

A Study on Problems and Challenges Faced By Small Hotel Businesses during Demonetization in Mysuru City

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Abstract: In India, Demonetization was announced by Honourable Prime Minister Sri. Narendra Modi on Nov 08, 2016. This is the bold step taken by our present PM towards the economic policy in Indian history to fight war against the black money, corruption, terrorism and counterfeit notes. Nov 8th is marked as the day when the largest democracy in the world declared 86% of its currency as dead. This will engender a marked fall in the use of cash transactions in India and thus pave way for the transition to a cashless economy. It would be foolish to argue that demonetization aims only at extinguishing the black money. The demonetization move causes a huge amount of uncertainty and will disrupt transaction in general to common man and all sectors of business, but especially for smaller businesses such as provision stores, vegetable vendors, hotels, restaurants and food and beverage operations etc. which run their business on the basis of cash transaction. Mysuru the name evokes images of palaces, of tranquillity, of rich culture and heritage which echoes in the fascinating tourist attractions that consist of panoramic palaces to religious attractions, exceptional gardens, glorious festivals and also extremely colourful crafts. Mysuru will unquestionably get hold of most of the hearts and minds of travellers and tourists from all around the world through the beginning which gave pace to grow the hospitality, tourism and hotel industry. According to reports, demonetization has affected Mysuru tourism sector. Over the next 2 years, the demonetization drive will have mixed effects on the hospitality industry in the country. In long term, demonetization will have a positive impact and restaurants business but this sector will experience a short term slowdown in growth. Therefore, the present study attempts to understand the impact of demonetization on hospitality industry in Mysuru.

I. Introduction

Demonetization is the act of removing a currency unit from legal tender. It takes place whenever there is a change in currency of a nation: the present form of money is removed from circulation and replaced with new notes or coin. The multiple reasons why nations demonetize their local units of currency are:-

- To fight inflation;
- To reduce corruption and crime;
- To encourage cashless economy; and
- To facilitate trade.

Scenario Of Demonetization In Different Countries

Countries in which demonetization was implemented

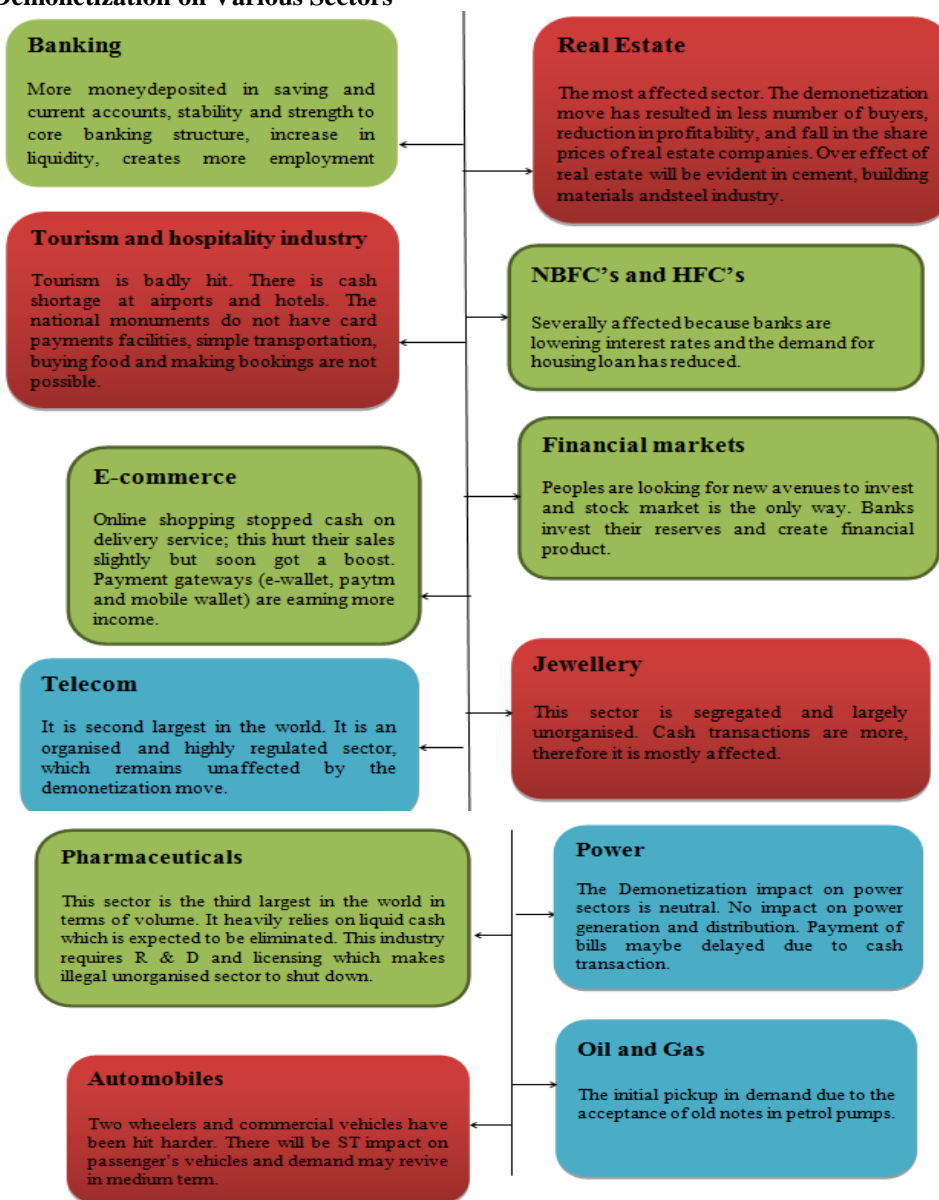
Sl. No	Countries	Year	Effect on Economy	Reasons for Failure
1	Ghana	1982	Weaker economy	Blackmarket was supported by the people and their invested in physical assets.
2	Nigeria	1984	Collapsed economy, unsuccessful	More debt, financial difficulty and inflation.
3	Myanmar	1987	Unsuccessful	Many people were killed due to mass protest.
4	Soviet Union	1991	Unsuccessful	Poor harvest.
5	Australia	1996	No side effects	Try to introduce plastic money.
6	North Korea	2010	Weak Unsuccessful	No food and shelter.
7	Zimbabwe	2015	Weak Unsuccessful	Face value of one hundred trillion dollars dropped to \$0.5 dollar.
8	Pakistan	2016	Cannot be predicted	People had sufficient time to exchange their money.

Sources adopted from Ambalika Sinha and Divya Rai

Scenario of Demonetization in India: Past and Present

The Demonetization move is not new in India, for the first time demonetization took place in Jan 1946 and Rs.1000 and Rs.10000 notes were demonetized. Later in year 1954, RBI reintroduced higher denomination banknotes of One thousand, Five thousand and Ten thousand rupees which were demonetized in Jan 1978. Five hundred rupees note came into circulation in Oct 1987. In Nov 2000, Rs. 1000 note was remonetized. This is for the first time that Rs.2000 note came into circulation, while five hundred and one thousand rupees notes were invalid from midnight Nov 8. Prime minister announced that new five hundred and two thousand rupees denomination note will be in circulation from Nov 10. In 2016, the Government of India decided to demonetize the five hundred and one thousand rupee notes, these two notes are the biggest denominations in currency system which accounted for 86% of the country’s circulating cash. Indian’s PM Narendra Modi announced to the citizens on Nov 8 that these notes were worthless, effective immediately and they had until the end of the year to deposit or exchange them for newly introduced two thousand rupee and five hundred rupee bills. Confusion occurred in the cash dependent economy (some 78% of all Indian customer transactions are in cash), as long, snaking lines were formed outside the ATM’s and banks, which were shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring recalibration of ATM’s. Even those dispensing bills of lower denominations faced shortages. The Government’s restriction on daily withdrawal amounts added to the misery, though a waiver on transaction fees did help a bit.

Impact of Demonetization on Various Sectors



II. Review Of Literature

Balamurugan.S and Hemalatha.B.K (2016), the study focused on highlighting the short term & long term impact of demonetization on the various organised and unorganised sectors depending upon the extent of cash availability, credit availability, spending & government finances. They stated that medium and large scale businesses are unaffected by such ban where as small scale establishments were deeply affected by demonetization. **Ambalika Sinha and Divya Rai (2016)** stated in their article that supreme sufferers of demonetization were the informal sectors of Indian economy where cashless transactions are minimal. They have indicated the microeconomic effects and macroeconomic effects of demonetization. The microeconomic effects are beneficial i.e. uncollected revenue increased & political move on terror financing was restrained, whereas the macroeconomic effect was not beneficial i.e. due to the problems faced by the people. **Sandeep Kaur (2016)** stated in his article about the effects of demonetization on Indian economy and system. This move would be positive for sectors like banking and infrastructure in the medium to long term and negative for sectors like consumer durables, luxury items, gems and jewellery, real estate and allied sectors. This move also aims at lower corruption, lower inflation, better fiscal balance, complete elimination of fake currency and economic growth in the longer term. **Sujatha (2016)**, quoted in her article that the move has caused much pain to the common man and a number of sectors in the country have been affected by the failure to replace the old currencies in adequate measures. The fallout of the Demonetization now looks to have spilled over into the tourism business as well. **Anumeha Chaturvedi (2016)** quoted that the Government decision is aimed at reducing corruption, black money, terrorism and counterfeit notes. The move will create problems for the travel industry, luxury brands, already reeling under slowing sales and tighter income tax regulations, may face additional problems. **Prabhurajan. B. S (2016)** stated in his article that the number of people going to restaurants has declined largely & the hotel industry here feels to improve at least mid-December. The hospitality sector's earning had seen a continual fall since September and it is drastically declining. Despite the fall in revenue the costs-involved in running hotels & restaurants has remained the same. **Mandeep Lamba (2016)** said that the organised banqueting business will witness growth. The weddings business will also return to Indian hotels from their overseas counterparts. Over the short and medium terms, the demonetization drive will have varied effects on the many sections of the hospitality industry in the country, but in the long term the growth of the hospitality sectors will have positive impact. **CD Equisearch Pvt Ltd(2017)** - In this article, they have concentrated on effects of demonetization on various sectors. The move as shed a dark shadow on the increasing tourism & hospitality industry in India. These sectors are facing a tough time. November through January months generally witness the maximum inflow of international tourists in India, due to ban there has been a 65% drop in Christmas & New Year vacation bookings. Cash crunch has adversely affected the liquidity of currency exchanges in the country. **Ela Group (2017)** article has concentrated on demonetization impact of Mysuru tourism sectors. For the next two years, the demonetization drive will have a mixed effect on the hospitality industry in the country. Most of the hotels and resorts in the country are unorganised sector, the tourists are forced to post pone or cancel their travel and accommodation due to less availability of cash. The Mysuru tourism department has a direct impact. **A Chitra Balasubramaniam (2017)** state in her article that India is switching to cashless economy and electronic transactions has caused a negative impact initially on some hotels. These measures include cancelling legal tender money & placing restrictions on cash transactions to put an end to black money. **Jai Bansal(2017)** state in his article that demonetization is a surgical strike on black money, terrorism, fake currency, unorganised trading, real estate, share market, etc. The Indian industry is divided into three categories i.e. manufacturing sector, service sector and agriculture sector. After demonetization, only agricultural sector shows positive improvement while other two sectors – manufacturing and service sectors were crashed down. He also focuses on demonetization impact on Indian economy's different sectors.

III. Need For The Study

The above review of literature reveals that many studies have been conducted based on the secondary data to understand the impact of demonetization on public, on banking sector, on black economy, corruption, stock market, and so on. Many newspaper sources and TV shows spoke about the negative impact of demonetization on many sectors and small business. Therefore the present study has been conducted to know the opinion of owners of small hotel business about the demonetization and problems faced by them during the present demonetization period.

Objectives of the Study

1. To know the perception of owners of small hotel business about present demonetization.
2. To understand problems and challenges faced by the owners of small hotel business during demonetization.

IV. Methodology

The present study has been conducted based on both primary and secondary data. The secondary data has been used to understand the concept of demonetization and to analyse the existing review of literature about demonetization. 32 small hotel business owners have been selected from Mysuru city for the present study based on snapshot survey method. A structured questionnaire has been served to the owners of small hotel business to collect the opinion about the present demonetization and the problems and challenges faced by them. Descriptive statistics have been used to analyse the opinion collected from the respondents.

V. Discussion

The following analysis has been classified into two categories viz., (1) Analysis of demographic characteristics of small hotel business such as their year of establishment, average monthly income before and during demonetization period and accepting plastic money and (2) Analysis of general opinion of owners of small hotel businesses about present demonetization and opinion about the problems faced by them during demonetization.

(1) The following information has been collected from owners of various small hotel businesses in Mysuru city and analysed based on descriptive statistics.

Year of Establishment	Frequency	Percentage
Established during 2000 - 2010	15	46.9
Established after 2010	17	53.1
Total	32	100.0

Source: Field survey.

The above table reveals the year of establishment of the hotel. 17 businesses were established after 2010 constituting 53.10 per cent and 15 hotels established during 2000-2010 representing 46.90 per cent.

Average monthly income before demonetization

Average income	Frequency	Per cent
10000-30000	16	50.0
30000-50000	12	37.5
50000-70000	2	6.2
70000-90000	1	3.1
90000-110000	1	3.1
Total	32	100.0

Source: Field survey

The above table presents the average monthly income of hotel businesses before demonetization. Maximum of 16 hotels were earning an average monthly income between 10000 to 30000 constituting 50 per cent, 12 hotels have 30000 to 50000 constituting 37.5 per cent, 2 hotels have 50000 to 70000 contributing 6.2 per cent, 1 hotel have 70000 to 90000 contributing 3.1 per cent and 1 hotel have 90000 to 110000 contributing 3.1 per cent.

Average monthly income during Demonetization

Average income	Frequency	Per cent
5000-30000	25	78.1
30000-55000	6	18.8
55000-80000	1	3.1
Total	32	100.0

Source: Field survey

The above table reveals the average monthly income earned during demonetization. Maximum of 25 hotels have an average between 5000 to 30000 constituting about 78.1 per cent, 6 hotels have 30000 to 55000 constituting about 18.8 per cent and 1 hotel have 55000 to 80000 constituting 3.1 per cent.

Accepting Plastic Money

Accepting plastic money	Frequency	Percentage
Yes	5	15.6
No	27	84.4
Total	32	100.0

Source: Field survey

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The above table reveals the usage of plastic money for their routine business transactions. Only 5 hotels were having the habit of accepting plastic money constituting around 15.6 per cent and maximum of 27 hotels did not practice accepting plastic money constituting 84.4 per cent.

(2) The opinion of owners of small hotel business about the demonetization, the problems and challenges faced by them has been analysed through descriptive statistics.

General opinion about present Demonetization by the owners of small hotel businesses

Sl. No.	Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
1	The Government move towards demonetization is appreciated	3	9.4	13	40.6	0	0	8	25.0	8	25.0	32	100
2	The step of demonetisation is required to eliminate corruption, black money and terrorism	3	9.4	11	34.4	9	28.1	5	15.6	4	12.5	32	100
3	Cashless economy will help in economic growth	3	9.4	10	31.2	7	21.9	9	28.1	3	9.4	32	100
4	Demonetization may bring cash crunch in short term but will help in long run	4	12.5	8	25.0	11	34.4	5	15.6	4	12.5	32	100
5	Demonetization has been success	2	6.2	3	9.4	8	25.0	11	34.4	8	25.0	32	100

Source: Field survey

The above table depicts the general opinion of the small hotel owners of Mysuru city. 13 hotels appreciate the demonetization move constituting around 40.6 per cent, 11 hotels agree that the demonetization step help to eradicate corruption, black money and terrorism constituting around 34.4 per cent, 10 hotels agree that cashless economy leads to the economic growth constituting about 31.2 per cent, 11 hotels are not aware about the cash crunch caused by the demonetization in short term and may help in the long run constituting around 34.4 per cent, 11 hotels owners disagree with the success of demonetization in Indian economy constituting around 34.4 per cent.

Opinion on problems faced by the owners of small hotel businesses about the present Demonetization

Sl. No	Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
1	This step will bring great change in hospitality industry	3	9.4	6	18.8	18	56.2	1	3.1	4	12.5	32	100
2	Exchange of currency disturbed the hospitality business	4	12.5	14	43.8	9	28.1	3	9.4	2	6.2	32	100
3	The sudden announcement of demonetization led to problem in currency exchange	22	68.8	4	12.5	4	12.5	2	6.2	0	0	32	100
4	Created problem in paying salary to workers	22	68.8	7	21.9	3	9.4	0	0	0	0	32	100
5	Faced problem of price crash	23	71.9	5	15.6	4	12.5	0	0	0	0	32	100
6	During demonetization income was less	25	78.1	4	12.5	3	9.4	0	0	0	0	32	100

Source: Field survey

The above table discloses the opinion of owners of small hotel businesses about the problem faced by them during demonetization. 18 hotels are not aware about change brought by demonetization in hotel industry constituting around 56.2 per cent, 14 hotels agree that the exchange of currency has disturbed the business of hotel industry constituting around 43.8 per cent, 22 hotels strongly agree that the sudden move of the Government towards the demonetization has led to the problem of currency exchange and in paying salary to his workers constituting around 68.8 per cent each, 23 hotels strongly agree that they faced the problem of price crash constituting around 71.9 per cent and 25 hotels strongly agree that during demonetization income was less constituting about 78.1 per cent.

VI. Conclusion

The small hotel businesses in Mysuru city have been severely affected by the demonetization move. Most of the hotel owners think that the move is not beneficial at present but surely in the longer run it will benefit their business. And they agree that the move of demonetization will help the Government to fight against black money, corruption, terrorism and counterfeit currency. Arms, smuggling, espionage and terrorist related activities will be choked due to lack of funding and loss to the common people because fake currency unintentional or earned by hard work is refused by the banks. Sectors with a sizeable magnitude of cash transactions are expected to affect adversely. With the banks being flushed with high liquidity, we can expect reduction in interest costs and softening of land rates. This move has positive impact on sectors like Banking, Financial markets, E-Commerce, Pharmaceuticals, etc. negative impact on sectors like Real estate, Tourism, Hospitality, Automobiles, NBFC's and HFC's, jewellery, etc. and neutral impact on Power, Telecom, Oil and Gas, etc. The historical step taken by Modi Government will fetch results in long run and should be supported by all.

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