Observable persuaders: A longitudinal study on the effects of quality signals in the contemporary visual art market

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Citation for published version (APA):
OBSERVABLE PERSUADERS:
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SUMMARY
Information about the quality of producers or products has strategic value and affects economic decisions. But what happens in markets where there is extreme uncertainty because quality is difficult to observe directly and objective criteria to make quality judgments are lacking? Indiscernible or indeterminate or even latent quality means to a large extent that producers’ underlying quality often remains unknown to all parties involved in a transaction. In markets where information about quality is incomplete and imperfect, signals -functioning as proxies of hard-to-observe quality - are useful in helping to reduce uncertainty. At the same time, signals also shape quality perceptions buyers and intermediaries have about producers who are the subject of the signals. And this may create a competitive advantage for some producers, which may translate into long-term differential effects on their performance outcomes compared to other competitors.

The core focus of this thesis is on gaining a fine-grained understanding of the effects of signals on producers’ performance outcomes, and specifically on persistence in performance created by self-reinforcing feedback loops initiated by initial advantages from early career signals and/or from signals in later stages of competitive activity. Emphasis is placed on analyzing the differential effects different kinds of signals transmitted by different kinds of sources with different qualitative attributes at different phases in producers career trajectories have on buyers and intermediaries, and how simple or more complicated combinatorics affect producers’ performance outcomes at different stages of their competitive activity. To gain a deeper understanding of persistence in performance differentials, special attention is given to exploring the extent to which past performance described by different sets of signals and diverse sets of sources and interactions between quantitative signal characteristics and qualitative source attributes and sequences of signals, especially the temporal order of signals in the sequence, influence different kinds of buyers and different kinds of intermediaries’ purchase decisions.

In short, signals - reviews, awards, exhibitions, subsidies, art gallery affiliations – transmitted by sources – first and third parties - and buyers -museums, corporate collectors and private collectors – as well as intermediaries – selection committees to a prestigious art program and core mediators who grant selected producers full-fledged legitimacy - are distinguished and used to predict producers’ success, both reputational and financial. Additionally observational learning and herd behavior among buyers is studied. Often when there is uncertainty in the market due to imperfect and incomplete information, observation of others – their actions, payoffs and/or consequences of their actions – becomes the dominant signal. This thesis examines the extent to which “doing what everyone else is doing” may override quality information provided by other signals.

The empirical results of the four core studies all point to the fact that in markets characterized by uncertainty about the quality of producers and/or products - signals matter. But the extent to which different kinds of signals in a multi-signal environment matter is dependent on complex processes rooted in transforming varied information into an aggregate indicator of quality. Under conditions of bounded rationality, intermediaries and buyers –even those with high-levels of specialized knowledge – often rely on simple rules to help them overcome information overload caused by heterogeneous signals transmitted by heterogeneous sources about producers’ quality. This thesis provides a detailed empirical analysis of these complex processes and an in-depth understanding of how simple and complicated arrangements of signals and sources transmitting those signals affect producers’ short and long-term performance outcomes during different career stages.