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Financial efficacy of tourism in Sindhudurg district: A case study of select hotels and Bed & Breakfast units

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Abstract

Being a developing economy with a large population, tourism can work as an engine of growth in India. Tourism has multiple benefits to the local economy such as substantial increase in employment and income of the locals. These effects originate from hotels and Bed & Breakfast units located at the destination. Hence it becomes essential to test the financial efficacy of these units for assured positive multiplying effects on the local economy. In its 'Tourism Policy, 2006', Government of Maharashtra announced Sindhudurg district as "Tourism District" declaring 'special package' for hotels and Bed and Breakfast Scheme owners of this region keeping the focus. Hence, Sindhudurg district is chosen to study the financial efficacy tourism through the study of select hotels and Bed & Breakfast units. A study of cost structure of these units along with their Pay Back Period is incorporated in this paper. Penetration of formal sources of finance like a bank into this area is also examined in this study. Implementation and effectiveness of the tourism policy of the Government of Maharashtra also is examined in this paper. Suitable statistical measures are used for data analysis and deriving findings. Recommendations are incorporated in this paper for tourism development with the concluding observation that mitigating the challenges to tourism development in the study region and a concrete action on the suggestions of these stakeholders assure a bright future of tourism in Sindhudurg district.

Key words: Fixed Cost, Variable Cost, Pay Back Period, Institutional Finance, Financial efficacy.

1. Introduction: Tourism is considered as the driver of economic growth. Especially for a developing economy like India having demographic dividend, it would act as a catalyst in the growth process by providing employment to a wide range of labour from skilled to unskilled. It also helps in creation of backward and forward linkages in the region leading to its development.



Recognising this potential of tourism, Government of Maharashtra announced Sindhudurg district as “Tourism district” in Tourism Policy, 2006 and also announced special package for the district which included:

1. No increase in water and electricity tariff for a period of 10 years
2. All the electricity provided at the industrial rate.
3. Entry tax on vehicles exempted for 10 years
4. Capital Subsidy Scheme, given to Small Scale Industries (SSI) in Sindhudurga District, applicable to approved projects in the tourism sector.

Growth of tourism in any region largely depends on the availability of good quality of food and accommodation apart from the other things. A study of viability of hotels and Bed & Breakfast Scheme units will directly as well as indirectly help in assessing the viability of tourism industry in the study region.

Financial efficacy can be defined as the ability or capacity to produce or create a desired financial result. Thus, assessment of financial efficacy involves study of costs incurred, income earned by the business units as well as their capacity to generate revenue to recover original investment in the shorter span of time. If the costs are under control and income growing over a period of time, there is greater probability of a business unit becoming viable. For this, government policies play a crucial role in affecting the costs incurred by the units in the business of tourism. In Sindhudurg district, it is necessary to find out the effectiveness of government policies in making the hotels and bed & breakfast units becoming viable.

2. Scope: This paper studies tourism in Sindhudurg from the supply side. Therefore, hotels and Bed & Breakfast units are selected from six tourists' destinations of Sindhudurg district namely Tarkarli, Devbag, Malvan, Vengurla (beach tourism destination), Sawantwadi (historically significant tourism destination) and Amboli (a hill station).

3. Significance of the study: Since Sindhudurg district is declared as the “tourism district”, the resulting employment and income generation in this district are the significant considerations and were thus chosen as the focal points of the analysis done by the researchers in this paper. In tourism industry, hotels and Bed & Breakfast units are the major sources among others that generate employment and income for the locals through tourist activities. Therefore, only if these units are sustainable consistent increase in employment and income in this region is assured. Hence this study helps to determine the financial efficacy of hotels and B&B units in this region and through that overall viability of tourism industry in Sindhudurg district.

Most of the studies at the national and international level have focused on the macro aspects of tourism such as measurement of employment multiplier, calculation of income multiplier, establishing backward and forward linkages, etc. However, they have very rarely focused on the aspect of financial efficacy. This paper is significant since it undertakes assessment of financial efficacy of the business units in tourism.



4. Objective: The present study has following objectives:

1. To identify the cost structure of the hoteliers and bed and breakfast scheme owners of Sindhudurg district.
2. To ascertain the source of finance of hoteliers and bed and breakfast scheme owners to verify penetration of institutional finance in that region.
3. To assess the awareness, utility and benefits of government schemes of tourism development among these stakeholders.
4. To calculate Pay Back Period of Hotels and Bed and Breakfast Scheme owners.
5. To test the financial efficacy of tourism in Sindhudurg district.

5. Working definitions: This paper uses concepts such as:

5.1 Fixed Cost: The Cost that does not change even if output changes is defined as a fixed cost.

5.2 Variable Cost: A cost that changes with the changes in the output is called as a variable cost. Technically, when the output is zero the variable cost also is zero.

5.3 Institutional sources of finance: Sources of finance that fall under the purview of the Central Bank (in case of India RBI) or any regulating government authority are termed as institutional sources of finance.

5.4 Pay Back Period (PBP): Period of time required to recover the original or initial investment from the project is termed as payback period.

5.5 Bed & Breakfast (B&B) Units: B&B units are the houses which have registered under the MTDC's B&B Scheme. They provide unused rooms of their homes to the tourists for stay and also provide them breakfast if asked for. They use logo of MTDC and pay registration fees to the MTDC in return. The fees are paid at the time of renewal of the license once in five years.

5.6 Financial efficacy: Financial efficacy can be defined as the ability or capacity to produce or create a desired financial result.

6. Research Methodology:

6.1 Population and sampling: Mainly primary data is used in the study. The Primary data is collected by survey method using a questionnaire and supplemented by interview method.

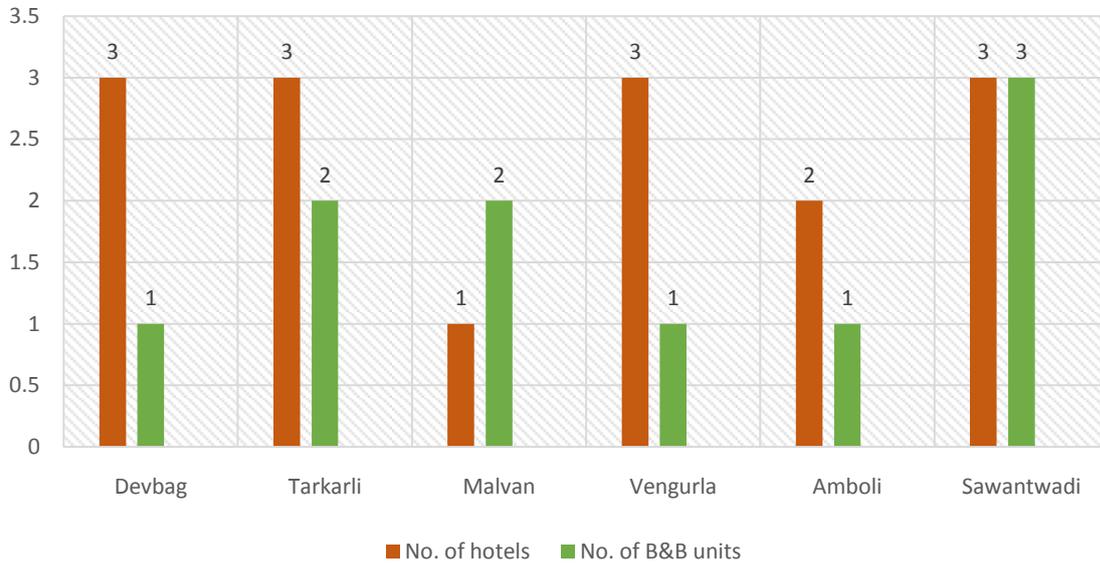
Sample size is 25. Stratified random sampling method is used to select the samples.

Secondary data is collected through various books, articles and relevant websites.

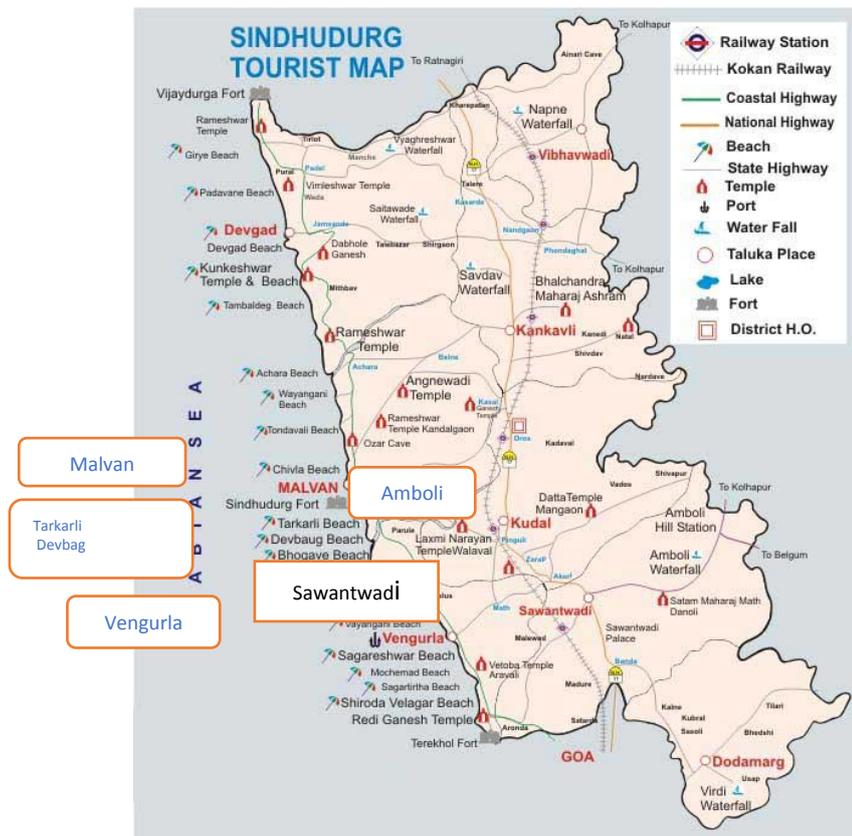
For data analysis, percentages and averages are utilised. Use of pie charts or graphs is made wherever necessary. Suitable formula of Pay Back Period (PBP) has been used in the present study to assess one of the objectives.



1. Destination wise distribution of Selected samples



Source: Based on primary data collected by the researchers





6.2 Data analysis:

1. Cost structure of the units under study: Fixed Cost and Variable Costs summed up separately and then percentages are calculated.
2. Awareness, utility and benefits of government Schemes: A question on government facility is asked in the questionnaire. The responses are summed up and percentage is calculated from the summation.
3. Sources of finance - Institutional or Non- institutional:
 - a. Classification of the responses is undertaken followed by calculation of percentage.
 - b. Then, summation and percentage calculation of contribution of each formal source of finance also is done.
4. Pay Back Period (PBP): It is calculated by using following formula

$$\text{PBP} = \text{Initial Investment} / \text{Annual cashflow}$$

It is calculated in years.

6.3 Results and discussion:

6.3.1 A proportion of fixed cost in the total cost is in the range of 58% to 90%. Automatically, corresponding variable costs were in the range between 42% and 10%.

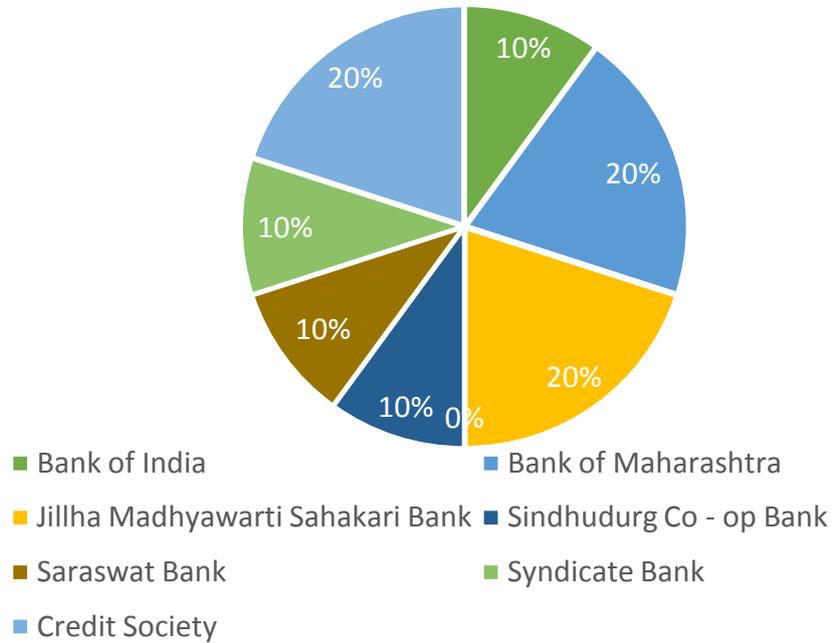
It is also found that proportion of fixed cost in the total cost is more for hotels than the B&B units. The reason for this is hotels have huge expenditures in the land purchase or building as well as capital borrowed and interest paid on the borrowed capital.

In the variable costs, a major amount is spent on two items - Salaries and wages of the staff as well as grocery and vegetables and non – vegetarian food items.

6.3.2 After examining the sources of finance used for business by both the types of stakeholders, the result obtained is that all the stakeholders are using institutional sources of finance. Either they have taken loans from the banks or from the approved credit societies. Some of the respondents have informed their specific source of institutional finance. It is shown in the following pie - diagram.



2. Bank wise distribution of formal sources



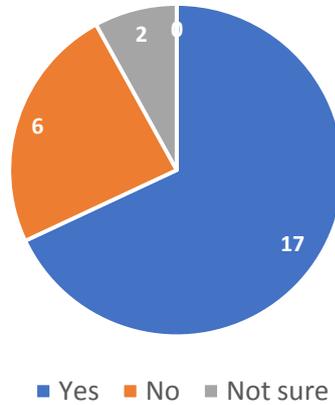
Source: Based on primary data collected by the researchers

However, it is found that the stakeholders have not received any subsidized capital from the government.

6.3.3 a. Following pie chart shows extent of awareness among the stakeholders in the study region about government programmes and policies of tourism development:



3. Awareness about Government Schemes of tourism development



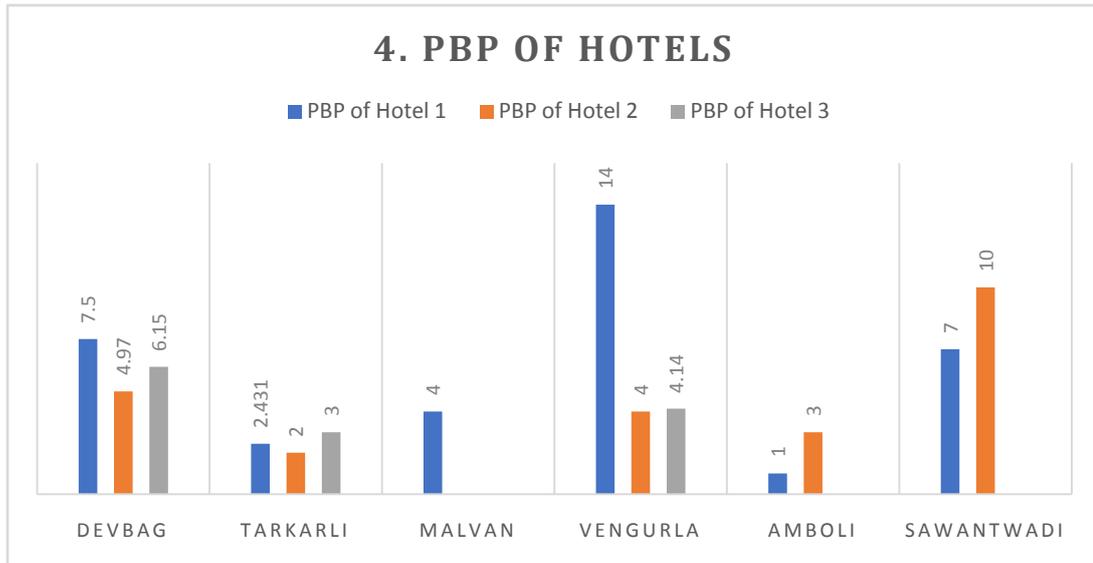
Source: Based on primary data collected by the researchers

b. All the respondents have informed that they are not getting any benefit from the government. They are not receiving electricity at concessional rate. The reason given for this is that the electricity supplier MSEDCL claims that it has not received any notification from MTDC to this effect.

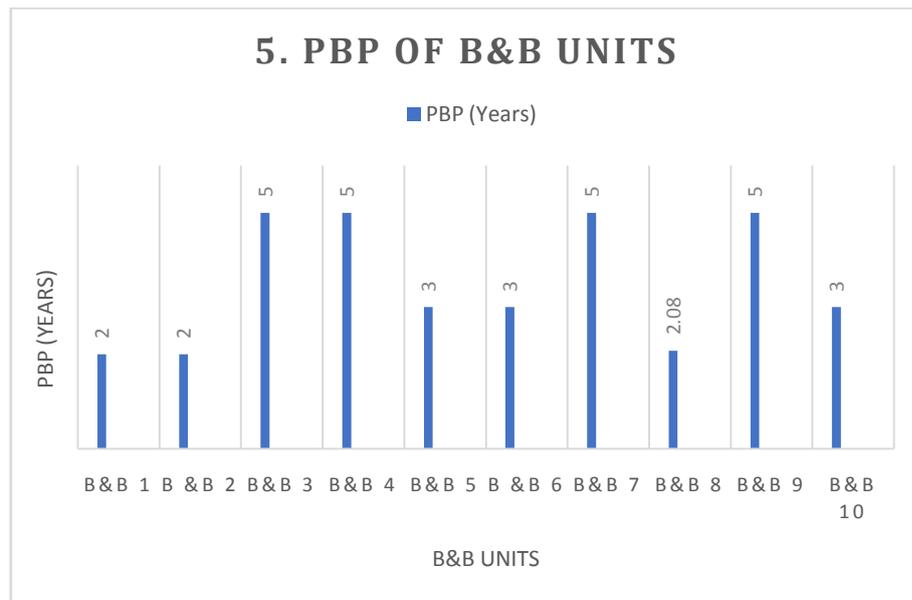
Similarly, majority of the respondents have their own arrangements of water like a well and a borewell. Hence, government scheme of no increase in water tariff for 10 years does not have any positive implications for the units.

6.3.4 Payback period of the B&B units ranges between 2 years to 5 years. Hence it is feasible for them to continue with the business of tourism since they are recovering their initial investment in relatively smaller period of time.

Comparatively, PBP of the hotels is large. Depending on the scale of operation of the hotel, it ranges between 1 year to 14 years.



Source: Based on primary data collected by the researchers



Source: Based on primary data collected by the researchers

6.3.5 a. Number of tourists is growing steadily over a period of time.

b. Pay Back Period of B&B units is in the medium term. Hotels have a Pay Back Period ranging between short run to long run.

Both the facts above are indicative of financial efficacy of hotels and B&B units and in turn financial efficacy of tourism in Sindhudurg district.



7. Recommendations: Based on the above analysis and observations, significant changes need to be implemented in the study region for tourism development.

7.1 Subsidised capital to the stakeholders would automatically reduce their burden of fixed costs. For this, issues related to titles of the lands especially those which are in dispute due to Coastal Regulatory Zones (CRZ) rules or forest lands rules should be sorted amicably. This will entitle these tourism units to avail subsidized institutional finance.

7.2 Arranging camps for dissemination of information of Government's schemes to the stakeholders is very essential.

7.3 Effective implementation of tourism development programmes of the Government needs to be undertaken on an urgent basis.

7.4 Details of transactions and Investments by the stakeholders have to be maintained meticulously. It should be maintained carefully and systematically. Along with that, within the boundaries of privacy and confidentiality such data needs to be made available to the researchers for academic purposes. This will facilitate suitable policy formulations benefitting all relevant stakeholders. Financial literacy among the stakeholders is essential not only in terms of achieving financial efficiency among the individual units but for emanating productive contributions for the local economy from the tourism sector as a whole.

7.5 It is observed that the highway leading to Sindhudurg district has to be repaired on a war footing. Connectivity through broadband and mobiles is another major drawback in the tourism development in this district. It needs to be improved to provide basic facilities to the tourists. Improvement in both the connectivity infrastructures would definitely boost the tourist flows to this region.

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