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Inside your social media ring: How to optimize online corporate reputation

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Abstract Although it is well accepted that corporate communication has a direct impact on corporate reputation, little is known about the link between firms' social media communication strategies and the formation of firms' reputations in an online environment. This article contributes to this body of knowledge by studying the impact of social media communication strategies on firms' reputations. The setting for our study is the hotel industry. The results offer insights regarding the challenges of developing online communication strategies that affect corporate reputation.

> *"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."*—Warren Buffett (Huffington Post, 2013)

1. A new face to an old issue

The personal and organizational costs of reputation loss can be staggering. The Deepwater Horizon accident and British Petroleum's (BP's) actions in its aftermath led not only to multi-billion dollar direct clean-up and business recovery costs—which are still unfolding—but also to a tremendous loss of credibility and stock market capitalization due to compromised reputation.

> "We're sorry for the massive disruption it's caused to their lives. There's no one who wants this thing over more than I do. I'd like my life back."—BP CEO Tony Hayward, on the Deepwater Horizon rig explosion; June 1, 2010 (Goodman, 2010)

> "I made a hurtful and thoughtless comment on Sunday when I said that 'I wanted my life back.' **When I read that recently, I was appalled** [source's emphasis]. I apologize, especially to the families of the 11 men who lost their lives in this tragic accident."—Tony

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Hayward, in a June 2 apology regarding his June 1 apology (Lubin, 2010)

Even when personal safety is not at stake, financial and reputation loss can greatly wound the firm. In the fall of 2013, hackers stole over 38 million private customer data records from Adobe. Previous to the theft, Adobe acknowledged that such losses could "result in litigation and potential liabilities or fines for us, governmental inquiry and oversight, damage our brand and reputation or otherwise harm our business" (Perlroth, 2013).

On the other hand, good corporate reputation might enable a company to charge a premium for products and services, impacting customer preference when competitive services and products of similar cost and quality are available. It could also generate stakeholder support in times of controversy (Cretu & Brodie, 2009).

In summary, reputation is a crucial intangible asset formed as a result of past actions and stakeholders' direct experience. It influences others' expectations of the company and can increase corporate worth, provide sustainable competitive advantage, and ultimately be strongly correlated with firm performance.

Past actions influencing a company's reputation can be communicated with the public and other stakeholders via many channels, from solely traditional (i.e., pre-Internet) public relations to the current media mix including social media. However, there has been very little research that connects and analyses the impact of social media on corporate reputation.

This article delivers a novel and complete understanding of how social media communication strategies impact the formation of firm reputation. We combined several data sources to add richness and depth to our research. Ultimately, we engaged in a qualitative and quantitative analysis of the hospitality sector, a context in which social media is widely used. We chose to focus on the use of social media in tourism and hospitality for two additional reasons. First, the advent of Web 2.0 has forced the sector to rethink the way in which it organizes its business and associated communications. As such, it becomes a particularly interesting application domain in which to study the relationship between corporate reputation and corporate communication. Furthermore, the rapid growth of Web 2.0 applications provides new tools individuals can use—and have used—to create and consume user-generated content regarding hotels, travel destinations, and travel services (Xiang & Gretzel, 2010).

Second, the tourism and hospitality industries sell intangibles and perishable and heterogeneous goods that cannot be evaluated before their consumption (Litvin, Goldsmith, & Pan, 2008). The impact of social media on reputation is particularly relevant in this setting because it increases the public's access to fellow travelers' experiences and accelerates the speed of information exchange (e.g., reactions to bad word-of-mouth information).

Our objective was to understand how online corporate communication influences corporate reputation in an online environment. Managers of firms that aspire to engender a better reputation—as well as the associated benefits—may want to take notice. Results suggest that firms of different levels of reputation (high, medium, low) present different strategies in their communication activities. Furthermore, social media is identified as both an inhibiting and a driving factor regarding evolution of corporate reputation.

This article is organized as follows: First, we briefly discuss corporate reputation and how it is impacted by corporate communication. Then we discuss the role of the Internet and social media in corporate reputation. Finally, we present our findings about the impact of social media on corporate reputation in the Sardinian hospitality industry, both for the literature and for managerial practice across multiple industries.

2. Why is communication important to a firm's reputation?

Superlative handling of a crisis can mitigate long-lasting reputation damage. Johnson and Johnson (J&J), the makers of Tylenol, found this out in 1982 after seven metropolitan Chicago residents died within a very short timeframe. The cause was quickly traced to cyanide-laced Tylenol capsules. As the bottles that had been tampered with were manufactured in different plant facilities, sabotage during production was ruled out; replacement of unadulterated Tylenol bottles with poisoned ones at select retail locations was—and still is—the most commonly accepted explanation. J&J immediately assumed responsibility for public safety and embarked on a U.S.-based recall of Tylenol from store shelves, losing over $100 million in the process (Rehak, 2002). J&J offered a reward of $100,000 for the capture and conviction of the 'Tylenol Killer,' but the reward was never claimed (Sotonoff, 2012). J&J's market share of painkillers went from 37% precrisis to only 7% soon thereafter. Arguably due to public confidence inspired by its handling of the crisis, J&J's market share recovered to 30% just one year later.