Are stars a good indicator of hotel quality? Assymetric information and regulatory heterogeneity in Spain

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HIGHLIGHTS

- A continuous quality indicator for the hotel sector based on "objective" and demand criteria is elaborated.
- There is significant overlap with respect to the quality levels between official adjacent categories of hotels.
- Regulatory fragmentation in assigning stars to hotels is responsible for its deterioration as a quality standard.

ARTICLE INFO

ABSTRACT

This paper proposes a methodology for continuous monitoring of the hotel sector based on "objective" and demand criteria. The method applies Multiple Correspondence Analysis (MCA) to hotel facilities and services. Using that indicator the impact of differing regional regulations relating to hotel classifications is duly analysed, based on information from The Official Guide to Hotels in Spain (OGHS). The results show that even though official stars classification might be considered a good indicator of quality, there also is significant overlapping with regard to levels of quality between adjacent official categories. It is suggested that the very coexistence of 17 different regulations is one of the reasons for this.

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1. Introduction

The European Union is one of the major powers of the tourist industry across the world. In 2011, it was the destination and origin of 50% of international tourists and accounted for 40% of earnings and expenditure in that sector (UNWTO, 2012). Within the EU, Spain is, along with France, Italy and the United Kingdom, one of the major tourist destinations. During that year, it was fourth, behind France, the United States and China, amongst countries receiving the greatest number of tourists (almost 5.8% of the world total). Moreover, Spain was second only to the United States in terms of incomes earned from that sector (5.8% of the entire figure for the world).

It is therefore not surprising that an activity of such importance should be the focus of great attention, from the point of view of supply − producers − as well as demand − consumers. There is a general problem of asymmetric information with regard to the different tourist products and services. The supplier knows the quality of the product he/she is offering, while the consumer will only know this once that service or product has been consumed. This can give rise to what is commonly known as the Akerlof's "lemon" problem (Akerlof, 1970). In this context, quality standards are a crucial information tool, which informs consumers'

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purchasing decisions.[1] Within the wide range of tourist products, the implementation of quality standards is a constant in the hotel sub sector. In this sense, there does exist, however, important regulatory fragmentation (IN&RA and UNWTO, 2004).

For this reason, in a seminal paper, Vine (1981), claims a basic universal hotel classification (beyond the World Tourism Organisation criteria). Important regional and national adjustments (e.g. UNWTO, 1978) are made. In this sense, Callan (1995) shows that only one third of consumers in the UK did not use any hotel grading scheme in the 1990s. However, Callan and Lefebve (1997) find a very low use of these rating schemes for selection of the hotel. This stems from three factors: the co-existence of seven different grading schemes, the considered criteria, and the importance of the brand in consumer decisions.

In the European context, all EU countries, with the exception of Finland, have an official hotel classification system. In seventeen of those countries, this standard is obligatory. Furthermore, the institutions that manage these quality standards are public in eleven countries. In seven countries, that responsibility is carried out by professional bodies. In the remaining countries, those bodies are mixed. There is even greater heterogeneity in Italy and Spain, where responsibility for the regulatory framework and management lies with regional authorities (Minazzi, 2010).

This fragmentation of the regulation of the market gives rise to problems, of supply and demand. On the supply side, it generates costs for hotel chains that have to adapt to a host of problems due to different standards. With regard to consumers, stars can mean nothing if the criteria for the assignation of such stars vary greatly from country to country and region to region, thereby aggravating the problem of asymmetric information.

Specifically, in the case of the Spanish regions, there are three types of differences. The first difference is related to the nature of regulation that varies from: i) minimum requirements for each category; ii) bases for the classification of the establishment, or iii) a double scale subject to minimum requirements and procurement of a score based on quality of services and facilities of hotel establishments. The second difference relates to the official types of accommodations usually recognised distinguishing between hotels and boarding houses (hostels). Nonetheless, in seven regions there exists a different category, called hostelries. Moreover, hotels can obtain five different star categories, but in some regions, it is possible to obtain the superior grade for the four and five stars categories. Finally, the third difference refers to the minimum technical requirements for each category. For instance, there is a noted difference between the required minimum area of five-star guest rooms in the Balearic and Canary Islands. In the former, that area is 14 square meters, while in the latter it is 28 square meters.

For these reasons, the Directive on Services in the Single Market decided to place the emphasis on greater homogeneity of criteria for this type of regulations. In fact, the Sapir Report (Sapir, 2004) identifies the different regulation of services as a problem that affects the definitive shaping of a single market in this domain.

A second aspect to be taken into account is the orientation of hotel classifications (either from the supply or the demand side). Normally, many of the criteria taken into account hinge upon technical regulations: such as health, security and building (on the supply-side). Though they might have some bearing on the quality of establishments, they have more to do with the needs of suppliers than with the concept of quality of consumers, which is based on the availability of certain facilities or the provision of services (on the demand-side).

This paper has two main aims. First of all to propose an alternative methodology for the elaboration of a continuous quality indicator for the hotel sector based on comparable "objective" criteria and demand criteria. The provision of this indicator for Spanish hotels allows us, subsequently, to assess the impact of the coexistence of different regional regulations on the homogeneity of the hotel classification. We are then able to evaluate the usefulness of that classification for dealing with the problem of asymmetric information.

The methodology proposed to obtain the quality indicator is based on the use of a multi-variant technique known as Multiple Correspondence Analysis (MCA). This methodology entails the use of a broad range of dichotomic variables that are indicative of the ownership and the provision, by hotels, of certain facilities or services. In this paper, this technique is applied to information for Spain. It is a good case study of the effects of regulatory fragmentation on the loss of information about quality standards. Spain is also one of the leading economies in this sector.

In the second section, we explore the different concepts of hotel quality used to date in literature on the subject. We also examine the main features of the methodology proposed. In section three, we discuss the main features of the database used, in terms of scope and limitations. Section four presents and discusses the results obtained in relation to the construction of the proposed quality index. Those results are explained in keeping with certain features of the location and official classification of hotels. Section five uses those results as a baseline for an analysis of the consistency of the official classification of "stars". It assesses the importance of the possible biases from the existence of different Regional regulations and applications. The paper ends with our final conclusions.

2. Measuring quality in the hotel sector

Measuring quality in the service sector in general and in the hotel sector in particular poses a range of problems related to the generally intangible nature of the final product. Precisely for that reason, the measurement of quality (and its associated indicators) is understood from two different perspectives. One can be termed "objective", since it is based on standards that can be measured on the basis of the availability of services and facilities of hotel establishments. The other can be termed "subjective", since it basically analyses the perception of customers or experts. Even though both are complementary and possibly related, the assignation of official categories should hinge more on the former than on the latter. In this sense, the main difference between "objective" and "subjective" measurements is the source of information. Objective indicators are based on ex-ante information related to facilities, services or other measurable characteristics. Subjective measurements are based on opinions and thus ex-post information (Hung & Lin, 2012).

In fact, the first measurements of quality were based on "objective" criteria. They inspire, among other classifications, the official classifications (basically in terms of stars or categories), and all the international standards of homologation (European Hospitality Quality system –EHQ-, ISO-9002). Here, however, three basic problems arise. The first has to do with the generally discrete nature of classification and the fulfilment of one of the minimum standards for obtaining a certain category or homologation. A hotel may obtain a category inferior to the "real" category if it does not have a service or specific facility considered essential for a higher category. In this case, official classification would be too strict,

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[1] Other mechanisms that seek to offset this problem of asymmetric information are: (i) information supplied by third parties, such as intermediaries – in this case, tour operators – or other consumers (Clerides, Nearchou, & Pasharder, 2008), (ii) advertisement, (iii) market price (Cooper & Ross, 1984), (iv) satisfaction guarantees (Bech, 2011) or, (v) traineeship in consumption (Easley & Kleinberg, 2010).