

Research Article

Capacity Building of the Budget Hotels in Maharashtra: An Empirical Investigation into Operational Challenges and Sustainable Growth Pathways

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Abstract: Budget hotels are essential in making tourism more accessible, boosting regional economies, and generating jobs throughout Maharashtra. Maharashtra, as the hub of India's industry and commerce, attracts a wide range of travelers from corporate professionals to spiritual and eco-tourists exploring places like Shirdi, Nashik, Chhatrapati Sambhajnagar, Matheran, and Konkan across the Maharashtra province. However, because it is so unorganized, budget hospitality is fraught with challenges such as a shortage of skilled workers, poor infrastructure, low technology usage levels, and limited access to financial support. This paper explores the urgent need for capacity building in four components: human capital development, digitization, infrastructure modernization, and financial management. By analysing existing operational models, market aggregator initiatives, and policy initiatives undertaken by the Maharashtra Tourism Development Corporation (MTDC) and the Directorate of Tourism (DoT), this study brings forward the comprehensive framework of capacity-building specifically for mid-market and budget hospitality businesses.

Keywords: Budget Hotels, Capacity Building, Maharashtra Tourism, Hospitality Management, Service Quality, Digital Transformation, MTDC, Workforce Upskilling.

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INTRODUCTION

Over the last two decades in India, the hospitality industry has dramatically transformed. Historically, capital spent was skewed mainly towards luxury and upper-tier hotels and exclusive property ownership. When new investments first came from the hospitality industry and new entrants emerged, these hotels were the focus of massive growth in India. Such a market has come a long way as a result. But the boom in domestic travel, rising disposable income of the middle class, and improved connectivity to rural areas have led to a noticeable shift towards budget and mid-scale stays. The increasing number of budget hotels — offering clean, safe, standardized rooms with basic amenities at low rates — now comprise the mainstay of accommodation in major, secondary, and even smaller travel destinations. Budget hotels have a great impact on the economy of Maharashtra, with drastic economic differences between bustling urban metropolises and undeveloped rural and coastal areas. They have made travelling more affordable for budget-sensitive domestic tourists and small- and medium-enterprise (SME) business travelers. But despite their utility, budget hotel operators often run into difficulties. These establishments are mostly micro, small, and medium-sized enterprises (MSMEs) or family-run businesses with inconsistent quality of service, poor yield management, frequent employee drop-outs, high staff turnover, and violation of health and safety standards. Capacity building means enabling people, companies, and ecosystems to build the skills, knowledge, tools, and resources they require in order to work efficiently and sustainably. It has a great role to play in enhancing budget hospitality. This article examines the key dimensions of capacity development in Maharashtra's budget hotel sector from the viewpoints of structural challenges, institutional contexts, digital integration, and human resource management.

LITERATURE REVIEW

In the hospitality industry, capacity building comprises the systematic improvement (boosting) of a business's general, functional and technical, as well as human capabilities. The goal? In order for the service to be sustainable, economically viable, and competitive (Peshave & Guha, 2018; Thomas & Wood, 2014). Budget hotels provide affordable and flexible accommodation for business trips, vacations and pilgrimage experiences, which is crucial in developing and emerging economies (Naik, 2022; Ramgade, 2021). Consider Maharashtra, India's largest industrial province with a variety of diverse geographic and cultural tourism attractions, where the budget hospitality is fast developing (Shah et al., 2021). With the classification of hotels, budget hotels are typically classified as micro, small and medium enterprises (MSMEs). The provision of basic standardized room amenities at minimum expense in such a way that they do not provide luxuries at a much higher price, is also offered in budget hotels (Brotherton, 2004; Kalgi et al., 2022a). According to Brotherton (2004) and Ramgade (2021), the attraction of budget hotels lies in their convenient location, convenient cleaning conditions, easy to follow policies, transparent pricing and basic security. As Senior and Morphew (2017) discuss, such micro-enterprises in developing areas are often held within a "capacity trap." That is, the constrained accessibility of capital and managerial expertise may undermine their capacity to modernize their operations and adapt to changing consumer expectations. WTTC (2023) reports that domestic travel is the core of Indian tourism, but budget accommodation accounts for over 70% of room nights sold in the smaller regional hubs. In Maharashtra, travel demand differs substantially among urban centers such as Mumbai and Pune, religious epicenters like Shirdi and Pandharpur, and heritage-eco areas in Chhatrapati Sambhajinagar and near the Konkan coast (Naik, 2022; Suryawanshi & Shankar, 2021). The solutions to optimise the budget hotel scene in Maharashtra can never be one and the same sector but instead need to take the form of a comprehensive plan directed at the distinct and specialised audience groups of each destination (Bharwani & Butt, 2012; Shah et al., 2021). Customer service with human capital is the answer behind hospitality management (Agrawal & Sharma, 2020; Joseph & Rani, 2019). Nevertheless, studies on Indian budget hotels indicate persistent problems regarding human resources like high turnover and low financial contribution, absence of any formal hospitality qualification, and lack of continuous employee education (Bharwani & Butt, 2012; Gupta & Sharma, 2021; Peshave & Guha, 2018). Bharwani and Butt (2012) pointed to a continuing "hospitality skill gap" in India, commenting that luxury hotels usually employ degree holders from established programmes (e.g., Institutes of Hotel Management), while budget hotels generally rely on informal, unregulated sources of labor. Peshave and Guha (2018) also reported the fact that in independent budget hotels in Maharashtra, over 65% of front-line staff lack formal vocational training. Accordingly, service encounters are often reactive rather than proactive and this adversely influences the guest experience, (Parasuraman et al., 1988; Roy & Baksi, 2019). Skill Deficit Are

Study by Kalgi et al. (2022b) indicates how essential it is to balance industrial exposure with hands-on training in hospitality curriculums. It points out that traditional, old school educational methods aren't enough to prepare graduates for the lean operations found in budget and MSME hotels. Moreover, Patil and Dongre (2021) asserted that hospitality educators require routine Faculty Development Programmes (FDPs) to ensure their training curricula are kept in-step with the current technology and operation specifications. Studies such as those by Baidu and Liu (2017) shed light on issues of gender representation and workforce empowerment. Singh (2022) explored the structural issues that women encounter in budget hotels, revealing erratic working hours, safety, and unstructured facilities to be significant challenges to their retention as employees. In the meantime, developers such as Srinivasan and Patil (2021) advocate for modular, mobile-based micro credentialing applications, aimed at assisting informal hands-on staff in Tier-2 or Tier-3 cities of Maharashtra, to build up their capacity without leaving the job. For the purposes of service quality in the hospitality industry, the SERVQUAL model developed by Parasuraman et al. (1988) is a go-to tool. It measures service in five dimensions; reliability, responsiveness, assurance, empathy and tangibles. Roy & Baksi (2019), tested SERVQUAL on affordable hotels in India and "reliability" (e.g. cleanliness, functioning facilities) and "assurance" (e.g. safety and security) were the most important considerations that are influencing repeat bookings. Consumer preferences, especially on sanitation and health protocols, have shifted as a result of the COVID-19 pandemic. Ramgade (2021) and Joshi et al. (2021) investigated housekeeping management systems in small operators in budget hotels in Maharashtra, and found that the standardised sanitation process was difficult to implement due to budgetary restrictions and supply chain issues. Shah et al. (2021) reports that budget hotel franchises frequently function either with relatively low or no margins, leading to deferred maintenance activities and variability in quality and available room numbers at the facility level. Standardization is a prerequisite for capacity construction in the days of quality variation. Research by Bhati et al. (2021) highlights that operational resilience can be attained by independent operators by adopting a set of standardized operating procedures (SOPs) for front desk operations, housekeeping and safety performance. Recent studies prove that even slight capital investments in preventive maintenance programs and automated inventory tracking positively correlate to profitability and decreased customer complaint rates (Joshi et al., 2021; Ramgade, 2021). Among global hospitality industries, Information and Communication Technologies (ICT) have been adopted at an accelerated pace (Buhalis & Law, 2008; Sigala, 2018). In India, budget hotel aggregator platforms like OYO, FabHotels and Treebo dominated the distribution of accommodation, turning the old system upside down (Jha & Verma, 2019; Joseph & Rani, 2019). Agrawal and Sharma (2020) and Joseph and Rani (2019) also reported on how technology aggregators have changed unbranded budget properties, incorporating automated Property Management Systems (PMS), algorithmic dynamic pricing, and centralized online booking visibility. These aggregators opened up national distribution infrastructure for small and independent operators in metros such as Mumbai, Pune and Nagpur to connect with national distribution channels that

the large hotel chains used before now (Jha & Verma, 2019; Joseph & Rani, 2019). Nevertheless, the literature also points out large amounts of friction in aggregator relationships. Studies by Shah et al. (2021) and Jha and Verma (2019) highlight tensions on extremely high commission rates (often over 20%–25%), automated discounting tactics that squeeze the operators' profit margins, and brand autonomy. Marwad and Sherkar (2021) observed that in periods of demand shocks or economic crises, independent operators which were fully attached to aggregator networks could not cope with the automatic price reduction since it did not meet the constant operating overheads. More recently, an emerging trend has been to focus more on the autonomous use of digital tools. Researchers like Law et al. (2014) and Sigala (2018) suggest that capacity building is necessary for hotel employees to self-sufficiently adopt cloud-based Software-as-a-Service (SaaS) based systems, to make use of direct online marketing via social media and to improve their presence in local search engines. Kalgi and Naik (2022) state that with attention to social media and relationship marketing (Kalgi et al., 2022a) their study revealed that it can greatly increase directly contacting booking conversion rate in a direct way which may reduce the reliance on expensive third-party platform services. Nevertheless, financial literacy and capital structure remain major problems faced by budget hotel operators in developing countries (Kumar & Singh, 2020; Sahoo, 2022). Unlike the latter, who can have access to institutional banking credit because of their informal accounting practices (Kumar & Singh, 2020; Peshave & Guha, 2018), most budget hospitality businesses in Maharashtra are classified as MSME. Many less-organised hotel managers rely on informalised means such as credit or personal savings for capital expenditures, which leaves them liable for a big interest burden (Kumar & Singh, 2020). Some hotels have only recently begun using their SME (Microfinance) credits that have led to a significant growth in their capital expenditures (CapEx), leaving some owners with a long-standing interest liability. Hence this pressure directly affects their capacity to overhaul physical infrastructure, implement new technology, and grow their labor force (Kumar & Singh, 2020; Senior & Morphew, 2017). According to the study of Sahoo (2022), revenue management practices in small hospitality businesses, a number of budget hotel owners are ill-equipped with training to manage revenue-generating functions or services, such as cost accounting, break-even calculations, and yield management. Consequently, pricing decisions tend to focus on the actions of competitors rather than on informed, data-led demand forecasts (Sahoo, 2022). Further studies (Getz & Carlsen, 2005; Morrison, 2002) suggest that family businesses in hospitality tend to concentrate more on the preservation of lifestyle and short-term cash flow rather than long-term capital expansion or expansion into new market. In the context of Maharashtra, where entrepreneurship has been a priority such as Konkan homestay and budget hotel circuit, there are a huge difference between entrepreneurs who are success in obtaining technical assistance, financial management or tax compliance (GST), and formal business planning (Shah et al., 2021; Suryawanshi & Shankar, 2021). Microeconomic and institutional aspects of capacity building for the local hospitality sector in India: Public policy and state sector, etc. (Maharashtra Tourism Development Corporation [MTDC], 2021; Ministry of Tourism, Government of India, 2022). The MTDC and the Directorate of Tourism (DoT) are the principal regulatory and promotion authority for Maharashtra (MTDC, 2021; Naik, 2022). Following several economic challenges in Maharashtra faced by the state governments, Naik (2022) reviewed government initiatives in place in the state, reporting that policies aimed toward regulatory facilitation and preferential electricity prices to hospitality businesses have significantly brought down operational costs. But there remain execution gaps. Maharashtra State Skill Development Society (MSSDS, 2023) policy document draft suggests that a lot of small hotels operators are not familiar with government-sponsored vocational training opportunities and infrastructure development subsidies (Gupta & Sharma, 2021; MSSDS, 2023). Practices in sustainability and green hospitality has received prominence in policy and literature (Jones & Comfort, 2020; Ministry of Tourism, Government of India, 2022; Sen & Bhattacharya, 2016). According to Jones and Comfort (2020) and Sen and Bhattacharya (2016), sustainable hotels that are budget-friendly should focus on cost-effectiveness efforts — installing power-efficient LED lighting, rainwater harvesting, and rooftop solar systems, as opposed to expensive luxury certifications. The National Strategy for Sustainable Tourism (Ministry of Tourism, Government of India, 2022) indicated that sustainable operational capacity development in MSME hotels promotes environmental resource conservation and reduces repeated utility expenditure in a sustainable way, ultimately enhancing profit margins (Jones & Comfort, 2020; Sen & Bhattacharya, 2016). This research highlights the fact that capacity building in budget hotel sector of Maharashtra is a threefold plan that goes beyond a one-dimensional strategy containing human resource; technology innovation, financial awareness and the help support. Tier-2/Tier-3 Focus Areas: Most of the hospitality research on the metro center (Mumbai/Pune) and pilgrimage and eco-tourism budget hotels (Shirdi, Konkan, Chhatrapati Sambhajinagar) is not well reported (Naik, 2022; Suryawanshi & Shankar, 2021). Business models in post-aggregator world There are limited long-term studies, on how independent budget hotels transform from the use high-commission aggregator models to direct SaaS (Jha & Verma, 2019; Joseph & Rani, 2019). Effect of the Skilling Training interventions in terms of measurable outcomes: On the one hand the literature mentions employee training, but there is no empirical evidence that the micro-training interventions in Budget hotels, may have the expected (ROI) (Bharwani & Butt, 2012; Kalgi et al., 2022). Budget hotels: An overview of Maharashtra's tourism ecosystem Maharashtra's budget hotel industry is a complex system.

MARKET DIVERSITY BY REGION AND DEMAND DYNAMICS

Maharashtra's diversity, geographical and cultural, produces unique demand typologies in its hospitality field:

1. Commercial & Industrial Centers (Mumbai, Pune, Nagpur, Thane): Frequent corporate travelers, shorter stay guests, and small-to-medium enterprises (SMEs) businesses. Focus is on high speed connectivity, on-time check-in with ease, central locations and clean facilities for eating.

2. Pilgrimage & Heritage Circuits (Shirdi, Chhatrapati Sambhajnagar, Nashik, Kolhapur and Pandharpur): Intense seasonal traffic with relatives and groups. Demand is largely dictated by the size of the room, its economy, the quantity of group tables, and surrounding sites (proximity of shrines or UNESCO World Heritage sites such as Ajanta and Ellora Caves).
3. Eco-Tourism & Leisure Hubs (Matheran, Mahabaleshwar, Lonavala, Chikhaldara, Konkan Coast): Weekend leisure travellers looking for nature activities. Demand for emphasis on locality in hospitality, environmental integration, family-friendly tourism, recreation and regional cuisine.

Operational Environment: Independent vs Aggregator-Driven Models

Budget hotels in Maharashtra comprise a blend of two operational type based hotel eco-systems in Maharashtra, and they have been split into two operating models in the state:

- Independent Unbranded Budget Hotels: 10 to 40 rooms family owned or sole proprietor properties. They rely on walk-in guests, local on-the-ground travel agents and very limited online travel agencies (OTA) access. Operational behavior is not well formalised and the level of service is highly variable except for small capital expenditure (CapEx) being used.
- Branded &/or affiliated properties of branded &/or combined/interconnected groups (OYO, Treebo, FabHotels, internal budget chains, etc.) functioning as a component of franchising systems that lease, use or combine property assets and use tech. They employ centralised booking systems, uniform arrangements of rooms, marketable pricing according to the demand, and branded visibility, with a commission or profit-sharing in return.

Core Dimensions of Capacity Building

In Maharashtra's budget hospitality industry to achieve operational excellence, targeted interventions are required in four mutually correlated domains of capacity-building.

Workforce Development and Skills Alignment

- For service delivery in hospitality, human capital is still, in fact, a key feature. Budget hotels cannot afford to let workers remain in a poorly developed position.
- Informal Recruitment and Lack of Formal Training: Frontline personnel (receptionists, housekeepers, kitchen workers) are often drawn from local workers who have no formal qualifications or formal training in hospitality.
- High Attrition Rates: Because of a greater pressure from luxury hotels, retail and quick-service restaurant (QSR) venues, the hotel staff often leave and owners are not willing to invest in long-term staff development.
- Soft Skill Deficiencies: Lack of English and conversational Hindi language ability, digital literacy, handling of emergency and crisis responses, and cross-cultural communication among guests negatively impact guest satisfaction scores.
- Targeted Capacity Building:
- Roll out small modular, sector-tailored master programs developed together with academic institutions (e.g., IHMs) and local hotel associations.
- Quick-to-the-floor certification modules on housekeeping hygiene, front line guest interaction, basic food safety and FSSAI compliance, and digital tools used for front-line and back office guest relations and food handling.
- Development of "Train-the-Trainer" schemes for small property managers to facilitate the internal passing down of these skills to maintain a system of skills in housekeeping, including, among others, train-the-trainer modules to help small property managers retain internal skills.

Technological Capability and Digital Integration

Digital adoption is still uneven in Maharashtra for budget hotel operators across the state, especially outside Tier-1 cities.

Property Management Systems (PMS): A number of independent hotel operators in the local area continue to operate on a manual register book or basic spreadsheet and have little or no real data about their properties, resulting in inventory misallocation, double bookings, and poor guest data records. • Yield & revenue management: The fixed room price does not meet the demand surges during local festival periods (e.g., Ganesh Chaturthi, Diwali) or high weekend periods in hill stations (Lonavala, Mahabaleshwar).

Direct Digital Marketing: There is low use of SEO, Google Business profiles, and direct social media for booking - high commission OTAs must be used in areas (15%–30% revenue drop). Targeted Capacity Building Programs:

Cloud-based, affordable Property Management Systems (SaaS) for micro hotel platforms with offline sync for areas where internet access is not stable. Capacity workshops on fundamental dynamic pricing logic and digital channel management.

Regional workshops to establish verified digital business profiles, as well as leverage customer review platforms for managing brand reputation.

Infrastructure Upgrades and Uniform Quality Assurance The physical properties have a direct and immediate impact on guest perception, health and safety. The physical problems present in the budget properties are old plumbing, poor ventilation, irregular power backup, unreliable hot water systems and inadequate accessibility that disabled guests

experience. Specific Capacity Building Programs:

Standardization Procedures: Development of standardized, star-equivalent quality checklists that include bed linen hygiene, bathroom sanitation, fire safety compliance and security (e.g. CCTV surveillance). • **Integrated Sustainable Infrastructure:** Utilizing solar water heating systems, rainwater harvesting, energy-efficient LED lighting and waste segregation systems to cut cyclical operational utility bills and maintain sustainable tourism.

Accessibility of Capital: Money management & obey laws and regulations One of the issues with small, independent budget hotel operators is informal financial management. They don't have accounting records, informal payroll systems and no collateral to secure legal access to credit or loans from a bank for renovating or expanding. **Regulatory Complication** Administering trade licenses, health/food safety (FSSAI) permits, fire safety clearances, police permissions and GST compliance add to the administrative complexity of small businesses. **A targeted capacity-building:** Technical assistance programs to help the workforce with simplified accounting software, adherence to tax legislation and working capital management.

Industry association facilitation for collective bargaining, and group insurance, as well as simplified access to state-managed single-window portals for all forms of state-managed red tape (e.g., financial regulations).

Role of Maharashtra Tourism Development Corporation (MTDC) : It is the budget accommodation provider. Key institutional apparatuses are:

Grassroots service provider capacity-building programs — holds short-term workshops for local hospitality workers, local guides, homestay property owners.

Public-Private Partnerships (PPPs): Using private management leases for the development of underutilized state tourism properties using PPPs as a functional benchmark for local private operators. **5.2 State-level Tourism Policy and State Tourism Policies and the Synergy of schemes** The Tourism Policy of the Maharashtra Region with Tourism Policy and Resort Tourism focuses its attention on regionally driven development, tourism on experiential tourism, and ecological infrastructure.

Key policy levers for budget hotels Policy levers shaping budget hotels are:

Sector-specific Industry Status for Tourism: Assigning industrial tariff models for electricity and water in the hospitality industry to the established hotel rooms for approved hotel groups in the industrial sectors, while reducing operating energy costs for operating fuel/water supply in budget hotels. • **Incentives to MSME Hospitality Units:** Subsidies, stamp duty exceptions, and capital subsidies for sustainable updating infrastructure: subsidies for housing, equipment retrofits (solar plants, clean water treatment).

Skill Programs: To provide subsidized training in vocational hospitality with Maharashtra State Skill Development Mission (MSSDM) in tier-2 and tier-3 districts. **Strategic Hurdles and Restraints** Policy initiatives and market consolidation notwithstanding, capacity building in Maharashtra's budget hotel sector is restricted by structural bottlenecks:

Bottleneck Category	Specific Operational Impact	Root Cause / Context
Capital Scarcity	Deferred property maintenance, inability to upgrade tech stack	High interest rates on uncollateralized MSME loans, narrow profit margins
Labor Mobility & Turnover	Loss of investment in staff training	Seasonal demand fluctuations in coastal/hill station properties, low entry-level wages
Aggregator Friction	Margin compression, loss of brand equity	High commission structures, standardized discounting policies enforced by platforms
Regulatory Fragmentation	Administrative overhead, delay in operational renewals	Lack of unified, fully automated single-window clearance across local municipal bodies

Figure 01: Strategic Challenges

Integration Standards Strategic Capacity-Building Framework for Maharashtra Hubs Upskilling

Preparation of Regional Hospitality Skill Hubs: MTDC & local Institute of Hotel Management (IHM) campuses and the district hotel associations can work collectively to develop mobile training units and regional hubs in core clusters (Shirdi, Chhatrapati Sambhajinagar, Ratnagiri, Nashik). These hubs provide micro-credential courses focused on the local workforce.

~~Subsidized SaaS and Digital Literacy Programs:~~ The state government, with the support of technology providers, would

create a state-supported digital toolkit providing low-cost cloud PMS, standardized booking engine integrations, and automated GST reporting tools for registered MSME budget accommodation providers.

Green & Quality Certification Framework: The implementation of a voluntary, incentivized state-level “Clean & Green Budget Stay” rating system. Properties that meet baseline criteria on hygiene, safety, water conservation, and energy efficiency on municipal charges will also receive tax rebates and priority placement on government portals of tourism.

Simplified regulatory compliance with Single-Window Portal: Hospitality licensing will be centralized in a digitized Single-Window Portal (Maitri Portal) in order to eliminate administrative delays in licensing issuance and renewal for small budget operators. Strategic Recommendations & Actionable Roadmap

Phase 1 (Immediate – 0–12 Months): A complete district-wide inventory audit of unbranded budget hotels; offer subsidized hygiene, safety, and digital PMS onboarding workshops in high-density tourist hubs.

Phase 2 (Medium Term – 12–36 Months): Integrate budget hotel licensing with the centralized single-window portal; consistent industrial utility tariffs for all verified budget MSME hospitality units; regional IHMs-industry apprenticeship programs. **Phase 3 (Long Term – 36 to 60 Months):** Scale solar and water sustainability retrofit subsidies; create state-level indexes for budget hotel performance and track guest satisfaction, compliance, and employment sustainability throughout Maharashtra.

CONCLUSION

Budget hotels are at the heart of Maharashtra’s travel and tourism amenities sector. Boosting such capacity is needed to advance the tourism progress of the home market, provide local job opportunities, and help drive inclusive regional economic development. Transitioning from an unorganized, low-yielding business structure to a service-driven, technologically integrated, and robust ecosystem requires the engagement of hotel owners, industry associations, technology platforms, and state institutions. Maharashtra can use workforce skill development, digital transformation, infrastructural modernization, and regulatory simplification to establish a business model of high-quality, sustainable, and affordable budget accommodation which fulfills the international standards of the industry that serves the needs of more price-conscious travellers.

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