The effectiveness of managing social media on hotel performance

Woo Gon Kim [a,1], Hyunjung Lim [b,*], Robert A. Brymer [c,2]

[a] *International Center for Hospitality Research, Dedman School of Hospitality, Florida State University, 288 Champions Way, UCB 4116, Tallahassee, FL 32306-2541, United States*
[b] *Dedman School of Hospitality Management, The College of Business, Florida State University, 288 Champions Way, UCB 4117, Tallahassee, FL 32306-2541, United States*
[c] *Dedman School of Hospitality, Florida State University, 288 Champions Way, UCB 4115, Tallahassee, FL 32306-2541, United States*

ARTICLE INFO

ABSTRACT

This paper investigates how managing online reviews affects hotel performance. An international hotel chain provided the hotel performance data and the online review data. A leading social media firm for the hospitality industry collected the online review data, which the hotel company purchased. The results indicate that overall ratings are the most salient predictor of hotel performance, followed by response to negative comments. The better the overall ratings and the higher the response rate to negative comments, the higher the hotel performance. Therefore, online reviews in social media, specifically overall rating and response to negative comments, should be managed as a critical part of hotel marketing.

© 2014 Elsevier Ltd. All rights reserved.

1. Introduction

Social media has revolutionized the way businesses interact with customers. A salient characteristic of today's online business setting is that customers use social networks to nurture and sustain their relationships with others (Joo et al., 2011). With the current ease of online access, social networking sites offer what was never before thought possible: constant connectivity between people (Jansen et al., 2009). Although it has only been in existence for a short while, social media is a phenomenon that is evolving into an important part of all businesses' marketing and client base development strategies. Marketing that was previously achieved using only a traditional website must now be supplemented by an expansive and reactive utilization of social media tools (Forbes, 2012).

One of the most important roles of social media is diffusing information by electronic word-of-mouth (eWOM) (Goldenberg et al., 2001). Research shows that WOM or eWOM on social media sites is one of the most powerful ways to form consumer attitudes about a product or service (Herr et al., 1991; Podnar and Javernik, 2012). Progress in information technology has invigorated online communications among consumers through various media such as travel websites (e.g., TripAdvisor, Expedia, Hotels.com, and Orbitz) and social networking platforms (e.g., Twitter, Facebook, and MySpace). WOM referrals also have greater carryover effects than traditional marketing methods and cause more immediate reactions (Trusov et al., 2009). In this Internet era, eWOM has become more effective than interpersonal WOM communication since anyone can easily spread his/her product or service opinions to strangers via the Internet (Hoffman and Novak, 1996). Accordingly, companies should make serious efforts to understand the impact of online reviews and prepare better marketing strategies to address social media.

Online reviews are a popular form of eWOM, so customers use them to share information about products and services, and the information from online reviews has a critical effect on customer purchase decisions (Chevalier and Mayzlin, 2006; Coulter and Roggeveen, 2012; Zhu and Zhang, 2010). Most online reviews are made up of two parts: overall product assessment (i.e., the ratings) and a description of this assessment (i.e., the arguments) (Schlosser, 2011; Pavlou and Dimoka, 2006). For example, travel websites such as TripAdvisor allow customers to provide an overall rating for a hotel's service using a 5-star rating system as well as detailed comments about their experiences.

Despite the wide popularity of online reviews and the abundance of information available on a variety of online review sites, with the exception of Ye et al. (2011) and Anderson (2012), limited research has been conducted regarding the impact of online reviews on firm performance in service sectors such as hotel, restaurant, and airline industries. Some previous studies on the

* Corresponding author. Tel.: +1 850 228 4257; fax: +1 850 644 5565.
E-mail addresses: wkim@cob.fsu.edu (W.G. Kim), hlim2@fsu.edu, laureles.lim@gmail.com (H. Lim), rbrymer@cob.fsu.edu (R.A. Brymer).
[1] Tel.: +1 850 644 8242; fax: +1 405 744 6299.
[2] Tel.: +1 850 644 8241; fax: +1 850 644 5565.

influence of online reviews have been conducted in the context of consumer product industries (Chen et al., 2004; Chevalier and Mayzlin, 2006; Zhu and Zhang, 2010), but more research is needed to explore this phenomenon in service sectors. Hospitality business practitioners and academics have questioned the overall influence of social media platforms. For instance, marketers have started investing more money and time than ever before on social media to drive customer behavior and create more brand awareness. However, hotel executives are questioning the effectiveness of social media in driving hotel guests' booking behaviors, which in turn leads to room rate premiums and higher occupancy, and top managers and owners are pressuring hotel marketers to justify the increasing budget of social media marketing.

A customer's exposure to online reviews increases his/her awareness of a hotel and amplifies his/her consideration of it (Vermeulen and Seegers, 2009). Positive contents in online reviews increase the number of hotel rooms booked (Ye et al., 2009), thereby improving hotel revenues (Anderson, 2012). Social media has played an increasingly important role in affecting hotel guests' satisfaction and service process enhancement, and social media may influence guests' purchase behavior and hotel performance (Anderson, 2012). Still, despite some of the progress made by the above studies, the understanding of the specific impact of online reviews is still limited, and hotel executives and managers as well as academics in the field of hospitality would benefit from more attention to the subject. Furthermore, researchers have been using survey-based data to conduct most online review studies, and they have focused only on the improvement of review comments or ratings. Although Anderson (2012) examined the effects of online review information such as ratings and number of reviews on price premium, he gathered review information from one website: Travelocity.com. While all previous studies collected review information from one or two websites, this study used composite online information fully representing major online intermediaries. Moreover, the influence of other information related to online review, for example, response to reviews in a real business setting, still requires further investigation. Thus, to fill this void, this study attempts to explore the effect of online reviews and other information related to online reviews on hotel performance. The research uses ADR and RevPAR, which are the most popular hotel performance metrics, to measure each hotel's performance.

2. Literature review and hypotheses

2.1. Customer online reviews as a popular platform of communication

With increasing customer involvement in online reviews, researchers have analyzed the influence of online reviews from a variety of perspectives. For example, Litvin et al. (2008) reported that interpersonal influence, or eWOM, is one of the most salient information sources that consumers use for their purchase decisions in the hospitality and tourism industry. They examined the primary motivations for disseminating eWOM, the originators of eWOM, and the expected consequences of spreading eWOM. O'Connor (2010) collected a data sample for 100 hotels in London from TripAdvisor. He adopted a qualitative approach and identified common reasons among reviewers for posting positive and negative online comments. Also, Hu et al. (2012) demonstrated that the beneficial manipulation of online reviews increased book sales. In addition, Zhu and Zhang (2010) showed that online reviews are more influential for consumers who frequently use the Internet than those who do not because consumers with more Internet experiences already understand the benefits and reliability of the Internet.

2.1.1. The relationship between overall rating and firm performance

Many studies have demonstrated that online reviews affect consumer behaviors, such as purchase intention and product purchasing. According to Noon and McGuire (2013b), who investigated the effects of user-generated content on consumers' prepurchase evaluations of hotel service, positive reviews play a significant role in consumers' evaluations of service quality and value. In the context of the retail business, comprehensive and objective online reviews boost customer purchase intentions (Lin et al., 2011), and improved reviews for a book drive the growth of book sales (Chevalier and Mayzlin, 2006).

In terms of hospitality literature, a 1-point increase in a 5-point review score generates 11.2% of a hotel's room rate premium (Anderson, 2012). Ye et al. (2011) examined the impact of user-generated content reviews on online hotel bookings, and they demonstrated that higher average review ratings lead to higher numbers of online hotel bookings. In addition, user-generated content (UGC) and UGC-derived ratings have a significantly positive effect on hotel choice (Noon and McGuire, 2013a). Also, according to Ye et al. (2009), higher ratings lead to more room bookings. Drawing on the previous empirical support, the following hypothesis is formulated:

H1. A better overall rating leads to greater hotel performance.

2.1.2. The relationship between the number of online reviews and firm performance

The number of reviews a product/service receives has been identified as one of the most important review attributes (Dellarocas et al., 2007; Ghose and Ipeirotis, 2011; Sun, 2012). A greater number of book reviews posted online generates higher book sales for that website because more reviews indicate greater popularity of the book (Chevalier and Mayzlin, 2006). In a similar research, Liu (2006) demonstrated that it is not the valence of WOM but the amount of WOM on movie websites that explains box office revenue; thus the volume of WOM is invaluable in predicting box office sales. Another group of researchers, Ye et al. (2009), utilized the number of reviews as a proxy for the volume of hotel bookings in their study because they thought a posted review could represent a guest's stay at the hotel. According to Zhu and Zhang's study of online games (2010), there is a significantly positive relationship between the number of reviews of online games and the sales of online games. Meanwhile, a positive WOM valence increases the quantity of WOM, which in turn generates higher box office revenues in the movie industry (Duan et al., 2008). The above findings lead to the development of the following hypothesis:

H2. The number of online reviews is positively related to hotel performance.

2.1.3. The relationship between response to negative comments and firm performance

Communication between customers and service providers is a pivotal factor in a service process (Davidow, 2003), and online reviews and responses to customers' online reviews have emerged as an important channel of communication between customers and service providers. Chen and Xie (2008) showed the importance of a firm's responses to online reviews, which help improve the firm's bottom line, and they suggest a company modify its response strategy depending on the type of product it provides. On the other hand, Mauri and Minazzi (2013) conducted experimental scenario research in Italy and found that hotel management responses to guests' reviews have an inverse relationship with purchase intentions, which is contrary to other findings.

Customers' online reviews indicate customer satisfaction or dissatisfaction about the hotel service, and the hotel can react