Chapter - II

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Chapter II
Scope and uniqueness of Small Hotel Enterprises

Introduction

A promotion and development of hotel enterprise depends upon number of factors. Just as the economic, sociological and cultural factors play a very important role in making of an hotel enterprise, so also the thinking, education and training received by a person, specially in his early childhood, decides the shape and size of his hotel. Objective and purpose of the enterprise as set by other person also play role in deciding the size of the hotel. Once the purpose is clear in his mind, the person works accordingly and develops his hotel, as per his perception.

Investment capacity and the nature of hotel product or the service offered by the entrepreneur are also other two factors that are responsible for the type of entrepreneurial activity. If you visit a large scale and a small-scale Hotel, you would notice some distinctive difference in the culture of those two Hotels. This could be a result of the types of people behind each of the Hotels. Often many Hotels remain small because of the thinking and the way of working of the concerned entrepreneur. Larger the view taken about the hotel enterprise, larger it is likely to grow within a short period. Such a culture has a direct effect on all the related matters of working of the Hotels. This difference in approach and attitude could also be a reason of difference you find in the external and internal organization of these Hotels. Broadly speaking the types can be divided in three different categories i.e. Small or Mini, Medium and Large Hotel business. The size of hotel depends upon number of factors. However most important amongst them are financial constraints and
entrepreneurial inheritance. The size of hotel and its related parameter is the subject of this chapter

1. **Single or few Products or Service Hotel:**

Any Hotel producing a single or few products or giving a single service would fall under this category. Self-employment could be the motive behind starting such a hotel. Usually a person, when badly in need of a regular income for his living or that of his family, would start a business like this. The roadside single owner hotel- cum -tea stall is example of the same. A hotel entrepreneur selects the narrow implication of his business due to financial constraints or inability to prosper/expand and is therefore likely to remain in the same category for many years. The mental pattern of such a person is that of contented one, with minimum needs, minimal ambitions in life, and not ready to take any risk in the life. All these qualities result in small activity level with calculated risk and investment. Such hotel entrepreneur may not be willing to invest in large sums or he must be lacking in the financial resources. For him borrowing is risky or un-accessed and therefore he shall always try and live within his resources.

One would notice that a very conservative vision is taken by him regarding every minor routine matter of the day-to-day activities like purchase of raw food item (milk, sugar etc.), telephone expenses, monthly living and his personal entertainment expenses (tea, hotel bills, conveyance) etc. There is no wonder to find a minimum number of employees working in the hotel and minimum level of benefits offered to them. The clear objective is to retain maximum profits for him. Frequently such persons, as observed in the survey, if hotel business is flourishing are very possessive in their life and thus can accumulate properties – both
movable and immovable – in a very short period. In such hotel, since it has less number of employees, everyone is close to the owner; everyone is dependent upon hotel owner for all his needs and belonged to domicile or native town of the owner. A typical relationship can be found here similar to the one between the landlord and the tenant tiller, working on his farms in the earlier era. These Hotels usually take the form of a proprietorship business. The most udpi-managed hotels are of this type.

Such small Hotels face maximum amount of difficulties in the form of shortage of finance, competition, insufficiency of proper manpower due to high labor turnover and many others. The hotel business volume is also likely to be less and the turnover is also likely to be small. These further result in lowering the status and image in the eyes of their bankers, business associations and the society. Such venture, therefore, often exist only for the life span of the proprietors. Here, it might be mentioned that usually business size is determined by turnover. It is found in the survey that much hotel business doomed as with the demise or downfall of their owners.

For our present discussion however, we are concerned with the personality aspect of an enterprise and not with size in terms of turnover. After all, in the early stages any business may have small volume.

2. Medium Size Hotel:

A hotel producing a series of products in a line and having multiple foods processing or manufacturing and / or distribution centers can be called as medium - size hotel enterprises. The size marks the expansion of the trade and circulation of its brand in the broader geographical boundaries. Once the size increases relevant dimensions of operation also change. These dimensions include volume, turnover,
manpower, land and building, culture etc. Often some hotel, even when they reach this stage as a medium scale, continue those control practices, which they had adopted as a small Hotel.

A medium scale hotel, being in a better position as regards its finances, receives better support from the financial institutions. Often these are legally registered partnerships or private limited companies and hence have a better standing in the eyes of their customers and bankers. A registered partnership or private limited hotel business is required to follow procedures and it is mandatory for it to maintain record of its working which naturally bring in certain discipline in the management of hotel organization as compared to that of a proprietary hotel. As a result their suppliers, dealers, employees and all other people dealing with them, treat these hotels with certain deference.

Medium scale hotel does not mean a snacks or food serving hotel only. It can be a processing or manufacturing Hotel for multiple products with its own distribution network consisting of dealers, depots and staff at different locations. It can also be a big marketing or agency organization dealing in trading of many hotel products of different manufacturers or authorizations. The size and the number of employees may prove to be deciding factor in the definition of a medium scale hotel. As regards the terms and conditions of employment (Wage structures, leave, dearness allowances etc.) and other laws pertaining to social securities are concerned, these hotels have to follow a certain set of rules and regulations. The effect of all these legal provisions results in building up a formal work culture. Better living and working conditions and general welfare of the employees are considered as important factors for increasing the productivity and overall efficiency in such Hotels. Thus, the quality of work life is also found to be better as compared with small hotels.
The availability of qualified and trained employees becomes easier for such hotels. Similarly once people join such Hotels, they try and remain in service for a longer duration to obtain maximum benefits and earning a secured future for them and their family. All these factors contribute to building up better industrial relationship between the employees and the owners/managers of the Hotel.

These Hotels usually become very sound and do not face major threats in terms of financial instability, high labor turnover and / or competition. These Hotels build their own strength to fight against such eventualities as and when they arise.

3. Large Size Hotel:

All large-scale Hotels, especially star hotel categories usually are public limited companies. All limited companies (both private and public) are required to be registered with The Registrar of Companies, under The Companies Act, 1956. For this purpose a "Memorandum and Articles" (Aims and Objectives) of the proposed company and an application, suggesting three probable names (title of the hotel company) of promoter choice have to be submitted to this registering authority. This is a tool in the hands of Government to control and monitor the working of the hotel.

Since the volume business of such limited (both private and public) hotel companies can be large, it has many branches or offices even across the country to cater to the needs of wide-ranging consumers. Hotel has normally a number of products or a extensive range of a single product – and the organizational set up consists of different divisions, sections and the total manpower can also be large enough to handle such operations. All the employees of these hotel companies are covered under various acts like. The Factories Act, The Industrial Disputes Act and many others and all matters like payment of wages, revision of wages, annual
increase in wages, payment of bonus etc. are to be according to the provisions under these acts.

The resources and size of these hotel enterprises find feasible to enter into collaboration with any foreign company or to import technology and know how to manufacture new or sophisticated product or service. With due permission from the government, the hotel company can have foreign capital through foreign investors, who participate in the management of the hotel, by nominating few directors on its board.

The limit for such investment and its rules differ from case to case, however, these days one can have 100 percent investment from any country here and start a Hotel. The Government has recently permitted the foreign hotel companies to form new hotel companies in India, with their stake (investment) restricted to 36 percent and balance by local participation.

Profit orientation through operational efficiency are the key words in the working of such hotel companies, since the board of directors and the managing director are responsible to show results and are answerable for the returns (high or low dividend) to its investing public - the share holders. Hence, the professionally trained, top class cadre carries out the working of all limited hotel companies. To motivate such top class managers, technicians or professionals, the government has removed earlier restrictions on payment of salaries to this class².

Public sector Hotels formed by the government also fall under this category. However, the basic approach with which these have been formed and their bureaucratic way of working naturally exclude them from any study of entrepreneurship. Way of working there is found to be different than the other hotel companies, only because, in Public Sector Hotels, the board is responsible to the ministry concerned and in turn to the government (since it is holding the major portion of stocks)
and not to share holders. Under the assumption of providing jobs to most population, the Public Sector Hotels feel their main objective of running their companies is to provide jobs and security and not the minimum levels of desired efficiency. In almost all such Hotels owned and managed by the Government one may notice that scope for an individual to use his knowledge and skills and show the improvements are much limited. Thus, he may not involve himself in any type of innovation in the types of services offered to the public.

In Public Sector Hotels the employees are trained to obey and maintain the rules and regulations in running the day-to-day working of the department or section. Hence, the importance is not given to customer convenience, but it is more to the compliance of formalities (or satisfying the superiors). If such a Hotel is in the production of certain commodities consumed by the industry sector, it can bring due pressure on the ruling government, in passing certain policies from time to time, in their favor. Of course in recent times, there has been a shift in thinking. Government is trying to bring equality in thinking and efficiency levels of both these sectors – Public Sector Hotels and private sector hotel companies. Govt. also understands that through legislative efforts it is not possible; it has to come from the people concerned. Since the entrepreneur-managers are required to deal with number of such Public Sector Hotels, they are required to be motivated

Large-scale hotel entrepreneurial activity normally is concerned with development of new products through import of technology and know how from abroad, creating new cadre of men and manufacture new hotel products. All these activities essentially involve very heavy financial involvement, long gestation period and forward looking long term planning with periodical review.\(^3\)
What is 'Small Scale' or 'Mini Hotel' - Definition?

Because of their unique economic and organizational characteristics, Small Hotel Enterprises play important economic, social and political roles in employment creation, resource utilization and income generation and in helping to promote change in a gradual and peaceful manner. Socio-economic factors affecting, Small Enterprises including hotels came to be noticed during industrial revolution, with notions of entrepreneurial importance gaining favour by the mid-twentieth century. During the 1960s, the behaviour of the individual came to be highlighted as a major factor contributing to, Small Hotel Enterprises development as entrepreneurship and therefore supply of entrepreneurs in hospitality industry came to be recognized as critical to development.

However, it has been primarily during the past two decades that attempts to design programmes to promote, Small Hotel Enterprises as part of national development plans have been implemented. India has been the first among few developing countries to have assigned a significant and categorically stated role to small-scale industries including hotels from the Third Five Year Plan itself.

In India, as in most developing countries, only a fraction of the new job seekers can be employed in agriculture. The scarcity of capital severely limits the number of new non-farm jobs that can be created, because investment costs per job are high in modern industry. An effective development policy has to attempt to increase the use of labor relative to capital, to the extent that it is economically efficient. And efficient substitution of labor for capital is possible in a broad spectrum of manufacturing activities. The tendency in many developing countries, unfortunately, has often been to prefer capital-intensive methods for several reasons: the prestige and promotion of advanced country
technologies, ignorance of alternatives, preference by the rich for imported or import-equivalent goods, difficulties of dealing with large numbers of inexperienced workers and government policies that tend to favor the use of capital. These influence also affect non-manufacturing activities.

Small hotel enterprises are generally more labor-intensive than larger hotel organizations. Small Hotel Enterprises include small but relatively not modern processing/service industry; organized non-manufacturing activity, such as serving the customers for their food and shelter requirement. It must be emphasized, focus has been mainly on small-scale industries (SSIs) and therefore policies and programmes to promote 'small' refer to 'industry' rather than the broader spectrum of "enterprises". The hotel enterprise is not exception to that.

Do one thinks 'Small Scale Hotel ' can be defined by using other variables rather than merely the upper limit on value of building, kitchen, equipment/food dispensation machinery and like other things? Some such variables are required to be well thought-out for exploring the thesis objectives.

But "What is small about small scale? And "how small is small"? are two questions, which immediately arise. Indeed, Small Hotel Enterprises comprise a wide variety of hotels. They can be categorized in diverse ways depending on an urban pattern and stage of development policy aims and urban set up. Definitions of small hotel may relate to the capital invested or employment or both, or to other criteria.

A problem does arise when attempting to establish an acceptable upper limit for the definition: financiers often talk in terms of upper levels of fixed assets, net worth or value added; labour officers may refer to the total number of persons employed; traders might use a ceiling limit in sales volume; service personnel may use the total number of customers; manufacturers may prefer to use maximum levels of energy required for
production; or different criteria may be combined in attempting to set the limit at which the enterprise ceases to be "small".

In practice, well over three-fourths of the small enterprises so defined would have fixed assets below Rs. ten lakhs and employment below 50. In India, small-scale industry has been defined by fixing an upper limit of value of Plant and Equipment rather than total fixed assets or employment size. This under scores is an apprehension for scarcity of capital relative to labor. Land and building are also excluded, because their value is even more difficult to determine, apart from these being unproductive assets, unlike Plant and Equipments.

However, with rising prices and changing technologies, the upper limit of the size of a small-scale unit in India so defined had to be changed over time. From Rs. 5.00 lacs in the fifties, it was raised to RS. 20.00 lacs in the seventies and very recently, in April, 2000 it has been raised to Rs. 80 lacs and for ancillary units Rs. 85 lacs. "Small" has become quite "big" over a period of a time.

Mini or Small Hotels as against Star Hotels

If one has to be aware of the peculiar characteristics of small hotels he has to first get acquainted or thought about star hotels. The subsequent section deals with the same

Guidelines for classification of luxury and other types of hotels

To BE eligible to apply for classification to Registration and Licensing, a working hotel must accomplish the following bare minimum
basic requirements. The hotel should follow these strictly in order to acquire the mandatory classification.

*Category of Hotel - Area standards for bedrooms/bathrooms*

*5-Star / 5-star deluxe hotels*
Single - 180 Sq. ft A/C
Double - 200 Sq. ft A/C
Bathrooms - 45 Sq. ft A/C

*4-Star and 3-star hotels*
Single A/C and Single non-A/C - 120 Sq. ft.
Double A/C & Double non-A/C - 140 Sq.ft.
Bathrooms - 36 Sq.ft.

*2-Star and 1-star hotels*
Single A/C and Single non A/C - 100 Sq.ft.
Double A/C & Double non A/c - 120 Sq.ft.
(All rooms should have proper ventilation and ceiling fans)
Bathrooms - 30 Sq.ft. or subject to local byelaws.

Failure to satisfy the above conditions will disqualify a hotel from consideration.

*Small Hotel*

Nothing is prescribed

The general features, facilities and services expected of hotels in the different star categories are broadly described below:

*Five Stars Category-General Features:*
The facade, architectural features and general construction of the hotel building should have the distinctive qualities of a luxury hotel of this category. The locality, including the immediate approach and environs should be suitable for a luxury hotel of this category, and there should be adequate parking space for cars. The hotel should have at least 25 let table bedrooms, all with attached bathroom with long baths or the most modern shower chambers. All public rooms and private rooms should be fully air-conditioned and should be well equipped with superiors quality carpet, curtains, furniture, fittings etc. in high-quality feel. It would be advisable to employ the services of professionally qualified and experienced interior designers of repute for this purpose. There should be an adequate number of efficient lifts in the building of more than two stories (including the ground floor) with 24 hours services. There should be a well-designed and properly equipped swimming pool; a well decorated vestibule and duly appointed crew (ladies and gentlemen) along with cloakroom equipped with fittings and furniture of the highest standard.

Facilities:

There should be a reception, cash and information counter attended by highly qualified, trained and experienced personnel and conference facilities in the form of one each or more of the conference rooms, banquet halls and private dining rooms. There should be a bookstall, a beauty parlour, a barber shop, recognized travel agency, money changing and safe deposit facilities, left luggage room, a florist and a shop for toilet requisites and medicines on the premises. There should be a telephone in each room and telephone for the use of guests and visitors and provision for a radio or relayed music in each room. There should be a well-equipped well-furnished and well-maintained dinning room/restaurant
on the premises and wherever permissible by law, there should be an
elegant, well-equipped bar/permit room. The pantry and cold storage
should be professionally designed to ensure efficiency of operation and
should be well equipped.

Services:
The hotel should offer both international and Indian cuisine and
the food and beverage services should be of the highest standard. There
should be professionally qualified, highly trained, experienced, efficient
and courteous staff in smart, clean uniforms, and the staff coming in
contact with guests should understand English. The supervisory and
senior staff knowing at least one continental language should be rotated
on duty at all times. There should be 24 hours service for reception,
information and telephones. There should be provision for reliable
laundry and dry-cleaning services. Housekeeping at the hotel should be
of the highest possible standard and there should be plentiful supply of
line, blankets, towels etc. Which should be the highest quality available.
Each bedroom should be provided with a good vacuum jug/thermos flask
with ice cold, boiled drinking water except where centrally chilled
purified drinking water is provided. There should be a special
restaurant/dinning room where facilities for dancing, orchestra are
provided.

Four Stars Category-
General Features:
The facade, architectural features and general construction of the
building should be distinctive and the locality including the immediate
approach and the environs should be suitable for a hotel of this category.
There should be adequate parking facilities for cars. The hotel should
have at least 25 let table bedrooms, all with attached bathrooms. At least
50 per cent of the bathrooms must have long baths or the most modern shower chambers, with 24 hours service of hot and cold running water. All public rooms and private rooms should be fully air conditioned and should be well furnished with carpets, curtains, furniture, fitting etc. in good taste. It would be advisable to employ the services of professionally qualified and experienced interior designers of repute for this purpose. There should be an adequate number of efficient lifts in building of more than two stories (including the ground floor). There should be a well appointed ladies and gentlemen; and cloakrooms equipped with fittings of a standard befitting a hotel of this category.

Facilities:

There should be a reception, cash and information counter attended by trained and experienced personnel. There should be a bookstall, recognized travel agency money chaining and safe deposit facilities and a left luggage room on the premises. There should be a telephone in each room and telephone for the use of guests and visitors and provision for a radio or relayed music in each room. There should be a well equipped, well furnished and well maintained dining room / restaurant on the premises and wherever permissible by law, there should be an elegant, well-equipped bar/permit room. Kitchen, pantry cold storage should be professionally designed to ensure efficiency of operation and should be well equipped.

Services:

The hotel should offer both international and Indian cuisine and food & beverage service should be of the highest standard. There should be professionally qualified, highly trained, experienced, efficient and courteous staff in smart, clean uniform and the staff coming in contact with the guests should possess good knowledge of English. It will be
desirable for some of the staff to possess knowledge of a foreign language
and staff knowing at least one Continental language should be rotted on
duty at all times. There should be provision of reliable laundry and dry-
cleaning services. Housekeeping at the hotel should be of the highest
possible standard and there should be a plentiful supply of linen,
blankets, towels etc. that should be of the highest quality available. Each
bedroom should be provided with a vacuum jug / flask with ice cold,
boiled drinking water. There should be a special restaurant / dining
room where facilities for dancing, orchestra are provided.

Classification criteria for budget hotels
Three Stars Category

General Features:

The architectural features and general construction of the building
should not be of a very good standard and the locality, including the
immediate approach and environs should be suitable for a very good
hotel and there should be adequate parking facilities for cars. The hotel
should have at least 20 let table bed rooms, all with attached bathrooms
having bath tubs and/or showers which should be modern in design and
equipped with fitting of a good standard, with hot and cold running
water. At least 50 per cent of the rooms should be air-conditioned and the
furniture and furnishings such as carpets, curtains etc. should be of a very
good standard and design. There should be adequate number of lifts in
buildings with more than two stories including the ground floor). There
should be a well appointed lounge and a separate ladies and gentlemen’s
cloakroom equipped with fittings of a good standards.

Facilities:

There should be a reception and information counter attended by
qualified and experienced staff, and a bookstall, recognized travel agency,
money changing and safe deposit facilities on the premises. There should be a telephone in each room (except in seasonal hotels where there should be a call bell in each room and a telephone on each floor for the use of hotel guests) and a telephone for the use of guests and visitors to the hotel. There should a well-equipped and well-maintained air-conditioned dining room/restaurant and wherever permissible by law, there should be a bar / permit room. The Kitchen, store cupboard and cold storage should be clean and organized for orderliness and efficiency.

Services:

The hotel should offer good quality cuisine both Indian as well as continental, and the food and beverage service should be of good standard. There should be qualified, trained, experienced, efficient and courteous staff in smart and clean uniforms and the supervisory staff coming in contact with the guests should understand English. There should be provision for laundry and dry-cleaning service. Housekeeping at the hotel should be of a very good standard and there should be adequate, supply for linen, blankets, towels, etc. of good quality. Similarly cutlery, crockery, glassware should be of good quality. Each bedroom should be provided with a vacuum jug / thermos flask with cold, boiled drinking water. The hotel should provide orchestra and ball room facilities and should attempt to present specially choreographed Indian cabaret.

Two Stars Category

General features The building should be well constructed and the locality and the locality and environs including the immediate approach should be suitable for a good hotel.
The hotel should have at least 10 let table bed rooms of which at least 75 per cent should have attached bathroom with showers and a bathroom for every four remaining rooms. All bathrooms should have modern sanitation and running cold water with adequate supply of hot water, soap and toilet paper. At least 25 per cent of the rooms should be air-conditioned and all rooms should be properly ventilated, clean and comfortable with all the necessary items of furniture. There should be a well-furnished lounge.

Facilities:
There should be a reception counter with a telephone. There should be a telephone or call bell in each room and there should be a telephone on each floor unless each room has a separate telephone. There should be a well-maintained and well-equipped dining room/restaurant serving good, clean wholesome food and there should be a clean, hygienic and well-equipped kitchen and pantry.

Services:
There should be experienced, courteous and efficient staff in smart and clean uniforms. The supervisory staff coming in contact, with guests should understand English. There should be provision of laundry and dry-cleaning services. Housekeeping at the hotel should be of a good standard and clean and good quality linen, blankets, towels etc. should be provided. Similarly crockery, cutlery and glassware should be of good quality.

One Star Category

General Features:
The General construction of the building should be good and the locality and environs, including immediate approach should be suitable.
The hotel should have at least 10 let table bed room of which at least 25 per cent should have attached bathrooms with a bathroom for every four of the remaining rooms. At least 25 per cent of the bathrooms should have western style Wcs. All bathrooms should have modern sanitation and running cold water with adequate supply of hot water, soap and toilet paper. The rooms should be properly ventilated and should have clean and comfortable bed and furniture.

Facilities:

There should be a reception counter with a telephone and a telephone for the use of guests and visitors. There should be a clean and moderately well equipped dining room/restaurant serving clean wholesome food, and there should be a clean, well-equipped kitchen and pantry.

Services:

There should be experienced, courteous and efficient staff in smart and clean uniforms and the senior staff coming in contact with guest should possess a working knowledge of English. Housekeeping at the hotel be of a good standard and clean and good quality linen, blankets, towels etc. should be supplied. Similarly crockery cutlery and glassware should be of good quality.

A classification fee at the following rate is payable by the hotels applying for classification:

- 1-Star - Rs. 10,000
- 2-Star - Rs. 20,000
- 3-Star - Rs. 30,000
- 4-Star - Rs. 40,000
5-Star - Rs. 50,000
5-Star Deluxe - Rs. 60,000

The classification fee is payable by means of a demand draft drawn in favor of the Pay and Accounts Officer, Department of Tourism, New Delhi. For reclassification, fee will be 50 per cent of the above fee. The Department of Tourism has introduced a new category of 'Heritage Hotel' It covers running hotels in places / castles/forts/havelies/residences of any size, which were built prior to 1950. The fee payable for classification in the heritage category is Rs. 5000 and for reclassification Rs. 2500. Application form for Heritage 4 or 5 Stars and 5-stars Deluxe categories can be had from the Member Secretary, HRACC, Department of Tourism, Government of India, C-I Hutments, Dalhousie Road, New Delhi-110 011. The powers to classify hotels in 1,2 and 3 star categories have been delegated to the respective Regional Directors of the Government of India Tourist Offices with effect from 1.1.93. A hotel applying for 1, 2 and 3 star categories is, therefore, required to approach the concerned Regional Office of the Department of Tourism at Delhi, Mumbai, Calcutta and Madras.

The concerned municipal councils do the Registration, licensing and subsequent classification of small hotels.

Characteristics and Relevance of Small Hotel Enterprises?

Much distinctiveness of small hotel enterprises adds to their pivotal positions in accelerating economic growth in countries where they are seriously being developed.
• Their flexibility make them best suited in environments where intervening variables play a large part in day-to-day business management.

• Also, small hotels have a better change to carry out a number of innovations like combinations of new product or service new materials, new methods of production, new markets, new sources of materials and even new forms of organization.

• Being change-susceptible and highly reactive to socio-economic influences on the outside, small hotels can easily adapt to and adopt measures that will ensure not only their own viability but also the growth of the economy in which they are situated.

• Being fairly labor-intensive, they provide an economic solution by creating employment and income opportunities in urban and rural areas at relatively low cost of capital investment.

• Decentralization and dispersal of hotels into rural areas prevent the influx of job seekers in cities and urbanizing centers, thus allowing for a more balanced growth of economy.

• By using indigenous raw materials and the promotion of intermediate and capital goods, small hotels can contribute to faster economic growth in a traditional economy.

• Being set up by individuals, they provide a productive outlet for expressing the entrepreneurial spirit of human resources.

The benefits of Small Hotels can therefore be summarized as follows:

• Utilizing local resources

• Creating jobs at relatively low capital cost (lower capital/labor ratio)

• Diversifying hotel business structure and foiling monopolies
• Providing a vehicle for introducing a more equitable income distribution.

• Attracting and utilizing indigenous entrepreneurship

• Developing a pool of skilled and semi-skilled workers as a basis for future hotel expansion.

• Improving forward and backward linkages between economically, socially and geographically diverse sectors of the economy.

• Providing opportunities for developing and adapting appropriate technological and managerial approaches

• Increasing mobility for the improved development of natural resources

• Adapting flexibility to market changes.

Employment Creation

A more explicit case for encouraging Small Hotel lies in their employment creation potential. The present interest in small hotels in developing countries stems largely due to its widespread concern over unemployment. Large firms designed on western industrial countries models have undoubtedly raised industrial production and productivity levels in many developing countries, but without reducing unemployment correspondingly, so that rising output is often associated with widening poverty. An alleged capital-intensive bias in large firm development is held partly responsible, while small firms like hotels are said to be more labor intensive without necessarily being too costly or unprofitable.

Lower Investment Cost per Job:

Comparative investment cost per direct job generated as seen found in survey that small hotels use significantly more labor-absorptive
inputs. What is important is the relative labor intensity, roughly 4 to 10 times higher for small firms. Smaller hotels also generally employ more labor per unit of capital. This conclusion corresponds also to the conclusions of an earlier study on a number of developing countries "that smallest enterprises, with a lower level of investment per worker, tend to achieve a higher productivity of capital than do large, more capital-intensive enterprises.

**Poverty Alleviation:**

To what extent, however, do smaller hotel units contribute more to employment of poor people in urban or rural non-farm settings? Insofar as they create a greater number of job opportunities at the margin, it may be that the urban jobless will benefit. Moreover, according to a World Bank Study, small to medium enterprises sponsor projects with an appreciably higher proportion of unskilled workers than medium to large enterprises. The creation of unskilled job in small hotels certainly has a direct impact on the alleviation of poverty, which is greater for small and medium hotels than for larger ones.

**Indigenous pattern:**

Further evidence to employment effect is linked to the inputs used by small and large hotels. The latter usually have a much higher propensity to use raw materials and capital goods. While small hotels buy more domestic or indigenous inputs produced by native entrepreneur with the help of local labor.

The size of firm, and/or the capital intensity of its operations, often is dictated by its products and technology available for their manufacture.
Bakery unit with furnace may not have been efficient in overall use of hotel resources. However, small cooking range may be both relatively labor intensive and competitive.

Use of labor-intensive techniques in large hotels often pose special difficulties, e.g. labor union pressure or government regulations. It is partly to avoid such problems that the large firms move towards capital intensity and less "appropriate" technologies. So, where an option exists, small hotel may be a more inclined and better able than large firm to use resources efficiently.

Avenues for Indigenous Entrepreneurship

Small hotels also make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development and by providing opportunities for these entrepreneurs to gain experience. The more successful ones will generally grow larger and doubtlessly more capital intensive, and in the process will fulfill an important incubating function.

Managerial and entrepreneurial abilities in hotel business must however be distinguished. The latter is often neglected in development planning and policies, partly because it is hard to define or split. Yet its importance is evident in performance. Hotel entrepreneurs try to employ manager who can also discharge some entrepreneurial functions.

Small hotel enterprise endows with productive outlets for the talents and energies of enterprising, independent people; many of who
would not fulfill their potential in large organizations. Small hotels often flourish by serving limited or specialized markets that are not attractive to large hotels. They provide a seedbed for entrepreneurial talent and a testing place for new large hotels. They supply dynamism and contribute to competition within the economy.

**Tapping of Savings**

The potential savings role of Small Hotel Development has not been adequately tapped. Quantitative data are scanty, but empirical evidences shows hotel entrepreneurs are very highly motivated to save and invest; they reserve a greater proportion of their income for this purpose than does the general population. This partly reflects their inability to obtain financing from institutional sources; but it also stems from their psychological commitment to the hotel, which is both their essential security base and their best hope for an easier, more secured existence. In rural areas, given conditions of confidence, funds may be mobilized from large farmers and channeled into hotel industry.

**Utilization of Domestic Technology**

Small Hotel enterprises are more likely than larger hotels/Star hotels to use relatively simple, general-purpose kitchen equipments that are often obsolete by developed standards. Such equipments can often be manufactured locally, small kitchen themselves quite labor intensive, exist in almost all countries, even the least developed, and are excellent training grounds for cooking skills. The local shops may see ways to modify the original equipment to suit hotel needs better.
Regional Balance and Rural Development

In most developing countries, industry including hotel is highly concentrated in a few places. As a result, regional imbalances are aggravated between (1) the urban core and the peripheral areas with the latter remaining relatively underdeveloped; (2) urban and rural populations, with migration of the more vigorous elements depleting the rural society and increasing urban unemployment; and (3) major regions within the nation, leading to political tensions. Both large and small industries contribute to these imbalances, the latter when stimulated by or dependent on the former. But hotel industry generally has more location flexibility; it requires fewer infrastructures and usually caters to a narrower geographic market. Its relatively labor-intensive technology is appropriate for the lower wage rates prevailing outside the metropolitan centers, while helping in some measure to raise these rates. Comparative studies suggest that the profitability of small hotel is higher in medium-size towns, away from the metropolis, so the promotion of small hotel development in outlying towns helps individual entrepreneurs as well as the society as a whole.

A major problem in the rural areas of developing countries is under employment, especially in the slack agricultural seasons; rural income as depressed and migration to the cities increase. More non-farm jobs need to be created and, whether these are hotel jobs, they will generally be in the small-scale sector, because of infrastructure, market radius, and labor skill requirements. Agricultural processing industries create employment and increase returns to farmers. But their peak demand for labor is likely to coincide with the peak agricultural season rather than complement it. Other types of small-scale perennial production, such as hotel outlets,
blacksmithing, brick making, limekilns, tailoring, carpentry and furniture making, are indispensable to rural development.

**Environment Impact**

Small Hotel Enterprises, just as their larger counterparts, can pollute or otherwise affect the environment adversely. However, their smaller size and dispersion, lesser need for massive infrastructure, and generally simpler processes are likely to result in less and more easily remedied environment consequences.

**Role of Entrepreneurship in Hotel Business and Economic Development**

Effectiveness of small hotels depends upon the entrepreneurial and managerial capabilities of those involved in the business. Because of its size and unique operating characteristics, a small hotel requires a management approach, which is also unique. Small hotels are generally managed in a personalized fashion. The owner is also the manager until the hotel grows to a certain level. They participate in all aspects of managing the business and there is generally no sharing in the decision-making process. As far as scope and scale of operations is concerned, small hotels usually serve a local market rather than regional or national or international market. They also tend to have a very limited share of a given market. These special characteristics must, therefore, be taken into account in planning for small hotels development on a national scale.

The entrepreneurial spirit, as described by recent studies and experiences on the subject, involves not only a desire to gain monetary benefits but also an admixture of a high need for achievement and all the motivations evident in a higher achiever. Long-term involvement with a
goal, which the entrepreneur has set for himself, creates the need to persist with the undertaking even in the face of difficulties and hardships.

Management and entrepreneurial skills must, therefore, be blended in the small hotel owner's total make-up, as these will spell the different between success and failure. The ideal would be to find a man who is both efficient and effective. Without the latter capability a man may simply be a good manager. He still has to be developed into an effective hotel manager by inculcating in him the entrepreneurial spirit.

Wide Ranging Contributions
By small Hotel entrepreneurs:

There is a wide range of significant contributions that entrepreneurs and entrepreneurship can make to the development process of hotel industry. These include the following:

(1) Entrepreneurship raises productivity through technical and other forms of innovation.

(2) Entrepreneurship is a powerful tool of job creation.

(3) Entrepreneurship facilitates the transfer of technology.

(4) Entrepreneurship plays a strategic role in commercializing new inventions and products.

(5) Entrepreneurship plays a critical role in the restructuring and transformation of economy.

(6) Entrepreneurship help reduce the ossification of established social institutions and the concentration of economic power.

(7) Entrepreneurship and entrepreneurial behaviour can breathe vitality into the life of large corporations and governmental enterprises.
(8) Entrepreneurs make markets more competitive and thereby reduce both static and dynamic market inefficiencies.

(9) Small entrepreneurs operating in the informal sector establishes government authority when government and their programmes inhibit economic development.

(10) Entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

(11) Entrepreneurs improve the social welfare of a country by harnessing dormant, previously overlooked talent.

(12) Entrepreneurs create new markets and facilitate expansion into international markets.

Cost-Effective Strategy

The unique feature of hotel entrepreneurship is that it is a low-cost strategy of economic development, job creation and technical innovations. Other agents of change may accomplish the same ends, but not as cost effectively as entrepreneurs. And this is accomplished by setting up hotel enterprises, initially as a small scale. For entrepreneurs are individuals who bear the costs and risks of launching a new hotel, developing a new product and service commercializing an invention, adapting a technology and developing a new market. Even when they receive governmental assistance through subsidized supplies or low-interest loans, they add considerably more value through "sweat equity".

As risk bearers, entrepreneurs either succeed or make a developmental contribution or they fail and disappear from the market place. The market within which the hotel entrepreneurs operate has little for miscalculations about a business opportunity, for a lack of
commitment or laziness, or for incompetence. Hotel Entrepreneurs find resources and fill market gaps that would be missed by larger, more bureaucratic hotel organizations. Small Hotel Entrepreneurs allow a country to extract every last bit of marginal capacity out of whatever resources exist within society.

Hotel Entrepreneurs and their families oppress themselves in a way that people are reluctant to accept from large-scale organizations. This benefits society in two ways: first by extracting extra effort from people and second by avoiding disruption and instability of labour conflict.

Finally, local hotel entrepreneurs offer a cost-effective strategy of development because they are an integral part of their community. Unlike foreign firms or plant relocations from another region or province, small-scale entrepreneurial hotels are home grown, and available evidence shows that they remain in their community. Tax holidays and subsidies to attract hotel relocations whether on a domestic or international basis are far more expensive than cultivating local entrepreneurs, and it is dubious whether the results are real or lasting.

Conceptualities in Development
Pattern of Hotel Enterprises

If we recognize that economic development is an uneven process that has distinct phases over time, four phases of development can be identified:

(1) Agrarian or resource society.
(2) Early industrialization.
(3) Mature industrialization.
(4) Service and high-technology economy.

In terms of the relationship between hotel entrepreneurship and economic development, Table 1 suggests two basic trends: first, the sphere of hotel entrepreneurial activity expands with economic development; and second, innovation and early imitation become increasingly important as an economy develops and moves towards the frontiers of science and technology.

Table No.2.1

<table>
<thead>
<tr>
<th>Conceptual Model of Hotel Entrepreneurship and Economic Development</th>
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<tbody>
<tr>
<td>Particulars</td>
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<tr>
<td>(1)</td>
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<tr>
<td>Level of entrepreneurial activity</td>
</tr>
<tr>
<td>Small business formation and Management</td>
</tr>
<tr>
<td>Entrepreneurship and innovation</td>
</tr>
</tbody>
</table>

Source: - Survey of Literature

There is probably a sequence of strategies that developing countries might follow (see Table 2). When agricultural or resource extraction dominates, small hotel business formation is probably the most appropriate strategy to be pursued. Small hotel business formation at this phase of development means putting existing resources together in either new or old ways. As a country begins to develop, imitations of
innovations established in more developed countries becomes critical to the development process. Hotel Entrepreneurs during this period need to make more elective use of existing resources through (a) innovations in organization and/or (b) combining factors of production in new ways (the introduction of the machine to replace the hand-work). As a country becomes more industrial, it is more important for hotel entrepreneurs to identify and satisfy new wants. Early stage imitation becomes increasingly important if local hotel entrepreneurs are to compete successfully for even domestic markets.

It is concluded, therefore, that the hotel entrepreneurial process begins in less developed areas with the formation of small businesses and striving for effective management, but necessarily shifts to innovative and high technology entrepreneurship at some point along the development path.

Table No. 2.2

<table>
<thead>
<tr>
<th>Phase of development</th>
<th>Entrepreneurial strategy</th>
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<tbody>
<tr>
<td>Agrarian Society</td>
<td>Small business formation</td>
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<tr>
<td>Early industrialization</td>
<td>Small business formation and late imitation</td>
</tr>
<tr>
<td>Mature industrialization</td>
<td>Increasing emphasis on early imitation</td>
</tr>
<tr>
<td>Service/high technology</td>
<td>Early imitation and innovation</td>
</tr>
</tbody>
</table>

Source: - Survey of Literature
Problems and Support Needs of Small Hotels Enterprises

Successful small hotel do not emerge, and thereafter survive and grow unless the environment is conducive. Political, economic, technological and socio-cultural factors in the environment impinge the life of the small hotels and generate much of the needs required for their existence.

Conducive Environment

The overall political climate in a country is important for the small hotel entrepreneur. Small hotels will need positive and encouraging measures by the municipal government and political constituencies to establish private investment at busy place like railway station or ST stand. Such measures could include liberal or non-restrictive investment policy, creation of promotional agencies, creation of hotel cites and free trade zones and availability of low-cost loan capital for private investors.

The political climate influences the economic direction taken by the municipal authorities in question. An analysis of the economic environment is particularly helpful in investment decisions, market measurement and in forecasting. The general state of the economy dictates what the small hotel will need especially since it is handicapped in obtaining capital and credit owning to greater unit costs of small transactions, greater risks involved, etc. The small hotel also generally lacks managerial and technical know-how, or is weak in marketing, production or personnel management skills. These are needed so it can be economically viable even if it operates on a small-scale basis.
Technological advances in the environment create new needs for the small hotel entrepreneur as far as adaptation and adjustment is concerned. Hotel entrepreneur may need to learn how to adjust to the new technological environment surrounding him, or he may need to take a set of advanced technologies and bring these to his own level in the small hotel enterprise.

Finally, the socio-cultural environment also creates a very important climate for the survival of the small hotel enterprises. They need several conditions to keep being alive:

(1) Tolerance for change in the society and culture
(2) Social mobility
(3) Tolerance of profit-making and
(4) Tolerance of private ownership

It is the entrepreneurs who set up hotel enterprises where the needs, as human resources must not be overlooked. Being the kingpin in the whole small enterprise development process, the factors responsible for the emergence and growth of hotel entrepreneurship must be analyzed and supported, for without the person behind it, there can be no small enterprise to think of. India has been a pioneer in initiating Entrepreneurship Development Programmes (EDPs) to identify, select, motivate, train and guide new, first generation entrepreneurs from all walks of life, thereby increasing supply of capable entrepreneurs for small scale industrial units including hotels. Entrepreneurship development together with hotel is now being introduced in school and colleges to provide self-employment oriented youth and change the middle-class mentality for "job-seeking".
Adequate Credit Assistance

Small hotel enterprise development cannot be ensured without arrangement for financing. Adequate and timely supply of credit is critical for new hotel entrepreneurs to emerge especially from a wide base. A great majority of small and medium hotel business activities have come about because of special financing programmes offered to them.

Various financing programmes have been evolved in India to meet specific needs of existing and prospective hotel entrepreneurs. These usually take into consideration the difficulties and special needs that the prospective small enterprise borrower encounters. Thus, requirements are less strict in terms of (1) lower interest rates than the prevailing commercial rates, (2) less collateral requirements and lower equity ratio, (3) various assistance schemes such as preparing the project study etc. Special loan guarantee scheme have proved to be useful whereby the government guarantee the loan of a small hotel entrepreneur by banks. Sometimes, the financing needs cannot be met simply through the provision of loans.

Markets and Marketing Support

Market for a small hotel in a developing city can be quite a problem considering that the small hotel entrepreneur will be in competition not only with locally mass-produced hotel goods but even imports. Small hotel enterprises must therefore prove that in quality and price of their product they are comparable, if not better, than that of large, better-known brands. Small hotels can brand together and sell their products as one
body through closely-knit associations or organizations. The government too can take an active part in marketing specific hotel products or assisting small groups of hotel entrepreneurs in selling their products. It can directly purchase products of Small hotels on a preferential basis, even giving better prices. Other indirect marketing assistance programmes include provision of space for retailing of the small hotel entrepreneur’s products, bulk buying for future selling, improvement of roads, communications and other infrastructure facilities to improve and hasten sales.

Both large and small hotel enterprises stand to gain if complementary between them is fostered especially in the marketing aspects of their business. A large number of small hotel enterprises cater directly to goods for customer. The government can promote this by giving input subsidies as a strategy for small hotel enterprise development.

Role of Government in Development of Small Hotel Industry

Direct assistance which government can lend to small hotel enterprises can include advisory services (extension and counseling), industrial research services, developmental financial scheme, marketing aids and provision of basic utilities and services for small hotel entrepreneurs.

On a more indirect and general way, streamlining of the bureaucratic system and lessening of red tapes will create an overall atmosphere where in professionalism and the spirit of service prevail. Such an atmosphere will, of course, be conducive not only to small hotel
enterprise development but also to national progress as well. Inasmuch as the role of government in developing countries assumes the major share in development as builder and catalyst, a healthy policy towards small hotel enterprises, their needs and requirements will ensure life and growth of this sector of the economy.
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