



# Do regional factors matter? Determinants of hotel industry performance in China



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## HIGHLIGHTS

- Regional factors affect ARR and rooms rented.
- Labor quality and Tourism Professional Specialization mainly determine RevPAR.
- ARR and rooms rented offer information about regional impacts on the hotel industry.
- Internal and external determinants vary by star designation.
- Regional factors' sophistication increases with higher star designations.

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## ABSTRACT

The hotel industry is deeply embedded in local regional conditions, though the influence of regional factors is seldom investigated. Three key hotel industry metrics, Revenue per Available Room (RevPAR), Average Room Rate (ARR), and rooms rented, were examined for their determinants using ordinary least squares and negative binomial regression models on key endogenous and exogenous (regional) factors, including Destination Attractiveness and Capacity, Business and Commercial Environment, Image and Openness, and Tourism Professional Specialization. Using China as a case study, and at different hotel star designations (2- to 5-star hotels), the results show that RevPAR is determined mainly by labor quality and Tourism Professional Specialization. Particularly, regional factors significantly affect ARR and rooms rented. The influence and sophistication of regional factors increases with higher star designations. This paper highlights links between the hospitality industry and regional economic development, which should be considered by both the hotel industry and tourism policy makers.

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## 1. Introduction

The hotel industry has grown in importance and plays an essential role in fostering tourism and local economic development (Jones, Hillier, & Comfort, 2014). High performance expectations are stimulating feverish hotel construction in many regions, and China's hotel industry is among the fastest growing worldwide, with revenue increasing 1.8 times during the period from 2000 to 2009. These gains were largely spurred by China's fast economic

development, increased purchasing power, and decreased transportation costs (Xu, 2010; Zhang, 2011). After reaching a high point in 2007, with total profit of 61 billion RMB, hotel industry profits fell dramatically in 2009 to a negative level (China National Tourism Bureau, 2008, 2009, 2010). This may be an effect of the 2008 Global Financial Crisis. However, the year-on-year growth rate of Revenue per Available Room (RevPAR), one key financial performance metric, decreased by 2.8% in 2013, and the occupancy rate at high-end (4-star) and luxury (5-star) hotels in major Chinese cities, including Beijing and Shanghai, was far below that of their global counterparts, according to a survey by Smith Travel Research (STR) Global (He, 2013). Though this performance is disappointing, Chinese regions (defined as provinces in this paper) are enthusiastically constructing hotels, with 234 854 rooms under construction as of January 2014, which is expected to account for 56% of the

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supply in the Asia–Pacific market (He, 2013). It seems that the hotel industry is facing problems in this large emerging market, partially due to an over-supply of hotels.

The relationship between regional factors and hotel industry performance calls for a careful consideration. Although it is clear that such projects play a role in stimulating local development, it is unclear whether and how regional factors affect hotel industry performance. As China's government prefers to develop plans for industrial growth, including the hotel sector, policy makers could rationally and more effectively incorporate the hotel industry into the local economic system by investigating the hotel industry in China. In addition, current analyses and practices primarily focus on a hotel's internal management or endogenous factors, such as construction investment, marketing, reputation, and operational innovation (Chen & Chen, 2013; Fraj, Matute, & Melero, 2015; Hwang & Chang, 2003; Nieves & Segarra-Ciprés, 2015; Rust, Zahorik, & Keiningham, 1995), based on the assumption that good service and customer satisfaction can attract more customers (Baker & Crompton, 2000). Examining exogenous factors can help guide hotel managers and entrepreneurs in making better business decisions because a complete and effective strategy must consider the reason customers visit this region. The hotel industry requires customers to visit and stay, and the external environment, such as the business environment and openness, may potentially limit productivity and performance. Thus, hotel demand is deeply embedded within its regional context. Nonetheless, regional attractions and characteristics, as regional factors that affect customers' choice of destination, have seldom been systematically investigated.

There is also a need to investigate hotels according to their service levels because influential factors may vary by hotel type. Hotels have different characteristics (Huang, Liu, & Hsu, 2013) that may serve and accommodate customers with differing socioeconomic backgrounds and intentions. Some research has been conducted into particular types of hotels, such as international tourist hotels (Sun, Rodríguez, Wu, & Chuang, 2013) and economy hotels (Huang et al., 2013). However, systematic examinations and comparisons of hotels' determinants in one series (e.g., hotels with star ratings) are rare.

Therefore, this paper investigates whether and how regional factors affect hotel performance and whether this differs by type of hotel. This question draws attention to segmented hotel markets at the regional level to improve regional decisions in the hotel industry. Drawing on the previous literature, the next section outlines a theoretical framework and indicators to measure the key determinants of the hotel market. Section 3 describes the data and the analytical methods. Section 4 presents the results, and Section 5 discusses the factors affecting the hotel industry at different levels. The last section concludes the paper with a description of this study's contributions to research and practice, and describes the study's limitations to encourage future research into regional factors affecting the hotel industry.

## 2. Factors influencing hotel economic performance

Economic performance and its determinants are a key issue in hospitality industry research and development (Assaf & Josiassen, 2012). A high-performing hotel usually has a high occupancy rate and economic output. Scholars and practitioners have investigated the various factors that affect hotel economic performance, particularly capital investment, the quality of facilities, and employee services in order to improve customer satisfaction (Pan, 2015; Prayag & Hosany, 2015). Some studies also emphasize the importance of entrepreneurship and various promotion strategies (Nieves & Segarra-Ciprés, 2015; Xiao, O'Neill, & Mattila, 2012).

These factors form part of the hotel's internal management (Nieves & Segarra-Ciprés, 2015).

Perhaps equally important are external factors. Assaf, Josiassen, and Agbola (2015) claim that destination-related external factors are the most important determinants among the competition for international hotel chains. Chen (2010) argues that hotel performance is significantly affected by overall economic growth rather than by the tourism sector alone. Chen (2010) finds that international tourism development also played a significant role in the growth of the Taiwan hotel industry during 1997–2008. Parte-Esteban and Alberca-Oliver (2013) argue that the economic efficiency of the hospitality industry in Spain is significantly affected by both regional and corporate factors, including tourist flow driven by region, hotel location, and hotel size. Compared to the extensive investigations of internal factors, there are still very few studies into the impact of external factors. Moreover, some issues are unclear, for example, how a region attracts tourists to increase hotel stays.

Hotels must have people visiting and staying in order to provide their facilities and services, and renting rooms are a prerequisite for improving performance and making a profit. Surprisingly, little research and practice emphasize the influence of exogenous factors on hotel development. Exceptions can be found in studies of specific sources of tourism or festivals, such as those related to skiing, wine, and sports (Chen & Wang, 2014; Nieves & Segarra-Ciprés, 2015; Quintal, Thomas, & Phau, 2015; Song, You, Reisinger, Lee, & Lee, 2014; Sun et al., 2013). These findings spark interest in establishing the connection between the hotel industry and regional development.

Regional factors related to the destination can be understood by exploring tourism research, especially related to the theories of reasoned action (Baker & Crompton, 2000) and planned behavior (Lam & Hsu, 2006; Quintal et al., 2015). Researchers have discussed sources of tourism, including natural and human landscapes such as water, land, flora, fauna, history, and culture, as they provide experiential value to tourists (Cocklin, Harte, & Hay, 1990; Wong, Newton, & Newton, 2014). Such tourism resources are an important input for regions developing tourism-related strategies and action plans (Cocklin et al., 1990).

Business and shopping travel are another major source of tourism. With economic development and increasing globalization, the meetings, incentives, conventions, and exhibitions (MICE) market has emerged as a fast-growing sector in many local economies (Dwyer & Forsyth, 1997; Yang, Cai, Ottens, & Sliuzas, 2013). Borodako and Rudnicki (2014) analyze business tourism and show the significance of business travel for urban development in Central and Eastern Europe. Moreover, business travelers may return to the destination for leisure travel after their business trip (Kerr, Cliff, & Dolnicar, 2012). In practice, business- and shopping-related activities may relieve the seasonal effects found within the hotel industry, forming an important nexus that links the hotel industry with local economic development. The business and shopping environment increases the chances that visitors may return to the region and prolong their stay at the hotel (Borodako & Rudnicki, 2014).

The third factor that may draw visitors relates to the destination's environment, such as scenery and a comfortable climate (Bigné, Sánchez, & Sánchez, 2001). Socioeconomic and natural ecological variables and expectations determine visitors' perceptions of the destination and, thus, affect hotel development. The field of environmental psychology revealed the aesthetic judgment dimension of tourist destinations (Jang, Chung, & Kim, 2014). A beautiful destination is more attractive to tourists, and people are more likely to visit places with many amenities (Holmes, 2002; Kirillova, Fu, Lehto, & Cai, 2014). In this post-industrial era,

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