

The role of third-party certifications (TPCs) in reducing consumer uncertainty is well documented. Rao (1994) has shown how published accounts of the outcomes of car races helped reduce consumer uncertainty in the nascent automobile industry. Still again, Zuckerman (1999) has illustrated how stock analysts reduce uncertainty in the stock market. What is less understood is how precisely third-party certifications reduce *firm-side* uncertainty. Firms have many different projects they can support at any given point in time. My research project investigates the role that third-party certifications play in helping firms identify which projects deserve greater attention.

Close examination of the assessments employed in third-party certifications reveals two distinct types: those based on fully objective assessments and those based on (at least) partially subjective assessments. As an example of the objective, every year, the Insurance Institute of Highway Safety takes a collection of cars, smashes them at 40mph into a honeycomb barrier, and publicly releases those results. Turning to the literature for guidance, we can see that the car crash results constitute confirmation of successful reputation building. The economic view of reputation states that reputation is a residual of the willingness to carry some non-zero cost that actors of lower types would be unwilling to carry (Nelson, 1970; Milgrom & Roberts, 1986; Weigelt & Camerer, 1988). Because the test is purely objective, automakers with the wherewithal to meet those standards (via technology, resources, personnel, etc.) will invest to do so (the theory argues) and those that cannot will not. This makes reputation an “ego-actuated” construct—the choice to differentiate lies in the hands of the firm, and the crash test results merely confirm for all observers the success of that investment.

Turning to subjective TPCs, during any given year, *Car & Driver* magazine also takes a collection of cars, tests them, and publicly releases those results; its journalists commenting on how the steering “felt tight” or how they liked the “strong design lines.” Unlike with the objective crash tests, the automakers cannot design their cars to meet specifically the assessment. Automakers can make educated guesses, but cannot specifically design for the reviews. Differentiation, therefore, unfolds at the hands of others (i.e. via an “alter-actuated” construct). Again, turning to the literature, this makes subjective third-party certifications fit the definition of status-creation, whereby status is a socially constructed ordering of actors that differentially distributes benefits, opportunities and obligations across the ordering (Weber, Gerth & Mills, 1946; Ridgeway & Berger, 1986). I propose that the inclusion of subjectivity into the assessment can flip TPCs between “reputation confirming” certifications and “status creating” certifications. Moreover, while this wrests differentiation decision-making away from the ego, giving it to the alter, status creating certifications may benefit the ego in ways beyond what reputation confirming certifications could.

A reputation confirming TPC essentially validates that the firm’s investment is having the desired effect. This should encourage the firm to continue with that investment or possibly increase that investment. If we turn our attention to status-creating TPCs, however, because the quality that is being highlighted was not the basis of firm attention, I assert that this provides even more information to the firm. Specifically, this implies that we should investigate which types of firms are impacted by this new information as well as what types of certifications are impactful in terms of their information content.

Considering firm characteristics as a basis of impact, I hypothesize that status creating TPCs will be more impactful for firms with less experience. Fewer years in a business mean less expertise in identifying projects with the greatest potential and the salient dimensions for success. I also hypothesize that status creating TPCs will be more impactful for firms with fewer resources.

Drawing from a smaller asset base may equate with a less robust due diligence function. Finally, I hypothesize that status creating TPCs will be more impactful for firms with more projects. A firm facing too many projects may have difficulty discerning which deserve greater attention. In all three cases, information captured in a subjectively determined assessment should be meaningful.

Turning to certification characteristics as the basis of impact, I hope to evaluate four commonly cited, yet rarely empirically tested, assertions about media exposure. These assertions have been made regarding the reduction of consumer uncertainty, but have yet to be investigated with respect to the reduction of firm-side uncertainty. First, is the assertion that “any exposure is good exposure.” By observing the tenor of a third-party certification, I hope to verify whether negativity or positivity of a TPC influences firm behavior. Second, by examining differences in quantity versus quality of the certification, I hope to confirm/disconfirm the assertion of publicist Howard Bloom, that, “It’s more important to get...mentioned four times in a row.... That’s more important than one long feature” (Pettigrew, 1997). Third, by exploring the prominence of reviewers and their employers, I hope to confirm/disconfirm whether “the messenger matter. Finally, I hope to discern whether the reach of the message is also salient as an information source for firms.

In summary, my theoretical proposition is that firm investment is a function of firm characteristics and certification characteristics, given a certification’s public dissemination. I test this proposition by examining the impact of music album reviews on album-level advertising support given by the record labels to individual albums. My data includes weekly advertising expenditures for music albums in the U.S. from the beginning of 2001 to the end of 2005. My data includes the full advertising spend for each album in 220+ Magazines; 37 Cable TV Networks; 6 National TV Networks; 4,000 Radio Stations in 225 markets; 5 National Radio Networks; 270+

Newspapers in 56 major markets; 4 Sunday Magazines; 200 Outdoor Billboard Markets in the United States. I have this data at the \$100 level and up for each of approximately 250 weeks.

For the firm characteristics, I have age, size in both employees and assets, and the number of artists the firm is supporting via advertising. For my reputation confirming TPC, I employ Billboard magazine's Heatseekers® list, which is based on precise electronic counts of album sales and radio plays. To be included in Heatseekers, an artist must never have entered the Billboard Top100® at any point in the artist's history. If an artist ever does enter the Top100, the artist is forever dropped from Heatseekers. I therefore view entry into the Heatseekers as precisely capturing confirmation of reputation--albeit a minimum reputation level with no prominence in the market (c.f. Rindova, Williamson, Petkova & Sever, 2005). For my status-creating TPC, I have collected every media mention in the Lexis-Nexis Educational Edition for all artists that appeared in the Heatseekers list for my five-year research window.

My data also allow for validation of previous theoretical assertions of reputation building and consumer uncertainty reduction. If economic theories of reputation building are correct, we should expect that ad spend (i.e. "investment") would precede artist entry into the Heatseekers charts. As well, if TPCs are status creating, we should expect that consumers would react positively to positive music reviews and negatively to negative reviews, spurring moves in the charts.

My hope is that this research makes several contributions. First is to establish the role of third party certifications in reducing firm-side uncertainty. Second, I hope to break down investment into two components of interest--one that we understand much (e.g. firm characteristics) and one that we understand little (e.g. certification characteristics). I also hope to demonstrate that status creating TPCs differ substantially from reputation confirming TPCs, especially with respect to reducing firm-side uncertainty. These distinct certification types provide distinct information, and I hope to show that status creating TPCs provide even more information

than reputation confirming TPCs. In doing so, this research highlights firm strategic response to this information. In other words: If the object of the third-party certification is your own project, invest in support of the project. If the object is a rival's project, monitor, mimic, or take other strategic action. Moreover, if we consider how eBay considered its own market incomplete without subjective assessments of sellers, one could also argue that industries lacking status-creating TPCs should encourage their emergence, rather than viewing them as a threat. This suggests an added industry-level strategic response to the existence of TPCs.