INTERNATIONAL RESEARCH JOURNAL OF HUMANITIES AND INTERDISCIPLINARY STUDIES
(Peer-reviewed, Refereed, Indexed & Open Access Journal)
DOI : 03.2021-11278686 ISSN : 2582-8568 IMPACT FACTOR : 8.428 (SJIF 2026)

Challenges Faced by Small and Medium Hotel Entrepreneurs in India: An Analytical Study

Yogeshwar Ramesh Jogi
Assistant Professor,
Department of Commerce,
Manoharbhai Patel Arts and Commerce College,
Salekasa, Dist. Gondia – 441916 (Maharashtra, India)
E-mail: yrjogi@gmail.com

DOI No. 03.2021-11278686 DOI Link :: https://doi-ds.org/doilink/11.2026-38533314/IRJHIS2611005

Abstract:

The hotel industry plays an important role in the economic development of India by contributing to employment generation, tourism development, entrepreneurship, and foreign exchange earnings. Small and medium-sized hotels are an essential part of the Indian hospitality industry, particularly in semi-urban, rural, and developing tourist destinations. These enterprises provide accommodation, food, and other hospitality services to domestic and international tourists.

However, small and medium hotel entrepreneurs face several challenges in establishing, managing, and expanding their businesses. Major challenges include financial constraints, increasing operational costs, shortage of skilled employees, competition from large hotel chains and online accommodation platforms, technological changes, government regulations, taxation, infrastructure deficiencies, and changing customer expectations.

The present research paper examines the major challenges faced by small and medium hotel entrepreneurs in India and analyses their impact on business performance and sustainability. The study is based on secondary data collected from books, research articles, government publications, and reports related to the Indian hospitality industry. The paper also suggests practical measures to improve the competitiveness and long-term sustainability of small and medium hotel enterprises.

Keywords: *Small and Medium Enterprises, Hotel Entrepreneurs, Hospitality Industry, Financial Challenges, Human Resource Management, Business Sustainability, India.*

Introduction:

The hospitality industry is one of the important service sectors contributing to India's economic and social development. The hotel industry provides accommodation, food, beverages, recreation, and other services to tourists, business travellers, and local customers. The growth of tourism, urbanisation, industrialisation, and business activities has increased the demand for hotel services across the country.

Small and medium hotel enterprises play a significant role in the Indian hospitality sector.

These hotels are generally operated by individual entrepreneurs, family businesses, partnerships, and private business organisations. They contribute to local employment, income generation, regional development, and entrepreneurship opportunities.

Unlike large hotel chains, small and medium hotel entrepreneurs generally operate with limited financial resources, fewer employees, and restricted managerial capabilities. They frequently experience difficulties in obtaining institutional finance, maintaining service quality, adopting modern technology, and competing with established hotel brands.

The increasing use of online booking platforms, changing consumer preferences, and rising operating expenses have created additional pressure on small and medium hotel businesses. Therefore, understanding the challenges faced by these entrepreneurs is important for improving the overall development of the Indian hospitality industry.

The present study focuses on identifying these challenges and suggesting appropriate measures for the growth and sustainability of small and medium hotel enterprises in India.

Statement of the Problem:

Small and medium hotel entrepreneurs in India face various difficulties in operating their businesses successfully. Although the hospitality sector provides considerable opportunities for entrepreneurship, many small hotel owners struggle with inadequate capital, high operating costs, employee turnover, competition, technological limitations, and regulatory requirements.

These problems affect profitability, customer satisfaction, service quality, and business expansion. In many cases, entrepreneurs depend on personal savings and informal sources of finance to establish and operate their hotels.

Therefore, the research problem focuses on examining the major challenges faced by small and medium hotel entrepreneurs in India and understanding how these challenges influence their business performance and sustainability.

Objectives of the Study:

The major objectives of the research paper are:

1. To study the role and importance of small and medium hotel enterprises in India.
2. To identify the major financial problems faced by small and medium hotel entrepreneurs.
3. To examine challenges relating to human resource management and skilled manpower.
4. To analyse the impact of competition and technological developments on hotel businesses.
5. To examine government regulations, taxation, and licensing-related difficulties.
6. To study the impact of operational costs on the profitability of small and medium hotels.
7. To suggest suitable measures for improving the growth and sustainability of small and medium hotel enterprises.

Research Methodology:

1. Nature of the Study:

The present study is descriptive and analytical in nature. It attempts to understand the various challenges faced by small and medium hotel entrepreneurs in India.

2. Research Design:

The study follows a descriptive research design to identify and explain the financial, operational, technological, marketing, and administrative challenges experienced by hotel entrepreneurs.

3. Sources of Data:

The study is based on secondary data.

- Government reports and publications.
- Ministry of Tourism, Government of India.
- Ministry of Micro, Small and Medium Enterprises.
- NITI Aayog reports.
- Research journals and published articles.
- Books, websites, and hospitality industry reports.

4. Methods of Analysis:

The collected information has been analysed through descriptive and qualitative interpretation. The study identifies the common challenges and discusses their implications for business performance and sustainability.

5. Scope of the Study:

The study covers small and medium hotel enterprises operating in different parts of India. It focuses on financial management, human resources, marketing, technology, competition, infrastructure, government regulations, and business sustainability.

Review of Literature:

The following studies and reports provide a foundation for understanding the challenges faced by hotel entrepreneurs.

Financial Challenges in the Indian Hospitality Industry (2012) A study published in Worldwide Hospitality and Tourism Themes examined financial challenges in the Indian hospitality industry through structured interviews with senior finance professionals. The study identified high financing costs, multiple taxes, licensing and legal issues, working capital requirements, and declining profit margins as important financial challenges. These issues are particularly relevant to smaller hotel operators who have limited financial resources.

Rishi and Joshi (2016) Rishi and Joshi examined emerging challenges for branded budget hotels in India. Their research used eight in-depth interviews and 422 customer reviews. The study highlighted declining gross operating profits, regulatory issues, location constraints, inadequate trained

manpower, and customer service problems. The findings indicate that maintaining customer satisfaction and operational efficiency is essential for hotel competitiveness.

Ministry of Tourism, Government of India (2023–24) The Ministry of Tourism's Annual Report 2023–24 discussed the importance of tourism for employment generation, infrastructure development, and economic growth. It also highlighted the importance of improving tourism infrastructure, service quality, and sustainable tourism development. These areas create both opportunities and responsibilities for small hotel entrepreneurs.

Federation of Hotel and Restaurant Associations of India (2024) The FHRAI Centre of Excellence published a report on Ease of Doing Business in the Hospitality Industry. The report was developed following consultations with more than 500 stakeholders, including hotel owners, operators, regulators, and industry associations. It identified complicated regulatory compliance, licensing procedures, approval delays, and high compliance costs as significant industry challenges.

Ministry of MSME – Raising and Accelerating MSME Performance Programme The Ministry of MSME identifies limited access to credit, technology, markets, infrastructure bottlenecks, and delayed payments as important challenges affecting MSME development. These problems are relevant to small and medium hotel enterprises because many operate with limited capital and managerial resources.

NITI Aayog (2026) The report Unlocking Growth in Tourism and Hospitality Sector examines regulatory and procedural barriers affecting tourism and hospitality businesses in India. It discusses fragmented approvals, overlapping licences, compliance costs, and delays. The report highlights the need for simplified regulations and improved ease of doing business in the hospitality sector.

Major Challenges Faced by Small and Medium Hotel Entrepreneurs in India:

1. Financial Constraints:

Finance is one of the most significant challenges faced by small and medium hotel entrepreneurs. Establishing a hotel requires substantial investment in land, buildings, furniture, equipment, interiors, kitchen facilities, and other infrastructure.

Small hotel owners frequently face difficulties in obtaining bank loans because of inadequate collateral, limited financial records, and insufficient credit history. High interest rates and repayment obligations further increase their financial burden.

Many entrepreneurs depend on personal savings, family contributions, and private borrowing to establish their businesses. Limited working capital also affects their ability to pay salaries, purchase raw materials, maintain facilities, and meet daily expenses.

Impact: Financial constraints restrict business expansion, modernisation, infrastructure development, and profitability.

2. High Operational Costs:

Operating a hotel involves several recurring expenses, such as:

- Electricity and water charges.
- Employee salaries and wages.
- Food and beverage purchases.
- Maintenance and repair expenses.
- Rent and property-related expenses.
- Internet and communication charges.
- Marketing and promotional expenses.

Increasing electricity tariffs, food prices, transportation expenses, and maintenance costs create additional pressure on hotel entrepreneurs.

Small hotels often find it difficult to increase room tariffs because customers are highly price-sensitive. Consequently, rising costs may reduce operating profit margins.

Impact: Higher operating costs reduce profitability and make financial management more difficult.

3. Shortage of Skilled Manpower:

Human resource management is another major challenge in the hotel industry. Hotel businesses require trained employees for front office operations, housekeeping, food production, food and beverage service, accounting, and customer relationship management.

However, small and medium hotels frequently experience difficulties in recruiting and retaining qualified employees.

Major problems include:

- Shortage of trained hospitality professionals.
- High employee turnover.
- Low employee motivation.
- Inadequate professional training.
- Long working hours and shift duties.
- Limited opportunities for career development.

Large hotel chains may offer better salaries, training facilities, and career opportunities. Therefore, smaller hotels sometimes struggle to retain experienced employees.

Impact: Shortage of skilled employees affects service quality, customer satisfaction, and operational efficiency.

4. Increasing Competition:

The Indian hotel industry faces competition from several types of accommodation providers, including:

- Large domestic hotel chains.
- International hotel brands.

- Budget hotels and lodges.
- Guest houses and homestays.
- Online accommodation providers.
- Unorganised accommodation businesses.

Large hotel chains have greater financial resources, brand recognition, professional management, and marketing capabilities.

Small hotel entrepreneurs may find it difficult to compete with these established organisations, particularly in terms of pricing, facilities, promotional activities, and customer experience.

Impact: Increasing competition may reduce occupancy rates, market share, and business profitability.

5. Technological Challenges and Digitalisation:

Technology has become an essential part of modern hotel management. Customers increasingly prefer online room reservations, digital payments, quick communication, and convenient booking facilities.

Small hotel entrepreneurs may face difficulties in adopting modern technology because of limited investment and inadequate technical knowledge.

Important technological challenges include:

- Lack of hotel management software.
- Limited use of online booking platforms.
- Inadequate digital marketing knowledge.
- Poor online reputation management.
- Cybersecurity and customer data protection concerns.
- Lack of trained employees to operate digital systems.

Online travel agencies can improve market visibility, but commissions and dependence on third-party platforms may affect profit margins.

Impact: Technological limitations reduce market reach, operational efficiency, and competitiveness.

6. Government Regulations, Licensing and Taxation:

Hotel businesses must comply with various government rules and regulations relating to establishment, operation, safety, sanitation, food services, labour, taxation, and local administration.

Entrepreneurs may need to obtain permissions and registrations from different authorities, depending on the location, size, and services offered by the hotel.

These requirements may involve:

- Local municipal trade licences.
- Food safety registration or licence.

- Fire safety compliance.
- Building and occupancy permissions.
- Shops and Establishments registration, where applicable.
- GST registration and tax compliance, where applicable.
- Pollution control permissions, where applicable.
- Labour-related statutory compliance.

Multiple applications, inspections, renewals, and administrative procedures may create difficulties for small hotel owners. NITI Aayog's 2026 report also highlights the fragmentation and complexity of regulatory requirements in the hospitality sector.

NITI Aayog

Impact: Regulatory complexity increases administrative expenses, delays business development, and consumes entrepreneurs' time.

7. Marketing and Promotional Problems:

Marketing is essential for attracting customers and increasing hotel occupancy. However, many small and medium hotel entrepreneurs do not have sufficient budgets or professional marketing expertise.

They may depend on traditional marketing methods such as banners, pamphlets, local advertisements, and word-of-mouth publicity.

Major marketing difficulties include:

- Limited advertising budgets.
- Lack of professional branding.
- Weak social media presence.
- Limited customer relationship management.
- Inadequate promotional strategies.
- Difficulty attracting tourists from outside the local area.

Impact: Poor marketing reduces customer awareness, brand recognition, and potential revenue.

8. Infrastructure and Basic Facilities:

Infrastructure plays an important role in the development of the hotel industry. Small and medium hotels operating in semi-urban, rural, and developing tourist destinations may face problems related to basic infrastructure.

These include:

- Poor road connectivity.
- Irregular electricity supply.
- Inadequate water facilities.
- Poor waste management systems.

- Limited parking facilities.
- Insufficient public transportation.
- Inadequate internet connectivity.

These problems can affect the quality of services provided to customers and reduce the attractiveness of a hotel location.

Impact: Inadequate infrastructure affects customer convenience, operating efficiency, and tourism development.

9. Changing Customer Expectations:

Customer expectations have changed significantly because of increased competition, internet access, and exposure to different hospitality standards.

Customers expect cleanliness, comfortable accommodation, quality food, safety, courteous staff, affordable prices, and quick service.

They also frequently evaluate hotels through online ratings and customer reviews.

Small hotels may struggle to maintain consistent service standards because of limited financial resources and inadequate staff training.

Impact: Failure to meet customer expectations can result in negative reviews, customer dissatisfaction, and reduced repeat business.

10. Seasonality and Fluctuations in Demand:

Hotel businesses often experience seasonal variations in customer demand. During festivals, holidays, wedding seasons, and major tourism events, hotel occupancy may increase. However, during off-season periods, room occupancy and restaurant sales may decline.

Small hotels with limited financial reserves may find it difficult to manage fixed expenses during periods of low demand.

Impact: Seasonal fluctuations create uncertainty in revenue, cash flow, and business planning.

11. Crisis Management and Business Risks:

The COVID-19 pandemic demonstrated the vulnerability of hospitality businesses to unexpected economic and social disruptions.

Small hotels experienced difficulties because of reduced tourist movement, temporary closures, financial losses, employee-related expenses, and disruptions in supply chains.

Other potential risks include natural disasters, economic uncertainty, public health emergencies, and sudden increases in operating costs.

Impact: Limited financial reserves and inadequate contingency planning increase the risk of business failure.

12. Sustainability and Environmental Challenges:

Sustainable hotel operations are becoming increasingly important. Customers and tourism

stakeholders are giving greater attention to environmental responsibility.

However, small hotel entrepreneurs may face difficulties in adopting sustainable practices because of initial investment requirements.

Important areas include:

- Energy conservation.
- Water management.
- Waste segregation.
- Reduction of single-use plastics.
- Environment-friendly purchasing.
- Responsible food waste management.

Impact: Failure to adopt sustainable practices may increase operating expenses and reduce competitiveness in environmentally conscious markets.

Analysis and Discussion:

The above discussion indicates that small and medium hotel entrepreneurs face interconnected financial, managerial, technological, and administrative challenges.

The major observations are as follows:

1. Financial difficulties: Limited access to affordable finance and working capital restricts the expansion of hotel businesses.
2. Operational difficulties: Rising electricity, food, maintenance, and labour expenses affect profitability.
3. Human resource difficulties: Shortage of trained employees and high employee turnover affect service quality.
4. Marketing difficulties: Limited promotional budgets and inadequate digital marketing reduce market visibility.
5. Technological difficulties: Lack of modern hotel management systems affects operational efficiency.
6. Administrative difficulties: Multiple licences and regulatory procedures increase compliance costs.
7. Competitive difficulties: Competition from branded hotels and online accommodation providers creates pressure on smaller establishments.
8. Business sustainability: Limited resources make it difficult to invest in energy conservation, modernisation, and risk management.

The findings are consistent with earlier hospitality research, particularly Sanjeev et al. (2012), Rishi and Joshi (2016), and the FHRAI (2024) report. They also reflect the wider MSME challenges identified by the Ministry of MSME.

Overall, the problems faced by small and medium hotel entrepreneurs are not independent. For example, limited finance restricts technology adoption and employee training, which can subsequently affect customer satisfaction and competitiveness.

Suggestions and Recommendations:

The following suggestions may help improve the performance and sustainability of small and medium hotel enterprises in India.

1. Easy Availability of Finance:

Banks and financial institutions should provide affordable loans, working capital facilities, and suitable credit guarantee support to eligible hotel entrepreneurs.

2. Development of Human Resources:

Hotel entrepreneurs should arrange regular employee training programmes relating to customer service, housekeeping, food production, communication, and hotel management.

3. Adoption of Modern Technology:

Small hotels should adopt affordable hotel management software, digital payment facilities, online reservation systems, and social media marketing.

4. Simplification of Government Regulations:

The government should simplify licensing procedures, reduce overlapping requirements, and introduce transparent single-window approval mechanisms wherever possible.

5. Effective Cost Management:

Hotel owners should prepare monthly budgets, monitor operating expenses, control wastage, and maintain proper financial records.

6. Improvement in Marketing Strategies:

Entrepreneurs should develop their own websites, maintain Google Business Profiles, use social media platforms, and encourage genuine customer reviews.

7. Improvement in Service Quality:

Hotels should maintain cleanliness, hygiene, safety, hospitality standards, and customer satisfaction through continuous monitoring.

8. Infrastructure Development:

The government should improve road connectivity, electricity, water supply, sanitation, parking, and internet facilities in tourist destinations.

9. Promotion of Sustainable Practices:

Hotel entrepreneurs should adopt energy-efficient equipment, rainwater harvesting, waste segregation, and responsible food management.

10. Development of Entrepreneurial Skills:

Training institutions and hospitality management colleges should organise entrepreneurship

development programmes for existing and prospective hotel owners.

11. Promotion of Tourism Destinations:

State governments and tourism departments should promote lesser-known tourist destinations to create business opportunities for small and medium hotels.

12. Business Risk Management:

Hotel entrepreneurs should maintain emergency funds, appropriate insurance coverage, financial reserves, and contingency plans to manage unexpected situations.

Government Initiatives Supporting MSMEs and Hospitality

Some important government initiatives that can support eligible hotel entrepreneurs include:

Government initiative	Potential benefit
Udyam Registration	Formal recognition as an MSME, subject to eligibility
CGTMSE	Credit guarantee support for eligible micro and small enterprises
Pradhan Mantri MUDRA Yojana	Institutional loans for eligible micro enterprises
Raising and Accelerating MSME Performance (RAMP)	Support for MSME competitiveness and institutional development
Skill India	Skill development and vocational training
Swadesh Darshan 2.0	Tourism destination infrastructure development
PRASHAD	Development of pilgrimage tourism infrastructure

Entrepreneurs should check the latest scheme guidelines, eligibility requirements, and applicable lending conditions before applying. The Ministry of MSME identifies credit, technology, market access, and infrastructure as important areas requiring support.

Major Findings of the Study:

Based on the secondary information analysed in this paper, the following major findings emerge:

1. Financial constraints are among the major obstacles to the growth of small and medium hotel enterprises.
2. Increasing operational costs adversely affect the profitability of hotel businesses.
3. Shortage of skilled manpower creates difficulties in maintaining service quality.
4. Competition from organised hotel chains and online accommodation platforms increases market pressure.
5. Limited technological knowledge affects digital transformation.
6. Complex licensing and regulatory requirements increase the administrative burden.
7. Inadequate marketing strategies restrict business visibility and customer acquisition.
8. Infrastructure deficiencies create additional difficulties, particularly in smaller towns and rural

tourism destinations.

9. Changing customer expectations require continuous improvements in service quality.
10. Sustainable business practices and effective financial management are essential for long-term development.

Limitations of the Study:

The present research paper has the following limitations:

1. The study is based on secondary data rather than a fresh primary survey.
2. The paper covers the Indian hospitality sector broadly and does not examine every state separately.
3. The challenges may differ according to hotel size, ownership pattern, location, and customer segment.
4. The study does not provide statistical testing of relationships between business challenges and hotel profitability.
5. The findings are based on published literature and available government and industry reports.

Scope for Future Research:

Future researchers may undertake empirical studies on:

- Financial problems of small hotel entrepreneurs in Maharashtra.
- Human resource management practices in small and medium hotels.
- Impact of digitalisation on the performance of budget hotels.
- Relationship between operational costs and hotel profitability.
- Socio-economic conditions of small hotel business owners.
- Challenges faced by hotel entrepreneurs in rural and semi-urban areas.
- Impact of online travel agencies on the profitability of independent hotels.
- Comparative analysis of small hotels and branded hotel chains.

Conclusion:

Small and medium hotel enterprises play an important role in the development of India's hospitality and tourism industry. They contribute to employment generation, entrepreneurship, regional economic development, and the provision of affordable accommodation and food services.

However, these enterprises face several challenges, including financial constraints, increasing operational costs, shortage of skilled manpower, technological limitations, competition, marketing difficulties, and complicated government regulations.

The present study concludes that the development of small and medium hotel enterprises requires coordinated efforts from hotel entrepreneurs, financial institutions, government departments, tourism organisations, and hospitality training institutions.

Entrepreneurs should concentrate on effective financial management, employee development,

technology adoption, customer satisfaction, and sustainable business practices. At the same time, government agencies should improve access to institutional finance, simplify regulatory procedures, and strengthen tourism infrastructure.

With appropriate financial assistance, professional management, technological development, and supportive government policies, small and medium hotel enterprises can improve their competitiveness and contribute significantly to India's economic development.

References:

1. Jauhari, V. (2012). Strategic growth challenges for the Indian hotel industry. Worldwide Hospitality and Tourism Themes, 4(2), 118–130. https://doi.org/10.1108/17554211211217307

2. Jauhari, V. (2012). Summing up key challenges faced by the hospitality industry in India. Worldwide Hospitality and Tourism Themes, 4(2), 203–211. https://doi.org/10.1108/17554211211217361

3. Jauhari, V., & Rishi, M. (2012). Challenges faced by the hospitality industry in India: An introduction. Worldwide Hospitality and Tourism Themes, 4(2), 110–117. https://doi.org/10.1108/17554211211217299

4. Ministry of Micro, Small and Medium Enterprises. (2025). Raising and Accelerating MSME Performance (RAMP) programme. Government of India. https://ramp.msme.gov.in/ramp/about-us/about-ramp

5. Ministry of Tourism. (2024). Annual report 2023–24. Government of India. https://tourism.gov.in/

6. NITI Aayog. (2026). Unlocking growth in tourism and hospitality sector: Recommendations for non-financial regulatory reforms. Government of India. https://www.niti.gov.in/node/2352

7. Rishi, M., & Joshi, G. (2016). Emerging challenges for branded budget hotels in India. Worldwide Hospitality and Tourism Themes, 8(1), 61–82. https://doi.org/10.1108/WHATT-10-2015-0038

8. Sanjeev, G. M., Gupta, K., & Bandyopadhyay, R. (2012). Financial challenges in the Indian hospitality industry. Worldwide Hospitality and Tourism Themes, 4(2), 163–173. https://doi.org/10.1108/17554211211217334

9. Sanjeev, G. M., & Jauhari, V. (2012). The emerging strategic and financial issues in the Indian hospitality industry: An overview. Worldwide Hospitality and Tourism Themes, 4(5), 403–409. https://doi.org/10.1108/17554211211277842

10. Federation of Hotel and Restaurant Associations of India. (2024, October 17). FHRAI Centre of Excellence releases comprehensive report on Ease of Doing Business in the hospitality industry. https://www.fhrai.com/news_details.aspx?Id=091852d5-32b3-4923-b153-dd96258c6426