



ROLE OF FINANCIAL MANAGEMENT IN TOURISM

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ABSTRACT

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprises. It means applying general management principles to financial resources of the enterprise. Tourism is travel for recreation, leisure, religious, family or business purposes, usually for a limited duration. Tourism is commonly associated with international travel, but may also refer to travel to another place within the same country. The study is descriptive in nature to study the role of Financial Management in Tourism sector and how financial management applies to Tourism sector.

Key words: Tourism, Financial manager, Application.

INTRODUCTION

Nature of the Problem and importance of the Study:

Tourism has become a popular global leisure activity. Tourism can be domestic or international, and international tourism has both incoming and outgoing implications on a country's balance of payments. Today, tourism is a major source of income for many countries, and affects the economy of both the source and host countries, in some cases being of vital importance.

Tourism is an important, even vital, source of income for many countries. Its importance was recognized in the Manila Declaration on World Tourism of 1980, as an activity essential to the life of nations because of its direct effects on the social, cultural, educational and economic sections of the national societies and on their international relations.

Tourism brings large amounts of income into a local economy in the form of payment for goods and services needed by tourists, accounting for 30% of the world's trade of services, and 6% of overall exports of

goods and services. It also creates opportunities for employment in the services sector of the economy associated with tourism.

Reviewing the above one can understand the importance of Financial Management in tourism as without finance i.e. money no industry can survive and obviously tourism industry too [1].

Objectives of the Study

1. To highlight the role of financial manager in Tourism sector
2. To bring about the application of Financial Management tools in Tourism sector.
3. To adopt suitable methodology by Tourism sector to manage finance related issues.
4. To suggest suitable techniques for adoption by the Tourism sector.
5. To evaluate the various methods and techniques and suggest suitable techniques to be followed in tourism sector.

Scope of the Study

The present study is descriptive in nature which describes about the role played by the financial manager in Tourism sector.

The financial management in any business is involved with.

- Investment decisions
- Financial decisions.
- Dividend decisions.

Financial Management in Tourism industry is also concerned with the above issues.

There are key elements to the process of financial management in Tourism includes

- Financial Planning



- Financial Control
- Financial Decision making.

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The major role played by the Financial Manager in Tourism is as follows:

- Estimation of Capital Requirements
- Determination of Capital Composition
- Choice of Source of Funds
- Investment of Funds
- Disposal of Surplus.
- Management of Costs
- Financial controls

The above role played by the Financial Manager in a Tourism Industry were discussed as follows

Estimation of Capital Requirements:

Capital is an important input to any business. Tourism as a business also requires Capital as an input for which they have to identify from various sources. A finance manager has to make arrangement with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes of a concern. Estimation has to be made in an adequate manner which increases earning capacity of an enterprise.

There is no financial institution which promotes Tourism sector. Except Tourism Finance Corporation of India which does not provide Seed Capital requirement to start any venture on Tourism.

Hence a prospective investor who intends to provide finance to this industry contributes his/.her capital after applying the Capital Budgeting techniques viz., Pay back method, Discounted Cash Flow Techniques and Accounting Rate of Return methods.

After evaluating the proposals investor identifying the suitable project for investment [2,3].

Determination of Capital Composition

Once the estimation have been made, the capital structure have to be decided. This involves short-term and long-term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised form outside parties.

Capital comprises different forms viz., Equity, Preference, Debt and Loan financing.

Financing from various sources may be identified by the Finance Manager after applying the suitable techniques of Cost of Capital for each source of finance.

Cost of Capital is a minimum rate of return required from an investment. The minimum rate of return or cut-off-rate of return will be identified by applying various formulas;

If Actual Return of the source of finance is more than the minimum rate of return the investor identifies the proposal as suitable for investment.

Choice of Source of Funds

The various sources of funds include Equity, Preference, Debt and Loan financing and Public deposits. Finance Manager in a Tourism sector to identify among the various sources of finance by applying the EBIT-EPS relationship where the particular source of funds gives the maximum return or yield to the investor.

Investment of Funds

Investment of funds requires deciding about
Structure of Investment
Size of Investment
Pattern of Investment
Type of Investment

As a finance manager in a tourism sector he has to apply various Capital Budgeting techniques/tools to decide on various sources of investment by recommending the same which is suitable for investment in a tourism sector.

Investment in tourism sector requires huge sum and it requires caution and innovative thinking among the entrepreneurs to choose the proposal.

Disposal of Surplus

The net profits decision has to be made by the finance manager. This can be done in two ways:

Dividend declaration: It includes identifying the rate of dividends and other benefits like bonus.

Retained Profits: The volume has to be decided which will depend upon expansional, innovational, diversificational plans of the company. As a finance manager various dividend models were used to determine relevance or irrelevance of dividend to the company.

Management of Cash

Finance Manager has to make decisions with regards to cash management. Cash required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintenance of enough stock, purchase of raw materials, etc.

To estimate cash requirements of the business in Tourism sector the following techniques may be useful;

Cash Budgeting. Cash flow and Funds flow analysis.

Financial Controls

Finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control etc [4].

CONCLUSION

Finance Manager in the tourism industry has to adopt suitable techniques so as to manage the business firm as the finance is the life blood of any business If the business is not managed with respect to finance business will become sick and failure will lead to closure of business. Hence financial management is vital to tourism business.



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