An Institutional Theory perspective on the behavior of consumers and companies regarding customers’ evaluation.

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Abstract
This paper aims to investigate the institutional aspects that may influence behavior of companies and customers in dealing with customers’ monitoring behavior on service provision. Specifically, it looks at customer’s ratings and comments about their experience in hotels as well as institutional responses that are available in the internet.

Keywords: Service Management, Institutional Theory, Service Failure and Recovery.

Introduction
The massive use of information technologies by companies and consumers has allowed different configurations of business models, products and processes. The growth in online commerce has impacted the way companies and consumers do business. For instance, internet brings diversity of distribution channels and with the increased evolution and development of technologies, information between companies and consumers are better exchanged and transactions easier made. Besides providing diversity of options to access companies’ information, internet also provides access and dissemination of consumer’s opinion on products, services and companies. (Sousa and Voss, 2006; Xia and Zhang, 2010)

Information is key to many industries, such as tourism, because without information, the consumer’s motivation and ability to travel is limited. This need for information is heightened by the intangible, complex and interdependent nature of tourism. The rise of the world-wide web as an electronic commerce medium provided tourism suppliers with the opportunity to experiment internet distribution and it has had a profound effect on the way in which travel products are informed, marketed, distributed, sold, and fulfilled (O’Connor and Frew, 2002).

The growth in online commerce has impacted also traveler’s booking behavior and in particular the customer’s search and purchase behavior. Uncertainty arises with asymmetrical knowledge about the likelihood of future events as well as the knowledge about the quality of the service among organizations. However, uncertainty plays an important role since the maximum achievable revenue of a firm depends, to some extent, on the information that the consumer has regarding these uncertain attributes. For instance, the lower the hotel rate, the higher the quantity demanded and consequently fewer available hotel rooms, which signals
to the consumer a higher risk of the hotel’s selling out. Another example would be that higher prices are taken as an indication of high quality in services. Thus, a higher perceived quality is likely to induce a higher willingness to book. (Chin-Chien and Schwartz, 2006).

Since price and room availability by themselves provide indicators to consumers regarding occupancy rate and quality, what could we expect from the information about customers’ reaction to a service provider that are available in the internet? We can argue that it reduces the information gap between companies and customers and also that it increases the dissemination of information in a global way. Therefore, consumers are not only able to have information on companies such as in institutional web sites but also on travelers’ ratings and comments based on previous experiences, such as Trip Advisor. An assumption of the present study is that both companies and consumers’ information contributes to the intent of purchase of customers by influencing their opinion on the level of service provided. Therefore, the internet reduces the information asymmetry between companies and customers and decreases the uncertainty level generated by lack of information.

From the company perspective, a fundamental task for services providers is to manage customers’ dissatisfaction in a timely way. To achieve this task, companies design and rely on service recovery practices, such as compensations to clients that experience negative interactions. Any action taken as an attempt to solve a consumer problem with the organization can be considered as a service recovery action to a service failure (Andreassen, 2001; Bitner et al., 1990; Boshoff, 1997; DeWitt and Brady, 2003; Hess et al., 2003). Another assumption of the present study is that the negative comments are associated with service failure and therefore any action taken by the company to respond to it will be considered a service recovery action. The importance of service recovery practices relies on the impact that they have on customers’ satisfaction, a central variable in the thinking of services management and that contributes to companies’ revenue and profitability (Hart et al., 1990; Tax and Brown, 1998; Johnston, 2001; Johnston and Michel, 2008).

Evidencing that consumers will take other consumers’ opinion into account in their purchasing decision relies in the fact that companies started replying to comments on websites specialized in hotel ratings, such as Trip Advisor. By giving the institutional voice to the compliments and complaints of customers, companies are willing to influence their legitimacy regarding they behavior towards stakeholders. The paper will follow with a Theoretical Foundation and Hypotheses Development section on Institutional Theory and it will proceed with Methodological Approach and Concluding Remarks.

**Theoretical Foundation and Hypotheses Development**

Institutional theory provides a framework regarding how organizations respond to institutional pressures within their environment (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Zucker 1987). Firms respond to a combination of both internal and external organizational pressures in a way that institutionalists argue to be towards a tendency of convergence of business practices across different organizations. The premise underlying institutional theory is homogeneity. In the convergence phenomenon, Grewal and Dharwadkar (2002) claimed the importance of creating and maintaining legitimacy among organizational stakeholders.
Taking into account that websites designed to provide travelers advisories are an environment able to promote dialogue and monitoring behavior between organizations and stakeholders that we suggest that these channels can be considered an opportunity for companies to reinforce their responsible behavior. If we can consider that travelers will be more likely to make business with hotels that show some level of concern to other consumers by taking their time to provide an institutional reply for their comments, then we can argue that comments can influence the image of organizations.

To empirically test this argument in the first hypothesis, it is expected that managers’ response to negative comments will be more likely to occur if the companies that operate in the context of a multinational enterprise (MNE). Kostova and Zaheer (1999) state that one of the critical issues that MNE’s face involves the establishment and maintenance of legitimacy in their multiple host environments. Scholars have defined legitimacy as the acceptance of the organization by its environment and have proposed it to be vital for organizational survival and success. Institutional theorists have identified determinants of organizational legitimacy and the characteristics of the legitimating process, being one of the factors that shape organizational legitimacy the legitimization process in which the environment builds its perceptions of the organization. Comments placed on websites can be claimed to shape customers’ perceptions regarding a particular company or even an enterprise (in the case of MNE).

Given the “complexity inherent in the social, cognitive and boundedly rational nature of the legitimating process, the legitimacy of one organization unit in a particular environment is not independent of the legitimacy of other organizational entities with which the unit is cognitively related” (Kostova and Zaheer, 1999). Authors explain that it is likely that the judgment of a particular organization unit in a MNE will probably refer to the legitimacy of all subsidiaries of that MNE and they call this phenomena legitimacy spillover. Their proposition regarding it is: “MNE subunits will face a greater challenge in establishing and maintaining legitimacy when the MNE as a whole or any of its other subunits experiences legitimacy problems; similarly, the MNE as a whole will also face a greater challenge in maintaining legitimacy if any of its subunits experiences legitimacy problems”.

Therefore, we can claim that maintaining legitimacy of one unit and consequently of the whole enterprise raises to the corporate unit a higher challenge and to the business units under this corporation a higher pressure to gain and to maintain their legitimacy towards a good image. So, we expect that organizations that reply to consumers’ negative comments will be more likely to occur in hotels that belong to a MNE. The fact that managers will take their time to respond with an institutional voice to a complaint from a consumer can be argued to be an indicator that corporate behavior is being monitored and there is a dialogue between the organization and its stakeholders, the customers.

**Hypothesis 1:** Hotels operating under the same brand will be more likely to respond to consumers’ comments rather than their counterparts.

Meyer and Rowan (1977) claim that organizations are driven to incorporate the practices and procedures derived from prevailing rationalized concepts of organizational work and institutionalized in society. Independently of the immediate efficacy of acquired practices and procedures, organizations will attempt to increase their legitimacy and their survival
prospects. They define institutional rules as classifications built into society as reciprocated typifications or interpretations and they acknowledge that such rules may be simply taken for granted or may be supported by public opinion or the force of law. In addition, they claim that institutionalization involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action.

Independent of their productive efficiency, organizations that exist in elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive. In part, this depends on the ability of given organizations to conform to, and become legitimated by, environmental institutions. Aldrich and Fiol (1994) posit that “as an industry grows, increasing number of organizations raise its legitimacy along two dimensions: cognitive, or knowledge about the new activity and what is needed to succeed in an industry, and sociopolitical, or the value places on an activity by cultural norms and political authorities”. One can access cognitive legitimation by measuring the level of public knowledge about a new activity. One can measure sociopolitical legitimating by assessing public acceptance of an industry, government subsidies to the industry, or the public prestige of its leaders.

Legitimacy is conferred when stakeholders – that is, internal and external audiences affected by organizational outcomes – endorse and support an organization’s goals and activities. (Elsbach and Sutton, 1992). So, we suggest that the negative comments will influence the image of hotels and will be able to impact their legitimacy. In addition, negative comments are very important since they allow some degree of action from organizations, contrary to the positive comments. For instance, even providing an excellent service, hotels don’t have any action regarding that consumers will spread the compliments to other consumers. However managers can act after negative word-of-mouth not only by avoiding recurrence but also by addressing their failures and by implementing better processes, practices and scripts, by apologizing or even by providing compensations. We can reason that before the advent of comments on internet, information related to service failures were constraint in the boundaries of organizations. The change is related to the fact that now they are able to be assessed in a wide and global way.

Taking together the fact that companies don’t have control over which comments will be posted in the internet and that the negative comments provide them ability to act and use recovery actions to respond to correspondent service failures, we would expect that hotels with higher degree of customer satisfaction and with better performance will be more able to address them. The reasoning is that companies with higher customer satisfaction can charge a premium price to their services since they are perceived as having better quality and loosing this image of higher quality will hurt their image and legitimacy as well as their ability to provide service recovery actions, since they often involve changes in routines and procedures and consequently costs. Therefore, the legitimacy of quality will be assessed by customers on the previous ratings and companies with higher ratings (or higher customer satisfaction) will be more interested and more able to keep higher reputation levels. By the same token, we also expect that companies with better performance will be also able to better address the service failures and therefore to respond to the customers’ negative comments.

**Hypothesis 2:** Hotels with previous higher degree of customer satisfaction ratings will be more likely to respond to consumers’ negative comments rather than their counterparts.
**Hypothesis 3:** Hotels with previous better performance will be more likely to respond to consumers’ negative comments rather than their counterparts.

According to DiMaggio and Powell (1983) homogenization is encouraged by organizations seeking to ensure that they can provide the same benefits and services as their competitors to consumers. Authors state that the concept that best captures the process in which organizations become so similar is isomorphism. Isomorphism is described as a process in which units in a given population resemble other units facing the same environmental conditions. And in the population level, it means that organizational characteristics are modified in direction to increasing compatibility with environmental characteristics. There are three different mechanisms (coercive, mimetic and normative processes) by which isomorphism occurs and each one provides to organizations similarity that make them easier to transact with others, to attract career-minded staff, to be acknowledge them as legitimate and reputable.

In the present research, the mimetic process is more relevant. Ketoviki and Schroeder (2004) state that there are two different arguments in Institutional Theory regarding mimickers. The first is under the economic paradigm and in which the assumption is that mimickers are strictly economically motivated. On contrary, there is the sociological perspective that posits that mimickers are primarily motivated by attempts at legitimacy (DiMaggio and Powell, 1983) and that formal structure can indeed be a form of “myth and ceremony” (Meyer and Rowan, 1977).

In the mimetic process of isomorphism, organizations will tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful (DiMaggio and Powell, 1983). Institutional theory proposes that organizational actions are driven by the desire of organizational actors to give a plausible and meaningful account of their actions, that is, by social justifications (Dacin et al., 2007).

We suggest that companies will be every time more similar in the way they respond to service failures issues, i.e. the negative comments. In other words and as stated before, the service failure information available in the internet will lead to isomorphism of hotels regarding service recovery. In the fourth hypothesis, it is expected that the content of institutional narratives related to service recovery actions after a negative client comment will become similar over time.

**Hypothesis 4:** The content of institutional narratives related to service recovery actions after a negative comment will become similar over time.

On the customer side, the implication of isomorphism in service recovery actions will lead to a change in the purchase behavior based on reviews of travelers and responses of companies. We argue that in a situation in which hotels are commented both by positive and negative opinions, consumers will base their willingness to book in the negative comments rather than the negative ones since the orientation would be to avoid poor experience. However, once they face an environment in which service failures and recovery become similar, then they will base their purchase decision by the positive comments. Therefore, positive comments legitimized by clients supporting their activities will become the differentiator in
future purchasing decision of customers after isomorphism process of service recovery regarding the negative comments occurs.

**Hypothesis 5:** The differentiator in customers’ current purchase behavior is the negative comments while the differentiator in customers’ future purchase behavior is the positive comments.

### Methodological Approach

#### Sample and data collection

The target population is composed of Spanish firms because tourism industry plays an important role to this countries’ economy and also due to the availability of a database with information on financial and operational performance of Spanish companies. The list of these companies will be obtained from the *Sistemas de Análisis de Balances Ibéricos* (SABI) database and we will select the companies from SABI that are included in activity 55 (*Servicios de Alojamiento*) and more specifically the ones inscribed as activity 551 (*Hoteles y alojamientos similares*). SABI database covers information over 1.25 million Spanish firms and under on activity 551 there are 10,162 hotels.

Once identified the hotels in SABI database, we will collect data on another archival source, the TripAdvisor website. It offers travel advice to its users as well as ratings and rankings for hotels, restaurants and visitor attractions around the world. Founded in February 2000, the TripAdvisor brand has expanded to operate in twenty-seven countries and according to the organization’s fact sheet of 2011, over 40 million visitors (and hence potential customers) pass through the site every month. From the perspective of the traveler, TripAdvisor offers over 40 million traveler reviews to peer use and ranking lists for over 450,000 hotels. The unique feature of TripAdvisor when compared to traditional travel guides is that its information and advice is effectively constructed from the accumulated opinions of fellow travelers. In other words, its travel guidance consists not of expert review, but rather of the experiences of millions of tourists, in a peer-to-peer type of review.

The traveler ratings provide a strong and instant signal of an establishment’s attractiveness to the traveler. Since managers from hotels started posting comments on their business unit as a reply to consumers’ comments from 2010, we will start my analysis with data from 2010. In a first attempt to analyze the recent phenomenon of social media in the behavior of hotels’ performance, Anderson (2012) provides initial evidences that the percentage of consumers consulting reviews at TripAdvisor prior to booking a hotel room has steadily increased over time, as has the number of reviews they are reading prior to making their hotel choice. The author also finds that by increasing 1 point on a 5-point scale in TripAdvisor, the hotel is able to increase its price while maintaining its occupancy and market share. In addition, an increase in hotels’ reputation indicates an increase in performance.

It is important to highlight that in the TripAdvisor there are 11,158 hotels listed and in the SABI the number is 10,162. One reason for this discrepancy may be that hotels under the same brand in different cities are computed as one corporation in the SABI database.
Hypotheses 1, 2 and 3 - Variables

We will combine the information taken from SABI on Spanish hotels with information on TripAdvisor, such as ratings, reviews and comments in order to test hypotheses 1 to 3 and we will start the description of variables with the first three hypotheses. Specifically, SABI database contains information on annual reports in the last years and since TripAdvisor ratings and comments are also identified with time, we will be able to have information in a longitudinal way in order to facilitate further analysis. From the SABI, information such as number of employees, firm size, financial data and operational rates will be taken and for all the hotels listed with the intention to compute previous satisfaction rates and performance, in line with Villena et al. (2011) that also used SABI to calculate dependent and control variables. From the TripAdvisor, information such as percentage of traveler rating per year as well as information on the hotels that has responded to negative comments and content of comments will be taken.

Independent Variables

Hypothesis 1. Hotel brand names that operate in different countries such as Hilton, Marriott, Hyatt, Melia, NH, Sheraton, Accor and other international brands will be distinguished in the database from the others in order to test H1. Therefore, if a hotel is administrated by an international brand with operation in another country, it will be considered 1 and otherwise, 0 (zero). Since hotels open and close during years, we will have the information in a yearly base. We will then identify the hotels that had Average, Poor and Terrible ratings and the ones that had posted a comment after it. Since institutions started posting comments only in 2010, we will have from two to three years of observation, considering we will start collecting data when 2013 annual reports are already available.

Hypothesis 2. In this TripAdvisor website, traveler rating relies on a 5-point Likert scale (Excellent, Very Good, Average, Poor and Terrible). The percentage of number of ratings classified as Excellent plus the ones classified by Very Good divided by the total number of ratings in all categories for a given company will be the proxy for customer satisfaction, which is the same measurement used by the website to indicate the percentage of “likes” and furthermore to calculate the hotel rankings in a given city. We will have this information also in yearly base.

Hypothesis 3. From the SABI database, information on ROA will be taken for each company and each year. ROA will be calculated as EBIT / Total Asset.
**Dependent Variable**

The response to the customer negative comment will be the dependent variable in hypotheses 1 to 3. If the hotel had published a posting after a service failure and therefore a service recovery action, then we will assign value 1 to that hotel in that year. On contrary, it will be assigned value 0 (zero).

**Control Variables**

Control variables will be used such as firm size, classification of hotels (1 to 5 stars), whether they belong to a MNE, number of employees and variables of the remaining hypotheses will be used as control variables for any given hypothesis being tested.

**Analysis**

In the first three hypotheses, logistic regression analysis will be used. In the case of H2 and H3, it will be used the variables customer satisfaction and performance in time \( t \), respectively, and service recovery in time \( t-1 \).

**Robustness Test**

A logistic regression with all the variables of interest will be made to further corroborate the results.

**Hypothesis 4**

In the fourth hypothesis, content analysis will be conducted using managers’ postings after a guest negative comment. The idea is to capture the main cause of the complaint in order to be able to compare similar complains in a given year with following years. The unit of analysis then will be the service failure itself and the investigation will proceed to understand how the service recovery narrative has been published over time per service failure categorization. So, we will count the number of words in a given year in service recovery messages per complain type and per company. We expect to find that for any given complain type, the variability of number of words among different companies in time \( t+1 \) will be lower than the variability in time \( t \). The independent variable will then be the time and the dependent variable the variability of number of words for a given complaint in each year. This is in line with Westphal et al. (1997) that used time and variability as variables to understand TQM adoption and consequences in an institutional theory perspective. We will then conduct a regression analysis.
Hypothesis 5

In the hypotheses 5, an experiment will be conducted to verify the behavior of consumers regarding positive and negative comments and the influence of them in their purchase behavior while booking hotels for their trips. We will manipulate between-subjects positive vs. negative comments (independent variable) and measure priority decision on willingness to book (dependent variable) in the short run versus the long run.

Concluding Remarks

Comments of consumers posted in websites designed to provide travelers advices as well as managers are forms of dialogue between companies and clients and also stakeholders monitoring. Rather than serving to decrease information asymmetry and therefore help customers in their booking decisions, websites can be thought as channels that give companies the opportunity to reinforce their image, reputation and legitimization. According to Institutional Theory, the process of isomorphism takes place and companies become more homogeneous. Since companies can act on the negative comments, we would claim that they will be the focus of companies for treatment and since customers have both positive and negative comments, we argue that they would prioritize the negative ones in their purchasing decision and in the short run with the purpose of avoiding a bad experience. However, they will prioritize the positive comments in the long run. This together with the argument of isomorphism of service recovery brings up the positive comments in future as the differentiator in both customers’ and companies’ decision. Positive comments can serve as legitimization of clients supporting firms’ activities.

This paper investigates the institutional aspects influencing behavior of companies and customers in dealing with customers’ comments about their experience in hotels as well as managers’ institutional responses that are available in the internet and in general terms to the monitoring behavior of service providers. Specifically, it looks at customer’s ratings and comments about their experience in hotels as well as institutional responses that are available in the internet as a proxy for customers’ monitoring behavior of organizations.

This study assumes that both types of comments can influence consumers’ intent of purchase and it also argues it will influence the corporate social image of companies and their attempt to gain and maintain legitimacy. While the negative comments will lead to isomorphism on companies’ decisions in service recovery actions, the positive ones will become the differentiator in customers’ future purchasing decision. It contributes to literature in service failure and recovery as well to Institutional Theory.
References