Hotel Guest Satisfaction and Brand Performance: The Effect of Franchising Strategy

John W. O'Neill
Anna S. Mattila
Qu Xiao

ABSTRACT. The value and significance of guest satisfaction, brand management, and franchising in the hotel industry have been well documented and researched as independent topics. While previous research has suggested that franchising has an overall negative effect on hotel quality, it has rarely investigated the important links between hotel brand performance and guest satisfaction, and the role of brand franchising strategy in the relationship between hotel brand performance and guest satisfaction. This study examines the relationships among guest satisfaction, revenue performance and growth, and franchising strategy at the hotel brand level. Results indicate that guest satisfaction is a key to brand growth, while the positive effect of guest satisfaction on brand revenue performance is moderated by the extent of franchising within each brand. doi:10.1300/J162v07n03_02 *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <http://www.HaworthPress.com>*

KEYWORDS. Guest satisfaction, brand management, brand performance, franchising strategy

---

John W. O'Neill (E-mail: jwo3@psu.edu), Anna S. Mattila (E-mail: asm6@psu.edu), and Qu Xiao (E-mail: quxiao@psu.edu) are affiliated with the School of Hospitality Management, The Pennsylvania State University, University Park, PA 16802.

Journal of Quality Assurance in Hospitality & Tourism, Vol. 7(3) 2006
Available online at: http://jqaht.haworthpress.com

doi:10.1300/J162v07n03_02

INTRODUCTION

Brand management and guest satisfaction are two important topics of both research and practice within the field of hospitality management (Kim & Kim, 2004). As hotel companies have increasingly evolved from hotel management organizations to hotel branding organizations, and concomitantly have become multi-branded, brand managers are facing a greater challenge of standing out in a crowded marketplace. In its widely recognized forecast of industry trends, the International Society of Hospitality Consultants has regarded branding as one of the top ten critical issues that the hotel industry has to address because increased competition between the brands is affecting the hotel industry in many ways, including "leading to amenity creep and diverging interests between owners and brands" (Richter, 2004).

Although it has long been recognized that customer satisfaction is positively associated with stock price, return on assets, market share, market value of the firm, and overall corporate performance (e.g., Zeithaml, 2000), little research has directly examined how guest satisfaction influences hotel brand performance. In this study, we focus not only on the relationship between guest satisfaction and revenue performance indicators (i.e., occupancy and average daily rate) at the brand level, but also the effect of the brand franchising strategy on this relationship. Although previous research suggests that brand occupancy and average daily rate may be related to guest satisfaction and the degree of franchising within the brand (O'Neill and Mattila, 2004), it remains unclear how guest satisfaction and the brand's franchising strategy affect brand occupancy and average daily rate simultaneously. In this study, we propose that a brand's percentage of franchised properties is an important moderator in the relationships among brand average daily rate, occupancy, and guest satisfaction. In addition, we examine the roles of guest satisfaction and franchising in influencing brand growth.

Guest Satisfaction, Brand Management, and Franchising

The importance of branding and customer satisfaction has been well researched (Zeithaml, 2000; Gruca & Rego, 2005). Facing increasing competition in the marketplace, company executives have come to realize that brand names are among their principal assets (Kapferer, 1997). Research in consumer behavior indicates that brand equity is a multidimensional concept composed of brand loyalty, brand awareness, perceived quality and brand associations (Aaker, 1991; Yoo & Donthu, 2001). Branding is particularly important for services because strong brands enable consumers to visualize and to better grasp intangible service offerings (Kim & Kim, 2004). In fact, branding is an effective way for hotel chains to gain competitive differentiation (Prasad & Dev, 2000). Brand equity is closely linked to customer retention or customer equity (Ambler et al., 2002). Yet, it is difficult to retain existing customers unless they are satisfied with their experiences with the brand. A great deal of research in marketing shows that satisfied customers are more loyal to the brand, more receptive to cross-selling, and more likely to recommend the brand to others (Anderson, 1996; Fornell, 1992; Fornell et al., 1996; Gruca & Rego, 2005). Moreover, loyal customers tend to be willing to pay premium prices for products and services (Zeithaml et al., 1996; Chaudhuri and Holbrook, 2001). Building on the brand-satisfaction link, we propose that hotel brands with more satisfied guests should have greater growth rates (i.e., larger increases in the total number of guest rooms), larger market shares (i.e., higher occupancy rates), and relatively higher prices (i.e., higher average daily rates). Therefore, we propose the following hypotheses in which an earlier year (i.e., 2000) is referred to as "Time 1" and a later year (i.e., 2003) is referred to as "Time 2":

> Hypothesis 1: Hotel brands with higher guest satisfaction at Time 1 will experience higher average daily rate at Time 2.
>
> Hypothesis 2: Hotel brands with higher guest satisfaction at Time 1 will experience higher occupancy rate at Time 2.
>
> Hypothesis 3: Hotel brands with higher guest satisfaction at Time 1 will experience larger increases in the total number of guest rooms between Time 1 and Time 2.

Franchising is regarded as one of the most secure and cost-effective ways to create value for shareholders because hotel companies (franchisors) can use the financial resources supplied by franchisees, rather than risking substantial capital from shareholders, to accelerate growth, to accomplish scale-efficiencies, and to build brand equity. Consequently, hotel companies have increasingly adopted franchising as a growth strategy, in effect granting an agent, or franchisee, the rights to use its name, symbols, and systems in return for payment of franchise fees, generally on a monthly basis (Altinay and Altinay, 2003; Mathewson and Winter, 1985; Shane, 1996). Yet, previous research suggests that franchising might have a negative effect on hotel quality. One study reveals that quality is negatively related to the percentage of franchised properties in hotel chains (Michael, 2000), while another study indicates an adverse relationship between average daily rate, occupancy, and degree of franchising within hotel brands (O'Neill and Mattila, 2004). Although most hotel franchisors have applied various programs to monitor the service quality of their franchisees, it is widely agreed that monitoring and enforcing franchise contracts is difficult and costly for franchisors. As a result, franchisees have the ability and an economic incentive to engage in opportunistic behavior that may be incongruent with the spirit of their contractual responsibilities (Mathewson and Winter, 1985). Specifically, agency theory suggests that, when a franchisee fails to deliver the guaranteed quality prescribed in the franchise contract, he/she can reduce the cost to his/her individual operation, while the cost is borne by the franchisor and the other franchisees (who maintain higher quality). When more franchisees "free ride" on the perceived quality of the franchisor's brand name at the expense of the franchisor and other franchisees within the same franchise system, the overall quality and customer satisfaction of the brand decreases (Brickley and Dark, 1987). Therefore, we believe it is important to consider the effect of franchising percentage on the relationship between guest satisfaction and brands' revenue performance indicators (i.e., occupancy rate and average daily rate). Specifically, we propose that there is an interactive relationship between the percentage of franchised properties and guest satisfaction on brand occupancy rate and average daily rate. Moreover, the change of the percentage of franchised properties within each brand also should affect a brand's average daily rate. Consequently, we hypothesize as follows:

> Hypothesis 4: The percentage of franchised properties within each brand at Time 1 will negatively influence the effect of guest satisfaction at Time 1 on average daily rate at Time 2.

> Hypothesis 5: The percentage of franchised properties within each brand at Time 1 will negatively influence the effect of guest satisfaction at Time 1 on occupancy rate at Time 2.

> Hypothesis 6: Hotel brands increasing the percentage of franchised properties between Time 1 and Time 2 will experience lower average daily rate at Time 2.

METHOD

We collected the data regarding hotel brand guest satisfaction, average daily rate, occupancy, the number of rooms, and the number and the percentage of franchised properties from a variety of sources.

Unlike financial figures such as average daily rate and occupancy rate, guest satisfaction is a relatively subjective construct that varies based on different measures. Although most major hotel brands conduct their own measures of guest satisfaction, these measures are not consistent between the companies and/or over the course of multiple years. Seeking data that were from the same source over the long term, we chose to use the data from the two most recent surveys reported by *Consumer Reports* in 2001 and 2004 (Suite Dreams, 2001; Hotels: 50 Chains, 10 Ways to Save, 2004). *Consumer Reports* periodically conducts large sample surveys regarding hotel guest satisfaction. Their 2001 report consisted of information from approximately 41,000 readers' hotel visits in the United States during 2000, while their 2004 report is based on approximately 35,000 readers' U.S. hotel visits during 2003. Based on our discussions with researchers at *Consumer Reports*, there were at least 160 responses for each brand surveyed during each year. In the questionnaire distributed by *Consumer Reports*, participants were asked to rate their overall satisfaction with their hotel stays (i.e., to answer the question: "Overall, how satisfied were you with your stay at this hotel or motel?"). A rating score of 100 indicated that the participant was "completely satisfied," 80 indicated "very satisfied," 60 "fairly well satisfied," 40 "somewhat dissatisfied," 20 "very dissatisfied," and 0 "completely dissatisfied."

To obtain hotel brand operating information for the same years that were reported in the surveys conducted by *Consumer Reports* (2000 and 2003), we used various sources to gather information regarding average daily rate, occupancy percentage, and the number of guest rooms, as well as the number and the percentage of franchised properties. These sources included company annual reports, annual surveys conducted by *Lodging Hospitality, Hotel Business,* and *Hotel & Motel Management*, and interviews with representatives of the companies themselves. In cases where we found the same item to be reported in more than one of our sources, we found the reported figures for such items to be identical. Moreover, because the companies provided this information to all of the third party reports to which we referred, the companies themselves were the ultimate sources of this information.

In total, we compiled information regarding 26 U.S. based hotel brands. As shown in Table 1, these brands represent 1,617,730 guest rooms, and they account for 54.8 percent of the rooms in the largest 50 U.S. hotel brands (Lodging Hospitality, 2003).These 26 brands also represent all four hotel market segments (luxury, upscale, moderate, and budget) as defined by *Consumer Reports*.

RESULTS

We measured brand size as the total number of guest rooms; thus, brand growth refers to the increase in the number of guest rooms during the period studied. Due to the fact that the data were collected for two different years, for the convenience of the readers, we have coded the year 2000 as "Time 1" and 2003 as "Time 2" in the following discussion.

The first three hypotheses suggest that the hotel brands with higher guest satisfaction at Time 1 will experience (1) higher average daily rate (Hypothesis 1) and higher occupancy rate (Hypothesis 2) at Time 2, and (2) larger increases in the total number of guest rooms between Time 1 and Time 2 (Hypothesis 3). To test these hypotheses, we conducted a series of simple linear regression analyses and observed that guest satisfaction at Time 1 is a significant predictor of average daily rate at Time 2, ($t = 3.793$, $p < 0.01$; adjusted R-square = 0.35). These results lend support for Hypothesis 1. Similarly, Hypothesis 2 is supported because guest satisfaction at Time 1 is also positively associated with occupancy rate at Time 2 ($t = 4.099$, $p < 0.01$; adjusted R-square = 0.38). These results indicate that brands with higher levels of guest satisfaction are likely to achieve higher average daily rates and higher occupancy rates at a later time. Consistent with Hypothesis 3, guest satisfaction at Time 1 is also positively linked to the change in the number of guest rooms of the brands between Time 1 and Time 2 ($t = 2.462$, $p < 0.05$; adjusted R-square = 0.17). That is, the hotel brands with higher guest satisfaction are actually able to increase in size faster than the brands with lower guest satisfaction. This result suggests that offering products and services that meet or exceed guest expectations is critical to brand growth.

Hierarchical regression analyses were used to examine the joint effects of guest satisfaction and franchising percentage on brand average daily rate and occupancy (Hypotheses 4 and 5). In Block 1, segment type (luxury, upscale, moderate, and budget) was included as a control variable. To examine the moderating role of franchising in the relationship between guest satisfaction and average daily rate, guest satisfaction at Time 1, the percent-

TABLE 1. Hotel Brand Statistics (2000 and 2003)

	2000					2003					ADR	OCC.	Rooms	Franch.	Satisf.	Hotel Market Segment
Brand	Occ.	ADR	Satisf.	Rooms	Franch. %	Occ.	ADR	Satisf.	Rooms	Franch. %						
AmeriSuites	69.2%	$81.80	79	17,111	17.2%	65.9%	$67.47	79	18,511	23.6%	–17.5%	–4.8%	8.2%	6.5%	0.0%	Moderate
Best Western	61.3%	$71.61	72	307,719	100.0%	60.9%	$79.00	73	313,683	100.0%	10.3%	–0.7%	1.9%	0.0%	1.4%	Moderate
Clarion	58.8%	$81.37	73	23,872	100.0%	49.2%	$72.27	74	28,081	100.0%	–11.2%	–16.3%	17.6%	0.0%	1.4%	Moderate
Country Inn & Suites	64.4%	$71.93	81	20,648	98.4%	60.4%	$72.45	82	25,981	98.4%	0.7%	–6.2%	25.8%	0.0%	1.2%	Moderate
Courtyard	78.9%	$97.68	80	73,841	50.9%	68.5%	$92.90	80	87,041	51.8%	–4.9%	–13.2%	17.9%	0.9%	0.0%	Moderate
Doubletree	71.1%	$111.27	75	43,210	34.6%	65.0%	$100.47	78	40,639	45.8%	–9.7%	–8.6%	–6.0%	11.2%	4.0%	Upscale
EconoLodge	52.9%	$46.33	63	44,220	100.0%	47.5%	$47.88	64	47,600	100.0%	3.3%	–10.2%	7.6%	0.0%	1.6%	Budget
Embassy Suites	75.0%	$132.73	83	38,510	40.4%	69.1%	$118.94	85	42,553	50.0%	–10.4%	–7.9%	10.5%	9.6%	2.4%	Upscale
Fairfield Inn	69.7%	$61.32	78	41,412	88.0%	64.1%	$64.28	77	49,676	99.6%	4.8%	–8.0%	20.0%	11.6%	–1.3%	Moderate
Four Points	65.2%	$123.54	71	25,760	80.0%	60.6%	$117.59	71	24,984	78.7%	–4.8%	–7.1%	–3.0%	–1.3%	0.0%	Moderate
Four Seasons	76.5%	$340.00	90	14,017	0.0%	67.6%	$331.00	91	15,801	0.0%	–2.6%	–11.6%	12.7%	0.0%	1.1%	Luxury
Hampton Inn & Suites	68.1%	$74.04	81	109,873	96.8%	70.6%	$78.91	83	127,543	99.3%	6.6%	3.7%	16.1%	2.4%	2.5%	Moderate
Hawthorn Suites	71.0%	$87.19	78	13,590	100.0%	64.8%	$78.47	80	10,661	100.0%	–10.0%	–8.8%	–21.6%	0.0%	2.6%	Moderate
Hilton	72.6%	$135.75	77	89,087	79.2%	67.4%	$125.24	79	88,144	69.1%	–7.7%	–7.2%	–1.1%	–10.1%	2.6%	Upscale
Homewood Suites	74.4%	$97.35	82	10,474	66.3%	72.5%	$93.95	85	14,760	70.0%	–3.5%	–2.6%	40.9%	3.7%	3.7%	Moderate

TABLE 1 (continued)

	2000					2003					ADR	OCC.	Rooms	Franch.	Satisf.	Hotel Market Segment
Brand	Occ.	ADR	Satisf.	Rooms	Franch. %	Occ.	ADR	Satisf.	Rooms	Franch. %						
La Quinta Inn/Suites	63.4%	$62.62	77	40,164	0.7%	62.2%	$59.56	75	43,970	25.8%	–4.9%	–1.9%	9.5%	25.1%	–2.6%	Moderate
Marriott	78.2%	$149.50	80	149,221	36.3%	67.6%	$128.53	82	173,021	41.6%	–14.0%	–13.6%	15.9%	5.4%	2.5%	Upscale
Microtel Inn/Suites	63.0%	$45.00	75	17,360	100.0%	54.1%	$49.01	75	18,428	100.0%	8.9%	–14.1%	6.2%	0.0%	0.0%	Budget
Quality	58.8%	$64.05	71	81,277	100.0%	51.6%	$64.19	71	90,489	100.0%	0.2%	–12.2%	11.3%	0.0%	0.0%	Moderate
Renaissance	70.6%	$142.27	82	42,204	62.3%	65.3%	$123.97	81	45,673	40.6%	–12.9%	–7.5%	8.2%	–21.6%	–1.2%	Luxury
Residence Inn	83.5%	$104.88	82	41,350	63.6%	76.2%	$93.85	84	52,781	86.0%	–10.5%	–8.7%	27.6%	22.4%	2.4%	Moderate
Ritz-Carlton	77.5%	$242.26	87	13,018	0.0%	65.7%	$231.12	91	17,489	0.0%	–4.6%	–15.2%	34.3%	0.0%	4.6%	Luxury
Sheraton	74.0%	$147.81	74	128,332	57.5%	65.3%	$129.31	75	134,021	57.5%	–12.5%	–11.8%	4.4%	0.0%	1.4%	Upscale
Sleep Inns	59.6%	$55.82	80	19,569	100.0%	57.5%	$58.01	80	24,508	100.0%	3.9%	–3.5%	25.2%	0.0%	0.0%	Budget
Westin	74.9%	$139.53	78	48,959	11.0%	71.6%	$138.84	83	50,946	20.6%	–0.5%	–4.4%	4.1%	9.6%	6.4%	Luxury
Wyndham	72.6%	$133.65	75	33,704	12.7%	71.2%	$115.29	78	30,746	36.4%	–13.7%	–1.9%	–8.8%	23.6%	4.0%	Upscale
MEAN	*69.4%*	*112*	*78*	*57,250*	*61.4%*	*63.9%*	*105*	*79*	*62,220*	*65.2%*	*–4.5%*	*–7.9%*	*11.0%*	*3.8%*	*1.6%*	

Note: Occ. = Occupancy, ADR = Average Daily Rate, Satisf. = Satisfaction, Franch = Franchise.
Sources: *Consumer Reports*, company annual reports, annual surveys conducted by *Lodging Hospitality, Hotel Business, and Hotel & Motel Management*, and interviews with representatives of the companies conducted by the researchers.

age of franchised properties at Time 1, and the interaction between the two factors were employed as independent variables in Block 2. The regression results are shown in Table 2. Overall, variables in Block 2 accounted for a significant increase in R-square (Change in adjusted R-square = 0.271, $F(3,21) = 15.49$, $p < 0.001$), indicating that satisfaction, franchise percentage, and their interaction term explained a significant amount of the variation in average daily rate beyond that explained by the segment variable. The significant interaction term between satisfaction and franchise percentage ($t = -5.94$, $p < 0.001$) provides support for Hypothesis 4. Similar results were obtained for occupancy rate as a response variable. Again, adding Block 2 increased the model's explanatory power as indicated by a significant change in R-square (change in R-square = 0.405, $F(3,21) = 8.59$, $p < 0.01$). Moreover, the interaction term is significant ($t = -3.472$, $p < 0.01$), thus providing support for the joint effect of satisfaction and franchise percentage on occupancy rate. These results are consistent with Hypothesis 5. In other words, the effect of guest satisfaction on both average daily rate and occupancy rate varies depending on the degree of franchising within the brand. [1]

TABLE 2. The Interaction Effect of Satisfaction and Franchised Percentage

Dependent Variable	Independent Variable	Beta Coefficient	*t*
Average Daily Rate–Time 2	*Block 1*		
	Segment	0.492	4.48***
	Block 2		
	Satisfaction–Time 1	1.028	6.60***
	Franchised %–Time 1	5.978	5.83***
	Satisfaction × Franchised %	–5.818	–5.94***
Adjusted R-square = 0.85			
Occupancy Rate–Time 2	*Block 1*		
	Segment	0.184	0.915
	Block 2		
	Satisfaction–Time 1	–0.183	–0.742
	Franchised %–Time 1	–6.427	–3.626**
	Satisfaction × Franchised %	–5.847	–3.472**
Adjusted R-square = 0.61			

** $p < 0.01$. *** $p < 0.001$.

Hypothesis 6 proposes that hotel brands that increase the percentage of franchised properties between Time 1 and Time 2 will experience lower average daily rate at Time 2. An examination of our data indicates that 12 of the 26 brands experienced franchise percentage increases during the period of time we studied, while the remaining 14 brands showed no growth in franchising. To further examine the effect of franchising on average daily rate, we dummy coded the change in franchise percentage from Time 1 to Time 2 (1 if the percentage increased and 0 if the percentage did not increase) and included it as an additional predictor in the hierarchical regression analysis, testing the effect of guest satisfaction at Time 1 on average daily rate at Time 2. The results shown in Table 3 indicate that the control variable, property segment type ($t = 2.483$, $p < 0.05$), satisfaction at Time 2 ($t = 2.824$, $p < 0.05$), and the dummy variable ($t = -3.287$, $p < 0.01$), are significant predictors of average daily rate at Time 2. The sign for the dummy coded franchise percentage change was negative, thus supporting Hypothesis 6 and suggesting that brands with increased franchising activity during the period of time we studied experienced a significantly lower average daily rate at Time 2. Taken together, these results suggest that higher satisfaction at Time 1 significantly contributes to higher average daily rate at Time 2, but expanding the degree of franchising might have an adverse effect on average daily rate.

TABLE 3. The Effect of Increased Franchised Percentage

Dependent Variable	Independent Variable	Beta Coefficient	*t*
Average Daily Rate–Time 2	*Block 1*		
	Segment	0.435	2.483**
	Block 2		
	Satisfaction–Time 1	0.345	2.824**
	Franchised %–Time 1	–0.325	–1.698
	Satisfaction × Franchised %	0.113	0.678
	Franchised % increased (dummy)*	–0.483	–3.287***
Adjusted R-square = 0.75			

* 1 = franchised percentage increased, 0 = franchised percentage did not increase.
** p < 0.05.
*** p < 0.01.

DISCUSSION AND IMPLICATIONS

As business practices of organizations and as well as the focus of research, the concepts of guest satisfaction and brand management have evolved over time. It is generally believed that guest satisfaction is directly related to the company's profitability (Hepworth and P. Mateus, 1994; Reichheld and Sasser, 1990; Zeithaml, 2000). Consistent with the branding literature, this study provides additional evidence for the positive relationship between guest satisfaction and brand growth. More specifically, brands with higher levels of satisfaction are able to add more rooms to their inventory. Although it can be argued that some lodging companies consider their franchisees (as opposed to the actual guests staying in the hotels) as their primary customers (O'Neill and Mattila, 2004), our findings suggest that satisfied hotel guests are significant drivers of brand growth.

It is interesting to note that 23 out of 26 brands studied achieved guest satisfaction improvements while at the same time many of them were experiencing average daily rate and occupancy decreases. In fact, 18 brands suffered from average daily rate decreases during the recessionary study period. We propose that average daily rate could serve different strategic goals in different market environments. After September 11, 2001, it is more likely that some hotel operators and brand managers voluntarily chose to reduce their average daily rates to maintain or enhance the level of guest satisfaction. It is possible that lower prices might increase customers' value perceptions, thus having a positive effect on satisfaction. For example, Marriott and Wyndham are among the brands that experienced most dramatic drops in average daily rate (-14.0% and -13.7%, respectively) during the period of time studied; on the other hand, they also significantly improved their guest satisfaction during the same period of time (2.5% and 4.0%, respectively).

This study also goes beyond the basic association between guest satisfaction and brand average daily rate, occupancy, and growth by examining franchising as a potentially important moderator of such relationships. Our results indicate that guest satisfaction and degree of franchising within the brand jointly influence average daily rate and occupancy. As an expansion strategy, franchising has certainly contributed to the steady growth of many hotel brands. Hence, it is not surprising that the average number of franchised properties within the brands increased from 61.4 percent in 2000 to 65.2 percent in 2003. However, franchising growth alone is insufficient in explaining average daily rate or occupancy rate. Satisfaction is the other key component in the equation.

Among the brands we studied, several specific cases further clarify the possible effect of franchising on guest satisfaction. For instance, La Quinta Inn & Suites was virtually a franchise-free brand in 2000, but by 2003, 25.8 percent of its hotels were franchised. Unfortunately, such a growth strategy correlated with a decrease in guest satisfaction at La Quinta (−2.6%) during the course of our study period. As another example, Hampton Inn & Suites increased its room inventory by 16.1 percent during the period we studied, with 99.3 percent of its properties being franchised in 2003. Despite this rapid growth, Hampton Inn & Suites experienced improvement in occupancy (3.7%), average daily rate (6.6%), and guest satisfaction (2.5%) during the same period. Such overall success suggests a healthy balance among Hampton Inn's branding, franchising, and service and quality strategies. Westin increased its percentage of franchised properties (9.6% increase) with minimal decreases in average daily rate (−0.5% change) and occupancy rate (−4.4% change). Its widely touted "Heavenly Bed" program, which it implemented during the course of our study, may have contributed to enhanced guest satisfaction (up by 6.4% between 2000 and 2003), which in turn probably acted as a buffer to downward average daily rate and occupancy pressure.

LIMITATIONS AND CONCLUSIONS

As with any other research, the results of this study should be interpreted with qualifications. First, it can be argued that other variables such as economic conditions are likely to influence average daily rate, occupancy, and brand growth. It is thus plausible that the overall change in the economic environment during the study period may have had a differential impact on certain types of brands or certain brands. Second, while the sample accounts for the majority of U.S. branded hotel rooms, guest satisfaction data were generated by *Consumer Reports*. Though *Consumer Reports* is the most complete and consistent source of guest satisfaction data available for a study investigating multiple points in time (as the subject study), as previously discussed, researchers from *Consumer Reports* indicated to us that their average readers and survey participants are slightly older and more affluent than the overall population. In addition, *Consumer Reports* assessed the guest satisfaction with only a single question. Future research could provide more convincing results by incorporating a random sampling process and adopting a more sophisticated, multi-item measurement scale. Third, we restricted our focus to the brand level when, in fact, property level performance (e.g., average daily rate and occupancy rate) may be more or less influenced by each property's respective guest satisfaction level. Property level variables, such as type and size of hotel, could be interesting data to include in future research. Therefore, in the subject research, caution should be taken if one wishes to predict property average daily rate and occupancy rate with brand level guest satisfaction indicators. Fourth, our sample was restricted to the relatively larger brands for which data were available, and, therefore, the findings may not be generalized to smaller hotel brands. Smaller brands may have less difficulty controlling the quality of franchised properties; thus, the moderating effect of franchising may be less significant. The data we obtained would not allow further segmenting of the brands to explore additional details regarding relationships among satisfaction, franchising, and brand performance. If data regarding more brands were to become available, future research could reveal a more complete picture about this topic.

In conclusion, our research suggests that guest satisfaction is a key to brand growth, while the effect of satisfaction on average daily rate and occupancy is more complex. Specifically, the positive relationship between guest satisfaction and brand performance may be negatively affected by the percentage of franchised properties within the brand. Continued research is needed to develop a comprehensive understanding of the complex relationships between guest satisfaction, growth strategy, and brand performance on hospitality companies' ability to develop sustainable competitive advantage and to achieve optimal results over the long term. In the long run, brands with relatively lower satisfaction may become less attractive to guests, and, in turn, become less competitive among franchisees in the marketplace. Whether to expand through selling franchises, to what extent to sell them, and how to balance the efforts and weigh the effects of franchising and guest satisfaction are among the critical decisions for hotel companies' brand management teams.

NOTE

1. After performing complete residual diagnostics, we found no violations of the normality or equal variance assumptions for the regressions conducted.

REFERENCES

Aaker, D. (1991). Managing brand equity: Capitalizing on the value of a brand name. New York: Free Press.

Altinay, L., & Altinay, M. (2003). How will growth be financed by the international hotel companies? *International Journal of Contemporary Hospitality Management* 15 (5), 274-282.

Ambler, T., Bhattachrarya, C., Edell, J., Keller, K., Lemon, K., & Vikal, M. (2002). Relating brand and customer perspectives in marketing management. *Journal of Service Research* 5 (1), 13-25.

Anderson, E. (1996). Customer satisfaction and price tolerance. *Marketing Letters*, 7(3), 19-30.

Brickley, J.A., & Dark, F.H. (1987). The choice of organizational form. *Journal of Financial Economics* 18 (2), 401-420.

Chaudhuri, A., & Holbrook, M.B. (2001). The chain of effects from brand trust and brand affect to brand performance: The role of brand loyalty. *Journal of Marketing* 65 (2), 81-94

Christopher, M., Payne, A., & Ballantyne, D. (2002). Relationship marketing: Creating stakeholder value. Woburn, MA: Butterworth-Heinemann.

Fornell, C. (1992). A national customer satisfaction barometer: The Swedish experience. *Journal of Marketing*, 56, 6-21.

Fornell, C., Johnson, M., Anderson, J., & Bryant, B. (1996). The American customer satisfaction index: Nature, purpose and findings. *Journal of Marketing*, 58, 7-18.

Gruca, T., & Rego, L. (2005). Customer satisfaction, cash flow and shareholder value. *Journal of Marketing*, 69 (3), 115-130.

Hepworth, M., & Mateus, P. (1994). Connecting customer loyalty to the bottom line. *Canadian Business Review* 21 (4), 40-43.

Kapferer, J. (1997). Strategic brand management: Creating and sustaining brand equity long term. Dover, NH: Kogan Page US.

Kim, W., & Kim, H. (2004). Measuring customer-based restaurant brand equity: Investigating the relationship between brand equity and firm's performance. *Cornell Hotel & Restaurant Administration Quarterly* 45 (2), 115-131.

Lodging Hospitality. (2003). Top Brands. Lodging Hospitality, December 2003, pp. 105-114.

Mathewson, G.F., & Winter, R.H. (1985). The economics of franchise contracts. *Journal of Law and Economics* 28 (3), 503-526.

Michael, S.C. (2000). The effect of organizational form on quality: The case of franchising. *Journal of Economic Behavior and Organization* 43 (3), 295-318.

O'Neill, J.W., & Mattila, A.S. (2004). Hotel branding strategy: Its relationship to guest satisfaction and room revenue. *Journal of Hospitality and Tourism Research* 28 (2), 156-165.

Prasad, K., & Dev, C. (2000). Managing hotel brand equity. *Cornell Hotel & Restaurant Administration Quarterly* 41(3), 22-31.

Reichheld, F., & Sasser, W. (1990). Zero defections: Quality comes to services. *Harvard Business Review* (68), 105-111.

Richter, A. (2004). ISHC top 10 list signals shifting priorities. Hotel Interactive, retrieved April 12, 2005 from http://www.hotelinteractive.com/hi_index.asp?page_id=5000&article_id=3934

Shane, S.A. (1996). Hybrid organizational arrangements and their implications for firm growth and survival: A study of new franchisors. *Academy of Management Journal* 39 (1), 216-243.

Yoo, B., & Donthu, N. (2001). Developing and validating multidimensional consumer-based brand equity scale. *Journal of Business Research* 52(1), 1-14.

Zeithaml, Z. (2000). Service quality, profitability, and the economic worth of customers: What we know and what we need to learn, *Academy of Marketing Science* 28 (1), 67-85.

RECEIVED: January 25, 2005
REVISED: April 3, 2006
ACCEPTED: April 20, 2006

doi:10.1300/J162v07n03_02