	8,02	1,061	,055	7,91	8,13	4	9
	2009b	423	7,85	1,235	,060	7,73	7,97	1	9
	Total	1122	7,99	1,188	,034	7,92	8,06	1	9
Good tourist facilities Iceland	2008	332	7,50	1,343	,074	7,36	7,64	2	9
	2009	366	7,55	1,321	,069	7,41	7,68	2	9
	2009b	422	7,42	1,268	,062	7,30	7,54	2	9
	Total	1120	7,49	1,308	,039	7,41	7,56	2	9
Friendly and hospitable Iceland	2008	331	7,73	1,312	,072	7,58	7,87	1	9
	2009	366	7,71	1,242	,065	7,59	7,84	3	9
	2009b	421	7,62	1,231	,060	7,50	7,74	2	9
	Total	1118	7,68	1,259	,038	7,61	7,76	1	9
Good food and drink Iceland	2008	330	6,29	1,883	,104	6,09	6,50	1	9
	2009	365	6,58	1,815	,095	6,40	6,77	1	9
	2009b	420	6,45	1,719	,084	6,28	6,61	2	9
	Total	1115	6,45	1,802	,054	6,34	6,55	1	9
Safe place to visit Iceland	2008	332	8,42	,895	,049	8,33	8,52	2	9
	2009	366	8,46	,826	,043	8,37	8,54	5	9
	2009b	422	8,26	,982	,048	8,16	8,35	3	9
	Total	1120	8,37	,911	,027	8,32	8,42	2	9
Good entertainment and nightlife Iceland	2008	324	6,36	1,840	,102	6,16	6,57	1	9
	2009	350	6,45	1,887	,101	6,25	6,64	1	9
	2009b	395	6,08	1,814	,091	5,90	6,26	1	9
	Total	1069	6,29	1,851	,057	6,17	6,40	1	9
Unique and different Iceland	2008	328	8,44	,914	,050	8,34	8,54	4	9
	2009	365	8,43	,991	,052	8,33	8,53	2	9
	2009b	422	8,35	1,024	,050	8,25	8,44	1	9
	Total	1115	8,40	,982	,029	8,34	8,46	1	9
Opportunity for adventure Iceland	2008	329	8,38	,843	,046	8,29	8,47	4	9
	2009	359	8,39	,793	,042	8,31	8,47	5	9
	2009b	420	8,34	,830	,040	8,26	8,42	5	9
	Total	1108	8,37	,822	,025	8,32	8,42	4	9
Modern Iceland	2008	331	7,25	1,571	,086	7,08	7,42	1	9
	2009	363	7,09	1,525	,080	6,93	7,24	1	9
	2009b	419	7,01	1,509	,074	6,86	7,15	1	9
	Total	1113	7,11	1,535	,046	7,02	7,20	1	9
Wild Iceland	2008	331	8,15	1,101	,060	8,03	8,27	2	9
	2009	358	7,90	1,500	,079	7,74	8,05	1	9
	2009b	417	7,99	1,221	,060	7,87	8,10	1	9
	Total	1106	8,01	1,288	,039	7,93	8,08	1	9
Good cultural experience Iceland	2008	330	7,41	1,363	,075	7,26	7,55	2	9
	2009	362	7,09	1,696	,089	6,91	7,26	1	9
	2009b	412	6,95	1,531	,075	6,80	7,10	2	9
	Total	1104	7,13	1,551	,047	7,04	7,22	1	9

Table 2 shows the results of an ANOVA test for the 2008 og 2009/2009b measurements.

Tafla 2: The results of an ANOVA test

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Scenic and natural beauty Iceland	Between Groups	5,191	2	2,596	2,499	,083
	Within Groups	1164,356	1121	1,039		
	Total	1169,547	1123			
Peaceful and quiet Iceland	Between Groups	15,202	2	7,601	5,920	,003
	Within Groups	1436,669	1119	1,284		
	Total	1451,872	1121			
Good tourist facilities Iceland	Between Groups	3,396	2	1,698	,993	,371
	Within Groups	1910,375	1117	1,710		
	Total	1913,771	1119			
Friendly and hospitable Iceland	Between Groups	2,467	2	1,234	,778	,460
	Within Groups	1767,809	1115	1,585		
	Total	1770,276	1117			
Good food and drink Iceland	Between Groups	14,538	2	7,269	2,243	,107
	Within Groups	3602,930	1112	3,240		
	Total	3617,467	1114			
Safe place to visit Iceland	Between Groups	9,103	2	4,552	5,525	,004
	Within Groups	920,125	1117	,824		
	Total	929,228	1119			
Good entertainment and nightlife Iceland	Between Groups	27,919	2	13,960	4,097	,017
	Within Groups	3632,060	1066	3,407		
	Total	3659,979	1068			
Unique and different Iceland	Between Groups	2,199	2	1,099	1,140	,320
	Within Groups	1071,993	1112	,964		
	Total	1074,192	1114			
Opportunity for adventure Iceland	Between Groups	,517	2	,259	,382	,682
	Within Groups	746,980	1105	,676		
	Total	747,497	1107			
Modern Iceland	Between Groups	10,988	2	5,494	2,338	,097
	Within Groups	2608,502	1110	2,350		
	Total	2619,490	1112			
Wild Iceland	Between Groups	11,132	2	5,566	3,368	,035
	Within Groups	1822,836	1103	1,653		
	Total	1833,967	1105			
Good cultural experience Iceland	Between Groups	38,993	2	19,497	8,215	,000
	Within Groups	2612,962	1101	2,373		
	Total	2651,956	1103			

As can be seen in table 2 the ANOVA test shows a difference between the different measurements for 5 attributes out of 12. These are the attributes Peaceful and quiet [$F(2,1.119)=5,9$, $p=0,003$], Safe place to visit [$F(2,1.117)=5,5$, $p=0,004$], Good entertainment [$F(2,1.066)=4,1$, $p=0,017$], Wild [$F(2,1.103)=3,7$, $p=0,035$], and Good cultural experience [$F(2,1.101)=8,2$, $p=0,000$]. A post hoc test shows where the difference is. In this research the Tukey post hoc test was used. The effect size was also calculated using Eta squared by using the following formula:

Cohen (1988) classifies 0.01 as a small effect, 0.06 as a medium affect and 0.14 as a large effect. Post-hoc comparisons for Peaceful and quiet indicated that the mean score for 2008 ($M=8.13$, $SD=1.07$) was significantly different from 2009b ($M=7.85$, $SD=1.2$). 2009 ($M=8.02$, $SD=1.06$) did not differ significantly from either 2008 or 2009b. The effect size was 0.01 which indicates that the effect is very small.

Post-hoc comparisons for Safe place to visit indicate that the mean score for 2008 ($M=8.42$, $SD=0,89$) and for 2009 ($M=8.46$, $SD=0,83$) was significantly different from 2009b ($M=8.26$, $SD=0,98$). The mean score for 2008 did not differ significantly from 2009. The effect size was < 0.01 which indicates that the effect is very small.

Post-hoc comparison for Good entertainment and nightlife indicated tha the mean score for 2009 ($M=6.45$, $SD=1.9$) was significantly different from 2009b ($M=6.08$, $SD=1.8$). 2008 ($M=6.36$, $SD=1.8$) did not differ significantly from either 2009 or 2009b. The effect size was < 0.01 which indicates a very small effect.

Post-hoc comparison for Wild indicate that the mean score for 2008 ($M=8.15$, $SD=1.1$) was significantly different from 2009 ($M=7.9$, $SD=1.5$). 2009b ($M=7.99$, $SD=1.2$) did not differ significantly from either 2008 or 2009. The effect size was <0.01 which indicates that the effect is very small.

Post-hoc comparison for Godd cultural experience indicate that the mean score for 2008 ($M=7.41$, $SD=1.4$) was significantly different from 2009 ($M=7.09$, $SD=1.7$) and for 2009b ($M=6.95$, $SD=1.5$). The mean score for 2009 did not differ significantly from 2009b. The effet size was 0.014 which indicates that the effect is very small.

As can be seen the effect size, where a difference was detected, is in all cases small. In some cases there is not even a difference between the 2008 measurement on the one hand and

the 2009/2009b measurements on the other. From this it is deduced that the banking crisis in the autumn of 2008 only had a marginal effect on how the participants evaluated Iceland on the various image attributes.

To examine the image effects the methodology of perceptual mapping was used. A perceptual map for 2008 was constructed and a combined perceptual map for the measurements in 2009/2009b because those measurements hardly differed. The result for 2008 can be seen in figure 2.

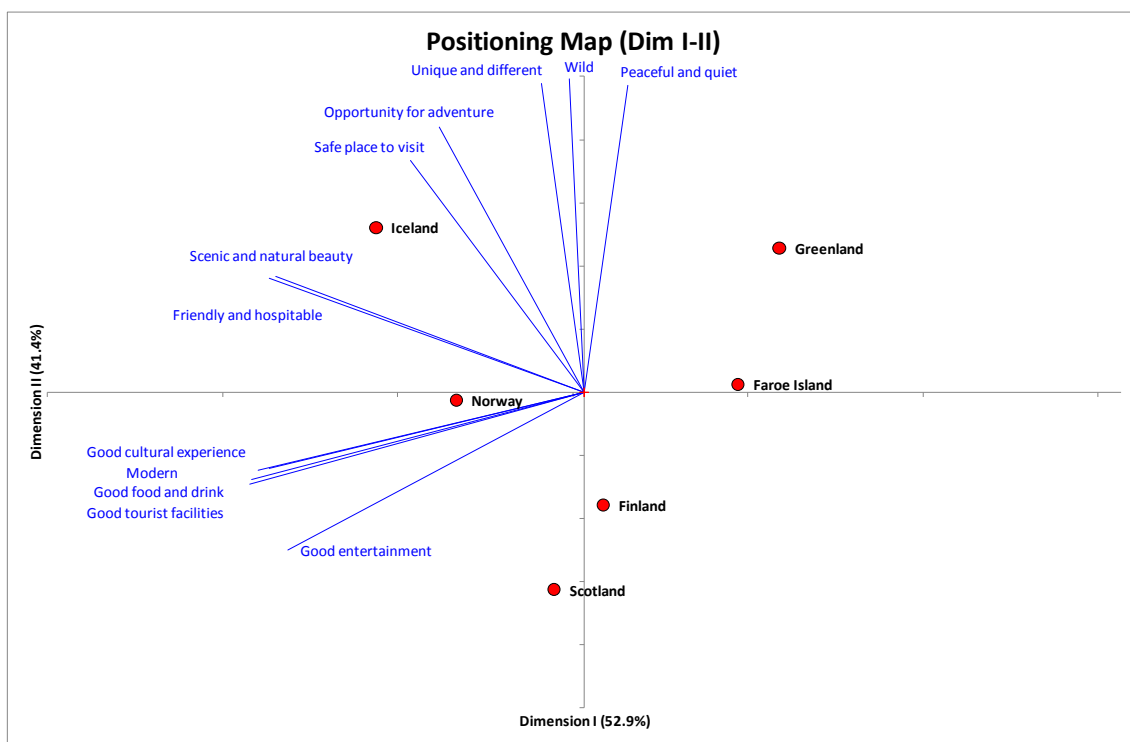


Figure 2: A positioning Map for 2008

As can be seen Iceland has a very distinct position in the perceptual map and is closely connected with Safe place to visit, Scenic and natural beauty, Friendly and hospitable, and Opportunity for adventure. One of the most commonly used indicators of internal consistency is the Cronbach alpha coefficient. Ideally, the Cronbach alpha coefficient of a scale should be above 0.7. For 2008 the coefficient was 0.817 which is above 0.7 and therefore the scale is considered reliable.

In figure 3 the result for the combined 2009/2009b measurements is shown. As can be seen the results are almost exactly the same. Iceland is closely connected to the same four attributes, i.e. a Safe place to visit, Opportunity for adventure, Scenic and natural beauty, and Friendly and hospitable. The position of other countries is also pretty much the same which is

very interesting when it is kept in mind that three independent samples are being compared. Since the discussion of the image of the comparison countries is beyond the scope of this paper it has to wait for a better time.

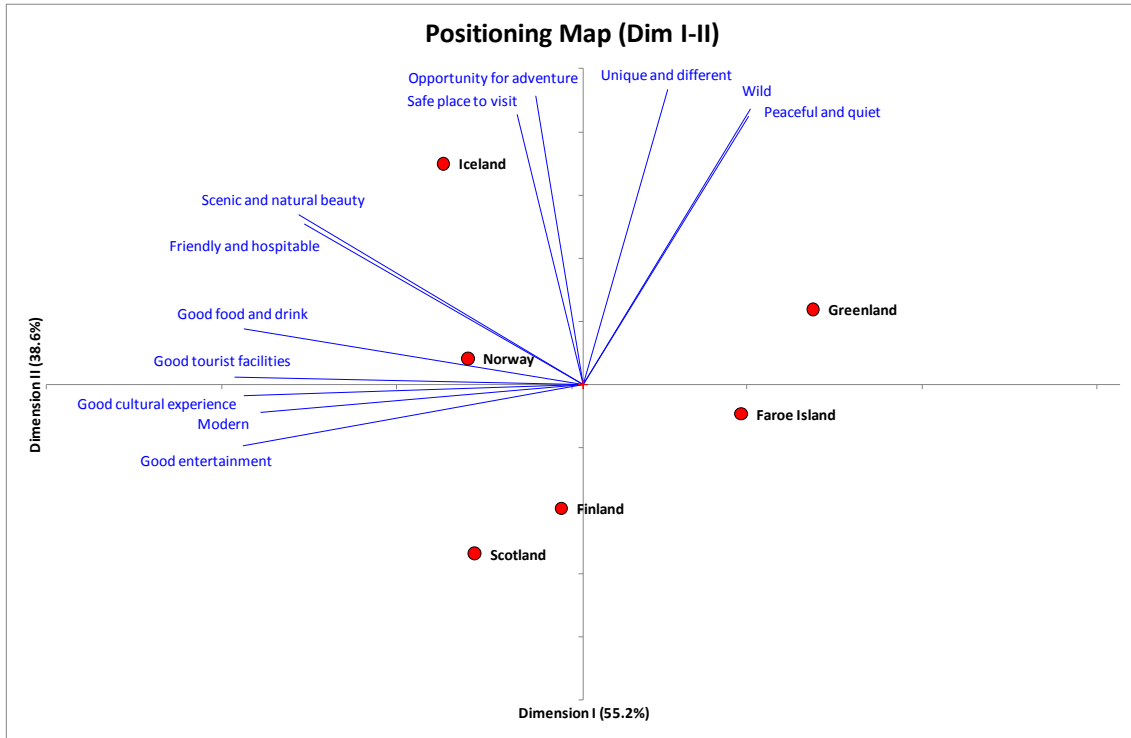


Figure 3: A positioning Map for 2009/2009b

Cronback's alpha for the 2009/2009b measurements is 0.79 which is above 0.7. Therefore the scale used has internal reliability.

The perceptual maps support the results of the ANOVA tests that the banking crisis in the autumn of 2008 does not seem to have had any effect on the image of tourists visiting Iceland in the summer 2009. What's more the image of the comparison countries doesn't seem to have changed either which in itself is noteworthy.

4 DISCUSSION

The aim of this research was to assess whether the banking crisis in the autumn of 2008 had an effect on the image of Iceland among tourists visiting the country in the summer of 2009. The results of an ANOVA test show that a difference is only detected for 5 attributes out of 12. The effect size, where a difference was detected, was in all cases small. The perceptual maps support this conclusion. The maps for both the years are very similar. From this it is deduced that the banking crisis in the autumn of 2008 only had a marginal effect on the image of Iceland among tourists visiting the country in the summer of 2009. Iceland's position on the maps indicates that in the minds of visiting tourists it is a Safe place to visit, it offers Opportunity for adventure, is Scenic and has natural beauty and its people are Friendly and hospitable.

What is interesting is that the position of the comparison countries is also very similar between the measurements. Even though the assessment of their image is beyond the scope of this paper it is worthy of note and in effect supports the belief that the image of Iceland has in fact not changed much among tourists visiting the country in the summer of 2009. It needs to be kept in mind, though, that the fact that the surveys were done among tourists who had decided to visit Iceland might influence the results. The results say nothing about how other groups such as those who decided not to visit Iceland or who conceivably intended to invest in Iceland but decided not to evaluate Iceland on the different image attributes.

It would be very interesting to replicate this research during the summer of 2011. A longer time has now passed since the banking crisis and it will also be possible to examine the influence of a different factor, the volcanic eruption in Eyjafjallajökull in the spring of 2010, on the image of Iceland among tourists visiting the country. Various things indicate that that event had a more profound effect on tourists than the banking crisis. It is very likely that the short term effects were negative, i.e. caused inconvenience and even portrayed the country as an ominous place but it is also likely that this event will improve the long term position of Iceland both in terms of its image and its differentiation.

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