PANEL 2: MECHANISMS FOR TRUST IN THE SHARING ECONOMY

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• Ginger Jin, University of Maryland
• Chris Nosko, University of Chicago
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Professor Ginger Jin
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Consequences of Information Asymmetry

- Buyers overpay
- Mismatch of buyers and sellers
- Sellers racing to the bottom
- Seller fraud
- Market failure
A classical problem with new meanings

- Internet may exacerbate information symmetry
  - Trade with anonymous strangers
  - Buyers cannot observe and examine product/seller
- Internet provides more tools to address the problem
  - Access a bigger market
  - Access other buyers’ experience
  - Access external quality certification
  - Utilize social networks
Trust Mechanisms by Platform

- Define acceptable users
  - Identity check, user qualification

- Reputation ratings
  - User-generated, platform-generated

- Platform guarantee
  - Buyer protection policy, performance warranty

- Create user networks
  - Friends, groups

- Use external sources
  - Import external qualification
  - Allow users to link to other websites or post external information

- Ex-post resolution
  - User complaints, internal investigation, kick out bad players
Reviews on Airbnb and Research on Their Informational Content

Andrey Fradkin
Outline of Comments

- Evolution of industry
- Reviews on Airbnb
- Summary statistics
- Research results
- Further considerations
Professor Chris Nosko
University of Chicago
ebay Study: Percent Positive of Sellers

The “Sharing” Economy
eBay Study: Seller Feedback Scores
eBay Study: Histogram of Sellers’ Effective Percent Positive Scores
Professor Chrysanthos Dellarocas
Boston University
<table>
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<tr>
<th>Problem</th>
<th>What can go wrong</th>
<th>Possible ways to address</th>
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<td>Fickle online identities</td>
<td>• Members can cheat then re-enter market with new identities</td>
<td>• Authenticate users – prevent multiple identities</td>
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| Reporting biases              | • Members more likely to transact with parties that already have a good reputation; as a consequence more likely to leave good ratings  
• Members don’t rate all transactions; more likely to leave ratings for very good and very bad transactions | • Report percentiles in addition to raw scores  
• Report percentages of “silent transactions”  
• Make it real easy to submit ratings  
• Allow, and properly highlight, detailed text reviews |
| Reciprocity biases            | • Members reluctant to post anything except a good rating for fear of retaliation from transaction partner  
• Socially-induced reciprocity | • Allow only one party to rate the other  
• Simultaneously publish ratings of both parties  
• Report percentages of “silent transactions” |
| Fake/unfair ratings           | • Members can post fake ratings to boost their reputation or slander their competitors.  
• Clients can post frivolous ratings.  
• Clients can use ratings as blackmail to raise unreasonable requests from service providers. | • Only verified customers can post ratings  
• Display rater profiles and histories  
• Allow the community to “rate the rater”  
• Highlight and reward “best” raters  
• Algorithmic detection of “dubious” ratings  
• Allow parties to appeal “unfair” ratings |
| Cold start                    | • Nobody trusts new members with no reputation          | • Background checks of new members  
• Require new members to post a bond  
• Utilize an escrow service  
• Newcomers offer low introductory prices |
| Reputation Milking/End game   | • Members may try to milk their reputation once they are “established” or before exiting market | • Discount older feedback/ratings  
• Require members to post a bond  
• Offer platform guarantees, ADR |
The Ecosystem of Online Review Sites

Platform-operated
Consumer-generated

Stand-alone
Consumer-generated

Stand-alone
Expert-generated
Steven Salter
Council of Better Business Bureaus
BBB

• Accredits businesses that meet standards
• Rates businesses based primarily on complaint history and resolution
• Publishes text of complaints and business responses
• Accepts customer reviews on any business we report on
• Reports on 4.7 million businesses
Professor Ginger Jin
University of Maryland
Platform Guarantee

• Pros
  • Shift risk from buyers to the platform
  • May enhance buyer willingness to use the platform
  • May increase buyer willingness to pay
  • May work in places where reputation does not function well
    • Example: sellers that milk the reputation and leave
Platform Guarantee

• Cons
  • Why should buyers trust the platform more?
    • A tool to expand quickly, or
    • better incentive for due diligence?
  • Users may take advantage of platform guarantee
    • Sellers: charge higher price, strategic default, more strategic sellers enter
    • Buyers: over claim, more careless in transaction
  • Seller and buyer may collude to fraud
  • Add financial and labor cost to the platform
Professor Chrysanthos Dellarocas
Boston University
Litigation and Alternative Dispute Resolution (ADR)

Key Properties:
- Allow either party to try to recover damages ex-post following an unsatisfactory transaction
- Involve costly and imprecise discovery and adjudication process
- Decisions can also serve as reputation signals

Some observations:
- Process costs make impractical to engage in except when expected damages relatively high
- Resource-intensive for all parties; does not scale
- Like guarantees, good to have as an additional, infrequently-exercised option, or in situations where reputation falls short (irrational parties, end-game)
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Areas for Further Research

• How do the identified biases in reviews/rating mechanisms affect the quality of consumer decisions?

• Do sharing economy platforms have unique biases or trust mechanisms not found on traditional e-commerce platforms?

• Do sharing economy platforms have the incentives to improve their reputational rating systems, particularly when the improvement lowers user ratings or makes negative reviews transparent?

• Are the incentives of sharing economy platforms consistent with the incentive to maximize social welfare?