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Corporate brand and hotel performance: A resource-based perspective

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ABSTRACT

Grounded in resource-based theory (RBT), our study analyzes the conditions that drive the effect of corporate brand on firm performance. Using a five-year panel of Spanish hotels, our results confirm that hotels with a corporate brand have greater profitability. Consistent with RBT, this effect is stronger when the corporate brand is more valuable to customers (e.g., in the lower-quality segment), when it is more difficult to imitate (e.g., older brands), and when it is exploited through specific organizational governance mechanisms (e.g., vertical integration). Contrary to RBT, we found that the effect of corporate brand on hotel's profitability is stronger when the use of corporate brand is less rare (e.g., when more hotels located in close proximity use corporate brands). Thus, the results provide general support for RBT, but also make an important qualification regarding the effect of resource rarity in industries where there may be agglomeration effects.

1. Introduction

Companies can decide whether to use different brands across different products or a corporate umbrella brand that covers all of their products and services (Aaker, 2004). Compared to individual brands, corporate brands may provide a more solid basis for differentiating products and services because "although products or services tend to become similar over time, organizations are inevitably very different" (Aaker, 2004: 10). Moreover, the use of a corporate brand makes brand management less costly (Rao, Agarwal, & Dahlhoff, 2004) and it ultimately has the potential to generate a sustainable competitive advantage (Balmer & Gray, 2003). However, we do not know yet under what conditions the corporate brand can have greater impact on financial performance.

Resource-based theory (RBT) provides a useful theoretical lens for explaining and predicting superior firm performance based on the analysis of the firm as a collection of resources (Barney, 1986, 1991; Peteraf, 1993). According to this perspective, a sustainable competitive advantage is generated only when resources are valuable, rare, and difficult to imitate or substitute and the firm's organization allows for the proper exploitation of the resource (Barney, 1995). Although this theory has become central to the field of strategic management, the empirical testing of the theoretical predictions of RBT has been more challenging (Hoopes, Hadsen, & Walker, 2003). Some scholars argue that RBT is tautological in its core and, thus, not subject to empirical test (Priem & Butler, 2001), mainly because of problems to parameterize the concepts of value, rarity, and inimitability (Hoopes et al., 2003; Kraaijenbrink, Spender, & Groen, 2010; Priem & Butler, 2001).

In this paper, we present an empirical study of the corporate brand as a strategic resource that overcomes the problems of parameterizing the RBT and the four key elements of the Value-Rarity-Inimitability-Organization (VRIO) framework (Barney, 1995). More specifically, we analyze the circumstances under which the use of a corporate brand may have a greater impact on firm profits, arguably when a corporate brand provides greater value, it is rarer and more difficult to build, and it is exploited through proper organizational arrangements.

To address this research question, we use a unique dataset of Spanish hotels. Spain was the third most visited country in the world in 2016 (UNWTO, 2016) with a highly competitive hotel industry,[1] represented both by domestic and global players. Critical in our study, we can distinguish between hotels within a specific company that use the corporate brand name (e.g., NH Hotels) and those that do not, which are typically smaller chains or independent hotels that use individual brand names for each hotel. This distinction allows us to measure the effect of a corporate brand on the financial performance of each individual hotel, regardless of whether they are independent hotels or part of a chain, using or not a corporate brand within the hotel chain. We believe that using the hotel industry in our study is especially appropriate because, unlike most extant research, we can identify, isolate, and measure the four features of strategic resources.

Our empirical results confirm that a corporate brand is indeed a strategic resource that helps individual hotels to obtain higher profits

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[1] Spain ranked first among 141 countries in the Travel and Tourism Competitiveness Index of the World Economic Forum, 2015.

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per room. We provide strong evidence that the effect on profits increases when the hotel competes in the low-quality segment, the corporate brand is older, or the hotel is vertically integrated. However, we find opposite results to RBT regarding the rarity of using a corporate brand. Contrary to our initial expectations, we find that when hotels with a corporate brand agglomerate in one location close to each other, the profits of those hotels actually increase, despite controlling for differences in location attractiveness. We interpret this finding to be in line with prior research on the agglomeration literature in the hotel industry.

Our study makes two key contributions to the literature on strategic resources and firm performance. First, our results provide clear evidence that the corporate brand is indeed a strategic resource that may improve the performance of hotels. We find that hotels with a corporate brand generally enjoy greater profits per room, but not all of them benefit equally from the use of a corporate brand. RBT serves to identify three critical moderators of the performance implications of the corporate brand for hotels, specifically regarding its value, inimitability, and organizational alignment. Second, our results indicate that hotels with a corporate brand actually benefit from the presence of nearby hotels that also use corporate brands. This result is consistent with previous work on agglomeration benefits in the hotel industry, though it is contrary to our initial expectations about resource rarity from a resource-based view. Thus, our study contributes to clarify the boundary conditions for applicability of RBT and one of its core ideas regarding scarce resources to industries that may be affected by agglomeration effects, such as the hotel industry.

2. Theory and hypotheses

2.1. Corporate brand and firm performance in the hotel industry

There is some empirical evidence of a positive relationship between the use of corporate brands and firm performance (Fetscherin & Usunier, 2012). For instance, Rao et al. (2004) found that firms that use corporate brands have higher intangible value (i.e., higher values of Tobin's q) compared to firms that use a house of brands (i.e., distinct brands that are not linked to the corporate brand). Similarly, Wang and Sengupta (2016) found a positive relationship between corporate brand equity and corporation value.

There are several reasons for the positive performance consequences of corporate branding. The use of the corporate brand can decrease marketing costs through economies of scale (Rao et al., 2004). It also reduces consumer search costs and provides a signal of product quality and consistency, which can be valuable to customers, especially when buying products whose quality can only be assessed after the purchase (e.g., experience goods) (Kirmani & Rao, 2000; Weigelt & Camerer, 1988; Wernerfelt, 1988). Moreover, corporate brands help firms to differentiate themselves in the minds of their stakeholders (Balmer & Gray, 2003).

Within the hospitality industry, there is some evidence of the superior performance of hotels that use a shared brand name (O'Neill & Carlbäck, 2011; O'Neill & Mattila, 2006), although these studies do not specifically examine the relationship between corporate brand and financial performance. Hotel chains may benefit from the advantages gained from using the corporate brand, such as economies of scale in marketing and greater efficiency in creating brand equity (Rao et al., 2004), both of which can decrease marketing costs. The use of a corporate brand also allows hotels to exploit the homogeneity of services offered to consumers, which makes its brand a signal of hotel quality (Ingram, 1996; Wernerfelt, 1988). The corporate brand can serve as a guarantee of hotel quality to the extent that its shared reputation would be damaged if even one hotel offers poor quality service. Given the lower marketing costs and the possibility of creating a differentiation advantage for hotels that use a corporate brand, we can formulate our baseline hypothesis:

H1. There is a positive relationship between the use of the corporate brand and an individual hotel profitability.

2.2. The value of a corporate brand for hotels

Unfortunately, the conceptualization of resource value as the fundamental feature of strategic resources has been problematic because it may be defined in terms to the capacity of a resource to increase firm performance in the first place (Priem & Butler, 2001). To overcome this tautological definition, researchers have begun to identify the conditions under which different resources can be more or less valuable (Schmidt & Keil, 2013).

In the context of the hotel industry, we argue that the corporate brand will be less valuable when the hotel already possesses other resources that also signal high quality, particularly, the number of stars, as a critical gauge of a hotel's quality. Prior literature has shown that the effectiveness of corporate brand as a quality signal decreases when there are other signals providing information about quality (Biong & Silkoset, 2014). Thus, we should expect a substitution effect among different signals of quality, such that the signal's relevance will decrease when it is used with another signal that provides similar information about unobservable quality (Basuroy, Desai, & Talukdar, 2006).

In the context of the hotel industry, the potential value that a corporate brand can bring to a particular hotel depends on the particular features of the hotel and the extent to which adding a corporate brand can have a substantial impact on consumer perceptions of hotel quality. Hotels that compete in the high-quality segment (i.e., five-star hotels) already offer their guests an enhanced bundle of services through tangible elements such as more facilities, greater service variety, and larger rooms. Hotels with more stars guarantee to provide higher quality to its customers, but this inherent higher quality also limits the relative benefit that a corporate brand can bring to the hotel. Conversely, the corporate brand may provide relatively greater value to hotels that compete in the low-quality segment (i.e., hotels with fewer stars) because these hotels are more limited as a collection of resources, so that the addition of a new resource (i.e., a corporate brand) can potentially have a greater impact on hotel performance. Thus, from a resource-based perspective, a corporate brand should be less valuable as a guarantee of quality for customers of the higher-quality segment.

H2. The positive effect of a corporate brand on hotel profitability is greater for hotels competing in the low-quality segment than for hotels with greater number of stars.

2.3. The corporate brand as a rare resource for hotels

According to RBT, having a valuable resource is insufficient to generate a competitive advantage if other firms also hold this resource. Thus, a resource must also be rare, that is, controlled by a small number of competitors (Barney, 1991). If a resource is valuable but common and widely available, it can only be a source of competitive parity, whereas if it is valuable and rare, it has the potential to create a competitive advantage.

This generic idea about the need for strategic resources to be rare can also be applied to corporate brands in the hotel industry. A corporate brand should have greater impact on the hotel's performance, when any other hotel uses a corporate brand in a given location; in other words, if having a corporate brand is relatively rare among the hotels in the area. In contrast, if there are no limits to competition (Peteraf, 1993) and many hotels have access to a corporate brand, its use can hardly provide any advantage. Thus, based on RBT, we can expect that the greater the percentage of hotels that use a corporate brand in a given geographical area, the smaller the potential positive