Comparative Analysis of Small, Medium and Large Scale Units of the Hospitality Industry

Shivani Solanki
Department of School of Management Studies, Graphic Era Hill University, Dehradun, Uttarakhand, India 248002,

Abstract

The travel and tourism sector is one of the world's most advanced markets. Both the pace of growth and the construction of supporting infrastructure are exceptional. As a result, competition is high since seasonality has such a significant impact on this ever-changing industry. With the diversity of visitor interests and service options, the hospitality industry ranges from small, independently run businesses to multinational conglomerates employing tens of thousands of people. It is well acknowledged that the tourist sector in many nations is mostly supported by small and medium-sized businesses. These businesses have a number of challenges, and every market upheaval threatens to drive them out of business. Traditionally, small and medium-sized travel businesses (SMEs) have been hit the hardest by economic downturns because they lack the resources to remain competitive.

Keywords: Tourism, Industry, development, dynamic market, family companies, entrepreneur, SMEs Tourism

Introduction

Numerous writers have looked at the factors that may be affecting the financial success of small and medium-sized enterprises (SMEs) in the tourist industry. Human and relational capital, for instance, were shown to have a significant impact on the financial success of Hotel SMEs by Sardo, Serrasqueiro, and Alves (2018), who studied these businesses in Portugal from 2007 to 2015. Low profits and high total liabilities might be strong predictors of restaurants filing for bankruptcy in this sector, according to research by Gu (2002), who utilized a multiple discriminant model to analyze business failure in the US restaurant industry.

According to Korol (2017), "nowadays, in times of uncertainty, dangers, and imprecise information, crisis becomes a characteristic of contemporary business, not a state of emergency" (p.23). This means that businesses of all sizes and across all sectors need to keep a close eye on their finances. Although every business might benefit from foresight into the future, only a few of them really invest time and resources into forecasting market conditions and industry developments. Because of financial constraints and a lack of in-house expertise, proposed metrics are becoming more relevant for small and medium-sized businesses (Fotiadis, Vassiliadis, & Rekleitis, 2013; Chatzigeorgiou, 2017; Mensah & Mensah, 2018).

Although there are several recent studies on the topic of corporate failure or bankruptcy in various fields (du Jardin, 2015; Meyer & Pifer, 1970; Yasser & Mamun, 2015), relatively few of them focus on the hotel and restaurant industries specifically (Gémar, Moniche, & Morales, 2016; Li & Sun, 2012). (Gu, 2002; Christou, 2015; Kim & Upneja, 2014; Zafiropoulow et al., 2015; Vlasic et al., 2019). Youn and Gu (2010) note that if hospitality industry experts wait until a potential incident of company failure has already occurred, it may be too late to take preventative measures. Recent developments, such as the severe crisis in Greece, Spain, Portugal, and Italy, have raised serious questions about the efficacy of corporate forecasting. The purpose of this study is to analyze and contrast the many forms of corporate failure estimate techniques in order to determine which are the most relevant macro and micro economic variables that impact tourist businesses. The study's overarching goal is to determine (1) what factors contribute to the failure of tourist industry businesses and (2) what indicators are most useful for making such predictions.

Early Warning Systems (EWS)

Financial failures in the hotel business are prevalent, as noted by Barreda, Kageyama, Singh, and Zubieta (2017). This is because the industry is very susceptible to seasonality of operation and external influences. Banking, currency, debt, equity, and inflation crises, among others, have hit governments and regions around the globe during the last several decades. The 2008 financial crisis is still a concern for nations like Greece, where several enterprises went bankrupt and subsequently caused the country significant hardship. The Greek economy was hit hard by the global financial crisis and the subsequent austerity measures, but the repercussions were felt across a variety of public and private sectors and social services (Ifanti, Argyriou, Kalofonou, & Kalofonos, 2013; Kastanioti, Kontodimopoulos, Stasinopoulos, Kapetaneas, & Polyzos, 2013; Polyzos, Karanikas, Thireos, Kastanioti, & Kontodimopoulos, 2013). Despite the existence of a number of Early Warning Systems (Christofides, Eicher, & Papageorgiou, 2016; Fotiadis & Williams, 2018; Küçükaltan & Pirnar, 2016; Nella & Christou, 2016; Valeri, 2016; Chatzigeorgiou et al., 2017), none of them were able to foresee the catastrophe that hit in 2008.

According to the current research, many approaches may be used to create an early warning system (Kimmel, Thornton, & Bennett, 2016; Zigraiova & Jakubik, 2015). In addition, there are several varieties of businesses. Chronic failure companies, revenue financing failure companies, and acute failure companies are the three primary categories of businesses, as stated by Inmaculada (2017). The accuracy of EWS is correlated with the length of the time horizon (Lin, Liang, Yeh, & Huang, 2014). In most circumstances, EWS accuracy decreases as the time horizon lengthens. Several scientists have spent decades trying to perfect EWS with little avail. Meyer and Pifer (1970) developed an EWS for financial institutions based on a logit model. To create an EWS, some academics have used to regression models. Inmaculada (2017), for instance, employed the Cox regression model to quantify and investigate the connection between failure risk and various market positions. Discriminant analysis models, such as the one employed by Korol (2013) to foretell the insolvency of Central European businesses, are a cutting-edge approach to creating an EWS. Artificial intelligence allows for increasingly more complex models to be created (Korol, 2012).

Prediction Models for Hospitality Industry

There has been a rise in the study of prediction models due to the growing recognition of their significance in the hospitality industry. This is because hotels, restaurants, and casinos must adapt to a constantly shifting environment (Fotiadis, Huan, & Costantino, 2013). Economic losses may be mitigated if those involved in the hotel industry are forewarned of potential dangers (Wu, 2004). In order to aid in the strategy development process prior to a company deciding how to allocate resources, more prediction models will be of use to financial analysts and investors. Thus, stakeholders, investors, and stakeholders in general experience less loss thanks to these prediction models (Youn & Gu, 2010). Recent research on the causes of business failure may be found in the works of authors like Barreda et al. (2017), Sardo et al. (2018), Pereira, Basto, and das Silva (2017), and Serrasqueiro and Nunes (2016). (2014). The accuracy of the model's predictions and the time frame for which the model may be used are the primary concerns for any prediction model. If a model can accurately forecast outcomes over the next five years and has an accuracy rate of 90% or above, it is considered optimal. It stands to reason that the measurements and variables chosen for each model have a major impact on the model's accuracy. Researchers often test their models on both solvent and insolvent businesses and make estimates based on past performance. The next step is to determine which of the created prediction algorithms is most suitable for their data.

No definition of "small businesses" in the hotel sector is provided in the academic literature.

Researchers in the field of hospitality management may have been misinterpreting the dynamics of small businesses by seeing them as miniature counterparts of huge corporations until recently. Nonetheless, there is a growing agreement that business size and the industry in which it operates are likely to have key impacts on the phenomena under investigation (Thomas, 1998a). Thus, there is a growing body of high-quality research on the administration of such organizations and their role in the economy.

The structure of the industry

From Pickering et al. (1971) through Litteljohn (1993) and Mogendorff (1996), the argument has been made on several occasions that the hospitality business is becoming more consolidated in some important areas. Others have even speculated that structural changes in the UK economy have prompted this trend, at least in the hospitality industry (see, for example, Slattery, 1994). The issue boils down to the fact that smaller companies are being forced out of business.

Several of the most often quoted figures on the structure of the sector are only partially comprehensive, as various critics have pointed out (for example Morrison, 1998). Others even go so far as to say that it hasn't been feasible to assess the structure of the market with any certainty until the DTI's Statistical Bulletin series was established around two years ago (Thomas, 1998a). Claims regarding the collapse of the SMB sector, therefore, ought to be taken with a grain of salt. This is especially true due to the reasonable criticisms leveled against some theoretical constructions that underpin explanations and forecasts of future structural change (Hughes, 1993).

When it comes to the dynamics of the SMB market, Peacock (1993) offers a different perspective. He says that the inherent standardization in chain operations kills creativity. So, it is possible for

dynamic small businesses to flourish even in great locations. Such an argument is reasonable in light of the low entry barriers and the highly segmented structure of demand (Morrison, 1996). The vast majority of the 1,400 small businesses polled in a recent study (Thomas et al., 1997) in the tourist and hospitality industries reported stable or increasing sales, profitability, and employment over the previous year and were hopeful about the next year. Moreover, it seems that the percentage of employment and revenue accounted for by small enterprises in the hospitality industry has stayed essentially consistent between the second and third DTI Statistical Bulletin (DTI, 1996, 1997). This is obviously a problem that has to be watched closely.

Management and Marketing of small hospitality firms

Small hospitality businesses have a unique and substantial set of management challenges. The next discussion will focus on these topics in more depth: marketing's part, quality management, IT's usefulness and application, business planning's impact on small company success, strategic management's function in fostering expansion, and entrepreneurship.

The importance of marketing in modern business administration is becoming more widely recognized. In his explanation, Friel (1998) first emphasizes the distinctions between small and big businesses, with a focus on marketing. This demonstrates why it's not reasonable to expect small businesses to get the same benefits from marketing strategies originally created for giant corporations. Friel's research questions conventional wisdom about the role of marketing in locally owned and operated hotels. Notwithstanding his reticence, he recommends that most small enterprises in these sectors do some study into client wants and construct a marketing strategy, even if just on a short-term basis, due to the little data on which he is able to rely. While the "cost-plus" pricing strategy predominates, there is evidence of market-oriented pricing and a wide range of promotional strategies. Hence, he concludes that independent hotel businesses have more marketing energy than is often believed.

Information Technology

Information technology (IT) may have significant benefits for small hotels, according to research by Mutch (1998). He contends that Technology has a lot of potential advantages for even the smallest businesses. Organizational information demands are separate from their technological requirements, however. The technology used is often unsuitable, and it may be more fruitful to restructure manual methods in light of a heightened knowledge of information demands.

Technology may play a crucial role in facilitating corporate growth in specific circumstances. Mutch (1998) supports his argument with a literature study and the results of his own research in the tourist business. According to his findings, one of the companies used as a case study, Country Vacations, may credit its success in part to its adept handling of data and technological advancements. Although the case study shows promise, efficient IT utilization is still uncommon among smaller hotels and other hospitality businesses.

Business planning

Planning ahead is one of the most recommended parts of managing a small business. Both monetary factors, such as cash flow and profit forecasts, and non-monetary factors, such as those pertaining to

employment, product or service development, and marketing, are highlighted in the summary of the planning process provided.

But, Margerison's most important contribution is its scathing analysis of the links between business planning and the performance of small businesses. The author uses the vague concept of "success" just to broaden the scope of his literature study. Most studies cited deal with the issue of how to best articulate the connection between business planning and the expansion of small businesses. The review's illustration of the difficulty of demonstrating causation between company planning and growth and the disclosure that very little rigorous research has been performed in this area are perhaps the two most relevant components. The latter is discouraging because of the attention banks and other commercial and governmental advisory entities are presently giving to the subject. The unavoidable conclusion of his research is that although business planning does seem to have a part in the "success" of small enterprises, its relevance relative to other factors cannot be determined with any certainty at this time. Planning for expansion and success Webster (1998), in her analysis of strategic management's impact on the expansion of small travel and hospitality businesses, provides support for this view. Hence, she pays special attention to the underrepresented subset of firms that both intends and achieves expansion from its beginning.

Webster bases her argument off on Storey's (1994) viewpoint. Hence, she contends that small businesses seem to expand when three growth forces coincide: the qualities of the company itself (such as its age, size, and location) as well as the ownership characteristics of the firm (covered in further depth below). So, she contends that, although strategic choices are crucial for expansion, they are doomed to failure if made in the absence of other growth-enabling conditions. Thus,

a. Most observers overlook the uniqueness and dynamism of marketing in small businesses at their peril.
b. One way to get an edge in the market and ensure the company's financial stability is to implement quality management, which is tailored to the unique needs of small businesses.
c. Small businesses may benefit from the strategic use of IT if its leaders can correctly define their needs as an organization.
d. An ambiguous correlation exists between company planning and expansion, and expansion happens when the right concoction of ownership and firm characteristics and strategic choices are made.

Hence, it is evident that a broad variety of management difficulties need to be addressed if the small hospitality business sector as a whole is to keep some stability and prosper into the next century. Using entrepreneurial concepts is one possible solution. In this analysis, we will examine the meaning and significance of the term "entrepreneurship," which has its roots in the launch of initially modest businesses, in the context of the hospitality sector.

Entrepreneurship, according to Timmons (1994), is coming up with a valuable idea and then turning it become a reality. It's when you see a chance, take it, and keep going even if you don't have a lot of money or other resources at your disposal right now. Although entrepreneurs have always been thought of as lone rangers, the importance of collaborative efforts has lately come to the fore. Independent, creative, improvising, and rebellious opportunists, as described by McCrimmon (1995),

are the hallmarks of the businesses founded by these individuals. These business owners must contend with the tension between the need to take risks and the desire to avoid loss at all costs.

Conclusion

In this study, we take stock of the state of knowledge about the efficient administration of small hospitality businesses. It has been emphasized via the examination of sector-specific examples that the beneficial results of the entrepreneurial process may be identified. In particular, we see the emergence of novel ideas and methods that have the potential to radically alter the hospitality business and invigorate the market. In addition, many of the management issues that plague smaller hospitality businesses may be remedied by adopting an entrepreneurial mindset. Yet, additional study is needed since small businesses will remain crucial to the hotel industry's growth long into the 21st century.

The primary purpose of this research was to identify the most important indicators that may be utilized by small and medium-sized businesses in the hospitality industry to foresee the likelihood of their own collapse. As this was a theoretical inquiry, the primary objective was to gather and examine data on business failures, bankruptcies, and economic suffering in the hotel industry. According to the methodology used in this investigation, the vast majority of prior research has focused on either restaurants (Gu, 2002; Kim & Gu, 2006; Kim & Upneja, 2014; Youn & Gu, 2010) or hotels (Gémar et al., 2016; Kim, 2011). It's understandable that there's a disconnect, given how hard it can be to track down details about a company's finances.

It is recommended that managers in the hospitality sector, especially those in SMEs, take seriously the advancement of predictive company failure designs by using different combinations of the aforementioned factors so that they can react quickly if problems occur in the future, as the basic rule of management isn't to react on a problem when it occurs but to be proactive before.

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