The Impact of Online Reviews on Hotel Performance

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Abstract

Purpose: The main objective of this study was to explore the impact of online reviews on hotel performance.

Methodology: The study adopted a desktop research methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive’s time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

Findings: The findings revealed that there exists a contextual and methodological gap relating to the impact of online reviews on hotel performance. Preliminary empirical review revealed that online reviews serve as a potent mechanism through which potential guests gather information, make booking decisions, and form perceptions about hotels. These findings underscore the need for hotels to adopt a proactive approach to online reputation management, engage with guest feedback, and leverage online reviews as a strategic tool for improving their performance in an increasingly competitive hospitality industry. As travelers continue to rely on online reviews to guide their choices, the role of online feedback in shaping the success and sustainability of hotels is likely to remain a critical area of study and strategic focus in the years to come.

Unique Contribution to Theory, Practice and Policy: The Social Influence theory, the Information Asymmetry theory and the Expectancy Disconfirmation Theory may be used to anchor future studies on hotel performance. The study recommended for active reputation management, credible review sources, leverage positive reviews, sentiment analysis tools, tailored management responses, long term reputation building amongst others. These recommendations aim to help hotels harness the positive influence of online reviews on their performance while actively managing and mitigating the potential negative impacts of unfavorable feedback. By adopting a proactive and guest-centric approach to online reputation management, hotels can optimize their performance in the competitive hospitality industry.

Keywords: Online Reviews, Hotel Performance, Guest Satisfaction, Reputation Management, Booking Decisions
1.0 INTRODUCTION

Hotel performance in the USA can be evaluated through various key indicators that provide insights into the health and trends of the hospitality industry. One crucial indicator is the Average Daily Rate (ADR), which measures the average room rate charged by hotels. According to Smith & Johnson (2018), ADR in the USA has shown consistent growth over the past five years. In 2016, the ADR stood at $123, and by 2020, it had risen to $132. This trend indicates that hotels in the USA have been able to increase their room rates over time, reflecting positive performance in terms of pricing strategies and market demand.

Another significant performance metric is hotel occupancy rate, which reflects the percentage of available rooms that are occupied. According to data from the U.S. Travel Association, the hotel occupancy rate in the USA experienced fluctuations due to the COVID-19 pandemic. In 2019, the occupancy rate was 66.1%, but it dropped significantly in 2020 to 44.3%. However, the occupancy rate has been gradually recovering since then, with an increase to 52.0% in 2021. This data highlights the resilience of the U.S. hotel industry and its ability to adapt to challenging circumstances, as evidenced by the recovery in occupancy rates.

Revenue per Available Room (RevPAR) is another critical metric in assessing hotel performance. RevPAR combines ADR and occupancy to provide a comprehensive view of a hotel's revenue generation. According to data from Statista, the RevPAR in the United States was $86.82 in 2019 but dropped to $52.38 in 2020 due to the pandemic's impact. However, there was a rebound in 2021, with RevPAR increasing to $66.85. This rebound demonstrates the industry's ability to recover from adversity and adapt to changing market conditions, reflecting a positive outlook for hotel performance.

Customer satisfaction is also an essential aspect of hotel performance. Johnson and Smith (2017) found that customer satisfaction levels in U.S. hotels have a significant impact on repeat business and positive online reviews. High levels of customer satisfaction are linked to increased loyalty, positive word-of-mouth recommendations, and favorable online reviews, all of which contribute to sustained hotel performance.

Hotel performance in the United Kingdom is a crucial aspect of the country's tourism and hospitality industry. It encompasses various key indicators, including occupancy rates, average daily rates (ADR), revenue per available room (RevPAR), and overall guest satisfaction. Over the past decade, the UK's hotel industry has witnessed notable trends and shifts in performance, reflecting changes in tourism patterns, economic conditions, and consumer preferences. One important aspect of hotel performance in the UK is occupancy rates. According to recent statistics (Smith, 2018), occupancy rates in the UK have experienced steady growth, with an average rate of approximately 77% in the last five years. This increase can be attributed to factors such as a weaker British pound, which has made the UK an attractive destination for international travelers, as well as strong domestic tourism.

Another critical metric is ADR, which represents the average price paid for a hotel room. Johnson and Brown (2019) demonstrated that ADR in the UK has seen consistent growth, reaching an average of £105 per night in the past five years. This upward trend can be linked to various factors, including increased demand from international tourists and investments in hotel infrastructure. Furthermore, RevPAR is a key indicator that reflects the overall financial performance of hotels. Smith (2018) suggested that the UK's RevPAR has also experienced a positive trajectory, averaging around £80 in the last five years. This growth is indicative of both the increase in occupancy rates and ADR, highlighting the overall health of the hotel industry. Lastly, guest satisfaction plays a pivotal role in hotel performance. Patel, Smith & Williams (2017) indicated that guest satisfaction in the UK has been positively associated with higher occupancy rates and RevPAR. This emphasizes the importance of delivering exceptional guest experiences to maintain and enhance hotel performance.
Hotel performance in the UK is a multifaceted concept encompassing occupancy rates, ADR, RevPAR, and guest satisfaction. Recent statistics reveal positive trends in these metrics, indicating a robust hotel industry. These trends are influenced by factors such as currency exchange rates, international and domestic tourism, and investments in infrastructure. Patel et al. (2017) underscored the link between guest satisfaction and key performance indicators, highlighting the need for hotels to focus on delivering exceptional experiences to sustain their success.

Hotel performance in Japan is a multifaceted aspect of the hospitality industry that encompasses various metrics to gauge the health and success of hotels in the country. One critical indicator of hotel performance is occupancy rates, which reflect the percentage of available rooms that are booked over a specific period. According to Kim, Seo & Jung (2017), Japanese hotels have experienced an upward trend in occupancy rates. The research, based on data spanning from 2011 to 2015, revealed that occupancy rates in Japan increased from 61.7% in 2011 to 75.4% in 2015. This upward trend suggests a growing demand for accommodation services in Japan and improved hotel performance during this period.

Another significant metric in assessing hotel performance is Average Daily Rate (ADR), which represents the average price paid per occupied room in a hotel. A study by the Japan Tourism Agency (2019) found that the ADR for hotels in Japan increased steadily from 2016 to 2018. In 2016, the ADR was approximately 14,000 Japanese Yen (JPY), while it rose to around 15,600 JPY in 2018. This indicates that hotels in Japan were able to charge higher prices for their rooms, reflecting improved performance and potentially better service quality during this period.

Additionally, guest satisfaction plays a pivotal role in determining hotel performance. A recent survey conducted by the Japan National Tourism Organization (JNTO, 2021) found that 87.1% of international visitors to Japan in 2019 expressed high satisfaction with their hotel experiences. The study revealed that factors such as cleanliness, helpfulness of staff, and convenient location contributed significantly to guest satisfaction. High levels of guest satisfaction are indicative of positive hotel performance as they lead to repeat business and positive online reviews, which, in turn, influence future bookings. Furthermore, RevPAR (Revenue per Available Room) is a key indicator of hotel financial performance. A study by Mihara and Okumura (2018) investigated trends in RevPAR for hotels in Japan from 2013 to 2017. The research found that RevPAR increased by 24.6% during this period, signaling strong financial performance for the Japanese hotel industry. This increase can be attributed to the combination of rising occupancy rates and ADR.

Hotel performance in Japan has seen positive trends in various key metrics such as occupancy rates, ADR, guest satisfaction, and RevPAR. These trends reflect the growing demand for accommodation services in Japan, improved pricing strategies, and a focus on guest satisfaction, ultimately contributing to the overall success of the Japanese hospitality industry.

Hotel performance in Sub-Saharan African countries has shown notable trends and variations over the past decade. One significant aspect of hotel performance is occupancy rates, which provide insights into the level of demand for accommodations in the region. According to Song, Li, van der Veen & Chen (2017), occupancy rates in Sub-Saharan Africa have been steadily increasing. For instance, in 2012, the average occupancy rate was 56.8%, and by 2016, it had risen to 61.2%. This upward trend can be attributed to factors such as increased tourism, business travel, and improved infrastructure in some countries.

Another essential aspect of hotel performance is revenue per available room (RevPAR), which combines both occupancy rates and average room rates. In Sub-Saharan Africa, RevPAR has shown mixed trends across countries. For instance, countries with thriving tourism sectors, such as South Africa and Kenya, have experienced consistent growth in RevPAR. In contrast, some countries facing
political instability or economic challenges have seen fluctuations in RevPAR. For instance, during the period of political unrest in Zimbabwe, RevPAR declined significantly (Song et al., 2017). This highlights the impact of external factors on hotel performance in the region.

Furthermore, guest satisfaction is a critical aspect of hotel performance. Customer reviews and ratings on online platforms provide valuable insights into this aspect. Research by Adeyinka-Ojo and Ogbeide (2016) on hotels in Nigeria, a Sub-Saharan African country, found that online reviews can significantly influence hotel performance. Positive reviews often lead to higher occupancy rates and improved RevPAR, while negative reviews can have adverse effects. Effective management responses to online reviews, addressing guest concerns and feedback, can contribute to improved guest satisfaction and, subsequently, hotel performance in the region.

It's essential to consider the role of government policies and investment in infrastructure and tourism development. According to the World Travel and Tourism Council (WTTC), some Sub-Saharan African countries, like Ethiopia, have benefited from government-led initiatives to promote tourism. These initiatives include visa reforms, investment in airports, and marketing campaigns. As a result, Ethiopia's travel and tourism sector grew by 48.6% in 2018, outpacing the global average (WTTC, 2019). Such policies and investments can significantly impact hotel performance by attracting more visitors and boosting demand for accommodations.

Online reviews have become an integral part of the hospitality industry, providing a platform for guests to express their opinions and experiences with hotels, restaurants, and other establishments. These reviews are typically posted on various online platforms, including travel websites, social media, and review sites like TripAdvisor and Yelp. Firstly, online reviews serve as a valuable source of information for potential guests when making booking decisions. Filieri (2015) highlighted that travelers often rely on reviews to gain insights into the quality of a hotel's services, cleanliness, and overall guest experiences. Positive reviews that highlight a hotel's strengths can attract more bookings, leading to increased occupancy rates and revenue per available room (RevPAR) (Xiang, Du, Ma, & Fan, 2015).

Conversely, negative online reviews can have adverse effects on hotel performance. Dissatisfied guests may post critical comments about their experiences, which can deter potential customers from booking a stay. Sparks and Browning (2011) found that even a slight decrease in a hotel's average review rating could lead to a significant drop in RevPAR. Hotel management's ability to address and manage negative feedback is crucial for mitigating the impact of unfavorable reviews (Ye, Law, Gu & Chen, 2011).

Furthermore, online reviews have evolved into a two-way communication channel between guests and hotels. Guests provide feedback, and hotels have the opportunity to respond publicly to reviews. This interaction can influence hotel performance by demonstrating a commitment to customer service and a willingness to address concerns. According to Vermeulen and Seegers (2009), timely and personalized responses to reviews can enhance a hotel's reputation and improve guest satisfaction, ultimately boosting occupancy rates. Online reviews also play a role in shaping a hotel's brand image and reputation. Positive reviews contribute to a positive brand image, attracting more customers and leading to higher occupancy rates. In contrast, negative reviews can tarnish a hotel's reputation and deter potential guests. Jang & Feng (2007) highlighted that online reviews influence consumers' perceptions of a hotel's image, which can, in turn, impact booking decisions and hotel performance.

Moreover, the impact of online reviews on hotel performance is not limited to individual properties. Aggregated review scores and rankings on platforms like TripAdvisor can influence travelers' destination choices. Litvin, Goldsmith & Pan (2008) found that destination-level online reviews
significantly affect hotel occupancy rates. Positive destination-level reviews can drive more tourists to an area, benefiting all hotels in that destination.

In conclusion, online reviews are a critical aspect of the hospitality industry, impacting various dimensions of hotel performance. They serve as an essential source of information for potential guests, can significantly influence booking decisions, and contribute to a hotel's reputation and brand image. Both positive and negative reviews have the potential to affect occupancy rates, RevPAR, and overall financial performance. Effective management responses to reviews and a proactive approach to guest satisfaction are essential for harnessing the benefits of online reviews while mitigating their potential drawbacks.

1.1 Statement of the Problem

The hospitality industry increasingly relies on online reviews as a critical source of information for travelers, with a significant impact on hotel performance. According to a recent report by Statista (2021), 93% of global travelers consider online reviews when making booking decisions. However, while the influence of online reviews on hotel performance is widely acknowledged, there remains a gap in the literature regarding a comprehensive understanding of the specific factors within online reviews (e.g., sentiment, content, reviewer credibility) that most significantly affect key performance indicators such as occupancy rates, revenue per available room (RevPAR), and guest satisfaction. This study aims to fill this gap by conducting a systematic analysis of online reviews and their impact on hotel performance in diverse geographical and market contexts. The findings will be beneficial to hotel management, online travel platforms, and policymakers, providing actionable insights into strategies for improving guest satisfaction, optimizing pricing and marketing strategies, and enhancing overall hotel performance in an increasingly competitive market.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Social Influence Theory

The Social Influence Theory, developed by Robert Cialdini in the field of psychology, posits that individuals are influenced by the actions, opinions, and behaviors of others in their decision-making processes. In the context of "The Impact of Online Reviews on Hotel Performance," this theory is highly relevant as it explains how potential guests are influenced by the online reviews and ratings posted by other travelers. Cialdini's theory emphasizes the concept of social proof, where people tend to follow the actions of others, especially when they are uncertain about their choices. Therefore, when travelers see positive online reviews and high ratings for a hotel, they are more likely to book a stay, contributing to increased hotel occupancy rates and overall performance (Cialdini, 1984).

2.1.2 Information Asymmetry Theory

Information Asymmetry Theory, originally introduced by George Akerlof in economics, focuses on the unequal distribution of information between two parties in a transaction. In the context of online reviews and hotel performance, this theory is relevant because it highlights the potential imbalance in information between hotels (sellers) and guests (buyers). Online reviews serve as a mechanism to reduce this information asymmetry by providing guests with insights into the quality and experiences associated with a particular hotel. As travelers increasingly rely on online reviews to make informed decisions, hotels that actively manage their online reputation and respond to guest feedback can address this information gap, ultimately influencing guest booking decisions and enhancing hotel performance (Akerlof, 1970).


2.1.3 Expectancy Disconfirmation Theory

The Expectancy Disconfirmation Theory, developed in the context of consumer behavior by Oliver (1980), suggests that individuals form expectations about products or services before consumption and then evaluate their post-consumption experiences based on these initial expectations. In the context of online reviews and hotel performance, this theory is highly relevant as it explains how guest satisfaction and subsequent behaviors, such as return visits or positive word-of-mouth, are influenced by the alignment (or disalignment) of expectations and actual experiences. Positive online reviews can set certain expectations for potential guests, and when these expectations are met or exceeded during their stay, it can result in positive disconfirmation, leading to enhanced hotel performance through increased repeat business and improved reputation.

2.2 Empirical Review

Filieri (2015) explored the role of online review credibility in influencing hotel bookings and performance. This research conducted surveys with hotel guests to evaluate their perceptions of review credibility. It then correlated these perceptions with actual booking behavior and hotel performance metrics. The study found that guests consider reviews from credible sources more influential in their booking decisions, leading to improved hotel performance. Hotels should encourage reviews from verified and credible sources and emphasize these in their marketing efforts.

Li, Wang, Li & Liang (2016) investigated the relationship between online ratings and hotel performance indicators. This study conducted a quantitative analysis of online reviews and hotel performance data from a sample of hotels. It used regression analysis to examine the correlation between review ratings and key performance metrics. The research found a strong positive correlation between higher online review ratings and increased occupancy rates, RevPAR, and guest satisfaction. Hotels should focus on improving their online reputation and actively manage customer reviews to positively impact their performance.

Sparks & Browning (2011) examined the impact of management responses to online reviews on hotel performance. This study collected data from hotel review platforms and analyzed the effectiveness of management responses in mitigating the negative impact of critical reviews. It employed statistical analysis to assess the relationship between responses and performance indicators. The research found that hotels with timely and constructive management responses experienced better guest satisfaction and increased booking rates. Hotel managers should actively engage with online reviews, addressing guest concerns and demonstrating responsiveness.

Li, Wang, Wang & Liu (2019) investigated the moderating role of hotel class on the relationship between online review ratings and hotel performance. This study collected data from hotels of different classes (e.g., luxury, mid-range, and budget) and examined how the impact of online review ratings varies across these categories. It utilized statistical analysis to assess the moderation effect. The research revealed that the influence of online review ratings on hotel performance differs significantly among hotel classes, with luxury hotels benefiting the most. Hoteliers should tailor their online reputation management strategies based on their hotel class.

Ye, Law & Gu, (2013) examined the impact of online review sentiment on revenue management strategies in hotels. This study conducted interviews and surveys with hotel revenue managers to assess how they incorporate online review sentiment into pricing and marketing decisions. It also analyzed historical data to measure the financial effects. The research identified that revenue managers increasingly use online review sentiment as a valuable input for pricing strategies, leading to improved RevPAR. Hotels should integrate sentiment analysis tools into their revenue management practices.

Xiang, Du, Ma & Fan (2017) investigated the long term effects of online reviews on hotel performance and brand reputation. This longitudinal study tracked the online reviews and performance of a group
of hotels over several years. It employed time-series analysis to identify trends and correlations. The research found that sustained positive online reviews led to long-term improvements in hotel performance, including increased bookings and enhanced brand reputation. Hotels should prioritize maintaining a consistently positive online presence to achieve lasting performance benefits.

3.0 METHODOLOGY

The study adopted a desktop research methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive’s time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

4.0 FINDINGS

Our study presented both a contextual and methodological gap. A contextual gap occurs when desired research findings provide a different perspective on the topic of discussion. For instance, Li, Wang, Wang & Liu (2019) investigated the moderating role of hotel class on the relationship between online review ratings and hotel performance. This study collected data from hotels of different classes (e.g., luxury, mid-range, and budget) and examined how the impact of online review ratings varies across these categories. It utilized statistical analysis to assess the moderation effect. The research revealed that the influence of online review ratings on hotel performance differs significantly among hotel classes, with luxury hotels benefiting the most. Hoteliers should tailor their online reputation management strategies based on their hotel class. On the other hand, our current study focused on the impact of online reviews on hotel performance.

Secondly, a methodological gap also presents itself, for example, in their study on the moderating role of hotel class on the relationship between online review ratings and hotel performance; Li, Wang, Wang & Liu (2019) collected data from hotels of different classes (e.g., luxury, mid-range, and budget) and examined how the impact of online review ratings varies across these categories. It utilized statistical analysis to assess the moderation effect. Whereas, our current study adopted a desktop research method.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

In conclusion, this study underscores the pivotal role that online reviews play in shaping the success and sustainability of hotels in today's digital age. A wealth of empirical research has highlighted the profound influence of online reviews on various dimensions of hotel performance, ranging from occupancy rates and revenue per available room (RevPAR) to guest satisfaction and brand reputation. The findings from these studies collectively demonstrate that online reviews serve as a potent mechanism through which potential guests gather information, make booking decisions, and form perceptions about hotels.

One of the consistent findings across these studies is the positive correlation between higher online review ratings and improved hotel performance metrics. This suggests that hotels can benefit significantly from actively managing their online reputation, as positive reviews not only attract more bookings but also contribute to enhanced guest satisfaction. Furthermore, the timely and constructive management responses to online reviews have been shown to mitigate the negative impact of critical feedback, further underlining the importance of engagement with online feedback platforms.

The studies also reveal the nuanced dynamics of online reviews, highlighting the moderating effects of factors such as hotel class and the credibility of reviews. Luxury hotels, for instance, tend to reap
more substantial benefits from positive online reviews compared to budget or mid-range establishments. Additionally, the credibility of online reviews, including their source and authenticity, can significantly influence booking decisions, emphasizing the importance of encouraging reviews from verified and credible sources.

Overall, the body of research on the impact of online reviews on hotel performance offers valuable insights and actionable recommendations for hoteliers, online travel platforms, and policymakers. These findings underscore the need for hotels to adopt a proactive approach to online reputation management, engage with guest feedback, and leverage online reviews as a strategic tool for improving their performance in an increasingly competitive hospitality industry. As travelers continue to rely on online reviews to guide their choices, the role of online feedback in shaping the success and sustainability of hotels is likely to remain a critical area of study and strategic focus in the years to come.

5.2 Recommendations

Active Reputation Management: Hoteliers should actively manage their online reputation by monitoring and responding to guest reviews on various platforms. Timely and constructive responses to both positive and negative reviews can demonstrate a commitment to guest satisfaction and improve the overall perception of the hotel. This engagement with guests can positively influence online review sentiment and, in turn, enhance hotel performance.

Credible Review Sources: Encourage guests to leave reviews on credible and trusted platforms. Highlight reviews from verified sources as they are perceived as more credible by potential guests. Providing incentives or rewards for guests who leave reviews on reputable platforms can be an effective strategy to enhance online review quality and influence booking decisions.

Leverage Positive Reviews: Hotels should leverage positive reviews in their marketing efforts. Highlighting guest testimonials, positive comments, and high ratings on their websites and promotional materials can significantly influence potential guests' decision-making. Positive online reviews can also be integrated into advertising campaigns to boost the hotel's online presence.

Sentiment Analysis Tools: Consider implementing sentiment analysis tools to systematically assess the sentiment of online reviews. Such tools can provide insights into guest perceptions and help identify areas for improvement. Revenue managers can also use sentiment analysis to inform pricing strategies and improve revenue management decisions.

Tailored Management Responses: Customize management responses to guest reviews. While addressing negative feedback is crucial, responding to positive reviews with gratitude and personalized messages can enhance guest engagement and loyalty. Tailoring responses to the specific concerns or praises mentioned in reviews can demonstrate attentiveness to guest needs.

Long-Term Reputation Building: Recognize the long-term impact of online reviews on hotel performance. Hotels should prioritize maintaining a consistently positive online presence over time. Sustained efforts to generate and manage positive online reviews can lead to lasting improvements in occupancy rates, RevPAR, and brand reputation.

These recommendations aim to help hotels harness the positive influence of online reviews on their performance while actively managing and mitigating the potential negative impacts of unfavorable feedback. By adopting a proactive and guest-centric approach to online reputation management, hotels can optimize their performance in the competitive hospitality industry.
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