Destination characteristics that drive hotel performance: A state-of-the-art global analysis

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HIGHLIGHTS

- The article assesses the determinants of hotels performance across multiple tourism destinations.
- Government spending and quality of education have a positive effect on hotel performance.
- Competition, tax rate and fuel prices have a negative effect on hotel performance.

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ABSTRACT

The increased market saturation and competition in both domestic and international tourism destinations have renewed interest among hotel operators in identifying the key drivers of hotel performance. This paper presents a comprehensive analysis of the determinants of hotel performance and their relative importance across multiple tourist destinations. We employ a two-step estimation method to identify key determinants of hotel performance, using a rich sample of international hotels. Our empirical analyses show that the main drivers of hotel performance are the quality of the educational system, government support, disposable income, and number of international arrivals within a tourism destination. Results indicate that the most important barriers to hotel performance are the competition among accommodation providers, tax rate and fuel price. We argue for the need for hotel providers to develop strategies that take cognisance of the key drivers and barriers to enhancing hotel performance in an ever-changing global tourism sector.

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1. Introduction

The growing competition among hotel providers and the continuous pressure resulting from market saturation has necessitated the need for greater performance control in the hotel industry (Assaf, Josiassen, & Cvelbar, 2012; Pavia, Gržinić, & Floričić, 2014; Wang, Chen, & Chen, 2012). As global hotel brands continue to expand internationally, selecting the next attractive tourist destination that will offer the best returns has become one of the most highly debated and contentious issues facing hotel providers globally (Yang, Wong, & Wang, 2012). Although extensive research has been undertaken to examine the importance of destination characteristics in the strategic decision making process of hotels, research is sparse on identifying and ranking the determinants of hotel performance and ranking these drivers of hotel performance globally. In a recent meta-analysis, Assaf and Josiassen (2015) emphasized that while more than 50 empirical studies have measured and compared the performance of international hotels, the study of determinants of hotel performance within the tourism industry on a global scale have been limited. Although the study by Assaf, Josiassen, and Agbola (2015) identified the locational factors

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that make destinations attractive to international hotel operators, the focus was on locational factors that hotel chain providers consider as key in making decisions about investing in a destination. Despite the clear contribution of the study by Assaf et al. (2015) it stopped short of exploring how these destination factors influence hotel performance decisions.

The focus of the present study is to bridge this knowledge gap by identifying destination characteristics that influence hotel performance. Further, we extend the analysis by ranking these destination characteristics. To the best of our knowledge, this is the first study to undertake a comprehensive global analysis of the drivers and the ranking of destination characteristics that drive hotel performance. Specifically, we aim to address two key questions: (i) What are the key determinants of hotel performance globally? and; (ii) how does each determinant rank in terms of its effect on hotel performance? Some studies have linked hotel performance to various types of determinants (e.g., size, and star rating). These studies, however, only explored a small number of determinants and were restricted to specific regions or destinations (e.g., Alias & Tan, 2014; Oliveira, Pedro, & Marques, 2013; O'Neill & Mattila, 2006; Sainaghi, 2011). As Barros and Dieke (2008) emphasize, the differences in characteristics of tourism destinations makes it necessary to consider hotel performance over a period of time and across multiple tourism destinations in order to articulate an effective hotel strategy and tourism policy. Employing differing market characteristics and trends over time provides sound theoretical framework for analyzing the determinants of hotel performance within a global context (Assaf & Josiassen, 2012). In a changing global economy, understanding the determinants of hotel performance at an international level is critical. Understanding the factors influencing hotel performance would provide strategic information to assist hotel operators in making informed decision about where to locate hotels to achieve the greatest performance.

The rest of this paper is structured as follows. In Section 1, a large pool of determinants was identified using two approaches. The pool was sourced via: a) a thorough review of the tourism and hospitality literature; and b) a series of interviews with hotel managers. Then, actual data was collected on these determinants from the international locations of a large sample of hotels. In Section 2, the hotel performance determinants (HPD) framework was developed to test and rank each of the determinants of hotel performance. In Section 3, the article discusses the various determinants and their impact on hotel performance. In Section 4, we describe the data employed in the analyses. In Section 5, we report the empirical results. In Section 6, we draw some conclusions and discuss the policy implications of the findings. We outline how the findings can be used to guide future research on hotel performance and advance the state of international hotel benchmarking. Both existing hotels and potential new entrants will benefit from the reported insights to better tailor their strategies and investments around the determinants that have the highest impact on hotel performance and to identify attractive locations that would provide important advantages in terms of the determinants identified in this study.

2. Research framework

Following the approach of related studies in other industries (Creswell, 2009), this study used a two-step approach (i.e. a literature review and expert interviews) to identify the determinants[1] of hotel performance. The advantage of this method is that it does not rely on the assumptions of the researchers, but sources the

potential determinants in a first exploratory step. The second step then provides a quantitative analysis based on these determinants. The literature suggested to first include the categories observed by previous research (Srnka & Koeszegi, 2007; Weber, 2004). Accordingly, the industry and academic literature on hotel performance was reviewed. Using search terms such as "locational factors", "hotel performance", "hotel location" in several major search engines like Google Scholar and Ebsco a pool of relevant articles was identified and reviewed. This interdisciplinary review resulted in the extraction of 21 determinants. Based on the literature, these determinants were then classified into six drivers.[2] Next, 11 in-depth interviews were conducted with the regional managers of major hotel companies such as the JW Marriott, the Hyatt, the Best Western, the Hilton, the Sheraton, Le Meridien and the Westin. The approach of Johnson and Vanetti (2005) was adopted to select interview participants and all hotels selected had a high presence in international markets. During the summer of 2015, each regional manager was asked (via an open-ended question) to provide a list of determinants that they viewed as the most important drivers of hotel performance. The interview data was analyzed, and the content ordered and aggregated using the method commonly used in the area to identify such categories (Assaf et al., 2015). The final list of determinants contained a mixture of those identified in the literature and those identified by the interview participants.

Overall, the interview participants' answers about determinants closely overlapped with the results of the literature review; however, an additional two determinants were identified from the literature. Table 1 lists the all determinants identified from the literature and also indicates whether the interview participants highlighted these determinants.

All these determinants were then classified under the drivers identified in the literature review (Assaf & Josiassen, 2015; Crouch & Ritchie, 1999). Table 2 lists the determinants and their associated drivers. The two-step approach identifying the determinants of hotel performance resulted in a final pool of 21 determinants (that were then classified under six drivers). Given a large number of determinants, the relationship between each of the determinants and hotel performance is not discussed; rather each driver is considered in detail and examples are provided about some of the determinants.

3. Drivers of hotel performance

3.1. General economic condition

Interview participants mentioned that the "general economic conditions" (e.g., Gross Domestic Product (GDP) growth, tax rates, exchange rates, disposable incomes, and fuel prices) can significantly affect hotel performance and demand for hotels. For example, during the recent economic crisis, the majority of hotel companies experienced a sharp decrease in occupancy rates and the revenue generated per available room (Chen, 2010; IBISWorld, 2014; Kosova & Enz, 2012; MarketLine, 2015b; O'Neill & Mattila, 2006; Zheng, 2014). Previous research has also shown that economic conditions can influence travel spending and the revenue performance of international hotels (Chen, 2007, 2010; Chen, Kim, & Kim, 2005; IBISWorld, 2014). Factors related to economic development and stability (e.g., disposable income) have been found to be strong determinants of hotel performance across several industries (IBISWorld, 2014, 2015; Kosova & Enz, 2012;

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[1] Determinants refer to the variables affecting hotel performance.

[2] The drivers represent the broader classification of these determinants. We follow closely the classification of the World Economic Forum, Assaf and Josiassen (2012) and Assaf et al. (2015).