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THE EFFECTS OF SOURCE CREDIBILITY AND SALIENCE ON SALES PERFORMANCE: A STUDY OF CORPORATE ART COLLECTORS

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INTRODUCTION

Signaling theory (Spence, 1973) focuses on using signals as proxies of quality and helps explain how signals reduce uncertainties in pre-purchase decision-making. Signals convey information about a product or producer's unobservable or indiscernible quality (Kirmani and Rao, 2000), and are important in all markets but particularly those with informational gaps (Akerlof, 1970), where for example, product quality is difficult to determine prior to consumption (Nelson, 1970) or perhaps even after consumption (Darby and Karni, 1973).

Signals can originate from different types of sources. An important distinction is between 1st party sources, which are the producers themselves, and independent 3rd party sources. Signals originating from 3rd parties – e.g. winning an award or being reviewed by a critic - can function to inform potential customers of product quality by ranking, reviewing, and rating products (Dean and Biswas, 2001). Signals originating from 1st parties – e.g. advertisements or warranties - also provide information, but may be biased because the 1st party sending the signal has an evident self-interest in how the signal affects customer behavior. This can in turn decrease the informative value of the signal if there is the perception from the customer that the signal is not transmitting unbiased and accurate information (Kelley, 1967; Eagly and Chaiken, 1975; Mizerski, Golden and Kernan, 1979). In this study, we focus on signals originating from 3rd party sources.

Signals seem to be especially important to new producers, precisely because they are new and there is little information available about them. Additionally, the lack of established reputations and external networks leads these new competitors to be less likely to be recognized as legitimate producers (Freeman, Carroll and Hannan 1983). As a result, customers and other external stakeholders will be wary to be associated with them, and this can lead to their failure (Aldrich and Fiol, 1994). This competitive disadvantage is the main cause of the liability of newness (Stinchcombe 1965). Conversely, this would imply that older producers would have less need for signals and that the economic effect of signals would therefore be less strong if they were about older and established producers.

Various studies have shown that signals originating from sources deemed credible by the customer - in terms of their expertise or trustworthiness - have a greater positive effect on sales than signals originating from less credible sources (Hovland and Weiss 1951; Bearden and Shimp, 1982). Besides credibility, research has also focused on the salience of the source (Alba and Chattopadhyay 1986; Ehrenberg, Barnard and Scriven 1997; Romaniuk and Sharp 2004). Salience is the propensity to be noticed or to "stand out" (Guido 1998). Earlier studies have shown that high "noticeability" will increase sales of products compared to those of less visible products (Chandon and Wansink 2002). Salience is however, often subsumed into source credibility or product awareness, and not studied as an independent dimension of signal strength (Romaniuk and Sharp, 2004).

In our paper, we distinguish between the credibility and salience dimensions of the 3rd party source emitting the signal. We do not consider the valence of the signal, mainly because the signals we study – reviews, awards and gallery affiliation – in our empirical setting of the visual arts are all predominately positive. We do, however, fill a gap in the literature by providing a deeper understanding of the effects of source credibility and salience – as two independent dimensions - on customer behavior.

Our study has a number of contributions to existing research. First, it provides insights into how and to what extent different types of 3rd party signals affect a producer's economic performance. Second, it adds to the existing body of signaling and marketing literature by separately considering two distinct dimensions of signal sources – credibility and salience – and their influence on sales. Many studies refer to signals in terms of credibility, but by measuring a signal's strength based upon source salience - independently from credibility – can provide a greater understanding into the effectiveness and diversity of a signal's influence on sales. A third contribution is that we study the salience and credibility of signal sources in conjunction with career age. The theoretical concept of the liability of newness (Stinchcombe 1965) suggests that 3rd party signals have particular importance for newer producers. We establish whether the effects of signal source strength - along both of the dimensions that are distinguished - are affected by the career age of the producer.

Our empirical setting is the visual arts market in the Netherlands. We study visual artists who were residents at the Royal Dutch Art Academy located in Amsterdam from 1990 – 2004. The artists in our dataset are active on the primary art market, where they, or the gallery representing them, sell the artworks for the first time directly to customers (Singer and Lynch, 1994). The customers we study are corporate art collectors in the Netherlands. Studying this group of collectors gives excellent insight into signal effectiveness along each dimension because in general, visual artists have very skewed distribution of career success, but particularly early in their career there is high uncertainty about the quality of their products (Caves, 2000; Adler, 1985; Rosen, 1981).

SOURCE CREDIBILITY

The credibility of a signal's source is an essential determinant of the effectiveness of the signal (Sternhal, Dholakia and Leavitt, 1978). Previous research has shown that if source credibility is high then customers are willing to accept the signal, however, if source credibility is low customers find the signal less valuable. This is because customers do not accept signals at face value but rather judge a signal's accuracy by first judging the source's credibility (Eagly and Chaiken, 1975; Mizerski, Golden and Kernan, 1979; Kirmani and Rao, 2000). However, if the source is emitting a signal as a result of other factors (e.g. paid endorsement) then the claim will likely be discounted and signal effectiveness will be lost (Mizerski, Golden and Kernan, 1979). Thus, we propose:

H1: The higher the source *credibility* of a 3rd party signal, the stronger the effect will be on sales performance in the period following the signal.

SALIENCE

Salience is the likelihood of a signal or source to be noticed or to "stand out" in its environment (Guido, 1998). Romaniuk and Sharp (2004) propose that salience should be considered a stand-alone concept and not as a subset of source credibility or product awareness. There is only so much information that individuals can think of at any given time (Miller, 1956) and the salience of the source can be described as the chance of being thought of or of being in an individual's "consideration set" (Ehrenberg et al., 1997; Chandon and Wansik, 2002). Salience is not about how strongly the user feels about the source but rather how much more noticeable or visible it is than the competition (Ehrenberg et al., 1997). This leads us to propose following hypothesis:

H2: The higher the source *salience* of a 3rd party signal, the stronger the effect will be on sales performance in the period following the signal.

THE ROLE OF AGE

Stinchcombe (1965) introduced the concept of the liability of newness to explain why new producers early in their career have a greater risk of failure than established producers. The argument advanced is that new producers usually have low levels of legitimacy, which makes other parties, such as investors or customers, less willing to associate with them (Freeman, Carroll and Hannan, 1983). Legitimacy, however, can only be conferred to a producer externally (Singh, Tucker and House, 1986), and a good way to get this is for a new producer to be the recipient of signals originating from 3rd party sources. By gaining evaluative judgments from 3rd parties (e.g., Rao, 1994; Anand and Watson, 2004; Eliashberg and Shugan, 1997) the competitive disadvantages associated with the liability of newness decrease, while the likelihood of future market success increase (Rao, 1994; Shepherd et al., 2000). This argument leads us to propose the following hypothesis about the interaction between source credibility and career age:

H3a: The positive relation between the credibility of the source and sales performance in the period following the signal will be negatively affected by career age.

Additionally, salient sources can help offset the liability of newness because the more noticeable, the greater the probability to be in a customer's consideration set and thus have a subsequent affirmative corollary effect of a positive evaluation (Romaniuk and Sharp, 2004). A salient signal can help convey the impression that the producer is established and reputable, therefore decreasing the liability of newness. Based upon these arguments, the following hypothesis about the interaction between source salience and career age, we expect:

H3b: The positive relation between the salience of the source and sales performance in the period following the signal will be negatively affected by career age.

EMPIRICAL ANALYSIS

Our dataset contains information about 416 visual artists from 1990-2004. We study approximately 5,000 signals (i.e., reviews, awards and gallery affiliation) and analyze 450 sales events to corporate art collections in the Netherlands.

Sales event is the dependent variable, measured in terms of price paid in euros. The independent variables are reviews, awards and gallery affiliations. Each type of signal source is analyzed on both credibility and salience dimensions. An independent art expert ranked each source on a credibility scale: five being the highest and one being the lowest. Then for each year only the highest credibility score is recorded for that particular type of signal. Salience of each type of source is operationalized by counting the total number of a particular type of signal originating from a particular source per artist per year. For each individual signal we use a five-year window previous to the sale event. Additionally a number of covariate variables are used, such as career age, past sales to any collectors, past sales to same collector, and art genres.

RESULTS

We used a hierarchical regression analysis. The dependent variable sales event was log transformed; the maximum price paid was € 32,000 and the minimum was € 100 with a mean price of €3,669.16. We found partial support for hypothesis 1. There is a significant and positive relationship between credible reviews ($\beta = .120$, $p<.05$) and sales, and a weaker significant positive relationship between credible gallery affiliation ($\beta = .098$, $p<.10$) and sales. Contrary to what we expected, there is a significant but negative relationship between credible awards ($\beta = -.090$, $p<.10$) and sales. The results are mostly in support of hypothesis 2 stating there is a positive relationship between high salience signals and sales, but only for reviews ($\beta = .150$, $p<.01$) and gallery affiliation ($\beta = .091$, $p<.10$). There is no significant relationship between salience of awards and sales.

We found limited support for hypothesis 3a, namely a negative interaction between credibility of awards and career age ($\beta = -.195$, $p<.001$). We also found partial support for hypothesis 3b. There is a significant and positive interaction between career age and salience of reviews ($\beta = .149$, $p<.05$). However, in support of our hypothesis we also found a significant and negative interaction between the salience of awards and career age (β -.274, $p<.001$).

These results are preliminary in nature as we are still collecting sales data and ranking source credibility and salience of 3rd party signals. Additionally, we are currently working with a random effects panel data model, which seems to be a more suitable econometric model for our longitudinal data.

DISCUSSION

As expected the main effects of reviews and gallery affiliation on both the credibility and salience dimensions have a positive effect on sales to corporate art collections. An unexpected result however, is the negative relationship between source credibility of awards and sales.

A possible explanation for this result is the presence of another market effect. Perhaps the negative main effect of credible awards on sales is an indication that artists who receive highly credible awards are no longer bought by corporate art collections. Since most corporate art collections focus on buying artworks from local, young and not yet commercially established artists (Wu, 2002), receiving awards from highly credible 3rd party sources can cause them to divert their attention to other (yet unknown) artists. Corporate collectors ideally like to "discover" artists themselves (Martorella, 1990; Wu, 2002) and be perceived as early adopters. If an artist is fully established, little honor and prestige is left to gain. The signal awards originating from high credibility sources seem to indicate that this class of customers diverts their attention from established artists. Interestingly enough, the negative relationship between credibility of awards and sales is only expressed in the credibility dimension model, not in the salience dimension model.

Another unexpected result is related to the interactions between signals and career age. The argument based upon the liability of newness (Stinchcombe, 1965) suggests that producers with low career age have a greater risk of failure than producers with high career age. Our study, however, shows a significant and positive interaction effect between salience of reviews and career age but only with respect to producers with high career age. This contradicts the argument presented by the liability of newness. One possible explanation can be that a kind of Matthew effect operates in respect to salience. The more exposure an artist has had in the course of their career, the more likely potential customers consider you (Ehrenberg, Barnard and Scriven, 1997; Chandon and Wansink, 2002). Career age will likely increase cumulative exposure, which could make the salient more salient. Second, there are significant and negative interaction effects between both credibility and salience of awards and career age. The results from this interaction provide support for our hypothesis about the liability of newness. However, instead of the liability of newness, this result can rather be considered as evidence of a "liability of oldness".

Our study also has a few evident limitations. We only looked at one type of product - visual art – and one particular group of cohorts – alumni of an art academy – and their sales to one submarket – corporate collectors in the Netherlands. Looking more closely at the different dimensions of other types of signals could help to further explain the particular behavior of specific groups of other market actors, e.g. museums and private collectors.

However, the main results we found seem relevant to any market and especially any market in which there is high uncertainty about product quality. Even the finding that we explained by referring to the particular characteristics of corporate collectors seems readily generalizable. The phenomenon of the liability of oldness may well be present in other contexts in which the customers gain in prestige by being perceived as early adopters.

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