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IZVIRNI ZNANSTVENI ČLANEK – ORIGINAL SCIENTIFIC PAPER

QUALITY COMPETITIVE ADVANTAGE OF SMALL HOTELS IN CROATIA

Kakovost in konkurenčna prednost majhnih hotelov na Hrvaškem

Abstract

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The aim of this research is to determine the impact of increasing the quality on the competitive advantage of the sector. Research has shown that, although management emphasises quality as the basic strategic goal, a 'declarative' level is present and should be transferred to the highest possible realistic level. The average quality grade (according to category) of small hotels is 3.75 stars, which is higher than the Croatian average. Using a multivariate regression analysis, the theory of a strong influence of quality on increased competitive advantage of small hotels in Croatia has been proven. Facts and proposals of quality implementation measures in small hotel businesses are presented, with the aim of increasing competitive advantage.
Key words: Quality, competitive advantage, small hotels, standards

Izvleček:

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Cilj raziskave je določiti vpliv povečanja kakovosti na konkurenčno prednost sektorja. Raziskava je pokazala, da kljub temu da vodstvo poudarja kakovost kot osnovni strateški cilj, je kakovost prisotna na 'deklarativni' ravni in bi jo bilo potrebno prenesti na karseda najvišjo dejansko raven. Povprečna ocena kakovosti majhnih hotelov (glede na kategorijo) je 3,75 zvezdic, kar je višje od hrvaškega povprečja. Z uporabo multivariantne regresijske analize smo potrdili teorijo o močnem vplivu kakovosti na povečano konkurenčno prednost majhnih hotelov na Hrvaškem. Predstavljena so dejstva in predlogi za izvajanje ukrepov glede kakovosti v dejavnostih majhnih hotelov s ciljem povečati konkurenčno prednost.
Ključne besede: kakovost, konkurenčna prednost, majhni hoteli, standardi

Introduction

Constant changes have been supported by social, economic, political, market, and other changes that require taking the competitive advantage to a higher level of competitiveness not only at the level of a tourist destination, but also as the level of management subjects. One of the key commands focused on increasing enterprises' competitiveness are innovations in the field of quality of the tourist product, quality of service, and marketing. Thus, small hospitality enterprises play a key role in strategic positioning in Croatian tourism. This paper analyses management of these enterprises within the context of new surroundings, especially the demands set in the conditions of management openness and competitiveness. The issue facing management is its ability to guide changes and the creation of such interrelationships to enable marketing breaks in more and more demanding markets.

The competitive strength of small hotels depends on the quality of the hotel offer. Among all the factors that can determine a hotel's competitiveness, this paper will focus on quality, based on the premise that this is the foundation for a hotel's competitiveness. The quality of a hotel includes 'best possible' services that exceed customers' expectations. This approach to quality of services is one of the most important factors for achieving a competitive advantage.

This paper is focused on the efforts to explore the correlation of the achieved competitive advantage of small hotels in terms of raising the quality of business through the category increase by one star. The problem researched focuses on quality increase and its influence on the expansion of the competitive advantage of small hotels.

Competitiveness and Quality of Small Hotels

Standards prescribe the quality of products and services at the hotel. The purpose of defining and assessing quality is contained in the ranking of quality. Emphasising quality in the foreground is the basis of competitive advantages that lead to progress and prosperity as well as increases in quality, thereby leading to increased business efficiency of the hotel.

Competitive advantage of small hotels

Competitive advantages serve to improve one's position compared to the competition in the future. Sources of competitive advantage lie in combining and enforcing skills as well as developing superior resources (assets) while creating value for the guest. Resources can be categorised as tangible or intangi-

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ble (Hall, 1992, p. 144). These outputs enable an organisation to practice all of its activities. Tangible resources include shares, material mechanisms, buildings, human resources, and finances. Intangible resources include skills, knowledge, trademarks, copyrights, and patent rights (Coyone, 1986, pp. 54-61). 'Free resources' can also be included within the context of hospitality. Bull (1995, p. 22) states that the base of tourism and hospitality lies in combining 'free resources' (i.e., renewable resources) with resources from the private and public sectors. Free resources in combination with rare resources make up what most tourists understand to be a 'product'.

Managers in tourism and hospitality are faced with special challenges that can be recognised through:

– Resource immobility;

– Resource replacement;

– Conflict of resources and competitiveness;

– Ownership and resource control;

– Seasonality;

– Low rewards;

– Capacity limitations; and

– Time (Evans, 2003, pp. 51-54).

Texts on strategy and tourism often use the term *maintenance* connected to the idea of advantage. Maintenance is achieved when those who are at an advantage keep their position despite the competition (Porter, 1980, p. 20). In other words, in order to reach the ultimate goal of maintenance of a competitive advantage, a company needs to resist copying or imitating other companies (Barney, 2002, p. 71). In his work *Competitive Advantage,* Porter (1985, pp. 5-6) claimed that competitive advantage arises from the value that the company is capable of creating for its consumers, which surpasses the expenses of its creation.

Competitive advantages are formed by such activities, features, and qualities of a hotel organisation that are better than their competition. Competitive advantage creation is possible to define only compared to rivals/competitors meaning that the hotel company needs to create more value than its competitors. Two criteria exist for creating and maintaining competitive advantage (Bahtijarević-Šiber, 1999, p. 129):

1. Activities unique for the company helps the company produce goods or offer services valued by the consumers, and

2. Competitors cannot easily copy them.

Hotels that maintain a competitive advantage are primarily those that possess strength and capacities for quick transformation of production or the services offered. The key to success is to ensure guests' satisfaction by developing skills, knowledge, and processes that can easily be adapted to their changeable demands.

Figure 1. *Competitive advantage of small hotels*
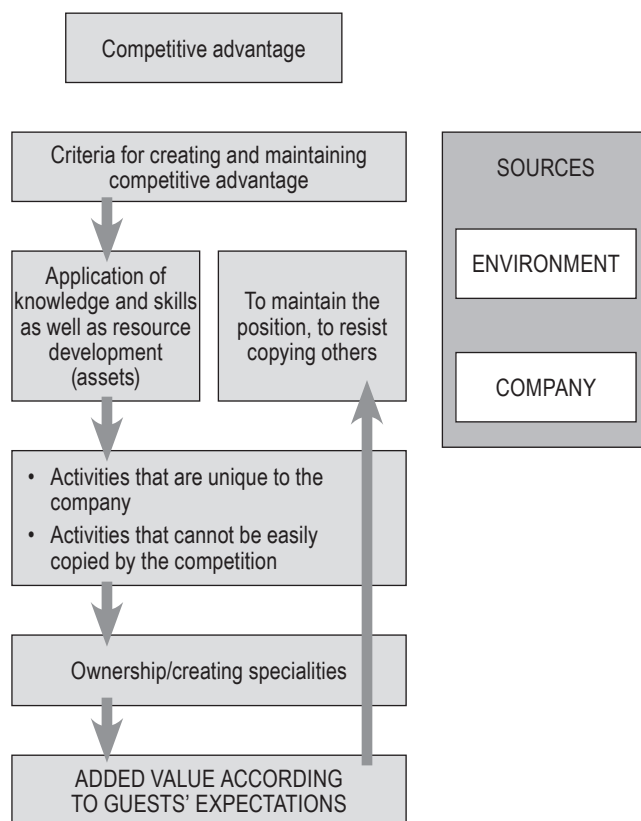
Source: Authors' research

Standards and quality of small hotels

The concept of quality gains is important only in the event that the product or services meet the needs and expectations of the guest. Indeed, this is the reason that all strategies are based on quality standards stemming from exceptional knowledge about the guest. Service quality can be defined as 'the customer's assessment of the overall excellence or superiority of the service' (Zeithaml, 1988, p. 3). Determinants of service quality are tangibles, reliability, responsiveness, and assurance (Parasuraman, Zeithaml & Berry, 1988).

Quality is the consumer's overall impression of the relative inferiority/superiority of the organisation and its services (Bitner & Hubbert, 1994, p. 77); it is considered to be one of management's most competitive priorities and a prerequisite for the sustenance and growth of firms. The quest for quality improvement has become a highly desired objective in today's intensively competitive markets (Johnes et al., 2004; Sureshchandar et al., 2002). However, it is apparent that service quality evaluations are highly complex processes that may operate at several levels of abstraction (Carman, 1990). Every new investigation reflects this complexity and the hierarchical nature of the construct.

Based on the quoted definitions of quality, the aim of quality is to secure customer satisfaction. However, some authors deem that it is no longer sufficient to only fulfil customers' requests; rather, it is also necessary to delight customers. Thus, for instance, quality is 'the ability of a product or services to continually fulfil, or even surpass the customer's expectations' (Stevenson, 1993, p. 96). Schroeder (2000, p. 31) also believes that quality means 'to fulfil or surpass customers' requests now and in the future'.

Empirical studies have proven that perceived service quality should rather be considered as the evaluation of a particular service, not as a gap between the performance of service providers and some kind of norms or expectations (Suuroja, 2003). Little debate has emerged regarding the negative aspects of quality (i.e., dissatisfaction, dissonance, disconfirmation, and disaffection). As such, this framework can be used to better understand the relationship between the various approaches used to provide organisations with feedback on customers' perceptions of their service quality, such as complaints procedures, surveys, suggestion boxes, focus groups, and representation and consultation (Brady & Cronin, 2001; Dawes & Rowley, 1999). According to Brady and Cronin (2001), qualitative research is used to identify the subdimensions customers consider when evaluating the quality of the interaction, physical environment, and outcome dimensions of a service experience. The findings indicate that the valence of the service outcome can affect overall perceptions of service quality and indicate that the importance of the dimensions may vary according to industry characteristics.

Avelini Holjevac (2002) asserted that standards define the category of the hotel, and each guest must be provided with what the individual category implies. Service quality is reflected in every detail, including through the decoration and equipment of the facility, staff expertise, and their attitude toward guests. All these details must shape a single entity that is presented to guests as full hotel services (Cerović, Pavia, & Galičić, 2005, p. 87). According to the same authors, hotel service quality is complex and represents 'a hotel bunch of grapes', consisting of all individual services that a hotel provides for its guests.

Furthermore, different approaches exist in regard to the elements that make up hotel service (Pizam & Ellis, 1999). According to name of author (year), a hotel service consists of material products (e.g., in the narrower sense, accommodation), staff behaviour and attitude, as well as the environment (e.g., buildings, equipment). In other approaches, elements of hotel service are divided into direct (e.g., guest check-in and check-out) and indirect (e.g., parking) as well as key (e.g., food and drink at the restaurant) and secondary (e.g., service, environment). However, some believe that hotel service characteristics are specific; therefore, they cannot be universally classified through specific elements. This is also confirmed by various studies. For example, a study conducted by the Cornell University School of Hotel Administration demonstrated that several dimensions of quality affect the quality of services. The most important dimension is staff kindness, followed by the quality of food and drinks, hotel rooms' size, appearance, and comfort, cleanliness, consistency in service provision, location, hotel image, and diversity of facilities (Dubé & Renaghan, 1999, p. 86).

The conceptualisation of service quality recognises the complexity of its perspectives in the literature. Based on the previously cited definitions, this paper's authors established the following hypotheses and associated sub-hypotheses:

H1: Hotel service quality is influenced by several dimensions of the quality of individual services.

H2: Perceptions of the quality of small hotel service directly contribute to service quality perceptions.

H3: By increasing the quality of hotel service, small hotels' competitive advantage will be increased.

H4: By increasing hotels' categories by one category (star rating), small hotels' competitive advantage will be increased.

To test these hypotheses, the authors reviewed papers researching (within the exploration of standards and quality) the average grade of small hotels' quality compared to all accommodation capacity in Croatia and the implementation of quality in small hotel businesses. Hotel quality grading and ranking are measured on a scale from 2 stars to 5 stars. The criteria for obtaining average grades of accommodation objects are the number of hotels and their category (Pravilnik o razvrstavanju, kategorizaciji i posebnim standardima ugostiteljskih objekta iz skupine hoteli: NN 88/07…62/09; /www.nn.hr/15.12.2009./).

Table 1. *Average Hotel Quality Grade in Republic of Croatia and Small Motels*

Hotels	2 stars	3 stars	4 stars	5 stars	Total	Average grade
Republic of Croatia	104	315	142	23	584	3.14
Small hotels – sample	-	30	15	15	60	3.75

Source: Authors' research

Average grades of quality for all Croatian categorised hotels, according to stated comparisons, is 3.14 stars and is relatively low when considering the needs of a modern and demanding guest. Examples of small hotels in Croatia demonstrate that the average grade of quality is higher than the Croatian average (3.75 stars). This results from the investment in present objects and quality improvement of hotels from building new accommodation objects.

In addition, research has shown that certificates have been awarded to 6.7% of business subjects that have finished the implementation of the *HACCP* standard as well as those subjects who have finished special courses (e.g., Certificate of Royal Institute of Great Britain in the 'chefs' category) or

special services (e.g., Gold Award, awarded by some tourist agencies). Yet the number of small hotels without a certificate for their business is greater (93.3%, or 56 small hotels). In general, small business subjects take care of their quality themselves (96.7% or 58), while only 3.3% of managers/owners use exterior consultant services related to quality. Although the management of small hotels points out that quality is their basic strategic aim, the research has shown that quality strategy has been practiced only on a declarative level. Thus, the management of small hotels has a permanent task of implementing and comparing quality in business.

Although the category of hotel building represents technical elements and includes a static element of quality, as an indispensable element of quality, market-oriented dynamic quality elements adapted to the needs of modern guests – and subject to constant change – are emphasised.

Data and Methodology

This paper will provide part of the research results on small hotel management. It is a descriptive research, carried out on a one-off, purposefully chosen sample. The target groups in this research are managers/owners of small hotels. Data were gathered by conducting interviews with a sample of 60 managers/owners of small hotels in the Republic of Croatia. Data were collected using a specially structured questionnaire.

It is well known that the size of the object determines the size of accommodation units, which are its component units. Therefore, hotel accommodation in the Republic of Croatia is most frequently classified into three groups (Cerović, Galičić, & Ivanović, 2005, p. 30): small hotels (from 5 to 50 rooms), medium hotels (from 51 to 200 rooms), and large hotels (more than 200 rooms). Accommodation objects from the sample fall into the category of small hotels, having fewer than 50 accommodation units. The basic group is defined by extracting the data from the base of the Ministry of Tourism, which lists all categorised accommodation objects (companies and trades) in the Republic of Croatia (www.mint.hr–Kategorizacija/20.10.2009/).

Pilot-research (preliminary) has been undertaken in order to choose a reliable sample from 361 business subjects. The research, based on the results obtained, should help determine the standard deviation 'σ' and the relative error rate 'g'. Using the following equation:

$$n = \left[\frac{t * \acute{o}}{g} \right]^2$$

where,
n = sample size
t = reliability coefficient (1.96) at 95% reliability
σ = standard deviation
g = relative error

it is possible to determine the size of the sample to be examined. Estimation will be given with a 95% reliability, which implies that the mentioned formula uses the value of 1.96 for the reliability coefficient. A value of 3% relative error is generally tolerated in estimations. As a standard deviation is not known, it will also have to be estimated and valuated. Since elements of almost every distribution have been included in the range of six standard deviations, it is assumed that the estimates of standard deviations can be achieved so as to take the range into account to meet the set criteria. The range varies from 0.23 (23%) to 0.92 (92%), making the median 0.69 (69%).

The specified data are a result of research conducted on 60 small businesses (companies and craftsmen). They indicate that:

$$\sigma = \frac{0{,}69}{6} = 0{,}115$$

After insertion into the expression:

$$n = \left[\frac{1{,}96 * 0{,}115}{0{,}03} \right]^2 = 56{,}45$$

the minimum sample size n (small businesses) must be examined under defined conditions (i.e., parameters). The study included 60 small businesses in hospitality (n = 60), which is higher than the required number (56.45); thus, the results of the research are considered to be reliable. Elements were removed from the database within each of the counties separately in order to obtain the best possible globally proportionate picture on a national level of the Republic of Croatia.

The majority (40 or 66.7%) of small business subjects are, according to the legal form of their business, registered as a private legal person (i.e., d.o.o.) while one third of the sample (20 or 33.3%) is registered as a trade. The largest number of small entrepreneurs employ up to 20 people (86.7%). The greatest group within the structure includes from 10 to 19 employees (38.3%), followed by entrepreneurs who employ 6 to 9 employees (31.7%), and 1 to 5 employees (16.7%). The largest number of employees in the sample was 43. When comparing the type and category of accommodation objects, it is possible to conclude that the largest number is small hotels categorised with 3 stars (50%). In second place are those with 4 stars (25%) and those with 5 stars (25%).

Research methods are based on two basic principles that rely on the use of descriptive and inferential analysis. Methods of multiple regression analysis were used to show the role of quality in increasing the competitive advantage of small hotels in the Republic of Croatia. The SPSS package version 11.0 (SPSS www.spss.com/home_ page/up107.htm/17.10.2005/) was used to analyse the data. Reliability was assessed using Cronbach's alpha coefficient, which represents a measure of the internal consistency.

Research Results

Grading the influence of individual characteristics and correlates on competitive advantage is a statistical approach to processing data that has two fundamental aims:

1. to establish the possibility of determining a reliable *index of competitive advantage* from the data gathered, and

2. to establish the relevant role of the increase of hotel category by one star as one of the predictors of competitive advantage.

The descriptive analysis of competitive advantage is discussed in this section. Table 1 shows the frequency of particular competitive advantages in the sample analysed.

Table 2. *Absolute and Relative Frequency of Particular Competitive Advantages of Small Hotels*

Competitive Advantage	F (from 60)	Proportion
1. Family atmosphere, hospitality, individual approach	55	.92
2. Micro-location of an object	45	.75
3. Service quality	39	.65
4. Staff quality	31	.53
5. Product quality	31	.53
6. Interior and exterior design	25	.43
7. Creativity	18	.30
8. Possibility of special services offer	18	.30
9. Scope of products and services	15	.25
10. Strong strategy	13	.23
11. Family spectrum tradition	12	.20
12. Protected cultural monument	7	.12
13. Strong market promotion	4	.08
14. Stories and experience	4	.08

Source: Based on data analysis of authors' research

As the table indicates, 'Family atmosphere etc.' is mentioned most often as a competitive advantage, while 'Market promotion' and 'Stories and descriptions' are the least mentioned advantages. The described competitive advantages have the smallest variability of results—a fact that should be considered while providing further interpretation and other statistical analyses. As the basic descriptive characteristics of specific competitive advantages have been previously stated, an attempt will be made to determine the reliability of the competitive advantage scale.

Reliability of the competitive advantage scale

Results were analysed to determine reliability with the aim of forming a unique and reliable index of competitive advantage. Scale, which is formed from all the questions related to competitive advantage, has satisfactory reliability ($\alpha = 0.72$). Therefore, the index of competitive advantage, calculated by adding all competitive advantages, can be considered a reliable measure of competitive advantage.

Predictors of competitive advantage

Standard multivariate regression analysis, in which the index of competitive advantages was established as a criterion variable, was conducted to determine more important characteristics and correlates of competitive advantage. Results prognosis was based on a larger number of predictors.

The predictors used explained 50.7% of variance results in the criterion variable. Among the statistically relevant predictors ($p<0.10$), one-star increases were especially explained. The connection between the increase of category by one star and competitive advantage is $r = 0.266$, indicating that – based on the increase of category of the object by one star – the difference between competitive advantage (7.10%) can be explained as a mutual variance of predictors

Table 3. *Multivariate Regression Analysis Conducted on Characteristics and Correlates of Competitive Advantage*

Predictors:	Unstandardized coefficients		Standardized coefficients	t	Sig.	Correlations		
	B	Std. Error	Beta			r	Partial	Semi-partial
Constant a	-4.034	2.904		-1.389	.171			
Object categorisation (star rating)	**1.321**	**.747**	**.230**	**1.768**	**.083**	**.266**	**.245**	**.177**
Months in a year	.306	.155	.216	1.971	.054	.240	.271	.198
Used PR	1.844	.624	.313	2.955	.005	.406	.389	.297
Have a certificate of quality	3.435	1.053	.409	3.263	.002	.507	.422	.327
Compare themselves with domestic competition	-.120	.664	-.022	-.181	.857	.236	-.026	-.018
Compare themselves with foreign competition	.412	.734	.071	.561	.577	.275	.080	.056
Average price of double bedroom	-.012	.009	-.190	-1.343	.186	.125	-.188	-.135
Average occupation per room	.016	.017	.108	.968	.338	.260	.137	.097
Staff limitations	-.035	.105	-.036	-.334	.740	-.220	-.048	-.033
Need for better cooperation	.870	.306	.333	2.848	.006	.097	.377	.286

R=0.712, p<0.01 R^2=0.507

Source: Authors' research

and criteria. It is possible to conclude that the relationship between the increase of category by one star and competitive advantage is complicated and mediated by measures used in the predictors' status. Indeed, this is the reason the multivariate regression analysis was used to determine the independent contribution of the increase of the objects' category to the index of competitive advantage increases.

When all of the mediator variables are controlled, the semi partial correlation decreased to r = 0.177, which led to the conclusion that the independent contribution of the increase of category of small hotels explains the difference of 3.13% in the index of competitive advantage as an independent contribution of predictors. Finally, parameters from the multivariate regression analysis indicate that – after checking all mediator measures – the increase of the objects' category increases the index of competitive advantage by 1.321 points (i.e., 24.55% of average competitive advantage). The percentage of average competitive advantage increase was calculated as $(B/M_{kp})*100$ (Rosnow et al., 2000, pp. 446-453).

Discussion

In today's increasingly open and integrated world economy, competitiveness has a central place in economic thinking in both developed countries and transition countries. The advantages of small hospitality companies are numerous. With their flexibility, creativity, and dynamics, small companies provide the basis for achieving competitive advantages. Small hospitality entrepreneurs create added value, thereby ensuring the competitiveness of their own market position. It is well known that small hospitality companies are the basis of development, the core of new employment, and the export strength of the country. Small hotels are especially emphasised with their adaptation and flexibility in the market by creating a space in which new solutions can be found to further increase the competitiveness of this sector.

Small hotels' competitive advantage improvement could be ensured by continuously following and adapting to the modern guest market needs. By raising the quality offered, small hotels will directly contribute to the enhanced quality of the tourist destination itself. The current declarative level of quality should be transferred to the highest possible level in reality in order to:

– Stimulate the labelling quality to ensure that guests receive greater value,

– Increase present quality of services offered in small hotels,

– Ensure competitiveness with the best Mediterranean destinations with the aim of creating high quality standards, and

– Integrate accommodations into a quality system.

Even after the introduction of standards, small hotels can and should retain their own character and recognition.

The research conducted defined many questions and is only a small step toward what is offered and, as such, represents the basis for future research. Consequently, it is possible to emphasise the need for more intense research into quality in small hotels as well as the guests' satisfaction as the only true quality measurement.

Managerial implications

Hotel standards play an important role in the achievement of the quality of services. They should define (i.e., proscribe) quality as well as represent a measure for the achievement of the proscribed quality. The results of the study indicate that small hotels' quality of services is indisputably influenced by categorisation as well. Quality ranking (and price) is contained within the hotel categorisation and is indicated by the number of stars. The highest category hotels (five-star) have the highest standards and provide the best quality hostelry products and services as well as the widest selection of hotel facilities at the highest prices. In that sense, small hotel management must take continual care of constant quality improvement.

Furthermore, the research showed that small hotels' management recognised the importance of raising the hotel category, which speaks to the significance of an average small hotel's higher category compared to other hotel facilities. In regard to management, this requires constant investment in improving hotel product and services in the sense of managerial skills to continually develop a system that will ensure, for example, the integration of guests' wishes and needs into their standards and performance.

Thus, this paper deals with the so-called technical quality of small hotels, which refers to the hotel category (i.e., a palpable aspect of the service) whilst also taking care of functional quality, which includes the manner of service provision in the hotel as an impalpable aspect of the service (e.g., attitude toward the guests, atmosphere in the hotel, staff appearance).

Limitations

The research focused on the increase of small hotels' quality, linked with the increase of the hotel facility by one category (i.e., stars). Indeed, as quality represents 'the totality of product or services characteristics, which determine their possibilities or their utilisation', possible limitations are reflected in the importance of the quality that occurs within the customers and their demands (i.e., needs, wishes, and expectations). This representation refers to guests' satisfaction, which is sometimes not connected with the category of the facility in which they are staying, albeit with a series of other elements. Guests will base assessments of the quality of the hotel service on the evaluation of several elements (e.g., the hotel service dimension, such as staff kindness, the quality of food and drink, the size, appearance and comfort of the rooms, cleanliness, consistency of service provision, location, hotel's image, versatility of choices, safety, and booked room availability).

Therefore, certain authors believe that it no longer suffices to simply fulfil guests' requests, but that it is necessary to also delight customers.

It is possible to identify the limitations of the current research in the guests' service quality assessment as a result of the comparison between their own expectations and their experience related to the service received. If the quality implies the fulfilment of the customers' requests, with the aim of the implementation and maintenance of competitive quality, it is essential to continually sound out guests' requests on the one hand and management's skill to fulfil them on the other hand. In this way it would be possible to ensure implementation of continuous improvements, according to guests' requests. Therefore, further research into service quality is suggested, taking into account the guests' expectations and their perceptions in order to avoid possible discrepancies between customers' real expectations and management's perception of guests' expectations.

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