

THE DETERMINANTS OF QUALITY SIGNALLING USING STAR RATING IN THE HOTEL INDUSTRY OF CROATIA

Zdravko Šergo
Ana Težak Damijanić

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Abstract

Purpose – This paper studies the relationship between category, size, location and chain affiliation of hotels and their star ratings. The hypothesis is that the signal should be less expensive to issue for high quality hotels (H-type) than that for low quality hotels (L-type).

Methodology – This research uses descriptive statistics, univariate test statistics and logit regression analysis for data regarding the hotel industry; the data were collected from the Ministry of Tourism database. The target population was hotels in Croatia.

Findings – In our research, we formulate the hypothesis that a hotel's category type (low or high) measured by star ratings is related to economies of scale, space location, and complexity of ownership. Only the number of units as a proxy for the economy of scale variable has a significant relationship with higher star rating. The size in terms of number of rooms and chain affiliation variables do not completely and rationally explain the differences between star ratings of hotels according to the regression results.

Contribution – The main contribution of this paper is empirical testing of the signalling as a microeconomic theory applied to the hotel industry of Croatia. Although there are studies that have already analysed the influence of size and organizational form on the star rating of hotels, this paper is distinguished from them because the theoretical part of the model is based on signalling. This paper also includes the effect of coastal locations on the rating of hotels in Croatia.

Keywords signalling, hotel sector, star rating, logit regression

Zdravko Šergo, PhD, Scientific Advisor
Institute of Agriculture and Tourism
Department of Tourism
Karla Huguesa 8, Poreč, Croatia
Phone: +385-52-408300
E-mail: zdravko@iptpo.hr

Ana Težak Damijanić, PhD, Postdoctoral Associate
Institute of Agriculture and Tourism
Department of Tourism
Karla Huguesa 8, Poreč, Croatia
Phone: +385-52-408300
E-mail: tezak@iptpo.hr