Factors affecting Herd Behaviour in Buying Decisions influenced by Online Communities

Completed Research

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Abstract

Online communities have developed to become an integral part of people's lives. They are used on a daily basis to communicate, share or rate. Considering herd behaviour – according to which people discount own information to imitate others – the transparency of other people's opinions by online communities might influence herd behaviour in buying decisions. Nonetheless, despite a large body of literature exploring online communities, herd behaviour and buying decisions separately, little is known about the complex interplay of the three topics. This paper seeks to identify determining factors of herd behaviour in buying decisions influenced by online communities. The factors are identified based on a qualitative content analysis of expert interviews. The findings show that there is no single factor, but rather multiple factors like drivers of online community usage, other influencing groups, segment or product specifics or online community activity. This paper facilitates future studies and adds value for practitioners.

Keywords

Herd behaviour, buying decisions, buying decision process, online communities, social networks, telecommunication industry

Introduction

Online communities have become very popular for research since Web 2.0 technologies have triggered their rapid development (Preece and Maloney-Kirchmar 2005). They are studied by different disciplines, and since 2005 a new type of online community has arisen, namely social networks. These are online communities that take advantage of new and improved social computing technologies for interaction and multimedia sharing (Iriberri and Leroy 2009). Facebook is probably the largest social network, with an increasing global footprint by 363 million monthly active accounts in 2016, which more than half of the active users use on a daily basis (Social 2017). Nevertheless, there are also various types of online communities, such as (micro-) blogs, rating/review platforms, social networks, content communities, video platforms and virtual social worlds (Maas et al. 2014; Mangold and Faulds 2009). It seems that the terms online communities and social networks are used as synonyms in the literature. Subsequently, only the term online community will be used in this paper.

Individual behaviour may be influenced by other community members, given that people rely on the opinions of others (Zhou 2011). Literature regarding herd behaviour suggests that people tend to discount their own beliefs and imitate others when taking decisions (Banerjee 1992; Sun 2013). Accordingly, it is especially important for practitioners to pay attention to the specific behaviour of consumers in the different buying phases. According to Foscht and Swoboda (2011), a holistic view covers three phases: the pre-buying phase, buying phase and post-buying phase.

The distinct topics of online communities, herd behaviour and buying decisions are studied in literature; a combination of topics can also be found, e.g. online communities and herd behaviour (Akehurst 2008; Sparks and Browning 2011) or online communities and buying-decisions (Chen 2008). However, there is
scarcely research exploring what factors may account for the phenomenon whereby individuals tend to adapt their buying decisions to follow the herd and the role of online communities therein.

In the age of "always on" with all those who use the Internet and are connected via social networks, information and opinions are exchanged very quickly. The increasing number of online communities makes it complicated for companies to understand the influence of different types of online communities on consumer behaviour and how to deal with this phenomenon (Hanna et al. 2011). The high level of transparency provided by online community platforms poses a particular challenge to industries that offer commodity products to consumers, as they cannot offer a high level of product or price differentiation. In this study, the telecommunication industry is chosen as the empirical context for a commodity market (Li and Whalley 2002). Hence, it is important to understand the interplay of online communities, herd behaviour and buying decision. Building on these thoughts, the present paper aims to answer the following research question: What factors affect the influence of online communities on herd behaviour in buying decisions?

In practice, the three topics are already often combined in one position; for example, in online marketing. Accordingly, data analytical tools are used to track customers' behaviour to target them respectively with the help of online communities (Scott 2015). In order to utilise the considerable knowledge of practitioners, the research question was approached through explorative expert interviews. In general, the target of expert interviews is not to confirm or reject already-developed hypotheses, but rather to prompt their evolution out of the material to provide new supporting ideas for further research; this approach is also pursued in this study (Bogner et al. 2014). The conducted expert interviews were followed by qualitative content analysis according to the approach of Mayring (2015). Therefore, inductive category scheme development is used in the study at hand, before finally the results are presented.

The remaining sections are organised as follows. First, the theoretical background is discussed, before the research methodology is presented in the next section. Subsequently, the evaluated results are presented. The final section concludes this study and outlines directions for future research.

**Theoretical Background**

**Herd Behaviour**

Combining economics with psychology and experimental research on decision-making behaviour, behavioural economists have sought to better explain what influences consumers in their purchasing decisions and how this behaviour affects the market (DellaVigna 2009). In essence, behavioural economics uses evidence of how humans actually behave (Ariely 2008). It argues that observed human decision-making differs from the rational welfare-maximising behaviour assumed in neo-classical economic models. The psychologist Daniel Kahneman and the cognitive and mathematical psychologist Amos Tversky are certainly the most famous researchers in the field of research into human decision-making behaviour. They have identified several cognitive biases that show where people deviate from rational decisions or judgment (Kahneman 2011; Kahneman and Tversky 1979). Herd behaviour can be classified as a phenomenon describing the notion that “everyone does what everyone else is doing, even when their private information suggests doing something quite different” (Banerjee 1992). While this phenomenon is already well explored in the investment banking industry (Hirshleifer and Hong Teoh 2003; Lux 1995), barely any literature explores herd behaviour in the telecommunication industry, nor is there extensive research of this phenomenon in the field of IS.

Chen (2008) states that online herd behaviour occurs "when people use the product evaluations of others to indicate product quality on the internet". Furthermore, he examines herd behaviour in the realm of online book purchasing and investigates the effectiveness of different recommendation sources. Moreover, the impact of online reviews in the tourism industry has been explored (Akehurst 2008; Sparks and Browning 2011). In the field of IS, Sun (2013) adds the two concepts of "discounting one’s own information and imitating others" in his research and identifies how herd behaviour influences technology adoption decision-making and post-adoptive system use.

Previous research shows that herd behaviour occurs in various industries and it is a field that can be explored through different lenses/perspectives. Nevertheless, most literature focuses on the herd behaviour phenomenon itself or reveals that online communities might influence this phenomenon.
Consequently, very little is known about the factors that affect herd behaviour influenced by online communities. Motivated by this gap in literature, this study seeks to explore these different factors.

**Buying Decision Process**

It is necessary to pay attention to the specific behaviour of consumers in the different phases of the buying decision process, as well as using corresponding strategies and instruments to address customers phase-specifically. This does not replace the isolated consideration of individual psychological effects; rather, it supplements isolated individual motivation to provide a process-oriented, holistic view of modern marketing (Foscht and Swoboda 2011). The purchasing process is understood as the whole process, from the emergence of a certain need, the various types of decision-making with information acquisition and processing, product selection, shopping behaviour, use and eventual disposal of the product, including the increase in consumer product experience (Kuß and Tomczak 2007). A widespread tool to gain better understanding of customers and their behaviour is a five-stage buying decision process model, comprising need recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour (Armstrong et al. 2009). However, consumers do not necessarily pass through all stages, e.g. in routine purchases, consumers often skip or reverse some of these stages (Armstrong et al. 2009).

According to Foscht and Swoboda (2011), a holistic view seems to make sense if at least three phases are distinguished. They propose the phases pre-buying phase, buying phase and post-buying phase. The focus in the pre-buying phase is to gather information about products by using different channels. In the buying phase, the consumer ranks the product alternatives in a preference order. Nevertheless, his/her first choice does not necessarily need to be the finally-bought one. Friends or community influence might change a consumers' preference for another product even if they intended to buy another one (Comegys et al. 2006). The post-buying phase refers to post-purchase action (e.g. repurchase) and customer satisfaction (Comegys et al. 2006).

There is a considerable amount of research examining the influence of online communities on the buying decision process (Comegys et al. 2006; Maas et al. 2014). Insights into how online communities can be used optimally are not only valuable for science but they also hold strong value for marketers (Kaplan and Haenlein 2010; Scott 2015). However, very little can be found regarding herd behaviour in buying decisions influenced by online communities. Thus, the aim of the current paper is to elaborate more on this issue.

**Research Methodology**

The eminent importance of expert interviews for research practice is undisputed (Bogner et al. 2009; Flick et al. 2012). It is a commonly-used instrument for collecting data in different research fields, including the field of IS (Myers and Avison 2002). The benefit of obtaining good results quickly is one aspect that makes expert interviews an appealing option. However, the more important aspect is to use experts as "crystallization points" for particular knowledge that becomes effective in practice and thus guides action for other actors, which makes this a valuable research method (Bogner et al. 2009; Flick et al. 2012). The present research topic touches different fields of science in terms of IS, marketing, and psychology. In order to supplement knowledge from the literature and link the different research directions in the context of business-related decisions regarding the research question, expert interviews were chosen as the appropriate research method.

**Empirical Field**

According to Bogner et al. (2009), experts are defined as having the opportunity to (at least partially) enforce their orientations. Experts have exclusive knowledge and they are able to decisively determine from which perspective and by means of which concepts certain problems are considered. Exactly this practical relevance makes the experts interesting for the present research project. With expert interviews, different dimensions of expert knowledge can be accessed, namely technical, process and interpretative knowledge. Whereas usually all dimensions are covered in expert interviews, in the study at hand the focus is placed on process and interpretative knowledge.
Herd Behaviour influenced by Online Communities

For the purpose of the study, it was important to access major business-related decision-makers who deal with the topics of online communities, customer behaviour and customer buying decisions as well as their connection. Furthermore, it was also important to access senior managers with a telecommunication background, as this industry was chosen as the empirical context. The goal was to gain access to their practical perspective on the research question and bring the different topics together, whereas there are often investigated separately in existing literature. Therefore, it was important to access experts who combine different perspectives such as marketing, IS or psychology in their position. In practice, these separate fields are often combined in one role. In order to obtain access to the interviewees, own network was used, recommendations and online research, particularly using LinkedIn and Xing to identify potential candidates. Overall, fifteen candidates were selected and approached, whereby eventually six in-depth interviews were conducted. The experts were all senior management members, aside from one data scientist. The interviewees were a CEO from an online marketing company, three senior managers from a telecommunication company – one responsible for online sales and marketing, one for social media and one for business analytics – one senior market research consultant and one data scientist active in the online area.

**Data Collection**

The research process followed an explorative approach. The aims of explorative expert interviews are to provide a first orientation in an unexplored field, sharpen a scientific problem or generate hypotheses. The focus is on knowledge of action and experience that has been derived from practice and is reflexively accessible (Bogner and Menz 2009; Gläser and Laudel 2010).

In order to develop a fairly elaborated topic guide for the interview, a multi-step procedure as recommended in relevant literature was used, e.g. by Gläser and Laudel (2010). All research questions, existing literature and the outcome of a previous online observation were compiled. Subsequently, in several steps this content was systematised and reduced to sharpen the research question. The result was a general catalogue of questions that was then sorted and grouped into larger subject blocks. For each block, generic terms were formulated and respective questions assigned, before being translated into interview questions for the semi-structured interview in the next step.

In preparation of the expert interview, two pre-test interviews were conducted to clarify the scope and feasibility of the study. The final interview guide was structured as follows: (1) welcoming the interviewee, introducing the underlying context of the interview and the procedure; (2) general experience with online communities and their impact on the telecommunication industry; (3) influence factors on herd behaviour and buying decisions; (4) reasons for the influence of online communities; (5) differences in the influence of different communities; (6) specifics regarding the influence on decisions concerning telecommunication products; and (7) comments and closing. The interviews lasted on average for one hour and not more than two hours and were conducted in the period from January to June 2016. The interviews were all audio recorded with the permission to do so. All interviewees were interested in the research topic and most had valuable input for the study in addition to the questions. Furthermore, all conversations were conducted in an open, constructive and good-natured manner.

**Data Analysis**

In order to answer the research question concerning what factors affect the influence of online communities on herd behaviour in buying decisions, the generated data was analysed by applying qualitative content analysis as a scientific research technique. In order to ensure a rigorous interpretation of the material, Mayring (2015) and Krippendorff (2004) have developed clear rules and systematic procedures to analyse the data. Accordingly, content analysis is a widely-accepted method in IS research and is applied in many studies (Myers and Avison 2002). Since the research question aims to combine different research perspectives and consider the perspective from practice to facilitate future studies, the inductive procedure is chosen. This approach is data-driven, which means that categories are identified directly from the data (Mayring 2015). In order to analyse the data, the fully-transcribed interviews and all notes from the interviews were imported to the MAXQDA 12 software.

First, the research question was the starting point of the evaluation and provided the direction and selection criterion of the analysis, while the abstraction level was also defined.
In the next step, the unit of the analysis of the coding process was specified. Based on Mayring (2015) and Morris (1994), clear meaningful elements in the text were defined as code units.

In the third step, the research material was reviewed to inductively derive first categories from the material. These first categories were coded when the text segments revealed insights regarding the explanation of the influence of online communities on herd behaviour in buying decisions. The categories were built as close as possible from the text material and respective text passages assigned to the categories.

In the fourth step, after about 30% of the material was processed, a revision of the categories was conducted to check whether the categories came close to the goal of the analysis to answer the research question, whether the selection criterion and the level of abstraction were judiciously chosen and where needed they were revised accordingly. At the end of this step, 57 categories had emerged.

In the fifth step, the abstraction level was further raised and the categories arranged according to main categories. For this purpose, theoretical considerations from literature were also used, e.g. posters and lurkers (Schlosser 2005). For the revised categories, a codebook with anchor examples was created.

In a final step, a reliability check was accomplished by means of intercoder reliability (Mayring 2015). Therefore, a second researcher familiar with the research area was introduced to the codebook and the researcher coded three randomly-selected parts of the data. There are a number of formulae for calculating intercoder reliability, such as the simple coefficient of overlaps or the sophisticated Krippendorff’s α (Krippendorff 2004). The applied reliability coefficients, namely the Holsti formula is one of the best-known and most widespread for determining intercoder reliability. The Holsti coefficient (Holsti 1969) is expressed as a number between 0 and 1: depending on the complexity of the construct coefficients, at least 0.8 is acceptable (Rössler and Geise 2013). The calculated coefficient of reliability was 0.78.

**Results**

The findings regarding the research question revealed 29 sub-categories grouped into seven main categories (Figure 1) based on an inductive coding procedure of the research material.

![Figure 1. Overview of the seven identified influencing factors](image)

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1 Coefficient of reliability = $2m \div (n1+n2)$, where m is the number of judgments on which both of the coders agree, and n1 and n2 are the numbers of judgments made by coder 1 and coder 2, respectively.
The first main category 'drivers of online community usage' is the largest category and sums up nine sub-categories describing what drives the usage of online communities. 'Credibility' refers to users authentically describing their experiences with telecommunication products and services, which helps consumers to believe in other people's opinions. 'Wisdom of crowds' describes that people rely on opinions that seem to be shared by many people, e.g. on Amazon or other rating platforms, one can see how many people have rated a product or a service. 'Convenience' refers to the notion that people want to have as much transparency as possible but they are also overwhelmed by the quantity of accessible information, whereby this phenomenon is related to the sub-category 'information overload'. Thus, it is more convenient for people to refer to other people's experiences and ratings rather than trying to form their own opinion. 'Trustworthiness' comes from using names, pictures and private data (e.g. age, gender, marital status, interests) in profiles of online community platforms, which seems to suggest personalisation. 'Independency' refers to objective reviews, opinions and ratings from real consumers. Whereas 'transparency' refers to information availability, the 'popularity of community' describes the notion that the greater the popularity of a platform, the stronger its potential impact on herd behaviour in buying decisions. 'Topicality' shows that online communities provide access to latest information, which also seems to be a driver for their usage.

The second main category 'general influence groups' comprises five sub-categories showing which type of influence groups including online communities and others may affect herd behaviour in buying decisions in the telecommunication industry. 'Rating/review platforms' refer to an opinion-forming function. People use informative descriptions, comments, rankings on such platforms to compare products and prices to support their buying decision process. Nevertheless, 'friends and family' belong to an offline community influence group and they also seem to play a decisive role in the buying decision process. 'Search engine' refers to the notion that by using search engine optimisation (SEO) people's buying decisions might be indirectly influenced and thus also their herd behaviour. 'Social networks' like Facebook or Twitter are widely spread and actively used and they also seem to be an integral part of the influencing groups. By using 'independent testing foundations', people use independent expert assessments in their buying decision process and subsequently their decisions might also be influenced.

The third main category 'product specifics' includes three sub-categories and relates to the telecommunication products. The sub-category 'low-involvement vs. high-involvement products' describes the notion that herd behaviour in the buying decision might differ depending on the product. The experts did not agree on where they would expect a stronger development of herd behaviour, namely with low- or high-involvement products. 'Hardware as high-involvement product' states that in the telecommunication industry mobile phones, tablets or gadgets can be assigned to high-involvement products, whereas connectivity can be counted as a low-involvement product.

The fourth main category 'role of online communities in buying decision process' comprises three sub-categories and describes the notion that the impact of online communities might differ depending on the buying phase. The first sub-category 'information provider in the pre-buying phase' describes online communities as being primarily used to gain a broad overview of the product in this phase. The second sub-category 'confirmation in buying phase' states that in the buying phase it is simply about confirming or strengthening one's own decision with the help of online communities. The last sub-category 'optimisation in post-buying phase' is not about changing one's mind but rather optimising the buying decision taken, e.g. a mobile contract renewal with the help of online communities.

The fifth main category 'customer segment specifics' has five sub-categories and shows that the impact of online communities on herd behaviour in buying decisions might depend on specific customer segments or personality types. Depending on 'technology affinity', the impact of online communities on personal decisions may differ. People's personal 'price sensitivity' might have an influence on how strongly people rely on online community information, as people depend on their 'service affinity'. Dependent on the 'culture', people might take their buying decisions differently and thus they are affected by different factors. 'Age' refers to differences between age groups and their usual buying decision behaviour and handling of online communities.

The sixth main category 'personal vs. mass opinion' comprises three sub-categories and provides an indication concerning what might have a greater influence on herd behaviour in buying decisions. The sub-category 'reliable personal opinions' describes the notion that personal opinions and recommendations seem to be more reliable than independent mass information and thus potentially more
valued and holding stronger influence. ‘Harmonisation of conflicting opinions’ describes the phenomenon whereby mass opinions and personal opinions strongly differ and people try to average the extreme positions for themselves. ‘Valuable topicality and fast access’ refers to the "always on" trend, which allows people to access the latest information at any time via online communities.

The last main category 'online community activity' refers to 'posters and lurkers', a phenomenon that describes the different activity levels in using online communities. While the smallest part of users actively create content, a minor part at least comment on the content and the major part are passive and only read the content. This occurrence has also been described as the 1-9-90 rule. Thus, the activity level might affect herd behaviour depending on the group to which one belongs.

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Table 1. Overview of developed category scheme
Furthermore, the interviewees had additional comments that are not reflected in the category scheme but should be mentioned here. All shared the opinion that the herd behaviour phenomenon is further reinforced by online communities. Therefore, it is crucial for companies to consider and integrate them in their marketing and sales activities. In addition, they stated their interest for further research on following topics: What is the tip of the scale when different communities (online and offline) recommend different products? What role do previous experiences play; for instance, with a telecommunication provider? What kind of community (online and offline) plays the strongest role in each buying decision process for telecommunication products?

**Conclusion and Future Work**

This paper has sought to explore factors that influence the impact of online communities on herd behaviour in the buying decisions and gain a deeper understanding for the telecommunication industry. The research shows that there is no single relevant factor but rather multiple factors. The qualitative content analysis revealed seven main and 29 sub-categories developed through an inductive approach.

The largest main category 'drivers for online community usage' comprises the largest number of sub-categories, showing that there are various drivers for the usage of online communities. Some previous studies have found that factors such as perceived usefulness, commitment, trust, self-efficacy and outcome expectation significantly influence the online community usage (Zhou 2011). Some of them match the sub-categories developed in this study, while additional sub-categories like 'credibility', 'wisdom of crowds', 'independency', 'transparency' or 'popularity of community' can also be added. The second category 'general influence groups' showed that herd behaviour in buying decisions is not only influenced by different types of online communities but also by other influencing groups like 'family and friends' or 'independent testing foundations'. The third category concerning 'product specifics' related to telecommunication products revealed that herd behaviour in the buying decision might differ depending on the product type, namely between low- or high-involvement products, although the experts did not agree where herd behaviour would be more affected. Marketing research studies like Trommsdorff (2004) have investigated the different product types regarding buying behaviour, e.g. impulse buying of consumer goods, although the context of herd behaviour has not been explored. The main category concerning the 'role of online communities in buying decision process' has worked out the different impact that online communities have in the each buying process step. In the beginning, online communities function as an information provider, as well as during the buying phase to confirm the already-taken preference. In the last phase regarding possible repurchase, the online communities' role is to provide optimisation hints; for instance, for a mobile contract renewal. Furthermore, the fifth main category of 'customer segment specifics' shows that differences in personality related to 'technology affinity' or 'culture' might be an influencing factor for herd behaviour in buying decisions. 'Personal vs. mass opinion' is the third main category describing the notion that personal and mass opinions have benefits that are valued by consumers. The finding that personal opinions and recommendations coming from people whom they know and trust such as family members and friends are more reliable and thus more likely to be considered than mass opinion is also supported in the literature (Sinha and Swearingen 2001). The last main category of 'online community activity' is a further factor that influences herd behaviour in buying decisions influenced by online communities. The phenomenon of 'posters and lurkers' in online communities is well known in the literature (Schlosser 2005) and revealed in this paper to have an influence on herd behaviour in buying decisions. Moreover, the additional comments of the interviewees provided valuable input for further research.

The presented research combines different perspectives from IS, marketing and psychology and reveals new perspectives that do not seem to be mentioned in literature before and thus facilitate future academic research. A better understanding of the influencing factors that online communities can have on herd behaviour in buying decisions is a valuable supplement to the existing literature. The results of the study indicate that there are further factors affecting herd behaviour in buying decisions by online communities than some single factors. These findings are also valuable for practice, they can help telecommunication companies or other commodity markets to optimise their online marketing and sales activities by analysing the relevant factors related to their consumers and their buying behaviour. Nevertheless, there are some limitations of this study that should be acknowledged. Such limitations relate to both methodology and data, which warrant more future research efforts. For instance, only six expert
interviews were conducted, and the results might differ in other countries. Another limitation is the interpretation of code frequency as an indicator of importance, because the code frequency can be biased depending on the focused topics of the expert. Furthermore, the findings could be enriched by further research using quantitative research methodologies to explore the influence of the identified factors, as well as the effectiveness of online communities compared with offline communities. These factors will be addressed in future studies connected to this work.

REFERENCES


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