

FINANCING OF SMALL HOSPITALITY BUSINESSES IN JAMMU AND KASHMIR: EVIDENCE FROM KASHMIR

*Aijaz Ahmad Dar*¹

Received: January 6, 2016 | Accepted: September 15, 2016

ABSTRACT: *The international hotel industry is becoming increasingly competitive for survival, growth, and profitability in a world economy. The essential contribution that hospitality businesses like hotel and lodging industry make, qualifies it for one of the locomotive sectors in the economic development of Jammu and Kashmir. This study researched how hotel and lodging businesses, as the dominant section of the tourism sector, identify financing services in the region. However the results suggest that the financing programmes for the development of hotel industry are still limited despite the fact that a high policy agenda has been introduced to promote the development of this industry in Jammu and Kashmir. This paper presents a descriptive analysis of evidence from Kashmir to highlight financing activities and challenges that are possibly leading to major bottlenecks for hotel and lodging industry development in the region. The result of this study, indicated that respondents are not satisfied with the financing characteristics of financial institutions to hotel and lodging industry. The implications on policy interventions and industry practice are explored to counter such obstacles and the evidences found from this paper may also be applicable to whole state of Jammu and Kashmir.*

Keywords: *challenges, Financing, hospitality, loan, small business*

INTRODUCTION

Hospitality businesses, particularly hotels are important for economic progress of Jammu and Kashmir. The hospitality industry in Jammu and Kashmir is linked with the industrial growth, mobility of the people for business, pilgrimage and sightseeing as well as increase in per capita income and foreign tourist inflow. The impact of hotel industry on the economy of Jammu and Kashmir is found mainly in the recruitment of foreign exchange, its contribution to regional development and the increase of productive employments. There are a number of star category and non-star category type hotels in Jammu

¹ Универзитет у Новом Саду, Департман за географију, туризам и хотелијерство, Трг Доситеја Обрадовића 3, 21000 Нови Сад; контакт: kalkica@gmail.com

and Kashmir. Besides a number of guest houses, lodges, house boats and tour operators are engaged to cater to the requirement of low-budget tourists at different places of tourist destinations. Considering the potential of this sector, a number of financial institutions has proposed to strengthen the position and participation of this sector through various lines of financing and creation of funds. The new policy initiatives are aimed to contribute significantly to its growth and to stimulate the development and modernization of the hospitality business. However recent studies have still identified various financing constraints like absence of adequate and timely credit, unfavorable interest rates and stringent terms as major bottlenecks in development of hotel industry in the region. The purpose of this paper is to present a descriptive evaluation of hotel and lodging financing based on recently completed field work in the Kashmir region of Jammu and Kashmir.

LITERATURE REVIEW

The Study of economic literature has suggested that small businesses are a significant source of economic development and an important link to entrepreneurial expansion, innovation, and job creation (Acs, 1992; Audretsch, 1995; Thurik & Wennekers, 2001). The growth of Small businesses provide diversity in the number and types of firms, and shift from a managed to an ownership economy in addition to its role in economic development, (Cohen & Klepper, 1992; Audretsch & Thurik, 2001). Various potential impacts of small businesses have been theorized (Schmitz, 1989) and there appears to be a global shift of industry structures tending toward an increased role of small businesses (Carree, van Stel, Thurik, & Wennekers, 2001). However, this shift is heterogeneous and is dependent heavily on country-specific factors. Researchers believe that countries that are lagging in small business entrepreneurship will pay a penalty through lower economic growth (Thurik & Wennekers, 2001). In hospitality and tourism literature, the analysis of small businesses, surprisingly remains in its nascent stage mainly due to unavailability of quality data and statistics. However anecdotal evidence suggests that small businesses may represent a major portion of of these industries and in developing nations these numbers could be higher (Christie & Crompton, 2002). The available research on small businesses in hospitality and tourism has studied various operational aspects, including financial performance, linkages of financial performance and investments in fixed assets, operational aspects, and human resource issues (Romer, 1986, Poorani & Smith, 1995; Kaufman, Weaver, & Poynter, 1996). Becker (1995) explained that governmental financing institutions have opened special credit programs for private sector tourism enterprises The availability of finance to develop and promote the tourism industry is critically important for further growth and development of tourism industry and economy (Government of south Africa ,1996). According to Raje (2000) the timely and adequate supply of credit is an essential input for setting up and working of small-scale Industries. Christie and Crompton (2001) viewed finance as one of the core challenges for SME development as a whole in Africa. Bhatia (2001) emphasized on financial planning of tourism industry. He observed that financial planning is very much essential for successful tourism development plan. Public and private finance play an important role in tourism development programme. Ateljevic and Doorne (2004) tried to study the difficulties small tourism

firms encounter related to lack of financial resources. Nayak (2005) evaluated the role of Financial Institutions in Promoting Entrepreneurship in Assam Small Scale Sector in Assam and concluded that various financial institutions are making attractive schemes for availability of finance apart from other assistances including technical knowhow, training, sales, purchases etc. Chaudhary (2009) through his study illustrated need of the Central and State government tourism Policy to encourage the direct investment in tourism sector .He further revealed that various tourism organization are playing major role for the tourism development in Kerala. Joshi (2011) through his study attempted to evaluate and analyze the role of Tourism Financial Corporation of India (TFCI) in promoting tourism and tourism related services through the financial assistance sanctioned and disbursed on some parameters. His Analysis showed that during the last fifteen years of study TFCI played an important role in tourism development. Das (2011) explained that tourism provides opportunities of job creation directly and indirectly. So this sector should be provided with incentives for sustainable and overall economic growth along with creation of jobs. Mujacevic, Vizjak and Jokic (2012) outlined the role of International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD) in financing projects in tourism and hospitality industry in developing countries. The study made a comparison between the IFC and EBR investments in the tourism and hospitality sector of the Europe and Central Asia. Zapalska and Brozik (2013) pointed that entrepreneurial development and small business growth in tourism is hindered by high taxation, unavailability of low cost financing, lack of tax incentives and unfavorable credit terms.

IMPORTANCE OF THE STUDY

The government of Jammu and Kashmir has recently recognized the role of small hospitality businesses in tourism and economic development of the state. The purpose of this paper is to present a descriptive evaluation of financing activities for small hotel and accommodation businesses and various challenges faced by these entrepreneurs in getting financial assistance from various financial institutions. Therefore, this study is timely and provides an understanding of the nature of small hospitality activity in Jammu and Kashmir. In addition to adding to small hospitality business literature, this study adds another perspective to small hospitality enterprises financing in a state like Jammu and Kashmir. As stated earlier, both the analyses of small hospitality businesses and their financing activities remain understudied.

OBJECTIVES OF THE STUDY

The study is based on following objectives

1. To present a descriptive evaluation of financing activities for small hospitality businesses in Jammu and Kashmir
2. To evaluate various challenges faced by small hospitality businesses in getting financial assistance from various financial institutions.

3. The suggest policy interventions and industry practices to counter such obstacles.

RESEARCH METHODOLOGY

The research was carried out through a survey and data was gathered using a one-on-one semi-structured interview format from hospitality businesses located at three main tourist destinations of Kashmir region viz Srinagar, Gulmarg , and pahalgam. A sample of total 70 small hospitality businesses like hotels, tour and travel operators, House Boats owners and restaurants selected through convenience sampling participated in study. The paper presents descriptive and statistical analysis of only 58 respondents who gave useful information by applying various relative statistical tools, such as mean, standard deviations, Coefficient of variation and Annova

RESULTS AND DISCUSSIONS

Financing Small Hospitality Businesses in Jammu and Kashmir

The descriptive analysis of participants shows that most of the respondents represented sole proprietorships (Table 1). Srinagar had the highest representation, but this was expected as it remains an important hospitality and tourism hub of the State. The conclusions drawn also revealed that most of the entrepreneurs start with the small units from their own resources and fund, but later when the business of their units grows and expands they feel the necessity of increasing the size and class of units. When a hotelier or a travel operator starts to construct a building or office or wants to give extra facilities like installation of furniture, modification of office, kitchen plants, utensils, equipments, vehicles or accommodation, obviously they need capital for this project and naturally go for external assistance.

Table 1. Characteristics of Hospitality businesses in Kashmir

| Characteristics | Number |
|--------------------------------|--------|
| Location of Business | |
| Srinagar | 35 |
| Phalgam | 14 |
| Gulmarg | 09 |
| Ownership | |
| Sole Proprietorship | 39 |
| Partnership | 15 |
| Publically Held | 01 |
| Franchise/Management Contracts | 03 |

Source: Field study 2015

The respondents were also asked to provide the percentage of funds that they used from various sources (personal funds, bank loans, other lenders, and family and friends) for different operational uses in new businesses, working capital, expansion, and investment in equipments. A summary of these findings is presented in Table 2 and Table 3.

Table 2. Main Source of financing for small hospitality Businesses in Kashmir

| Parameters | Srinagar | | Gulmarg | | Phalagam | | Total | |
|-----------------|----------|-----|---------|-----|----------|-----|-------|-------|
| | Mean | SD | Mean | SD | Mean | SD | Mean | SD |
| Personal Funds | 59% | 21% | 64% | 28% | 75% | 32% | 66.0% | 27% |
| Bank Loan | 33% | 29% | 26% | 37% | 18% | 24% | 25.7% | 30% |
| Family/ Friends | 02% | 04% | 03% | 09% | 03% | 06% | 02.7% | 06.3% |
| Other Lenders | 06% | 13% | 07% | 13% | 04% | 09% | 05.7% | 11.7% |

Source: Field study 2015

(Note: Percentage figures in this column are averages for the three regions).

Table 3. Main activity of Hospitality Businesses through Financing In Kashmir

| Parameters | Personal Funds | | Bank Loan | | Family/Friends | | Other Lenders | |
|---------------------------|----------------|-----|-----------|-----|----------------|-----|---------------|-----|
| | Mean | SD | Mean | SD | Mean | SD | Mean | SD |
| New Business | 65% | 32% | 27% | 13% | 05% | 34% | 03% | 13% |
| Working Capital | 44% | 47% | 35% | 33% | 12% | 23% | 09% | 32% |
| Expansion/ Renovations | 39% | 46% | 47% | 24% | 09% | 35% | 05% | 24% |
| Equipments | 70% | 40% | 20% | 09% | 06% | 29% | 04% | 21% |

Source: Field study 2015

The results (Table 3) revealed that most of the hotels and travel operators in the region have started their business by their personal funds. Only few hospitality enterprises have been started with the help of assistance taken from various financial institutions and other sources. The averages of these results were also compared to see if average spending on various types of operating activities as well as average sources of funding were significantly different between the categories. Variance analysis through Anova test revealed that there was a significant difference between the averages of funding from different sources for each type of uses of funds (Table 4)

Table 4. Analysis of variance between uses of funding

| | | Degree of Freedom | F | Significance |
|-----------------|----------------|-------------------|--------|--------------|
| New Business | Between Groups | 3 | 9.0871 | .000 |
| | With Groups | 24 | | |
| | Total | 27 | | |
| Working Capital | Between Groups | 3 | 3.1850 | .042 |
| | With Groups | 24 | | |
| | Total | 27 | | |
| Expansion | Between Groups | 3 | 14.231 | .000 |
| | With Groups | 24 | | |
| | Total | 27 | | |
| Equipments | Between Groups | 3 | 11.765 | .000 |
| | With Groups | 24 | | |
| | Total | 27 | | |

Challenges of financing faced by Hospitality Businesses in Kashmir

To know about the challenges being faced by the hospitality enterprises in securing financing for their projects, personal interview with the help of a questionnaire was conducted with the owners and top managers of hotels, tour and travel operators ,House Boat owners at three prominent tourist destinations in Kashmir region of the Jammu and Kashmir. The respondents were asked to rate various challenges of financing faced by them on a 5 point rating scale ranging from Strongly agree=5 to strongly disagree.=1. The information obtained through these interviews was scrutinized and analyzed in Table 5. The results indicated that lack of adequate working capital remained a critical challenge for these businesses. Most of the such businesses were not able to obtain adequate credit from commercial financial institutions and find it difficult to get larger loans for investments and refurbishments. Moreover this capital intensive industry require cash for working capital most urgently as suppliers usually did not extend long credits to them. Infact very few small hospitality entrepreneurs were able to work with trade credits and most paid cash. The financial loans if provided by financial institutions were for small amounts and untimely. Furthermore, most hoteliers agreed that major challenges usually were short pay back period of loans, high interest rates and little subsidy amounts.. Among the other problems cited by respondents for lack of commercial banks' support was that the loan application process was lengthy and tedious. They complained about the unending procedures and cumbersome formalities in fullfilling the conditions for getting loans from the financial institutions and if he or she is all lucky to complete the various formalities and obtain the necessary sanction,it is found that a long time has elapsed between the time he started trying for a loan and the time he actually got the assistance.Another reason owners were unable to get bank loans was

that they were unable to meet collateral requirements. Other problems business owners cited for their inability to get bank loans included is their ignorance regarding the financial assistance schemes and lack of awareness programmes from financial institutions about these assistance facilities in the region. During the study many of the hotel/travel agency entrepreneurs also complained about lack of variety of financial products and non availability of professional guidance provided by financial institutions regarding business projects.

Table 5. Perception of Hospitality Businesses Regarding Challenges of financing in Kashmir

| S. No | Parameters | Mean | SD | CV |
|-------|---|------|------|-------|
| 01 | Lack of Timely availability of credit | 4.21 | 0.60 | 14.25 |
| 02 | Inadequacy of Credit assistance | 3.89 | 0.87 | 22.37 |
| 03 | Short Gestation period | 4.33 | 1.89 | 43.37 |
| 04 | High Rates of Interest | 3.74 | 0.61 | 16.31 |
| 05 | Insufficient Quantum of Subsidy | 4.05 | 1.01 | 24.94 |
| 06 | Long Processing of Application | 3.63 | 0.53 | 14.60 |
| 07 | Stiff Collateral Requirements | 3.34 | 0.97 | 29.04 |
| 08 | Lack of Variety of Products | 3.31 | 1.16 | 35.05 |
| 09 | Lack of Education and Awareness Programmes | 3.28 | 1.04 | 31.71 |
| 10 | Lack of Guidance & monitoring of business projects. | 3.61 | 1.21 | 33.52 |

DISCUSSION AND IMPLICATIONS

The descriptive evaluation of financing activities for small hotels in Kashmir revealed various challenges faced by borrowers and also helped us to summarize the key characteristics of financing behavior and market conditions within which small hospitality businesses were operating in the three major tourist destinations in the region. Consistent with the findings of previous studies, small hotels in these three locations obtained most of their funds through personal sources and some through commercial banks. In Kashmir, these are the most practical options for small hotels to get financing. While there were various government and development agency-supported small business programs, most of these are unwilling to explore hospitality businesses as potential recipients of their financing schemes. Even though commercial banks could be an important source of financing, most banks were unwilling to lend to small hotels, largely due to information opacity, lack of collateral, and lack of professionalism. This finding is also consistent with previous studies. Finally, although the government of Jammu and Kashmir has proclaimed its commitment to hospitality business, helpful activities were found to be lacking, especially in the provision of small business financing and fiscal benefits. While some of these findings were supportive of previous studies, others appear to be context specific to business and the institutional environment in Jammu and Kashmir. There certainly appear to be inefficiencies in the commercial bank loan process to small tourism enterprises. As a con-

sequence, there appears to be a lack of financing instruments that would support small hospitality businesses” in the context of industries such as manufacturing and mining. Given that Jammu and Kashmir is particularly interested in developing its tourism sector, the lack of such financing instruments could present challenges for small businesses. It is possible to argue that the government has been formulating policies for the hotel industry based on the general outlook of the economy, rather than on the realities that face this industry, particularly its small businesses. However, information opacity and transaction costs in the commercial bank sector and government’s policies toward developing effective financing instruments for small and medium-sized businesses by industry and a conducive business and institutional environment, definitely could be areas for further investigation. Other practical considerations can go in right direction by improving the general level professionalism and operational skills of small hospitality businesses apart from encouraging lenders to view these businesses fairly as part of their lending portfolios and potential borrowers.

CONCLUSIONS

This paper presented a descriptive characterization of financing activity for small hotel and lodging industry based on evidence from the three main tourist destinations of Kashmir. While certain characteristics of these hospitality businesses in the region were found to be similar to other small businesses, there were other characteristics that were possibly context specific to the business and institutional environment in Jammu and Kashmir. Although it can be concluded that the future of this industry in Kashmir is bright and financial institutions have to play a vital role for its promotion and development. During the study various critical issues of financing like lack of adequate and timely financial assistance, short gestation periods, unattractive interest rates and subsidy amounts. The evaluation for policy formulation and industry practice should focus on easing of loan sanction criteria and provision of professional advice and guidance to potential investors. Given the similarities of the business and institutional environments to Kashmir, it may not be far fetched to suggest that small hotels and other hospitality businesses in other regions of Jammu and Kashmir may also be facing such financing obstacles.

REFERENCES

- Acs, Z. J. (1992). Small business economics: A global perspective. *Challenge*, 35, 38-44.
- Ateljevic, J. and Doorne, S. (2004). Diseconomies of scale: A study of development constraints in small tourism firms in central New Zealand. *Tourism and Hospitality Research*, 5, 5-24.
- Audretsch, D. B. (1995). *Innovation and industrial evolution*. Boston: MIT Press.
- Audretsch, D. B., & Thurik, A. R. (2001). What’s new about the new economy? From the managed to the entrepreneurial economy. *Industrial and Corporate Change*, 10 (1), 267-315.

- Becker, B.K. (1995). Study and Evaluation of the Federal Policy for Tourism and its Impact on Coastal Regions.(1st Ed.). National Environment Program, Brasilia, D.F., 52.
- Bhatia, A.K.(2001). International Tourism Management. New Delhi, Sterling Publishers Pvt. Ltd.
- Birner, R., & Gunaweera, H. (2001). Between market failure, policy failure and “community failure”: Property rights, crop livestock conflicts and the adoption of sustainable Carree, M.A., Stel, A., Thurik, A. R., & Wennekers, A. R. M. (2002). Economic development and business ownership: an analysis using data of 23 OECD countries in the period 197~1996. *Small Business Economics*, 19 (3), 271-290.
- Choudhary, P. (2009). Tourism policy and planning. New Delhi, Adeline Books
- Christie, I.T. & Crompton, E.D. (2001). Tourism in Africa.Africa Working Paper Series No. 12. Washington, DC:World Bank
- Christensen, J., Guide, A., & Pattillo, C. (2006). Bankable assets. *Finance and Development*, March.
- Cohen, W. M., & Klepper, S. (1992). The trade-off between firm size and diversity in the pursuit of technological progress. *Small Business Economics*, 4 (1), 1-14.
- Das, S.(2011). Indian tourism sector: A growth story. *Yojana*, 49-51.
- Joshi,A. (2011). In-depth analysis of financial support by a specialized financial institution .Elixir international journal, 33, 2291-2299.
- Kaufman, T. J., Weaver, P. W., & Poynter, J. (1996). Success attributes of B&B Operators. *Cornell Hotel and Restaurant Administration Quarterly*, 37 (4), 29-33.
- Mujacevic,E.,Vizjak,A. and Jokic,P. (2012, May). Comparative analysis and assessment of the IFC and ERBD investments in international tourism projects in the European and central Asian region,In Global conference on business and finance proceedings. Paper presented at The Institute for Business and Finance Research, San Jose.
- Nayak, P. (2004,October). Role of Financial Institutions in Promoting Entrepreneurship in Small Scale Sector in Assam .Workshop on Entrepreneurship Development in Assam: Challenges and Opportunities. Paper presented at Assam University, Silchar.
- Poorani, A. A., & Smith, D.R. (1995). Financial characteristics of bed-and-breakfast inns. *Cornell Hotel and Restaurant Administration Quarterly*, 36 (5), October, 57-63.
- Raje , V. (2000 April-September). Taking SSI towards new millennium:Message of hope. *Laghu Udyog Samachar*, New Delhi.
- Romer, P.M. (1986). Increasing returns and long-run growth. *Journal of Political Economy*, 94 (5), 1002--1037.
- Schmitz, J. A., Jr. (1989). Imitation, entrepreneurship, and long-run growth. *Journal of Political Economy*, 97 (3), 721-739.
- Zaplska, A.M. and Brozik ,D. (2013). The entrepreneurial environment and the life-cycle growth and development approach to analyzing tourism and hospitality family businesses in West Virginia. *Problems and perspectives in management*, 2(1) ,7-11.