

# Benchmarking and Quality of Small Hotels in Croatia: An Explorative Study

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This work explores the co-dependency of benchmarking and quality based on numerous interviews with 60 managers of small hotels in Croatia. The aim of this research is to state different ways and possibilities of using the benchmarking method as one of the modern, efficient methods which provide opportunities for adapting to the changes and needs of the modern market. In its first part, the research covers comparison of business standards of small hotels in Croatia and small and medium hotels in the European Union. The second part refers to positioning the role of quality in business of small hotels within the context of 'strategy of quality' implementation, certificate of quality possession and measurement of the influence of quality on competitive advantages increase in small hotels in Croatia. The research has shown that management of small hotels rarely applies the comparison of business success regarding domestic and foreign competitors, and therefore fails to understand that this is the way to improve one's business. The reasons for this could be found in the fact that our country has still not accepted the standard methodology of recording and analysing business results and management of results in the hotel industry (USALI), although it has been accepted in most developed countries of the world. Although quality has been stated as the basic strategic aim of small hotels' management, the research showed that the present 'declarative' level should be lifted to the highest possible level in reality. At the end, the thesis of strong influence of quality on competitive advantages increase in small hotels in Croatia has been proved by using simple and multivariate regression analysis. The facts and propositions of implementation measures of benchmarking and quality of hotel management with the aim of achieving a competitive advantages increase have also been stated.

*Key words:* quality, benchmarking, small hotels, competitive advantages

## **Introduction**

In their efforts to increase the business success, managers of small hotels quite often have a problem with measuring competitiveness,

competitive advantages and, in general, business success. They meet two obstacles: firstly, managers of hotels do not know the answer to the question: *What creates competitive advantages?* and, therefore, they have difficulties, or even choose the wrong strategies for possibly creating and maintaining competitive advantages. Secondly, managers of small hotels do not have proper and reliable tools for measuring competitive advantages (competitiveness) and success in the tourist market.

It is a well-known fact that the implementation of quality understands the continuity of following market trends and the need for constant comparison with the best competitors in the tourist market.

Numerous authors agree with the fact that benchmarking is an effective tool for identifying the performances of micro-subjects compared to their competitors, and in that way, represents the implementation of changed processes which lead the company towards better results.

The following text shows the results of research results on the comparison of small business subjects with the domestic and foreign competitors, quality strategy implementation and the role of quality in increasing the competitive advantages of small hotels.

### **Methods of Research**

This paper will show part of the research results on small hotels management. It is a descriptive research, carried out on a once occurring, deliberately chosen sample.

Target groups in this research are managers/owners of small hospitality companies. The results were obtained through the interview method, on a sample of 60 managers/owners of small hospitality companies, on a model of the Republic of Croatia. Data were collected by a specially structured questionnaire, and the research was carried out for 18 days, in period from June 24th till July 11th 2005.

The basic group was defined using the database of the Ministry of the Sea, tourism, Transport and development (see [www.mmtpr.hr](http://www.mmtpr.hr)). The database contains all categorized accommodation premises (companies and trades) in the Republic of Croatia. Hotel accommodation most commonly falls into the following three categories (Cerović, Galičić and Ivanović 2005, 30):

1. small hotels (5–50 rooms),
2. medium sized hotels (51–200 rooms),
3. large hotels (more than 200 rooms).

Accommodation premises from the sample fall into the category

of *small hotels*, and have less than 50 accommodation units. The criterion which was set while forming the sample is based on the remarks on Trade Law (Zakon o obrtu) and Accounting Law (Zakon o računovodstvu, art. 16), which define the criteria for *small companies* which, in Croatia, are companies that do not exceed two of three following criteria:

- income in 12 months before balance: 16 mil. kn (2.2 mil. €);
- sum of balance after the loss deduction shown in active: 8. mil. kn (1.1 mil. €);
- average number of employees in a year: 50.

Elements were taken out from the database within each of the regions separately, to obtain the best possible global proportionate picture on a national level of the Republic of Croatia. The number of elements in the sample obtained in the described manner was  $n = 60$ .

Small business subjects are, according to the legal form of their business a majority (40 or 66.7%) registered as a private legal person i. e. (d. o. o.), while a third of the sample is registered as a trade (20 or 33.3%).

The largest number of small entrepreneurs employ up to 20 people (86.7%). The greatest group, also in the structure, is from 10–19 employees (38.3%), followed by entrepreneurs who employ 6–9 employees (31.7%), and 1–5 employees (16.7%). The largest number of employees in the sample was 43.

When comparing the type and category of accommodation premises, it is possible to conclude that the largest number comprises small hotels categorized with 3\* (65%). In second place are those with 4\* (23.2%). Therefore, hotels with 3\* and 4\* make up 88.2% of the sample, although units from the *Other accommodation facilities* category were taken into account.

The research methods are based on two basic principles which involve the use of descriptive and inferential analysis. Methods of simple and multiple regression analysis were used to show the role of *quality* in the increase of competitive advantages of small hotels in the Republic of Croatia.

The SPSS package version 11.0 was used to analyze the data. Reliability was assessed using Cronbach's alpha coefficient, which represents a measure of the internal consistency.

## Research Results

Research also explored managers' strategies:

1. strategy of benchmarking and

2. strategy of quality.

Strategy of benchmarking aimed to stress the following:

- use of benchmarking in small hotels' business;
- comparison of benchmarking standards of small hotels in the Republic of Croatia with the standards of foreign small and medium hotel business.

STRATEGY OF BENCHMARKING OF SMALL HOTELS

1. Only 26.7% of small entrepreneurs compare themselves with domestic and foreign competitors, and surprisingly 48.3% of small entrepreneurs do not compare their business to anybody, neither in Croatia nor in foreign countries.
2. Results of business standards comparison between small hotels in Croatia and small and medium hotels in the European Union show that the comparison is quite flat rate. It involves comparison analysing price, interior, or trends which appear in the market.

There are multiple reasons for the so-called flat rate comparison with the competitors, and they refer to:

1. inexistence of unique comparison markers;
2. inaccessibility of markers;
  - markers are considered to be a business secret,
  - there is no awareness of advantages and the use of comparison.

Comparison which takes into account only final results – 'benchmarking based on results', uses explicit, measurable and quantitative data (Štoković 2004).

Financial results were shown only partially according to the system of business grading which is common in the tourism industry 'Uniform System of Accounts for Hotels', since this system is not accepted widely as a dominant system in Croatia when presenting business results.

A comparative example (table 1) of benchmarking markers in small hotels success compared to a Boutique hotel, categorized with 4\* (Cerović, Galičić, and Ivanović 2005, 30) and used as an example model of a foreign hotel, shows that:

- small hotels with 3\* and 4\* in Croatia have, on average, a somewhat smaller number of accommodation units (number of rooms) compared to the Boutique hotel example model;

TABLE 1 Standards of business in small accommodation premises – example model

	Small hotels (sample)	Boutique Hotel**** (example model)
Average size of hotel (number of rooms)	25	28
Average business per year (in months)	11	12
Average price of the room (in €)	90	80
Average rate of room occupancy per year (in %)	60	60

- individual prices of accommodation are higher than those of the competitors;
- average full capacity days in a year are equal and are 60%;
- average business time per year is one month shorter in Croatia than the competitors’.

Comparing the business standards of small hotels in Croatia with the standards of medium sized hotels in the Emilia Romagna region (Cetinski 2005, 98), it has been concluded that:

- average business time per year for 3\* and 4\* hotels in Croatia is equal, or even slightly longer in 3\* hotels in Croatia than in Emilia Romagna;
- average prices are higher in Croatia, especially in 4\* hotels;
- average full capacity is equal in 4\* hotels, while the 3\* hotels are occupied more than those in Emilia Romagna.

To obtain the full and more qualitative analysis and benchmarking, different factors (structure of incomes and expenditures, investments, guests’ structure etc.) should be taken into account over a longer period of time (Štoković 2004). Accordingly, managers of small hotels should recognize benchmarking as a tool for improving and making own business more successful, and for showing the indicators of business to the public.

#### QUALITY STRATEGY OF SMALL HOTELS

The paper also researched (within the exploration of quality strategy):

- average grade of the quality of small hotels compared to all accommodation capacity in Croatia, and
- implementation of quality in small hotels business (quality certificates, quality as a strategic aim).

The concept of quality gains in importance only if the products or services meet the needs and expectations of the guest. That is the

TABLE 2 Benchmarking standards of small and medium sized accommodation facilities

	Small business subjects (sample)	Emilia Romagna
<i>Hotels with 4*</i>		
Average hotel size (number of rooms)	22	180
Average business per year (in months)	12	12
Room usage span rate (in €)	50–230	50–205
Average price of the room (in €)	122	60–80
Average rate of room occupancy per year (in%)	55%	55–60%
<i>Hotels with 3*</i>		
Average hotel size (number of rooms)	25	150
Average business per year (in months)	10	8–9
Room usage span rate (in €)	50–120	50–130
Average price of the room (in €)	73	50–60
Average rate of room occupancy per year (in%)	60%	45–50%

NOTES All data have been analysed on a single year basis and refer to 2004; room usage span rate shows the span between the lowest and the highest accommodation price; average prices refer to accommodation units (rooms, apartments), excluding food, including overnight stay and breakfast; with the aim of providing a quality comparison, larger accommodation units (hotels), with 3\* and 4\*, in the competitive region (Emilia Romagna).

TABLE 3 Average hotel and other accommodation facilities quality grade in Republic of Croatia and small business subjects

	*	**	***	****	*****	(1)	(2)	(3)	(4)
<i>Republic of Croatia</i>									
Hotels	37	188	224	33	12	—	—	487	2.62
Other units	53	115	45	5	—	21	3	242	2.11
<i>Small business subjects – sample</i>									
Hotels	0	1	39	14	—	—	—	54	3.23
Other units	—	—	1	1	—	2	2	6	3.50

NOTES Column headings are as follows: (1) standard; (2) comfort; (3) total; (4) average grade;

reason why all strategies are based on quality standards supported by excellent knowledge about the consumer.

Hotels' quality grading and ranking are measured on a scale from 1\* to 5\*. The criteria for obtaining the average grade of accommodation facilities are the number of hotels and their category (Avelini Holjevac 2002, 123).

The average grade of quality, according to the stated comparison, for all Croatian categorized hotels is 2.62, and is relatively low, when



FIGURE 1 Circle of small hotels strategic aims

taking into consideration the needs of a modern and demanding guest. The example of small hotels in Croatia shows that the average grade of quality is higher than the Croatian average (it is 3.23). This is the result of investment in present buildings and quality improvement of hotel offer by building new accommodation units.

Most managers of small hotels stress quality as a strategic aim in business. None of the small hotels' management chose only one of the offered aims of their business, instead they selected combinations of two or more aims. This is how a *circle of small hotels' strategic aims* was created, with quality in the highest possible place.

Special quality, under the type *Hotel*, can be measured on the hotel's management or entrepreneur of the hotel company (in hospitality). Special quality is measured in a hotel which offers more content, devices, equipment or services, of not only for those who have been regulated for a certain category, but also for those that stand out with their level of service and service quality. The special designation mark 'Q' is used, and it is awarded by the Ministry of the Sea, Tourism, Transport and Development (Pravilnik o razvrstavanju).

Although the research has shown that quality has been stated as the basic strategic aim of small business subjects, none of the small entrepreneurs has the special 'Q' label.

Certificates have been awarded to 6.7% or 4 business subjects, which have concluded the implementation of the HACCP standard, and also to those subjects who have finished special courses (Certificate of Royal Institute of Great Britain – in 'chefs' category) for special services etc. (Gold Award, awarded by some tourist agencies). The number of small hotels without a certificate for their business is greater (93.3% or 56).

In general, small business subjects take care of their quality by themselves (96.7% or 58), while only 3.3% of managers/owners use exterior consultant services in quality. Although management of small hotels points out that quality is their basic strategic aim, the research has shown that quality strategy has been practiced only at a declarative level. All of the above show that the management of small hotels have the permanent task of implementation and comparison of quality in business.

#### INFLUENCE OF QUALITY ON INCREASING SMALL HOTELS' COMPETITIVE ADVANTAGES

Inferential statistical analysis of the data has two basic aims:

1. to verify the possibility of obtaining a reliable Index of competitive advantages of small hotels, and
2. to verify the role of quality as a predictor of small hotels' competitive advantages.

The scale which has been formed from questions about competitive advantages, has a reliability of  $\alpha = 0.72$ . Therefore, the Index of competitive advantages can be considered a reliable measurement of competitive advantages.

With the purpose of obtaining more important guidelines and competitive advantages correlates, a standard multiple regression analysis has been carried out and the Index of competitive advantages has been set as a *criterion variable*. The results' prognosis in the criterion variable has been formed on the basis of a larger number of predictors.

The predictors used explained 50.70% of the results' variance in the criterion variable. Among the statistically relevant predictors ( $p < 0.10$ ) *Quality Certificate possession* is specially explained.

The connection between Quality Certificate possession and competitive advantages is  $r = 0.507$ . This means that, based on the Quality Certificate possession for private hotels business, 25.10% of variance differences can be explained by the competitive advantages of small hotels.

TABLE 4 Multivariate regression analysis carried out on characteristics and correlates of competitive advantages

Predictors	(1)		(2)	<i>t</i>	<i>p</i>	Correlations		
	<i>B</i>	$\sigma$	$\beta$			<i>r</i>	(a)	(b)
Constant <i>a</i>	-4.034	2.904		-1.389	0.171			
Unit categorization (*)	1.321	0.747	0.230	1.768	0.083	0.266	0.245	0.177
Months in a year	0.306	0.155	0.216	1.971	0.054	0.240	0.271	0.198
Used PR	1.844	0.624	0.313	2.955	0.005	0.406	0.389	0.297
Have a certificate of quality	3.435	1.053	0.409	3.263	0.002	0.507	0.422	0.327
Compare themselves with domestic competition	-0.120	0.664	-0.022	-0.181	0.857	0.236	-0.026	-0.018
Compare themselves with foreign competition	0.412	0.734	0.071	0.561	0.577	0.275	0.080	0.056
Average price of two-bed bedroom	-0.012	0.009	-0.190	-1.343	0.186	0.125	-0.188	-0.135
Average occupation per room	0.016	0.017	0.108	0.968	0.338	0.260	0.137	0.097
Staff limitations	-0.035	0.105	-0.036	-0.334	0.740	-0.220	-0.048	-0.033
Need for better co-operation	0.870	0.306	0.333	2.848	0.006	0.097	0.377	0.286

NOTES Column headings are as follows: (1) non-standard regression coefficients; (2) standard regression coefficients; (a) partial; (b) semi-partial.  $R = 0.712$ ,  $p < 0.01$ ,  $R^2 = 0.507$ .

It is possible to conclude that the relation between Quality Certificate possession and competitive advantages is quite complicated and related to measures which were used in the predictors' status. That is why a multiple regression analysis has been chosen, to set the independent effort of Quality Certificate possession in small hotels on the Index of competitive advantages increase.

When all the mentioned relating variables are controlled, semi partial correlation is decreased to  $r = 0.327$ . It can be concluded that the independent effort of Quality Certificate possession in small hotels lies in the explanation of variance results of the Index of competitiveness of 10.69%.

Parameters from multiple regression analysis show that, after control of all relating measures, the greatest effect on competitive advantages us made by Quality Certificate possession, which increases the Index of competitive advantages by 3.435 points, i.e. 63.85% of average competitive advantages. Percentage of average competitive

advantages increase is calculated as  $(B/Mkp) \times 100$  (Rosnow, Rosental, and Rubin 2000, 446–453).

## Conclusion

In today's increasingly open and integrated world economy, competitiveness has the central place in economy thinking, both in developed countries and in transition countries. It is well known that small hospitality companies are the basis of development, the core of new employment and export strength of the country. Small hotels are especially emphasized with their adaptation and flexibility in the market by opening space to the search for new solutions which would furthermore increase competitiveness of this sector.

The Croatian hotel industry still has not accepted the USALI standard methodology of monitoring, analysis of business and business results leadership which has been accepted worldwide. Only use of the standard benchmarking indicators can ensure the right choice of managerial strategies in small hotels' business.

Benchmarking does not offer real support to strategic management, if there is no comparison which takes into account lack of new business perceptions, which thereafter could be extremely harmful when making one's own strategic decisions.

Co-dependency of business strategies and quality lies in the fact that benchmarking is a kind of investment with the purpose of increasing activity quality. Small hotels' competitive advantages improvement could be ensured by continuous following and adaptation to the modern guest market needs. By raising the quality of the offer, small hotels will directly contribute to the better quality of the tourist destination itself.

The declarative level of quality, which is now present, should be transferred to the highest possible level in reality, ensuring the following:

- to stimulate the labelling quality to ensure that guests receive greater value;
- to increase the present quality of services offer in small hotels;
- to ensure competition with the best Mediterranean destinations with the aim of creating high quality standards;
- to integrate accommodation into the quality system.

The research which has been carried out opened many questions and is only a small step towards what is offered, and, in that way, represents the basis for future research.

To conclude, it is possible to stress the need for more intense research of benchmarking indicators in small hotels, as well as the guests' satisfaction, as the only true quality measurement.

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