Chapter II

REVIEW OF LITERATURE

Hotel industry and tourism are fast growing worldwide. There are a number of studies on the problems and prospects of tourism industry in India and Kerala. However, research on hotel industry has grown only in recent years. No systematic, detailed and comprehensive study on the hotel industry in Kerala has been made so far. Very poor data base of the availability of hotel accommodation, even at the important tourist centres, is a serious problem. Only descriptive literatures exist at broad level. An attempt is made in this chapter to review some of the relevant existing literatures. The present study examines the reasons for the poor tourist traffic in India. He says that hotels and other supplementary accommodations are the core of tourism industry and suggests that, the required number should be made available for the proper development of tourism. Negr-- deals with all kinds of demands and problems faced by hotel industry. He predicts that hotel industry has a big scope for expansion in future. The Indian Institute of Public Opinion in a study considered accommodation sector as one of the central elements because foreign tourist expenditure accounts with food and beverages for 55 per cent and dominate foreign exchange earnings. Seth Pran Nath is of the opinion that there should be close connection between growth of accommodation and transport.
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Selvam in his study also deals with the adequacy and future needs of accommodation. Leela Shelly has made an attempt to present a broad profile of the hospitality industry. She has brought a fresh insight into the hotel industry and has made a critical appraisal of the contemporary scene in the hospitality industry. Pragathi Mohanty in her study has analysed the growth pattern of the hotel industry in Orissa and has examined the growth trend with respect to different regions and different types of hotels.

2.1 Trends in the Hotel Industry

In a study conducted by the Ministry of Tourism, the Government of India, it is pointed out that star hotels of four star and above are generally considered to be of international standards and cater to foreign tourists as well as the most affluent of domestic tourists. According to Robert Collier, a new hotel customer is going to be looking for good value three star accommodation. So focus should be on the development of three star hotels. He asserts that in order to survive in today’s global village, hotels will have to be heavily branded or linked to a brand or positioned in a niche market. He foresees that there will continue to be room for major chains to grow with a variety of brands - as well as individual and small regional chain in niche markets.

2.2 Dependence of Tourism on Hotel Industry.

Lack of accommodation was a serious problem for tourism development even in the past. The Sargent Committee set up in 1945, was the first to point out the lack of suitable accommodation for international visitors and suggested that a chain of first class hotels should be built in India. In 1956, the Estimate Committee on tourism said that the paucity of accommodation in India continued. The appraisal of hotel accommodation situation made by the Tourism Committee set up to survey the requirements of additional capacity at important tourist centres, once again highlighted the accommodation shortage in India.
Department resulted in the recommendation of setting up of 5000 rooms or 8500 beds within the next three years. In 1958, the Hotel Standard and Rates Structure Committee recommended the rapid expansion of the hotel industry on a rational and scientific basis.

In 1962, Hemphili, commented on the Indian hotel accommodation situation that one has to book accommodation a year in advance to be sure of getting what he wants. He also pointed out that about 7000 visitors cancelled trips to India simply due to the non-availability of hotel accommodation. The Ad-hoc Committee on Tourism 1962, focussed its attention on the failure of the hotel industry to keep pace with the increasing tourist demand. It pointed out that during the period 1955-1962 the number of hotel-beds had increased by 11 percent only against 300 percent increase in the number of visitors to India. The leading hotelier J.R.D. Tata in 1965 had admitted that acute shortage of accommodation had curtailed the flow of tourists to India. In a survey conducted by M.M. Anand in 1966, twenty-two per cent of the foreign tourists answered accommodation shortage as the most important deterrent to travel in India. The Hotel Review and Survey Committee 1968, set up to survey the requirements of additional bed capacity at important tourist centres, once again highlighted the accommodation shortage in India.

The National Council of Applied Economic Research (NCAER) had opined that hotels are undoubtedly the most essential destination facility that a country must provide, if it plans to build up tourism. The Estimate Committee of Lok Sabha’s report for the year 1975-1976 felt that the various measures taken and efforts made for tourism promotion will not produce the desired results if the hotel accommodation in the country lags behind. J.R.D. Tata was of the opinion that unless a major sustained programme of construction of new hotel facilities is
undertaken during the next five years, up to a million foreign visitors a year will be diverted to other countries involving a loss of foreign exchange earnings to the tune of Rs. 500 crore.

Lattin stated that the hospitality industry is the only field where supply must precede demand. The growth of the hotel industry is a pre-requisite for the growth of tourist traffic. Naik S.D. and Davies N.V. in an article expressed that the growth of hotel accommodation has not kept pace with the growing demand for it. J.R.D. Tata felt that shortage of accommodation makes travel unsafe and discourages the tourists to visit a particular area. According to him it is essential to have up-to-date hotels for the advancement of a country in general or a city in particular to provide facilities and comforts to visitors from all parts of the world. Anand pointed out that lack of adequate hotels of acceptable international standards is a critical factor in limiting traffic throughout the Pacific, especially India. Haksar suggested that accommodation must be available in sufficient quantity in the required type and quality to match the demand of travellers who arrive at the destination. Accommodation probably precedes any other type of development.

Naik S.D. and Davis N.V. observed that the future growth of tourism will largely depend on the growth of suitable hotel accommodation in the country, coupled with transport and other infrastructure. The Sector Working Paper or Tourism of the World Bank has recorded that usually 60 to 75 percent of the total expenditure of tourists accounts for food and accommodation and a remarkable expansion of tourism is possible by increased supplies of moderately priced accommodation in many countries. Negi asserted that "No Hotels no Tourism."
The Economic Times\textsuperscript{32} reported that acute shortage of accommodation and travel difficulties can affect the image that a country presents to the world. The Southern Economist\textsuperscript{33} opined that the main problem the foreigners face on landing in India is the dearth of good hotel accommodation in the place of tourist interest. The bulk is concentrated in metropolitan cities.

According to Lattin\textsuperscript{34}, out of the various components of tourism industry, accommodation component, more specially hotels, constitutes the major share, ranging from 45 to 60 percent. Mukul Guha\textsuperscript{35} pointed out that hotels bag over 47 percent of the total sales by tourism and hold control over another 15 percent of the incidentals complementary to the entire trade. For this he suggested that hotels should be in a position to absorb the varied kinds of visitors' influx. He added that hotels are responsible to back up the spirit of a transit passenger for the next visit or to dampen the same\textsuperscript{36}. He concluded that the growth of tourism industry in a country depends on many respects on the hotel management of that country\textsuperscript{37}.

Medlik\textsuperscript{38} is of the opinion that hotels are essential to the economies and societies as are adequate transport, communication and retail distribution systems for various goods and services. He said that hotels are important attractions for visitors\textsuperscript{39}. The direct and indirect contribution of the hotel industry through the subsequent diffusion of visitor expenditure to other recipients in the community is brought out by him\textsuperscript{40}. He added that hotels may be one of the few sources of foreign exchange earnings through the medium of tourism\textsuperscript{41}. Moreover hotels are important outlets for the products of other industries\textsuperscript{42} according to him. He also revealed that many hotels became social centres of their communities\textsuperscript{43}.

In the opinion of Howard L. Hughes\textsuperscript{44} the amenities of accommodation and catering must exist if tourism is to happen at all. The hotel and catering industry
will be responsible for whatever benefits and costs the phenomenon of tourism itself brings and the amount of accommodation will in part, set the capacity of a tourist destination\(^4\). He also states that an expansion of tourism may require an increase in the accommodation stock\(^4\). The tourists especially the international tourists may be influenced in their choice of destination by the availability of suitable hotels and restaurants\(^4\).

According to Medlik\(^4\) the proportion of foreign and domestic tourists to total tourists to a country has relation to the number of hotels in that country. The larger the proportion of foreign tourists the higher would be the predominance of hotels and vice versa. According to Sharma K.K, accommodation is the matrix of tourism\(^4\). Vivek Sharma states that without an adequate development of hotel resources, all the national scenery, all climatic virtues and all the sporting and recreational facilities will hardly suffice to sustain a good volume of tourists trade. Seventy-five per cent of the problems of tourists on land are connected with unsatisfactory hotel accommodation and services.

Hotels form an integral and vital segment of the tourism infrastructure in the country and hence the Government of India had initiated steps to double the hotel room capacity\(^5\). Government policies towards industry in general and the hotel and catering industry in particular, will be a reflection of how far the industry is able to contribute towards the achievements of government economic policies\(^5\).

Subramanian points out that for accelerating the growth of tourism industry, it may be propounded that supply\(^5\) should be available before demand can be generated. The centres with demand potential need be converted into centres with actual tourist traffic\(^5\). Maneet Kumar points out that a country's
tourism traffic is assessed not only by the number of tourists visiting the country but also by the duration of their stay. Robert Collier asserts that the obvious reasons for people to stay in hotels are for business, meetings and seminars on the one hand and for leisure, recreation and holidays or vacation on the other. According to him the two most important factors relating to successful hotel stay are comfort and luxury and efficiency.

2.3 Studies in the Context of Kerala

Tourism was declared an industry in Kerala in 1986, with a view to developing tourism in the state, thus enabling those engaged in tourism promotional activities in the state, to become automatically eligible for concessions and incentives as applicable to the industrial sector from time to time. The existence of well known and acclaimed hotels will go a long way in promoting a tourist destination and unfortunately Kerala state has only a very marginal representation in any major hotel chains.

Skipper G is of the opinion that various groups and individuals are carrying out excellent work within tourism industry in Kerala but sometimes it would seem in a vacuum; it is un-co-ordinated and sometimes adhoc and piecemeal. He admits that there are some superb quality hotels across the state and quality guest houses and attractions, but all too often, it appears that expectations of overseas customers are not met to the full. According to Najeeb E.M. only very few hotels and resorts are available in the state. This results in a rush with limited inflow to the destinations and subsequent inability to carry more people.

At the world Tourism Meet 1994, major tour operators were reported to have expressed reservations about tourism infrastructure of Kerala over the lack of
enough luxury hotels at Kovalam, Kochi and other tourist centres. Sudheer S. V observed that private hotels were rendering better services in providing facilities to tourists. There were complaints, according to him, about poor hygiene and service rendered by the state hotels. He was of the opinion that more hotels and restaurants which are clean, moderately expensive and assuring best service, may be provided in the close vicinity of the centres. The Asian Institute of Development and Entrepreneurship, made it clear that in order to increase the percentage arrivals of foreign and domestic tourists to Kerala it is necessary to create the necessary additional infrastructural facilities and amenities. Assistance to hotel industry was an important recommendation in the project.

2.4 Back Water Tourism in Kerala

According to a study report by Mathews Varghese, Kerala is unparalleled in the world. He says that Kerala has the added advantage of the sun, sand and surf the three universal tourist attractions. He suggests that high standard hotels should come up near back water tourism centres. Jose Dominic is of the opinion that Kerala’s tourism industry and tourism product are in a stage of infancy. He points out that the resource truly unique and peculiar to Kerala is undoubtedly the back-waters. He brings out that the backwaters can be to Kerala what the Taj Mahal is to India or the pyramids to Egypt. According to him, recently there have been some welcome development in the creation of backwater based hotel infrastructure centred around Kumarakam. He opines that there is an urgent need to review existing regulations which are constraints on the development of hotel facilities in the backwater tourism centres. According to Skipper G, the backwaters are Kerala’s Unique Selling Proposition (USP).
2.5 Foreign Exchange Earnings

Foreign exchange resource crunch was heavily felt in India in 1991. In March 1991, the official foreign exchange reserve of the Reserve Bank of India excluding gold and SDR was $2,236 million. Three months later in June 1991, it came down to just $1,124 million. At this stage it was worth just about two week's import, against a critical minimum of three months recommended by the I.M.F. So the Government of India immediately negotiated a structural adjustment loan from the IMF. As a part of the agreement, rupee was depreciated by about 20 per cent against U.S dollar and other major international currencies, in June 1991 followed by the partial convertibility of the rupee.

Peters observed that many countries have embraced tourism as a way to increase foreign exchange earnings. He added that net foreign exchange earnings is high in tourism as the leakages are the minimum. The import content of tourism industry's foreign exchange earnings is a mere 5 per cent. The present estimates show that foreign exchange earnings from tourism can be increased to about Rs. 5000 crore per annum (at 1986-87 prices) by the year 2000 A.D in India. According to Madhav Rao Scindia, tourism had emerged as the largest foreign exchange earner for the country. Tourism brings in stupendously large amount of foreign exchange. Even individual hotels brought in hefty chunks of foreign currency. Tourism can become India's key foreign exchange earner within the next five years.

Vasant Sanzgiri estimated that with a foreign exchange outflow of Rs. 6-7 crores the hotel and restaurant industry directly earns about 49.7 per cent of the estimated foreign exchange earnings by the tourism industry. Tourism is the largest single foreign exchange earner for the country and the earnings mostly account for
by the expenditure on food and accommodation in this country. Chatterjee documented that foreign exchange earnings from tourism are so high that tourism industry now tops the list amongst other export oriented industries including engineering goods and jewellery. Hotels and restaurants share fifty percent of the foreign exchange earnings from tourism. Syamali Talukdar and Alka Dahar opine that tourism is a major foreign exchange earner and hence the industry has very strong case that it should be treated on par with export oriented industries and same benefit be extended to it. It is reported that 70-80 percent of the turnover of hotels is foreign exchange. On the basis of net foreign exchange earnings, tourism earnings were actually higher than that from exports of handicrafts. The net foreign exchange earnings from tourism have been as high as 93 per cent. Tourism and hotel industry is already the third largest earner of the foreign exchange. Still the foreign exchange earnings in India from tourism and hotel industry are very small compared to many other industries.

2.6 Employment Generation

The capital-labour ratio of hotel industry vis-a-vis other industries have to be related in depth for evaluating the employment generations in hotels. The employment potential for skilled and semi skilled labour in the hotel sector is quite large. Negi estimates that as regards the direct employment, the room to staff ratio for hotel varies between 1:1.5 to 1:3. It is estimated that 54 per cent of the tourist expenditure goes towards the payment of wages and salaries. On an average one hotel room should expect to provide employment for 2.5 persons while connected industries and services would offer employment to nine times the number of persons who are employed directly by the hotels. The cycle of increased income and employment continues until it is exhausted, which phenomenon is due to employment multiplier in hotel and tourism industries. An
extra-ordinary contribution of two million jobs in hotels and restaurant sector was found in the economic census of 1980. The labour content of $1000 worth value added or net-output in various industries (1971) suggested that hotels and catering create more employment for any rise in output than many other industries. It is estimated that on an average, a single hotel room generates employment to eight people directly or indirectly. Increase in the hotel room requirements in the approved sector would generate substantial number of jobs as one hotel room provides direct employment to 2-4 persons and indirect employment to ten times that number. The National Tourism Board reported that about 45,000 trained personnel will be required by the hotel industry by 1995.

2.7 Income Multiplier Effect of Tourism

The National Committee on Tourism in its report of May 1988 has stated that the money spent by the tourist percolates through many levels and generates additional income at each round of spending and this has a multiplier effect. There is high multiplier for hotel industry; 3.8 for every Re. 1/- on hotel expenditure. It is usually observed that the income multiplier effect of tourism may be taken as 3.2 and the employment multiplier as 2.82 for foreign tourism and 4.00 for domestic tourism. Tourism is an effective instrument of income redistribution in an economy. According to a report by Chechi & Company, the income multiplier of foreign tourist expenditure varies between 0.58 to 4.3. The multiplier effect of tourism in India has been estimated at 3.2 by the Indian Council of Applied Economic Research.

It is estimated, for several items of tourist expenditure as many as 13-14 subsequent chain transactions take place. In 1982, the Tata Economic Consultancy Services Report had shown that for every job created by tourism
sector, 2.57 jobs are created elsewhere. According to Peter most island economies have an income multiplier range between 0.6 and 1.2 while developed economies have range between 1.7 and 2.0.

2.8 Hotel Finance

In order to overcome the infrastructural shortcomings a substantial injection of funds is required which may be obtained through local borrowings and borrowings at concessional rates of interests from financial and aid institution abroad. Statler emphasises the role of “location” in the success of any hotel. Hotels frequently compete for sites in town centres and other stations where land values are high. The ratio of capital to turnover is high in hotels, since the bulk of capital, sometimes over 90 per cent, is permanently sunk in fixed assets. Variable assets form only a small part of the total and stocks are usually low and there is little or no work-in-progress. Total fixed assets are static irrespective of the occupancy and total variable costs are more or less proportionate with occupancy.

A survey of Horwarth and Horwarth International published in 1971 indicates that the average annual room occupancy of first class hotels ranges between 72.6 per cent and 80 per cent in Asia and Far East, parts of Europe including U.K., Australia and Mexico and to 60 per cent in U.S.A. It was 71.4 per cent in Swiss city hotels according to the report of the Swiss Society for Hotel Credit 1970. It is found that the rate of return on investment in the four star and five star category hotels is better than in other categories.

Intosh observed that expensive hotel accommodations are demanded by those who want the best and who are willing and able to pay accordingly. Expensive hotels have the highest occupancy. We have to concentrate on our
guests and try to create a special niche for the hotel. If tourists are brought in chartered flights in large scale, the position in regard to hotel accommodation would be chaotic. Unless a massive programme of hotel construction is taken up immediately, India will have to miss out all the jumbos and the passengers they carry. John Lea states that big hotel companies through their international operations in origin and destination countries intervene between the would-be-tourist and a chosen destination.

2.9 Public Sector vs. Private Sector in Hotel Industry

Skipper G opines that I.T.D.C and Government hotels are not up to the standard and it is time for the various governments to get out of running hotels. According to him there are some things which the public sector does the best and only they can do and some things which the private sector does the best and only they can do; put them together to have the best of both the world. The Adhoc Committee on Tourism 1963 made it clear that the public sector will have to play a major role if adequate accommodation of the right type for the kind of growth of tourism is to be provided. Tourism industry is not a one man show. Private entrepreneurs, big and small, have to come forward to provide services of such quality that these services themselves should become an attraction. According to Mahajan, tourism is a people’s industry and it is not possible for the government alone to develop it; the government would provide necessary basic infrastructure and give all possible incentives to the private sector to see that this industry is properly exploited. The Estimates Committee of the Lok Sabha in its report on tourism, October, 1966 had opined that the hotel industry was predominantly suitable for the private sector and that the public sector should not encroach upon this sphere. The government should invite the private sector to take up the task of
investing massive amount for creating additional accommodation in all ranges of hotels.  

The recommendations made in the final draft of the approach paper of seventh five-year plan 1985-90 stated that private sector investment will have to be encouraged in developing tourism and public sector investments should be focussed on the development of support infrastructure. The objectives of tourism can be achieved successfully only with the joint effort of both public and private sectors with government acting as a catalyst. Ganapathy is of the opinion that tourism depends on a great deal on the private sector for which adequate incentives and concessions are necessary. The role of the private sector in tourism promotion will have to be increased significantly during the eighth five year plan period, according to the National Development Corporation. The nation invited the private sector in a big way in the tourism sector in the seventh plan period because of the resource constraint at the government level. The hotel industry in India was finding it difficult to attract investors because they found investment in other industries much safer and more attractive.

According to Chechi & Co., in most countries an investor can easily get two to three times more return on his money when put elsewhere than in a hotel. It was pointed out at a conference on tourism in London that it was better to build shops, offices and other business premises and to make a profit rather than build hotels and sell them at a loss.

Delegates from the Third World Countries attending a U.N conference on industrial development were urged to encourage private foreign investment and remove government constraints in order to ensure economic recovery. The government liberalisation had attracted private initiative and investment from
existing hotel companies, the Indian Corporate Industry, Non-resident Indians and the foreign sector.

It is seen that for the accelerated growth of tourism, adequate hotel accommodation of the required type is a prerequisite. The economic significance of hotels strongly recommends the setting up of additional hotels of different types, especially the "class hotels" for which the private sector should involve in a big way.


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