Factors Affecting Decisions on Investment Patterns for Financial Problem Solving in the Accommodation Business: the case of Nonthaburi and Pathum Thani

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Abstract

The purpose of this study is threefold: first, to study factors that affect the decision making of hotel and lodging entrepreneurs in the area of Nonthaburi and Pathum Thani in Thailand when selecting investment patterns; second, to create a fit pattern to solve financial liquidity problem; and third, to determine the appropriate method to solve financial liquidity. Two sources of data came from an in-depth interview with one group of entrepreneurs and from questionnaires answered by 212 entrepreneur respondents. Binary logistic regression was used in this study for an analysis. Research results were as follows: the factors that affect decision making of entrepreneurs when selecting investment patterns at the .05 level of significance include Geography; Government Policies, Infrastructure and Market around the areas. Three major factors can explain the variance of decision making of entrepreneurs at 88.76 percent. The means to solve business financial liquidity problems is by adopting the Sufficient Economy Philosophy (SEP) suggested by His Majesty the late King Bhumibol Adulyadej.

Keywords: Accommodation Business, Financial Problem Solving, Investment Pattern, Nonthaburi, Pathum Thani

Introduction

In the age of globalization, events in one country can affect others widely and quickly. The slowdown and recession in the economy of the European Union (EU) has had an extensive impact on many industries, and many countries (Tauatsoala, Coetzee & Hermann, 2017) including Thailand. In Thailand, during an economic downturn, we often seek to solve the problem by investing and stimulating spending in the tourism industry since its value is approximately 14.3 of gross domestic product in 2017, or 16.36 billion baht. More than 10 million people have been employed across the country; therefore, it is without doubt accepted that the tourism industry has grown to become Thailand main product (McIntosh & Goeldner, 2016). Most expenses involve costs of accommodation and food in the hospitality industry. Several problems arising from the slowdown and economic recession in Thailand have introduced investment-related measures and encouraged the tourism industry as evidenced by the increase in revenue from foreign tourists in 2017 to 1,824 million baht, or 14 percent of the export value of the country.

The tourism industry is the largest, most diverse, and challenging business sector in the world, as it is a great source of income, improves employment, improves private sector growth, and demands infrastructure development (Pranee, 2018). Whenever the tourism industry develops, it kindles growth in many other affiliated businesses along with the macroeconomics of the country involved (Lee and Chang, 2008), thus giving people more spending power (Deng, 2016). Thailand’s economy and the gross domestic product growth depend profoundly on the performance of tourism as a pilot industrial sector. This service sector accounts for millions of jobs, a considerable portion of export earnings, and a wide range of other industries are both directly and indirectly interdependent upon it. With such
potential, the tourism industry can inspire overall economic expansion or even be an express gateway which the Thai government should pay more attention to. Businesses that need direct investment for the abovementioned topic are in the accommodation and affiliated sectors. The joint venture from foreigner investment in this sector is still slow, in particular less than 34 percent invest in the business (National Statistical Office, 2018). When the economy is negatively affected but the economic policies of the country still have to rely on the service sector to earn, the entrepreneurs in this sector generally tend to experience a shortage of working capital such as lacking needed cash flow to settle their existing debts. Likewise, for the businesses that have grown enough to expand, they experience a lack of funding due to the tightened lending from banks and financial institutions. To make matters worse, the interest rates on loans that the banking customers need to pay is higher than 7.50 percent of the policy interest, which is currently at 1.50 percent. Therefore, the accommodation business operators have to cope with such situations to survive by applying the concept of financial innovation to help convert debt into capital, or to help find new business partners. The scheme to tackle this issue is to reform the financial structure to lower costs and ensure sufficient capital.

There are 94 establishments in the research area of Nonthaburi, and 118 in the tourism sector in Pathum Thani. Given many attraction spots and the only one-hour driving distance from Bangkok, the accommodation business in the two provinces are interested in earning revenue from both Thai and foreign tourists. Most financial management is done in a family-oriented business without a professional system in place, so the business does not progress as it should be. Having surveyed the research area several times, we found that many entrepreneurs, especially those operating with less than 10 million Baht, could not expand their business. Seeking funding sources to support business from banks and financial institutions can be challenging because commercial banks do not desire non-performing loans. Besides, with high interest rates, the entrepreneurs who are in an unfortunate state of lacking liquidity must be aware of many factors, both internal and external to the firm that may impact them. Many factors such as the size of market, costs, barriers, and incentives from the government including tax privileges, infrastructure readiness, financial stability, the migration of the population and investment in many forms are the issues to concentrate on.

In Thailand, the government policies which directly support and promote investment can provide convenience and readiness to both Thai and foreign investors to invest and expand their business along with supporting a long-term expansion, due to the advantage of geographical location, richness in natural resources, availability of workforce, rules and legal supports and effective marketing. The factors that affect overall investment decisions are economic conditions, market demand, competitors, environment, and government policies, inflation interest rate, together with investment privileges especially in Nonthaburi and Pathum Thani which have a lot of tourist attractions. If entrepreneurs are able to adjust their firms according to factors influencing the investment, and properly manage their business such that financial lacking liquidity is avoided, and have a proper financial management approach, their business should grow to be prosperous and sustainable. All the abovementioned are guidelines to solving economic problems for the locals at provincial level and should additionally have a positive impact on the overview of the Thai economy. The stated background and importance of these problems, created interested in studying this topic.

Objectives of the study

1. To study factors that affect the decision making of hotel and lodging entrepreneurs in the area of Nonthaburi and Pathum Thani when selecting investment patterns.
2. To create a purpose-fit pattern to solve the financial liquidity problem.
3. To determine the correct method to solve financial liquidity issues.

Research Methodology

This study was conducted in a form of survey research among 94 and 118 accommodation entrepreneurs as respondents in Nonthaburi and Pathum Thani provinces respectively. These two provinces are located at the central part of Thailand and. Data was gathered from the local population. We started the research process with a review of research papers related to influences on decision making, and then followed on by using a quantitative method with a questionnaire which was approved by 3 experts so as to confirm the qualitative method. We conducted an in-depth interview at the last step in order to point to a guideline for solving the lack of liquidity problem of the entrepreneurs in these two provinces based on results obtained from the quantitative and qualitative techniques. The research instrument applied for this study was a questionnaire consisting of 3 parts as follows:

Part 1: General Information – gender, age, educational level, family status, location, types of accommodation, legal register, number of employers, privilege promotion, registered capital, monthly income, experiences, financial statement status, and resource usage in the area which is in a form of check-list questionnaire. 17 items in total.

Part 2: The significance of each factors that impacts upon the investment pattern of financial problem solving in the accommodation business - in a form of a 5 point Likert-rating-scale questionnaire which included the importance of holding property - 25 items, the importance of geography -13 items and the importance of internal management- 21 items. Thus there were 59 items in total.

Part 3: Other comments such as inter alia, business expansion obstacles, joint ventures, warning signs in business.

The quality control method for our research instrument focused on content validity assessed by 12 specialists, and reliability through a pilot study to a group of 6 entrepreneurs from Nonthaburi and 6 entrepreneurs from Pathum Thani.

The analysis was undertaken via data processing and divided as follows:

1. Descriptive Statistics: to explain the respondents’ general information by using the statistics of frequency and percentage, whereas for the analysis of decision on investment patterns for financial problem solving in accommodation business, mean and standard deviation were applied.
2. Inferential Statistics for Hypothesis Testing: A Binary Logistic Regression was applied for forecasting the investment pattern.

Literature Review

From the study and review of theoretical knowledge and concepts about investment pattern, we used the concept of joint venture and the Eclectic Paradigm Theory which consider factors such as incentives for an investment from government agencies (Dunning, 2015) such as tax privileges, provided with basic infrastructure (Treviño & Mixon, 2016), cultural characteristics conducive to management, similarities in the inter-economic system, labor relations and the availability of infrastructure or facilities for investment (Davidson, 2015). The decision to choose a direct investment model is an important strategy in order to create a competitive advantage that will impact sales revenue, service income, and the profit or wealth of investors. Therefore, before investing, the investors must consider the benefits of
being a business partner (Root, 2016). It also applies culture theory and personality which emphasize the influence of culture and individual adaptation to the idea of a cultural configuration, a concept which assumes that the components of culture are interdependent and unifying. It is also believed that individual and psychological processes of individuals influence culture (Ciravegna, Majano & Zhan, 2014). Thus we have a conceptual framework as illustrated in figure 1 below.

Figure 1 Conceptual Framework

The importance of holding property:
1. Relation
2. Pattern
3. Experience
4. Size
5. Market Potential
6. Personal Potential

The importance in geography:
1. Government Policies
2. Infrastructure
3. Market in the area

The importance of internal management:
1. Innovative Concept
2. Financial Risk
3. Technology Appliance
4. Customer Concentration

Character of the business:
1. Site of location
2. Types of accommodation
3. Form of business organization

Financial Problem Solving
1 = Joint Venture Pattern
0 = Other Pattern
Research Results

The results from a review of the research related to the influence of decision making on investment choices consisted of three important factors that affected the selection of investment models. There are 6 factors that determine the importance of a holding asset: 1) the relationship with the network in the business, 2) business operation model, 3) experience in the business, 4) size of business, 5) the potential and size of the market, and 6) the potential of personnel. There are 3 elements that determine the importance of geographic features: 1) government investment policy, 2) infrastructure in the area, and 3) marketing in the area. There are 5 components of the internal management: 1) innovation concepts, 2) financial risk, 3) access and application of innovation, 4) customer concentration, and 5) working processes according to the theory of Eclectic Paradigm Theory (Dunning, 2015).

From the quantitative research using 212 questionnaires, we found that most accommodation units in Nonthaburi and Pathum Thani were small and medium sized enterprises, with less than 50 employees. Approximately 7 percent of the monthly income is less than 100,000 baht per month and 73 percent of the establishments are non-promoted. In terms of security and experience in doing business, most firms have over three years in the field. About 7 percent of the operating performance of the companies in two provinces are less than 3 million bath and about 65 percent of the respondents indicated that the growth rate of their businesses increased in 2017. Most businesses in Nonthaburi and Pathum Thani use local resources because they are abundant, but most workers are from neighboring countries. Only 31 firms or 14.62 percent apply the joint venture approach. For the joint venture that they selected, they are interested in having joint ventures with Thai business people. Besides, most business owners want to remain as a major shareholder in order to control the management power. It is expected that the new stake ratio will be 90:10 to the new entrannt. We concluded that almost all entrepreneurs want a self-reliant and self-sufficient investment. This is a direct solution to the lack of liquidity problem.

The qualitative research was conducted through an in-depth interview from 6 lodging establishments in Nonthaburi and 6 in Pathum Thani. All of them agreed that their locations are good, easy to travel to, have a complete infrastructure, and are rich in tourism resources. They also benefit from the government policies and are ready for the business. However, the business of accommodation contains many factors to consider. For instance, the entrepreneur must have a good relationship with the trade, the style of accommodation should be unique, the entrepreneur must have sufficient experience, the size of the business must not be so big that it becomes uncontrollable, and the business must have potential to strategically compete with others. For the investment that is supported by the government, it will have reduced financial risk in the business. All of these are top priorities in the business which help make it easy and smooth to operate for effective financial and business management. Furthermore, the culture of the province has an opportunity to showcase itself to others which will bring about dignity and pride in the locals. The entrepreneurs should invest as necessary and not invest beyond their own funding budget limitations. They should not over-extend or over-expand as that will result in a dire lack of liquidity. They also need to be cautious about uncontrollable economic conditions. One way to solve liquidity problems is to rely on stakeholders that have a related business. In cases where credit is used from a commercial bank, it is necessary to acquire a loan but only what is needed should be requested. The capital funding must not be more than debt, and none of the entrepreneurs choose to have a joint venture with other investors. It can be concluded that, consistent with the results of the quantitative research, all entrepreneurs want to carefully invest by themselves.
For the factors which the accommodation entrepreneurs in Nonthaburi and Pathum Thani decided on for investment pattern by Binary Logistic Regression Method it was ascertained they consist of Government Policies, Infrastructure, and Market in the area as shown in Table 1 below.

Table 1 Factors for decision in investment pattern

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp (B)</th>
<th>95.0% C.I.for EXP(B)</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>The importance of holding property.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relation</td>
<td>-0.087</td>
<td>0.957</td>
<td>0.018</td>
<td>1</td>
<td>0.808</td>
<td>0.809</td>
<td>0.143</td>
<td>6.799</td>
<td></td>
</tr>
<tr>
<td>Pattern</td>
<td>1.498</td>
<td>1.143</td>
<td>2.657</td>
<td>1</td>
<td>0.896</td>
<td>5.428</td>
<td>.670</td>
<td>57.120</td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>0.589</td>
<td>1.636</td>
<td>0.329</td>
<td>1</td>
<td>0.541</td>
<td>2.845</td>
<td>.128</td>
<td>43.760</td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>-0.134</td>
<td>1.410</td>
<td>0.039</td>
<td>1</td>
<td>0.747</td>
<td>0.567</td>
<td>.063</td>
<td>8.979</td>
<td></td>
</tr>
<tr>
<td>Market Potential</td>
<td>-0.876</td>
<td>0.622</td>
<td>0.011</td>
<td>1</td>
<td>0.911</td>
<td>0.814</td>
<td>.293</td>
<td>4.028</td>
<td></td>
</tr>
<tr>
<td>Personal Potential</td>
<td>-0.567</td>
<td>1.125</td>
<td>0.158</td>
<td>1</td>
<td>0.659</td>
<td>0.647</td>
<td>.074</td>
<td>6.707</td>
<td></td>
</tr>
<tr>
<td>The importance in geography</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Policies</td>
<td>2.139</td>
<td>1.720</td>
<td>0.030*</td>
<td>1</td>
<td>0.816</td>
<td>1.143</td>
<td>247</td>
<td>7.954</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>-3.236</td>
<td>1.114</td>
<td>4.423*</td>
<td>1</td>
<td>0.035</td>
<td>0.084</td>
<td>1.789</td>
<td>230.023</td>
<td></td>
</tr>
<tr>
<td>Market in the area</td>
<td>3.580</td>
<td>1.239</td>
<td>5.903*</td>
<td>1</td>
<td>0.015</td>
<td>18.287</td>
<td>.011</td>
<td>.853</td>
<td></td>
</tr>
<tr>
<td>The importance of internal management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovative Concept</td>
<td>2.247</td>
<td>1.444</td>
<td>2.603</td>
<td>1</td>
<td>0.115</td>
<td>8.249</td>
<td>.229</td>
<td>17.954</td>
<td></td>
</tr>
<tr>
<td>Financial Risk</td>
<td>0.577</td>
<td>1.236</td>
<td>0.475</td>
<td>1</td>
<td>0.509</td>
<td>2.124</td>
<td>.229</td>
<td>1.115</td>
<td></td>
</tr>
<tr>
<td>Technology Appliance</td>
<td>-0.614</td>
<td>0.458</td>
<td>0.658</td>
<td>1</td>
<td>0.474</td>
<td>0.760</td>
<td>.026</td>
<td>18.358</td>
<td></td>
</tr>
<tr>
<td>Customer Concentration</td>
<td>-0.527</td>
<td>1.657</td>
<td>0.068</td>
<td>1</td>
<td>0.816</td>
<td>0.676</td>
<td>.057</td>
<td>3.426</td>
<td></td>
</tr>
<tr>
<td>Working Process</td>
<td>-0.853</td>
<td>0.889</td>
<td>0.643</td>
<td>1</td>
<td>0.520</td>
<td>0.572</td>
<td>.597</td>
<td>108.239</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-16.143</td>
<td>12.657</td>
<td>2.581</td>
<td>1</td>
<td>0.078</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

*p < .05

From Table 1. We found that 3 factors forecasting the Joint Venture probability which consisted of Government Policies: 1.143 of wholly own, Infrastructure: 0.084 of wholly own, and Market in the area: 18.287 of wholly own respectively. The Cox & Snell R Square and Nagelkerke R Square described that the probability to Joint Venture are 65.9% and 79.6% respectively as shown in Table 2 below.

Table 2 Probability for Entrepreneurs to Joint Venture the Business

<table>
<thead>
<tr>
<th>Step</th>
<th>-2 Log likelihood</th>
<th>Cox &amp; Snell R Square</th>
<th>Nagelkerke R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>143.587</td>
<td>.659</td>
<td>.796</td>
</tr>
</tbody>
</table>

From the results by quantitative technique, we found the following probability equation model

\[
\hat{P}(Y = 1) = \frac{1}{1 + e^{-\hat{w}}}
\]

\[
\hat{w} = -16.143 + 2.139 \text{ Government Policies} - 3.236 \text{ infrastructure} + 3.580 \text{ Market in the area}
\]
All 3 factors can predict the Investment Pattern for the entrepreneurs at 88.76% as shown in Table 3.

Table 3 Probability for Entrepreneurs to decision the Investment Pattern

<table>
<thead>
<tr>
<th>Forecasting</th>
<th>Investment Pattern</th>
<th>% Forecasting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wholly Own</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>Step 0</td>
<td>Wholly Own</td>
<td>188</td>
</tr>
<tr>
<td></td>
<td>Joint Venture</td>
<td>24</td>
</tr>
<tr>
<td>Overall Percentage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Discussion and Conclusion

Influence of decision making on investment patterns revealed that there were 3 factors: the importance of holding property, the importance in geography, and the importance of internal management (Dunning, 2015), all of which are in accordance with the results of the in-depth interview with the 12 executives in Nonthaburi and Pathum Thani, that investment was based on the good relationship with the trade association, experience in the business, potential for competition, privilege or subsidize from the government, personal management, and financial risk management. Despite the abovementioned factors, it is important to focus on careful self-investment and to avoid an over expansion. In other words, the Sufficient Economy Philosophy (SEP) suggested by His Majesty the late King Bhumibol Adulyadej is the solution to sustainably solving the lack of liquidity problem. By means of a quantitative method, we found 3 factors that contribute toward the selection of needed investment patterns:

1) The importance of holding property which consists of relationship within the business network, business procedures, experience, size of the firm, and potential of the market and staff in service sector in order to achieve the target are critical. In greater detail, a relationship within the business network involves knowledge about the service in macro view, and the ability to adapt is needed since the investment area can be large and shared among many investors. For the business procedures, both external and internal factors must be taken into careful consideration. Rich experience is also highly beneficial in that the entrepreneurs are then knowledgeable enough to make a decision for a stable and growing business. Appropriate size of firm encourages the executives to cooperate with one another. Finally, if the entrepreneurs can foresee the potential of market and human resources, it would enable the expansion of business opportunity in the future.

2) The importance of geographical location which comprises of government policies, infrastructure, and market in the area cannot be underestimated. In particular, well-suited policies applied by the government, along with the stability in politics and economic aspects tend to encourage more investments to expand the sector. Infrastructure such as traffic control, public water and electricity, and high-speed Wi-Fi internet connections which provide convenience also impact the entrepreneurs’ investment decision (Ghatak & Halicioglu, 2016). Finally, the market in the area can facilitate entrepreneurs when it comes to making policy plans and choosing strategies. The good location would undoubtedly serve to influence investment which would contribute to the joint venture more easily (Chaundy, 2016).

3) The importance of internal management is important as it consists of innovative concepts, financial risk management, access to technology, customer care, and
working processes. To illustrate this, since the condition of accommodation business has changed dramatically, the development of new concepts and services which focus on the needs of customers will likely bring success to a business. For the financial risk management, taking care of risk in a controlled manner can be very beneficial for a competitive slant in this era of globalization. In addition, the lodging business which has the ability to access technology can be advantageous. Customer care and working processes are a mission critical task for service business that can lead to a positive effect being effected on businesses. From the total processing of 212 questionnaires using Binary Logistic Regression Method, we realized that government policies, infrastructure, and the market in the area significantly influenced the lodging business investment pattern.

Our research presents that the accommodation business in Nonthaburi and Pathum Thani needs investment by their firms that are suitable for the locals, more so than through a joint venture. To solve the lack of financial liquidity problem, we propose that, the accommodation entrepreneurs must prioritize and adapt to external factors which focus on the maintenance of natural resources, attractions, culture, background and adaptability of people to live and work.

Regarding internal factors, the entrepreneurs should prioritize the assets used by the business, together with a proper internal management. Both factors are consistent with the results of interviews with the 12 executives who agreed that the two provinces are in a good location and easy to travel to. In addition, both provinces have a complete infrastructure and are rich in resources. They benefit from government policies which promptly prepare them to be ready for business. Each firm should have a well-suited customer management system so that customers have greater loyalty towards them. This latter factor can reflect upon and impact the business sustainability. In cases where a firm requires financial liquidity, it should minimize the loan taken from financial institution, so that the amount of debt stays lower than the capital fund. This way, the business can be driven toward a progressive and steady direction for both provinces, as well as for the overall tourism industry of Thailand. Adopting these policies during the economic recession and beyond it, can also help stimulate needed economic growth.

References


