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Up the Ante: Mediating Firm Reputation through Online Social Media Communities

Abstract. Prior research on firm reputation has acknowledged the importance of word of mouth (WoM) in influencing the choices made by businesses, as well as by individuals. In recent developments, Internet-based WoM systems aggregate vast amounts of information relevant to firm strategy and operations. For example, online social media communities aggregate information generated by both the firm (i.e. firm generated content FGC) and users (i.e. user generated content UGC). We theorize that FGC and UGC generate reputation benefits for a company in the form of two intermediate information mechanisms: information diversity and valence. Information diversity contributes to the ability of individual market agents to evaluate firm actions with greater access to information, whereas valence reflects the positive feelings that an online community generates for the firm (e.g. members trumpets the firm’s positive attributes). We first undertake a qualitative content analysis to investigate the extent to which FGC and UGC generate information diversity and valence. We then test the hypothesis that both information diversity and valence increase a firm’s financial performance. Our findings show that electronic WoM enhances a firm’s reputation and thereby its performance through both these effects (i.e. embedded information and valence).

Keywords: Reputation; Social Media Communities; Firm Generated Content; Users Generated Content; Performance