

A Study of Working Capital Management in Star Hotels of Karnataka (Review paper)

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Abstract: Due to the worldwide industrial development, economic growth of tourists producing nations increased earnings of individuals and improved transport and communication means, and there is a massive potential for the growth of tourism and hospitality industry in India. The service sector in India over the past few years has been mushrooming for the promotion of yoga and meditation, rural tourism, sports tourism, medical tourism and adventure tourism. Furthermore, the Incredible India campaign rendered by the government of India has featured India on the world tourism map. Tourism inflow into Karnataka ranks high in terms of attracting the domestic tourist, heritage tourist, medical tourists and adventure tourists and is thereby working towards creating a tourism industry that provides a quality experience and is affordable. However, this industry is also facing challenges such as increasing competition, low occupancy rate, high rates, fuel shortage, increasing cost and so forth, thus affecting the profitability of the hotel industry in Karnataka. Knowing the fact that Karnataka holds a positive hospitality and tourism industry, it is necessary for the star hotels in Karnataka to manage its available resources optimally in order to enhance the profitability to a more considerable extent. Consequently, it is crucial for hoteliers to manage working capital management in Karnataka. Therefore, the current review paper primarily aims to explore and highlight the working capital management profitability for the star hotels in Karnataka.

Keywords: *working capital, star hotel, financial performance, finance and financing, credit policies*

1. Introduction:

The tourism industry for a developing country like India is the right vehicle and is on the path of modern economic growth through structural of the economy (BV Murthy & Afza, 2016). The tourism industry is capable of changing the socio-cultural, environmental and economic face of the world. In India, this industry has become one of the major sectors of the economy, contributing to a large proportion of the National income and hence generating substantial employment opportunities (Dayananda, 2014). The 20th century in India may be discerned as the beginning of star hotels. Also, on account of the prominent businessmen and new entrepreneur's advent, big and modern hotels came into existence. Affluent tourists also contribute to a large

extent in the development of star culture. Primarily, the star hotels are pertaining to the private sector (Amiry, 2014). The hotel industry in India has witnessed a tremendous boom in recent years. The inextricable linking of the hotel industry to the tourism industry and the growth in the Indian tourism industry has fueled the growth of the Indian hotel industry.

Furthermore, the destination campaign 'The Incredible India' and the recently launched campaign 'Atithi Devo Bhavah' have asserted in the growth of domestic and international tourism. Like most of the countries, India has also divided its hotel into different categories depending on their location, infrastructure, facilities and amenities provided. All Star Hotels in India are approved by the government with continuous control on the quality of offered services (Amiry, 2014).

Working capital management is one of the vital scopes in financial management due to its influence in profitability and liquidation. The efficient working capital management is in a way which trades off between the risk of default of short-term debt and avoiding from overinvestment in current assets (Raheman& Nasr, 2007). For hospitality firms, working capital management efficiency is vital, wherein a significant part of assets is composed of current assets (Horne & Wachowitz, 2000). Since the fundamental objective of the firm is to maximize on profitability and also to increase on shareholders or owners wealth, it is crucial to have a balance between liquidity and profitability while carrying out daily operations to ensure the smooth running as well as meeting the company's obligation (Waithaka, 2012). According to Darun (2011), working capital management is not only critical in cases of financial distress but can be managed in the most efficient way to increase a firm's profitability and a competitive edge over the others. A strong linear relationship is discerned between the profitability of the firm and working capital efficiency (Agha, 2014). The management of working capital comprises of managing accounts, inventories, receivable and payable, and cash. Furthermore, to meet the increased demand of hotel infrastructure, more working capital, as well as fixed assets, is required. Thus it is necessary for hoteliers to manage their working capital as well as fixed assets strategically and efficiently for enhancing profitability.

Objectives

1. To study the criteria for efficient management of working capital in an industry.
2. To explore the basic challenges faced by star hotels in Karnataka pertaining to working capital management.
3. To study and analyse the management of working capital in the Star hotels in Karnataka.
4. To scrutinize the concept of whether the Star hotels in Karnataka are succeeded in managing working capital efficiently.
5. To explore and highlight the credit policies of Star hotels in Karnataka.
6. To assess the functions of spontaneous sources of finance in financing working capital.

2. Literature Review

2.1 Overview of the hospitality industry in India

In India, the growth of hotels is propelled by the increase in tourism (Sufi, 2015). A study conducted by Thadani (2005), it was asserted that the continued campaign of "Incredible India" launched by the Government of India had had a considerable impact on the tourist arrivals in India.

It also states the CRISIL research Annual Review 2013, highlighting a few interesting facts about the Indian Hotel Industry. It explored that the size of the Hotel Industry is USD 3.8 Billion, and is growing at an average rate of 12%. The present supply of hotel rooms is approximately 110,000 hotel rooms, and current demand is about 150,000 hotel rooms. Also, the growth in information technology and related services is discerned to be the primary reason for the boom in the Hotel industry.

Indian hotels are continuously innovating to sustain the competition from both the domestic and International Chains. The Indian hotel chains have broadened their scope from being exclusive super and lower budget markets as well. Thus, Indian Hotels has unfolded to be innovative, competitive, and extremely guest focused and has thereby in establishing their place in global markets. The Indian Hotel chains are using advanced marketing tools like social media marketing, online marketing, direct marketing, E-mails, travel agencies etc. to compete in the market (Sufi, 2015).

However, in spite of dynamic growth of the Indian Hotel Industry both by Indian and foreign hotels, the competitiveness in terms of being rated among top rated Hotels on a global level is not perceived to be that remarkable.

There are certain hotels which have figured among the world's best hotels; however, the number of these hotels is relatively smaller. Hotels in India are being awarded as five star and five-star deluxe brands by Government rating agencies, however, lacks the national and global recognition. This has further led to questions being raised on the approval process in general in India. (Nath, 2013; Sharma, 2013; Chopra, 2006). These International Hotel Chains have an independent hotel due to the recognition of the brand. The International Hotel Chains, therefore, in their levels of services religiously and improve their image by branding and excellent service delivery (Ambwani, 2012).

Moreover, the customers of these International Hotel Chains recognize the levels of services wherever they stay and get satisfied with the services offered by the hotel.

From the studies, it has been revealed that Karnataka is a tourist paradise. The State is asserted to be on one of the top ten domestic Tourism destinations in India and further ranked third in 2015.

Karnataka has several tourism assets such as beaches, heritage monuments, hill stations, wildlife sanctuaries, national parks, etc. In India, Karnataka also has the second highest number of protected monuments. It is also known to be the home to 507 of the centrally protected monuments in India. Furthermore, the State is promoted under the tagline "One State, Many Worlds" given the variety of tourism assets (BV & Afza, 2016).

2.2 Determinants of working capital

Working capital seldom also called as gross working capital attributes to current assets used in operations (Brigham & Ehrhardt, 2005). Working capital management (WCM) is the management of short-term financing requirements of a firm, and includes finding the optimal levels for cash, marketable securities, accounts receivable, and inventory and then financing that working capital for the least cost (Brigham & Houston, 2007). Optimization of working capital balance implies minimizing the working capital requirement and thereby realizing maximum possible revenues (Ganesan, 2007). The poor management of working capital over the years has been the central reason for business insolvency, bankruptcy and the ultimate failure. Working capital is the money needed to pay for the daily operations of the business, which involves the difference between current assets and current liabilities (Mbithi, 2015). Working Capital Management attributes to the management of all types of current assets of the business enterprise in which adequacy of current assets, as well as the level of non-insurable risk posed by current liabilities, are optimally recognized. It is concerned with the problems relating to the administration of all aspects of current assets, current liabilities and the inter-relationships that exist between them (Mandal et al., 2010). Working capital is discerned as the difference between current assets and current liabilities, which is a part of the capital that needed to pay off in the short term. That is, exhibits the relative stability of short-term capital (Jingmeng, 2013). Working capital constitutes a significant portion of total assets. These include cash, accounts receivable, Inventories (Lakew1 and Kolech, 2014). Management of working capital refers to the management of current assets and of current liabilities (Gill et al, 2010). The working capital policy of the company depends on many factors, e.g. sales, economic situations, and profitability (Wajahat et al, 2010). In the wave of economic liberalization and globalization, survival stability and growth of the enterprises extensively depend on the effective supervision of working capital, which has a direct relationship on the economic well-being of the country as a whole (Mandal et al., 2010). Effective working capital management necessitates an overall investigation on the environment, like industrial characteristics, economic environment, and its characteristics (Jingmeng, 2013).

2.3 Working capital policies of hotel industries

Monitoring the working capital is essential for hotels' cash flow and its capability to suffice its obligations when they are due (Vural et al., 2012). Therefore, the management should identify the hotel's unique working capital drivers and relevant risks and use them to develop their unique working capital management policies and practices that are in line with their business model and the overall hotel corporate strategy (Mbithi, 2015). Primarily, the management of working capital includes accounts receivable and payable, managing inventories, and cash (Bansal & Khosla, 2015). Hotels, like any other business, also have an operating cycle

which begins with the purchase of supplies and ends with the collection of accounts receivable. As a result of this operating cycle, sales do not get converted into the cash instantaneously. Hence, sufficient working capital is required to sustain sales activity during the operating cycle period. Working capital management for the seller is represented in investment in account receivables, cash and inventories held by the Hotels, while the payables represent a source of financing classified under the current liabilities on the balance sheet (Pedro & Martínez, 2010). A study conducted by Uzel (2012) explored and highlighted the use of value-based management tools in hotels in Kenyan coast. According to the research undertaken by Fwaya et al., (2012), the relationship between the drivers and results of the performance of the hotels' industry was addressed.

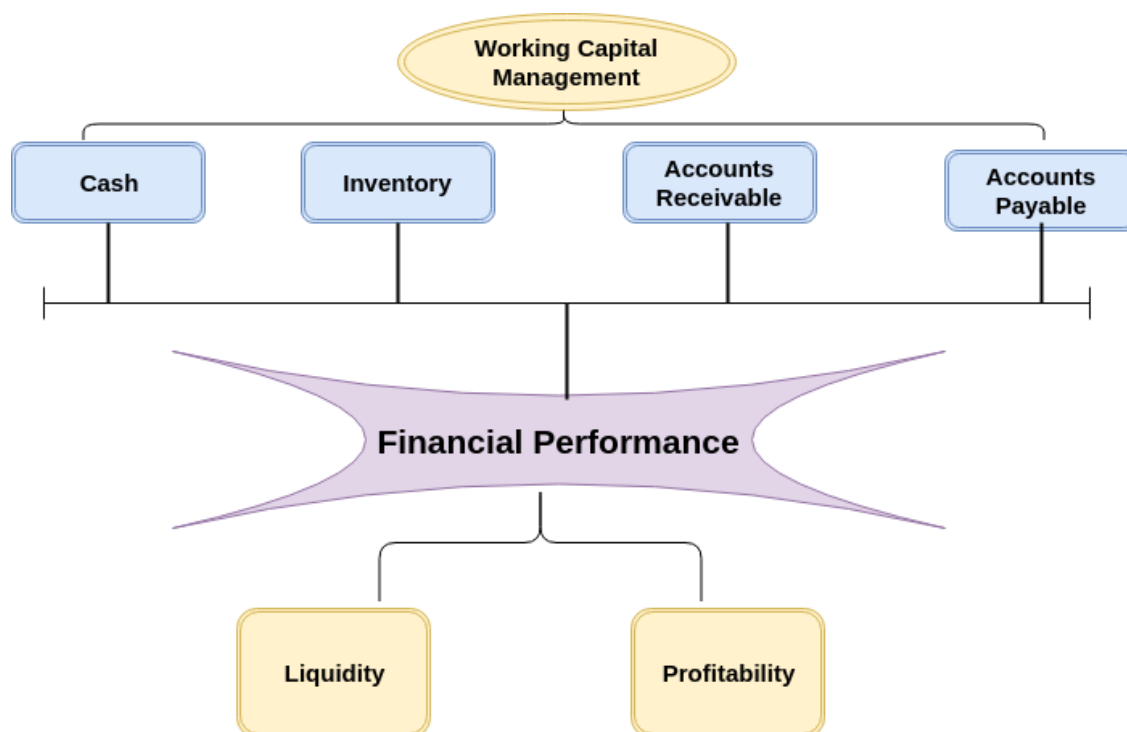
2.4 Working Capital Management and Financial Performance

A statement of financial performance is asserted as an accounting summary that reveals an organization's revenues, expenses and net income. It is further attributed to as a statement of profit and loss or statement of income; financial performance measurement usually looks at firms' financial ratios (derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios, and debt ratios (Ismaila, 2011). A study by Wadongo et al., (2010) researched on the managerial roles and also the choice of performance drivers. Accounting scholars in measuring organizational performance focuses on the information content of the organization's financial statements and measures. The reason for the accounting profession is to explore and highlight the past financial performance of an organization both consistently and fairly. To this end, volumes of accounting procedures and rules have been developed over the years in making the information contained in organizational financial statements both meaningful and comparable over time and across organizations (Carton, 2010). Research conducted by Waudu and Kamau (2012) studied on the change management in hotels.

The "liquidity position" of a business is determined as its ability to pay the debts, that is, does it have enough cash to pay the bills (Otieno, 2014). Furthermore, the optimum level of liquidity guarantees a firm to meet its short term debts, and the proper management of flow can be promised by a profitable business (Agha et al., 2014). Profitability analysis primarily focuses on the relationship between expenses and revenues and the level of profits relative to the size of investment in the business (Mwangi, 2012). A high operating means that the company has reasonable cost control and/or that sales are increasing faster than costs, which is the optimal situation for the company (Mbithi, 2015). An optimal working capital management is expected for contributing positively to the creation of a firm's value hence firm managers should control the trade-off between liquidity (ability to meet its dues as they fall) and profitability (size of earning after tax) (Mwangi, 2014). By the value of the working capital and some related indicators, we can be informed on the enterprise's financial risk. In general, the less financial risk they may face the more working capital enterprises own. However, excess of much working capital is not suitable for enterprises who wish long-term development, as they lose profit. Enhancing the working needs to be considered owing to its importance and financial robustness (Jingmeng, 2013). Thus, there is a necessity to manage various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of the wheel of an enterprise for the fulfilment of twin objectives of liquidity and profitability as well as for reducing non-

insurable risk and uncertainty-bearing associated with the volatility of various components of working capital in the firm's operating environment (Mandal et al, 2010). The existence of an effective and efficient working capital management can make a substantial difference between the success and failure of an enterprise (Olawale, 2014). The relationship between the performance of the five-star hotels and the use of performance drivers was studied by Okeyo (2011).

2.5 Conceptual framework



A conceptual helps the readers to connect easily with the relationship of the various variables in a study (Kumar, 2019). The following section discusses the conceptual framework of the working capital management of the star hotels. From the conceptual framework above, the working capital management, which is the independent variable, is perceived to be affected by the financial performance (the dependent variable). Additionally, the cash, inventory, accounts receivable and accounts payable are the independent variables of the working capital management. The variables are determined as the building blocks of the theory in any research (Kumar, 2019; Burns & Bursn, 2000).

3. Findings and Discussion

The following section contains the final discussion of the findings from the review of various literature. It is discerned from the study that the profitability of the star hotels to a large extent depends upon the effective and strategic working capital management (Nteere, 2014). The net profit margin is negatively related to the day's sales are outstanding the inventory conversion period and the cash conversion cycle, and positively associated with the days' payables outstanding payables. Furthermore, the only reliable performance measure, according to Fwaya (2006) is the financial performance measure due to its value to shareholders, the market and executives. It is an indicator of organizational sustainability and success since it is the reason for the existence of the firms.

Additionally, for any organization, the financial success of an organization is a measure of the performance as it depicts the ability of an organization to operate above all its costs. The hotel industry being a service sector with inseparable products necessitates for different methods of measurements. Thus, it can be concluded that the hotel is obliged in not only delivering services and products but also in increasing customer satisfaction by providing quality and thus profits improvement. Several scholars have tried over the past in studying the drivers of performance in organizations, and thereby, researchers in the hospitality industry have further come up with related research. Thus, gaps have been perceived from the various studies also. The study Okeyo (2011) concluded a positive relationship between the two.

Similarly, Uzel (2012) studying the use of value-based management tools in hotels in Kenyan coast established the use of value-based tools in hotels as minimal and asserted further research on the strategic drivers of performance in hotels. The study by Fwaya et al., (2012) discerned and revealed that the financial drivers of performance were the only drivers having an influence on the performance of the hotels. The study conducted by Wadongo et al. (2010) recommended further research on the role of the non-financial strategic drivers such as human resource management, innovation, profits and customer focus among others. A study by Waudu and Kamau (2012) concluded that the hotel industry operated in an environment of high competition and recommended a review of the strategic drivers of hotel performance.

4. Conclusion and Suggestions

Based on the summary of the findings, the studies mentioned in the current review paper, various conclusions based on the present research are explored and highlighted in the context of the star hotels in Karnataka. The studies and the research gaps from those studies will enable in the better understanding of the working capital management in star hotels in Karnataka, India. Working capital management ensures that the hotel is able to continue its operations and further has sufficient ability to satisfy both the maturing short-term debt and upcoming operational expenses. Additionally, financing working capital discerns a significant impact on a firm's return and risk. Furthermore, it can be concluded based on the study that in spite of the increase in the number of hotels with increasing tourism, there still exist challenges in managing current assets and other related issues. The current burning issues discerned from the various studies such as low inventory turnover, lack of synchronization, high average collection period, and inadequate approach in the financing of working capital management needs to be addressed for the better working of the star hotels in Karnataka. Thus, steps should be taken in order to overcome the problems discussed, so that the financing pattern of current assets of the star hotels in Karnataka are improved. The existing research after scrutinizing the review of literature discerns certain areas wherein the hoteliers need to work. The star hotels in Karnataka needs to be more organized, adaptive and transparent to the structural and social change. Training needs to be rendered to the employees significantly for the development and growth of the organizations. Thereby, employees should be updated pertaining to the effective and latest techniques of inventory management. Through this, there will be an enhancement in the profitability and the productivity of the hotel.

Furthermore, the hoteliers in Karnataka should make sure that the service availability is not restricted to a certain class of society. Instead, it should be their responsibility to widen the scope of their services.

Moreover, the hoteliers should explore and expand the services offered by the banks. Many funds and non-fund based services provided by the banks should be considered. This will be beneficial for the star hotels in Karnataka to widen their scope. Thereby, the hotel industry in Karnataka needs to be more transparent, organized and adaptive to the structural and social changes. The hotel industry fails in maintaining the standard rates of room and occupancy. Thereby, it profits the confidence of the investors about their performance, which has been vitiated. Moreover, the market process of their shares is notably volatile. Furthermore, the hoteliers should separate the flow of cash for the hotel industry from their other businesses. Finance manager or the concerned authority thus should be given the autonomy for proper planning and cash control. Consequently, this will improve the liquidity and the profitability of the star hotels in Karnataka.

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