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Learning from peers: The effect of sales history disclosure on peer-to-peer short-term rental purchases

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ABSTRACT

The sharing economy has proliferated in recent years, yet continuous business efforts are required to cultivate trust between strangers. Drawing from observational learning theory and cultural perspective, our study examined sales history disclosure as a trust-building signal between hosts and travelers. Using large-scale online observational data of 33,327 listing purchase activities between 2012 and 2017 on a leading peer-to-peer short-term rental platform in China, we found strong evidence that sales history disclosure is positively associated with short-term rental purchases. Our results also revealed that sales history disclosure mitigates the positive impact of online reviews but weakens the negative effect of multi-listing ownership on subsequent purchases, further confirming information substitution theory. Our study provided theoretical and practical implications to strengthen the trust-building mechanism using coordinated signals, with cultural considerations, on short-term rental platforms.

1. Introduction

Tourism and hospitality services have traditionally been provided by business organizations such as hotels and rental car/taxi companies (Juil, 2015). Recently, a growing number of individual entrepreneurs have begun to exploit their underused resources (e.g., spare rooms and idle cars) for supplementary income through digital platforms such as Airbnb and Uber. Although sharing goods or services between individuals is nothing new, the development of digital networks has made peer-to-peer sharing highly efficient, convenient, and scalable (Einav et al., 2015). According to PwC (2013), the so-called “sharing economy” is expected to generate \$335 billion in global revenue in 2025.

The popularity of the sharing economy has understandably sparked concern regarding the quality of services and goods provided online by unknown sellers (i.e., strangers). Einav et al. (2015) noted that peer-to-peer sharing economy platforms have not yet established an adequate level of trust in the market. Thierer et al. (2015) called for a trust-based reputation mechanism to minimize unfavorable selections resulting from asymmetric information. To develop mechanisms to guard against low-quality goods and services, misbehavior, and outright fraud in digital marketplaces, e-commerce scholars generally agree that providing useful information online, such as consumer reviews or feedback scores

(Bockstedt and Goh, 2011), identity verification (Mavlanova et al., 2016), warranty policies (Soberman, 2003), website quality (Li et al., 2015a,b), and a virtual seller presence (Ou and Chan, 2014), can serve as quality signals to reduce uncertainty and enhance buyers’ trust in online sellers, thereby promoting purchase behaviors (Wang et al., 2013). Aligned with these scholarly suggestions, sharing economy platforms such as Airbnb and Uber have presented rich information online including customer ratings,¹ verified host profile photos,² and personal information (e.g., an email address, phone number, and driver license/passport) of service providers (i.e., hosts and drivers) in hopes of alleviating uncertainty and building trust in the peer-to-peer sharing process. Despite scholarly advocacy for and practical use of trust-building signals, empirical research investigating their economic value still lags in the following three critical aspects, which motivate our study.

First, certain trust-building signals found to be relevant in extant e-commerce literature may not be helpful in the nascent context of peer-to-peer sharing economy platforms. For example, Zervas et al. (2015) discovered that public feedback given to hosts has been overwhelmingly positive on Airbnb. Horton and Golden (2015) attributed the inflation of reputation to bilateral or reciprocal reputation systems on peer-to-peer sharing platforms, which offers the rated party

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¹ Source: <https://newsroom.uber.com/feedback-is-a-2-way-street/>.

² Source: <https://www.airbnb.com/help/article/67/why-do-i-need-to-have-an-airbnb-profile-or-profile-photo>.

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incentive to match whatever feedback he/she receives with equivalent feedback. The likely outcome is universally positive feedback scores, leading to inflated and thus less useful reputations. As the Internet has increased the transparency of digital transactions to a new level through innovative institutional features that enable sellers to reveal more information to others (Li et al., 2009), recent studies suggest that disclosing sales history may be an effective online trust-building signal. Chen et al. (2011) found that displaying past sales records of sellers on Amazon fosters subsequent transactions. Despite the plausible effectiveness of sales history disclosure in the business-to-consumer e-commerce context, whether such a presence can build trust on peer-to-peer hospitality-sharing platforms remains largely unknown, likely due to a paucity of data.

Second, sales records are currently not available on Airbnb but are posted on Xiaozhu, a Chinese peer-to-peer short-term rental platform. Research indicates that different cultures, such as Chinese, have major influences on consumer behavior (Gretzel and Yoo, 2013). According to Hofstede's (2000) cultural dimensions, traditional Chinese (Confucian) culture is characterized by a set of features including collectivism, uncertainty avoidance, and long-term orientation. With the combination of China's open-door policy, technological advances, and globalization, modern Chinese consumers live in a duality between maintaining traditional Chinese perspectives and moving toward Western cultural and material habits (Doctoroff, 2012). On one hand, Chinese consumers are still bound by their local culture: they place greater importance on saving face, maintaining harmonious social connections, seeking a sense of group belonging, and receiving affirmation from peers (Ge and Gretzel, 2018). Chinese have gradually begun to embrace peer-to-peer short-term rental businesses although traditional Chinese culture does not advocate sharing one's home with strangers (Chen, 2017). At the same time, Chinese consumers are starting to modernize and endorse what some consider to be Western hedonism (Gerth, 2003). They are especially attuned to mobile services and adopting new technologies (Marquis and Yang, 2014). Furthermore, according to a study released in 2013 by the Samsung Economic Research Institute, Chinese people are more open-minded and interested in earning money than people in most other countries (YaleGlobal Online, 2013). Those who opened their doors to host strangers in the fledgling days of the sharing economy have since amassed a fortune. The herding tendency in the Chinese market has helped peer-to-peer short-term rental platforms to go viral and grow exponentially in a short time. As such, modern Chinese culture is fully manifested in the landscape of e-commerce activities across the country (Ge and Gretzel, 2018). Given the rapid emergence of the sharing economy in China in contrast with its historical market perspectives, it is worthwhile to examine the effect of this newly available information (e.g., sales records in China).

Third, when a seller's sales history is disclosed, it coexists with other host signals including the volume of consumer reviews received and number of listings managed. Previous studies have shown that the volume of consumer reviews, as a prevalence endorsement, exerts a positive influence on a vendor's sales performance (Cheung et al., 2014; Davis and Khazanchi, 2008). On the other hand, the number of listings may hinder sales performance due to the host being perceived as having fewer resources (time, attention, etc.) per listing as his/her number of listings increases (Xie and Mao, 2017). Because of the simultaneous availability of signals online, consumers' purchase decisions are often influenced by the interactions between these signals (Goh et al., 2013). While review volume and number of listings have been reported to affect consumer purchase decisions, the literature has yet to reveal the extent of the relative effectiveness and economic value of these signals on consumer decision making when intertwined with sales history disclosure. Therefore, it is crucial to understand the interplay among these host signals to promote continuous development of peer-to-peer sharing economy platforms.

The objective of this study was to investigate the effect of sales history disclosure on consumer purchases on peer-to-peer short-term

rentals as well as its interplay with a host's review volume and number of listings. By measuring the direct and moderating impacts of multifaceted trust-building signals, we seek to answer two research questions: (1) What is the effect of sales history disclosure on subsequent consumer purchases? (2) Does sales history disclosure complement or suppress the effects of review volume and number of listings on consumer purchases? The remainder of this paper is organized as follows. We turn to observational learning and information substitution theories to contextualize the proposed relationships in Section 2. We describe unique data collected from a peer-to-peer short-term rental platform along with methods used to analyze the data in Section 3. Estimation results and robustness checks are reported in Section 4. We conclude the study in Section 5 by discussing theoretical and practical implications as well as directions for future research.

2. Background literature

2.1. Sales history disclosure

When facing uncertainty, people learn from their past experiences in addition to others' experiences or observed actions to make purchase decisions (Bandura, 1977; Tu and Fishbach, 2015). In general, consumers can learn from and be influenced by other consumers' direct communications and/or behaviors due to the information contained therein (Cai et al., 2009). For instance, when choosing between two nearby ice cream shops, a person can be influenced by others' recommendations or by simply observing the number of customers in line, even without knowing their identities and reasons for choosing a particular shop (Becker, 1991; Zhang et al., 2015). The disclosure of sales history by prior peer consumers, as a behavior-based social learning cue, sends a strong signal of product quality to subsequent consumers (Wang and Yu, 2017). Disclosure of sales history can be represented by either the presence of sales history disclosure (i.e., whether the sales history is disclosed and available) or the volume of sales history records disclosed (i.e., if disclosed, how many sales records are available). The former attempts to measure presence while the latter aims to measure the magnitude of the effect of sales history disclosure.

The tendency to conform to the actions of others has been well documented in observational learning theory (Chen et al., 2011; Liu et al., 2015a,b; Ye et al., 2013). Reasons for conformity include rational expectations of making fewer errors and exerting less mental effort when following the crowd (Lee et al., 2015). According to observational learning theory, an individual tends to observe previous customers' purchase actions and imitate those customers if limited or inadequate information is available (Chen et al., 2011). Observational learning is a fundamental form of consumer-to-consumer exchange in which subsequent consumers may take advantage of prior peers' hard-earned information (Ye et al., 2013). Individuals may anticipate that others know best about product quality as the common component of preference, thereby reducing situational uncertainty and establishing subjective validity (Shi and Whinston, 2013). In other words, people place significant weight on others' actions in shaping their final purchase decisions based on group intelligence and herd mentality (Banerjee, 1992; Simpson et al., 2008). The actions of early consumers have a domino effect on subsequent consumers. As such, sales history disclosure can foster subsequent consumer transactions through herding. Chinese customers also tend to hold similar values and mindsets (Ge and Gretzel, 2018); it is therefore ideal to test sales history disclosure as a herding signal in China given the nation's unique culture.

Due to the inherent vulnerability of review systems and indistinguishable nature of reviews in the sharing economy (Horton and Golden, 2015; Zervas et al., 2015), understanding the effect of past sales information disclosure, a genuine and hard-won signal, on sales performance is essential. Disclosure of sales history on peer-to-peer short-

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