



Electronic word of mouth and hotel performance: A meta-analysis

Yang Yang^a, Sangwon Park^{b,*}, Xingbao Hu^a

^a Department of Tourism and Hospitality Management, Temple University, 1810 N.13th Street, Philadelphia, PA 19122, USA

^b School of Hotel and Tourism Management, The Hong Kong Polytechnic University, 619, 17 Science Museum Road, TST East, Kowloon, Hong Kong



HIGHLIGHTS

- eWOM valence-based elasticity is twice as large as eWOM volume-based elasticity.
- The elasticity is significantly lower in low-end hotels.
- The elasticity is significantly lower in hotels in China.
- The elasticity is significantly higher across reviews posted on TripAdvisor.
- The elasticity is significantly lower when using panel data.

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ABSTRACT

This study synthesizes existing empirical results about the relationship between electronic word of mouth (eWOM) and hotel performance via meta-analysis. Based on estimates from 25 articles, the average eWOM valence-based elasticity is estimated to be 0.888, whereas the average volume-based elasticity is 0.055. A hierarchical linear model is applied to uncover five aspects that explain variations in eWOM elasticities: research setting, data structure, variable measurement, model specification, and research outlet. The estimation results highlight several significant aspects affecting elasticity, such as year of study, geographic setting, panel data structure, data frequency, performance measurement, control of price variable, and function form. Finally, implications are provided for researchers and hoteliers.

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1. Introduction

It is well known that the intangible, perishable nature of tourism and hospitality products makes it difficult for consumers to gauge their quality prior to purchase. This phenomenon underscores the perceived uncertainty in consumers' decision-making process as it relates to travel, which fosters a fundamental need to obtain reliable and useful information when considering travel options (Liu & Park, 2015). With the recent proliferation of social media websites that facilitate the sharing of travel experiences with others, the role of online consumer reviews has become increasingly pertinent for the tourism and hospitality industry. A recent report by Mintel (2016) revealed that consumer review websites have been identified as the second most frequently used information source apart from search engines (e.g., Google) when travelers are researching a

trip. Service providers have therefore begun to leverage online consumer reviews, also known as electronic word of mouth (eWOM), as marketing tools by inviting consumers to post their personal experiences for others (Litvin & Dowling, 2016).

In the same vein, the relationship between online consumer reviews and hotel performance has gained considerable attention from tourism and hospitality scholars (Schuckert, Liu, & Law, 2015). Importantly, however, existing research remains largely inconclusive. For example, while some studies suggest positive effects of eWOM on predicting hotel performance (e.g., Ögüt & Onur Taş (2012)Ögüt & Onur Taş, 2012; Ye, Law, Gu, & Chen, 2011), others have found that the influence is negligible or context dependent (Lu, Ye, & Law, 2014). Although prior research has provided essential insight into the role of eWOM, a consensus about its utility vis-à-vis the tourism and hospitality industry is elusive. Thus, the present study argues that the range of research approaches, settings, designs, data sources, and estimation methods used in earlier analyses may hinder generalizability (Floyd, Freling, Alhoqail, Cho, & Freling, 2014). For instance, eWOM's influence on hotel

* Corresponding author.

E-mail addresses: yangy@temple.edu (Y. Yang), sangwon.park@polyu.edu.hk (S. Park), xingbao.hu@temple.edu (X. Hu).

performance has been found to vary across different hotel classes (Blal & Sturman, 2014). Using panel data to facilitate sound analyses, Duverger (2013) demonstrated a non-linear (i.e., inverted U-shaped) relationship between eWOM and hotel performance. Therefore, the aim of this research is to assess eWOM's elasticity relevant to hotel performance by considering five aspects as contextual variables: research setting, data structure, variable measurement, model specification, and research output.

To fill this theoretical gap in the current literature, this study employs a meta-analysis method, reviewing 25 research articles related to the tourism and hospitality industry. Meta-analysis enables the authors to synthesize the literature stream quantitatively and therefore assess eWOM elasticity as it corresponds to hotel performance (You, Vadakkepatt, & Joshi, 2015). More specifically, this paper takes into account two separate metrics in measuring eWOM elasticity—valence- and volume-based approaches—to identify contributing factors to the sizable variation among estimated eWOM elasticities. In this vein, eWOM elasticity refers to percentage changes of firm performance against percent changes of eWOM consisting of valences and volumes of review ratings (Floyd et al., 2014; You et al., 2015). This research considers eWOM as numerical review ratings and number of reviews provided by consumers on travel review/booking websites (Park & Nicolau, 2015). By doing so, this research represents a pioneering effort to synchronize the eWOM–performance relationship in the tourism and hospitality literature. Use of regression-based meta-analysis makes it possible to accommodate and correct potential biases in previous econometric results objectively (Stanley & Doucouliagos, 2012).

2. Literature review and conceptual framework

2.1. Theoretical background

Online consumer reviews have long been considered important sources of information; they allow potential customers to assess the quality of a product or service and develop an associated image (Filiari, 2016). Online reviews play a particularly central role in the hospitality and tourism industry due to the services' inherent intangibility and perishability. Indeed, consumers find it difficult to evaluate the quality of services before actually consuming them (O'Connor, 2010; Yang, Mueller, & Croes, 2016). This unique characteristic implies that people experience significant uncertainty over their choices and, thus, require substantial information in order to reduce perceived risks and make informed decisions. Dickinger (2011) found that online reviews posted by other travelers are often thought of as more up-to-date, informative, enjoyable, and reliable than information from travel service providers.

The prevalence of social media websites has created an environment where people face information overload when confronted with numerous online consumer reviews. As such, in an effort to reduce decision-making costs, they tend to rely more on review ratings than textual comments. In other words, consumers who peruse multiple reviews are likely to focus on the reviews' valence and volume, which serve as proxies for underlying product quality (Chaiken & Maheswaran, 1994) and hotel reputation (Anderson & Lawrence, 2014). Previous studies have indicated that the valence and volume of online reviews indeed influence tourists' decision-making process (Liu & Park, 2015), along with organizations' pricing strategies and performance (Xie, Chen, & Wu, 2016a). Signaling theory posits that people rely on signals when tasked with making a judgment that requires balancing uncertainties. Given that most travelers today use online channels to purchase tourism products, information asymmetry about product quality has become widespread (Lu et al., 2014). Abrate, Capriello, and Fraquelli (2011)

discussed the importance of quality signals associated with hotel reputation as indicated by star rating and brand affiliation. Online consumer reviews that reflect and justify users' attitudes toward products help readers reduce information asymmetry about product quality and, as a result, increase their likelihood of purchasing relevant products (Park & Nicolau, 2015). In addition, online reviews' perceived effectiveness and reliability reduce search costs for consumers and enhance sellers' trustworthiness, which persuades people to pay more for products and ultimately increases sales (Pavlou & Dimoka, 2006).

The valence of online reviews—that is, the evaluative direction (positive or negative) of the review in terms of service experience—is more effective than the midpoint of an individual's attitude toward the product (Mudambi & Schuff, 2010). Put another way, one-sided reviews that clearly indicate the direction of a consumer's opinion generate more diagnosticity and greater salience than moderate reviews. The accessibility-diagnostics model suggests that a piece of information is perceived as diagnostic when it assists consumers in deeming an alternative worthy of further consideration (Feldman & Lynch, 1988). In contrast, online comments that do not help consumers determine whether a product warrants deliberation are not considered diagnostic (Herr, Kardes, & Kim, 1991). Park and Nicolau (2015) demonstrated that consumers consistently consider extreme ratings (whether positive or negative) to be more useful and enjoyable than moderate ratings. Furthermore, people find negative reviews more helpful than positive comments, as the guidance they receive is likely to reduce loss rather than increase gain (c.f. Kahneman & Tversky, 1979).

The volume of online consumer reviews underpins the bandwagon effect (see Van den Bulte & Lilien, 2001). A greater volume of opinions provided by other consumers positively affects customers' judgment, regardless of whether the opinions are positive or negative (Babić Rosario, Sotgiu, De Valck, & Bijmolt, 2016). This phenomenon is tied to herding behavior, otherwise known as social contagion, where people are likely to mimic others' situational behavior in order to reduce their own risk (Banerjee, 1992; Iyengar, Van den Bulte, & Choi, 2011). For purposes of this paper, the greater the number of opinions shared online by existing consumers, the greater the chance that other customers will become aware of the product; message repetition attracts consumers' attention (Duan, Gu, & Whinston, 2008).

2.2. The effects of eWOM on hotel performance in the hospitality and tourism industry

Numerous studies have empirically examined the relationship between eWOM and hotel performance. Ögüt & Onur Taş (2012) discovered that customer ratings boost hotel performance and affect hotel room prices (Nieto, Hernández-Maestro, & Muñoz-Gallego, 2014). Several studies measured hotel performance by the proxy variable of number of reviews for a property (see Ögüt & Onur Taş, 2012; Ye et al., 2009; 2011 found that a 10% increase in review ratings posted on a major Chinese online travel agency (OTA) increased online hotel bookings (measured by number of consumer reviews on hotels) by more than 5%. In a more comprehensive study investigating 10 major cities (five in Europe and five in the United States), Anderson & Lawrence (2014) assessed hotel-level word of mouth (WOM) by using ReviewPro's Global Review Index. The index is an aggregate of millions of social media reviews in more than 35 languages, from OTAs, review websites, and social media platforms. Results revealed that the review index positively influenced not only hotel performance but also room rate.

Consistent with the above literature, two elements comprise consumers' online reviews of hotels—valence (i.e., review ratings) and volume (i.e., review number)—each of which plays a distinct

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