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# The role of hotel owners: the influence of corporate strategies on hotel performance

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## Abstract

**Purpose** – The purpose of this paper is to examine corporate strategic effects on hotel unit performance. Taking a hotel owner's perspective, the relationship between four types of the owner's corporate level strategies and the hotel property financial performance are examined.

**Design/methodology/approach** – This study is built on a secondary data set provided by Smith Travel Research. A total of 2,012 hotels across the USA were analyzed for the period between 2003-2005.

**Findings** – The findings support the existence of corporate effects in the US lodging industry. It is revealed that a hotel owner's corporate strategies do influence hotel property level financial performance. Specifically, a hotel owner's expertise in implementing superior strategies regarding segment, brand, operator, and location (i.e. state) are critical to hotel unit financial performance.

**Research limitations/implications** – The main limitations of this study include the limited number of years with available data, lack of knowledge on the names of hotel owners, brands and operators, and the performance measures focusing only operating but not value/return measures.

**Practical implications** – This research shows that a hotel owner can have significant influence on the operating performance of its hotel properties by implementing strategies regarding its properties' locations, segments, brand affiliations and operators. Specifically, brand affiliation has shown a consistently larger impact on both revenue and profit than other corporate strategies, and consequently should receive particular attention from the owner to carefully assess the brand's potential contribution before engaging in a franchise agreement.

**Originality/value** – This research expands the strategy research in the hospitality field by linking two key strategy constructs – corporate effects and corporate strategy – together and by revealing their collective influence on hotel performance.

**Keywords** United States of America, Hotels, Corporate strategy, Hospitality management, Hotel performance, Financial performance

**Paper type** Research paper

## 1. Introduction

Literature regarding strategic management typically distinguishes between business and corporate strategies. Business strategy deals with the ways in which a single-business firm, or an individual business-unit of a large firm, competes within a particular industry or market, while corporate strategy deals with the ways in which a corporation manages a set of businesses together (Bowman and Helfat, 2001). The

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relative importance of business-unit factors in determining performance differences of business-units between firms has been widely documented, and the literature has revealed that industry plays a critical role in affecting business-unit profitability. However, previous research has produced mixed results regarding the corporate effects, which were widely defined as the effects of corporate-level factors on the performance of a business-unit. While it is suggested that the influence of corporations on business units may vary in different industries, little empirical research has been conducted to examine the magnitude and the sources of corporate effects within specific industries.

In the field of hospitality management, previous studies regarding corporate-level strategies have primarily focused on topics of branding, franchising, internationalization, and leadership. Partially due to the lack of available industry-wide hotel performance data, little hospitality strategy research has been conducted on one of the most important dependent variables of strategic management – financial performance (Okumus, 2002; Tse and Olsen, 1999). Although a few recent studies, all built on national data sets provided by Smith Travel Research (STR), have sought to compensate for this limitation and have revealed that hotel firms' and/or owners' strategies regarding branding, franchising, and service may have significant effects on hotel financial performance (O'Neill and Mattila, 2010; O'Neill and Xiao, 2006), there is no known comprehensive research that incorporates and focuses on multiple hotel strategy and/or competence constructs.

Moreover, industry practitioners have long argued that hotel owners play critical roles in the hotel industry, and they implement different strategies to improve the performance of their hotels. However, despite a large number of articles and discussions regarding the importance of hotel owners found in industry trade magazines and at industry conferences, the perspective of hotel owner has not yet received much attention in the literature. Particularly, little has been studied with regard to the effects of hotel owner corporate-level strategies on property-level performance. Consequently, whether or not corporate effects exist in the hotel industry and how hotel owners' corporate-level strategies affect property-level performance remain unknown. Answers to these questions are of great importance because they can improve our understanding regarding the role of hotel owners in the hotel industry.

The objective of this research is to complement existing research regarding corporate effects and hospitality strategic management by studying corporate effects in the hotel industry from a hotel owner's perspective. Specifically, this study aims at addressing the following two research questions:

(1) Do corporate effects exist in the hotel industry?

(2) Can a hotel owner's influence on property financial performance be attributed to the owner's strategic decisions regarding choice of hotel location, segment, brand, and/or operator?

## 2. Literature review and hypotheses

### *2.1 Corporate effects*

Financial performance of a firm or the business-unit of a firm has been a key dependent variable in strategic management research (e.g. Tse and Olsen, 1999; Olsen, 2004). Strategic management researchers have sought to assess the relative importance of business-unit, corporate, and industry factors in determining performance differences of business-units between firms. While industry and business-unit effects have been widely documented as major factors explaining large portions of the variance in business-unit profitability, previous research has produced mixed results regarding the effects of the corporate-parent (Bowman and Helfat, 2001). While no evidence of corporate effects was reported by Schmalensee (1985), a number of studies have reported the relative importance of corporate effects (e.g. McGahan and Porter, 1997; Rumelt, 1991; Roquebert *et al.*, 1996). However, such corporate effects may range from 1.6 percent (Rumelt, 1991) to 17.9 percent (Roquebert *et al.*, 1996).

Stimulated by Schmalensee's (1985) research, in which significant business-unit and industry effects, but zero corporate effects were found, a number of studies have reported the relative importance of corporate effects (e.g. McGahan and Porter, 1997; Rumelt, 1991; Roquebert *et al.*, 1996). In general, previous research uses accounting measures, such as return on assets, to measure individual business-unit performance, and shows a wide range of estimated corporate effects. While Rumelt (1991) reported a small corporate effect of zero to 1.6 percent using variance component analysis, Roquebert *et al.* (1996) found a 17.9 percent corporate effect with the same statistical method. Measuring business-unit performance with market share, Chang and Singh (2000) indicated that corporate effects ranged from 2.4 to 7.6 percent for the same sample, which was primarily comprised of manufacturing companies.

Among the factors suggested that lead to the inconsistency of estimated corporate effects, researchers have found that the effects of the corporate parent differ for companies in different industries (e.g. Bowman and Helfat, 2001; Chang and Singh, 2000; McGahan and Porter, 1997; Rumelt, 1991; Schmalensee, 1985). McGahan and Porter (1997) report that corporate parent effects are substantially larger for non-manufacturing companies (e.g. agriculture, transportation, services) than for manufacturing companies that were analyzed in the studies of Rumelt (1991) and Schmalensee (1985). Due to the considerable limitations of prior studies, researchers suggest that most results of corporate effects' studies should only be interpreted strictly within the context of their samples (Bowman and Helfat, 2001). Consequently, more research is needed to disclose the specific corporate effects of companies in unstudied industries, including the hospitality industry.

Literature in strategic management has suggested a number of corporate-level factors that affect profitability, including scope of the firm, core competencies, organizational structure, organizational climate, planning and control systems, and corporate strategies (Bowman and Helfat, 2001). Specifically, Bowman and Helfat (2001) suggest that, theoretically, corporate strategy is a subset of total corporate effects on profitability, and corporate strategies that affect these corporate-level factors are believed to influence the firm's profitability.

Strategic management researchers agree that strategies are the results of the strategic analysis of an organization, which focuses on an organization's external environment and its internal context (e.g. David, 2001; Mintzberg, 1990). From a resource-based view of the firm, corporate strategies are considered from an internal perspective, and previous studies have revealed that analysis of internal resources can enable firms to determine their potential or realized sources of competencies and capabilities, and a firm can achieve competitive advantage if its resources are inimitable by its competitors (e.g. Barney, 1991). According to Barney (1991), firm resources include all assets, capabilities, organizational processes, knowledge, etc. that are possessed by a firm and can enable a firm to develop and implement strategies that improve performance.

*2.2 Corporate strategy in the US hotel industry and hypotheses development*

In the hotel industry, there are different corporate players, such as franchisors, management companies, and hotel owners. In the US hotel industry, a hotel owner is typically an individual or institution that is a legal possessor of the realty or realties of a hotel or a group of hotels. In many cases, those who invest in hotels are not the operators who manage the hotels or are involved in daily operational activities. While most hospitality research related to strategic management has focused on the strategies of either properties or franchisors and management companies, such as branding, franchising, and internationalization (e.g. Dev *et al.*, 2002; Tse and Olsen, 1999; Olsen, 2004), little attention has been given to the corporate strategies of hotel owners. As a group, hotel owners own over ten percent of all commercial real estate in the United States, and hotel owners and investors are among the most essential and active stakeholders in the hotel industry (Corgel, 2005).

In the literature on commercial real estate investment, it is apparent that revenue and income related data are fundamentally important to understand the behavior of the commercial real estate market and to estimate the underlying value of any real estate assets (e.g. Corgel, 2005; Capozza and Lee, 1995). Previous studies on non-hotel commercial real estate suggest that corporate offices can affect property-level performance (Capozza and Seguin, 1999). Specifically, Capozza and Lee (1995) suggested that the valuation of properties is based upon capitalizing net operating income (NOI) from the properties, and the value of the properties is fundamental to determining the market value of the ownership company. Similar to the owners of other types of commercial real estate, hotel owners are concerned about the performance of their hotels, because the market value of a hotel is closely, although not perfectly, related to its operating performance (e.g. Corgel, 2005). Although the role of hotel owners in influencing the performance of their properties has been rarely investigated, a notable exception was the study conducted by Brady and Conlin (2004), who compared the revenue performance of two different types of hotel owners, real estate investment trusts (REITs) and non-REITs. They concluded that the REIT-owned hotels do perform better, on average, than non-REIT properties. Compared to non-REIT owners, REITs have claimed a number of performance-improving advantages, such as stronger financial resources, better professional management, and economies of scale (e.g. Ambrose *et al.*, 2000; Woolley *et al.*, 1997). However, whether there is any property difference among REIT hotels, and how the property performance may vary between individual hotel owners remain unknown. Therefore, to expand the literature to include a focus on hotel owners, *H1* is proposed to study the effects of individual hotel owners on their hotels:

*H1*. The variations in property revenue and NOI performance are affected to a statistically significant degree by hotel ownership.

As a profit-driven entity, hotel owners buy/sell/develop hotel properties to seek an acceptable return on investment. The link between a hotel property's market value and the hotel's financial performance indicators, including average daily rate (ADR), occupancy rate, and NOI, has been well established (e.g. O'Neill, 2004). It is to be expected that non-operating hotel owners, both individual and institutional, implement relevant strategies to maximize the financial performance of hotel properties. A non-operating hotel owner can generally make significant, corporate-level strategic decisions regarding:

- at which location(s)/market(s) to possess a property/properties;
- which type(s) of hotels to possess;
- whether to affiliate with hotel brand(s), that is, whether to obtain brand(s) for their properties, and with which brand(s) to affiliate; and
- which operator(s) (management company/companies) will be retained to operate the property/properties.

While the effects of a superior hotel location on profitability have been well recognized by hotel owners (e.g. Imperiale, 2002), previous research has also suggested the performance of different hotel types may vary in different time periods. It is suggested that limited-service hotels are less affected by an unfavorable economic environment than full-service hotels because of their relatively lower fixed costs; while in a favorable economic environment, limited-service hotels can be affected more quickly by the new supply than full-service properties, because the development cycle of limited-service hotels is much shorter (Imperiale, 2002). A more recent study conducted by O'Neill and Mattila (2006) supports this argument by revealing that the most profitable hotel type in 2003 was the economy segment. Based on findings in the literature, one could argue that, some aggressive hotel owners seeking return maximization may like to acquire luxury and upscale hotels if they foresee promising economic growth, some owners seeking risk minimization may tend to acquire limited-service properties if they expect economic downturns, while other owners may diversify their hotels in different segments to seek balanced return and risk in the long-term. However, research is lacking regarding the topic of hotel owner's strategic decisions related to hotel type(s).

Moreover, Corgel (2002) reported that, in the hotel investment community, the conventional wisdom holds that superior return on hotel investment cannot occur without brand affiliation and superior management. Among a number of benefits of brand affiliation is the positive influence on hotel sales and profitability (e.g. Hayes and Ninemeier, 2007). Literature also suggests a link between brand and hotel value indicators such as ADR, occupancy, RevPAR, NOI, and hotel sale price (e.g. O'Neill and Mattila, 2010; O'Neill and Xiao, 2006). However, the only empirical study focusing on the effects of brand affiliation and hotel operator does not reveal a significant relationship between investment return and the combination of management and brand affiliation (Hanson, 1991).

Furthermore, there is high consensus that the financial success of a hotel depends, in large measure, on the quality and skill of its onsite operator (e.g. Hayes and Ninemeier, 2007). Hotel operators, or management companies, can be classified in different ways. A common classification is first-tier and second-tier operators, which also refers to branded and non-branded managers (e.g. Hayes and Ninemeier, 2007). The first-tier operators, or branded managers, are the hotel companies that operate hotels for owners using their respective hotel brands (e.g. Marriott, Hilton), while the second-tier operators operate hotels but do not possess a recognized hotel brand name (e.g. Interstate, Winegardner and Hammons). Historically, the management contracts between hotel owners and operators heavily favored management companies (e.g. Simons, 1994). However, since the mid-1980s, the relative bargaining power began to shift towards owners due to increasing competition among operators, increasing owner sophistication and experience in the hotel business, and increasing transparency of operating information (e.g. Eyster, 1996). From the perspective of the owner-operator relationship, hotel owners can significantly influence their hotels' operators through different asset management skills, and many hotel owners have explicitly claimed that such capability of monitoring the operators is an important core competency.

To summarize, although hotel owners may not operate their hotels directly, they can influence their properties indirectly through various strategies in choosing location(s), segment(s), brand(s), and operator(s). Therefore, these four corporate-level strategies are proposed as potential sources of corporate effects as specified in *H2*:

*H2*. The revenue and NOI performance of a hotel is associated with its owner's strategies regarding (1) location, (2) segment, (3) brand affiliation, and (4) operator.

## 3. Methods

### *3.1 Sample*

Similar to the previous studies on hotel financial performance, the sample for this research was provided by STR. The overall time frame of the study covered a three-year period between 2003 and 2005. To effectively test the proposed hypotheses, annual data regarding the following variables were analyzed for each hotel between 2003 and 2005: rooms revenue per available room (RevPAR), NOI, hotel age, hotel size (i.e. number of rooms), room price level, location (i.e. state), segment, brand affiliation, operator, and owner. The sample consisted of a total of 2,012 hotels with such information. Among the 2,012 hotels, 684 hotels also provided NOI information. To use the largest available sample, all the 2,012 hotels (6,036 cases) with RevPAR information form the base sample – Sample A, while the 684 hotels with both RevPAR and NOI information form Sample B. It should be noted that, to ensure confidentiality, the information regarding owner, brand, and operator is coded by assigning a unique number to each owner, brand, and operator, and the actual names are not disclosed, based on our agreement with STR.

### *3.2 Variables*

In this study, corporate effects are measured as the variance of the hotel property-level operating performance that can be explained by the different owners of the hotels. To test such effects of the owner, two separate measures of hotel operating performance are used as the dependent variable: the revenue indicator RevPAR (dependent variable of Sample A) and the profit measure NOI per available room (NOIPAR, dependent variable of Sample B). It is apparent that RevPAR and NOI are among the most frequently studied performance measures and are often used by investment analysts as indicators of future returns (e.g. Asree *et al.*, 2009; Cannina *et al.*, 2006; Elgonemy, 2000; Gallagher and Mansour, 2000; Ismail *et al.*, 2002; O'Neill and Mattila, 2010; Sainaghi, 2010). However, neither RevPAR nor NOI is perfect proxy of return, and therefore, only hotel operating performance but not the investment return is the focal dependent variable of this study.

The predictors of this study include owner, location (state), segment, brand affiliation and operator. Overall corporate effects are examined based on the ownership of the hotels. In Sample A consisting of 2,012 hotels, there are a total of 159 hotel owners, whose hotels are located in 51 states (including Washington, DC), affiliated with 90 brands, and managed by 195 different operators. In Sample B, there are 106 owners, 49 states, 68 brands, and 121 operators. Moreover, hotel segment is determined based on the STR chain scale segments, classifying all hotels into one of six segments: luxury, upper upscale, upscale, midscale with food and beverage (F&B), midscale without F&B, and economy.

In addition to the independent variables, several other variables are controlled in this study since the literature has suggested that they may affect hotel financial performance. First, strategic management research indicates business-unit performance may vary by year. In the hotel industry, it is also widely recognized that the performance of hotels may be affected by hotel size (measured as number of rooms of the hotel) and hotel age (e.g. Corgel and deRoos, 1997; O'Neill, 2004; O'Neill and Xiao, 2006). Moreover, it is suggested that a hotel owner may have concern for a hotel's relative performance compared to the other hotels in a particular market, and may favor investment in hotels at certain competitive standing level(s) than the ones at other level(s). Consequently, the owner's corporate strategies may be affected by such preference and should be controlled in this study. According to STR, such relative standing within a hotel's competitive market is measured as price level, and each hotel is compared to the competitors in its respective market based on this hotel's actual ADR level. Therefore, based on the information provided by STR, "room price level" is included as another control variable in this study.

### *3.3 Statistical procedure*

Literature has established that variance components analysis (VCA) is the most appropriate statistical method to examine corporate effects (Bowman and Helfat, 2001). As a technique used to apportion variance in a continuous dependent variable across a number of independent variables, VCA is commonly used in strategic management research involving comparisons of the relative influence of various factors on firm performance (e.g. Adner and Helfat, 2003; Chang and Hong, 2002; Chang and Singh, 2000; Crossland and Hambrick, 2007; McGahan and Porter, 1997; Roquebert *et al.*, 1996; Schmalensee, 1985; Rumelt, 1991). While previous VCA studies have employed either fixed-effect models (e.g. Schmalensee, 1985), random-effect models (e.g. Chang and Singh, 2000; Rumelt, 1991), or both (e.g. Crossland and Hambrick, 2007; McGahan and Porter, 1997), this study employs random-effect models estimated with the restricted maximum likelihood technique. This approach is suggested to avoid potentially confounding effects caused by the order of entry of the independent variables, which may associate with fixed-effect models and other estimation techniques such as least squares (e.g. Chang and Hong, 2002; Crossland and Hambrick, 2007; Roquebert *et al.*, 1996).

While the random-effect VCA approach estimates the variances attributable to the independent variables, it does not disclose whether each independent variable is statistically significant. Therefore, several notable studies on corporate effects also adopted fixed-effect models, in which the independent variables were alternatively treated as fixed factors, to supplement the random-effect VCA models and to estimate the statistical significance of the independent variables (e.g. McGahan and Porter, 1997; Rumelt, 1991). Similarly, this study employs the fixed-effect general linear model (GLM) procedure to study the significance of the eight proposed variables. As further explained in the following sections, the results of this statistical analysis show the existence of corporate effects on the hotels held by different owners.

# 4. Results

## 4.1 Effects of owner

Descriptive statistics for Sample A and B are presented in Table I. To test *H1*, Model (1) and (2) are tested with GLM and VCA procedures on Sample A (RevPAR as the dependent variable) and Sample B (NOIPAR as the dependent variable), respectively, to show the existence and the degree of importance of the effects of owners on the operating performance of hotels. In this model, $R$, the owner affiliation, is the focused main effect:

$$p_r = \mu + y + a + n + z + R + \varepsilon \tag{1}$$

$$p_n = \mu + y + a + n + z + R + \varepsilon \tag{2}$$

where $p_r$ is the hotel RevPAR, $p_n$ is the hotel NOIPAR, $\mu$ is the constant, $y$ is the year effects, $a$ is the hotel age effects, $n$ is the hotel size effects, $z$ is the room price level effects, $R$ is the owner affiliation, and $\varepsilon$ is the error term.

Results of the fixed-effect GLM procedure are presented in Table II, which indicates that the owner is a statistically significant factor in both samples ($F = 13.27$, $p < 0.001$; $F = 3.28$, $p < 0.001$). Therefore, *H1* is supported. The results of the random-effects VCA procedure, presented in Table III, reveal that the owner explains the largest portion of variance in hotel unit RevPAR, i.e. revenue, and NOIPAR, i.e. profit (71.54 percent and 40.74 percent, respectively). These results reveal that, taking an owner's perspective, corporate effects on unit performance appear to be substantially greater in the hotel industry than in other industries previously studied using similar methodology.

## 4.2 Effects of corporate strategies

To test *H2*, Sample A is tested with Model (3) (RevPAR as the dependent variable) and Sample B is tested with Model (4) (NOIPAR as the dependent variable):

| | Sample A | | | Sample B | | |
|---|---|---|---|---|---|---|
| | $n$ | Mean ($) | SD | $n$ | Mean ($) | SD |
| *Owners* | 159 | | | 106 | | |
| *Hotels* | 2,012 | | | 684 | | |
| *Independent variable* | | | | | | |
| Segments | 6 | | | 6 | | |
| Brands | 90 | | | 68 | | |
| Operators | 195 | | | 121 | | |
| States | 51 | | | 49 | | |
| *Dependent variable* | | | | | | |
| RevPAR | | 58.20 | 30.51 | | 67.57 | 38.58 |
| NOIPAR[a] | | 10,754.38 | 9,219.84 | | 10,754.38 | 9,219.84 |

**Notes:** [a]Among the 2,012 hotels in Sample A, there are 1,328 hotels that only provided RevPAR information, while 684 hotels provided both RevPAR and NOI information. Those 684 hotels form Sample B, and therefore, the NOIPAR figures remain same for Samples A and B

**Table I.** Descriptive statistics

**Table II.**
Effects of owner – general linear model

| *Variable* | Sample A DV = RevPAR df | F | Sample B DV = NOIPAR df | F |
|---|---|---|---|---|
| Year | 2 | 97.55*** | 2 | 14.74*** |
| Hotel age | 1 | 8.42** | 1 | 10.25** |
| Hotel size | 1 | 4.92* | 1 | 38.62*** |
| Room price level | 4 | 304.73*** | 4 | 59.98*** |
| Owner | 158 | 13.27*** | 105 | 3.28*** |
| Adjusted $R$-square | 0.791 | | 0.838 | |

**Notes:** $^{*}p < 0.05$; $^{**}p < 0.01$; $^{***}p < 0.001$

**Table III.**
Effects of owner – variance components analysis

| Variable | Sample A DV = RevPAR Variance percentage | Sample B DV = NOIPAR Variance percentage |
|---|---|---|
| Year | 1.10 | 0.93 |
| Age | 4.83 | 20.11 |
| Hotel size | 7.14 | 23.77 |
| Room price level | 5.62 | 2.58 |
| Owner | 71.54 | 40.74 |
| Error | 9.77 | 11.86 |
| Total | 100.00 | 100.00 |

$$p_r = \mu + y + a + n + m + z + l + s + b + o + \varepsilon \quad (3)$$

$$p_n = \mu + y + a + n + m + z + l + s + b + o + \varepsilon \quad (4)$$

where $p_r$ is the hotel RevPAR, $p_n$ is the hotel NOIPAR, $\mu$ is the constant, $y$ is the year effects, $a$ is the hotel age effects, $n$ is the hotel size effects, $m$ is the owner size effects, $z$ is the room price level effects, $l$ is the location strategy effects, $s$ is the segment strategy effects, $b$ is the brand strategy effects, $o$ is the operator strategy effects, and $\varepsilon$ is the error term.

The results of the GLM analysis are presented in Table IV. All four proposed strategies are statistically significant in both samples. Therefore, *H2(1)*, *H2(2)*, *H2(3)*, and *H2(4)* are fully supported. More importantly, Table V shows the relative importance of these statistically significant strategies with the results of the VCA procedure. Specifically, among the four corporate strategies, segment explains the largest portion of variance in hotel RevPAR (33.23 percent), followed by brand (11.21 percent), while operator and location (state) make less significant contributions in explaining the variance of RevPAR. Regarding the effects on NOIPAR, brand and segment are still the two most important factors, but the order is changed: brand is the number one predictor (26.52 percent), followed by segment (19.96 percent).

Moreover, the results indicate that additional strategies of owners may influence the performance of hotels, because these four strategies could not fully explain the variances in RevPAR and NOIPAR attributable to the owner, although such variances

| | Sample A Model (3)[a] DV = NOIPAR | | Sample B Model (4)[b] DV = RevPAR | |
|---|---|---|---|---|
| | df | $F$ | df | $F$ |
| *Variable* | | | | |
| Segment | 5 | 157.92** | 5 | 34.14** |
| Brand (nested within Segment) | 73 | 11.93** | 52 | 9.95** |
| Operator | 182 | 6.77** | 112 | 1.98** |
| Location – state | 50 | 33.42** | 48 | 9.63** |
| Owner | 158 | 10.68** | 104 | 7.31** |
| *Control variable* | | | | |
| Year | 2 | 158.87** | 2 | 20.14** |
| Age | 1 | 31.01** | 1 | 22.20** |
| Hotel size | 1 | 8.46* | 1 | 80.01** |
| Room price level | 4 | 133.86** | 4 | 28.54** |
| Adjusted $R$-square | 0.889 | | 0.894 | |

**Notes:** $^{*}p < 0.01$; $^{**}p < 0.001$

**Table IV.** Effects of corporate strategies – general linear model

| | Sample A DV = RevPAR Variance percentage | Sample B DV = NOIPAR Variance percentage |
|---|---|---|
| *Variable* | | |
| Segment | 33.23 | 19.96 |
| Location – state | 1.19 | 2.51 |
| Brand (nested in segment) | 11.21 | 26.52 |
| Operator | 5.60 | 3.92 |
| Owner | 21.39 | 18.68 |
| *Control variable* | | |
| Year | 0.64 | 0.73 |
| Age | 0.91 | 0.92 |
| Hotel size | 1.28 | 0.88 |
| Room price level | 4.81 | 5.23 |
| Error | 19.74 | 20.65 |
| Total | 100.00 | 100 |

**Table V.** Effects of corporate strategies – variance components analysis

are reduced from 71.54 percent and 40.74 percent (when these four strategies are not taken into consideration) to 21.39 percent and 18.68 percent (after taking into account these four strategies), respectively. These results support the notion that in the hotel industry, hotel owners do implement multiple strategies to influence their hotels.

## 5. Discussion

The findings of this study confirm the existence of corporate effects in the hotel industry. Compared to other factors that are well recognized in the literature as related to a hotel's operating performance such as hotel size, hotel age, price level, and time (i.e. year), the owner appears to be the most significant factor in that it accounts for the largest variance of a hotel's operating performance. This study supports previous research suggesting that the effects of the corporate parent may be larger in some industries, such as non-manufacturing industries, than in others (McGahan and Porter, 1997). This finding reveals that, in addition to franchisors and management companies that are commonly considered as influences on a hotel's performance, hotel owners play a critical role, in that they not only buy and sell hotels but also have significant influence on their individual hotels' financial performance.

This research supports previous research suggesting that corporate strategies are part of total corporate effects (Bowman and Helfat, 2001). Specifically, in the hotel industry, a non-operating hotel owner can choose strategies regarding: at which location(s) to possess a property/properties; which type(s) of hotels to possess; what brand(s) to affiliate with; and which operator(s) will manage its property/properties. The relative importance of these strategies on hotel performance is assessed in this research. Because hotel segment is defined by STR based on a hotel brand's system-wide ADR and consequently is directly linked to RevPAR, its significant prediction power on RevPAR is not surprising. In addition, the importance of location has been recognized for a long time in the hotel industry. Particularly, from a hotel owner's viewpoint, it is suggested that a hotel investment is only as good as its local market, because the revenues of a hotel are highly correlated to the economy of the local market (Corgel, 2002).

An important finding of this study is the critical role of brand affiliation, which explains a large portion of variance in both RevPAR and NOIPAR. Literature on branding and brand equity has suggested that a good brand is valuable not only to the brand owner (i.e. franchisors) but also to the brand user (i.e. franchisees) and the ultimate consumers of the product/service (e.g. Kim *et al.*, 2003; Roh and Yoon, 2009). While the link between brand and guest satisfaction had been well established, taking a hotel owner's perspective, brand names are also relevant to hotel revenue, profit, and return on investment (e.g. O'Neill and Mattila, 2010). A study by Kim *et al.* (2003) on 12 upscale hotel brands revealed that a strong brand can contribute to hotel RevPAR through increased brand image, brand awareness, perceived quality, and brand loyalty. Moreover, a study of O'Neill and Xiao (2006) has shown that brand affiliation contributes significantly to a hotel's market value, and certain brands have greater influence on hotel valuations than other brands. While the actual hotel brand names were not made available by STR for this research, results of this study support such a view of "brand power" by revealing that some brands have achieved higher RevPAR and NOIPAR levels than others across multiple hotel owners.

While the significant effects of segment, location, brand, and operator on hotel performance is widely acknowledged, from a hotel owner's perspective, how they choose the superior segment, location, brand, and operator strategies is worth further scrutiny. To further investigate the effects of these four identified strategies, we ranked all owners, locations (states), segments, brands, and operators based on the achieved RevPAR and NOIPAR. We identified one group of 16 hotel owners (ten percent of the 159 owners in the base sample) achieving the highest RevPAR and NOIPAR, and another group of 16 owners with the lowest RevPAR and NOIPAR. As shown in Table VI, the segments, locations, brands, and operators for the hotels of the top 16 and the ones of the bottom 16 owners were compared, and the results suggest that the better hotel owners are selective in implementing their segment, location, brand, and operator strategies. First, the top 16 hotel owners focus more on owning luxury, upper

| | Top 16 owners Hotel | Percentage | | Bottom 16 owners Hotel | Percentage |
|---|---|---|---|---|---|
| *Segment* | | | | | |
| Luxury | 5 | 3.21 | Luxury | 0 | 0.00 |
| Upper upscale | 31 | 19.87 | Upper Upscale | 12 | 8.76 |
| Upscale | 38 | 24.36 | Upscale | 18 | 13.14 |
| Midscale w/ F&B | 26 | 16.67 | Midscale w/ F&B | 37 | 27.01 |
| Midscale w/o F&B | 37 | 23.72 | Midscale w/o F&B | 46 | 33.58 |
| Economy | 19 | 12.18 | Economy | 24 | 17.52 |
| Total | 156 | 100.00 | Total | 137 | 100.00 |
| *Top five states* | | | | | |
| California | 32 | 20.51 | Ohio | 17 | 12.41 |
| Florida | 16 | 10.26 | North Carolina | 14 | 10.22 |
| New York | 21 | 13.46 | Arizona | 14 | 10.22 |
| Virginia | 12 | 7.69 | Indiana | 13 | 9.49 |
| Illinois | 11 | 7.05 | Georgia | 13 | 9.49 |
| Total | 92 | 58.97 | Total | 71 | 51.82 |
| *Top five brands* | | | | | |
| Brand 1 | 26 | 16.67 | Brand 6 | 16 | 11.68 |
| Brand 2 | 19 | 12.18 | Brand 7 | 11 | 8.03 |
| Brand 3 | 19 | 12.18 | Brand 2 | 10 | 7.30 |
| Brand 4 | 11 | 7.05 | Brand 8 | 10 | 7.30 |
| Brand 5 | 8 | 5.13 | Brand 9 | 7 | 5.11 |
| Total | 83 | 53.21 | Total | 54 | 39.42 |
| *Top five owners* | | | | | |
| Operator 1 | 30 | 19.23 | Operator 6 | 24 | 17.52 |
| Operator 2 | 14 | 8.97 | Operator 7 | 19 | 13.87 |
| Operator 3 | 11 | 7.05 | Operator 8 | 13 | 9.49 |
| Operator 4 | 14 | 8.97 | Operator 9 | 9 | 6.57 |
| Operator 5 | 17 | 10.90 | Operator 10 | 9 | 6.57 |
| Total | 86 | 55.13 | Total | 74 | 54.01 |

**Note:** Brand and owner names were coded to protect anonymity

**Table VI.** Comparison of best-performing and under-performing owners

upscale, and upscale hotels than the bottom 16 hotel owners, who do not own any luxury hotels but concentrate more on midscale and economy properties. Second, while the 156 hotels of the 16 better-performing hotel owners are in 27 states, nearly 59 percent of them are located in the top five states: California, Florida, New York, Virginia, and Illinois. The 16 under-performing owners have concentrated their hotels in Ohio, North Carolina, Arizona, Indiana, and Georgia.

Moreover, 83 hotels (53 percent) of the best-performing owners are affiliated with only five brands regardless that there are a total of 30 brands in this sub-sample. Noticeably, only one of these five brands (Brand 2) is adopted extensively by the under-performing owners. Finally, while 31 operators are retained by the 16 best-performing owners, 86 hotels (55 percent) are managed by only five operators, and none of these five operators are retained by the under-performing owners. Although the actual names of hotel brands and operators are not available, one potential interpretation of these results is that the best-performing owners have realized/achieved the power of certain segments, locations, brands, and operators, and consequently they have adopted their strategies accordingly, seeking to make their hotels associate with certain "better" segment(s), location(s), brand(s), and operator(s).

## 6. Practical implications

The study's findings provide several important implications for practitioners in the hotel industry. First, this research clearly shows the importance of the owner's relationship to the performance of its hotel properties. As an industry that is heavily franchised and requires specific managerial expertise, hotel franchisors and management companies have received the primary attention pertaining to hotel property performance. However, a non-operating hotel owner can, indeed, have significant impact on the performance of its hotels through implementing a number of corporate-level strategies. Specifically, to decide whether to build, retain, buy, or sell a hotel, the owner is indeed making strategic decisions regarding a hotel's location, segment, brand affiliation, and operator.

In addition, the findings support the notion that hotels in certain locations and segments, affiliated with certain brands, and managed by certain operators can achieve superior revenue and profit. Therefore, for hotel owners, choosing the most appropriate locations, segments, brands, and operators are critical to the performance of their hotels. For hotel franchisors and management companies, proving their capabilities in bringing superior performance to the hotels will create competitive advantage.

Furthermore, this study reveals that, although all significant, the magnitude of the above mentioned factors are different. While little surprise exists in seeing a hotel's revenue affected largely by segment, brand affiliation has shown a consistently larger impact on both revenue and profit than location and operator. Therefore, hotel owners should pay particular attention to the brand and carefully assess the brand's potential contribution to the hotel before engaging in a franchise agreement.

It is also worth noting that segment, location, brand, and operator strategies often work together rather than separately, particularly in new hotel development projects and in hotel acquisitions. For an existing hotel, change in one factor may cause change in another factor, such as that shown in the relationship between brand and operator. In addition, a hotel owner's decision regarding quality and facility upgrading or downgrading may also involve changes in brand and/or segment. Therefore, multiple strategies are often adopted simultaneously and a hotel's performance depends on these collective effects. Therefore, hotel owners should not rely on one particular strategy while ignoring the potential effects of others.

## 7. Conclusions and limitations

The purpose of this study is to explore corporate effects in the hotel industry from a hotel owner's perspective. To the best of our knowledge, this study is the first of its kind to examine corporate effects in the context of the hospitality industry, and consequently adds value to hospitality management research. This research expands the strategy research in the hospitality field by linking two key strategy constructs – corporate effects and corporate strategy together and by revealing their collective influence on hotel performance. This study concludes that corporate effects exist in the hotel industry. Compared with other factors such as hotel size, hotel age, price level, and time (i.e. year), the owner is indeed the most significant factor in determining a hotel's operating performance. Moreover, this research expands the literature on corporate effects by examining the underlying sources of corporate effects. Study findings indicate that corporate strategies can be effective sources of corporate effects because a hotel owner can influence its portfolio through implementing certain corporate strategies, while the degree of importance may vary by strategy. Specifically, an owner's strategic decisions regarding segment, brand, location and operator are important factors that influence both revenue and profit.

Several limitations are associated with this study and provide directions for future research. First, corporate strategy is a focal factor examined in this research. However, corporate strategy only represents one source of corporate effects, while literature has suggested a number of other potential sources of corporate effects, such as organizational structure, organizational climate, planning and control systems, etc. (Bowman and Helfat, 2001). Future research incorporating other sources of corporate effects is needed to further our understanding regarding these topics.

Second, although the STR database is the largest available in the hotel industry, it does not disclose actual names of owners, brands, and operators, which in turn limits interpretation of the results. A particularly interesting question for future research is: Which owners, brands, and operators are superior or inferior to others? Future studies linking specific brand, operator and owner names will be able to further examine firm-specific characteristics and their effects on hotel performance. Another limitation of the STR database is that it only consisted of the hotels in the US at the time of this study. Therefore, whether the findings can be generalized to the hotel industry in other countries remain unknown. For example, a recent study shows that, when well-established brands pursue international expansion through management contracts, their core competence related to their management expertise, such as human resources, may be influenced (Gannon *et al.*, 2010). Panvisavas and Taylor's (2006) study also revealed that the practice of management contract was different in Thailand compared to in the USA. Consequently, it is reasonable to suspect that the effects of brand and/or operator on hotel financial performance may vary in different countries. However, since the US-based STR became STR Global after it merged with the U.K.-based market data provider The Bench and Deloitte's HotelBenchmark™ in 2008, hotels in more countries, particularly in Europe and Asia, have increasingly participated in the new STR Global's database. When data from more countries become available, similar studies could be conducted to investigate and compare how hotel owners' corporate strategies could affect hotel performance in various countries.

Third, this research focuses on the operating performance of hotels, measured as RevPAR and NOIPAR, but does not take into consideration the value or investment of the hotels. A hotel's operating performance (i.e. RevPAR and NOIPAR) is related to the owner's investment in the particular hotel. While a hotel's operating performance is essential to its value, one of the ultimate goals of hotel owners is to achieve superior, or at least acceptable, return on investment. Hypothetically, a hotel may have the highest possible RevPAR and NOIPAR, but may be still unprofitable to its owner because of excessive investment cost. Future research linking hotel owners' strategies to their desired and/or realized return on investment will be particularly valuable to the hotel investment community.

Fourth, this research builds on a convenience sample only with information from 2003 to 2005, which limits the generalizability of the results. While having more than one year's data can help to partially assess the "year" effects, the revenue and profit performance of the whole hotel industry greatly improved from 2003 to 2005, and consequently, these three years represent a recovery period with a favorable market environment. However, the financial performance of hotels in different segments and locations may vary in different market environments, and hotel owners may adopt different strategies in less favorable market environments. Particularly, this study only measures "location" as the state where a hotel was located. However, hotel locations could also differ by region, metropolitan statistical area (MSA), or other factors (such as city, suburban, highway, airport, resort, etc.). It is possible that, in certain years and in certain economic environments, the variances in hotel operating performance may be reflected in different cities or different location types but not by state. While the current available data prevented this study from examining any changes in strategies over time, future research studying a full life-cycle of the hotel industry and/or comparing different location types, when such data become available, would reveal a more complete picture on the effects of the corporate strategies.

Finally, this study focuses only on the realized strategies of hotel owners. Literature has suggested a number of internal and external factors that may affect the realization of corporate strategies, such as organizational structure, organizational culture, managerial capabilities, financial capabilities, market dynamics, and industry macroculture, etc. (e.g. D'Aveni, 1990; Harrison and Enz, 2005). Strategic decision making of organizations is one of the key concepts in strategic management and has been intensively studied from different paradigms, including rationality and bounded rationality, politics and power, and garbage can. Specifically, in the hotel industry, previous research indicates that, before the establishment of a long term franchise/management contract agreement, hotel owners and franchisors/operators evaluate each other with a number of criteria to assess the potential of reaching a successful long term partnership (e.g. Altinay, 2006; Jambulingham and Nevin, 1999). Therefore, it is possible that a hotel owner, even with the knowledge of superior location(s), segment(s), brand(s), and operator(s), may lack necessary capabilities and/or resources to pursue the desired strategies. Future studies regarding the factors influencing the development and implementation of hotel owners' corporate strategies will shed further light on the topics of corporate effects and core competencies of lodging organizations.

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