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## THE IMPACT OF DEMONETIZATION ON HOTEL INDUSTRY – A CASE STUDY ON SMALL HOTELS OF DHARWAD CITY

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### ABSTRACT

*Since decades, India has clinged on to the title of “A developing Economy”. A country identified by thick and dense population with innumerable cultures where agriculture has been the prime occupation for ages. But this scenario of linking agriculture with the Nation has changed from a while. The Retail and the Service sector have occupied the front seats to drive the Nation’s progress towards imperial heights. This is quite evident from the fact that a majority part of the Nation’s GDP is composed of the service sector contribution. Hence, there is no harm in stating that India’s dream of becoming a developed country soon can be turned in to reality by up-thrusting the service sector. Hotels have been the limelight of the service sector which are acting as a channel to generate humungous wealth (domestic and foreign) and also a prime source of income to many people who run it on small scale basis. It is one such business where people are bound to visit irrespective of any condition the economy is going through. The present study attempts to give a picture of the crisis that the small hotel owners had to go through, due to demonetization. The perception of the owners have been collected and analysed using various statistical tools. 50 hotels in Dharwad city were selected and data was collected through field survey. This paper not only throws light on the problems faced by the small hotels but also gives some key suggestions, which would have made the policy of demonetization a much better one.*

### KEYWORDS

Dharwad city, impact of demonetization, hotel industry.

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### INTRODUCTION

As it is an inherent fact that, India is a developing economy and the primary occupation of our country is agriculture. Hence, the economic development of the Nation wholly depends on the growth and prosperity of agriculture.

But in a recent while after opting for the open economy policy (LPG), the focus has shifted from the agricultural sector to the manufacturing and service sector. The Industry base of both these sectors has developed to such an extent that, presently the highest contributor towards the Nation’s GDP is none other than the service sector. The advent of these dominating sectors has given an impetus for the arrival of the retail sector. A maximum portion of businesses organised in India are retail oriented.

Looking from the perspective of the Indians it is evident that a majority of people carry a CASH-BASED mentality. They love to possess most of their wealth in the liquid form i.e. cash. It is said that almost 90% of the transactions are made using cash. Such cash-possessing psychology has prevailed since ages and has led to a condition where almost all business transactions are carried out on cash basis. Such tendency has not only reduced the usage of plastic money and other medium of transactions but also has increased the unethical practices among the people, which have resulted in the accumulation of black money.

The government and other regulatory authorities became more concerned about this fact and have tried to device many strategies that would help in curbing out black money from the economy. Most of the earlier steps failed to stop the accumulation of black money. Hence, the surgical strike of demonetisation of currencies was taken. This was indeed the boldest move that was taken to sabotage the black money. Generally speaking it can be said as a good move but on the contrary, the far reaching impact of this decision on the various sectors of the economy has to be considered as India is dominantly composed of the service and retail sector.

### WHAT IS DEMONETIZATION?

Demonetisation is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as a valid currency.

### REASONS FOR DEMONETIZATION

The major reasons why the bold move of demonetizing the Nation’s currency was taken, can be chalked out with the help of the below objectives set out by the policy makers-

1. Surgical strike on the parallel black money
2. Make the corrupt lose their money
3. Compel everyone to have a bank account
4. Monitor every citizen through a digital online medium
5. Checking of counterfeit notes

### STATEMENT OF PROBLEM

The present study has been made to understand the impact of demonetization on the hotel industry. The main reason behind this is No attempt has been made in this regard till now as it is a recent phenomenon relating to our economic policy. Hence, it becomes inevitable to ascertain the extent of effect caused by the new policy and help in drawing a suitable conclusion with the current study.

### REVIEW OF RELATED LITERATURE

**Dr. Manmohan Singh (2017)** Making of a Mammoth tragedy – remarked that “The decision to demonetise will cause grievous injury to the honest Indian who earns wages in cash. The dishonest black money hoarder will get away with a mere rap on the knuckles”. He further added that the step towards demonetization

was one impetuous decision, the Prime Minister has shattered the faith and confidence that hundreds of millions of Indians had reposed in the Government of India to protect them and their money.

**Steve Forbes (2017)**, Editor-in-chief Forbes magazine called demonetization as "A Massive Theft of people's property. In his sharp attack on PM Modi's demonetisation move, Steve Forbes went all out and said what they have done to the money is "sickening and immoral"

**Mandeep Lamba (2017)**, Managing Director JLL hotels India states that - The lack of available currency will force some hospitality customers to either postpone / cancel their travel and accommodation or to use hospitality products that easily allow the use of the other modes of payments. The unorganized inventory of hotels in the industry will be most impacted by this move. In addition, the leisure sector hotels and restaurants segment will see a higher impact on account of the discretionary nature of spending in this sector, and the substantially larger base of cash transactions that occur in its when compared to mainstream business hotels.

### NEED FOR THE STUDY

The following points chalk-out the major reasons so as to why the present study was essentially required-

- It has been a biggest step by the Prime minister of India in the history of Indian Economy.
- Most Indians organise their businesses on small retail scale and it's their only source of living. Hence, it becomes necessary to understand the impact of demonetization on such small retailers.
- To understand whether demonetization has affected the small businesses favourably or adversely and has cut short their growth and prosperity.
- Totally, a new phenomenon and no study has been made in this regard. Therefore it requires some study to ascertain the general opinion

### OBJECTIVES OF THE STUDY

1. To ascertain the extent of change in revenue/earnings of the small hotels before and after demonetisation.
2. To evaluate the small hotel owner's perception regarding demonetization.
3. To ascertain the changes in the daily business practices after demonetization.
4. To suggest some changes regarding the existing demonetisation policy.

### RESEARCH METHODOLOGY

Since the major emphasis in this study was on the description of data and insights into the facts, the research design most appropriate for the study was Quantitative and Descriptive Research Design. The present study is based on primary data and secondary data. The primary data has been collected with the help of a questionnaire and direct interview with the respondents. The secondary data has been collected from the Dharwad Association of Hotels (R) regarding the profile of hotels in Dharwad

#### SOURCE OF DATA COLLECTION

The data for this study was predominantly collected from the primary sources. It was collected with the help of a well designed questionnaire that was used during the field study. Direct interview method was also employed in order to get a clear picture regarding the perception of respondents in order to make a real evaluation of the impact caused by demonetisation.

#### METHODOLOGY OF DATA ANALYSIS

In order to analyse the data that had been collected during the field survey so as to give a suitable conclusion about the study, statistical tools like Average, Graphs, Diagrams and Z-test were employed during the course of the study

#### LIMITATIONS OF THE STUDY

- The study is restricted only to Dharwad region with a sample size of 50 hotels.
- The study is based on the perception of the hotel respondents

### DATA ANALYSIS AND INTERPRETATION

The data so collected from the field survey is analysed with the help of various statistical tools like percentage and Z-test. The entire analysis has been categorised in to 2 distinct parts,

1. TABLE A - Makes a total analysis and interpretation regarding the respondent's perception so as to what they have understood by the term Demonetisation.
2. TABLE B - The effect of demonetisation on the business has been tried to ascertain and the problems faced by the hotels after demonetization

**TABLE 1: PERCEPTION OF RESPONDENTS TOWARDS DEMONETIZATION**

PERCEPTION OF RESPONDENTS	YES		NO		TOTAL NUMBER
	Number	%	Number	%	
1. Whether Demonetization was a Late Night Blunder?	08	16%	42	84%	50
2. Whether it was a wise step towards Black Money curbing?	46	92%	04	08%	50
3. Whether it was a major step towards the development of Indian Economy?	48	96%	02	04%	50
4. Whether it was a curse to our developing economy?	16	32%	34	68%	50

**A.1** - The above table-A (1) depicts that, majority of the respondents feel that the step taken by our Prime Minister towards demonetisation wasn't a Late Night Blunder, indeed it was a good move. Around 84% (i.e. 42/50) respondents agree to the fact that Demonetisation was not a late night blunder.

**A.2** - The above table numbered-A (1) portrays that, a majority portion of the respondents perceive that demonetization was a great move in order to curb the black money which was circulating in the economy. Around 92% (i.e. 46/50) respondents agree that demonetisation is a good strategy for curbing the black money in the economy.

**A.3** - Table-A (3) shows that, maximum number of hotel owners i.e. 96% (i.e. 48/50) perceived that Demonetization was definitely a major step towards the economic development of our country.

**A.4** -From the above Table A (4) it's clearly evident that, a major number of respondents opine that Demonetization was not a Curse to our Developing Economy. In the present case with the help of Table A (4) we can ascertain that around 68% (i.e. 34/50) respondents disagree to the fact that demonetization was a curse to our developing economy

#### EFFECT OF DEMONETIZATION ON BUSINESS

**TABLE B.1: THE DAILY AVERAGE TURNOVER BEFORE DEMONETIZATION**

Turnover	< 500	500-1000	1000-2000	2000 - 5000	>5000	Total
Number	02	29	10	05	04	50
Percentage (%)	04%	58%	20%	10%	08%	100%

Source: Field Survey

The above table B.1 helps us to understand that, around 58% (i.e. 29/50) respondents had a daily pre-demonetization turnover between Rs. 500 – Rs. 1000; and 20% (i.e.10 /50) respondents had a daily pre-demonetisation turnover ranging between Rs. 1000-2000. Only 4% (i.e. 2/50) respondents have a daily pre-demonetization turnover below Rs. 500 and the hotels with a daily pre-demonetisation turnover more than 5000 are only 4 (i.e. 8%),

**TABLE B.2: THE DAILY AVERAGE TURNOVER IMMEDIATELY AFTER DEMONETIZATION?**

Turnover	< 500	500-1000	1000-2000	2000-5000	>5000	Total
Number	26	12	06	05	01	50
Percentage (%)	52%	24%	12%	10%	02%	100%

Source: Field Survey

From the above table B.2 it is clearly evident that, compared to pre-demonetization period, there has been a significant change in the daily earnings of the hotels. In the present case, around 52% respondents opine that their daily turnover was less than 500. The change in turnover has been tested hypothetically as under-

**Hypothesis Analysis - 1****Testing the Change in Daily turnover of Hotels before and after Demonetization.****NULL HYPOTHESIS**

There is no significant reduction in the daily turnover of hotels after demonetization.

**ALTERNATIVE HYPOTHESIS**

There is a significant reduction in the daily turnover of hotels after demonetization.

Level Of Significance: 5%

Critical value: - 1.645

Test Statistic: Z

$Z = p_1 - p_2$

$$\sqrt{p\bar{X}q \times (1/n_1 + 1/n_2)}$$

$$(p = 2+26 / 50+50)$$

$$(q = 1-p)$$

$$= 0.04 - 0.52$$

$$\sqrt{0.28 \times 0.72 \times (0.04)}$$

$$Z = -5.345$$

Conclusion: Since Z calculated value is less than the critical value, hence null hypotheses gets qualified for rejection and there by Alternative hypothesis gets accepted and it is true.

**"There is a significant reduction in the daily turnover of hotels after demonetization for a period 6 to 9 months".**

**Percentage of Daily Turnover on Cash Basis Before and After Demonetization****TABLE B.3: CASH TRANSACTIONS BEFORE DEMONETIZATION**

Cash Transactions	< 30%	30% to 50%	50% to 70%	70% to 90%	>90%	Total
Number	00	00	00	02	48	50
Percentage (%)	-	-	-	04%	96%	100%

Source: Field Survey

From the above table B.3 it is clear that, almost all customers made all transactions via cash payment before the surgical strike of demonetization. The above table helps us in ascertaining such a figure, around 96% (i.e.48/50) respondents opine that most of their customers that is more than 90% of them preferred cash transactions over other payment medium before demonetization

**TABLE B.4: CASH TRANSACTIONS AFTER DEMONETIZATION**

Cash Transactions	< 30%	30% to 50%	50% to 70%	70% to 90%	>90%	Total
Number	00	00	00	10	40	50
Percentage (%)	-	-	-	20%	80%	100%

Source: Field Survey

The above table B.4 depicts that, there has been a slight decrease in the number of customers who have opted for cash transactions after demonetization. 20% (i.e. 10/50) respondents opine that around 70% to 90% of customers have opted for cash transactions which indicate that the cash transactions have slightly reduced relative to the pre-demonetization period.

**TABLE B.5: PERCEPTION OF RESPONDENTS REGARDING USAGE OF E-PAYMENT SYSTEM BEFORE DEMONETIZATION**

Respondent's Perception	Yes	No	Total
Number	02	48	50
Percentage (%)	04%	96%	100%

Source: Field Survey

The above table B.5 attempts to evaluate that, a majority of hotels did not have the provision of E-Payment system before demonetization. In the present case, around 96% (i.e.48/50) respondents did not use any kind of E-payment system in their hotels before demonetization. Only 2 out of 50 hotels had the facility of E-payment system before demonetization.

**TABLE B.6: PERCEPTION OF RESPONDENTS REGARDING USAGE OF E-PAYMENT SYSTEM AFTER DEMONETIZATION**

Respondent's Perception	Yes	No	Total
Number	03	47	50
Percentage (%)	06%	94%	100%

Source: Field Survey

The above table B.6 portrays that, there has not been any significant increase in the number of hotels who have the facility of E-payment system after demonetization. Around 06% (i.e. 03/ 50) respondents stated that they have installed E-payment systems in their hotels after demonetization

**Hypothesis Analysis - 2****Testing the Increase in the usage of E-payment systems by Hotels after Demonetization.****Null Hypothesis:**

There is no increase in the usage of E-payment systems by the hotels after demonetization

**Alternative Hypothesis:**

There is a significant increase the usage of E-payment systems by the hotels after demonetization

Level Of Significance: 5%

Critical value: -1.645

Test Statistic: Z

$$Z = \frac{p_1 - p_2}{\sqrt{p \bar{p} \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$\sqrt{p \bar{p} \left( \frac{1}{n_1} + \frac{1}{n_2} \right)} \quad (p = 02/03 / 50/50) \\ (q = 1 - p)$$

$$= \frac{0.04 - 0.06}{\sqrt{0.5 * 0.95 * (0.04)}}$$

$$Z = -0.495$$

Conclusion: Since Z calculated value is more than the critical value, null hypothesis gets accepted and it is true.

**"There is no significant increase in the usage of E-payment systems by the hotels even after demonetization."**

**TABLE B.7: KINDS OF E-PAYMENT SYSTEMS USED IN THE BUSINESS**

E-payment system	Swipe machine	Pay-tm	Jio-money	Others	Total
Number	02	01	00	00	03
Percentage (%)	66.67%	33.33%	-	-	100%

Source: Field Survey

The above table B.7 indicates that, out of the 3 hotels that are using E-payment system, 2 hotels i.e. 66.67% (i.e. 02/03) have opted for swipe machines as their E-payment system and only 33.33% (i.e. 01/03) hotels have opted for pay-tm as their E-payment gateway

**TABLE B.8: PERCENTAGE OF CUSTOMERS USING E-PAYMENT SYSTEM AFTER DEMONETIZATION?**

E-Transactions	< 30%	30% to 50%	50% to 70%	70% to 90%	>90%	Total
Number	40	10	00	00	00	50
Percentage (%)	80%	20%	-	-	-	100%

Source: Field Survey

The table B.8- shows that, a majority of respondents opine that around 80% of the customers prefer for cash payment system even after demonetization. Overall comparison shows that the less than 50% customers use E-payment systems after demonetization.

**TABLE B.9: COST OF INSTALLING NEW E-PAYMENT SYSTEM AFTER DEMONETIZATION**

Cost	< 1000	1000 To 3000	3000 To 5000	>5000	Total
Number	01	00	00	02	03
Percentage (%)	33.33%	-	-	66.67%	100%

Source: Field Survey

The above table B.9 shows that, a majority of the hotel owners who opted for E-payment systems after demonetization incurred a cost exceeding Rs. 5000 in installing the new E-payment system. 66.67 % (i.e. 02/03) hotel owners opined that they had to incur more than Rs. 5000 in installing the new E-payment system.

**TABLE B.10: PERCEPTION OF RESPONDENTS REGARDING THE NATURE OF PROBLEM FACED BY THEM AFTER DEMONETIZATION**

Nature of Problem Faced by the Hotel Owners After Demonetization	YES		NO		TOTAL NUMBER
	Number	%	Number	%	
1. Problem of giving change due to the introduction of Rs. 2000 note?	50	100%	00	-	50
2. Reduction in the number of Customers?	43	86%	07	14%	50
3. Problem of accepting banned notes?	46	92%	04	08%	50
4. Problem of extra cost to be incurred in installing new E-payment system?	35	70%	15	30%	50

Source: Field Survey

From the above table B.10. (1) it is clear that, all the hotels faced a major problem of giving change to the customers who visited their hotel. 100 % of the respondents urged that they had a major problem of giving change to customers after demonetization. The main reason for this being the introduction of high denominated currency of Rs. 2000.

The above table B.10 (2) depicts that, a majority of hotels had to go through a tough phase, as the number of customers reduced after the demonetization. Around 86% respondents (i.e. 43/50) opined that the number of customers at their hotels fell sharply after demonetization.

The above table B.10 (3) displays that, around 92% (i.e. 29/50) respondents opine that they had to go through a tough time with regard to the acceptance of banned notes which were given by customers at the hotels.

The above table B.10 (4) shows that, a considerable number of hotels had to face the problem of incurring extra cost in installing the new E-payment systems after demonetization. Around 70% (i.e. 35/50) hotel owners had a problem of expending more money in getting the new systems installed.

**TABLE B.11: TIME TAKEN BY THE BUSINESS TO GET STABILISED AS LIKE THE PRE-DEMONETIZATION PERIOD**

Time	< 3 months	3 - 6 months	6 - 9 months	> 9 months	Total
Number	00	02	07	41	50
Percentage (%)	-	04%	14%	82%	100%

Source: Field Survey

The above table B.10 portrays that, it has taken almost more than 9 months for most of the hotels to come to stability like the pre-demonetisation period. 82% (i.e. 20/50) respondents urged that they had to wait for more than 9 months in order to get their business to stability. 14% respondents (i.e. 07/50) felt that it took 6-9 months for their business to get stabilised.

## FINDINGS

The findings are based on the data analysed with the help of various statistical tools. From the above analysis and interpretation of data collected from field survey, some of the most relevant findings are-

- 84% of the respondents have a favourable opinion towards demonetization. They opine that the decision taken by our Prime Minister on that night regarding demonetization was neither a wrong move nor a blunder although it has adversely affected the earnings of a majority of hotels.
- Table B.3 gives conclusive evidence that more than 90% of customers preferred cash transactions before demonetization. Around 96% of hotels reported maximum cash transactions prior to demonetization and only 4% hotels reported some digital or electronic transactions prior to demonetization.
- The daily turnover of almost all hotels after demonetization has been adversely affected. This is clearly evident with the hypothesis testing (HYPOTHESIS 1) which depicts that there has been a drastic downfall in the daily turnover of hotels after demonetization.
- With the help of Table B.5 and B.6 and hypothesis testing (HYPOTHESIS 2) it is discovered that the usage of E-payment systems has not inflated even in the post demonetization era. This can be attributed to the high cost of such E-payment systems, which are unaffordable, by the small hotel industries.

5. Table B.3, B.4 and B.8 gives evidence that even after demonetization the percentage of customers opting for cash transactions has not reduced so drastically as expected. This is due to the non-availability and improper provision of E-payment systems at most of the hotels that kept the customers away from becoming cashless.
6. All the hotels had to go through a lean patch and very hectic period, as they had to face a tough time in accepting Rs. 2000 note for a very lower denomination's transaction. The hotels had to anyhow find out the change for the currency of such high denomination in order to protect themselves from the loss. This is clearly visible in the Table no B.10(1)
7. Most of the Hotel owners urged that they were not able to install E-payment systems, as it was a costly deal on them for such a small business where the quantum of transaction is small. Swiping machines were mostly used in some of the hotels and transacting every time through such system for a small money would add up the service cost burden.
8. Another nerve-racking problem faced by the hotels was, most of the customers that visited the hotels offered those denominations of currencies which were demonetized (i.e. 500 and 1000) stating that it is the only currency denomination which they possessed. Hotel owners were helpless and had to accept the same or sometimes even let the customers go off and thereby suffering loss at regular intervals. Table B.10 (3) shows it clearly.
9. With the help of Table B.11 it's discovered that most of the hotels almost had to wait for at least 6 months in order to get their business back to stability as it was during the pre-demonetization period.
10. Out of the 5 hotels which have installed E-payment systems, the swiping machine and the Paytm are the only two which they are aware of out of several others like Jio money, phone pay, Samsung pay etc. Table B.7 throws a light on this fact.

## SUGGESTIONS

Considering the analyses and interpretation of data and the findings made in the earlier part, a few suggestions can be given considering the present scenario. Some of them are:

1. Immediately after demonetizing the currency notes of Rs. 500 and Rs. 1000 the government reserved some sectors like the hospitals, petrol pumps and medicine shops where demonetized currency was allowed to be accepted for a certain period. Government might have even included the hotel industry where banned notes would have been allowed to be accepted, as it is one of the basic industries where customers are bound to visit irrespective of the conditions prevailing in the economy. If arrangements were made by the government to accept the banned notes for a certain period, the hotels would have been minimally effected by demonetization.
2. It was discovered during the analysis that the cost of swiping machine is too high, which cannot be afforded by small hotels. Government should come up with similar alternative systems or give subsidy that would promote even the small hotels to adopt E-payment systems and achieve a twofold objective of going digital and protecting small groups from being adversely affected by the demons of demonetization.
3. The government in advance could have directed all the hotel owners to install digital payment gateways at their hotels before taking the step of demonetization. As such, compulsion of installation would have promoted the preparedness of small hotels to counter attack the adversities of demonetization on their businesses.
4. Small hotels indicate small quantum of transaction with each customer. As most of the hotels prefer swiping system as their E-payment gateway, government shall take necessary measures to tie-up with the banks to make a clause where in no service charge would be levied on smaller amount of transactions, which would promote both the hotel owners and customers to go Electronic rather than going cash basis.
5. As it has been explored earlier that most of the customers preferred cash transactions even after demonetization. More number of customers as well as the business people shall be encouraged, educated and shall be made aware to use digital or electronic payment systems as it will reduce the excess flow of cash in the economy and will enable transparency which will bring down the unethical activities of the business houses like showing fewer turnovers and thereby reducing the tax liability and so on.

## CONCLUSION

As we know that, the retail and the service sector are the backbone of our economy and any impediments occurring to these sectors would definitely halt the progress of our economy and would literally make it crippled. This was quiet evident from the fact that there was a sudden downfall in the expected GDP of current year in relation to the GDP of previous year.

It is not fair to draw conclusions regarding the demonetization move based on the study, which covers a small number of hotels within the vicinity. But the perceptions that were derived during the study are helpful and supportive in concluding that definitely the unorganized inventory of hotels in the industry has been adversely affected by the surgical strike. However, the impacts considered are short term but it was a hurdle in the growth and prosperity of the sector. The turnovers have fallen sharply and the cost of operation has shown a steep rise in the post-demonetization period. Thus, it becomes very much conclusive that the revenue of the sector has dipped down to a great extent.

Concluding with the results from this study is not an end itself. On the concluding note, it is asserted that over the short and medium terms, the demonetization drive will have varied effects on the many sections of the hotel industry in the country, but in the long run it is expected to positively impact the growth of the sector.

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