1. Introduction

The service sector in India has been mushrooming over the past few years. Of the total national income of economy, this sector has contributed 28.5% in the year 1950-51 and it has increased to 55.1% in the year 2006. Hospitality Industry is one of the India’s leading service industry. This industry mostly includes Hotel and Tourism industries. Both these industries are inseparable and are of crucial importance in present context. Presently, these industries are passing through a significant stage of development and achieved undeniable position of global mega industry and made its institutionalization as a socio, economic, ecological, and cultural phenomenon. The globalized trade and tourism have expanded the scope of the industry and proved as a major source for employment. Indian tourism industry contributes to around 5.9% of the country’s GDP and it provides employment to around 41.8 million of inhabitants.

The incredible India campaign launched by the government of India, has featured India on the world’s tourism map. Tourism is based on two major factors, firstly travel and secondly accommodation. There has been a rising trend in the number of hotels owned by hotel chains, operating in the number of locations. Such chain hotels help in the cost control by economization of purchasing, planning, advertising, and expert staff services. The success and failure of an enterprise to a large extent depends upon the efficiency and effectiveness with which financial resource of the firm is used and managed. It mainly depends upon the firm’s ability of management of its resources. The existence of working capital is imperative in any firm. The fixed assets which usually require huge funds can only be used at an optimum level if backed up by sufficient working capital. Every business firm requires adequate flow of working capital to meet its day-to-day business functionality.
The operations of hotel business are considerably different from others. Operating costs of hotels are much more rigid in relation to volume of business than in most other industries with large investments. In general, costs that are variable in nature in most other industries are basically fixed cost in the hotel industry and must be treated as a part of overhead. Hotel outlays for heat, light, power, elevator service, maintenance, and the cost of maid service vary only slightly with the volume of business. Hotel crews can not be reduced beyond a certain extent and decline in room service can only slightly offset by a reduction in the staff. The hotel is open 24 hours in a day, every day of a year. These services must be maintained at all time, regardless of the volume of the business. The prosperity of the hotel industry depends upon economical condition of the country. The business and pleasure travelers are their principal source of income.

The working capital concept had been studied and analyzed by many scholars in various field. Both quantitative and qualitative analysis characteristics of the working capital have been analyzed for meeting specified needs. Indian hospitality industry is a fast growing industry. Government of India has included it in the priority sector now for its further development. The review of literature revealed that management of working capital get comparatively less importance than the firm’s long term investment (cost of capital structure and capital budgeting). The earlier studies related to the working capital have been carried out in various industries like small scale industries, construction companies, chemical industries, manufacturing industries, etc. The growth in the service sectors also attracts the attention of the researcher in this field. The working capital management has significant bearing on the firm’s liquidity and profitability; hence, hospitality industry also has understood its importance. However, more study and research is expected to be carried out in this area. It leads to further study in the area of the working capital management.
2. Statement of the Problem

Although the hotel industry is one of the important service industry and backbone of the tourism sector, they seem to be suffering from lack of transperancy in their business. Many multinational hotels and chain of hotels are intended to start hotels in Pune after looking at the city’s commercial growth. Therefore, competition for the present hotel properties will be bound to be increased. Hotel industry is a capital intensive industry, as substantial amount is required for the construct hotel premises and maintain its décor. Presently, most of the star hotels in Pune city are belongings to renowned business families. Most of them are private limited companies and mangement is close ended. The capital which is required to start the business, sustain in the business and its expansion is managed privately. Most of the time, the funds are raised from the promotor’s other businesses. It has been observed that bankers also sanction credit limits to hoteliers after valuable securities. The close analysis of the industry reveals that industry needs to critically analyze their working capital mangement. There are always problems in the firm such as under utilization of the available resources, unpredictable environmental situations, high labour turnover or attrition, lack of control on investments, etc. The management should consider the measures for solution. For instance, determination of optimal levels for different items of inventories, and for inventory control, motives for holding inventory, credit policies, controlling inflow and outflow of cash, optimal investment of surplus of cash and assessment of cash requirement in relation to the level of operation and other related aspects are very significant. Thus, for effective flow of working capital, various aspects like management, planning and control have to be accorded a high priority. All this is subsumed under the broad theme known as the working capital management. It will accelerate the growth of the industry.
3. Objectives of the study

The main objective of this research study is to make a survey regarding the management of working capital of the hotel industry in Pune. Hence, the specific objectives of the research are as follows:

1. To study whether, banks are effective source of finance for star hotels to satisfy their working capital need.
2. To study and analyze credit policies of star hotels in Pune.
3. To analyze the role of spontaneous sources of finance in financing working capital.
4. To analyze whether, various techniques of inventory control can be used in inventory management of star hotels.

4. The Research Hypothesis

A hypothesis sets up a relationship between two or more variables. Observations, concepts, and proposition are the basis of a hypothesis. In other words, it is a proposition that is put to test in research. The following are the hypothesis of the present research.

i. The bank finance is the commonly used source for the working capital of the hotels.
ii. The credit policies of hotel industry are liberal.
iii. Maximum hotels take advantage of spontaneous sources of financing to control outflow of cash.
iv. Techniques like ABC Analysis can be adopted for stock control in hotel industry.
5. **Scope of the Study**

The present study is confined to the hotel industry in Pune. The hotel industry in Pune has a vast scope for growth and development. The segment of study consists of:

A] Three Star Hotels, B] Four Star Hotels, C] Five Star Hotels and D] Five Star Delux Hotels. The period of study is confined to the years 2005-06 to 2009-10 (5 years). The present study has been focused on examining hotel industry relating to the financing and control management of the working capital.

6. **Research Methodology**

6.1 **Data Collection:** The research methodology has been employed for the study, focused on the primary data collected through an specially designed questionnaire administered to a non-probability sampling of hotel industry which belongs to proprietary, partnership, private limited, and limited company forms of business organization.

This study pertains to three star, four star, five star, and five star delux hotels in Pune. The primary data was collected with the help of a pre-drafted questionnaire and interview. The questionnaire consists of a number of factors, which are supposed to have effect on management of the working capital. The respondent were questioned to give the relative importance of various factors on a five-point scale that is very high, high, average, little, negligible, or very often, often, seldom, sometimes, never or yes and no. The management of selected hotels were also requested to give their opinions about certain issues of the working capital in their hotels. ‘Bank finance is major source of finance for most of the hotels’ is the first hypothesis of the study. Hence, 5 bank managers of Nationalized Bank (Bank of India, Central Bank, Bank of Maharashtra) and
Co-operative Banks (Saraswat Co-operative Bank and Cosmos Co-operative Bank) were interviewed with the help of the questionnaire.

The secondary data was derived from the related books, magazines, articles, earlier researches and from various websites. In addition, the reports of Government, Guidelines from MTDC, various survey reports like reports from the Federation of Hotels and Restaurants Association of India (FHRA), New Delhi, were also consulted for the study. The secondary data also had been collected from the annual reports of hotels, financial reports of hotels made by CMIE Prowess, MCA-21 (Ministry of Corporate Affairs) and review of HVS International for the period of 2005-2010.

6.2 Selection of Sample: Non Probability Sampling Method has been followed for sampling. This particular sampling procedure does not estimate the probability that each item in the population has been included in the sampling. This method also known as deliberate, purposive or judgement sampling. The three star and above hotels in the city of Pune were the deliberate choice of the researcher. The city of Pune, itself represent all those cities which developed as business zone in India.

6.3 Sample size: In the February 2007, when the researcher registered herself for her doctoral study 10 three-star, four-star, five-star, and five-star delux hotels were in business operations. During the last four years more than 40 hotels are providing star hospitality facilities to various types of guests in Pune. The researcher has tried to visit all of them. Few hotels were excluded as they have recently started their business operations. Finally, 26 hotels responded to the researcher, where amazingly one hotel which listed as a four star hotel in hotel guide or website of star hotels in Pune was never registered as four star hotel by the owner. Therefore, sample size of the respondents came down to 25.
6.4 Statistical Tools for Analysis of Data

For analyzing the data, simple pie chart, bar diagram, and table is considered adequate by the researcher instead of conducting the t-Test distribution or Z test to test the Hypotheses.

7. Limitations of the Study

The study is likely to have following limitations inspite of the best efforts:

i. A limitation of the present research work is that the methodology used could not gauge all factors influencing the responses, such as a moral standing and behavioural aspect of personnel who work in the hotel industry. The impact of these aspects on working capital management and reporting practices, limit the internal and external validity of the study.

ii. The sampling and data collection methodologies employed, inevitably impose limitation on interpretation of the results of this study. The accuracy and completeness of the data collected relied heavily on the ability and skills of interviewers and also the co-operation of managers interviewed.

iii. The study is restricted to only three star and above hotel industry in Pune. Hence, other areas of hotel industry remain untouched.

iv. The researcher does not have any control over the environment in which the research has been performed.

v. The findings are based on the ability of respondents to answer the researcher and if the respondents have not given true information leading to marginal error.

vi. The six respondents have multiple businesses hence, they do the filling of the balance sheet and other documents with registrar for their group of businesses. Therefore, hotel performance could not be analyzed from that separately.

vii. The five respondents have started their business in the last two to three years, hence sufficient financial data for study is not available.
viii. The five respondents due to non filing of their financial statement at the time of declared were dormant by Ministry of Company Affairs; hence their financial statements were not available for study. Another two respondents businesses are registered as partnership firm, therefore their financial statements are not available at MCA-21 site.

ix. Along with the data provided by MCA, researcher has referred data from CMIE Prowess for four hotels. This data is based on Annual Reports of group of hotels e.g. Indian Hotels Co. Ltd. which include Hotel Taj Blue Dimond, Pune.

8. Outline of the Study: Out line of the Study

- The first chapter, “Introduction” deals with the general introduction of the study in terms of the need, objective, scope, limitations, research methodology, etc. After a general introduction, various topics and issues related to the theme of this study are detailed in the following chapters.

- The second chapter “Literature Review of Concept of Working Capital Management and Working Capital Cycle” deals with the detailed study of the working capital management concept and the working capital cycle. This chapter also includes detailed definitions and views of earlier researchers and an analysis of expert opinions by eminent authors on working capital management concepts.

- “Study of Various Components of Working Capital”, is covered in detail in the third chapter.

- The fourth chapter, “Study of Various Sources of the Working Capital Finance” is devoted to the study and analysis of various sources of finance available to fulfil the need of the working capital of the firm.

- The fifth chapter, “Analysis of Data Interpretation” includes the detailed analysis of data in respect of overall working capital management practices followed by the sample units. The data is analyzed by applying appropriate
qualitative and quantitative techniques and presented with conclusions on various aspects of working capital management in the sample units.

- The sixth chapter, “Findings, Conclusions, and Suggestions” presents the major findings of the study on the overall working capital management in the sample units. Suggestions are given by the researcher, for working capital management in star hotels in Pune, based on the study carried out on the sample units.

9. Findings and Suggestions:

After analysis of primary and secondary data, certain observations and finding have been drawn in the following paragraphs.

- **Bank Finance as a source of finance:** From the primary data, it has been revealed that 56% respondents have obtained bank finance to satisfy their working capital needs, only 20% respondents are entirely depending on the banks and the remaining have preferred to use other sources like proprietor’s funds, advances from customers, etc., along with the bank finance to fulfill their working capital need. The banks are providing both fund based and non fund based finance to the hoteliers. However, it has been analyzed from the secondary data that the hotels are not consistent in using various services and finance offered by the bank. The field study has further revealed that, the hoteliers need to arrange high security and margin while financing for working capital. It has also been disclosed that the terms and conditions of the banks are rigid.

- **Banker’s views about Hotel Industry:** During the field study of various banks has revealed that the hotels are obtaining double financing (from creditors and banks). These hotels are not transparent in disclosing their room occupancy and room rate. Therefore, the banks are finding it difficult to know
their actual proposed income. The nature of stock and debtors of more than 90 days have discouraged bankers to provide them finance for working capital. However, bankers have revealed that along with stock and debtors, second charge of fixed assets can be considered as valid security while financing for working capital. It has further been disclosed that, while doing project financing for hotels, they grant certain amount to fulfill their business operational needs.

- **Credit policies of the hotels:** The secondary data taken from HVS International about market segmentation has revealed that 60-80% customers of hotels are either domestic business travelers or foreign business travelers. The primary data has further disclosed that majority of the respondents get their business from a few big customers. Hence, they dictate the term of credit to the hoteliers and due to competition they have to accept it. The data from HVS International has also revealed that the proportion of cash sales to credit sales (including the credit card sales) of the hotels is found to be very less. It has been observed that average credit sales of star hotels in Pune during the year 2005-06 to 2009-10 were 82.5%. The analyses of secondary data of selected hotels (from CMIE Prowess) have disclosed the existence of debtors more than six months. From the field research, it was also found that though respondents predetermine the credit period of their debtors, hardly they were able to collect the amount within the specified time. It has further been revealed that these hotels did not take any action against the debtors for not paying the amount within the specified time. Not a single respondent has settled the debtors outstanding before specified time by offering them any cash discount. However, loss due to bad debt from these hotels is recorded as negligible.

- **Hotels take advantage of spontaneous financing:** All respondents have revealed that they take the advantage of spontaneous financing up to fullest
extent. These hotels have obtained credit from their suppliers and take advances from the customers. The walk-in customers are major source of advances for the hotels. It has been analyzed from the primary as well as secondary data that the oldest and established star hotels in Pune could get substantial amount of advances from their customers.

• **Trade credit provided by suppliers:** The Secondary data have further revealed that, except Hotel Royal Orchid, all the remaining respondents have obtained credit lavishly from their creditors both in terms of quantity supplied and days (on an average of 100 days). The spontaneous financing as compared to negotiate financing is found to be economical. However, it is not cost free. Therefore, it is advisable to these hotels to make a price analysis of the goods and services supplied by these suppliers.

• **Help of inventory management techniques in Hotel Industry:** The Primary data collected from hotels have revealed that various techniques like Always Better Control (ABC) Analysis, Stock Levels, EOQ, etc. can be used to control and monitor the stock of inventory in the hotel industry. There is a difference in price, consumption, and nature of stock in the hotels. The hotel managers are also aware about such techniques and most of them have often used these techniques for inventory control.

• Substantial amount of working capital is used in three star, four star, five star, and five star deluxe hotels. The field research has revealed that more that 50% of the respondents have disclosed that more than 20% of their total capital is used as working capital.

• The impact of unpredictable environmental situation is quite high in hotel industry. The field research has revealed that it may lead to additional cost to perform their business operations or maintain their room occupancy.
However, according to the respondents, organizations with their clear working capital management policies can reduce its impact up to a certain extent.

- Efficient control on the investment affects the liquidity and profitability of hotels. Around half of the respondents do not invest excess cash of their own. They either divert the funds to promoters’ other business or transfer it to corporate office. The remaining respondents invest the excess cash in most liquid form of securities like short term deposits or in savings account. Only one respondent has invested in the financial market and another invests in the real estate. Few of them invest the excess cash to purchase fix assets, new property, or infrastructure development.

- During the field it has been revealed that 53% of the respondents have never faced shortage of funds while meeting day to day expenses. Remaining respondents have this problem, mainly, due to the diversion of funds or recovery problem.

6.2 Suggestions:

Based on the research work few coherent and logical suggestions have been made to hoteliers and government in order to overcome present shortcomings, and more importantly to take corrective action for the betterment of the working capital management.

6.2.1 To the Hoteliers:

1. **Make use of various services offered by the banks:** It has been observed that hoteliers are not using many services offered by the banks presently. The banks offer many fund based and non-fund based services like bank over drafts, bill
discounting, letter of credit, bank guarantees, etc. While interacting with respondent bankers it has been observed that hotel industry comes under their caution list. The hotel industry needs to be more organized, transparent, and adaptive to the social and structural changes.

2. **Encourage early settlement of debtors:** Not a single respondent induce early settlement of their dues to their guests. On an average every hotel grants credit up to 30 days. Few respondents have revealed that, such outstanding amount may take more than 45 days to recover. To avoid this excessive credit period, the hotelier may offer them cash discount up to 1% or 2% and reduce the number of permissible days of credit.

3. **Make comparative analysis of cost of capital and cost of spontaneous financing:** It has been observed that repayment periods of the creditors are very high. The spontaneous financing certainly controls cash outflow but it maybe proved costlier if it exceeds the specific time given by the suppliers. If this excess cost charged by the suppliers due to delay in repayment is more than cost of capital, it is advisable to the hoteliers to repay the creditors within the stipulated time. This also certainly leads to the enhancement of the creditability of the hoteliers.

4. **Provide training to employees about inventory management techniques in Hotel Industry:** Training of different types to employees play a very significant role for the growth and development of the organisation. Updating employees about latest and effective techniques of inventory management is the requirement of the time. This will certainly enhance the productivity and profitability of the hotel.

5. **Pricing:** Normally pricing is cost based, competition based, or demand based. Various bank authorities have pointed out that, there is no uniformity in the
hotels room rates. According to the hoteliers, due to keen competition such changes in pricing are required to be done. High rates are quoted in the tariff card, but looking at business quantum, hotel occupancy, frequency of business given by the customers’ etc., room rates may vary. However, this may increase the business of a particular hotel, but affect standardization of the pricing of the hotel industry. Instead, these hotels can decide collectively up to what extent bargaining is to be done with their customers. This can be done with the help of analyzing perceptions of the customers about the pricing.

6. **Induce customers to avail various services of the hotels:** Few years back, to avail services of star hotels was restricted to a certain class of the society. It is the responsibility of the hoteliers to widen the scope of their services. These days even middle class families also earn well. The hoteliers can also approach to the college students to organize their events and programmes other than few popular events like 31st December night or valentine day.

7. The hoteliers should separate the cash flows for hotel industry from their other businesses. Autonomy needs to be given to finance manager or concern authority for proper planning and control of cash. Excess cash balances should be invested in short term marketable securities after adequate study of financial market. It will improve liquidity as well as profitability of the hotel.

8. Since, the hotel industry has failed to maintain standard room rates, and occupancy and thereby profits the investor’s confidence about their performance has been vitiated. The market prices of their shares are very much volatile. Experts in share markets have noticed that investors prefer cash rich companies for their investments. Due to the expansion of the hotels and diversion of funds from hotel industry to some other businesses of the promoters, discourage the investors to invest their funds in hotel industry. According to experts in case investors intend to invest their funds in hotels, size of business matters to them and they prefer to invest in five star hotels stock than others.
6.2.2 To Government:

Government has a crucial role to provide various infrastructure facilities to develop the city of Pune as a Tourism and Hospitality Centre. Government needs to take every possible effort to make the city of Pune as a tourist-friendly destination. Presently, most of guests who visit the star hotels are from multinational companies or domestic companies. In Pune, 15 five star hotels exist other than three star and four star hotels. Hotel business is mushrooming in the city. To maintain current room occupancy rate under such competition is a real challenge before the hoteliers. They also need to pay attention to tourists as their targeted customers. Government can pay attention on following points for the development and growth of the hotel industry.

1. **Promote Medical Tourism:** Many famous doctors, surgeons, and medical practitioners very frequently visit Pune, who are associated with good hospitals like Ruby Hall, Jahangir Nursing Home, Inlac Budrani Hospital, Dinanath Mangeshkar Hospital, etc. With proper facilities and marketing, medical tourism can be made popular in the city. More is the number of people visit the city more the chances of growth of hotels. Hoteliers can make tie ups with such hospitals to provide accommodation and restaurant facilities to the concern visitors of the hospitals.

2. **Education of other service providers and citizens:** To make the city a trade and tourists’ centre, the citizens of that city need to be educated about certain civic sense, clean and hygienic habits. Hotel business, a couple of years back, was affected badly due the spread of Swine Flu in the city. Hospitality for the guests should not be restricted to hotel premises only. The visitors should experience it on road, railway stations, airport, and other public and private places as well. Such culture should be nourished among citizens and service providers. One German study group visited Pune city a few months back. Their feedback about
the city is worth to analyze. They have said they learnt many things during their stay here. They also appreciate the city as a knowledge centre. However, they were very upset by the traffic sense of the people and pollutions here.

3. **Advertisement by ministry of tourism:** Proper presentation and advertising about the city needed to be made within or outside the country.

After doing study and analysis the researcher have developed suggestive model to improve efficiency of hotel industry for management of working capital.
SUGGESTIVE MODEL FOR EFFICIENT WORKING CAPITAL MANAGEMENT

Focus on Retail Business & Tourism with existing Corporate

- Better Management of Working Capital
- Receivable Reduction
- Payable Reduction

Positive Impact on
1. Net Working Capital
2. Quick & Current Ratio

Short – Term Advantages
1. Better Profitability
2. Better Liquidity

Long – Term Advantages
Better Credit Performance
(Investors, Bankers, & Other Stack Holders)

The development of the above model is the contribution given by the researcher towards the Hotel Industry and society.