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FIRM REPUTATION IN A CONTEXT OF LOW FAMILIARITY

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Principal Topic

Much prior research on firm reputation has emphasized established firms. Some research has examined new firms, but in highly familiar contexts where stakeholders can assess new firms on the basis of affiliates and records. There has been little consideration of organizational reputation in contexts of low familiarity. The omission is significant because the uncertainties associated with low familiarity increase the difficulty of assessing reputations while, paradoxically, rendering them more valuable. This paper addresses the gap by asking: What reputational signals are consequential to customers making product trial decisions when there is low familiarity with firms in the industry?

This question is of practical significance because low familiarity with industry players is characteristic of the internet, which has been seen as an important mechanism for opening up markets to new firms. It is of theoretical significance because it extends our understanding of which entrants are mostly likely to be assessed favorably in a new industry.

Method

In developing hypotheses, we draw on the accessibility-diagnosticity cognitive framework, which holds that people make evaluations about entities based on prior knowledge (familiarity) and the diagnosticity of new signals. Hypotheses are tested with firm-level and product-level data collected about software products in two product categories – Adware & Spyware Removal (high risk) and Authoring & Font Tools (low risk) – offered on the web site Download.com.

Results and Implications

Consistent with prior research on organizational reputation, we hypothesize, and find, that prestigious endorsements are consequential when customers make product trial decisions. Extending prior research, we hypothesize and find that “herd” endorsements from anonymous users who are not known to have relevant expertise, are also consequential, as are signals of firm authenticity. Although we hypothesize that these three types of reputational signals are more consequential for product trial for higher risk products, we find that product risk moderates the relationships between product trial and only two types of reputational signals: herd endorsements and signals of authenticity. These findings suggest that lower levels of familiarity render distinct types of signals diagnostic in the formation of reputational beliefs. In particular, herd endorsements and signals of mere authenticity take on an importance they probably would not among an audience with greater familiarity.

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