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Measuring and Managing the Externality of Managerial Responses to Online Customer Reviews

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Abstract

Managerial responses to online customer reviews not only affect customers who receive the responses but may also influence subsequent customers who observe the responses. This externality arises because of the public nature of online interactions. However, prior studies were mainly in offline settings where such externality rarely exists. In this study, we assess the magnitude of such externality. Using a diff-in-diff-in-diff framework and matched hotels across two large travel agencies, we find that managerial responses indeed have a significant and positive impact on the volume of subsequent customer reviews. The impact on the review valence is not evident, which can be attributed to the unique design of identity disclosure in our research context. Furthermore, our results suggest nuances that were not known in the prior literature. For example, responding to positive and negative reviews may have different effects on future reviews, and managers should provide detailed responses to negative reviews but brief ones to positive reviews. Our results offer managerial implications to service providers on how to improve customer engagement in the inter-connected online environment.

Keywords: online interactions with customers, managerial responses, customer reviews, externality, volume, valence, mechanisms