BUSINESSS EXCELLENCE IN CROATIAN HOTEL INDUSTRY: RESULTS OF EMPIRICAL RESEARCH

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Abstract: *This paper analyses the business excellence concept, based on the EFQM theoretical model. The model is used to assess the business excellence of hotels in the Republic of Croatia. We conducted an empirical research and paid special attention to comparison of hotels with average categorization and the highly categorized ones. This study is based on the EFQM questionnaire, which has been administered on the sample of 148 hotels, which possess more than 150 rooms. Research results indicate the present situation in the implementation of business excellence in the hotel industry in Croatia, which can, hopefully, serve as a basis for reaching some practical recommendations related to quality management.*

Key words: *Business excellence, EFQM model, hotel industry, Croatia*

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1. Introduction

Business environment of tourist enterprises has been characterized by major changes in recent years. The reasons for the changes may be found in the global economic crisis, an intense competition between tourist destinations and the expected (re)structuring of the world's income and demographics (Yeoman, 2012). In the hospitality industry, service customization and individualized experiences will be required by future tourists, who will be also expecting hotels to innovate by using technology and individualize communication by using social media, such as Facebook, Twitter, etc. (Talwar, 2012). A minimum for meeting such high expectations require that delivery of all expected hotel services is ensured. Therefore, assurance of hotel's quality can be described as a requirement to survive in the contemporary hospitality industry. A self-assessment study of different (high-quality and medium-quality) sectors of Croatian hospitality has been conducted. Its results are reported in this paper, in order to address the following research question: what are the competitive strengths and weaknesses of high-quality Croatian hotels, relevant for the world tourist market? In addition, relative achievements of medium-quality Croatian hotels will be identified. In this way, results of the empirical research will be available for formulation of practical recommendations for Croatian hospitality industry.

2. Business Excellence Models and Their Implementation in Hotel Industry

Business excellence can be defined as an approach that allows organizations to achieve the balanced satisfaction of stakeholders and increase the long-term strategic success (Kanji, 2002) by using a set of previously agreed criteria. These criteria are the basis for some of the world's most popular models of business excellence, which include the EFQM Excellence Model, the Malcolm Balridge National Quality Award and the Deming prize. Their basis is to analyse connections between the most important variables of Total Quality Management: people, business processes and company performance (Fadić, 2008). In this way, they help companies to practically implement sometimes sometime unclear idea of the Total Quality Management (Bou Llusar et al, 2009) and also help management to assure that the strategy of continuous improvement is systematic and integrated (Oslić, 2008).

Each model also provides a standardized check-list, which needs to be followed, as to ensure consistency and comparability of the evaluation results among different companies (Porter & Tanner, 2004). This makes the business excellence questionnaires for self-assessment a very appropriate tool for this research, which wishes to examine many different hotels from two sectors of the Croatian hospitality industry. To ensure the opportunity to compare results with similar European studies (Sozuer, 2011) in competitive destinations (e.g., Turkey), the EFQM (European Foundation for Quality Management) model has been used.

EFQM model consists of nine criteria, with the first five belonging to enablers, which include: (a) leadership, (b) employees, (c) strategy, (d) partnerships and resources, and (e) processes, products and services. The remaining four represent the

results which include: results for employees, results for the customers, results for society and strategic results, measured by key indicators. The starting point of the model is that business processes need to be effectively managed, by employing the enablers, as to achieve the results observed from the viewpoint of most important stakeholders: customers, employees and society. Ultimately, the company will achieve the key results, required for realization of its business strategy and obtaining the competitive position in the market (EFQM, 2013).

In hotel industry, implementation of different approaches to Total Quality Management has proved as a successful practical tool to achieve a high level of service and business success, as especially well shown by the Ritz Carlton hotel chain. While the American hotel chains, including Ritz Carlton, usually choose the Malcolm Balridge model (used for the American quality award), European hotels are often assessed according to the EFQM model (Camison, 1996), which is the basis of the European award for business excellence.

3. Methodology of Empirical Research

In the conducted empirical research, methodology originally designed by EFQM was used. The population of Croatian hotels, categorized by the official 'star rating' system, with 3*, 4*, or 5*, was selected by using the list of all officially approved hotels by Ministry of tourism of the Republic of Croatia. Hotels categorized with 2* are not considered appropriate for such a research, since they do not meet many of the standards, required for 'medium-quality' hotels. Some previous papers analyse only high-quality hotels (e.g., Souzer, 2011, who analyses only four-star hotels). However, in this study, authors wanted to separately analyse the 'medium-quality' (3*) and 'high-quality' (4* and 5*) hotels, which was the reason for including all of those into the population.

There were 432 hotels, out of which 148 were included in the research, with the capacity exceeding 150 accommodation units. It is believed that hotels with fewer accommodation units and employees do not have the capacity to develop the measurement system and the quality management mechanisms, which would provide only formal opportunities for application of the EFQM's business excellence model. The total of 55 questionnaires were returned, which provides an adequate response rate of 37.2%. Out of the total number of hotels in the sample the survey included 23 hotels rated with 3*, 27 hotels rated with 4* and 5 hotels rated with 5*.

For the purpose of this study, the full EFQM's questionnaire for self-assessment (with approximately 90 items) was used. It was only translated into Croatian and some terms, specific for the hotel industry, were slightly adopted. All measurements on the scales with five degrees are described in detail by Camison (1996). They range from E (some marginal good results and anecdotal evidence) to A (strong positive results over the long term, which are well documented). Each of the measurements can be converted into the points (A – 100, B – 75, C – 50, D – 25, E – 0). For each of the EFQM criteria, the mean value for all items is calculated.

4. Results of Empirical Research

Since the detailed evaluation of the surveyed hotels' business excellence would not fit the prescribed length of the paper, we discuss only the cumulative findings, while detailed results can be obtained from the authors. Related to the **leadership criterion** of the EFQM's business excellence model, the largest share of respondents believes there is adequate evidence of personal involvement of management in identifying and communicating hotel's mission and its organizational culture in all the hotel's departments, which includes values related to quality achievement. The highest level of achieved excellence in surveyed hotels (as high as 50.9%) is related to involvement of management in creating partnerships, both in contact with guests and business partners, as well as the wider community. The most important problem is seen in the management's ability to make good and timely decisions. By using the weighted arithmetic mean, ratings for all areas of evaluation of the leadership criterion were calculated, as well as the overall leadership score. Overall scores for this EFQM criterion are shown in Table 1, together with the total number of respondents (N), standard deviation and standard errors.

Hotel Category		**N**	**Mean Value**	**Stand. Deviation**	**Stand. Error**
EFQM leadership score	Hotels Rated With 3*	23	71,0870	15,29680	3,18960
	Hotels Rated With 4 And 5*	32	84,3750	12,68413	2,24226

Tab. 1. Scores for the EFQM's leadership criterion

As related to the EFQM's criterion of **strategy,** there are evidences of adequate excellence levels in all departments of the surveyed hotels. The most significant problem is perceived in terms of the harmonization of individual and team goals with the strategic goals of the hotel, which is associated with the assumption that employees do not have enough opportunities to engage themselves in business improvement. Another potential problem is identified in gathering information about the needs of clients and business partners, as well as in the lack of comparison with the competitors. We also calculated the cumulative scores for the strategy criterion by using the weighted arithmetic mean (see Table 2).

Hotel category		**N**	**Mean value**	**Stand. deviation**	**Stand. error**
EFQM strategy score	Hotels rated with 3 *	23	63,6413	18,58225	3,87467
	Hotels rated with 4 and 5 *	32	79,0625	13,10242	2,31620

Tab. 2. Scores for the EFQM's strategy criterion

We further analyzed the achievements in the field of human resource management, as described by the EFQM **employee criterion**. We found that the surveyed hotels create adequate formal plans for managing human resources. In

addition, formal activities and procedures are established for assessing the work performance of employees and rewarding them. At the other hand, involvement of employees in evaluation of operating efficiency and work process improvement, as well as communication with employees and evaluating their suggestions, are identified as weaknesses of surveyed hotels. Table 3 presents the score for the EFQM employee criterion, calculated by using the weighted mean value of the obtained distribution of frequencies.

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM employee score	Hotels rated with 3*	23	51,0870	21,84431	4,55485
	Hotels rated with 4 and5 *	32	72,1875	23,68944	4,18774

Tab. 3. Scores for the EFQM's employee criterion

Although there is a difference between the medium-quality hotels (with 3^*) and the high-quality ones (with 4^* and 5^*) for previously analyzed enabler criteria, this difference is rather high in the area of the human resource management. Therefore, it can be concluded that high-quality hotels tend to include employees more in assessing work efficiency and work process improvement and/or inform and appreciate employees' suggestions more.

In the area related to the **resources and partnerships** enabler criterion, the majority of the surveyed hotels relatively efficiently manage their assets and develop partnerships, while the ratings are slightly lower for using new technologies, ensuring efficient allocation of financial resources and, to some extent, ensuring accurate and reliable information for decision making. There is, once again, a relatively high difference in business excellence scores between hotels of different categorizations (see Table 4).

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM resources and partnerships score	Hotels rated with 3 *	23	67,8261	19,35471	4,03574
	Hotels rated with 4 and 5 *	32	80,9375	14,88870	2,63198

Tab. 4. Scores for the EFQM's resources and partnership criterion

As related to EFQM's **business processes, products and services** criterion, it was found that the largest proportion of surveyed hotels adequately manages their business processes and monitors satisfaction and expectations of their guests. However, this is followed by the lower level of achievement in implementing comprehensive expectations and needs of customers. Likewise, performance indicators of business processes and their results are insufficiently developed, including the comparison with the results of the competition, in order to understand own strengths and weaknesses. These findings may indicate that the surveyed hotels are not analyzing their environment in the adequate manner and that their marketing activities are not based on relevant market data. Table 5 shows the scores for this

EFQM criterion, including a high difference between hotels of different categorization.

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM business processes, products and services score	Hotels rated with 3*	23	61,2500	20,66714	4,30940
	Hotels rated with 4 and 5*	32	80,7813	18,49627	3,26971

Tab. 5. Scores for the EFQM's business processes, products and services criterion

In the second part of this study, we analyze the performance of surveyed hotels, which represents the result of achieving business excellence. We start the analysis by considering the **results for the customers**. The results show that customer satisfaction management and other important features of customer relationship management are implemented by surveyed hotels. The majority of respondents (50.9%) could serve as a benchmark in the field of determining the guests' satisfaction. At the other hand, surveyed hotels have problems with monitoring the achieved results in the field of guest satisfaction and their loyalty and comparing them to the competitors. In addition, the research results are not effectively used in improving the hotel products and services. The relatively unsatisfactory results are also obtained in observing results for certain groups and types of guests, indicating the need to improve the use of market information throughout the hotel organizations.

Table 6 provides the average scores for this EFQM criterion, compared between average and highly categorized hotels. Once again, there seems to be a large difference between two groups of observed hotels.

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM results for customers score	Hotels rated with 3*	23	63,1988	19,89755	4,14893
	Hotels rated with 4 and 5*	32	79,6429	17,05430	3,01480

Tab. 6. Scores for the for the EFQM’s results for customers criterion

Results for employees seem to be **the weakest area of business excellence achievement,** since the proportion of hotels with the highest reported level of achievement does not exceed 20%.

For all elements evaluated within this criterion, there is a fairly large proportion of hotels reporting relatively low levels of achievement, which is particularly evident in measuring and comparing employees' satisfaction with the results of the competition, as well as in collecting and processing feedback from the internal and external environment. Scores for the entire criterion are shown in Table 7.

Regarding **results for the society,** there is only limited evidence of the successful realization of social responsibility and reputation in the community. In addition, comparison with competitors in social responsibility is not developed, while

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM results for employees score	Hotels rated with 3*	23	45,2174	21,87144	4,56051
	Hotels rated with 4 and 5*	32	64,7266	29,35760	5,18974

Tab. 7. Scores for the for the EFQM's results for employees criterion

slightly better results are achieved in the field of ecologically sustainable business. Once again, it should be noted that, in general, **the results in the field of socially responsible hotel results are inadequate**. Table 8 presents the scores for this criterion and shows that hotels rated with 4^* and 5^* more successfully achieve social accountability and better manage reputation in the community than those rated with 3^*.

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM results for society score	Hotels rated with 3*	23	58,9130	23,44997	4,88966
	Hotels rated with 4 and 5*	32	71,4453	20,17841	3,56707

Tab. 8. Scores for the for the EFQM's results for society criterion

Finally, EFQM's **key results** criterion is analyzed, demonstrating how the surveyed hotels implement their business strategies. The majority of respondents believe there is evidence of the existence of key results in all their departments. However, there are also considerable amounts of respondents reporting the lack of any evidence of key results, as well as those reporting only some evidence of comparability of achieved financial and non-financial key results with the competition. Least evidence of achieving business excellence in this area is related to understanding the contribution of individual processes to key results and comparability of the results of administrative activities to competitors. These results point to problems of measurement and comparison of the key business areas with competitors, as well as to the problems in the work of administration and its effectiveness. Overall scores for this criterion, given in Table 9, once again, indicate relatively large differences between the two groups of hotels.

Hotel category		N	Mean value	Stand. deviation	Stand. error
EFQM key results score	Hotels rated with 3*	23	60,8696	21,22409	4,42553
	Hotels rated with 4 and 5*	32	79,0551	14,60179	2,58126

Tab. 9. Scores for the for the EFQM's key results criterion

The reported results show that, for each criterion of the EFQM business excellence model, there is a difference in scores between differently categorized hotels. Nevertheless, the absolute differences of the mean values for each evaluation criterion do not provide enough evidence to conclude whether these score differences

are statistically significant. Therefore, t-test has been performed for each of the EFQM criteria, with results reported in Table 10.

		Levene's test for equality of variances		t-test for differences of group mean values				
		F	**Sig.**	**t**	**df**	**Sig.**	**Mean diff.**	**Stderr. diff.**
LEADERSHIP	**Assumption of the same variance**	,491	*,487*	-3,515	53	**,001****	-13,28804	3,78027
	No assumption of the same variance			-3,408	41,862	,001	-13,28804	3,89888
STRATEGY	**Assumption of the same variance**	,805	*,374*	-3,613	53	**,001****	-15,42120	4,26786
	No assumption of the same variance			-3,416	37,164	,002	-15,42120	4,51418
EMPLOYEES	**Assumption of the same variance**	,228	*,635*	-3,365	53	**,001****	-21,10054	6,27141
	No assumption of the same variance			-3,410	49,707	,001	-21,10054	6,18740
RESOURCES AND PARTNERSHIP	**Assumption of the same variance**	2,627	*,111*	-2,840	53	,006	-13,11141	4,61618
	No assumption of the same variance			-2,721	39,609	,010	-13,11141	4,81814
BUSINESS PROCESSES, PRODUCTS AND SERVICES	**Assumption of the same variance**	,444	*,508*	-3,678	53	**,001****	-19,53125	5,31062
	No assumption of the same variance			-3,611	44,221	,001	-19,53125	5,40943
RESULTS FOR CUSTOMERS	**Assumption of the same variance**	,571	*,453*	-3,289	53	**,002****	-16,44410	4,99936
	No assumption of the same variance			-3,206	42,882	,003	-16,44410	5,12861
RESULTS FOR EMPLOYEES	**Assumption of the same variance**	1,365	*,248*	-2,692	53	,009	-19,50917	7,24636
	No assumption of the same variance			-2,824	52,907	,007	-19,50917	6,90881
RESULTS FOR SOCIETY	**Assumption of the same variance**	,525	*,472*	-2,123	53	**,038***	-12,53227	5,90377
	No assumption of the same variance			-2,071	43,004	,044	-12,53227	6,05250
KEY RESULTS	Assumption of the same variance	6,010	,018	-3,768	53	,000	-18,18549	4,82621
	No assumption of the same variance			-3,550	36,516	**,001****	-18,18549	5,12330

Tab. 10. Differences in EFQM scores between average and highly rated hotels

Results show statistically significant differences in business excellence implementation scores between average and highly rated hotels (i.e. those rated with 3* vs. those rated with 4* and 5*), which **confirms that the official hotel categorization corresponds with the implementation of business excellence,** measured by the EFQM model. These significant differences (with the significance level of 1%) between mean values of the EFQM scores are reported for the enabler criteria of **leadership, strategy, employees, processes, products and services,** as well as the **key results** criterion. Differences are observed for the criteria of **results for customers** and **results for society**, with the significance level of 5%. The areas without reported significant differences are the enabler criterion of **providing resources and partnerships** and the criterion of achieving **results for employees,**

with no statistically significant advantage of high-quality hotels over medium-quality ones. Hotel managers should obviously pay more attention to these areas if they are to achieve a higher level of business excellence. In addition, the obtained research results can serve as a guide to the managers of average rated hotels, as to which areas should be improved, if a higher level of business excellence is to be achieved.

8. Conclusion

Previous research in Spain and Turkey has confirmed that the EFQM business excellence model can be successfully applied in hospitality industry. Some previous research has also been conducted by Žilić (2012), who used the own model to analyse the business excellence of high-quality segment of Croatian hotels (without their comparison to the medium-quality segment). This model consisted of several criteria, including: (a) hotel offering/value for customer, (b) leadership, (c) human resource development, (d) process and resource management, (e) overall hotel performance, (f) social responsibility of the hotel and (g) continuous improvement. By using the measurement scale with values from 1 to 5, Žilić (2012) found scores, ranging from 4.48 (the lowest score – for social responsibility) to 4.81 (the highest score – for leadership). Variance for all these criteria was below 20%.

It can be concluded that the previous research reports much higher results and much lower reliability for the Croatian hotel industry than the results reported by this survey. The reason might be found in differences of models used for analysis, or in the differences in methodology and the choice of population and sample of the empirical research. Nevertheless, future research needs to address both application of the EFQM model of business excellence, as well as of other relevant models, as to verify the practical implications of this study.

The most important implication is that the official categorization is related to the implementation of business excellence, which means that all efforts related to improvement of service quality and hotel offering can be placed in a common framework and explained in terms of total quality management.

All high-quality hotels have significantly better scores than the medium-quality ones, except for the EFQM criteria of providing resources and partnerships, as well as achieving results for employees. These two criteria of business excellence should be the targets for better implementation in all Croatian hotels, with high-quality (4* and 5*) ones being aware that their leadership in quality can be endangered by excessive cutting of costs (which is shown by inefficient allocation of financial resources). Another group of problems could be related to putting their partnerships with suppliers and distributions in danger by not paying their financial obligations on time, or using other inappropriate approaches.

Other reasons for low scores in this criterion, which have been identified in the empirical research, are related to the inefficient use of technology and not succeeding in providing adequate information for decision making. It is very difficult to make decisions and implement continuous improvement without adequate data.

The medium-quality (3*) hotels are not very successful in managing their employees, which is clearly visible from their low score of 51,08. Specific problems can be found in including employees into the assessment of work efficiency, informing employees about business issues and listening to their suggestions. Quality

can be achieved only if employees are included into all aspects of improving the business and if they feel that their suggestions are implemented and appreciated by management, which is not the case in many Croatian hotels.

The last area which should be improved is the social responsibility of the analysed hotels, especially in medium-quality (3*) hotels, with the low score of 58,9. The specific problems to be solved include comparison with competitors, providing help to the local community and better management of hotel's reputation.

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