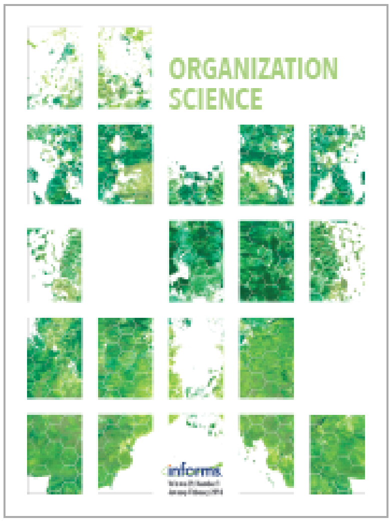

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Committed Diversification: Why Authenticity Insulates Against Penalties for Diversification

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Abstract. Work in organization theory has highlighted that diversification triggers concerns over the newly diversified firm's capability or commitment to serve its audience. Although this work has shown that perceived lack of commitment may be an important problem for diversifying firms, it has not been established what might resolve these commitment concerns and reduce demand-side penalties for diversifying to serve new customers. We argue that a firm's ability to signal authenticity will increase perceptions of commitment and resolve ambiguities about commitment generated by diversification. We use a multimethod approach including qualitative evidence from a case in the behavioral health industry and experimental methods to isolate these observed effects. In a qualitative study, we examine a case in which two firms saw divergent outcomes when they tried to engage in the exact same diversification activity and show that when a firm signals that they are highly authentic (i.e., when stakeholders perceive the firm to be willing to fulfill commitments even while sacrificing short-term rewards), diversification does not threaten perceived commitment. However, those who cannot signal authenticity are less likely to be selected in the market because diversification is seen as a threat to perceived commitment. We then test these findings in two experiments using the primary customer audience, addiction recovery therapists, as participants. In a final experiment, we test some key boundary conditions of our argument, finding support in the context of markets for car mechanics, which suggests that our argument may be applicable more broadly than healthcare into markets for various types of credence goods.

Supplemental Material: The online appendix is available at https://doi.org/10.1287/orsc.2019.1317.

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Introduction

Building on seminal work by Zuckerman (2000; cf. Zuckerman 1999), a large number of studies have shown that audiences will penalize or ignore firms that diversify into new business lines (e.g., Hsu et al. 2009, Negro and Leung 2012, Kovacs and Hannan 2015). This is particularly true for customers, who tend to reject offerings from firms that diversify across business lines because the firm's offerings are unclear or unseen as options (Pontikes 2012, Leung and Sharkey 2014). This line of research has articulated two main reasons for why firm diversification can result in penalties from a demand-side or audience perspective: (i) diversification raises concerns about whether the firm or producer is stretched too thin and *not capable* of serving its customers (e.g., Zuckerman et al. 2003, Sgourev and Althuizen 2014, Sakhartov 2018) and (ii) that by engaging with new stakeholders the firm communicates that it is *not committed* or is unwilling to serve the original customers in ways they value in order to fulfill demands from these new stakeholders (Phillips et al. 2013).

This literature on the demand-side penalties to diversification has long painted a dire picture for firms seeking to engage new stakeholders with new business lines. Yet research from the supply-side perspective, which focuses on a producer's decision to diversify and reorganize, has shown that diversification can be, and often is, rewarded in the market (e.g., Argote and Ingram 2000; Villalonga 2004a, b; Natividad and Rawley 2016). With such evidence in hand, it is difficult to continue to argue that diversifying firms will always face demand-side penalties. So, we ask: how might diversifying firms overcome each of these types of demand-side concerns?

Work on the demand-side perspective has begun to address this issue by highlighting three potential factors that can explain how diversifying firms can overcome capability concerns, type (i) from above. Whether it is highlighting that different audiences can value different things (Baker 1992, Pontikes 2012, Paolella and Durand 2015, Zuckerman 2017), the proximity or similarity of the new business line (Kovacs and Hannan 2015), or that a high-status identity can insulate against capability concerns (Phillips and Zuckerman 2001, Phillips et al. 2013, Sgourev and Althuizen 2014), this line of research has made progress on explaining conditions under which capability concerns generated by diversification can be overcome. However, research from the demand-side perspective in markets for products and services has yet to clarify how diversifying firms may overcome commitment concerns (i.e., whether the firm is *willing* to use its capability to serve the stakeholders in question) (Schelling 1956, Becker 1960, Ghemawat 1991, Phillips et al. 2013, Cattani et al. 2017).[1]

By diversifying, a firm sends its audience ambiguous information about commitment (Sakhartov 2018). On the one hand, it could mean more capabilities and options to serve them. On the other hand it can elicit commitment concerns and result in penalties, such as reduced likelihood of selection, because even if customers are confident that the diversifying firm will still be capable of serving them and the new audience (i.e., has the resources, technology, and organizational know-how), engagement with this new audience raises concerns about whether the diversified firm is *willing* to use these capabilities to serve them (Zuckerman and Kim 2003, Phillips et al. 2013; cf. Zuckerman et al. 2003, Leung 2014). This ambiguous signal causes audiences to search for information to justify or alleviate concerns about the diversified firm's commitment to them. Such commitment concerns create penalties in the form of reduced selection rates by customers because by engaging with new stakeholders, the previous stakeholders will be left uncertain that the diversified firm will be willing to prioritize them (Hsu et al. 2009, Phillips et al. 2013, Galperin et al. 2019).

Although these studies highlight that commitment penalties matter for diversifying firms, work in this vein has yet to articulate when and how diversifying firms can overcome penalties related to perceived lack of commitment. In this paper, we aim to show one type of identity factor that can positively influence perceptions of commitment, thereby explaining differences in selection rates among diversifying firms. Building on recent work on authentic identities for organizations (Baron 2004, Carroll and Wheaton 2009, Hahl 2016, Lehman et al. 2018), we argue that a firm's perceived authenticity can insulate a diversifying firm from demand-side penalties related to commitment concerns. Authenticity, an identity characteristic indicating that a firm is what it claims to be (Trilling 1972, Baugh 1988, Grazian 2005, Hahl et al. 2017), is attributed to those actors willing to fulfill their commitments, especially where such commitments threaten short-term gains (Baron 2004; Carroll and Wheaton 2009, p. 261; Hahl 2016). Thus, signaling authenticity can serve to resolve the ambiguity about commitment generated by diversification, because such an identity can serve as a filter through which audiences view and understand diversification.

After establishing our theory and deriving specific hypotheses, we use a mixed-methods approach to validate and test our argument. First, we use qualitative analysis on a case of diversification in the context of the behavioral health industry. We then test the proposed causal mechanisms through two experiments in the behavioral health context partly informed by our qualitative findings. We increase the external validity of these tests by randomly assigning active behavioral health therapists to manipulations that allow us to isolate and test for the causal relationships proposed in our argument. Although this context provides empirical grounding for our experimental manipulations and findings, the focus on addiction clinics raises two potentially unnecessary boundary conditions to our argument: (1) the presence of professionals who mediate exchange, and (2) industry logics that place profit at odds with quality. In a third experiment, we test whether our arguments hold when these conditions are relaxed by running a similar experiment in the market for car mechanics. Finally, we discuss how our study contributes to the literature on authenticity and valuation in markets and conclude by articulating the key contribution of our study with respect to demand-side penalties for diversification (i.e., that signaling authenticity can insulate against commitment concerns generated by diversification).

Theory

Diversification and Ambiguity About Commitment

A firm diversifies by adding a new business line to a corporation that already includes at least one other distinct business line that serves a different customer base or solution in the market. A firm's decision to diversify carries with it the promise of increased profit and market power through the opportunity to realize economies of scope (Pfeffer and Salancik 1978, Chandler 1994). However, this promise is not always realized. As a result, there has long been scholastic interest in whether diversification actually adds value to the firm (e.g., Wernerfelt and Montgomery 1988; Lang and Stulz 1994; Berger and Ofek 1995; Servaes 1996; Villalonga 2004a, b) and what the organizational factors (i.e., supply-side factors) are that determine whether firms achieve the benefits of diversification (e.g., Rawley 2010, Rawley and Simcoe 2010, Natividad and Rawley 2016).

Work in economic sociology has shown that the outcome of diversification can also be determined

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by how stakeholders or audiences (i.e., customers, investors, etc.) perceive those diversifying firms.[2] Building on the seminal work by Zuckerman (2000), it has been widely recognized that diversifying firms are less likely to be selected by stakeholders than firms that are more focused within one product or business line (e.g., Leung and Sharkey 2014, Kovács and Hannan 2015). These studies have shown two underlying logics for why diversification may result in such demand-side penalties. First, audiences may question whether the diversifying firm has the capabilities and resources to serve them, because diversification may lead the firm to allocate resources across the multiple business lines, and as a result the firm can be stretched too thin (e.g., Hsu et al. 2009, Sakhartov 2018). Second, because diversification means the firm will engage with a new set of stakeholders, its original customers may be suspicious about the firm's commitment to using its capabilities and resources to serve them in the ways that these customers value (Phillips et al. 2013; cf. Zuckerman and Kim 2003, Cattani et al. 2017).

Recent work in economic sociology has shown ways in which audiences' ambiguities about a diversifying firm's *capabilities* are resolved. First, levels of concern can differ according to differences in theories of value across audience stakeholders and time for the same corporation. In particular, one type of audience (e.g., customer) might view diversification as stress on resources and capabilities, but another (e.g., investor) might value the opportunity it presents in gaining a foothold into multiple markets (Baker 1992, Pontikes 2012, Paolella and Durand 2015, Zuckerman 2017). Second, the type of new business line into which the firm diversifies can mitigate capability concerns when synergies are more obvious. Kovacs and Hannan (2015) show that firms that attempt to enter new business lines in industries that are not obviously related to existing business lines will be penalized more than firms that diversify into more related industries (cf. Markides and Williamson 1994). Finally, a firm's identity as high status in a particular market has been shown to insulate it from capability concerns related to diversification (Phillips and Zuckerman 2001, Sharkey 2014), because status can serve as a signal of capability (Podolny 2005). Consequently, the firm or producer's status can resolve ambiguity about capability positively (high status) or negatively (low status) when such concerns are generated by diversification (Phillips et al. 2013, Sgourev and Althuizen 2014). While these studies show how a diversifying firm may overcome capability concerns, the literature has not yet investigated when diversifying firms may be able to overcome the ambiguity around commitment concerns generated by diversification.

A firm is viewed as committed to its customers when that firm is willing to act in a consistent way, even if such a line of action may be at odds with the firm's (at least short-term) material benefit (Schelling 1956, Becker 1960, Ghemawat 1991). As such, perceptions of commitment are based on ascertaining a firm's intentions, which are often hidden behind mental states (Kim and Zuckerman 2017). This means audiences must rely on information from contextual cues in order to ascertain whether a firm will be committed (Bird and Smith 2005, Lehman et al. 2014, Hahl 2016). Because diversification involves serving a new set of stakeholders with a new business line, it can communicate to each audience that the firm is not as committed to serving them as a firm without such entanglements. For instance, Phillips et al. (2013) show that a corporate law firm can generate commitment concerns by diversifying into the area of personal injury law because their corporate clients will be suspicious that a law firm that is willing to serve its oppositional audience (i.e., individuals suing a company) will no longer be loyal to the them. Similarly, when Steinway & Sons sought to avoid involvement with a new line of mass-market pianos, even to resolve financial difficulty, it was out of concern that serving the mass market would taint Steinway's perceived commitment to the high-end piano market [Cattani et al. (2017); see also Zuckerman and Kim (2003) on giving up Indie audiences for the mass market]. Although these studies highlight the significance of commitment concerns in firm diversification, none of this work resolves whether or when a diversifying firm can still be deemed committed. In the next section, we argue that a firm's ability to communicate its authenticity can serve to insulate it from commitment concerns if it diversifies.

Why Authentic Identities Can Insulate Against Commitment Concerns

In looking for a signal that helps resolve ambiguity about a firm's commitment to its customers, it is important to remember that commitment concerns are essentially based on concerns about intentions (Becker 1960, Cattani et al. 2017). A key insight into how authenticity can serve as a signal of commitment and influence perceptions of a firm's intentions comes from this discussion by Baron (2004, p. 14) on organizational authenticity:

> An organizational identity that is authentic precludes certain alternatives from consideration simply on the grounds that they would not be genuine or thinkable, even if they might be profitable. . . . [A]uthenticity refers to the power of the organization's commitment to clientele and mode of relating to its constituencies, not simply to the stability of its product offerings, clientele, and mode of operating. The most authentic identities—or credible commitments—are ones that

> invoke a non-economic logic for action, inasmuch as they require that actors do certain things that cut against their narrow self-interest (and not do certain things that might further their own interest).

This passage presents three important points that help explain the positive relationship between authentic organizational identities and perceptions of commitment. First, Baron defines authenticity as the "power of the organization's commitment to clientele." This echoes earlier work on authenticity that discussed authenticity as a measure of whether a social actor is or is not what she or he or it claims to be (Trilling 1972, Baugh 1988, Grazian 2005). Authenticity, then, is an organizational identity feature that communicates to its customers that it is committed to them.

The second point we highlight in this statement helps explain why authenticity can communicate higher levels of commitment: "The most authentic identities . . . invoke a non-economic logic for action." He is not alone in this assessment. This point is consistent with the classic observations by Bourdieu (1993, p. 40, emphasis added) about the importance of "disinterestedness" in artistic careers:

> And indeed, like prophecy, especially the prophecy of misfortune, *which demonstrates its authenticity by the fact that it brings in no income*, a heretical break with the prevailing artistic traditions *proves its claim to authenticity by its disinterestedness.*

How does expressing disinterest in the rewards and conventions of society communicate that the organization's intentions are exactly what they claim them to be? We can consider an organizational identity as a presentation of what the organization wants its audience, in this case customers, to understand about its commitments (Albert and Whetten 1985). However, as Goffman (1959) points out with regard to any identity, there is always a frontstage, what is presented and meant to be seen, and a backstage, the true intentions and true character of that which is being identified. An entity is authentic when the frontstage and backstage are aligned. However, the backstage cannot be seen. This creates an opportunity for presenting a frontstage inconsistent with a backstage solely to achieve the rewards associated with such an identity. By contrast, if an organization expresses "disinterest" in the related extrinsic rewards, an audience can infer that the organization's backstage is consistent with its frontstage presentation. Moreover, such an identity communicates the exact issue that is raised by commitment concerns: whether the firm is willing to act consistently, *even if such a line of action is at odds with the firm's short-term material benefit* (Schelling 1956, Becker 1960, Ghemawat 1991, Phillips et al. 2013, Cattani et al. 2017).

This point also highlights how attributions of authenticity are deeply associated with intentions. Recent work on authenticity has argued that authenticity can also be attributed on the basis of membership in categories (e.g., Carroll and Wheaton 2009, Kovács et al. 2013, Lehman et al. 2018). This might very well be the case, because willingness to commit to certain traditions or conventions at the expense of extrinsic rewards can establish an organization as authentic by communicating disinterestedness as defined above. For instance, Lehman et al. (2014) discuss how ethnic restaurants are considered to be authentic even when receiving health code violations to the extent that such violations (a) potentially turn away customers and (b) are the result of deep commitment to a particular ethnic tradition of food preparation, particularly one that has questionable hygienic roots. However, not all members who purely fit a category of traditions or conventions would be deemed authentic. Consider chain restaurants like Olive Garden or Taco Bell. These restaurants are clearly built on a particular categorical theme, but production processes are geared toward increasing audience approval and profits rather than any type of commitment to these genres. Moreover, to the extent that an organization is attempting to fit into a category with its frontstage simply in order to gain the approval and extrinsic rewards from an audience, such an organization is the prototypical case of an inauthentic social actor. Thus, although there may be some debate as to different flavors of authenticity, the issues pertaining to authenticity are in fact more generally understood as relating to inferences about intentions, and in particular, *a perceived disinterest in satisfying or manipulating an audience at the expense of its backstage, true identity* (Sagiv 2014; Hahl et al. 2017, 2018).

The idea that visible displays of "disinterestedness" can inspire perceptions of authenticity is actually quite well established in the recent literature. For instance, Sagiv (2014) discusses how modern dance, which is less pleasing to the audience, tends to be viewed as a more authentic expression than dance genres that have proven demand and are more basic to perform because the latter are seen as crowd pleasers. Work on artist careers has shown that outside artists are viewed to be more authentic because their untrained nature signals a lack of interest in the rewards associated with established standards of so-called successful art careers (Fine 2003, Hahl et al. 2017). Similarly, work on industries with clear profit-oriented logics also shows that attributions of authenticity associated with craft beer (Carroll and Swaminathan 2000, Frake 2016) or professional sports (Hahl 2016) result from signaling a disinterestedness in economic rewards over a commitment to fulfilling customer interests.

So far, we have established that (i) an authentic organizational identity communicates commitment to

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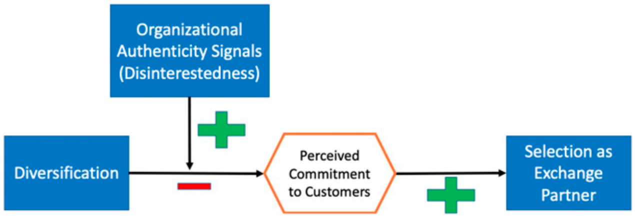
its customers because (ii) attributions of authenticity are based on inferences about an organization's intentions, particularly through displays of "disinterestedness" in manipulating an organization's frontstage to gain some rewards. The third point that is useful for understanding why organizational authenticity can insulate against commitment concerns associated with diversification comes from the beginning of the above quote from Baron (2004, p. 14): "An organizational identity that is authentic precludes certain alternatives from consideration simply on the grounds that they would not be genuine or thinkable, even if they might be profitable." That is to say that an organization's authenticity can inform the interpretation of the activities in which it engages. As discussed above, diversification is an ambiguous signal of commitment, which may trigger audiences to doubt how much they believe a diversifying, potential exchange partner will remain committed to them with another set of stakeholders demanding attention. The more an organization is seen by its audience as authentic, the more the audience will view diversification as no threat to the organization's commitment to its customers. In this way, a firm's authenticity will serve as a filter through which the act of diversification is viewed, leading the audience to infer continued commitment to them.

Figure 1 captures our theory, which is that signaling organizational authenticity can increase perceptions of commitment for a diversifying firm. To the extent that commitment has a positive influence on likelihood of selection, as discussed above, the predicted moderation effect of signaling organizational authenticity leads to two predictions. First, for firms that do not signal high organizational authenticity, a firm's move to engage a new audience through diversification will lead to inferences that it lacks commitment to its original customers (i.e., the ambiguity about commitment will be resolved in the negative direction). The result should be that firms that do not signal high organizational authenticity are less likely to be selected after diversification, compared with when such firms do not engage in diversification.

Figure 1. (Color online) Theoretical Model



Notes. This visualization depicts the proposed theoretical model. We argue that an authentic organizational identity can insulate a diversifying firm from demand-side penalties by increasing the perceived commitment (i.e., eliminating commitment concerns associated with diversification).

Hypothesis 1. *Among firms that communicate low organizational authenticity, customers are less likely to select such a firm that diversifies beyond its original customer base, compared with when it does not engage in diversification, all else equal.*

By contrast, when firms are attributed high levels of authenticity, among such firms, diversification will not lead to commitment concerns as it would for firms that are low in authenticity. At the very least, we argue that signaling high organizational authenticity will reduce penalties related to diversification. In some cases, where the diversification is into an area that can also benefit the current customer base, because the commitment motives are not questioned, diversifying firms might even be rewarded (Sgourev and Althuizen 2014; cf. Villalonga 2004a). This should be the case, for example, when firms engage in related diversification where the benefits of the new business line can be more easily recognized (Markides and Williamson 1994, Kovacs and Hannan 2015). A second hypothesis follows this logic.

Hypothesis 2. *Among firms that signal high organizational authenticity, customers are more likely to select such a firm that diversifies beyond its original customer base, compared with when it does not engage in diversification, all else equal.*

The full model we are predicting, as depicted in Figure 1, is a moderated mediation such that perceptions of commitment should mediate the relationship between diversification and selection, all else equal, and authentic organizational identities will increase perceptions of commitment. This logic is captured in our final hypothesis.

Hypothesis 3 (Moderated Mediation). *The moderating effect of signaling high organizational authenticity (established in Hypothesis 1 and Hypothesis 2) is the result of customer perceptions that those firms (not) signaling high authenticity will be (less) more committed to them, all else equal.*

There are three key assumptions we are making that can serve as scope to the application of our argument. First, the signals or contextual cues that one is relying on to determine an authentic identity and diversification must be visible. If a firm engages in activities that would otherwise signal that they are forgoing short-term rewards to remain consistent with its claimed identity, but these actions are not visible or known to the audience, then they will not generate the effects we propose. It might go without saying, but in order for our argument to hold it must be the case that the actions that serve as signals of high or low organizational authenticity are visible to the audience. Similarly, the act of diversification must also be known to the audience, or else the necessary ambiguity about commitment will not be generated.

Second, the means by which firms are signaling authenticity is through disinterestedness in economic rewards. We have discussed the generality of these signals in the above theory, but there is still work on organizational authenticity that takes a broader view of the types of signals that can be used to signal authenticity (e.g., Lehman et al. 2018). It is outside of the scope of this paper to disentangle whether other signals of authenticity will be as effective. Instead we have structured our hypotheses to highlight the nature of the signals we consider as more general. Thus, our goal is to rule in the "disinterestedness" mechanism we use in our theorizing and operationalization below, rather than rule out alternative means of signaling authenticity or whether such alternative means exist.

Finally, it is likely the case that our argument holds in contexts where identities matter more than in contexts where quality can be objectively observed before selection. Concerns about capability and commitment are frequently observed in the market, insofar as there are asymmetries between customer and producer knowledge, and/or direct experience can be costly and might even be difficult to evaluate in markets characterized by information asymmetries about quality, such as in markets for credence goods or high-cost experiential goods (e.g., Akerlof 1970, Podolny 2005, Dulleck and Kerschbamer 2006) or "singularities" (Karpik 2010). Thus, in these markets, neither the capability nor the commitment to use that capability can be taken for granted. Such ambiguity, or "the subjective experience of missing information relevant to a prediction" (Frisch and Baron 1988, p. 152), will cause audiences to search for other contextual cues that will inform their interpretation about the firm's capability and commitment to its customers.

Diversification can serve as this type of trigger that causes audiences to look for other signals to resolve ambiguity about the diversifying firm's commitment to its customers. We argue that authenticity signals can serve to resolve this ambiguity and influence customers to view a diversifying firm as committed, increasing likelihood of selection in the market.

Empirical Evidence

Setting and Method Overview

The initial setting in which we will explore this argument is addiction recovery businesses in the behavioral health industry, which is a growing industry that provides products and services to those suffering the consequences of psychological or emotional disorders or diseases. Over the last quarter century, the behavioral health industry has increased dramatically in economic size and importance in the world of healthcare (Clay 2011, Kutscher 2013). Some reports estimate that as of 2016 it was worth more than $50 billion, with more than 15,000 facilities in the United States. Growth in this sector has been fueled in part by a decreasing stigma for individuals who admit to suffering from emotional or psychological challenges and increasing legitimacy (and insurance coverage) of treatments for such maladies. Among the various programs for treatment in this industry, inpatient addiction recovery treatment programs have become increasingly important. Inpatient recovery programs vary in size and cost, but our study will focus on the largest growing portion, the so-called "high-end" treatment programs that require substantial private pay and inpatient stays of up to five weeks away from home. Over the last 20 to 25 years, this segment of behavioral health has moved from a fringe and unmeasured subsection to one that is currently estimated to be worth almost $10 billion (e.g., Harris Williams & Co. 2014).

Similar to much of healthcare (Arrow 1963, Baum 1999), service in this industry is an example of a credence good, because not only is it difficult to ascertain a firm's quality beforehand, it is difficult to ascertain whether the treatment has worked, even after treatment. This makes the current setting a strategic research site (Merton 1987) for our research question for several reasons. First, commitment is uncertain at the point of selection, and after treatment as it is often difficult to prove that a patient has been poorly treated. This issue is enhanced by the fact that relapse in addiction is often looked upon as part of the process for recovery. Second, owing to the uncertainty about quality, in selecting a treatment facility the decision maker will have to rely on identity factors of the firm as opposed to simply experiencing it themselves. Finally, these characteristics are further intensified owing to the recent surge in strategies for expansion, and in particular, in clinic diversification beyond substance abuse treatment.[3] Recently, professionals in the area of addiction recovery have shown that the same treatment modalities, based as they are on revealing and dealing with trauma in a patient's life, can be used effectively to treat other behavioral health issues not historically associated with addiction, such as eating disorders, attachment disorders, and PTSD (Interlandi 2014; e.g., Mellody et al. 2003). Economies of scope through diversification are possible, because the same treatments can be used across multiple patient types. Because this diversified form of organization is a new feature and the motives behind such a strategic act are not yet taken for granted, clinics' identity features resonate even more strongly in choosing a clinic.

Another important feature of this industry is the fact that practitioners (therapists) working outside of these clinics play a more critical role in selecting the clinics than the potential client pool itself. Because entering an addiction recovery clinic is a once in a lifetime event for most patients, potential clients are typically not knowledgeable about clinics, and they typically rely on others with experience to refer them to a clinic. Although clinics vary on the exact percentages of referral routes, on the basis of the authors' interviews with leading clinics [see, e.g., Rehabs (2016) for more general info on this topic], therapist referral, or referring a patient to a facility by a treating clinical psychologist, social worker, or therapist, accounts for anywhere from 50% to 70% of all business for a clinic. Family or friend referral accounts for the next largest amount (approximately 25%–40%). Self-referral, although growing with the increase of online marketing, still tends to be less than 5%–10% of all referrals. This means that the population of therapists who treat these patients (a group primarily comprising clinical psychologists, social workers, and psychiatrists) serves as a critical external "customer" audience for inpatient clinics. It also means, as in other professionally mediated markets, that professional boundaries play an important role in considering what activities are acceptable for firms, and therefore presenting your firm as within these boundaries becomes crucial in markets like this one.

In sum, in the behavioral health industry, where commitment to customer is highly important and difficult to ascertain when not taken for granted, we have a setting where diversification clearly makes ambiguous how much the firms will be committed to their clients. We took a mixed-methods approach to address our research question. We first leverage this setting of addiction recovery clinics to test our theory (Yin 2017), coupling qualitative and experimental methods (Elsbach 1994, Fine and Elsbach 2000, Kaplan 2015). We use a unique case in which there were different market reactions for two diversified clinics—the case of Alpha and Beta. This case presents an interesting puzzle, because the extant explanations in the literature for why Beta would not be penalized all hold for Alpha, who was penalized. We first interviewed 36 therapists familiar with the case of Alpha and Beta about the motivations for rejection of Alpha and acceptance of Beta. We then tested our argument experimentally, basing the manipulations on the qualitative work, through an online experiment to therapists in the field of behavioral health. In addition to testing causal claims on the relationships theorized, incorporating the insights from the qualitative study into the experiment also helps to increase the external validity of the experimental study (cf. Kang et al. 2016, Ranganathan 2018). Finally, although the nature of this setting is ideal to test our theory, it also implies that there may be conditions that might curtail the scope of our argument. We will discuss those conditions and will provide an additional experimental study that begins to address them.

Qualitative Analysis of Success and Failure in Diversification

In 2012, two behavioral health firms, Alpha and Beta, attempted to diversify from their core business of treating substance abuse to also treat eating disorders. After these attempts at diversification, Alpha was penalized and Beta was not. The case of Alpha and Beta provides a nice example of a phenomenon that still needs explaining from the demand-side perspective because the extant explanations in the literature for why Beta would not be penalized all hold for Alpha, who was penalized. In other words, the audience for each was the same—Alpha was rejected by therapists and families, whereas Beta was accepted by the same. Second, Alpha and Beta's diversification attempts were no different: they each started from the same business line (substance abuse treatment) and were expanding into the exact same new business line (eating disorder treatment), both of which are within the same broader behavioral health or healthcare industry. Third, they both came from the same high-status background within behavioral health. To better understand what is going on, we interviewed 36 therapists who are familiar with the case of Alpha and Beta about the motivations for rejection of Alpha and acceptance of Beta.

We conducted a set of interviews with 36 therapists who worked outside of these clinics.[4] The interviewer administered one open-ended question to the interviewees. The focus was on these two firms' attempts to expand their business into the field of eating disorders in 2012 and 2013. These interviews were more like live surveys, in that all were asked the same question and their answer to this same question was analyzed across two conditions described in more detail below. There are three purposes for using interviews and case analysis in this way. First, this case provides some external validity to the experimental findings in which we test the full theoretical model. Second, we aimed to observe, in open-ended questions, whether language associated with differences in authenticity signals and/or commitment of the firms was used to explain the difference in outcomes. Third, we used the answers to try to determine how to operationalize authenticity signals in this context (i.e., what triggered perceptions of authenticity for Beta and not for Alpha). We found robust support for the first part and found that outside investor ownership was prominently discussed as a signal that undermined the "disinterestedness" associated with authenticity in this context.

Procedure. The interview protocol was designed to separate the justifications for why Alpha failed (and Beta succeeded) from why either of them performed relatively better than the other. To that end, every other interview asked either, "Why do you think Alpha was unable to move into eating disorders?" or "Why do you think Beta was able to move into eating disorders?" Once this question was asked, the interviewer manually recorded the primary statement of justification used to explain the failure and success, respectively. This statement was then read back to the interviewee. If they disagreed, the statement was revised. Of the 36 interviews only 4 disagreed with the initial statement, and theirs were changed until the statement was accepted. No other questions were used so that the interviewee could focus on each success or failure case. This deductive method of interviewing limited the breadth of information collected about the case but is consistent with the fact that the researchers were approaching this with a particular research question in mind (e.g., Reichertz 2004, Given 2008, Yin 2017). A key point for the methodology is that this question did not prime the interviewee on authenticity or commitment.

Analysis. The resulting data consisted of 36 direct quotes, one from each of the 36 interviewees as to the main reason for the success or failure. Each quote was from one to four sentences long. These quotes were then hand-coded by the interviewer to look for themes around these key reasons. First the Alpha case interviews were checked, and then the reasons were compared with the Beta case interviews. For interrater reliability, all 36 quotes were presented to workers on Amazon's Mechanical Turk (Mturk hereafter) along with a list of potential "reasons for success" or "reasons for failure." The list of options presented to the Mturk workers mapped onto the two key themes induced from the analysis of the quotes: operational changes and trust/authenticity of the clinic. Of the 43 separate reasons coded from the 36 quotes, Mturk workers agreed on 40 of them (93%). Only these 40 were used for the analysis.[5] Table 1 summarizes the counts of the reasons stated in the interviews.

The two main themes that emerged from the analysis were about operational differences and the authenticity and commitment of the firms' attempts at diversification. Although the word authenticity is not used directly by the interviewees, the clear references to interest or disinterest in economic gains as the firms' primary motives are the language we use to link with the construct authenticity, consistent with our theoretical discussion above. Furthermore, this relationship is corroborated by the recoding efforts tested on Mturk users who were given a list of words and agreed with the authenticity/motives coding we used. Only 6 of the 36 therapists cited concerns about changes to processes or treatment modalities related to the expansion as justifications for failure of Alpha or success of Beta. None of the therapists cited this reason as the lone reason for concern. Each of the six therapists who cited operational changes came from Alpha's interviews. Four of these were coded as saying that the operational changes revealed something about the firm's authentic identity.

A key difference in this case was revealed to be the fact that therapists were concerned about Alpha's commitment to patients. The question of Alpha's authenticity was centered on perceptions of Alpha's real intentions and whether Alpha was still motivated primarily by treating patients ahead of short-term economic gains. As one therapist put it, "If they (Alpha) want to make money, make money somewhere else. They used to want to treat patients, but I (couldn't) trust that anymore." This expression of interest in economic rewards flies in the face of the disinterestedness needed to signal authenticity. As discussed above in our discussion about perceptions of authenticity, the question of an authentic identity is inextricably linked with perceptions of the firm's intentions and in particular its disinterest in economic rewards. Although being an addiction recovery clinic presents an implicit claim that they are willing to serve clients to help them deal with their addictions, the diversification raises questions about this precisely because of inferences about Alpha's intentions. Out of the 18 therapists asked about Alpha, specifically, 13 expressed concern about Alpha's authenticity,

Table 1. Categorization of Reasons for Success and Failure by Clinics

Reasons for success/failure	Alpha	Beta
Better/worse facility aesthetics	1	0
Cleaner/unhygienic operations	1	1
Better/worse food and other amenities	0	1
Authentic motives/inauthentic motives about clinics/ patient treatment ("disinterestedness")	13	14
Positive/negative operational changes ("operational difference")	6	3
Total	40	

Notes. Thirty-six interviewees were asked about either Alpha or Beta, generating total 43 statements about reasons accounting for their success or failure after diversification. The total number excludes three statements unresolved by coders. Two main themes are highlighted in the parentheses.

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expressing concern about Alpha's interest in short-term gains above treating patients. One therapist in particular thought Alpha's motives were very clear, "Why did they do it? That was just a money grab. I'll never send my clients to their treatment centers again.... You can't be a treatment program if you're only thinking about money." This sentiment captured the reality that Alpha was publicly backed by a prestigious private equity firm, whereas Beta was not visibly affiliated with outside investors. The issue of Alpha's lack of authenticity was almost always coupled with their outside investor affiliation.

In sharp contrast, of the 18 therapists asked only about Beta, a dominant theme was that expansion meant the ability to serve more patients ahead of any mention of short-term gains (15 out of 18 therapists cited this as a key reason). The modal response was similar to one provided by a therapist from a Midwestern city: "(Beta) is a real clinic, with real practitioners. They care about their patients. That is their bottom line." The disinterestedness in economic outcomes ahead of patient care seemed to connect with the idea that Beta was not betraying the industry (as Alpha had) by not affiliating with outsiders (at least publicly) to achieve their expansionary goals. There was no question that Beta was "one of us," an authentic or "real" member of the addiction clinics community. Their authentic identity, expressed through disinterest in economic rewards, as an addiction recovery firm lay behind this difference in interpretations about commitment compared with responses about Alpha. There was a strong belief that Beta would continue to be committed, which had been lost for Alpha.

Visible ties to outside investors seemed to serve as a signal about the perceived disinterestedness and authenticity of the firm and the inferred motives for expanding into a new client base. In reality, both expansions were funded by different private equity firms. Although neither of the private equity firms had any direct contact with patients, Alpha's private equity firm made its involvement very public and obvious by placing its name on all of the marketing materials and even in the title of the new company (i.e., Alpha, a "PE Firm" Company). The visibility of this relationship was evidenced by the fact that all 36 therapists interviewed, when surveyed a week after the interviews reported on above, mentioned Alpha's private equity firm by name. Beta's private equity firm, by contrast, remained unseen and their involvement largely unknown to the industry. Only 2 out of the 36 therapists interviewed after these events took place knew that outside investors had invested in Beta, and neither knew the name of the firm.

To understand why visible affiliation with such firms can serve as signals about an organization's authenticity or disinterestedness, consider what ties to outside investment firms communicate to customers. Outside investment vehicles, such as private equity and venture capital firms, seek financial returns by investing in underfunded businesses and industries, providing management expertise to increase these firms' profit potential, and selling their stake to the public or other investors (Folta and Janney 2004, Barber and Goold 2007, Gompers et al. 2014). One reason why affiliation with outside investors can decrease perceptions of authenticity and increase concerns about commitment is that outside investors are known to put pressure on firms to seek profits and gain return on their investment. Outside investors impose a higher level of management expertise and financial focus on those in whom they invest, which can increase market performance. However, this same rigor can increase suspicion that the firm is more motivated by opportunistic gains or short-term profits than serving its customers, when or if these are in conflict. Such a concern can serve to underpin attributions of (in)authenticity, as discussed above (e.g., Carroll and Swaminathan 2000, Baron 2004, Carroll and Wheaton 2009, Sagiv 2014, Hahl 2016, Hahl et al. 2017). We suggest that visible relationships with outside investors in this context can signal intentions that might be inconsistent with the claims of patient focus and healthcare. These inconsistent intentions serve as the basis of how audiences perceive an organization's authenticity. We find that such difference in the level of public knowledge about the presence of outside investors is an important authenticity signal in this case, and we use it as a signal of organizational authenticity in the experimental studies below.

These responses to "why" suggest that authenticity signals seemed to influence the different interpretations about client commitment and the resulting penalties or rewards. However, the inability to isolate this effect from other confounding factors makes it difficult to make a causal argument on the basis of these interviews alone. These findings lead us to conduct an experimental study to test our theory. We leverage the insights from this study by using the variance in the relationship with investors for operationalizing authenticity signals in experiment 1. We then move on to manipulate authenticity signals in a more general way in experiment 2 and in a more general context in experiment 3.

Experiment 1: Addiction Recovery Clinics

To test our argument, we first ran a vignette-style online experiment within the context of addiction recovery clinics. This experiment was administered to therapists in the field of behavioral health, as discussed above, an important and knowledgeable audience in this industry. The purpose of this study is to isolate the effect of diversification on firms that signal high authenticity or communicate low authenticity within the business of addiction recovery. As such, the vignettes used to manipulate participant perceptions are necessarily limited to focus on the variables of interest. Additionally, we increase external validity of the perceptions and resulting relational outcomes by (a) basing the manipulations on the qualitative work described above, and (b) drawing participants from a pool of therapists in this industry. Because internal validity is the primary goal, this study design does not provide meaningful point estimates for the value of a specific identity or relationship. Instead we focus on the relative effects created by the manipulation (i.e., comparisons across conditions). The benefits of such a design include the ability to make causal claims on the relationships theorized, which is our primary goal.

Recruitment. For the first experiment, we recruited participants from a pool of potential therapists. We focused on recruiting active practitioners who have referred clients to inpatient addiction recovery programs in the past. Over a period of two years, email addresses of willing participants for "a study on the addiction recovery industry" were collected indirectly through referrals from industry contacts and directly through sign-up sheets posted at industry conferences. Only those certified as therapists were approached to participate in the survey. Through this process, we obtained an extensive list of 1,349 active therapists who work in the United States and have referred a client to an addiction recovery clinic in the past. This list of potential study participants was then sorted to create a random order. A first 600 therapists were invited to participate in an "online survey about the important and growing business of inpatient recovery programs, especially 'high-end' treatment programs and facilities." The online link provided served to send subjects to conditions in experiment 1, which will be described in more detail below.[6] In all of the invitations, the potential participants were told that participation was completely voluntary and that the purpose of the study was to "better understand the addiction recovery industry." The distribution of key demographic characteristics did not vary significantly across studies or across conditions within each study.[7]

Procedure. A total of 298 therapists participated in and completed the experiment 1 conditions. The survey started with general questions about preferences for clinics; participants were given various features of a treatment program and were asked to rate the importance of each of those items in influencing the likelihood of referring a patient. The features asked about in this section were: campus aesthetics, quality chef, science-based treatment program, and presence of cutting-edge practices. After this set of questions, participants were randomly assigned to one of two vignettes that described the characteristics of an "anonymous, high-end addiction recovery program." This assignment served as our "authenticity signal" manipulation described below. Participants were then again randomly sorted into one of three "growth" conditions also described in more detail below. At this point they were asked to evaluate their likelihood of referring a patient to the clinic that was described to them, which varied on both the growth and authenticity dimensions. Finally, participants were asked a series of questions that help us ascertain their perceptions of the clinic's motives for growth.

Authenticity Signal (Outside Investor) Manipulation. As discussed above, audiences tend to use context cues to determine whether a social actor is more or less authentic. For our manipulation, we signaled authenticity by describing whether the clinic is affiliated with outside investors or not—this manipulation is based on the findings from the case. To the extent that investor affiliation signals something about willingness to put short-term interest ahead of commitments, this serves as a context cue on which perceptions of organizational authenticity are based. In order to avoid demand effects, our authenticity signal manipulation was introduced as one of four program characteristics used to describe the hypothetical inpatient clinic. In the High Organizational Authenticity Signal (no outside investor) conditions, participants were told that the clinic "was started by behavioral health practitioners who still own the facility." In the Low Organizational Authenticity Signal (outside investor) conditions, participants were told that the clinic "was started by behavioral health practitioners and purchased by a group of investors." In both cases, it was made clear that practitioners ran the day-to-day operations of the programs to avoid the possible confound that the investors ran the program in the Low Organizational Authenticity Signal conditions. Each description also included identical information on the facilities and staff, range of issues, and treatment characteristics.[8] These descriptions portray features of a typical high-end clinic in the real world. For both conditions, the description of the firm included that the clinic treated patients suffering from substance abuse.

Diversification Manipulation. Next, subjects were randomly assigned to one of three "growth type" conditions: No Growth, Within-Category Growth, or Diversification. Most studies on the multicategory penalty tend to compare a diversified company with one that is not. Similarly, we too will compare the Diversification

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condition with the No Growth condition. However, the act of diversification involves two dimensions: first, whether a firm is expanding, and second, whether it is expanding into new, or different, areas. Therefore, another useful baseline comparison is with another firm that is growing, but within the same business line (i.e., Diversification vs. Within-Category Growth). In the No Growth condition, the clinic was described and the participants moved on to evaluate the clinic. In the Within-Category Growth and Diversification conditions, the participants were told that the program owners have recently begun plans to expand the practice. The key difference is that in the Within-Category Growth condition, the treatment focus remained the same: serving patients dealing with issues related to substance abuse. By contrast, in the Diversification condition, in addition to the existing program for substance abuse patients, the growth plans included expanding into two new areas of treatment: process addictions and eating disorders.

Key Dependent Variable: Likelihood of Referral. After reading the clinic description (No Growth condition) or the growth type descriptions, participants were told to assume that they "have a patient who is dealing with substance abuse" and were asked how likely they are "to refer the patient to the above described clinic." The question was answered according to a six-point scale, from 1 being "very unlikely" to 6 being "very likely." We used a six-point scale to eliminate the middle score of four that would indicate neither yes nor no on referring a patient.

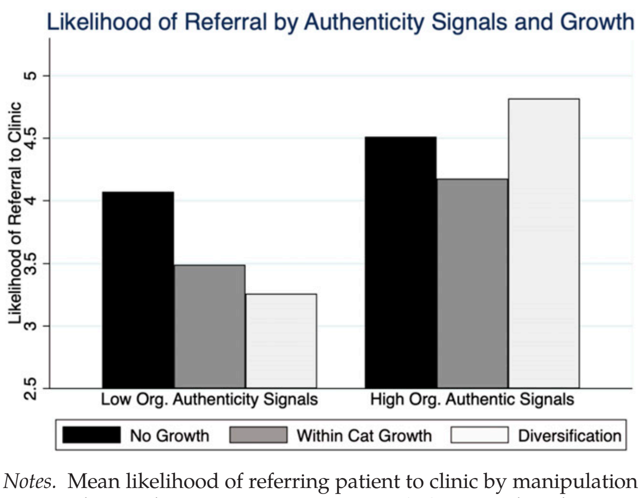
Key Mediating Variable: Perceptions of Commitment. After their ratings, all participants were asked about their perceptions of the firm's commitment to patients and were asked to rate, "How committed is this firm to its patients" on a seven-point scale (1 = "not committed at all" to 7 = "solely and completely committed to patients").

Control Variables. After this section, all participants were asked a set of questions based on their perceptions of the clinic described to them. Specifically, they were asked about the following four aspects—"the extent to which the clinic is:" "an authentic treatment program" ("authentic"), "run by program leaders with sincere motives" ("sincere"), "capable in treating patients" ("capable"), and "willing to customize services for patients" ("customize"). These questions were all answered using a seven-point scale, where 1 indicates low and 7 indicates high. We use the "capability" variable as a control for the main mediation analyses reported below. Our logic for including this is simple: it should certainly be the case that customers would select firms they think are the most capable. However, we predict that their interpretation of commitment (influenced by a firm's authenticity signals), beyond perceived capability, should also have a significant effect on selection. Therefore, commitment as a perceived motive for growth should mediate the relationship between the authenticity manipulation and likelihood of selection for diversifying firms even while controlling for capability.

Answers to the "authentic" and "sincere" questions serve as a manipulation check that tests the effectiveness of the Organizational Authenticity Signals manipulation via the presence of outside investors. We combined these two variables to construct a measure of attributions of authenticity (Cronbach's alpha: 0.95). For a manipulation check, we compare attributions of authenticity only on the "No Growth" conditions so as not to allow diversification or growth of any kind to affect these perceptions. We run a Mann–Whitney test to relax the assumptions about normal distribution.[9] The null hypothesis that the perceptions of authenticity were no different between the conditions was rejected ($U = 0.77$, $z = -4.213$, $p < 0.001$), such that participants randomly assigned to the High Organizational Authenticity Signals condition (no investor affiliation; $n = 41$, mean = 5.20) rated the clinic higher in authenticity than those assigned to the Low Organizational Authenticity Signals condition (investor affiliated; $n = 42$, mean = 3.96). This test validates our manipulation of authenticity signals in this context.

Experiment 1 Results. Figure 2 summarizes the overall results. The chart shows the mean likelihood of

Figure 2. (Color online) Experiment 1



Notes. Mean likelihood of referring patient to clinic by manipulation type and growth type. Bars represent 99% CI around each mean. Results reported in text detail that among those firms with high authenticity signal (no outside investors) diversification is rewarded over within-category growth, whereas among those with low authenticity signal (outside investors) diversification is neither rewarded nor penalized over the within-category growth condition, but it is penalized relative to the no-growth condition.

selection by signals of firm authenticity (Low Organizational Authenticity Signals/High Organizational Authenticity Signals) across each growth type condition (No Growth/Within Category Growth/Diversification). The analyses are to test whether diversifying firms are penalized with lower selection rates in Low Organizational Authenticity Signals conditions (Hypothesis 1) and diversifying firms are rewarded with higher selection rates in High Organizational Authenticity Signals condition (Hypothesis 2). These divergent outcomes would be partial evidence of an authenticity signals moderation predicted by our model. Furthermore, we test (Hypothesis 3) whether these divergent outcomes related to diversification can be explained by the difference in perceptions of commitment generated by the firm's authenticity signals.

As an initial step in testing our hypotheses, a two-way analysis of variance (ANOVA) was run on the participants to examine the effect of authenticity signals and diversification on therapists' likelihood to refer patients to the firm. The main effect for authenticity signals on selection is significant [$F(1, 292) = 35.11$, $p < 0.001$], and the main effect for expansion (No Growth = 0, Within Category Growth = 1, Diversification = 2) is marginally significant [$F(2, 292) = 2.92$, $p = 0.06$]. Instructive to our hypotheses, this test reports a significant interaction term [$F(2, 292) = 5.17$, $p = 0.006$], indicating that diversification is treated differently depending on whether the firm signals high or low organizational authenticity, as our theory suggests. We run a series of Tukey honest significant difference (HSD) pairwise comparisons to test the specific hypotheses below and as reported in Table 2.

Test of Hypothesis 1. For Hypothesis 1, we argued that firms that are signaled as low in authenticity will be penalized for diversifying. To test Hypothesis 1, we run Tukey HSD pairwise comparisons to view the effect of expansion on therapists' likelihood to refer patients when the firm has Low Organizational Authenticity Signals. We find that when firms provide signals that communicate low authenticity, therapists are significantly less likely to refer patients to a diversified firm than to a firm that (No Growth) does not expand at all (mean difference [mean diff] = −0.81, HSD-test(3, 292) = 4.42, $p < 0.01$). This result is in support of Hypothesis 1. We further compared the Diversification condition with the Within Category condition, when firms are given low authenticity signals. However, we did not find a significant difference in this case (mean diff = −0.23, HSD-test(3, 292) = 1.26, $p > 0.10$), although the direction is aligned with our prediction. This result suggests that with our manipulation of authenticity signals in this case, any type of growth is penalized for those firms associated with outside investors. This is further confirmed by the pairwise comparison that, when firms have low organizational authenticity signals, therapists are significantly less likely to refer patients to a firm expanding Within Category than to a firm that does not expand at all (mean diff = −0.58, HSD-test(3, 292) = 3.16, $p < 0.07$). These results are mixed but consistent with Hypothesis 1. The results show that diversification is penalized with lower rates of selection among those firms with lower organizational authenticity signals. However, we expected this negative relationship to hold when comparing the Diversification condition both with the No Growth and the Within Growth conditions. The fact that we only found this result in the former relationship indicates that with our manipulation of authenticity signals in this case, any type of growth is penalized for those firms associated with outside investors.

Test of Hypothesis 2. In Hypothesis 2, we argued that firms that provide high authenticity signals will be rewarded for diversifying into related areas because they will be seen as increasing the breadth of products and services for their customers. To test Hypothesis 2, we run Tukey HSD pairwise comparisons to view the effect of expansion on therapists' likelihood to refer patients when a firm is viewed as having high authenticity signals. We find that when firms provided high authenticity signals, therapists are significantly more likely to refer patients to a Diversified firm than to a firm expanding Within Category (mean diff = 0.64, HSD-test(3, 292) = 3.45, $p < 0.05$). However, in the High Authenticity Signals conditions, there is no significant difference in therapists' likelihood to refer

Table 2. Experiment 1 Tukey HSD Pairwise Tests for Each Level of Authenticity Comparing Across Growth Types (Difference in Parentheses)

Experiment 1	Hypothesis 1	Hypothesis 2
DV = likelihood of referral (selection)	Low authenticity signal	High authenticity signal
No growth vs. within-category growth	3.16^{+} (−0.58)	1.81 (−0.34)
No growth vs. diversification	4.42** (−0.81)	1.64 (0.31)
Within-category growth vs. diversification	1.26 (−0.23)	3.45* (0.64)

Note. DV, dependent variable.
$^{+}p < 0.10$; $^{*}p < 0.05$; $^{**}p < 0.01$.

patients to a firm expanding Within Category and a firm that does not expand at all (mean diff = −0.34, HSD-test(3, 292) = 1.81, $p > 0.10$) or when comparing a diversified firm with a firm that does not expand at all (mean diff = 0.31, HSD-test(3, 292) = 1.64, $p > 0.10$). These results are consistent with Hypothesis 2, but once again are mixed in some ways. Among those firms higher in authenticity, diversification is only rewarded if we compare the within-category expander with the firm that is diversifying. Together with the results in Hypothesis 1, our analysis reveals the sources of diversification effect; the effect may be driven more by the fact that a firm grows, or the effect may become more salient by the fact that it crosses boundaries.

Test of Hypothesis 3. Finally, we test our complete model through Hypothesis 3, which is that the difference in outcomes for *diversified firms* is the result of the difference in perceived commitment related to diversification, which is moderated by the perceived authenticity of the firm. In this final model we only compare the diversification conditions with the within-category growth conditions (i.e., the No Growth conditions are dropped). Table 3 (represented in Figure 3) shows the three different models we used to test our moderated mediation model. In model 1, we find that there is a positive effect of High Authenticity Signals (β1a = 0.69, p = 0.01) on therapists' likelihood to refer patients. There is no effect for Diversification on selection (β1b = −0.23, p = 0.37), but the interaction of High Authenticity Signals and Diversification is significant (β1c = 0.87, p = 0.019). In model 2, we find that Diversification has a negative and significant effect on perceived commitment (β2b = −0.64, p = 0.016) and that this relationship is positively moderated by the High Authenticity Signals (interaction term: β2c = 0.85, p = 0.025). Finally, in model 3, we rerun model 1 with perceived commitment and controlling for capability in the more complete model. We find that all of the effects for the High Authenticity Signals and Diversification are reduced to insignificance, whereas perceived commitment (β4d = 0.70, $p < 0.001$) and perceived capability (β4e = 0.16, p = 0.003) each have a positive and significant effects on likelihood of referring a patient to the clinic. The combination of a significant interaction term in model 2 (Authenticity Signal × Diversified) and a significant mediating effect in model 3 supports Hypothesis 3 where we predicted a moderated mediation.

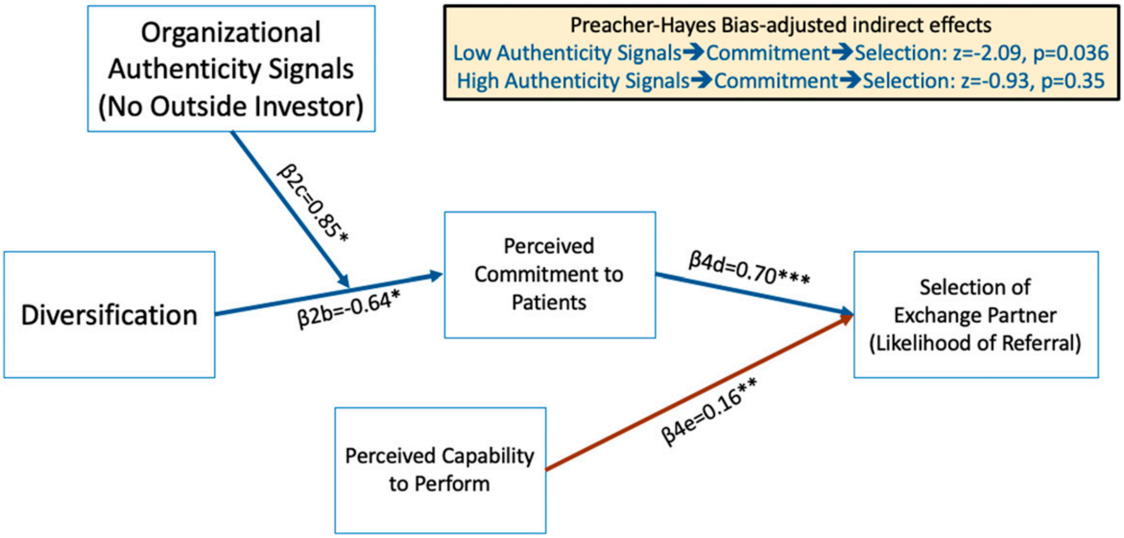
We further tested conditional indirect effects to compare the significance of the indirect effects following Preacher and Hayes (Preacher et al. 2007, Hayes 2013). On the basis of bootstrapping with 10,000 iterations, we estimated the indirect effect of the Diversification via Perceived Commitment on the Likelihood to Refer for each level of Authenticity Signals. First, we find that, net of perceived capability, the indirect effect of diversification through perceived commitment

Table 3. Moderated Mediation Analysis for Experiment 1, Hypothesis 3: Showing How Perceptions of Commitment Mediate the Effect of Diversification and the Authenticity Signal (No Outside Investor) on Likelihood of Selection, Controlling for Perceived Capability

Experiment 1	Model 1	Model 2	Model 3
Moderated mediation analyses	DV: Likely to refer	DV: Perceived commitment	DV: Likely to refer
Authenticity signal	0.69**	0.79**	0.14
	(0.26)	(0.27)	(0.15)
Diversification	−0.23	−0.64*	0.26
	(0.26)	(0.27)	(0.15)
Authenticity signal × Diversification	0.87*	0.85*	0.12
	(0.37)	(0.38)	(0.21)
Perceived capability			0.16**
			(0.05)
Perceived commitment			0.70***
			(0.05)
Constant	3.49***	4.31***	−0.35
	(0.18)	(0.19)	(0.24)
N	215	215	215
R^2	0.17	0.18	0.74
χ^2	–	47.09	608.33

Notes. Coefficients of OLS reported, standard errors in parentheses below each coefficient. DV, dependent variable.
*$p < 0.05$; **$p < 0.01$; ***$p < 0.001$.

Figure 3. (Color online) Key Results of Moderated Mediation Analysis for Experiment 1: Companion to Table 3



when the firm has low authenticity signals is significant and negative (bias-corrected $z = -2.09$, $p = 0.036$; 95% confidence internal [CI] = [−0.87, −0.03]). By comparison, the indirect effect of diversification through perceived commitment when the firm has high authenticity signals is not significant (bias-corrected $z = -0.93$, $p = 0.35$; 95% CI [−0.13, 0.05]). This difference in bias-adjusted indirect effects is further evidence of the moderated mediation model as predicted by Hypothesis 3.

Experiment 2: Addiction Recovery Clinics

The goal of experiment 2 is to give a more direct authenticity signal and do it in a more general way. Although the manipulation of authenticity signals using investor affiliation is consistent with the qualitative evidence, it potentially carries confounds related to the fact that investors bought out the firm or other unseen factors. This could carry concerns that the results are driven by differences in other factors like capability or something unmeasured. We more directly manipulate authenticity signals through direct expressions of "disinterestedness" in experiment 2. The result is a 2 (High/Low Organizational Authenticity Signals) × 2 (Diversification/Within Category Growth) between-subjects design, described in more detail below.

Recruitment. Instead of relying on the snowball sample from experiment 1, we used a Qualtrics Panel that found subjects who had referred patients to a behavioral health clinic in the past. These included both therapists and family members of those who had attended such a clinic. Subjects were paid $8 to complete the manipulated survey, which was very similar to the one above. In all, 214 subjects participated in experiment 2.

Procedure. The procedure followed the experiment 1 procedure very closely. All discussion of differences in ownership is dropped in this study. Participants went through the first few steps of the study as before. The main change in the study was that instead of discussing whether the clinic was owned by investors, the authenticity signals manipulation was more direct by using information indicating either interest (low authenticity signals) or disinterest (high authenticity signals) in short-term economic rewards. This will be described below. The "No Growth" condition from experiment 1 was dropped, leaving only the Within Category Growth and Diversification conditions. It is also worth noting that in this study, instead of discussing "plans for growth" in the future we point out that the firm "has expanded into new locations with the same services" (Within category growth) or "has expanded to provide new services" (Diversification). This is more consistent with the previous work that observes audience reaction after diversification.[10] Furthermore, the same sets of measures were used in this study as in experiment 1, including the mediating measure of commitment and the dependent variable—likelihood to refer a patient to the clinic.

Authenticity Signals (Disinterestedness) Manipulation. In experiment 2, we also added a sentence to indicate the clinic's level of economic disinterestedness. In the Low Authenticity Signals condition, the participants were told, "These owners are excited about the financial opportunities related to running this clinic." By contrast, in the High Authenticity Signals (Disinterestedness) condition, the participants were told, "These owners are known to put patients ahead of short-term rewards." This difference in expressed interest in economic rewards coincides with our established definition of disinterestedness and signaling authenticity. This more direct manipulation allows us to eliminate potential confounds and focus on the role of authenticity signals in the analysis. As a manipulation and attention check, participants were asked whether the firm had a patient focus or an opportunity focus. Only 6 of the 214 participants got the attention check incorrect. If they got it incorrect, they were told the correct answer. Results are reported below including these 6 participants but are robust to not including them as well.

Experiment 2 Results. As an initial step, a two-way ANOVA was run on the experiment 2 participants to examine the effect of authentic signal and diversification on therapists' likelihood to refer patients to the firm. The main effect for High Authenticity Signals on selection is significant [$F(1, 210) = 61.69$, $p < 0.001$], and the main effect for Diversification is not significant [$F(1, 210) = 0.31$, $p = 0.58$]. Similar to experiment 1, this test reports a significant interaction term [$F(1, 210) = 17.41$, $p < 0.001$], indicating that diversification is treated differently when the firm signals higher or lower levels of authenticity, as our theory suggests.

Test of Hypothesis 1. In Hypothesis 1, we argued that firms that are viewed as less authentic will be penalized for diversifying because they will be seen as casting aside an old customer base for the new one. Consistent with this hypothesis, we find that in the Low Authenticity Signals conditions, customers are significantly less likely to select a diversified firm than a firm that is not diversified (mean diff = −0.74, Tukey HSD(2, 196) = 4.78, $p < 0.01$). This is support for Hypothesis 1.

Test of Hypothesis 2. In Hypothesis 2, we argued that firms that are viewed as having high authenticity will be rewarded for diversifying into related areas because they will be seen as increasing the breadth of products and services for their customers. We find that in the High Authenticity Signals conditions, customers are significantly more likely to select a diversified firm than a firm that is not diversified (mean diff = 0.56, Tukey HSD(2, 196) = 3.58, $p < 0.05$). This evidence again supports Hypothesis 2.

Test of Hypothesis 3. We follow Hayes (2013) and Preacher et al. (2007) in testing a moderated mediation model as we did for the previous study. First, we find that there is a positive effect of High Authenticity Signals (β1a = 0.58, $p = 0.01$) on therapists' likelihood to refer patients. There is a negative and significant effect for Diversification on selection (β1b = −0.74, $p = 0.001$), but the interaction of High Authenticity Signals and Diversification is positive and significant (β1c = 1.30, $p < 0.001$). As a second step, we find that Diversification has a negative and significant effect on perceived commitment (β2b = −0.82, $p = 0.002$) and that this relationship is positively moderated by High Authenticity Signals (interaction term: β2c = 1.12, $p = 0.002$). Finally, we rerun step 1, with perceived commitment and controlling for capability in the complete model. In this third step, we now find that among the variables used in the first step, only the Diversification and High Authenticity Signals interaction term remains significant (β4c = 0.57, $p = 0.008$). Although the coefficient for the interaction effect has decreased in model 3, the fact that this coefficient remains significant indicates that there are still some things left unexplained by this complete model. Similar to experiment 1, perceived commitment (β4d = 0.56, $p < 0.001$) and perceived capability (β4e = 0.16, $p = 0.005$) each have a positive and significant effect on the likelihood of referring a patient to the clinic, supporting our moderated mediation model. These findings once again support our moderated mediation model as predicted in Hypothesis 3.

We once again test for and compare the significance of the indirect effects following Preacher and Hayes (Preacher et al. 2007, Hayes 2013). On the basis of bootstrapping with 10,000 iterations, we first find that, when the firm has Low Authenticity Signals, the indirect effect of diversification through perceived commitment, net of perceived capability, is significant and negative, and the 95% CI does not include zero (bias-corrected $z = -2.59$, $p = 0.01$; 95% CI [−0.80, −0.11]). By comparison, when there are High Authenticity Signals, the indirect effect of diversification through perceived commitment is no longer negative and not significant (bias-corrected $z = 1.32$, $p = 0.19$; 95% CI [−0.08, 0.42]). These results replicate the findings from experiment 1, with a more general manipulation of disinterestedness. This supports the overall theoretical model that authenticity signals moderate the perceived commitment mediation effect on selection for diversifying firms.

Experiment 3: Diversification in Consumer Markets for Car Mechanics

Although the addiction clinic setting provides a real-world scenario and backdrop in which we can use experts to evaluate our argument, it is a very specific setting. This market has two additional characteristics beyond being a market for credence goods that potentially confine the scope of our findings. In particular, the fact that professionals tend to mediate this market enhances the value placed on insider and outsider status in a way that our theory suggests should not be a necessary condition for similar results to hold. Second, the healthcare market in general is one characterized by organizational logics and norms that tend to be at odds with market logics and, therefore, might enhance concerns created by outside investor association or expressions of economic interest apart from relationships to authenticity. Experiment 3 is designed to assess the scope of our argument by relaxing these potential boundary conditions and replicating the results from studies 1 and 2 in another consumer market for credence goods: car mechanics. This service is known as an example of credence good, because asymmetries about information on quality mean that not only is it difficult for consumers to ascertain quality before exchange, but also after the service is performed (Dulleck and Kerschbamer 2006). Thus, this market serves as a context in which identity plays an important role in selection. The key difference from the previous context is that consumers tend to make direct decisions about exchange, without professionals mediating transactions, and expressed interest in economic rewards should not violate industry norms or customer expectations. We expect that these two additional conditions are not necessary conditions for our argument to hold. Therefore, we expect results related to tests for all three of our hypotheses to replicate in this context.

Recruitment. For this final study, because the customer base is a more general consumer audience, we turned to Amazon's Turk Prime to recruit participants (Mason and Suri 2013, Bartneck et al. 2015, Litman et al. 2017). Two hundred participants from the United States and more than 18 years old were recruited to take part in experiment 3. Only those who previously reported to own a car that they have taken in for service in the last year were able to see the advertisement for the Car Mechanics survey. These filters assured that we would have a pool of participants for whom the "survey" would be relevant.[11]

Experiment 3 Procedure. This study followed nearly the exact same process as experiment 2. The only thing that changed was the context to match the topic being surveyed. Participants were randomly assigned to either the "Low Authenticity Signals" or "High Authenticity Signals" conditions and then again randomly sorted into the Within Category or Diversification growth conditions. Subjects were then asked to evaluate their likelihood of selecting the car mechanic for service. Finally, participants were asked the same series of questions from experiments 1 and 2 to ascertain participant perceptions of the firm's commitment and capability. When describing the context, along with the attention check questions to enhance the manipulations, participants are reminded that "car mechanics tend to have a lot of information that customers do not about their car" and "mistakes in car service are often only realized well after the service itself." These points were made to reinforce the credence good nature of the service in question.

Authenticity Signals (Disinterestedness) Manipulation. Similar to experiment 2, our authenticity signal manipulation was based on whether the business had a reputation of putting customers ahead of short-term benefits. Participants randomly assigned to the "Low Authenticity Signals" conditions were told that "This shop has been known to be focused on its financial success over the past few years." Participants randomly assigned to the "High Authenticity Signals" conditions were told, "You were told that this mechanic is willing to do extra work without compensation to make sure the car works." Once again, in order to avoid demand effects, our authenticity signal manipulation was introduced as one of four program characteristics.

We test this manipulation by comparing ratings of authenticity ("authentic"; as described below) across the Low and High Authenticity Signals conditions. We run a Mann–Whitney test to relax the assumptions about normal distribution.[12] The null hypothesis that the perceptions of authenticity was no different between the conditions was rejected ($U = 0.76$, $z = -6.49$, $p < 0.001$), such that participants attributed more authenticity to the clinic in the High Authenticity Signals condition (n = 99, mean = 5.42) than in the Low Authenticity Signals condition (n = 101, mean = 4.39). This test serves as a manipulation check for the authenticity signal manipulation used for the rest of this study.

Diversification Manipulation. Next, subjects were randomly assigned to either a Within-Category Growth or Diversification condition. In all conditions, participants were first told that the shop specialized in "engine and tire repair." In the Within-Category Growth conditions, mechanic service locations have expanded, but the actual services remain the same: "engine and tire service." By contrast, in the Diversification condition, in addition to the existing products and services, the firm has expanded into a new line of service: "aftermarket enhancements and repair body work." This signals a potential new set of stakeholders because the shop is no longer only serving clientele looking for a quick check-up type car mechanic, but also clientele looking to upgrade the car from the basic shop model they bought.

Key Dependent Variable: Likelihood of Selection. After reading the growth description, participants were asked to assume that they were in the market for the firm's original service and were asked how likely they

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were to "bring your car to this mechanic's shop." Once again, the question was answered according to a six-point scale.

Key Mediating Variable: Perceived Commitment. This was measured the same as it has been in the previous two studies by participants rating from 1 (low) to 7 (high) the question, "How committed is this firm to its customers?"

Control and Manipulation Check Variables. After this section, participants were asked about the following four aspects—"how would you rate": "the authenticity of the firm as a car mechanic shop" ("authentic"), "sincerity of the owner's motives in dealing with customers" ("sincere"), "capability in dealing with car repairs" ("capable"), and "management's willingness to customize their services to a particular customer's needs" ("customize"). These questions were all answered using a seven-point scale where 1 indicates low and 7 indicates high. The authentic and sincere variables were combined to test the effectiveness of authenticity signals manipulation (Cronbach's alpha: 0.83).

Experiment 3 Results. Once again, in a two-way ANOVA we found that the main effect for High Authenticity Signals was significant [$F(1, 196) = 7.61$, $p = 0.006$], the effect for Diversification is not significant [$F(1, 196) = 0.14$, $p = 0.71$], and like studies 1 and 2, the interaction term was significant [$F(1,196) = 12.88$, $p < 0.001$]. We run Tukey HSD adjusted contrasts to test the specific hypotheses below.

Test of Hypothesis 1. Consistent with Hypothesis 1, we find that in the Low Authenticity Signals conditions, customers are significantly less likely to select a diversified firm than a firm that is not diversified (mean diff = −0.53, Tukey HSD(2, 196) = 3.98, $p < 0.01$). This is support for Hypothesis 1.

Test of Hypothesis 2. Consistent with Hypothesis 2, we find that in the High Authenticity Signal conditions, customers are significantly more likely to select a diversified firm than a firm that is not diversified (mean diff = 0.43, Tukey HSD(2, 196) = 3.20, $p < 0.05$).

Test of Hypothesis 3. We will now test the full moderated mediation model described in Hypothesis 3 and similar to what was tested in experiments 1 and 2. First, we find that there is no main effect of High Authenticity Signals ($\beta 1a = -0.11$, $p = 0.55$) on a customer's likelihood of selecting a car mechanic. There is a negative and significant effect for Diversification on selection ($\beta 1b = -0.53$, $p = 0.005$), and as expected, the interaction of High Authenticity Signals and selection is positive and significant ($\beta 1c = 0.95$, $p < 0.001$). In step 2, we find that Diversification has a negative and significant effect on perceived commitment ($\beta 2b = -0.74$, $p = 0.001$) and that this relationship is positively moderated by the High Authenticity Signals of the firm (interaction term: $\beta 2c = 0.84$, $p = 0.007$). Finally, we rerun step 1 with perceived commitment and capability in the more complete model. We find that only the Diversification and High Authenticity Signals interaction term is significant ($\beta 4c = 0.64$, $p = 0.001$) of the effects found in step 1. Similar to experiment 1 and 2, perceived commitment ($\beta 4d = 0.46$, $p < 0.001$) and perceived capability ($\beta 4e = 0.23$, $p < 0.001$) each have a positive and significant effect on likelihood of selecting the car mechanic for service. Similar to experiment 2, the interaction effect remains significant in the full model, indicating that there are still some factors left unexplained by the combination of the manipulations.

We once again compared the conditional indirect effects following Preacher and Hayes (Preacher et al. 2007, Hayes 2013). On the basis of bootstrapping with 10,000 iterations, we find that, when the signal of authenticity is low, the indirect effect of diversification through perceived commitment, net of perceived capability, is significant and negative (bias-corrected $z = -3.05$, $p = 0.002$; 95% CI [−0.56, −0.12]). By comparison, the indirect effect of diversification through perceived commitment is no longer negative and not significant when the signal of authenticity is high (bias-corrected $z = 0.41$, $p = 0.68$; 95% CI [−0.16, 0.25]). This difference in indirect effects supports the moderated mediation model predicted by Hypothesis 3.

Conclusions, Theoretical and Empirical Scope, and Future Directions

Effect of Authenticity Signals on Demand-Side Penalties for Diversification and Future Research

The goal of these studies was to rule in the mechanism proposed: that authenticity signals from a firm can serve to insulate it from commitment concerns associated with diversification. This argument found support in the qualitative analysis from the case of Alpha and Beta in the addiction clinics industry. We then were able to isolate these effects and measure the cognitive assessments by directly manipulating the authenticity signal by communicating a firms' interest or disinterest in short-term rewards ahead of commitments to clients/customers. We found that when firms show signals of low authenticity, their diversification (or their attempts at diversification) causes a penalty across two settings. We also found that related diversification was rewarded over within-category growth, insofar as the firm was able to signal high levels of authenticity through disinterest in short-term economic gains. The moderated mediation analyses across the two settings supported our more complete theoretical model, which was that customers would value diversifying firms that signaled high levels of authenticity over those that did not because they would interpret the diversifying act differently. In particular, the results showed that the less authentic firm's diversification raised concerns that the firm would be less committed to these customers, but these concerns are alleviated for those that signaled high levels of authenticity.

It is important to note that the causal effects we found are based on experiments in which we prioritized internal validity over external validity by holding many other explanations constant. Of course, this emphasis on internal validity was valuable because it does allow us to rule in the mechanism proposed in our theory as a sufficient mechanism to generate the effects we found. To compensate for the inherent weakness in external validity in experimental methods we used participants in each of the studies who match the real customer base for these markets, and we conducted experiment 3 that extends the scope of our argument outside of the behavioral health industry. Yet our research design and methods focused on internal validity do not allow us to pinpoint the effect size from signaling authenticity relative to other potential effects in a more complex world. Second, although signaling authenticity can be viewed as a sufficient mechanism to reduce concerns about commitment in diversification, it might not be a necessary condition, meaning other mechanisms might also generate these effects. A final limitation to these findings is that these results are based on a particular way in which the authenticity signal is manipulated—through displays of disinterestedness (or interest) in economic gains. So, although we have shown that signaling authenticity can reduce concerns about commitment, future work should continue to pursue other potential identity factors that can reduce commitment concerns for diversifying firms or look into whether other ways in which authenticity might be signaled can produce similar effects.

These findings are consistent with previous work on the idea that certain aspects of a firm's identity can insulate a firm or social actor from identity-based penalties for diversification (Phillips et al. 2013, Sgourev and Althuizen 2014). Whereas previous studies show that status can insulate a firm from concerns about capability related to diversification, we have shown that perceptions of a firm's authenticity can insulate it from penalties related to commitment generated by diversification. Although previous work has shown that commitment is an important component, along with perceived capability, that can determine selection in many markets (Phillips et al. 2013, Leung 2014, Merluzzi and Phillips 2016), it had not yet articulated any patterns that would affect the perceived commitment of firms that attempt to straddle market and audience categories through diversification. This work shows that signaling organizational authenticity can have this effect, adding another factor to the already established reasons for conditions under which demand-side penalties for diversification can be reduced or diversification may even be rewarded.

Finally, it is also important to note that we have shown these effects for what can be deemed related diversification. Previous work has shown that related diversification reduces potential penalties related to diversification (Markides and Williamson 1994, Kovacs and Hannan 2015). To the extent that the primary issues related to more unrelated diversification, or unestablished combinations of categories, are based on commitment, we should expect that authenticity can also affect penalties and rewards for this type of behavior. However, unrelated diversification also faces issues about capability because such distant categorical combinations have no clear or established path to success. Our argument does not suggest that authenticity will influence capability concerns, and our findings were based on cases in which the diversifying entity seemed to have an established high-status identity, potentially insulating it from capability concerns. Although our argument does not suggest authenticity will have an effect where capability concerns are present, it would be interesting to test this directly in future research to find the limits to the effects of these types of identities.

Another important limit to these findings is related to the contexts in which we were able to test our argument. We were able to show that this effect was not limited to only the case of addiction recovery clinics or healthcare in general. However, the effect of the authenticity signal does seem weaker where organizational logics promoting profits are more normative (e.g., car mechanics). This makes sense because in the healthcare industry the customer can be concerned about the firm's commitment to either new customers or to their own profits over serving patients. Where commitment to one's profits is not counter-normative, commitment concerns are inherently reduced. In all, our findings suggest that professionally mediated markets and industry logics against explicit profit-seeking can enhance this effect, but that they are not necessary conditions to find that authentic identities can insulate against demand-side penalties for diversification.

A related point is that we have manipulated signals of authenticity in one particular way—via expressions of disinterestedness in economic returns. Research on authenticity has articulated various ways in which authenticity can be signaled to its audience (e.g., Carroll and Wheaton 2009, Lehman et al. 2018).

More generally, authenticity can be signaled through actions that communicate autonomy from preprogrammed or socially imposed values and actions (Turner 1976; Bourdieu 1985, p. 32, 1993; Carroll and Wheaton 2009, p. 261). We have argued for disinterestedness as a clear way to signal authenticity, particularly because of its costliness in markets where economic returns are expected. However, future research should test whether other types of signals can work through authenticity to resolve commitment concerns for diversifying firms.

Furthermore, we only tested these effects in markets where it would make sense that identity factors would affect selection because the cost of experiencing a good or service is prohibitive, evaluation is inherently subjective, or the quality of the good is difficult to evaluate even after it is experienced. Such markets are often described as markets for credence goods (or high-cost experiential goods) and are pervasive in the economy. They include various industries such as education, home maintenance services, healthcare, car mechanics, and other such specialty services or products for which knowledge of capability and commitment is highly asymmetric on the side of the producer and difficult for customers to follow up on (Dulleck and Kerschbamer 2006). Because this uncertainty cannot be directly resolved through experience, customers must rely more heavily on organizational identity factors to ascertain the firm's quality (Arrow 1963, Akerlof 1970, Hörner 2002, Karpik 2010). In markets where goods and services can be experienced more easily or their quality objectively measured, however, firm characteristics or identity should be less relevant to evaluations of the firm's quality because evaluation of the good or service can easily be based solely on objective characteristics or direct experience. Therefore, we have provided evidence of this effect in markets for credence goods, but future research can explore beyond these types of markets, perhaps even where quality can be ascertained through experience, to test the limits for penalties or rewards for diversification related to organizations deemed authentic or not.

Valuing Organizational Authenticity

Finally, this research has important implications for research on perceptions of authenticity and its role in markets. By studying this question in these contexts, we have not only shed light on an important and growing area of the broader health industry in the United States, we have extended research on authenticity concerns to new market contexts. As has been shown in the food (Carroll and Swaminathan 2000, Carroll and Wheaton 2009, Kovács et al. 2013, Lehman et al. 2014), sports (Hahl 2016), art (Fine 2003, Newman and Bloom 2012, Hahl et al. 2017), dance (Sagiv 2014), and music (Peterson 1997, 2005; Grazian 2005) industries, attributions of authenticity can be an important identity feature that influences market outcomes in markets for healthcare and even for car mechanics.

It is also worth noting that these findings on the value of authentic identities in healthcare markets are somewhat in contrast to the way authenticity seems to be valued in the previously studied industries. Work on the value of authenticity has shown that those producers considered more authentic are selected because of "symbolic" value they provide rather than any actual or inferred increase in performance or quality (Frake 2016). This idea has purchase in cultural industries where valuation is often subjective and one component of value is how one's consumption reflects taste or social standing to others (Bourdieu 1993, Veblen 2008). Thus, symbolic value is a key factor in selection decisions made in cultural markets because it shows one's association with a valued identity. However, our findings indicate that even in markets where symbolic value has little impact on selection, authentic identities can influence selection by also providing practical value related to how trustworthy a producer seems. In markets for car services and health products and services, the symbolic identity benefits of being associated with a particular producer seems secondary to trusting that the producer will be committed to solve issues that the client faces. As discussed above, authenticity is essentially a question about the trustworthiness of the presented identity—whether the producer is who he claims to be (Trilling 1972, Grazian 2005, Hahl et al. 2018). Our findings indicate that perceptions of authenticity can affect market selection in industries for nonsymbolic reasons because these perceptions inspire more trust in producer's commitment. This paper shows that authenticity signals for firms and individuals can be useful as an explanatory construct beyond cultural markets and into how trust enables exchange in markets more generally.

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Endnotes

[1] Some related work on labor markets suggests that job candidates who cross industry boundaries in their career can resolve commitment concerns with longevity or established performance levels

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(Zuckerman et al. 2003, Leung 2014; cf. Galperin et al. 2019). This suggests that firms in markets for products and services can resolve commitment concerns where stakeholders can experience the good directly. However, many markets are characterized by information asymmetries about the quality of a product or service (e.g., Akerlof 1970, Podolny 2005, Dulleck and Kerschbamer 2006). In such instances where the good cannot be experienced directly before selection, commitment concerns can persist for diversifying firms—we address this scope condition in the paper.

[2] Research in economic sociology has often discussed together (a) diversification and (b) the creation of hybrid products that fit into multiple product lines at once (e.g., Hsu 2006, Negro and Leung 2012, Pontikes 2012), because each type of "category spanning" can create similar problems related to category confusion. However, for the purposes of this paper, we focus on the corporate entity as diversified, meaning more or less focused by number of business lines, which is the initial problem introduced by Zuckerman (e.g., Zuckerman 1999, 2000, 2017) in this area.

[3] Historically, inpatient clinics in this industry were specialized. For example, a patient with posttraumatic stress disorder (PTSD) would historically have gone to the Veterans Health Administration (VA or VHA) hospitals, eating disorder patients to the hospital, patients with substance abuse issues would go to an addiction recovery clinic (rehab), etc.

[4] See Online Appendix A for a description of interviewees and details of interview responses.

[5] Online Appendix A presents all of the quotes coded and used for the analysis as summarized in Table 1. It also presents the options presented to the MTURK workers. The options were: better/worse facility aesthetics, cleaner/unhygienic operations, better/worse food, authentic/inauthentic identity, positive/negative operational changes, and not sure. The highlighted ones were the ones not corroborated by MTURK workers, and were not used in the analysis.

[6] The remaining 749 were sent a link to a different study that is not reported on in this paper (designed for different purposes). Results of this study were similar in their main findings to those reported here.

[7] Of the 298 subjects that finished the surveys, 33% of the subjects were male, 16% received a PhD or MD, 27% received a Master's in Social Work, 53% received some other form of professional certification, 63% described their profession as "clinical therapist," 17% as "clinical psychologist" or "psychiatrist," 15% as "social worker," and 5% as "Other" (almost all of these "others" described themselves as clinical specialists of some sort). These results are no different than those reported in studies of the U.S. psychology workforce (Lin et al. 2015), suggesting that our sample is not significantly different from nationally representative samples.

[8] Specifically, in both conditions, clinics are run by "high-end facilities and staff who perform treatments influenced by on-staff thought leaders with science-based programming (inclusive of 12 step)." The clinic treats "alcohol/drug addiction" and employs "45-day inpatient stay," which allows "communication with family and referent (psychologist or social worker)" and provides "individualized treatment experience."

[9] Unbalanced t tests show consistent results. We also find that diversification itself does not have any additional effect on perceptions of authenticity in subsequent analyses.

[10] In a separate study we compared this "plans for growth" language and found no significant difference in participant reaction (i.e., regardless of whether diversification is presented as a plan in the future or an event that already took place). We report only the results from the new language, but this comparison validates our use of plans for growth language in experiment 1.

[11] Turk Prime, as is the case with Mechanical Turk, provides access to many potential participants, but it incurs higher monitoring risk when compared with laboratory settings in universities. Consistent with best practices (Mason and Suri 2013), we asked participants a series of attention questions, asking them to report what they read in previous screens about the manipulation, in order to confirm that our subjects paid close enough attention to the task. Of the 200 participants who completed the study, 190 (95%) answered all three of the attention check questions correctly, 192 (96%) answered two out of three correctly, and all 200 answered at least one correctly. Results are robust to dropping those who answered any question incorrectly.

[12] Unbalanced t tests show consistent results. Furthermore, perceptions of capability were not statistically different across these conditions ($U = 0.435$, $z = 1.649$, $p = 0.10$).

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