



The signaling effect of management response in engaging customers: A study of the hotel industry



Chunyu Li ^{a,*}, Geng Cui ^{b,2}, Ling Peng ^{b,2}

^a Department of Marketing, School of Business, Guangdong University of Foreign Studies, Guangzhou, People's Republic of China

^b Faculty of Business, Lingnan University, Hong Kong

HIGHLIGHTS

- Management response is a continuous, dynamic and reciprocal communication process.
- Response attributes shapes the effectiveness of management response by involving different signaling cost.
- The frequency and speed of response show significant signaling effect and enhance customer engagement on social media.
- Signaling effect of management response is more pronounced for budget hotels than for premium hotels.

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ABSTRACT

Hotels today actively respond to online reviews given their tremendous influence on travelers' decisions. Yet, the questions of how to respond to online reviews continue to baffle hotel managers. By focusing on prospective travelers, we propose the effective management response signals hotels' care for customers and quality of service. Particularly, we postulate the frequency, speed and length of response influence the effectiveness of signaling in reducing information asymmetry. Based on the large-scale field data from TripAdvisor, this study demonstrates that the frequency and speed of response significantly enhance travelers' engagement as indicated by more reviews, higher average valence, more votes for helpfulness, and higher popularity ranking. Furthermore, the frequent and speedy response is more effective for budget (vs. premium) hotels. Thus, management response to online reviews serves as a critical channel of communication to engage customers.

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1. Introduction

Given the tremendous influence of online product reviews, firms increasingly monitor online reviews to understand customer perceptions. Online reviews allow customers to exchange their experiences and evaluation of products or firms and have been proven to be more influential in affecting product purchases than traditional marketing communications (Chevalier & Mayzlin, 2006). The success of hospitality firms on many social media platforms depends not only on whether travelers are willing to

share their opinions, but also on whether firms can enhance competitive advantages by interacting with travelers (Cantalops & Salvi, 2014). The extent to which customers are willing to engage in conversations with other customers as well as the firm can significantly influence a firm's value, as it affects what customers are prepared to tell others, and what insights they are willing to provide firms (Kumar et al., 2010). Consequently, instead of being passive bystanders, hospitality firms are proactive in responding to online review to foster customer engagement.

As a form of proactive intervention on many review platforms, management response has been on the rise due to its public nature (e.g., Gu & Ye, 2014; Xie, Zhang, & Zhang, 2014). By identifying various boundary conditions, researchers have demonstrated that effective response can promote customers' attitude recovery (Lee & Cranage, 2014; van Laer & de Ruyter, 2010), satisfaction (Min, Lim, & Magnini, 2015), trust (Sparks, So, & Bradley, 2016; Wei, Miao, & Huang, 2013), and brand evaluation (Lee & Song, 2010; Rose &

* Corresponding author.

E-mail addresses: chunyuli@ln.hk (C. Li), gcui@ln.edu.hk (G. Cui), lingpeng@ln.edu.hk (L. Peng).

¹ Address: 2 North Baiyun Road, Guangzhou, Guangdong Province, People's Republic of China.

² Address: 8 Castle Peak Road, Tuen Mun, New Territories, Hong Kong.

Blodgett, 2016; van Noort & Willemsen, 2012). Yet, despite management response now being commonplace, its effectiveness in engaging consumers on social media platforms remains an open question. Most studies have relied on laboratory experiments to examine the effect of a one-time management response (Lee & Cranage, 2014; Min et al., 2015; Sparks et al., 2016; van Laer & de Ruyter, 2010; van Noort & Willemsen, 2012; Wei et al., 2013). Consequently, the current literature has not examined the continuous, dynamic and reciprocal nature of management response as a communication process. Few studies have explored how management response can nurture customer engagement on social media platforms.

This study proposes management response as a continuous, dynamic and reciprocal process of communication that hotels initiate to engage prospective travelers in online communities. By focusing on prospective travelers, we postulate a signaling role of management response in reducing information asymmetry. The signaling literature suggests that signal cost plays a central role in efficacious signaling (Connelly, Certo, Ireland, & Reutzel, 2011; Hawkes & Bliege Bird, 2002). We further posit that different response attributes, which involves differential signal cost, affect the effectiveness of response to signal a hotel's care for customers and its service quality.

Based on a large-scale sample of hotel reviews and responses from San Diego, California (108,410 reviews from 212 hotels), the findings of this study contribute to the literature in several areas. First, by conceptualizing management response as a continuous, dynamic and reciprocal communication process, we concentrate on how the quantitative attributes of management response (i.e., the frequency, speed, and length) influence customer engagement over time. This represents a significant step beyond the existing studies that treat response as a one-time communication and consequently mainly focus on the qualitative attributes (e.g., the source, content, audience, and channel of response) of a particular response (e.g., Sparks et al., 2016; van Laer & de Ruyter, 2010). In contrast, we propose that hotels can engage travelers in a three-way network (Wei et al., 2013) to encourage them to write more reviews, share more positive reviews, and to be more active in voting for helpful reviews. Altogether, these customer engagement behaviors (CEBs) help improve hotels' popularity ranking and gain competitive advantage.

Second, we propose a signaling mechanism of management response to signal both the hotel's care for customers and its service quality. For this reason, we focus on the prospective travelers instead of repeat travelers (i.e., Gu & Ye, 2014) as information asymmetry is prominent among those without previous experience with a hotel. Evaluations of accommodation service are rather subjective due to their experiential nature (Litvin, Goldsmith, & Pan, 2008; Xie et al., 2014), thus the signaling effect may be more pronounced for the hotel industry. Due to differential signal cost, the three attributes affect the signaling effectiveness of response.

Finally, our data and econometric models offer more stylized and fine-grained findings. By treating management responses as continuous, dynamic and reciprocal communication, we focus on three quantitative attributes, which are investigated in holistic models. Although Xie et al. (2014) has examined the accumulative frequency of response, we underscore the information value of recent response by investigating the weekly frequency, speed and length of response. Meanwhile, we show a more profound signaling effect of response for budget (vs. premium) hotels.

The remainder of the paper is organized as follows. First, starting with a brief literature review on management response, we underscore its role in facilitating a continuous and reciprocal communication process for engaging customers online. Second, drawing on the signaling theory, we develop hypotheses on how

three attributes influence the signaling effectiveness of response and the moderating effect of hotel category. Based on the large-scale data, we provide the empirical investigations of the hypothesized effects. Finally, we discuss the main findings, theoretical and managerial implications, limitations and directions for future research.

2. Literature review and theoretical development

The proliferation of review platforms on which consumers share opinions on products has connected consumers effectively (Chen & Xie, 2008). Consequently, to take advantage of online reviews as a new marketing tool, many industries (including tourism) now actively promote, influence, and monitor the generation and distribution of WOM (Kozinets, Wojnicki, Wilner, & De Valck, 2010). For example, many brands intentionally manipulate their reviews by anonymously adding fake positive reviews, deleting or hiding negative reviews, or offering incentives to encourage positive reviews (Dellarocas, 2006). Apparently, these practices may raise ethical concerns, hurt the credibility of social media as a whole and jeopardize firms' long-term relationships with customers (Carl, 2006). As a result, management response on many websites such as TripAdvisor and Yelp has become increasingly pervasive as firms try to proactively and ethically influence the effect of WOM. As management response is initiated publicly and continuously, it has been of great value for prospective consumers in their purchase decisions.

Management response has essentially changed the generation and diffusion of WOM from unidirectional communications to a dynamic and reciprocal process. In contrast to traditional communication models in which tourism firms dominated the communication flow, travelers are now empowered to share both positive and negative WOM online. When hotels are not allowed to, or choose not to, respond, the communication process is essentially one-way and non-interactive, as there is no feedback loop from hotels to travelers. Hotels are merely bystanders, watching events unfold and public opinions form, without any opportunity to influence these processes. Recently, management response from hotels has emerged as an interactive communication channel to engage prospective travelers. Consequently, the completed and reciprocal communication leads to an "adjustment process" that facilitates the gradual convergence of meanings and opinions, resulting in mutual understanding (Roger & Kincaid, 1981).

2.1. Previous literature on management response

As we propose management response as the communication that hotels initiate to engage customers, we organize the previous literature along the five key components in the communication models (e.g., Berlo, 1960; Schramm, 1954). Previous studies have focused on the *effect* of response in terms of *source*, *content*, *audience*, and *channel* (see Table A1 in the Appendix).

Relying on experimental data, researchers examining the response content find that its effectiveness depends on many contextual factors. To deal with negative WOM, tailoring a response to address issues and show empathy is important, as specific response is more effective than generic response (Min et al., 2015; Wei et al., 2013). Several studies distinguish between defensive and accommodative response. For instance, Lee and Cranage (2014) show that defensive response for low consensus WOM or accommodative response for high consensus WOM is more effective in recovering the observing consumers' attitude that may have been hurt by negative WOM. Lee and Song (2010) reveal that accommodative response (vs. defensive or no response) leads to better company evaluations. van Laer and de Ruyter (2010) suggest that

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