

# PANEL 2: MECHANISMS FOR TRUST IN THE SHARING ECONOMY

- Chrysanthos Dellarocas, Boston University
- Andrey Fradkin, National Bureau of Economic Research
- Ginger Jin, University of Maryland
- Chris Nosko, University of Chicago
- Steven Salter, Council of Better Business Bureaus

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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

5 Reviews ★★★★★

Summary

Accuracy  
Communication  
Cleanliness



Location  
Check In  
Value



Show original reviews powered by Google™



Lorna

Rosy's apartment in Puebla is spacious and comfortable. It is about a 30 to 45 minute walk from the center in a quiet well-to-do neighborhood not far from some excellent restaurants and cafés. There are small buses (Rutas) which will take you to the center in 10 minutes for 6 pesos or you can take a cab. The center is directly north from Rosy's house. Rosy lives in the same building and she is extremely accommodating, helpful and kind. I thoroughly enjoyed my stay. Thank you, Rosy!

August 2014



Rosy has welcomed me into her home with lots of attention, even an hour late arrival Rosy is bothered to prepare a snack p'tit ....

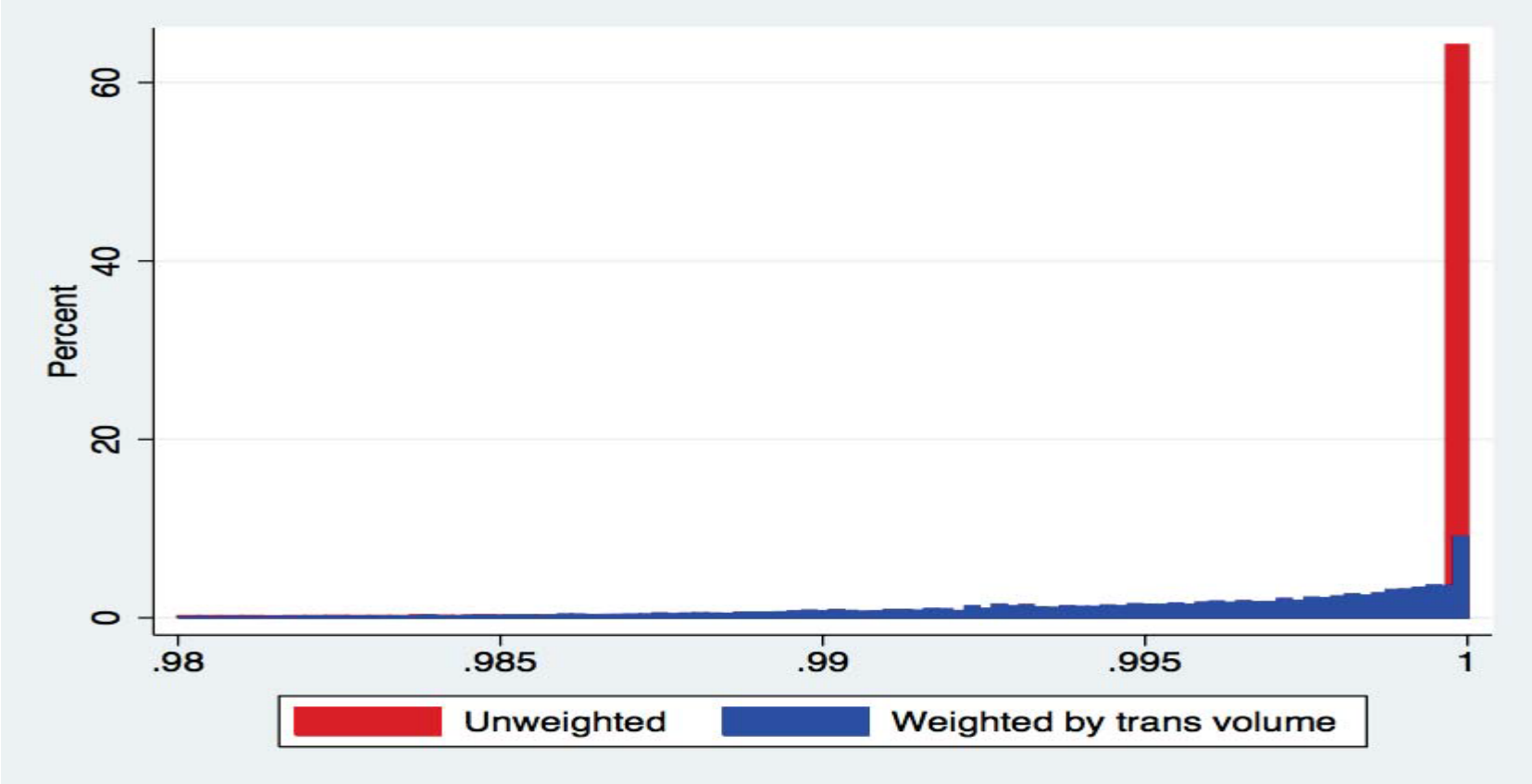
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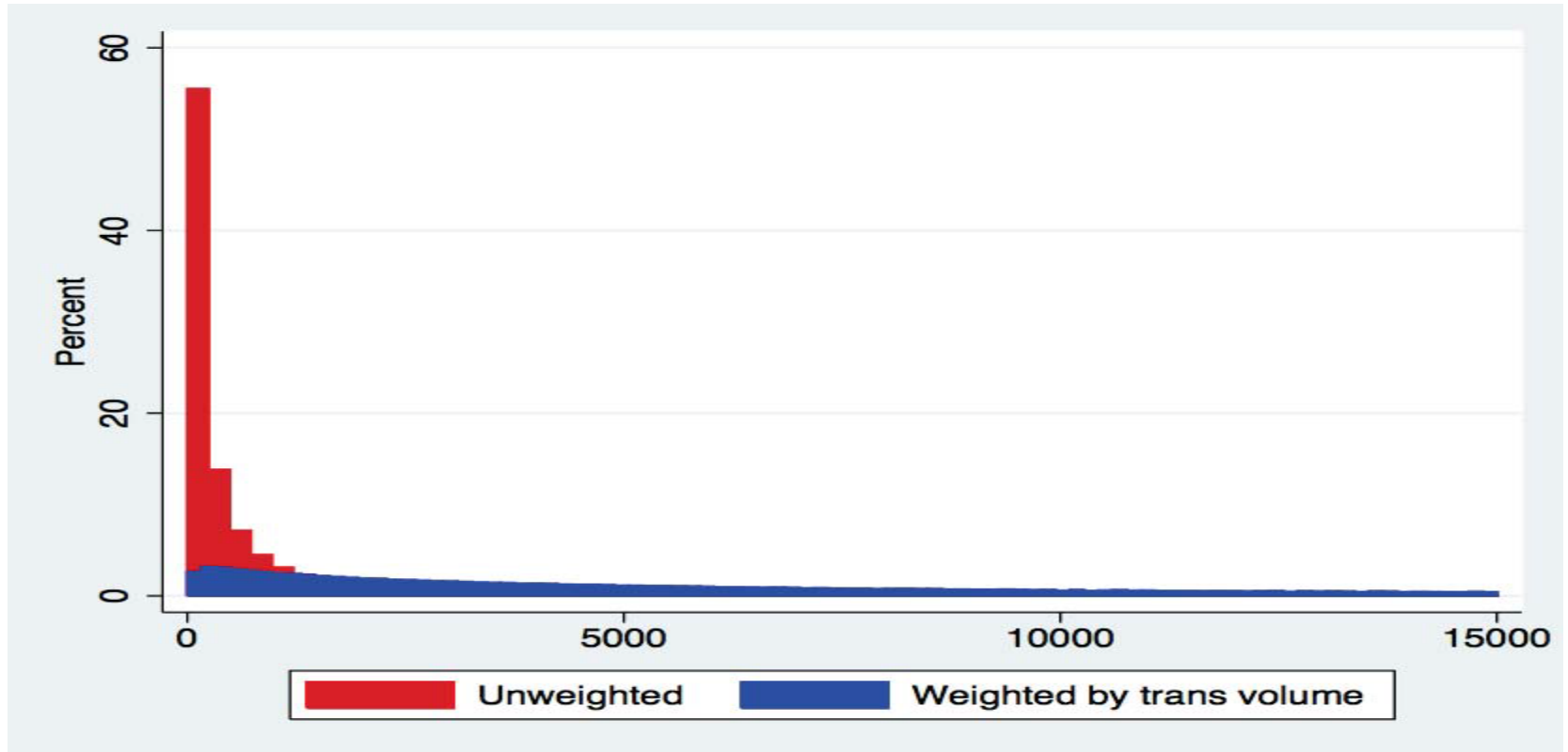


# ebay Study: Percent Positive of Sellers



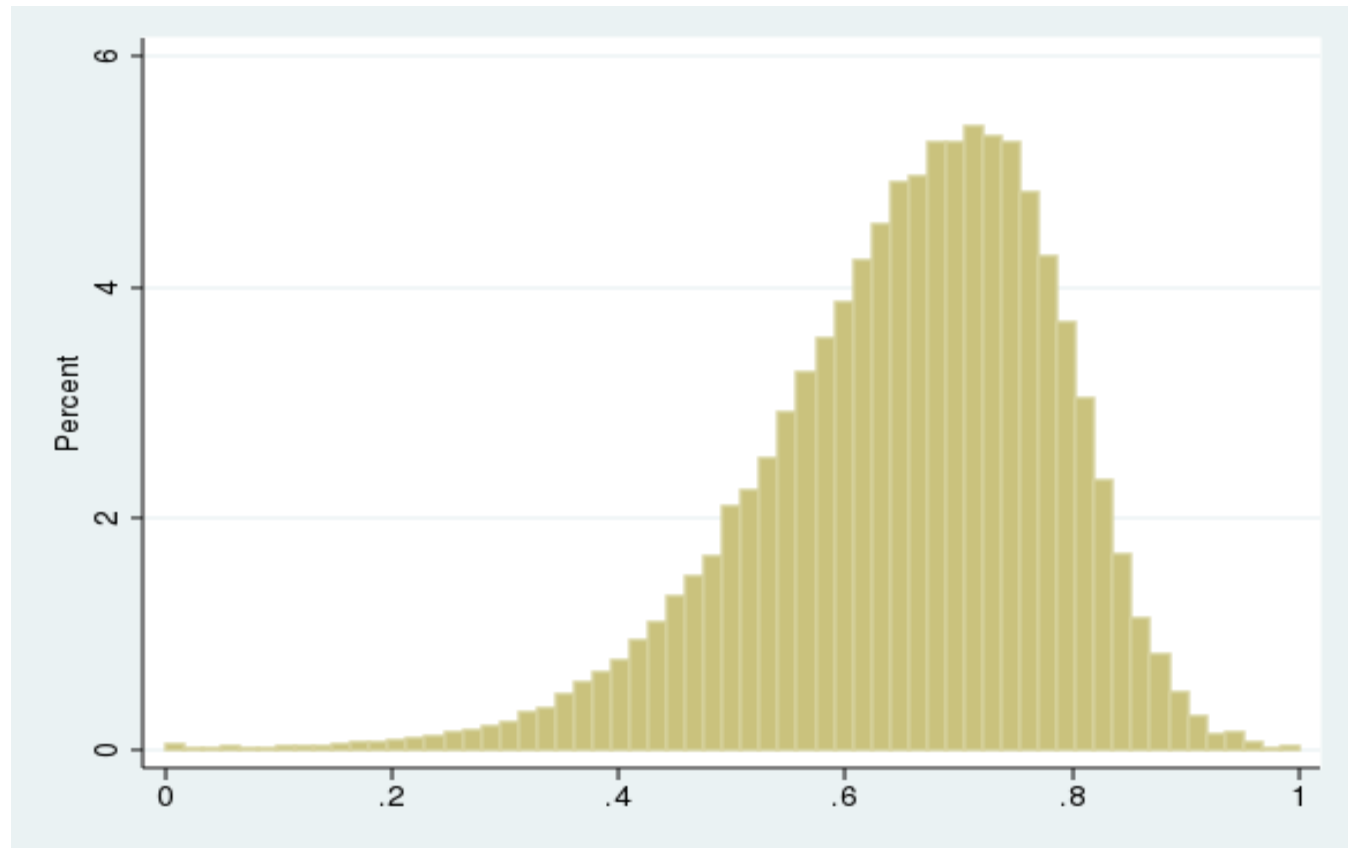
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## eBay Study: Seller Feedback Scores



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## eBay Study: Histogram of Sellers' Effective Percent Positive Scores



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# Online Reputation Systems: Key Challenges and Design Solutions

Problem	What can go wrong	Possible ways to address
Fickle online identities	<ul style="list-style-type: none"> <li>Members can cheat then re-enter market with new identities</li> </ul>	<ul style="list-style-type: none"> <li>Authenticate users – prevent multiple identities</li> </ul>
Reporting biases	<ul style="list-style-type: none"> <li>Members more likely to transact with parties that already have a good reputation; as a consequence more likely to leave good ratings</li> <li>Members don't rate all transactions; more likely to leave ratings for very good and very bad transactions</li> </ul>	<ul style="list-style-type: none"> <li>Report percentiles in addition to raw scores</li> <li>Report percentages of "silent transactions"</li> <li>Make it real easy to submit ratings</li> <li>Allow, and properly highlight, detailed text reviews</li> </ul>
Reciprocity biases	<ul style="list-style-type: none"> <li>Members reluctant to post anything except a good rating for fear of retaliation from transaction partner</li> <li>Socially-induced reciprocity</li> </ul>	<ul style="list-style-type: none"> <li>Allow only one party to rate the other</li> <li>Simultaneously publish ratings of both parties</li> <li>Report percentages of "silent transactions"</li> </ul>
Fake/unfair ratings	<ul style="list-style-type: none"> <li>Members can post fake ratings to boost their reputation or slander their competitors.</li> <li>Clients can post frivolous ratings.</li> <li>Clients can use ratings as blackmail to raise unreasonable requests from service providers.</li> </ul>	<ul style="list-style-type: none"> <li>Only verified customers can post ratings</li> <li>Display rater profiles and histories</li> <li>Allow the community to "rate the rater"</li> <li>Highlight and reward "best" raters</li> <li>Algorithmic detection of "dubious" ratings</li> <li>Allow parties to appeal "unfair" ratings</li> </ul>
Cold start	<ul style="list-style-type: none"> <li>Nobody trusts new members with no reputation</li> </ul>	<ul style="list-style-type: none"> <li>Background checks of new members</li> <li>Require new members to post a bond</li> <li>Utilize an escrow service</li> <li>Newcomers offer low introductory prices</li> </ul>
Reputation Milking/ End game	<ul style="list-style-type: none"> <li>Members may try to milk their reputation once they are "established" or before exiting market</li> </ul>	<ul style="list-style-type: none"> <li>Discount older feedback/ratings</li> <li>Require members to post a bond</li> <li>Offer platform guarantees, ADR</li> </ul>

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# The Ecosystem of Online Review Sites



Platform-operated  
Consumer-generated



Stand-alone  
Consumer-generated



Stand-alone  
Expert-generated

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Council of Better Business Bureaus

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# 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



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# 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

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# 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?