

İSTANBUL BİLGİ UNIVERSITY  
INSTITUTE OF SOCIAL SCIENCES  
COMMUNICATION PhD PROGRAM

SHARING ECONOMY PLATFORMS' ROLE IN TRUST FORMATION

Selin Öner  
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Associate Professor Erkan Saka

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PAYLAŞIM EKONOMİSİ PLATFORMLARININ GÜVENİ OLUŞTURMADAKİ ROLÜ

Selin Öner

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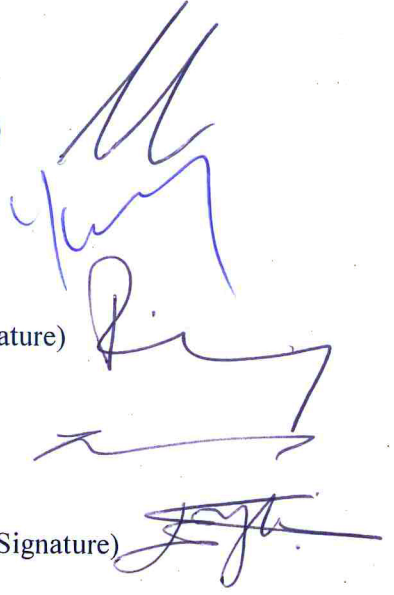
Dissertation Supervisor : Assoc. Prof. Erkan Saka (Signature)  
İstanbul Bilgi University

Jury Member : Prof. Yonca Aslanbay (Signature)  
İstanbul Bilgi University

Jury Member : Prof. Filiz Aydoğan Boschele (Signature)  
İstanbul Marmara University

Jury Member : Assoc. Prof. İtir Erhart (Signature)  
İstanbul Bilgi University

Jury Member : Assoc. Prof. Eylem Yanardağoğlu (Signature)  
İstanbul Kadir Has University



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## FOREWORD

My Ph.D. studies in Communication at Bilgi University (Bilgi) have been one of the most stimulating journeys of my life, where I entered with great enthusiasm for a subject that kept me busy since then. More than 15 years of educational and professional experience in economics and finance gave birth to my passion on sharing economy and crowdfunding, an area where I got amazed by the internet's prospects in bringing access to financing resources for those who really needed it and could not get it elsewhere. This was a huge potential that demanded care to grow consciously. Platforms as intermediaries were the most critical players in building such an environment facilitating trust, and this formed the basis of this exploration.

On the path of this inquiry, I was lucky in landing at a faculty surrounded with passionate scholars who further fired my curiosity and excitement. My dissertation supervisor Assoc. Prof. Erkan Saka, whom I met about five years ago in a New Media certificate program he was leading, is actually the person that inspired me for a Ph.D. at Bilgi. I am extremely grateful for his presence and guidance with encouragement all the way both through the dissertation process and his remarkable courses in my studies, he directed me so well towards the exact areas I needed, arriving (but still keeping going) at an inquisition on trust in sharing economy. I also take this opportunity to send my gratitude to other members of the faculty who left meaningful traces on this exploration: Prof. Dr. Yonca Aslanbay, for so elegantly and positively energizing my thought processes on collaborative consumption and engaging discussions in her course, also sharing valuable inputs as a member of my thesis committee; Assoc. Prof. Nazan Haydari Pakkan since my first ever Ph.D. course furnishing me with a strong lens for creating means in reaching what counts as knowledge; and Assoc. Prof. Itir Erhart for benevolently providing precious thoughts on trust in crowdfunding thanks to rich experience in donation-based platform Adim Adim, and also Prof. Dr. Asli Tunc, Dr. Tonguc Ibrahim Sezen and Prof. Dr. Altan Asu Robbins for feeding my enthusiasm further in intercultural communication, collaborative platforms and a shift from firm to fluid structures respectively through their courses. Finally, I also

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## **ABBREVIATIONS**

<b>CS</b>	Couchsurfing
<b>CF</b>	Crowdfunding
<b>FAQ</b>	Frequently Asked Questions
<b>IG</b>	Indiegogo
<b>IPO</b>	Initial public offering
<b>KS</b>	Kickstarter
<b>p.a.</b>	per annum
<b>p2p</b>	peer-to-peer
<b>ToU</b>	Terms of Use

## LIST OF SYMBOLS

✓	Yes / available
X	No / not available
<b>bn</b>	billion
<b>m</b>	million
<b>US\$</b>	US Dollar
<b>£</b>	Pound

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## ABSTRACT

Trust is a double-edged sword in peer-to-peer sharing economy being both the foundation and a slippery ground of sharing resources with total strangers. The online platforms are the most influential actors in trust formation as they set the terms of sharing. Through a qualitative analysis across ten sharing economy platforms with a focus on crowdfunding, this study aims to introduce the first comparative understanding of these middlemen's capacities in creating suitable environments for trust-building. I constructed a trust pyramid inspired by Giddens' abstract system approach and utilized the communication theory of uncertainty management as a tool to assess main practices in making information, both about users and platforms, transparent and accessible. Collaborative consumption spaces like Airbnb and Couchsurfing fare stronger than crowdfunding platforms in peer trust formation with richer self-monitoring mechanisms. At leading reward-based crowdfunding platforms, Kickstarter and Indiegogo, no organized process tracks creators' performances post-funding, and reaching the funding goal rather than delivering the promised rewards becomes the measure of success. Also, as their intermediary commissions increase proportional with funds, crowdfunding platforms exhibit little incentive to limit over-funding, hence creating a potential conflict of interest. Moreover, most of the studied platforms fall short of the transparency such an emerging ecosystem would demand for uncertainty management. Relying on a revenue-sharing partnership with users, sharing economy platforms are compelled to provide more openness, empowering peers both in financial and informational terms. Increased disclosures of both positive and negative experiences along the learning curve would be an anchor for correct lessons and the continued cooperation of all the stakeholders in this fluid environment.

## ÖZET

Güven, akranlar arası paylaşım ekonomisinde kaynakların yabancılarla paylaşılmasının hem temelini hem de kaygan zeminini oluşturuyor. Paylaşım koşullarını belirlediklerinden dolayı internet platformları güven oluşumunda en etkili aktör konumundadır. Ağırlıklı kitlesel fonlama olmak üzere on paylaşım ekonomisi platformunu ele alan bir nitel analizle, bu çalışma araçların güven oluşumuna uygun ortamlar yaratma kapasitesine yönelik karşılaştırmalı ilk anlayışı sunmayı amaçlıyor. Giddens'ın soyut sistem yaklaşımından ilham alarak inşa ettiğim bir güven piramidiyle ve belirsizlik yönetimi iletişim teorisini araç olarak kullanarak kullanıcılar ve platformlar hakkındaki bilgilerin şeffaf ve erişilebilir kılınmasına dair pratikleri inceledim. Airbnb ve Couchsurfing gibi işbirlikçi tüketim platformları ödül bazlı kitlesel fonlama platformlarına kıyasla daha zengin kendini gözleme mekanizmaları sunarak akarana güven oluşumunda daha güçlü bir performans sergiliyor. Lider ödül bazlı kitlesel fonlama platformları Kickstarter ve Indiegogo fon toplayan girişimcinin (yaratıcının) projeyi hayata geçirme performansını izleyen organize bir süreç temin etmediğinden, başarının ölçüsü vaat edilen ödülleri teslim etmekten ziyade fonlama hedefine ulaşmak olarak algılanıyor. Ayrıca, aracılık komisyonlarının fonlama miktarıyla doğru orantılı artması platformları aşırı talebi kontrol etmeye dair teşvik edici olmadığından, potansiyel bir çıkar çatışmasına işaret ediyor. İncelenen paylaşım ekonomisi platformlarının çoğu böyle gelişmekte olan bir ekosistemin belirsizlik yönetimi için gerek duyduğu saydamlığı da sunmakta geri kalıyor. Kullanıcılarla bir gelir paylaşımı ortaklığına dayanan paylaşım ekonomisi platformları, akranları sadece finansal değil bilgilendirme açısından da güçlendirmek için açıklık sağlamalıdır. Öğrenme eğrisindeki pozitif ve negatif tecrübelerin daha fazla paylaşılması, doğru derslerin çıkarılmasına ve tüm tarafların işbirliğine devam etmesine yönelik bir çapa niteliğinde olacaktır.

## INTRODUCTION

A sharing mindset and the internet afford different types of coordination between individuals that give rise to the development of a new or renewed model of sharing and collaboration. With the surge of the means of sharing, a new ecosystem encompassing different types of sharing such as collaborative consumption, crowdfunding, and crowdsourcing is shaping up that is considered vital in many dimensions.

Online collaborative and sharing platforms first of all address basic needs in a rather horizontal and decentralized manner, facilitating a shift from consumerism towards collaborative resource-sharing. This in turn feeds and empowers micro-entrepreneurship and peer-to-peer (p2p) collaborative creation. Sharing economy is also considered to carry a potential to revive a sense of “community” and “social cohesion” (Botsman and Rogers, 2010, p.70). According to some scholars like Siefkes (2008), this economic engagement may similarly narrow the “widening gap between the rich and poor” (p.131-133), where peer production is seen as the more ethical alternative than the market production with “equality of access” (Stallman 2002, p.59, 64). On top of these, although its effectiveness is yet debated (Martin, 2016, p.149-159) this new ecosystem provides means for dealing with the concerns of environmental constraints and “sustainability” (Heinrichs, 2013, p.228).

Sharing” has been prevalent since pre-industrial societies, traditionally being an act among people who know each other at least to some extent. This is in contrast to how sharing widely occurs now. The ways to share or initiate sharing have become so rich on the back of the internet’s affordances; connectivity introduces new grounds for sharing between people who do not know each other. A “willingness to trust” strangers, who can be considered as like-minded peers intersecting at least on a common belief in the benefit of sharing, is something new about sharing now.

One of the most salient factors in the effectiveness of our present complex organization is the willingness of one or more individuals in a social unit

to trust others. The efficiency, adjustment, and even survival of any social group depend upon the presence or absence of such trust. (Rotter, 1967, p.651).

As Rotter rightfully claimed for “any social group”, “trust” also becomes a key necessity for any sharing and exchange to take place, hence also the backbone of sharing economy. Trust in the collaborative economy, if damaged fundamentally might affect the functioning of the whole collaborative p2p ecosystem. Hence, an inquiry on trust in the collaborative economy becomes an essential topic for understanding how this rising p2p ecosystem can flourish in a sustainable way. The middlemen, as the creators and maintainers of the space of interaction between peers, become the most influential actors in the formation of trust and hence proper functioning of the sharing eco-system. They craft the criteria and the grounds on which peers can come to terms on sharing certain tangible and intangible things with basically strangers they usually have no direct information about in terms of their credibility other than the site makes room for. It is this way that the platforms can fulfill their premise of intermediation properly.

Exploring the role of platforms as middlemen for trust-building and sustainably contributing to the collaborative eco-system is faced with various interlinked questions: (i) *What do members of the sharing eco-system need the middlemen for?* (ii) *How can different kind of sharing economy platforms (i.e. sharing accommodation vs. crowdfunding) settle the balance between the idealist features of Open Source with free, democratized access and a transparent marketplace versus the need for filtering of users and information that can be presented on their site to ensure credibility?* (iii) *What kind of a platform role as an enabler of trust is sustainable in long-term?* Analyzing sustainability of trust-building mechanisms of the sharing eco-system is also fundamental for saving mushrooming of platforms from turning into another facet of classical growth ambitions of capitalism instead of contributing to the spirit of p2p “collaboration”. There is a considerable critique indicating that “sharing economy” on its current path is “unlikely to drive a transition to sustainability” (Martin, 2014, p.149) and

that it is “neoliberalism on steroids”, “amplifying worst excesses of the dominant economic model” (Morozov, 2013, para.10). As such, trust becomes critical not only for the healthy functioning of a sharing platform but also as a broader conceptual and ethical notion that evokes respect and faith in the reborn sharing concept, so that we can talk of trust in sharing eco-system in a holistic way.

Such an all-inclusive approach needs to address several layers of trust-building (i) trust in technology and the internet, (ii) trust in the motivation and meaning/ philosophy (interchangeably used) for sharing economy (system), (iii) trust in legal/regulatory support for p2p sharing, (iii) trust in the platform (iv) interpersonal trust required between peers introduced as “peer trust” in this study – parallel to Keymolen’s (2013) “interpersonal system trust” notion. I propose ordering these layers in a pyramid for comprehending “trust” in online collaborative platforms. Users may not think deeply about the credibility of the background system but they inherently act on confidence or a leap of faith in the system which however can easily be shaken. Even if peer trust is established, anything going wrong in the other layers –whose risk can be ignored routinely in a manner of “civil inattention” as Giddens (1990) calls – may cause the collapse of users’ trust in the general system. For instance, the 2017 May massive digital threats have shown that secure infrastructure would be of growing concern over the next periods. Furthermore, following the recent Facebook data scandal of March 2018 “breach of trust” has become a lively issue pointing to the responsibility and level of transparency of platforms in the protection of users’ data. Most studies on trust in sharing economy stressed either interpersonal relations between individuals (Botsman and Rogers, 2010) , or system trust (Keymolen 2013, 2016) however, this study aims to consider both critical levels of trust-building that can be afforded by the platforms themselves and are important for the sustainability of the sharing eco-system: both peer trust and platform trust which appear as fairly intertwined in our investigation.

Based on the described approach to trust in a multi-dimensional pyramid, I aim to analyze differences and similarities of selected sharing economy platforms’ practices in terms of building a consistent and sustainable environment for

evoking trust. Using a qualitative interpretative lens, the study concentrates on the visible and informed practices of platforms on sustaining trust both among peers and in the “abstract system” in order to contribute to the investigation of a broader research question on the role of sharing economy platforms: How can the (online) sharing economy platforms, particularly crowdfunding platforms, facilitate trust formation for their (and plausibly the entire-) eco-system to function sustainably?

To explore this, the research blends and builds on previous studies on trust, primarily Giddens’ (1990) abstract system approach that focused on expert systems (see Section 1.4, p.32-38) and Nissenbaum’s (2003) framing of trust online as “securing trust versus nourishing trust” (see Section 1.4, p.28-32), along with Bhattacharjee’s (2002) trust in online exchanges with attention on “ability, integrity and benevolence” of sites (see Section 1.4, p.27), and Rempel et al.’s (1985) view on interpersonal relations that sees trust progressively turning from actions into one’s character (see Section 1.4, p.26).

Moreover, a blend of uncertainty management frameworks with key approaches in trust studies and my personal financial expertise gained through 13 years long professional experience in fundraising both at corporate – and financial intermediary side (all totaling more than US\$1 billion of funding) provided both theoretical and practical lenses for this research, also inspiring and allowing me to appraise this new funding alternative vis-à-vis the institutional financing methods. Saluting the concept of crowdfunding enthusiastically as a strong and well-needed complementation to the financing and fundraising spectrum makes me also aware that trust is a double-edged sword in crowdfunding platforms, being both the foundation and a slippery ground that can act like the very reason of success and a potential threat to sustainability of these platforms at the same time.

In applying the trust perspectives from multiple viewpoints varying from sociology to psychology and information systems, this study benefits from interpersonal and intercultural communication theories; Berger and Calabrese’s (1975) uncertainty reduction (URT) and Gudykunst’s (1984, 1988) uncertainty and anxiety management (AUM) frameworks respectively. The uncertainty management angle provides the necessary means to examine the sharing economy

platforms' performance in trust building vis-à-vis a concentration on self-disclosures and information-seeking practices of agents. Treating uncertainty management procedures as a tool for its analysis, this exploration of selected sharing economy platforms' functioning also becomes the first comparative and comprehensive study on trust across multiple sharing economy platforms.

Both Berger and Calabrese's URT, as well as Gudykunst's AUM, originally focused on interpersonal relationships, yet this study approaches them as widely applicable to every sphere of life where communication between different parties takes place, also between a system and its users. Hence this framework is executed for apprehending the trust formation processes among the users of an online platform and the platform itself, which I personify as well. Not only peers in a sharing economy platform are strangers to each other, but also an online platform is a stranger to users at least for the first several uses. Therefore it needs to develop and demonstrate a character through consistent acts of ability, integrity, and benevolence as in Bhattacharjee's standpoint. On top of this, the whole peer-to-peer involvement with strangers formulates a new cultural code around the sharing practice. In this respect, this study also attributes a novelty to the culture of sharing economy practices, a separate complexity and uncertainty per se that needs to be handled responsibly by platforms through enough informative mechanisms for uncertainty management.

This qualitative analysis derives its research material through online participant observation and comparative case studies on selected sharing economy platforms, primarily crowdfunding platforms, based on examination and observation of three key resources from (i) the platform side, (ii) the user side, (iii) third-party resources. All of these three layers of investigation constitute what we can call an online archival research that is executed at the very home or own habitat of sharing economy, the Internet where sharing economy practices take place or at least become initiated. The examined platform resources cover site principles including Terms of Use (ToU) or Privacy Policies, management statements and announcements, feedback to users regarding certain platform practices as well as the general design and accessibility of information on site,

examining the openness and user-friendliness of their policies and disclosures, and dialogue with the user community all of which contribute to understanding the level of transparency platforms convey.

Similarly, sites' requirements and design of peer disclosures for an open and favorable environment for uncertainty reduction are also scrutinized. Secondly, the users of their systems are observed through directly available comments they post on the sites as well as covered in news reports, while a third layer of an archive research on third-party electronic resources included inquiry of informative or commentary news reports, investigative blog posts by experts and third-party interviews with founders and management.

In examining all these pieces the research gave attention to wherever the relevant data was publicly available and dissected the visible practices of platforms, leaving for instance the technical infrastructure requirements mostly out of the scope of the research. In that regard, this could be regarded as an investigation on the visible tip of the iceberg rather than the whole matter relevant for trust but this approach also allowed identifying and putting forth the missing parts that should be visible, the gaps in platforms' trust forming practices.

The units of analysis as selected crowdfunding platforms are chosen on the basis of their presence as the initial –hence longest-operating – and/or leading example in their field, like Kickstarter or Indiegogo among reward-based crowdfunding platforms, Patreon, Crowdcube and Zopa as the pioneering platforms in membership-based, equity (investment)-based and lending-(investment) based platforms respectively. Assessment of company disclosures and feedback to user communities was combined along with indications on platforms' ability in providing a sufficient scope for peers' formation of interpersonal system trust through online participant observation and content analyses on the sites investigating deeper wherever the available data was larger like in the crowdfunding platforms.

The comparison of selected online sharing platforms with a particular emphasis on crowd-funding eco-system also benefited from complementary examination of sharing economy platforms other than crowdfunding,

Couchsurfing, Airbnb, Uber, Lyft and to some extent Wikipedia in terms of an analysis on their key features for uncertainty management that can provide some particular comparative reference points for better trust-forming tools for crowdfunding universe. These complementary platforms are chosen based on their coverage of a certain need and uniqueness of their approach.

In the first section, relevant studies and notions that this inquiry on trust in sharing economy platforms touches will be reviewed. This will start with an elaboration on definitions of the key concepts from sharing economy to crowdfunding, also including a brief overview of models like collaborative production –although that type of platforms do not fall within the center of this study and are considered as a subject for potential future research. In understanding the sharing economy platforms, this study will mainly focus on crowdfunding and collaborative consumption platforms. A consideration of key drivers of sharing economy and internet’s features facilitating collaboration will be also reviewed by a deeper exploration on trust from various point of views, also benefiting from the lenses of uncertainty management theories of communication.

Following the Literature review, in Section Two this study will introduce the abovementioned trust pyramid and the qualitative grounds on which the platform analyses would rest on. This will lead to a comparative inquisition of selected sharing economy platforms in Section Three with a focus on key areas. Starting from Section Four, the research will share its qualitative analysis case by case on the leading representatives of four type of crowdfunding platforms, with the dominant focus on reward-based crowdfunding platforms Kickstarter and Indiegogo in Section 4.1. This is followed by evaluation of membership-based crowdfunding through Patreon in 4.2, equity-based crowdfunding through Crowdcube 4.3 and lending-based crowdfunding through Zopa 4.4. As a complementary part of this study, Section Five is to provide an overview of two platforms that depend on a non-monetary type of exchange, Couchsurfing and Wikipedia, followed by Conclusions.

## **SECTION ONE**

### **1. LITERATURE BACKGROUND**

#### **1.1. KEY CONCEPTS OF THE SHARING ECO-SYSTEM**

Rise of a new collaborative economic model brought with it new terms such as “sharing economy” and “collaborative consumption” and various others emerged such as “access economy”, “peer-to-peer economy”, which are defining all or parts of a new eco-system, whose novelty is still partially questioned and covers a range of activities from shared accommodation, food- or ride-sharing to crowdfunding or crowdsourcing. We could invent all kinds of other labels such as e-trust economy, reciprocity economy, reputation economy, (social) network economy.

Regardless of which terms are adopted and which system or web platform falls under which category, going to the root of this growing new eco-system requires a look at concepts of sharing and collaboration more closely and this is what has been predominantly done by scholars so far. As these concepts are new or are introduced in rather novel ways with new implications for our lives, scholarly work mainly focused on trying to define these terms broadly and specifically.

##### **1.1.1. Sharing Economy**

Sharing per se is nothing new and has been prevalent since the pre-industrial societies. Usually, in traditional sharing systems that are mostly covered in “gift economy” literature, sharing is an act among people who know each other at least to some extent whereas now the ease of formation of online sharing communities leads to a type of (offline) sharing that normally could not occur with strangers we do not know. With the internet’s affordances; connectivity between like-minded people on any subject introduces new grounds for sharing.

Belk (2007) defined “sharing” as the “the act and process of distributing what is ours to others for their use and/or the act and process of receiving or taking something from others for our use” (p. 126), and that something does not have to be “money”. While this draws a “reciprocal” map of sharing, Benkler (2004) included in sharing also “nonreciprocal pro-social behavior”, related with “the production of things and actions/services valued materially, through nonmarket mechanisms of social sharing” (p. 275). According to Benkler, “social sharing and exchange” are part of the typical economic production but remain as an “underappreciated modality”, although they could be applied to daily contexts as a more “pervasive modality of economic production” through technological progress.

Although both of Belk and Benkler’s approaches do not necessitate money to enter into the exchange, in most famous platforms coordinating peer-to-peer sharing like Airbnb and Uber money is the dominant unit of exchange for use or access to a shared object. This also creates financial resources for sustaining the performance of the growing sites. However, there are also sharing platforms like “Couchsurfing (CS)” where users initiate non-monetary exchanges. Rising on intangible qualities of social sharing, such a platform needed to find another source of revenues such as an optional “verification tool” for users’ addresses to sustain itself. In Airbnb, the commodified version of CS, travelers go rather after a paid service also increasingly looking for renting an entire flat rather than sharing as Slee (2016) found.

Belk highlighted both “familiarity” and “intimacy” as parameters in describing different kinds of sharing, which can differ on a spectrum from “sharing in” with people we know and “sharing out” with strangers. Sharing in (Belk, 2010) becomes an “act that is likely to make the recipient a part of a pseudo-family and our aggregate extended self”, whereas sharing out engages in “dividing something between relative strangers or when it is intended as a one-time act such as providing someone with spare change, directions, or the time of day, it is described as “sharing out” (Belk, 2014, p.1596).

### 1.1.2. Collaborative Consumption

A commonly used term associated with sharing economy that is coined by Botsman and Rogers (2010) is “collaborative consumption”, defined as “traditional sharing, bartering, lending, trading, renting, gifting, and swapping” (p.xv). Belk (2014) fairly found this description inaccurate in that it puts “marketplace exchange and gift giving” in the same basket as sharing, and regarded “collaborative consumption” as a “middle ground between sharing and marketplace exchange, with elements of both” (p.1597). Highlighting that many originally rental activities that come to be called sharing such as Zipcar.com can be rather called “pseudo-sharing”, Belk defined collaborative consumption as “people coordinating the acquisition and distribution of a resource for a fee or other compensation” (p. 1597).

However, this notation also depicts an imprecise model as if peers come together to purchase a certain good, while most of the examples of sharing platforms serve like a match-making marketplace, where the peer in demand can find a peer in supply. The former model with a coordinated acquisition and distribution of a resource could rather hint to sharing in the type of schemes with for instance neighbors or a community pooling money together to acquire an object to be shared, say a washing machine or refrigerator. This actually is not a novel form but also being refreshed through renewed models of shared housing, collective living and co-habiting/co-working spaces which all usually require a middleman for representation and coordination.

Moreover, Belk’s definition underlines the compensation aspect of the sharing act as providing room for non-monetary sharing practices. Yet, this emphasis on “compensation” does not fully capture sharing acts taking place without any type of direct reward but for instance out of a spirit of community or solidarity. While many sharing platforms rely on a transaction-based sharing on their site, again the abovementioned Couchsurfing example – in a way the non-commodified version and precedent of Airbnb – is a showcase where no direct

form of compensation or bartering is relevant except the cultural exchange and the gradual build-up of a user's credentials through interaction with peers.

The definition of collaborative consumption should cover both the necessity of a platform to bring together collaborating peers as well as room for the non-monetary type of swap. It can be basically denoted as “the act of supplying, sharing, and accessing the use of a good or service with other people with- or free of charge, mostly initiated through a platform or community”.

Another relevant notion is “access-based consumption”, formulated by Bardhi and Eckhardt (2012) who underlined that consumers prefer paying for the access to goods rather than for purchases (p.881). We can easily put collaborative consumption under access-based consumption, yet under the subcategory of “market-mediated accesses”. “Connected consumption” is an alternative and reasonable notation Fitzmaurice and Schor (2015) introduced to emphasize the “social and digital dimensions” of the sharing practice where people benefit from being linked to strangers who provide access to goods and services (p.6).

In one of the most renowned studies on collaborative consumption, Botsman and Rogers (2010) regarded the concept resting on four fundamental principles: critical mass, idling capacity, belief in the commons and trust between strangers. “Critical mass” captured the notion of having enough choice to make the consumer content with available options. This means that there are enough supply and demand in the marketplace to match peers. “Power of idling capacity” lies in saving and “redistributing” the “unused potential” that can become a waste, elsewhere it is needed (Botsman and Rogers, 2010, p.83-84). Benkler (2004) also elaborated on this notion of “idle capacity” taking into account the net “positive utility” of sharing. Distributing unused capacity of owned and “shareable” goods to others is free “except for the transaction costs”, hence people would prefer this surplus to be shared if there is positive utility net of the cost of sharing (p.312). This net utility obviously needs to incorporate the risk of harm to the goods as well as any costs of using this sharing platform.

The concept of a rising “belief in the Commons”, another key aspect Botsman and Rogers investigated, hinted actually to an opposing turn of events

compared to Hardin's Tragedy of Commons (1968) argument that says there is always a trade-off between individual interests versus the group's and "freedom in a commons brings ruin to all" (p.1244). Many commons type collaborative networks have proven the contrary. Along with Botsman and Rogers (2010), Ostrom's (1990), Lessig's (2002) as well as Stallman's (2002), Siefkes' (2008) and Kelty's (2008) works have praised a belief in "creative commons" structures where individuals can actually self-govern, use and produce resources effectively.

### **1.1.3. Gift Economy**

The conceptions about the gift economy and the possibility of a pure act of gift-giving are still debated, drawing largely on works of Marion (1999, 2013), Mauss (1990) and Derrida (1992, 1999). In one of the most original works on gift-giving, Mauss (1990) dwelled on the "reciprocal" side of the gift in archaic societies of Polynesia, Melanesia, and Native America, recognizing the function of the gift as an "economic exchange".

Within the two classical prevailing models of gift-giving, the one that acknowledges giving gifts as a "sacrifice", and the other as a "favor" (McAteer, 2012, p.66); the latter is the one that leads to an exchange Mauss talks about, through a "bond of return". Both models recognized gifts as "gratuitous"; however if a favor is done for someone without being obliged to, then it becomes a gift, which ultimately brings the expectation that one day this person would return the favor. Mauss described this cycle of returning the favor as "obligatory-voluntary gift-exchanges" (p.19) and underlined that "to refuse to give or to fail to invite, is—like refusing to accept—the equivalent of a declaration of war; it is a refusal of friendship and intercourse" (p.17). Mauss' proposition indicated that individuals would willingly conform to morality also as a result of their motivation to maintain their "status" and honor, which can also be considered for References in most of sharing economy platforms where users actually rise in status on sharing through reviews. These exchanges constitute acts of compliance with a social bond, a type of moral "contract" as Mauss described.

Apart from the gift as favor or sacrifice, McAteer (2012) considered a third kind of model for a gift that suggested the “communion” which also comes close to this social bond, “where what is given is the gift of being-with-the-other” (p.67). He thought that the challenge Derrida saw in the “obligation of return” could be evaded through this conception, still leaving room for “reciprocity”, contrary to the gift-as-sacrifice thinking. The communion comes to being as the gift is naturally complemented by “reciprocal giving” whose “counter-gift” may only be allowing someone the room for gift-giving. Marion demonstrated that in a community gifts compelled people to notice the “personhood of the other and thus to enter into a community”, not for the reason that gift is an act of kindness forming a bond of reciprocity or (a “debt of gratitude”), “but because the gift is a communion that required a recognition of the other as a distinct person both capable of giving to me and receiving from me” (McAteer, p.67). Marion in that respect looked at a broader form of recipients in the exchange, while also regarding this bond of gift-giving as creating a debt with it, but not necessarily to the same person as this debt is rather owed to the “horizon of givenness, or donation” as Harvey (2012) described: “a gift may be without a giver, without a receiver or without anything given” (p. 11, 15).

Derrida (1992) looking at the reciprocity aspect of this giving back explained how it is only a matter of time until the ones who receive a gift would provide a present in return, and the time between the two reiterates the necessity. He concluded that a pure form of gift-giving cannot exist normatively in a society and identified this reciprocal debt as a challenge to the notion of gift, and promoted a “non-calculating mode” (Harvey, 2012). Yet, on the other hand, a pure act of gift giving out of disinterested, pure benevolence or altruism without seeking a return is unattainable for him, too (McAteer, p.60). According to Derrida when two parties that can be identified as “donor” and “donee” deliberately enter into an intended gift exchange of an “identifiable object/gift”, that interchange automatically cancels out because the purity and the disinterested act of gift-giving were not present (Harvey, p.11).

Kearney (2012) in a different and comprehensive approach depicted three models of gift-giving, (i) economic model, where the notions of credit and debit creation come in, (ii) deconstructive model, where the idealized pure gift is involved, (iii) hermeneutical model, which falls between the two. Kearney's own work fell into the third category that aimed to build a bridge between the first two models, a middle point between the "purely conditional" and the "unconditional gift".

Such a hermeneutics of the gift acknowledges a certain reconnaissance, a certain reciprocity, a certain recognition. I do not think the gift and the givee have to disappear for the event of a gift to occur, as they do for Derrida and Marion. But in the receiving and the giving of the gift, there is more than money involved, there is more than a mercantile exchange, there is more than a power leverage. My interest is in that excess, that which is more than pure exchange but still involves a relationship of recognition between giver and receiver (Kearney&Severson, p.79).

This view is also in line with Ramal's (2012) position who defended that there should be a wide spectrum covering multiple ways of gift-giving and "generosity". He elaborated on the variety of gift giving and generosity forms in different contexts, some lead to "free" and some to "not-free" forms in exchange-based economies (p. 200). Even generosity can carry multiple intentions which may or may not include reciprocity, hence for both the gift and generosity one single paradigm should not be enforced (p. 210).

According to Wittel (2013), the underlying basis of a gift economy, whose traces can also be found in digital commons, is not a social "contract" that endorses a morally grounded "solidarity" (325), but one that gives plenty of room for "asymmetry": "these gifts, very much like works of art and very much like blood donations, are gifts to abstract communities. Ultimately they are gifts to humanity" (p. 325).

When we come to differentiating "gifting" and sharing, Nicholas John (2017) provided a good relation. He positioned the former with "distribution of

goods, even if they are immaterial goods” and associated the latter with both gifting and “a form of communication” that engaged with “honesty, openness, authenticity”. Hence sharing becomes a broader concept than gifting: “To say that someone is sharing is to suggest that they are giving something of themselves. More than gifting does, it implies caring, perhaps even altruism” (Jenkins, 2017). This approach denoted “sharing” as a notion that brings at least two parties together in many instances at the same time for the use of the object or good that is shared, whereas gifting may transfer the good without expecting the same good to return to the giver or co-presence of the parties.

#### **1.1.4. Collaborative production, crowdsourcing & Open Source**

With collaborative consumption at the one end, there is also “collaborative production” at the other which for a shared work process gathers the expertise of diverse peers that may come from all parts of the world who would otherwise remain disconnected. Producing for a common goal, also called “commons” in many instances, commons-oriented peer production carries the critical feature of “loosely connected individuals” cooperating with each other “without relying on either market signals or managerial commands” (Benkler, 2006, p.60), which some scholars like Bauwens et al. (2012) regarded like a revolution (p.20).

While collaborative production relies on a horizontal p2p development and ownership of output, in crowdsourcing the owner and collector of the output created by contributors is usually a company or a commercial entity. The pioneer of the crowdsourcing term, Howe (2006) defined the concept as “the act of a company or institution taking a function once performed by employees and outsourcing it to an undefined (and generally large) network of people in the form of an open call” (Crowdsourcing, White Paper version). This entailed an implementation of “Open Source principles to fields outside of software” (Crowdsourcing, Soundbyte version). Brabham (2013) talked of crowdsourcing rightfully as a collaborative problem-solving, which is a top-down as well as bottom-up managed open process, where the control or say overproduction

remains both in the institution's and in crowd's hands (p.18). Famous examples of crowdsourcing platforms can be counted as InnoCentive, NineSigma, Odesk, TaskRabbit, Mechanical Turk, Peerby. This study in its comparative platform analysis leaves crowdsourcing and collaborative production platforms out of its scope for further research.

In most of the peer-to-peer and decentralized commons type of platforms there lie the principles of an Open Source setting, where “production and development of an offering are outsourced to potentially many people who are given access to the offering's source materials” (von Krogh and Spaeth, 2007). As Jeff Howe (2006, Wired) put: “the open source software movement proved that a network of passionate, geeky volunteers could write code just as well as the highly paid developers at Microsoft or Sun Microsystems” (para.6). It is also Open Source which gave way to the creation of a very comprehensive online encyclopedia like Wikipedia (to be briefly discussed in Section ) that will always stay in progress and will never be complete because of the effort of catching up with the world that constantly brings new occurrences and new information.

Grams (2010) made a useful comparison of Open Source and Crowdsourcing. In the former, a typical project may run with many contributors as well as many beneficiaries whereas in the latter one there are still many contributors yet only a few beneficiaries. As also Bauwens (2012) elaborated, in the “Open Source methodology” most of the input can be still put to use and also advanced while in crowdsourcing a significant amount of input may remain wasted.

#### **1.1.5. Collaborative funding: Crowdfunding**

Along with crowdsourcing that mostly gathers non-monetary time investment and knowledge-based peer efforts in a project; a version that collects monetary contributions from the “crowd” again in form of an open call also became possible. “Crowdfunding” in that respect forms a collaborative funding model in which peers use new media to pull together financing from other peers to

materialize projects or to finance their companies, whose range may vary from artistic to scholarly to commercial and technological ideas or products. As Brabham (2013) summarized with small contributions the “creation of a specific product or the investment in a specific business idea” gets supported (p.37). Here, the control over production as well as distribution is kept in project owner’s hands. Kickstarter and Indiegogo have been the most renowned crowdfunding examples that are based on rewards, which are the main focus of this study (Section 4.1). Sites such as Zopa, Crowdcube, and Causes are examples of lending-, equity-, donation-based crowdfunding platforms respectively. A rather new form is provided by membership-based crowdfunding platform, Patreon also reviewed in Section 4.2. Among types of crowdfunding, this study particularly left donation-based crowdfunding out of the scope as it stands out on its own as a subject for a separate research due to vast literature and different considerations in charitable giving and sharing.

Ordanini, Micelli, Pizzetti, and Parasuraman (2011) described the concept of crowdfunding as “a collective effort by people who network and pool their money together, usually via the internet, in order to invest in and support efforts initiated by other people or organizations” (p.443). This description falls short of capturing the decision-making process properly because the funding decisions are usually met individually without a “together”-ness per se, except only a herd behavior that may occur because of “critical mass” that already supported a project in question.

The problem-solving aspect of crowdsourcing is also relevant for crowdfunding but this time instead of collecting time and creative inputs of peers, it mobilizes and assembles their small monetary contributions and addresses the financing problem in conventional financing that the funds not reaching the ones who need it the most. The filling of this gap is formed through these online sharing platforms which make it possible for individual consumers to pool “monetary resources to support and sustain new projects initiated by others” (Ordanini et al., 2011).

Botsman and Rogers' (2010) notion of idle capacity in collaborative consumption can be applied to crowdfunding, too: unused investment capacity of individuals is put in use for funding a micro-project, which could not be funded otherwise. In traditional finance (interchangeably used with "conventional finance" denoting the usual financing methods that involves financial institutions) banks usually require an operating business and a track record, while Venture Capitals and Angel Investors, the typical investors of rather early stage companies are very selective and not accessible for funding every new business and idea. Artistic endeavors which have become a popular target of crowdfunding campaigns cannot easily find support, too through conventional financing methods. Crowdfunding builds the necessary means to resolve this mismatch for start-ups, small businesses or artistic projects by redistributing crowd's idle minor funds into useful contributions for ideas lacking funding.

## **1.2.DRIVERS OF THE SHARING ECONOMY**

An inclination to share and give through an "economic exchange" is not new as shown in reviews of the gift economy. However, what has given rise to sharing economy in contemporary times seems to be multifold. Botsman and Rogers (2010) considered these under four key drivers: (i) a renewed belief in the importance of community, (ii) surge of peer-to-peer social networks and real-time technologies, (iii) rising environmental concerns, (iv) a global recession "that has fundamentally shocked consumer behaviors".

This indeed is a good summary of the potential factors that induce individuals to enter into sharing practices with even strangers. Yet this basis lacks a certain essential character of this particular time that may be influential in making sharing economy a material aspect of our lives. Zooming into the first two grounds mentioned by these scholars; a renewed belief in the importance of community and a surge of p2p social networks; there is a need to grasp that beneath these there are more fundamental social drivers in play that form the basis of these forces, especially the second one. The internet becomes the facilitator and

kind of a marketplace where needs are met with resources. Yet, the internet's capabilities have not come into being on their own but as a consequence of interplay of peoples' social and economic motivations that led to collective spaces for socializing and sharing on a different dimension than the traditional daily life allowed.

The internet clearly created a space –where also sharing economy flourished – that intended to empower the individual beyond the power centers of “organized capitalism” which as Horkheimer (1974) argued puts “personal initiative” into ever smaller conventional boxes relative to “plans of those in authority”: participation “remains at best a hobby, a leisure-time trifle” (p.94). With the rise of new media tools and the internet, however, breaking the old conventional ties and processes, and coming out of the dictated boxes with more autonomy and grounds for participation to meet certain demands in alternative ways have become possible. As elaborated in the next section, the participatory nature of the Internet as Jenkins (2006) considered, showed how small contributions can matter in various spheres of life. The risk in the sharing economy universe is however that the sharing economy platforms as they expand their user communities and revenues, attracting also new capital from financial investors, could fall into the same growth rhetoric of a typical capitalist “corporation” –whose hints are elaborated in Section 3.2.2. (p.84).

In light of these, we can briefly summarize certain key motivations for the development of the sharing economy model that is regarded vital. It serves a rising need to create alternative means of exchange between peers for objects or services in demand which are either not met through the conventional market or preferred as a more socially fulfilling substitute. Sharing with peers not only facilitates the meeting of basic needs in a rather horizontal and decentralized manner but also goes in line with breaking the mold of consumerism towards collaborative resource-sharing. In doing that, micro-entrepreneurship, as well as peer-to-peer collaborative creation, is empowered, while leading to the re-formation of “community” and social cohesion as well as addressing certain key concerns of our times such as sustainability and “environmental constraints”.

There is also a view (Siefke, 2008) that this model may contribute to the narrowing of the “widening gap between the rich and the poor”. In that regard, peer production is also regarded as the more ethical alternative than the market production in that it creates equality of access (Stallman 2002, Siefkes 2008).

Simmel’s (1978) work can also be of help in picturing the nodes of the sharing economy, where we can envisage economic objects as situated in the space between “pure desire” and “immediate enjoyment”. The distance between the object and the person who desires can be overcome through the “economic exchange” that is founded on not “only in exchanging values but in the exchange of values” (p.80). The “distance” in this sense is now easily covered through the tools of the internet and the peers along with what they offer for sharing, be it their homes, their knowledge or collaborative efforts in form of crowd funds can meet on a common ground. A transaction occurs usually based on a given price by the supplier of an object or service which only leads to the exchange if the price is accepted by the one who desires the object. Hence, for this distance, which Simmel described, to be overcome, the value has to be matched reciprocally. For that matching to take place there is the need for a common ground, which becomes the “platform” bringing strangers together.

The resulting sharing economy exchange rises on a platform usually through a “paid service” between two peers. However for this exchange to happen through a network of individuals who do not know each other, the sharing economy primarily rises on the Internet’s affordances that bring strangers into close proximity with each other on an online platform. Compared with previously “unknown” consumers that also take an abstract form within the “abstractness” of money in Simmel’s approach, peers now can take into account other like-minded individuals as subjects within the sharing economy. The ends of the exchange become individuals one has to build opinion about and build a sufficient level of trust to get into an exchange with. This exchange as it takes place through an internet platform necessitates also trust to be formed vis-à-vis the exchange platform, which will be further discussed in the next sections.

### **1.3. THE INTERNET MAKES COLLABORATION FEASIBLE**

From its earliest days on, the Internet has provided a space where strangers felt motivated to interact, be it the chat rooms of mIRC or the music sharing platform Napster, which can be considered as the first example of peer-to-peer online sharing. With the sophistication of Web 2.0 and the rise of the tools for creative and communicative purposes, peers started to find more means to create, communicate and interact that intensified grounds for sharing.

As also discussed in Chapter 1, sharing and collaboration go hand in hand in the so far constituted sharing economy literature. The tendency to associate both terms closely is vivid with the widely used terminology of sharing economy and collaborative consumption. This has a valid cause since collaboration lies in the very core of the sharing activity. Peers that in many cases can be called strangers collaborate on an exchange.

Looking more closely at the collaboration activity and how this is facilitated by the Internet leads us to the participatory nature of the Internet. The potential of new media in increasing opportunities for collaboration and participation are many-fold, which blurs at times the boundaries between producer, reader, player, author, user, or say interactors generically related with content. The Internet and new media simplify sharing and collaboration beyond the conventional type of mediums, which naturally creates a more participating culture than in the traditional type of offline possibilities where the immediate reaction is more limited. The ease of participation in itself, which is a technical affordance of the Internet, dictates a culture that refrains less from initiating and doing things online than offline, as the former looks as if it counts more and creates more attention more rapidly. Jenkins (2006) talking about the rise of a participatory culture highlighted that users feel that their partaking activities are important:

a culture with relatively low barriers to artistic expression and civic engagement, strong support for creating and sharing one's creations, and some type of informal mentorship whereby what is known by the most

experienced is passed along to novices. A participatory culture is also one in which members believe their contributions matter, and feel some degree of social connection with one another (at the least they care what other people think about what they have created) (p.3).

Brabham (2013) underlined Internet's features of "speed", "reach", "convergence", "lower barriers to entry" and "interactivity" as forming a "participatory culture online". Lévy (1997) foresaw the "collective intelligence" aspect that can arise when different nodes of know-how and expertise participate cooperatively they can build a "knowledge culture" that can function like an "invisible and intangible engine" involved in any type of circulation of goods and objects. Jenkins (2006, *Convergence Culture*) also elaborated on Lévy's conceptions of the knowledge culture as a natural consequence of the diminishing forms of "social community" as well as geographical bonds, and the "emerging" versions of community ties that can be described through "voluntary, temporary, and tactical affiliations, reaffirmed through common intellectual enterprises and emotional investments" (p.27).

These characteristics of the participatory medium and the emerging communities can be considered in conjunction with Murray's (1997) map of four essential properties of digital environments: "procedural, participatory, spatial and encyclopedic" (p.71). Murray defined the "procedural quality" as the computer's "defining ability to execute a series of rules...rules of behavior" that designate every process (p.71), which the users find attractive as they can themselves "induce the behavior". Digital environments behave under certain rules that are "responsive" to the input. These responses are generated under a certain coded execution which makes the computer interactive and "participatory" as well (p.74). The "spatial" quality embraces the "navigable space" that is formed by the "interactive process of navigation" (p.79-80). Murray put that "we recognize the fruit of all of these developments in our conceptualization of the digital domain as "cyberspace", an environment with its own geography in which we experience a change of documents on our screen as a visit to a distant site on a worldwide web" (p.80). The capacity of the medium in storing a flow of data in an ever-accessible

form to its users increases significantly when linked worldwide to a global web and database, and this represents this “encyclopedic” quality: “It is as if the modern version of the great library of Alexandria, which contained all the knowledge of the ancient world, is about to rematerialize in the infinite expanses of cyberspace” (p.84).

Murray’s description is still very relevant with surging means of various interaction that are built not only between the user and the computer but also p2p and peer-to-platform. The flow of information enabled now between the users-system and users-users with wikis and social network sites are fully benefiting from the procedural, participatory, spatial and encyclopedic features of the computer and the Internet.

New collaborative modes like Wikis facilitated by new media, where anybody can create content and edit the work of others, lead to an enormous virtual library by users of the Internet, who are not literally writers or intellectuals like what Diderot represented for l’Encyclopedié in the 18<sup>th</sup> century yet can synthesize various kinds of information. As Murray (1997) put earlier “the Internet functions as a giant bulletin board on which long-term story arcs can be plotted” (p.85). This, of course, bears the risk of being overwhelmed by the endless content through the encyclopedic nature of the medium –which is best displayed in Wikipedia. The encyclopedic quality of the net, one of the four essential properties of digital environments in Murray’s view, when it meets the other two qualities, “procedural” and “participatory” explains to some extent why the most effective large-scale collaborative attempts on the Internet are in Wiki form.

New media enables not only collaborative spaces where users become like participants of a combined creation but also SNS where a collection of images or notes piles up through users’ sharing of posts on a personal basis without individual posts necessarily cooperating or interacting with each other but this is facilitated to a great extent, too. This is a type of sharing that grows on a motivation to share one’s life and daily moments on these platforms where users

seem to find both some photographic “artistic expression” and some social connectedness as Jenkins mentioned above.

Nicholas John (Jenkins, 2017) also talked about this type of sharing that is basically related with “digital participation” (Jenkins, Revisiting the Concept of Sharing) by defining it as “digital activities” ranging from posting videos to updating statuses that also qualify as “sharing”. John elaborated on these as a “constitutive activity of social media” to highlight how it has become the keyword for describing our online participation”.

Berry (2012) used a powerful expression for this kind of participation: “documentary narcissism”. He also introduced the notion of “quantified self-movement” that rises on our increasing use of digital and computational software, codes and apps: “One of the most interesting aspects of these systems is that humans in many cases become the vectors that both enable the data transfers and carry the data that fuels the computational economy.”

With the resulting vectors of information in all kinds of directions, the whole functioning of the Web 2.0 and the SNS get procedural and their impact grows on each unit of participation and sharing. The SNS built on qualities of the Internet make themselves participatory, spatial and encyclopedic too. The responses are not only generated by the SNS, let’s call it the “system” together with the infrastructure behind it, but also by the users who can share and post facing a worldwide web of users. Not only we know how the Twitter system reacts when we try to put a tweet longer than 140 characters, we also get to know what kind of reactions the users in our web of reach demonstrate when we tweet on a certain subject or in a certain format. Similar goes for Instagram, where users learn what kind of posts create more reaction and even on what part of the day.

In sharing economy, the peers and the object or services they offer for sharing turn into vectors of an economic exchange. The more sharing occurs, the more it penetrates into all parts of our lives and sometimes on a disruptive scale. A learning curve for every platform and its users takes place.

The impact that SNS and sharing platforms have on various dimensions of our daily lives and the economy from advertisement to customer-behavior is an

extensive topic that this study leaves out. Different segments of the sharing economy platforms that are selected for this study of sharing economy incorporate a sharing or collaboration act that evolve around an economic resource which necessitates agents to find their counterparts enough trustworthy for collaboration. For peers to interact with each other on such scale only are possible as the mentioned qualities of the Internet make trust formation achievable.

#### **1.4. ONLY BECAUSE OF TRUST-BUILDING**

All the technical affordances of the Internet that are mentioned in the preceding chapter make participation and interaction of the users feasible and it is largely these qualities that allow trust building between users and users-platforms. However, these technical qualities would not suffice on their own to induce engagement if there is lack of trust or lack of willingness to trust in one or all relevant layers of the interaction process.

One of the most salient factors in the effectiveness of our present complex organization is the willingness of one or more individuals in a social unit to trust others. The efficiency, adjustment, and even survival of any social group depend upon the presence or absence of such trust. (Rotter, 1967, p.651).

As Rotter rightfully claimed for “any social group”, trust and willingness to trust are key necessities for any sharing and exchange to take place, hence also the backbone of sharing economy. The ability of participants of a social group to trust other agents, including both the peers and collaborative platforms in question; is the essential element to managing the complexity of a social setting. Trust not only becomes a functional tool to navigate through the uncertainty of life but also a notion constantly under threat showing only in future whether the trust was warranted or not as well as may fluctuate as agents’ inclinations may change which may risk the functioning of a social system. Trust in the collaborative peer economy is a primary ingredient for the functioning of the system in a sustainable fashion.

The notion of trust has been approached in consumer and communication studies as well as in psychology and sociology widely from numerous angles. In earlier studies, relation to “confidence” has been at the forefront with emphasis on “faith” that the actors of a social or commercial exchange would behave in a desired way “rather than what is feared” (Deutsch, 1973, p.148) or that the other party would return “expected gratifications” in a social exchange (Scanzoni, 1979). Rotter (1967) considered “trustworthiness” in “interpersonal trust” as “a generalized expectancy held by an individual that the word, promise, or statement of another individual can be relied on” (p.651).

Rempel, Holmes, and Zanna (1985) studying close relationships focused on “predictability, dependability and (leap of) faith” where the first two may lead to the third notion (p.96-97). Regarding “trust” as the anticipation of the likelihood of certain happenings in line with Rotter’s (1980) and Scanzoni’s (1979) views, Rempel et al. differentiated between trusting one’s actions and one’s characters where the attention gradually moves from the first one into the latter (p.97). Since the focus here is on interpersonal close relationships, this perspective inherently highlights the repeating nature of interactions between people where trust is earned through time although it may start with a leap of faith initially. Similarly, the relation between users and a sharing platform should also be regarded as of repeating nature of interactions that lead to a learning curve where users – in a way revenue sharing agents – after an initial leap of faith step progressively learn about and shift focus of trust from actions to “character” of a sharing platform. So we can view a platform that is in the process of building and assuming gradually a character on its own, too.

With a similar long-term view on trust relations, Morgan and Hunt (1994) regarded “commitment” and trust as key elements for successful relationship marketing. In their view, the essence of commitment and trust motivate for (i) maintenance of relationship investments in cooperation with exchange parties, (ii) resistance to attractive short-term alternatives “in favor of the expected long-term benefits”, (iii) prudent approach to “potentially high-risk actions” based on a conviction “that their partners will not act opportunistically” (p.22). Considering a

close link between “confidence”, trust and commitment; the researchers structure that “relationship termination costs and relationship benefits” shape commitment, while “shared values” affect both commitment and trust whereas communication and “opportunistic behavior” directly have an effect on trust (p.24).

In one of the first elaborations on trust in online settings, Hoffman, Novak, and Peralta (1998) pointed out that consumers have “lack of trust” in Web providers as they cannot control the use of their data. “Lack of disclosures” of websites on this contributes to the problem (p.80-81). The scholars advocated for a “balance of power” that carried enough “cooperative interaction” between the online business and its customers (p.85). This incorporated a demand for increased transparency and informative content by the site as well as protection of privacy so that consumers trust web providers. Although there has been considerable progress on site disclosures, after 20 years this finding can be still applicable to a great extent. Disclosures and transparency of platforms will be among the focus areas of this research in studying of platform trust.

In a similar research, Bhattacharjee (2002) recognized that companies generating revenues through user transactions risk losing most “if they fail to assess consumer trust in their services or engage in proactive trust-building initiatives” (p. 236). Framing trust as a concept that can become a threat on its own to the successful development of online exchanges, the scholar categorized key dimensions influencing trust-building as “ability” (domain expertise), “integrity” (reliability in delivering its obligations), and “benevolence” (trustee’s measure of good practice) (p.212). This can be adopted for sharing economy platforms too. In line with Rempel et al., this perspective would put trust formation on a gradual and long-term view which would allow a sharing platform to construct its nature which the users would also experience and evaluate mostly on these three key aspects. Considering previous studies –which mostly concentrated on faith, predictability, honesty, confidence, fairness, integrity, openness usually in view of “interpersonal relations” – limited to capture online encounters, Bhattacharjee emphasized the “breadth” and “complexity” of the online construct (p.214) and approached trust as an “informal control mechanism”

that reduces “friction” and “opportunistic behaviors” while eliminating over-bureaucratic processes and inspiring future transactions, all of which contributed to fostering of long-term relationships (p.212). Also, for sharing economy platforms keeping sustainable relations with users require consistency in various dimensions for continued user presence.

Much earlier it was Luhmann (1979) who addressed how technology introduced new complexities and the role of trust in “reducing complexity” for decision-making (p.15-16). Luhmann’s phenomenal work on trust has been in many ways considered as the first and most comprehensive basis of a thorough elaboration on trust (Seligman 1997, p.18; Taddeo 2009, p.3). Luhmann underpinned that not all “dangers” can be eliminated but still should be neutralized so that they do not disrupt action (p.24). Trust allows people “to act despite irresolvable uncertainties” (p.25). Here, trust is largely considered like a compass for navigating through “complexity” of life in view of endless options. Trust enables people to take an action “as though there were only certain possibilities in the future”, and the increase in trust leads to increase in “possibilities for action” (Nissenbaum, 2003, p.138).

As such, trust becomes a prerequisite for cooperation and “coordinated action”, where with reduced complexity the potential for action despite uncertainties becomes possible. Trust not only eases “cooperation and success within civil and political society”, it also motivates people for taking actions, “boldness, adventure, and creativity, and by enriching the scope of individuals’ relationships with others” (Nissenbaum, 2003, p.139). This view is similar to Rotter’s and Arrow’s approaches who saw trust as an important lubricant of a social system” (Arrow, 1974). Also cited by Nissenbaum, trust is regarded as a “magic ingredient” among citizens “that help undergird political and civic stability in multicultural societies” (Weinstock, 1999). This is also in line with Seligman’s approach that regarded trust as the “basis of modern solidarity” (Seligman, 1997, p. 73).

In facilitation of trust, Luhmann made use of a system approach in order to solve the inaction puzzle that could arise from uncertainties. As Knodt (1995)

outlined in the Foreward to Luhmann's "Social Systems", Luhmann viewed complexity as indicating an environment that pertains a certain degree of "lack of information" which can only be reduced through the introduction of "less complex systems than their environment" (p.xvii). The capability to diminish complexity does not only run like a protection but also enables "the system to build up internal complexity and thereby transform unorganized into organized complexity" (p.xviii). In a world that is complex and constantly in flux, predictable mechanisms empower participants to manage the complexity in a rather orderly fashion.

Yet, while trust helps in mitigating the suspension that may arise due to uncertainty, technological complexity that modifies "unorganized" into "organized complexity" does not remove the insecurity and further builds upon it. As Luhmann argued this means a heightened level of need for trust and requires delicate "mastery" with additional layers of trust-building. Luhmann (1979) introduced, therefore "system trust": "trust in the effectiveness of certain opportunities for communication as a safety valve" and trust in the overall execution of a system that led to "effectiveness of opportunities" (p.56). With this approach, technology introduced new complexity on top of the existing uncertainty of life, yet as trust is the compass for navigation in such an environment, its importance and essence grow exponentially in this new and more complex environment. According to Luhmann, crosschecking internal control tools need to be integrated into the operating flow of the systems for proper navigation which further contributes to the trustworthiness of a system: "trust in the ability of systems to function includes trust in the ability of their internal controls to function" (Luhmann, 1979, p.58).

Nissenbaum (2003) elaborated on "trust online" with a clear emphasis on the choice of leaving out "the system approach" as articulated in "trust in the networked, digital information systems themselves" from her discussion (p.137). She preferred utilizing "confidence" in place of "trust in systems" –which may fall in line with Giddens' approach (p.38-43) – and regarded it as the essential starting point for building "trust in the online world" (p.137). She also claimed

that “through strong mechanisms of security and security-oriented practices”, “trusted” or “trustworthy” systems can be built so that users can feel motivated to trust each other and largely engender a climate of trust online” (p.135). Foreseeing that such a “climate of trust” if successfully achieved on the Net, could “attract information” and become lively with “interaction, transaction, and association”, Nissenbaum successfully predicted that this would bring more investment and “fuel participation” (p.140).

Conversely, if people do not trust interactions mediated electronically, they will minimize them; they will be cautious and suspicious in their dealings, they will not place information and creative works on the Web, they will not engage in e-commerce, they will not indulge in MUDs, MOOs, e-lists, b-boards, listservs, chat rooms, buddy lists, electronic banking, and more. A great resource will be wasted (p.140).

Nissenbaum’s list can be extended by all kinds of acts taking place on sharing and collaboration platforms. With a far-sighted assessment, her description of “conditions of trust” as “history and reputation, inferences based on personal characteristics, relationships of mutuality and reciprocity, role fulfillment, contextual factors” overlaps well with the main mechanisms used for trust formation between peers in sharing economy platforms. “Reputations” matter here: “where we have not built a history of direct interaction with others, we may refer to the experiences of others who have; that is to say, we may be influenced by their reputations” (p.141). This is where “References” and “Recommendations” come into play, which is used by the collaborative consumption platforms heavily. Nissenbaum referred to Pettit’s consideration of qualities in the other person that can contribute to building trust in the other person such as virtue, loyalty, prudence and a desire for the good opinion of others” (Pettit, as cited by Nissenbaum, 2003, p.142). If Pettit’s perspective is applied to the online world, someone chasing “good reputation” would consistently focus on acts evoking “trust-responsiveness” or “trust-reliance”.

Likewise, some familiar features like the perception of “shared values” or “similarity” may act like motivation for building trust (Seligman, 1997, p.69)

arguing that familiarity relates to the “human bond” rooted in identity). This was largely observed in a supplementary review of CS as part of this study (Section 5.1, p.231-259). Nissenbaum considered that trust motivated by familiarity and a perception of shared values does not necessarily mean that a trustee would rely on these features as causes of trustworthy acts but rather would build some beliefs about the probable behavior of these “familiar” or “similar” people (p.142). “The presence of common ends can stimulate trust. Such cases of mutual ends occur when a person is “in the same boat” as another” (p.143).

Nissenbaum also viewed “contextual factors” such as publicity of occurrences as influential in inducing trust-related judgments: “Publicity: a setting in which betrayal and fidelity are routinely publicized is likely to be more conducive to trust-reliance, and consequently trust, than a setting in which people can effectively hide their deeds –especially their misdeeds” (p.144). An atmosphere where trust affirming actions are rewarded and opposite ones are punished can motivate people for the former practices. When “rewards and punishment” are not systematically available, promulgation of norms through other means can effectively shape behaviors and establish a climate of one sort or another” (p.144). This perfectly applies to the self-correcting norms essential in collaborative platforms like Commons, where peers edit and cooperate with each other without a top-down authority necessarily dictating the rules.

Nissenbaum also underlined another necessary factor for a “trusting climate” as “public policy” or a form of “trust insurance” that would put “safety nets for those whose trust is betrayed”. Referring to “liability for credit card fraud” as an example arrangement of the introduction of a motivating factor for making people engage in credit card transactions (p.144), the scholar viewed obstacles to trust online as “missing identities”, “missing personal characteristics”, “inscrutable contexts” (p.144-145). As “accountability” is connected with “identity”, the scholar highlighted the motivational aspect of providing personal details in evoking trust (p.145), which would also guide this study’s exploration of sharing economy platforms.

According to Nissenbaum security and idea of trust can be linked in three categories: access control, transparency of identity, surveillance. As a result of concentration on security, the “identity” has become suitably translucent for the avoidance of fraudulent acts through built-in structures that Lessig identified as “architectures of identification” (p.150).

Cryptographic techniques are deployed to authenticate users, computers, and sources of information by means of digital signatures and digital certificates working within a socially constructed systems of Certification Authorities trusted third parties who vouch for the binding of cryptographic keys to particular identities – persons and institutions (p.151).

In view of all these dynamics related with heightened security for trust-building, which can also carry potential links to cryptocurrencies, Nissenbaum advocated the conservation of “the degrees of freedom” that trust requires with a “progressive social vision of cyberspace”. In her view, this can be done while building “safety nets to prevent catastrophic harms” as minimal protections’ along with higher security “pockets” maintained with technical progress (p.163).

#### **1.4.1. Trust in abstract systems: a bridge on the “uncertainty” flux**

Luhmann’s approach to system trust can be viewed in many ways as related to Giddens’ notion of expert systems and the trust “ ‘lay individuals’ place upon them”. Giddens (1990) elaborated on how modernity separated “space” from “place” through nurturing faceless commitments between physically remote individuals. This takes place through what Giddens calls “disembedding” mechanisms which reorganize “social relations” by removing and redistributing them from their “local contexts of interaction” into indeterminate time and space extent (p.21). The two main disembedding mechanisms used in the advancement of modern social institutions are “symbolic tokens” and “expert systems” both of which are results of modern forms. The former is best understood by the example of money that circulated around without depending on by who and when it is

handled: “money provides for the enactment of transactions between agents widely separated in time and space” (p.24). The second one “expert systems” is denoted by “technical accomplishment or professional expertise that organizes large areas of the material or social environments in which we live today” that constitutes the very founding of the modern society.

Again, trust becomes the key ingredient for these two disembedding mechanisms to function, where it is mainly laid upon the “abstract capacities”. Here, without necessarily relying on the person who gives it, the receiving agent trusts the notion of “money” more than the person. Also in expert systems of modernity, it is not initially the individuals that evoke the notion of trust yet their professional background and possibly associated experience: “I know very little about the codes of knowledge used by the architect and the builder in the design and construction of the home, but I nonetheless have “faith” ... in what they have done.... in the authenticity of the expert knowledge which they apply –something which I cannot usually check exhaustively myself” (p.27).

Giddens refers to Luhmann’s differentiation of trust from the confidence that is based on the former’s incorporation of one or more “risk” factors with unexpected outcomes that may be activated with our own decision making. Confidence, however, walks away from an “awareness of circumstances of risk” that trust clearly accepts without necessarily pinpointing all the factors. Trust means that there is a decision tree where an agent’s action may culminate in different nodes of results also depending on the uncontrollable external factors. Yet, “confidence”, involves an ignorance about the uncertainties and does not necessarily try to reduce them. Luhmann thought that the normal state is of confidence for an individual to flow through daily lives. He also argued that trust leads to blaming of the individual’s own decision while confidence results in “blaming of others” in case of unanticipated results.

Giddens does not agree with Luhmann’s argument fully that based the notion of trust on clear decision-making nodes of alternative choices, as trust itself was regarded as a “continuous state”. Trust is not only required when one takes action but also when one refrains from action, hence in case of inaction, too –

which according to Luhmann is free from risk (p.32). In that respect, Giddens (1990) put trust just somewhere in the middle of faith and confidence (p.33). Through a step by step elaboration on trust, he came up with a definition of trust as “confidence in the reliability of a person or system, regarding a given set of outcomes or events, where that confidence expresses a faith in the probity or love of another, or in the correctness of abstract principles (technical knowledge)” (p. 34).

Giddens’ stance on “continuity” of trust-building is actually quite parallel to Luhmann’s view on “principle of gradualness” which comprehensively painted the dynamics of the constantly evolving formation of trust (Luhmann, 1979, p.41). This can perfectly capture that the process of getting to know a certain unknown, person or system, and forming of expectations based on a certain level of trust does not happen all at once. One step at a time, agents proceed in different phases of trust-building. This is also closely in line with Möllering’s analysis that breaks down trust in our everyday lives into three, one executed through reasoning and judgment, the second in a rather “routine” fashion, and the last one with a “reflexive reinforcement”. The third category is the one that goes in hand with a learning process also closely prevalent in the sharing economy interaction. According to Möllering, all three forms of trust contribute to the formation of a “leap of faith” (p.198)

This leap of faith notion actually relates to Giddens’ differentiation between “facework commitments” and “faceless commitments”, where the first one involves the “copresence” of both sides of the trust relation while the other one denoted the faith put into “symbolic tokens” or “abstract systems” where face of another person is not directly involved. Giddens makes use of Goffman’s (1990) “civil inattention” notion as the simplest case of facework commitments to refer to numerous interactions throughout daily life like glancing to strangers passing by on the street, through which we implicitly crosscheck threats (p.81). As an example of faceless commitment, we can easily think of an atm machine through which we draw cash from our bank accounts. No banking teller stands by

the machine to help us yet we put faith in the system that based on our selection of certain options would give us our money, exactly the amount based on our order.

The intersection of both facework- and faceless commitments occurs on the “access points of abstract systems” (p.83). Giddens viewed the intercourse at access points as a critical factor shaping the “attitude of trust, or lack of trust” because these spots create the “tension between lay skepticism and professional expertise” and if the laypersons experience something negative they may altogether abandon their trust, hence involvement in the system (p.90-91). As shown in Giddens’ typical example of air travel, “reembedding” takes place at what Giddens names as access points through the representation of the air travel system by the crew and this contributes to sustaining faceless commitments through facework: “access points are points of connection between lay individuals or collectivities and the representatives of abstract systems. They are places of vulnerability for abstract systems, but also junctions at which trust can be maintained or built up” (p.88).

Trust in expert systems implies that participants or users of a system feel the need and somehow automatically put trust in the running of the system. We may trust some experts because of their individual experience in a subject too but generally, we trust their expertise as a result of certain formation they completed to become i.e. a lawyer. Faceless commitments are considered necessary for the functioning of modern institutions, and it not only creates a sense of security but also enables the “benefits and risk” to be calculated through the “continual reflexive implementation” of expert knowledge (p.84). The “civil inattention” – type of manner is relevant in building trust vis-à-vis abstract systems through what Giddens calls as an “attitude of business-as-usual” (p.85). For this to occur though, the agents should be informed about the risks. In the case of air travel, users or passengers combine the peacefulness of the cabin crew along with the safety statistics of airplanes to comfort themselves regarding the risks. According to Giddens, the wide awareness of the laypersons on the particular risks formed a key disparity between “pre-modern” and the “modern” lives (p.129).

According to Giddens, the risks in abstract systems can be assessed by “how far it meets particular human needs and produces no unwanted end results” (p.152), which can be helpful in evaluating the performance of sharing economy platforms, too. There are two aspects of abstract systems where the end results may not turn out as expected: “design faults and operator failure”. Giddens asserted that there is a possibility of avoiding the former but the second one seems “ineradicable”. This is because the sole presence of individuals exposes the system to a danger. Yet, these are not the factors creating the “erratic character” of modern systems, but the “unintended consequences and the reflexivity or circularity of social knowledge” (p.152-153). Despite a system may be structured in the best possible way and is run by the most efficient of operators, the interaction of this system with other systems and human involvement brings a whole new level of uncertainty and difficulty of predictability. Giddens attributes the basis for this to “complexity of systems and actions that make up world society”. Yet even if we were to talk of one single unified system, unplanned outcomes could still prevail due to the “circularity of social knowledge” as this would put the social systems constantly into new motions upon accumulation and reflection of experiences and “new knowledge”. The system never gets steady as new pieces of information and explorations “alter its nature, spinning it off in novel directions” (p.153).

Giddens resembled this whole intricate running of the world to a “juggernaut”. All this reiterative functioning of abstract social systems makes riding the juggernaut appear quite impossible however Giddens thought that the humanity cannot end up surrendering hopes for this and resort to “creation of models of utopian realism” (p.154). One can replace the juggernaut in Giddens’ below expression easily for “sharing economy” and ask the same: “How far can we –where “we” means humanity as a whole – harness the juggernaut, or at least direct it in such a way as to minimize the dangers and maximize the opportunities which modernity offers to us?” (p.151). The scholar believed that advocating regulation on its own to eliminate errors exposes a “dilemma’ as “centralized control” would not bring economic efficiency. The complete opposite, on the

other hand, which is letting all markets be free of any limitations, can create inequalities in particular groups' access to certain markets.

About ten years later, in another study, Giddens (1999) also referred to Ulrich Beck's notion of "risk society" and defined this as living "on a high technological frontier" which was really comprehensible and produced a variety of possibilities regarding the future. These prospects were also related with technology and science that in turn hinted to two kinds of transformation: one the "end of nature" and the other "end of tradition" (p.3). Giddens argued that risk is not the same as "danger" or "hazard" and it is not that pre-modern living was not dangerous. It actually boils down to the fact that the modern society has become progressively more worried about the future and safety than the pre-modern one. This made "risk" stand out.

The novelty of modern times with regard to pre-modern one is the "manufactured risk", which according to Giddens comes as an outcome of the advancement of science and technology. The manufactured risk is the kind of risk where our previous knowledge cannot really offer a help. It goes hand in hand with the manufactured uncertainty that gets meddled into the daily lives (p.4). What Giddens contributes to this kind of elaboration of risk is the approach to "responsibility". The risk is not only connected to the notion of "security" but it is also associated with responsibility which becomes unowned due to the ambiguity of the nature of manufactured risk and the unknowns regarding who really caused failures and dangers. The new online space has produced its own risks, and as Mitchell (1998) called "the uncertainties and dangers of the bitsphere frontier are great, but it is a place of new opportunity and hope" (p.173). Seizing these prospects however require smartly designed efficient tools and a certain level of consensus between agents of this new environment about responsibilities.

#### **1.4.2. Building Trust: Uncertainty Management as a practical tool**

The approaches to trust in the previous section can be combined with a practical elaboration of uncertainty management theory in interpersonal- and

intercultural communication studies that can be beneficial in assessing sharing eco-system rising on the internet that poses new uncertainties. Both Giddens' and Luhmann's works on trust carry similarities with of Berger&Calabrese's (1975) Gudykunst's (1984, 1988) frameworks for uncertainty reduction.

Giddens (1990) for instance advocated a view of trust as something to be engaged in by the persons through a "mutual process of self-disclosure". Similarly, while Luhmann in his approach to complexity spoke of "reducing complexity" as it can never be fully eliminated, Gudykunst also relied on a need for "reduction" rather than a full removal of uncertainty. Nor did Nissenbaum believe in such an environment where full elimination of uncertainty and coverage of risks meant safety which evaded the need for nourishing trust altogether. This study will utilize communication theory of uncertainty reduction and management, with a focus on self-disclosures, for obtaining a methodological qualitative screening on platforms' performance in offering such an environment encouraging trust building.

The starting point for Gudykunst's AUM Theory is Berger and Calabrese's (1975) "uncertainty reduction theory" which was formulated as capturing the means to cope with the uncertainty pertained in interpersonal relations. The theory proposed that strangers try to predict others' behaviors by attempting to reduce uncertainty, based on several factors such as "amount of communication, nonverbal affiliative expressiveness, information seeking, intimacy level of communication content, reciprocity, similarity, and liking". Individuals were suggested as using three main tactics which generally included observation ("passive"), active information seeking and "interactive" tools (Gudykunst, Ting-Toomey, & Chua, 1988, p.22). Clatterbuck (1979) also supported this view, emphasizing that people collect information and uncertainty decreased until it became sufficient for decision making (p.148). Uncertainty reduction theory implied that only when uncertainty is diminished to a certain threshold, "understanding" and a responsive action can materialize.

The assumption that drives AUM theory is that anxiety and uncertainty (AU) management suffices for effective intercultural communication (Gudykunst,

1998, p. 228). Gudykunst (2004) defined “effective communication” as entailing the closest overlap that may occur between the interpretation of a message by a person and the meaning intended by the person transmitting the message (p. 28).

In Gudykunst’s AUM model, next to the cognitive notion of “uncertainty”, the effective notion of “anxiety” is added, described as the “tension, feelings of being uneasy or apprehension strangers have about what will happen when they communicate with hosts” (1998, p. 229), inspired by Stephan and Stephan (1985). Gudykunst and Shapiro (1996) in fact found uncertainty and anxiety to be higher in intercultural encounters than in intracultural dialogues (p.39). Cultural practices and filters that may lead to diverging interpretations of a common experience of individuals from different cultures are usually considered to be originating from differences in cultural backgrounds that Gudykunst regards as mainly individualism-collectivism and uncertainty avoidance – major dimensions of cultural variability in Hofstede’s (1980) categorization (p.237).

According to Gudykunst, when AU falls between the minimum and maximum thresholds, people find the motivation for effective communication in intercultural encounters. In situations where AU is below or above thresholds, people deduce messages based on their own cultural practices –Gudykunst (2004) calls this “automatic pilot” (p. 11) – and classify new people based on existing categories in their minds. When these pre-existing filters cannot capture new people from different cultures with their own unique set of experiences and cultural filters, people have to be open to new information and put new information into new categories, also being aware that there may be multiple views on a subject. These three key aspects form what Langer (62) called “mindfulness” and Gudykunst also integrated into the AUM framework in 1993.

## **1.5.KEY PLAYER IN TRUST FORMATION: PLATFORM**

Throughout this study “platform” is particularly used to denote online sharing economy sites or applications that allow peers enter into usually an economic exchange. The shared quality of these sites is that they facilitate

meeting up with like-minded strangers, matchmaking between one in demand and one in supply. Before going into the discussion of this kind of sharing economy platforms, it would be useful to remember early collaborative platform examples. Although they present a different kind of exchange with cooperation in rather creative processes, their distinguishing features shed some light on the first original collaborative practices online.

### **1.5.1. The early examples of “collaborative platforms”**

Webster dictionary example is a good early signal on the power of an online collaboration in reforming or transforming existing texts. Project Gutenberg that made it possible is itself a volunteer effort initiated by Michael S. Hart and solely dedicated to carrying the paper-printed works to digital archives, which was done until the 1990s manually by an expanding network of volunteers. Their endeavor was based on the use of ARPANET that involved collaboration at its core and led to a digital archive of nearly 48,000 items as of January 2015.

The precursor ARPANET (Advanced Research Projects Agency Network) was created in the early 1960s with the intention of bolstering “communication and collaboration” between scientists and companies that worked on research and development related with government works as mentioned by Laurel (1991, 2013). Before ARPANET the earliest modern forms with various users entering into interactive conversation go back to Bulletin Boards. For instance, the Community Memory Project in Berkeley that Lee Felsenstein developed in 1973 functioned like a physical bulletin board system (BBS) and worked electronically. Similarly, “Usenet” initiated at Duke University in 1980 facilitated “threaded discourse” among interactors. PLATO system offered a combination of both “multiplayer fight and maze games” along with synchronized chatting, messaging and “multi-person forums” (Laurel, 2013, p.115).

While some of the early examples of bulletin boards were not truly mediated, it was common to have a system administrator or mediator later on as in Usenet, who acted as a filter against inappropriate comments and threads. Laurel

highlighted that users needed to discuss various stuff in Usenet and with the establishment of a BBS or Usenet forum or discussion group, they found the means to mobilize such content freely except parts rejected by the moderator: as the systems expanded in sophistication and interaction, the intermediary role began to require higher involvement in “governance, setting or enforcing policies” including “censoring” (p.115) In the second half 80s, John Gilmore and Brian Reid formed the alt.\* (referring to “alternative”) hierarchy as a reaction to the restructuring of Usenet towards increased censorship on certain topics.

Another case of BBS was the WELL (Whole Earth’Lectronic Link), established in 1985 by Steward Brand and Larry Brilliant, and catered to a smaller community of “digerati” as Laurel tagged. In contrary to the other BBS cases WELL necessitated its elite users to post with their authentic names rather than anonymously. WELL, that still is up and running for 33 years now demonstrated actually an interesting showcase in terms of the ownership structure of a sharing site where eleven users with about 20 years long membership bought the site ultimately in 2012 from the previous owner Salon Media Group.

A more developed version of BBS appeared in 1986. “Habitat”, whose first prototype was launched by F.Randall Farmer and Chip Morningstar at Lucasfilm, offered a network of chat rooms and facilitated community interaction as WELL or Usenet, however, it was promoting a different approach and taking the world as a place for entertainment. With selected “avatars” like of today, Farmer and Morningstar (1991) aspired this to represent cyberspace in their understanding defining it as a “multiple-participant environment”. Habitat as “a graphical virtual community” was both a successor of the forum and a “pivotal precursor” to online – multiplayer games and communities encompassing wikis, blogs as well as “social media” with a mainly “experimental” motivation, although the real drive was “to create a ‘product’ for Quantum Link” (Laurel, p.120-121).

Somewhat different type of interaction also took place in computer-supported collaborative work or writing (CSCW), with the goal of letting people cooperate on specific matters. As Maco Hill (2003) described, most CSCW

produce a particular type of text or document, which is usually in form of hypertexts and electronic documents, and the output usually mirrored the creation process behind. The mediator role in these platforms prioritized the creativity rather than censoring. In compartmentalized collaborative works such as for example newspapers, however, the role of an online editor as mediator was also important who sometimes had to recreate the texts to form a more coherent structure. A structure which supports cooperation can enable the formation of sizeable and “highly integrated documents” while endowing the creators with autonomy “to control where, when, and where and when not to structure and compartmentalize” (Hill, 2003, p.43).

Maco Hill also investigated the CSCW in terms of the collaborative needs and the size of the control, emphasizing the latter as a major determinant of the shape of collaboration: “it is control—articulated technically as design decisions—that defines and limits the nature of collaboration” (p.41). In terms of technicalities and the design process, the shape of the collaboration would have to be in line with the desired level of relationship between the reader and the author and between reader and the text.

CSCW systems often categorized the users in the reader, author, editor, or administrator type of hierarchies, however, what distinguished an author from an editor are not easily governed software decisions, and assignment of some sort of leadership role becomes usually preferred to maintain coherence in the text. Yet it also appears that the larger the control of the original document owner (primary author or initiator of the task or document) is, the lower the amount of the resulting collaboration from others can become. In certain systems, we can acknowledge that higher participation is facilitated by the elimination of hierarchies (peer-editing). Maco Hill highlighted that this mode of participation becomes more favorable for increasing the impact of collaboration as well as it is also technically easier to perform.

Open access on the Internet allows for a wide diversity of cultural, intellectual, and ideological viewpoints to shape a text. This type of unmediated and uncontrolled access, and the resulting lack of

explicit hierarchies in similarly "anarchic" systems, is popular in part because it is easy to implement technically (Hill, p.45).

The first hypertext CSCW system, Xanadu was created by Nelson (1960) and carried the objective of creating “a magic place of literary memory and freedom, where nothing would be forgotten” (Xanadu History). Nelson (1981) saw literature through the lenses of a constant interconnection and interactivity between different texts. With such a view, Xanadu allowed linking documents, modification and reuse of texts through hypertextual quote linking or windowing, while also preserving the primary author’s intellectual property despite sharing control over its content. In this CSCW, the reader-writers could recreate their own versions of original texts through changes in original documents, while copyrights were still enacted and co-creation also became possible in a pioneering way: “Documents might be nothing but collections of windows to other documents forming a sort of collaborative literary collage” (Hill, p.58)

It is worth noting that Nelson expressed the intention behind Xanadu “as a system for selling data online” (Callister, 1995), and not for collaborative writing. Although Xanadu was intended to bring strong functionality and interconnection carrying use of new media beyond a mere conversion of old media, the implementation was not completed and Xanadu is still largely seen as a project. Most recently, OpenXanadu came online in 2014, as a version labeled “a working deliverable”.

A more widely-used collaborative system than Xanadu emerged in 1995 under the name of WikiWikiWeb by Ward Cunningham – who framed the system as “the simplest online database that could possibly work” (What is Wiki). He pioneered the “wiki” system that paved the way for various adaptations. The system could definitely work, and similar to Xanadu’s constant refilling of contents under hyperlinks, Wiki system also allows a dynamic collaboration process, yet in a somewhat different way than its predecessor, the web tool facilitated collaborative revisions, expansion and general editing of content and format only by altering earlier versions of edited content. Also, the revised texts do not preserve the individual authorship as in Xanadu but make the content like a

common property of the World Wide Web or the community using it. In terms of control, Wiki established a rather free and democratic collaborative environment with only some limited form of user hierarchies. As Leuf and Cunningham (2001) stated: “Wiki is inherently democratic—every user had exactly the same capabilities as any other user” (p.17). Still, the role of a set of administrative users is usually defined with access to some extra functions.

Wikipedia as an example of a platform primarily maintained by the user community without a need for a middleman function will be briefly discussed as an alternative form of a sharing environment in Section 5.2 (p.241). The users in the platform act like the middleman themselves in both creating, editing and reading the collectively created content. However, the most general form of sharing economy platforms utilizes an intermediary role, a platform that moderates to various degrees, learns and builds its character gradually.

### **1.5.2. Intermediation role & trade-offs in trust-building**

Botsman and Rogers (2010) advocated that the middlemen role as the “actor in-between two other actors” is eliminated by collaborative consumption (p.92). According to the scholars, the intermediary is now needed only as a provider of the “right tools and environment for familiarity and trust to be built, a middle ground where commerce and community meet” (p.92-93). They placed the notion of “interpersonal trust” as a self-sufficient natural evolution, which with right tools on site enable strangers with the capacity to build trust where the online site acts as a facilitator for trust-building. Regarding trust as the “currency of the new economy”, the scholars call the ticket to trust and sharing economy “reputation capital”, with a history of traces of our credibility as a participant in the sharing eco-system being a valuable information for the formation of trust (p.218-219).

Robert Putnam (1993) earlier had considered trust as “social capital”, too, pointing to a fall of social capital in American society (p.169). In Nissenbaum’s (2003) words, “with each trust-affirming action, trust accrues in communities as

capital, to stabilize, to exert control, and to induce cohesion and solidarity...” (p. 139). As trust only is sustained through repetition, actions must continue to revoke trust so that it can accumulate as capital as denoted here.

Keymolen (2013) accurately considered this focus on only “interpersonal trust” leaving out the technological complexity, as one-dimensional, and attempted to integrate Luhmann’s concept of system trust into the interpersonal relations prevalent in online sharing economy as “interpersonal system trust” (which I also adopt in this study but also interchangeably use the term as peer trust). This gave an equally important role to technology in influencing trust links even between individuals (p.135). With technology and the internet introducing new complexities to the whole interaction map, the scholar argued that neither interaction nor trust remains interpersonal only. Beside trust in the other users, trust in the intermediating platform cannot be left out from the web of interpersonal trust; hence functioning of platforms become critical for the construction of trust that goes both ways: interpersonal trust and system trust. Keymolen interpreted that Botsman and Rogers’ attempt of almost fully eliminating the role of middleman is not compatible with something bigger in the making. This view is in line with the position this study takes on incorporating the system trust and expert system notions of Luhmann and Giddens respectively.

Molina and Romero (2009) dwelled on an “experience-centric network” reference framework, from which some analogies can be drawn towards sharing economy platforms which genuinely grow on user interaction and community (p.11). Trust-building can only be maintained when the results confirm the faith put in the interactions or transactions as promises are delivered bilaterally. “Virtual interaction” and delivering promises feeds trust building (p.14), which is also in line with Latane et al. (1995). The scholars also took inspiration from Mezgar’s (2006) study that considered trust as the “glue that holds and links organizations and customers together, making possible the process of value co-creation. Trust is the atmosphere and the medium in which customers and organizations are dialoguing”. (Mezgar, 2006).

Following their study in 2009, Molina and Romero (2011) applied DART (Dialogue, Access, Risk Assessment, and Transparency) framework of Prahalad & Ramaswamy (2004) to the concept of co-creation that engages customers alongside companies. According to scholars, “technical and social infrastructures (e-platforms and virtual communities)” should be effectuated that permit consumers to “co-construct experiences they value, and represent business value for organizations” (p.15). The scholars considered the restructuring of roles and relations among the contributing drivers where the key strategic task for activating this new form of value co-creation was “collaborative networked environments” (p.3). Here, the “quality of co-creation experiences” would depend on interaction in the “experience environment” and the responsiveness of agents to each other.

With “dialogue” between consumers and companies a “shared understanding” can be maintained. Providing “access to knowledge, tools and expertise” makes consumers able to build their own “experience outcomes” and become half-owner of the created value. This way “risk assessment” takes into account demand for more awareness on “potential risks of goods and services” as they co-create “the value”. Yet, this will also require the consumer/producers to share the responsibility for handling these risks, too (p.15). This co-creation hence comes with co-responsibility and therefore the customer would require more transparency to get engaged. This view is not far from Giddens’ elaboration on the responsibility which in many instances of manufactured risk may remain unattended. Proper dialogue channels between a platform and its value creators, as Molina and Romero argued can become the key to making a common understanding of sharing economy platforms as well.

Kim and Park (2013) who analyzed social e-commerce sites find that “reputation, size, information quality, transaction safety, communication, economic feasibility, and word of mouth (WOM) referrals” are significant factors in building trust in social commerce sites (p.328), where “social commerce” is defined as a category of e-commerce that relies on SNSs to increase interaction between users as a facilitator of online shopping (p.319). In another study analyzing virtual working environments that are based on repeated actions,

Jarvenpaa, Knoll and Leidner (1998) focused on team interactions and found that (1) proactive style of actions, (2) work-focused interactions, (3) optimistic team-spirit, (4) dynamic leadership, clear roles and objectives, (5) frequent interactions, and (6) immediate feedback can ease formation of trust (as cited by Romero and Molina, p.14). Among these factors, clarity on roles and objectives, frequent interactions and immediate feedback channels could be taken further as a source of reflection on sharing economy platforms' trustworthy functioning and their performance for uncertainty management efficiently leading towards trust building.

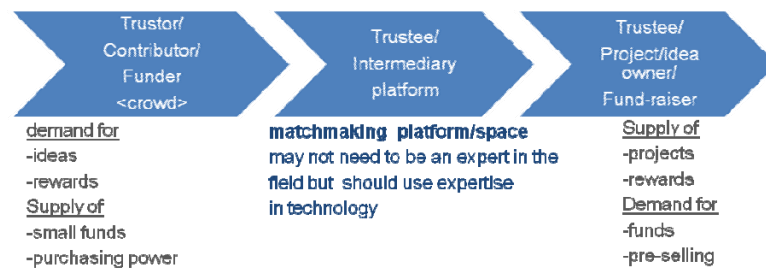
Some scholars have addressed the role of "service firms" of a network as "orchestrators" (Iansiti and Levien, 2004 / Ordanini et al. 2011). This orchestrator role does not require a direct expertise in a domain as Bhattacharjee (2002) would advocate. Analyzing three crowdfunding platforms, Ordanini et al. (2011) found that firms serve as a typical "network orchestrator" in that they do not execute specific activities, but create the necessary organizational systems and conditions for resource integration among other players to take place (p.463). With "modified intermediation functions" selected crowdfunding service firms function as "resource integrators", designing an infrastructure that enables interaction among the "value co-creators" (p.463). However, for instance, investment-based crowdfunding platforms such as Crowdcube or Zopa with extensive Risk Management and Due Diligence approaches that will be discussed in Section 4.3-4.4 (p.200-230), are found to rely on filtering investment opportunities to ensure credibility based on their domain expertise (here: financial expertise, Crowdcube Due Diligence). Therefore, although theoretically, it could be possible, Ordanini et al.'s network orchestrator role may be in practice rather relevant for reward-based crowdfunding platforms.

In a fluid- and high-pace setting, the sharing economy platforms face a trade-off in where to settle the balance in building an environment that affords trust-formation in a maintainable path (Figure 1.1). On the one end of the scale, there could be the application of p2p Open Source ideals with more democratic and horizontal access like in Wikipedia that sets only ground rules for the

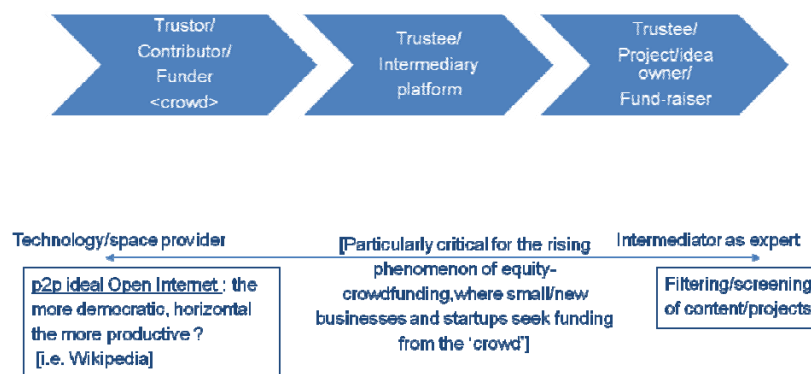
community to self-check and self-govern itself, without platform management directly filtering the upcoming content. On the other end, a more thorough filtering and screening system can be implemented to create a selective marketplace, such as for instance in equity crowdfunding models where the site with a Due Diligence approach screens startups or existing small to medium companies eligible for raise funding from the crowd for shareholding in their enterprises (Figure 1.2).

Nissenbaum’s (2003) elaboration on “securing trust online” with an emphasis on trust versus security can be also representative for securing trust in sharing economy as she asked what the level of security characterizing the online world should be: “– a virtual Singapore or, say, a virtual New York City – should be a matter of full and deliberate consideration...that cannot be merely based on certain technological imperatives and hasty policy choices” (p.162).

**Figure 1.1 Relation between trustor & trustees in crowdfunding**



**Figure 1.2 Potential spectrum of intervention by intermediary platforms**



At first glance, an online sharing platform creates an environment that imitates the offline space; let's call it the "street" that can act like a marketplace. However, this is not the end but the beginning of the story. It designs a space in which users can be filled with useful bits of information about strangers that they cannot normally access if they just met on the street. All this happens in a timeframe, much shorter than the pace that would normally be possible on the "street". In the initial phase, it is actually the platform that poses the questions which every user willingly responds to because they have to earn trust of potential peers for an exchange. The scope of questions can be so much richer than the street meeting can cover in the same bit of time thanks to Internet's qualities for participation (as mentioned in Section 1.3, p.21-25).

Accompanied by a "willingness to trust", the curiosity about the credibility of a stranger becomes a norm rather than unwarranted skepticism (which may happen on the "street"). The stress of uncertainty- reduction and anxiety management – as elaborated in Berger and Calebrese's (1975) and Gudykunst's (1988) frameworks (Section 1.4.2), respectively– in the initial moment is transferred from the stranger to the platform and to its tools in managing uncertainty. In turn, resources of the interface in collecting valuable information are transferred back to the users who can claim the ownership and hence the responsibility of their own decision-making about a stranger. The capacity of the design in providing enough support to the users in reducing uncertainty about strangers becomes essential in leading to increased interaction between users as well as efficient functioning of the basic premise of the site.

### **1.5.3. Platforms' key premises in uncertainty intermediation**

For an efficient intermediation, the platforms need to absorb enough information from users and make these available on an organized and user-friendly fashion for agents to manage uncertainty and find a healthy environment for trust formation. This kind of intermediary function requires fulfillment of several fundamental premises, which we can outline as: (i) scope of initial

information set, (ii) design of the interface and its informative content, (iii) secure infrastructure, and (iv) finding its sustainable platform spirit and vision.

The first premise involves building enough layers through which access to information can materialize are multifold. It can happen through built-in sets of information directly on the platform or direct links to peers' social network sites (SNS) accounts. User profiles that demonstrate enough of points that can be filled by the users is a critical attribute that can be utilized in a very simple way. In sharing economy platforms, usually the filled in information is not only provided in terms of personal details but also the features of the shared object or project come in.

It is not only enough to let people upload bulks of valuable information, it is also critical that viewers of the site can easily navigate through the site and benefit from the provided information sets through a user-friendly design. This requires the site to make navigation and reaching to critical information including its policies, definition of its own roles and responsibilities and platform fees as undemanding as possible. Hence, both the content and the design of the whole platform can contribute to creation of a place that resembles meeting on the street but is furnished with richer information available at hands. The online site in that sense represents a much larger space where offline encounter becomes like only a subset of the whole system and may never materialize too.

Cicognani (2003) elaborated on how architectures can apply their valuable knowledge as the experts of "real" space design to creating "virtual" places that are well-organized for facilitating communication and interaction. Citing William Mitchell, she argued that "architects" can come up with methods for "integrating our new cyborg bodies" into the cyberspace that has become "cities of bits" (p.100). With their "protocols" computer networks offer a suitable field "for implementing 'electronic' places" that enable "communication and collaboration among participants": "A well-designed information map, as a well-designed place, makes the space more comfortable, easy to access and navigate, and thus better for users and those who maintain (update) information" (p.103-104). Mitchell (1998) in his own work "City of Bits" underlined the "Darwinian"

qualities of the “information ecosystem” that lead to “endless mutations and quickly weeds out those no longer able to adapt and compete” (p.4).

In that respect, the performance of platforms as key players of sharing ecosystem would likely go through continuous transformation in their learning curve as well, where some of them would be naturally eliminated. How these platforms would survive through – and share their experiences along this curve would be of critical importance. What usually is omitted from trust works in sharing economy is the ability of a platform in building a self-explanatory presentation of the platform’s functioning, its intermediary role and filtering scope. If presented and sustained well, the dialogue of a platform with its community without omitting the learning experiences that necessitate changes and updates is critical for trust to be nurtured vis-à-vis the platform, too. User-friendly transparency not only on users but also on the dynamics of the space itself is a prerequisite for maintaining trust in sharing economy platforms. This will be further discussed in Section 3 and 4.

Building an informative setting that is transparent where needed, is an important piece of the puzzle of how the platform can contribute to peoples’ management of uncertainty and building of trust to share and collaborate with strangers through an online platform. Yet, another significant attribute is the users’ need to feel confident in the platform’s proper functioning, privacy and security tools, hence protection of the personal information that needs to be confidential. The platform on top of its need of furnishing enough transparency for facilitating uncertainty reduction and user activity, it is also required to establish a safe enough website that can handle issues like data theft. This secure infrastructure that appears as the prerequisite of the sustainability of the user activity, is a technical component of platform’s responsibilities. The capability of a platform in presenting this and similar representation defining what its middleman function covers in terms of technicalities in its Terms of Use would be a precious contribution to evoking trust of its users.

All the users of social sharing and collaborative consumption platforms inherently carry a willingness to trust strangers which also becomes the basic motivational spirit of the middle-men platforms that bring strangers together.

Willingness to trust of agents becomes a key driver on its own for the sharing ecosystem to function, hence a key addition to the drivers elaborated in Section 1.2. There is certain circularity in the existence and operational sustainability of these sharing platforms and the sharing practices they facilitate. If there is no willingness of users to trust strangers, these platforms would lack the basic ingredient to operate. If these online sharing platforms did not exist, then people willing to share with strangers would not find enough means to trust strangers. Users who could be suspicious about a standalone user profile disassociated from a sharing platform choose to rely on a sufficiently scaled platform's capacity to filter fraudulent acts and choose from different profiles to share with. This brings us back to the question of how well this willingness to trust is deserved by the platforms.

## SECTION TWO

### 2. A PYRAMID OF TRUST

#### 2.1.A MULTI-DIMENSIONAL METHODOLOGY ON TRUST

This research blends and builds on previous studies on trust, primarily Giddens' (1990) abstract system approach that focused on expert systems (see Section 1.4, p.32-38) and Nissenbaum's (2003) framing of trust online as "securing trust versus nourishing trust" (see Section 1.4, p.28-32), along with Bhattacharjee's (2002) trust in online exchanges with attention on ability, integrity and benevolence of sites (see Section 1.4, p.27), and Rempel et al.'s (1985) view on trust in interpersonal relations that differentiates between trusting one's actions versus character with the interest progressively turning from the first into the latter (see Section 1.4, p.25-26).

In applying these trust perspectives from multiple viewpoints varying from sociology to psychology and information systems, this study benefits from interpersonal and intercultural communication theories; Berger's (1975) uncertainty reduction (URT) and Gudykunst's (1985, 1988) uncertainty and anxiety management (AUM) frameworks respectively. The uncertainty management angle provides the necessary means to examine the sharing economy platforms' performance in trust building vis-à-vis a concentration on self-disclosures and information-seeking practices of agents –where agents cover both the peers and the platforms. URT had proposed seven main parameters for managing uncertainty in developing relationships, among which self-disclosures and information seeking acts (alongside "verbal communication, nonverbal warmth, reciprocity, similarity and liking") offer the essential ground for an online platform's uncertainty reduction ability.

Treating uncertainty management procedures as a tool for analysis, this investigation also becomes the first comparative and comprehensive study on trust across multiple sharing economy platforms. Only a few studies dwelled on trust in sharing economy, mainly Botsman and Rogers (2010) mentioning "interpersonal

trust” online as imitating the conventional forms of trust relation between individuals and Keymolen’s (2013, 2016) “interpersonal system trust” notion which inspired by Luhmann’s conception of system trust (1979) advanced Botsman and Rogers’ tackling of trust in collaborative consumption only in interpersonal perspective. In this research, I aim to cover not only trust between peers, which is envisioned as interpersonal system trust as a result of system influence as suggested by Keymolen but I also introduce “platform trust” denoting confidence in a particular platform as in Giddens’ expert system approach. Both interpersonal system trust –which I name from now on “peer trust” – and platform trust appear as fairly intertwined in our inquisition.

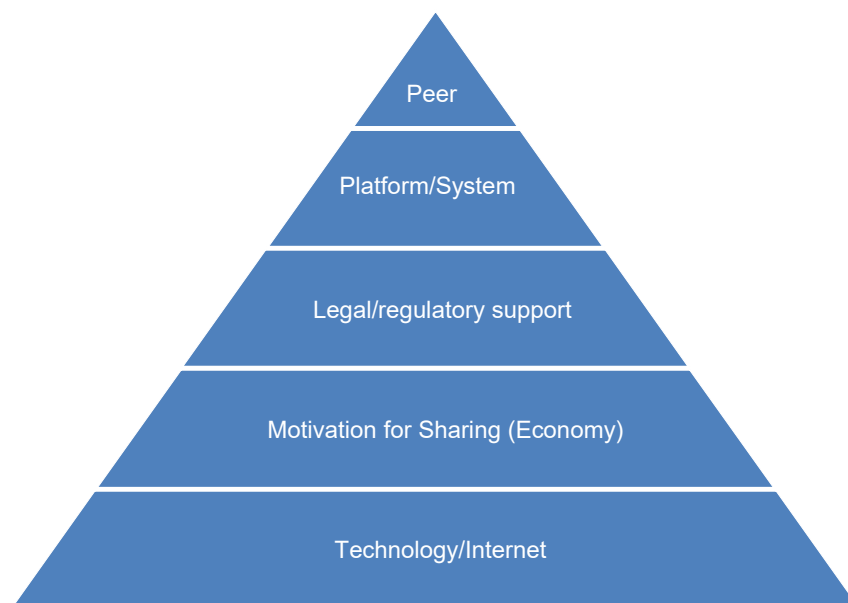
These two levels of trust are the most critical layers of trust-building that can be directly afforded by the platforms and are also important for the sustainability of the sharing eco-system. Another novelty of this study is also that it proposes a “pyramid of trust” for sharing economy that attempts to capture the most vital components of trust building. In a complex environment where sharing economy platforms operate, trust is not one dimensional and the suggested pyramid denotes that for sharing eco-system to operate on a sustainable path and fulfill the potential antidote role vis-à-vis the consumerist economic model, trust in these layers have to be sufficiently fulfilled.

In particular order from the bottom to top the envisioned dimensions of the proposed pyramid are: (i) trust in the internet, (ii) trust in the philosophy/motivation or meaning (interchangeably used) for sharing (economy), (iii) trust in the legal/regulatory support for sharing economy, (iv) trust in the platform/system, (v) peer trust or interpersonal system trust (as shown in Figure 2.1). Actually inspired by Giddens’ abstract system approach, this pyramid includes several different abstract systems with the Internet at the bottom, the regulatory environment for sharing economy in the middle and the platform trust at the top following which trust between peers comes into play.

The layers of this proposed trust pyramid are structured as such that for trust-building to take place at a particular level, confidence in the preceding layers of the pyramid is assumed as pre-requisite. For us to speak of peer trust, the trust

in the abstract system of a sharing economy platform –platform trust – has to be there beforehand. An example is provided here to clarify how this pyramid is thought-out: even if not deliberately calculated, a user of a sharing economy platform is supposed to have confidence first in reliance on the Internet, secondly in the meaning and motivation for sharing economy and afterwards in regulatory support for the system in question, and finally trust in a particular sharing economy platform, all of which ultimately lead to room for trust-formation in peer trust level. If for instance, platform trust is challenged, then the lost confidence may erode willingness of users to establish peer trust as they would have already left using the platform in question. Also when this occurs, a user may turn to the background regulatory system for resolving disputes which also would provide a set of “access points” of Giddens’ framework that may pass or fail the test of trust.

**Figure 2.1 A pyramid of trust for online sharing/collaborative platforms**



Users may not think deeply about the credibility of these background systems but they inherently act on confidence or a leap of faith in them that yet can easily be shaken. Of course, the layers denoting the background systems can be amplified, for example, incorporating “trust in payment mechanisms” like PayPal –a discussion on which will follow in Section 4.1.6 (p.158). However, this

research, for now, puts emphasis on the chosen most fundamental layers relevant to trust in sharing economy.

As abovementioned, the focus of this study will be particularly on the most imperative levels of trust-building that can be managed by the platforms directly and are important for the sustainability of the sharing eco-system, which are (iv) trust in the platform/system, (v) peer trust (interpersonal platform/system trust). Yet as explained, in the trust equation of the sharing economy there is not one “trustor” and one “trustee”, but various including regulatory initiatives. Since this study focuses on the layers that the platforms directly influence themselves, the number of trustees at the center mainly becomes two: peers and the platforms. Sharing economy agents need to manage uncertainty regarding both their peers and the platforms they choose to transact with.

Although focusing at the top two elements (the platform level trust and peer trust), this perspective also inherently takes into account potential challenges in the regulatory support (third layer) or motivation and philosophy for sharing (second layer). For instance, if a user observes a legal problem related with a sharing economy experience – say concerning the use of Uber in a city where there is a clash with regulatory authorities, this user may refrain from using the sharing economy platform by considering it too risky. Similarly, a negative perception about sharing economy platforms in general – for example, worries that some platforms may be exploitative of users’ resources in their revenue sharing mechanisms– may erode trust in the meaningfulness and motivation of sharing in that environment overall. Although these attributes are crucial for a holistic trust building, these are left in the periphery of this study for further examination in a separate research.

### **2.1.1. The selection of focal units of study**

All the emerging models mentioned in Literature Review, from collaborative consumption to crowdfunding, contribute to the formation of a sharing eco-system, where the role of the platform becomes essential in enabling

trust-building and uncertainty reduction through giving enough tools for sustainable functioning of sharing activities. Whatever the purpose of a sharing platform is, whether letting people rent their spare room at home or contribute a small fund for a creative or commercial project to strangers, the ability of the site in absorbing and presenting well-serving information about key data points within a secure infrastructure becomes the capacity of peers in finding and filtering valuable inputs about both peers and a platform they consider making a sharing act with, be it online or offline.

The middlemen, as the creators of the space of interaction between peers, become the most important actors of the formation of trust and hence proper functioning of the sharing eco-system. They craft the criteria and the grounds on which peers can come to terms with sharing certain tangible and intangible information with basically strangers they usually have no idea about their credibility. This way the platforms fulfill their premise of intermediation properly.

Gudykunst's theory of intercultural uncertainty and anxiety management can be carried toward an investigation on trust building in sharing economy platforms, which usually operate in global settings bringing strangers from all over the world together for a kind of online and offline sharing practice. Gudykunst's original approach on intercultural settings would imply for an online sharing economy platform a necessity to introduce an acceptable scope of uncertainty reduction tools for peers even to start using a platform and building communication with other peers. This would be the key ground for starting to form the trust. Continuous efforts and consistency in keeping uncertainty at an affordable level in the system can contribute to a gradual move from a leap of faith to sustained and deserved trust.

Uncertainty reduction theory of Berger, as well as Gudykunst's AUM, although originally focused on interpersonal relationships, they are widely applicable to every sphere of life where communication between different parties is possible. Hence this study executes this framework in apprehending the trust formation processes prevalent among the users of an online platform and the platform itself, which we can personify as well. Not only peers in a sharing

economy platform are strangers to each other, but also an online platform is a stranger to users. Therefore it needs to develop and demonstrate a character through consistent acts of ability, integrity, and benevolence as in Bhattacharjee's standpoint. On top of this, the whole peer-to-peer involvement with strangers formulates a new cultural code around the sharing practice. In this respect, this study also attributes also a novelty to the culture of sharing economy platforms and practices, a complexity and uncertainty per se that needs to be managed.

Using online participant observation and comparative case studies, different types of sharing economy platforms' trust-building mechanisms are analyzed in view of the proposed multi-dimensional trust pyramid. This analysis will be used to contribute to understanding on how the middlemen function in different parts of the sharing eco-system can effectively nourish trust building through enough tools and transparency for uncertainty reduction.

With the described outlook benefiting from the basic requirements of uncertainty reduction as a mechanism in trust building, this study forms the first attempt on investigating a set of sharing economy platforms' performance on reducing uncertainty for trust formation. This qualitative analysis utilized the methodology of an online archive research using online participant observation and comparative case studies on selected sharing economy platforms, primarily crowdfunding platforms. The query rests on an examination of online research materials that are publicly accessible on platform's websites mainly covering platform disclosures and user comments along with news reports available at third party sources. All of these three sources are researched and interpreted at the own habitat of sharing economy, the Internet where sharing economy practices take place or at least become initiated.

The inspected platform resources include mainly site principles covering Terms of Use (ToU), Privacy Policies and additional terms like "community guidelines", founders' or management statements and announcements, resources like "frequently asked questions" and feedback to users on the site at multiple access point as Giddens would call them as well as the general design, accessibility, and consistency of information across various data points,

examining the openness and user-friendliness of their policies and disclosures, and dialogue with the user community all of which contribute to understanding the level of transparency platforms convey.

Overall these attributes are examined for understanding platforms' endeavors to level playing field for users' trust in their operations and in other peers. This study as an effort to observe the ability of selected sharing economy platforms in building a sustainable environment for trust formation aimed also to find unique experiences of selected sites in their learning curve that posed a potential threat to especially users' trust put in their systems and functioning. Sites' requirements and design of peer disclosures for an open and favorable environment for uncertainty reduction are also scrutinized, which endowed indications on platforms' ability in providing a sufficient scope for peers' formation of peer trust. Secondly, the users of their systems are observed through directly available comments they post on the sites as well as covered in news reports, while the third layer of an archive research on third-party electronic resources included inquiry of informative or commentary news reports, investigative blog posts by experts and third-party interviews with founders and management.

In examining all these pieces the research focused on the publicly available data sources and dissected the visible practices of platforms. In that regard, this study could be viewed as an effort to scrutinize the tip of the iceberg rather than the whole matter relevant for trust, leaving, for instance, the technical infrastructure performance mostly out of the scope of the research. Yet, this approach allowed considerable room for identifying the missing practices of a platform for sustainable trust formation, putting forth and discussing the gaps in their trust forming tools.

The units of analysis as selected crowdfunding platforms are chosen on the basis of their presence as the initial –hence longest-operating – and/or leading example in their field, like Kickstarter or Indiegogo among reward-based crowdfunding platforms, Patreon, Crowdcube and Zopa being the pioneering platforms in membership-based, equity (investment)-based and lending-

(investment) based platforms respectively. The comparison of selected online sharing platforms with a particular emphasis on crowd-funding eco-system also benefited from additional examination of sharing economy platforms other than crowdfunding, Couchsurfing, Airbnb, Uber, Lyft and to some extent Wikipedia in terms of an analysis on their key features that can provide inspiration and some particular comparative reference points for better trust-forming tools for crowdfunding universe. These complementary platforms are chosen based on their coverage of a certain need and uniqueness of their approach or an outstanding feature contributing to a sustainable performance. Their uncertainty reduction tools as means for trust-building are analyzed and certain takeaways from studied cases will be elaborated on.

Particularly because of their aptitude of exhibiting the longest and the richest history both in terms of platform-user community dialogue as well as media coverage and publicity, the reward-based crowdfunding platforms, Kickstarter and Indiegogo are selected as the dominant focus of the study for a deeper exploration (Section 4.1). Also, in view of a review of trust practices, these cases displayed a wider variety of trust inspection points vis-à-vis other types of crowdfunding (donation-, equity-, lending-based). Reward-based crowdfunding is the kind which promises delivery of a certain product or so-called perk, which may vary from special thanks or a signed t-shirt to a real technology product like a smart-watch or a game. It is basically this deliverable “reward” aspect that makes the performance of a reward-based crowdfunding experience in meeting its promises as expected theoretically totally measurable. Patreon, an alternative membership-based model lives on users’ subscription getting access to creators’ works and special content varying from podcasts to movie reviews. Instead of a one-off contribution, subscribers pledge monthly fees –which are also easy to cancel if the content is not in line with expectations or not delivered at all. Transparency on the delivery of rewards is easily accessible. In equity-crowdfunding, however, the contributors are putting their money and trust into a project or company against shareholding with a long-term investment mindset, investing into the possibility of a return without an exact income promised by

project owners. These supporters accept the risks that their money may never yield a return. For these equity-crowdfunding contributors it may take years until their investment by becoming a shareholder of a company they believe in pays off anything if it ever does, therefore an analysis requires a long history. For instance, so far from its foundation in 2011 onwards, the longest-operating equity crowdfunding platform, Crowdcube from the UK had about 12 cases as reported where the contributors/investor realized a return on their investment, however, the data and media coverage has been found limited in these cases.

Lending-based crowdfunding is slightly different because theoretically all loans promise a payback with a specified interest rate and deliver this in practice if there is no default. The biggest lending-based platform, Zopa from UK (Section 4.4) has a well-defined structure where investments are run in a diversified portfolio approach. The lenders are not directly facing the risk of a particular borrower but a mitigated risk of a combined portfolio gathered by the platform itself. Furthermore, lenders could also opt for a “safeguard” option that protected lenders from default cases until recently, which the platform retired in December 2017 when a relevant law was enacted and made the practice redundant.

In donation-based crowdfunding the reward lies in the act of donating and presents a relatively truer gift aspect, giving without expecting anything in return. Although there may be cases where the proceeds from donation crowdfunding are used inappropriately and need monitoring too, the fact that donators do not look for a personal reward makes it harder to judge the success and failure of projects as something that directly affects the donors. Therefore and also due to its relation to a vast literature on charitable giving, the investigation of donation-based crowdfunding examples are left for future extensions of this research. A brief examination of a Turkish donation-based crowdfunding platform Adim Adim based on the charity run concept demonstrated that the platform relies on strict criteria of rules in selecting eligible civic society associations to include for campaigning and requires transparency of the use of proceeds. Hence, the platform undertakes significant effort as a middleman in leveraging the trust in the system.

In addition to the above-mentioned platforms, explorations on two online sharing platforms, which have proven their sustainability considerably on a longer-term, formed one of the essential inspirations for this research as a source of reflection on trust-building between peers. One of them is a study of Couchsurfing from the lenses of AUM that included in-depth semi-structured interviews with 10 couchsurfers conducted during April-May 2015 and an analysis of the site from a gift perspective that is further expanded for this research in Section 5.1. It was observed that interviewed CS members were able to manage uncertainty mainly through the site's rich affordances that allow a multi-layered form of visibility, predictability of behaviors and interaction creating a self-sufficient environment of trust-building that is strengthened by a shared community spirit. A surprise interview with CS' co-founder Casey Fenton has also been completed, when Fenton kindly responded to my interview request.

Another facet of comparison was Wikipedia, a perfect example of a Commons sharing platform that can operate with users regulating each other's inputs without a top-down filtering imposing what can be shared or posted. With a collective body of contributors that becomes like a meta-intellectual, Wikipedia is formed by pieces of an ever-growing community bringing together experts or "expert-to-be"s of certain subjects, where nobody should know everything or enlighten on every subject, yet everybody knows something about a subject, which complements each other like pieces of a puzzle and constitutes an enormous hyperlinked network that both self-polices and creates information on a sustainable fashion. A review of this kind of a self-sustaining expert community will be briefly reviewed (Section 5.2), too.

Last but not least, a significant stimulation on this research and analysis has been my more than a decade-long experience in different parts of finance, mainly covering fundraising through conventional methods like debt financing – such as project financing, bond issues, bank loans – and equity investments and partnerships as well as equity research diving into different growth stories of companies. This exposure to traditional financial markets and methods, both directly carrying the corporate finance responsibility of a sizeable international

holding company from Turkey for five years and being part of an investment bank equity research team for six years as well as working closely with appointed intermediaries in various fundraising deals, following my undergraduate and master studies in economics and finance respectively, furnished me with considerable financial expertise. This expertise allowed me seeing the gaps in conventional financing methods and also probably led to my enthusiasm in the power of crowdfunding in filling these gaps for a finally more holistic and equal-access-favoring funding universe. Looking with such a lens also assists me in exploring the current plus potential outlook of the still shaping crowdfunding universe in assessment vis-à-vis the conventional funding methods.

### **2.1.2. Navigation through the Commonly Used Terms**

“Platform” is quite a generic term that came to be used nowadays in wide contexts as an online site that makes people meet their needs, many times through peers in an online sharing environment. Online platforms range from social media to e-commerce sites as well as sharing and collaboration sites including “pedia”s like Wikipedia and crowdfunding or crowdsourcing platforms such as Kickstarter or Mechanical Turk respectively. Their common denominator is that they enable online interactions and transactions between users that may or may not lead to offline encounters. European Union Commission (EC) mentions the “collection and use of data about these interactions and network effects which make the use of the platforms with most users most valuable to other users” (EC Digital Single Market). Throughout this study “platform” is particularly used to denote online sharing sites or applications, which can vary from Airbnb to Indiegogo. The shared quality of these sites is that they facilitate meeting up with like-minded strangers or matchmaking between one in demand and one in supply.

“Sharing economy” is also utilized in this study as an umbrella term encompassing the different type of p2p sharing activities within the scope of this research. It is far from being an ideal term for every structure, yet it is a wide enough term that captures the spirit of this new alternative p2p model and also the

only term that is contemporarily the most widely used one along with collaborative consumption. As mentioned in Section I, many other terms could be invented that may better suit certain parts of the sharing economy like access economy, peer economy or platform economy.

In every part of the sharing economy that is analyzed, several terms are used interchangeably such as “host” and “guest” in accommodation sharing platforms like Couchsurfing and Airbnb, “editor”, “writer” in Wikipedia to denote the contributing users, or “contributor” and “backer” as two of the commonly used terms in especially reward-based crowdfunding universe. These users are sometimes also denoted as “supporter”, compared with “investor” in investment-based crowdfunding (in equity-based and lending-based platforms) while also project owners that create a project for fundraising are generally called “(project) creator” or “(campaign) creator”. The crowdfunding contribution that a backer provides a project creator with is usually labeled as “pledge” or “support”. Although different sites sometimes choose different terminology such as Kickstarter using “backer” and “pledge” or Indiegogo using mainly “campaign creator” and “contributor”, throughout the study these terms are mostly used interchangeably. Generally, from the perspective of this study, the units of analysis are the trustor and the trustee which for example in crowdfunding example represent the backer and the project creator respectively in peer trust formation as well as the platforms in platform trust.

The next section will provide a comparative overview of selected sharing economy platforms’ performance in terms of providing a certain set of tools and practices for trust formation. The mechanisms ranging from users’ disclosures to platforms’ transparency will be reviewed across all 10 platforms, to be followed by a deeper examination of the five crowdfunding sites that operate in four different categories of crowdfunding. This will take us to the final section, which includes a complementary review of two alternative sharing economy platforms that have risen on a non-monetary trust transaction, Couchsurfing and Wikipedia, both of which benefit from a strong user community.

## SECTION THREE

### 3. COMPARATIVE ANALYSIS OF SHARING PLATFORMS

This study focused mainly on the ability of selected crowdfunding sites, predominantly the reward-based examples Kickstarter and Indiegogo, in presenting sustainable trust formation tools. Five other sharing economy platforms operating outside of crowdfunding have been also reviewed (see Table 3.1). This set includes two accommodation sharing sites, Airbnb and Couchsurfing, two ride-sharing platforms Uber and Lyft and the online encyclopedia Wikipedia. While most of these platforms are monetary transaction-based, two of them, Couchsurfing and Wikipedia are not.

**Table 3.1 Set of sharing economy platforms investigated**

Platform	Made in Country	Born in city	Date	Exposure	Type	Monetary transaction betw. peers	Registered users (~ million)
Airbnb	US	San Francisco	2008	Global	Accommodation/Home-sharing	✓	150
Couchsurfing	US	San Francisco / Iceland	2004	Global	Accommodation/Home-sharing	X	15
Crowdcube	UK	London	2011	UK/Europe	Equity-based CF	✓	0.5
Indiegogo	US	San Francisco	2007	Global	Reward-based CF	✓	10
Kickstarter	US	San Francisco	2009	Global	Reward-based CF	✓	15
Patreon	US	San Francisco	2013	Global	Membership-based CF	✓	2
Lyft	US	San Francisco	2012	US-going global	Ride-sharing	✓	23
Uber	US	San Francisco	2009	Global	Ride-sharing	✓	78
Wikipedia	US	Wales	2001	Global	Online encyclopedia	X	33
Zopa	UK	London	2005	UK	Lending-based CF	✓	0.37

Source: Platform websites (Note: If not indicated separately, information used in the presented tables and figures are researched & collected from the platform websites).

#### 3.1. KEY TOOLS FOR PEER TRUST

Different kind of sharing platforms have similar as well as diverging tools for peers' uncertainty reduction mechanisms (Table 3.2). Collaborative consumption platforms in general and also the ones explored in this study (Airbnb, Couchsurfing, Uber, and Lyft) rely mostly on a dual uncertainty reduction method for formation of peer trust: peer profiles and other users' references address the need for self-disclosures and information seeking behavior of agents in uncertainty reduction framework. On different platforms, one of them

may lead though. For example, in ride-sharing apps like Uber or Lyft, the decisions on picking a ride take instants and the average rating stands out as the dominant uncertainty reduction tool which also usually concerns the quality of the ride and the car.

The Reference section gives peers the space to evaluate, grade and write reviews on each other’s performance on the p2p sharing transaction –that is subject of the trust formation. Co-founder of Couchsurfing, Casey Fenton, called this transaction elegantly a “trust transaction” (Casey Fenton Interview, 2018). The platforms generally let peers’ evaluative information pieces pile up under positive, neutral or negative categories (Couchsurfing) or with 1 to 5-star averages (Airbnb, Uber). With all the references separately accessible, the platforms also show details such as last-minute cancellation records of host or guests in Airbnb or last login date and response rate in Couchsurfing (which shows percentage rate of hosts’ replies to Couchsurfing requests).

**Table 3.2 Platforms’ Uncertainty Reduction tools for peer trust**

Platform	User Profile View	Profile filler questions as guidelines	References by Other Users	Alternative review tools	(messaging) open between users?	User can comment on main/project page	Efficient use of SNS link on profile	User status upgrade
Airbnb	simple	✗ limited	✓	✗	✓	✓	✓	✓ Superhost
Couchsurfing	rich	✓	✓	✗	✓	✓	✓	✓ Ambassador, Pioneer (previous)
Crowdcube	simple	✗	✗	presence of other backers	✗	✓	✗	✗
Indiegogo	simple	✗	✗	presence of other backers	✗	✓	✗	✗
Kickstarter	simple	✗	✗	presence of other backers	✗	✓	✗	✓ x-time creator superbacker
Patreon	rich > x > simple	✗	✗	presence of other backers	✗	✓	✗	✗
Lyft	simple	✗ limited	✓	✗	✓	✓	✓	✗
Uber	simple	✗ limited	✓	✗	✓	✓	✓	✗
Wikipedia	simple	✗ limited	✗	✗	✓	✓	✗	✓ numerous
Zopa	✗	✗	✗	✗ platform collects all the info	✗	✗	✗	✗

While the referencing tool is very essential for collaborative consumption platforms to even keep operating, a similar mechanism does not exist in reward-based crowdfunding platforms Kickstarter and Indiegogo. The sites do not facilitate collection of a track record data on campaign owners’ performance in delivering their promises, so-called rewards or perks. Contributors and campaign owner can post comments on the project page and communicate with each other, yet in popular projects it takes a research to figure out a project’s fate post-funding. With the absence of an organized measure of campaign creators’ ultimate

success in meeting the project goal, the perception of success becomes widely tied to the ability of meeting funding goals in a project (this will be further discussed in Section 4.1).

Crowdfunding sites lack therefore one of the key interpersonal uncertainty reduction tools so widely utilized by the other type of sharing platforms. This difference mainly stems from lack of a routine repeat user in crowdfunding compared to other sharing economy examples. The majority of project creators/owners come to these platforms for the first time and therefore crowdfunding sites, as well as campaign owners, approach fundraising projects on a one-off basis. However, the absence of organized statistics on campaign creators' delivery performance can mislead newcomers in perception of the involved uncertainties in crowdfunding.

This weakness of crowdfunding platforms is lucid and may present a key area for improvement. Moreover, as the operational history accumulates, it is observed that the repeat fundraisers increase in crowdfunding platforms too. In a blog post released in July 2017, Kickstarter revealed that about one-third of project creators were "repeat" campaigners on the site (Kickstarter Celebrating 100,000 Creators). Therefore, collecting information through a carefully designed, sustainable tool on deliveries can become useful in contributing to peer trust formation as well as to better understanding of the pitfalls of crowdfunding.

Within absence of any review tools, a general rule of thumb of success becomes making an impressive and informative online content on the projects usually with video presentation where the owners of a project or company can portray their venture in their own words. As the project is at the central stage, the personal portraits of individuals or the core team behind the idea never really get beyond basic biographical notes. In reward-based crowdfunding sites like Kickstarter and Indiegogo, there sometimes appear the developing team only with a list of names with much more limited individual descriptions and side-information than for instance in Couchsurfing.

**Figure 3.1 Airbnb Profile Description Section**

Describe Yourself

Airbnb is built on relationships. Help other people get to know you.

Tell them about the things you like: What are 5 things you can't live without? Share your favorite travel destinations, books, movies, shows, music, food.

Tell them what it's like to have you as a guest or host: What's your style of traveling? Of Airbnb hosting?

Tell them about you: Do you have a life motto?

Source: Airbnb Edit Profile Page

**Figure 3.2 Kickstarter's Edit Profile Page**

Account **Edit profile** Notifications Payment methods Following

---

**Name**

Your name is displayed on your profile.

**Picture**

Choose an image from your computer

JPEG, PNG, GIF, or BMP • 50MB file limit

**Biography**

We suggest a short bio. If it's 300 characters or less it'll look great on your profile.

**Location**

**Time zone**

▼

Most time zones are automatically adjusted for you. We'll use this setting for emails.

**Vanity URL**

For example, if you'd like your URL to be `www.kickstarter.com/profile/polarbear`, just type `polarbear`! Choose wisely though, once you set your vanity URL, it can't be reset.

**Websites**

Add

Source: Kickstarter Edit Profile Pages

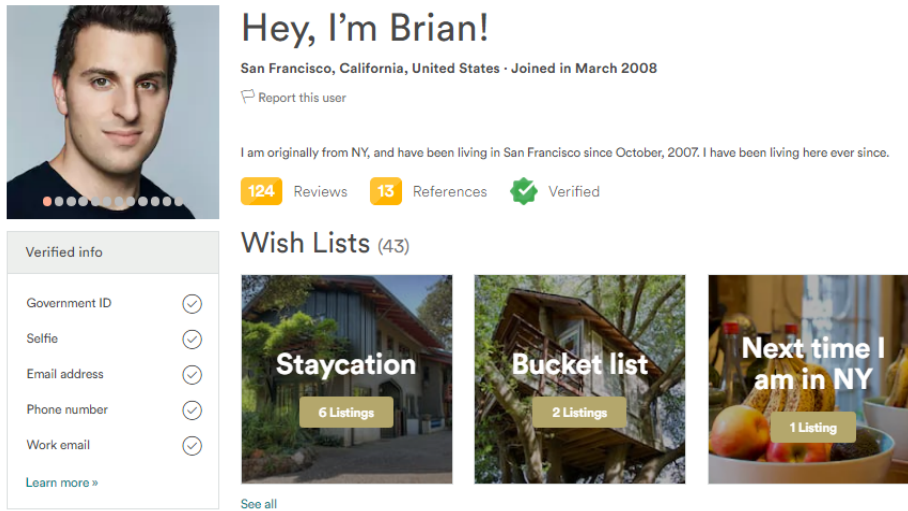
Couchsurfing stands out as the strongest platform in terms of uncertainty reduction between peers with rich self-disclosures on the back of guiding profile page headlines to fill in. These placeholders demand also conceptual information helpful for a user to reduce uncertainty on another peer –also serving as basis for the other key grounds of uncertainty reduction theory which are reciprocity, similarity and liking. CS makes it possible to have a better and holistic impression on a stranger with bits like what is his or her life philosophy or what kind of music or hobbies one is drawn to. The other home-sharing platform Airbnb, on the other hand, demonstrates a simpler format with only a few lines each user puts about personal details (Figure 3.1). Underneath the “Describe Yourself” section of

the profile editing, there are guiding questions like “share your favorite travel destinations, books, movies, shows, music, food” and “do you have a life motto?”, which may be inspired by CS’ questions. Yet, the inspirational effect of these is debatable, as the norm of sharing personal details is not really established. Kickstarter profiles also leave room only for generic information (Figure 3.2).

A valid comparison can also be drawn based on the founders’ profile pages on the platforms. A simple glimpse on Airbnb co-founder Brian Chesky’s and Kickstarter co-founder Yancey Strickler’s profiles on their platforms versus Couchsurfing co-founder Fenton’s profile shows the variance directly (Figure 3.3, 3.4 and 3.5). On CS, co-founder Casey Fenton’s profile is an informative description of himself filled in with many dots of personal details and life view that demonstrate how revealing this station of self-disclosure can become (Fenton CS Profile). Chesky from Airbnb, on the other hand, does not appear as promoting a detailed profile page himself. The same goes for the crowdfunding examples, Kickstarter and Indiegogo, where simplicity of profile pages prevails.

In an earlier study I completed in 2015 –main observations from which will be shared in Section 5.1. – interviews with ten Couchsurfing users supported that these extra personal and private pieces of information were regarded beneficial to users’ selection of hosts and guests based on building familiarity and detecting personal similarities that reduced uncertainty in line with Berger and Calabrese, and Gudykunst’s theories. Providing placeholders on profiles encourages users for sharing more personal details if they want to build lasting connections and also feel part of the CS community. Kickstarter, Indiegogo or Airbnb however, do not give enough encouragement to do so, leading to shallow profile pages that in a way maybe inhibit flourishing of a community spirit too. Although community perception could be beneficial in terms of allowing a sustainable core user base to form on the site, whether these platforms really need such peer familiarity is debatable and will be left out of the focus of the study.

**Figure 3.3 Airbnb Co-founder Brian Chesky's profile page on Airbnb**



Hey, I'm Brian!

San Francisco, California, United States · Joined in March 2008

Report this user

I am originally from NY, and have been living in San Francisco since October, 2007. I have been living here ever since.

124 Reviews 13 References Verified

Verified info

- Government ID ✓
- Selfie ✓
- Email address ✓
- Phone number ✓
- Work email ✓

Learn more »

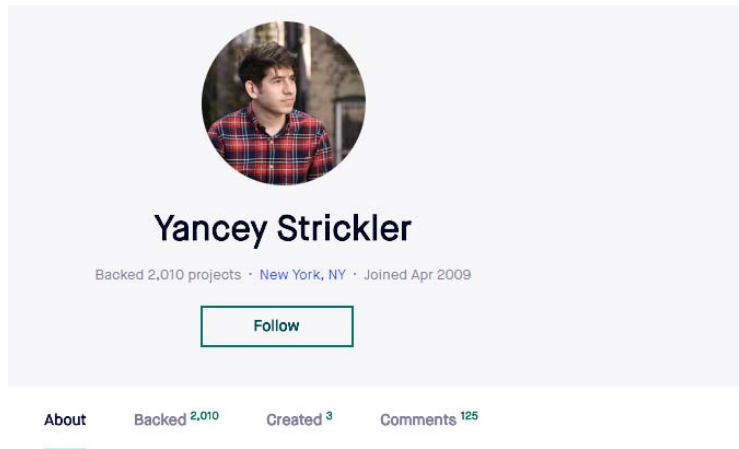
Wish Lists (43)

- Staycation 6 Listings
- Bucket list 2 Listings
- Next time I am in NY 1 Listing

See all

Source: <https://www.airbnb.com/users/show/3>

**Figure 3.4 Kickstarter Co-founder Yancey Strickler's profile page on Airbnb**



Yancey Strickler

Backed 2,010 projects · New York, NY · Joined Apr 2009

Follow

About Backed 2,010 Created 3 Comments 125

3-time creator Superbacker

Hi there. My name is Yancey. I was born in Virginia and grew up on a farm in the Appalachian Mountains.

I cofounded Kickstarter along with Perry Chen and Charles Adler. Since January 1, 2014, I have served as Kickstarter's CEO.

If you want to get in touch you can find me on Twitter @ystrickler

Source: <https://www.kickstarter.com/profile/yancey/about>

**Figure 3.5 Couchsurfing Co-founder Casey Fenton’s profile page on CS**

**Wants to Meet Up** More ▾  
Last login about 1 month ago

**About** My Home Photos **103** References **335** Friends **968** Favorites **1**

**OVERVIEW** ⓘ

335 References ★ 102 Confirmed & Positive Founder Couchsurfing, Adventurer Extraordinaire & Soc...  
Fluent in English; learning English, French, Portuguese, Spanish University of Life  
40, Male No hometown listed  
Member since 1978 Profile 100% complete

**OLD SCHOOL BADGES**

123 Vouches Pioneer Badge Montreal Collective Vienna Collective  
New Zealand Collective Thailand Collective Alaska Collective BaseCamp Collective

#### ABOUT ME

#### CURRENT MISSION

Connect people all over the world for inspiring experiences that create understanding, personal growth and trust!

#### ABOUT ME

I consider myself extremely fortunate to have the opportunity to do what I do. CouchSurfing puts me in contact with some of the most incredible people from all over the globe. I love meeting new people and learning all about their lives and philosophies. If you've ever met me you may learn that I ask a lot of questions! Travel is clearly important to me but it's about more than just getting to see new places and things, it's about making special connections with people who I have so much to learn from. My hope is to keep on traveling to as many diverse places as I can, meet as many interesting people as possible, and inspire others to do the same.

#### PHILOSOPHY

I believe that life is a string of experiences. We can strive for frequent, intense and diverse experiences. In the end, I think this is all we'll have.

#### Why I'm on Couchsurfing

#### HOW I PARTICIPATE IN COUCHSURFING

I helped create CS and I'm proud to work every day with so many talented individuals who are taking us all to the next level and beyond! The people I work with in this organization are truly amazing to me and I am thankful to be working with all of you who make this dream a reality!

Source: Fenton CS Profile (remainder: Annex A.1)

Furthermore, the emphasis of uncertainty reduction tools many times varies depending on the basis of sharing and the required degree of familiarity as well as of interaction between peers. For example, in Airbnb, the qualities of the space lead the self-disclosures and initial impression, while hosts' personal details dominate in Couchsurfing because of both online and offline "quality" exchange taking place between peers. The difference is also vivid in terms of the listing function: Airbnb lists homes rather than the hosts versus vice versa in CS. Both platforms dictate in that respect a different kind of presentation wherein one the trust is rather built vis-à-vis a home rather than the peer on Airbnb –which serves the purpose of the site perfectly. In Crowdfunding, the same goes for the project in hand with a listing done on the project basis. In line with the focus of the site, the informative content is dominated by the project information with less focus on the personal attributes, which in fact may attribute the peer trust layer of the proposed pyramid in Section Two to incorporate project trust –trust visavis the project solely – as well.

Peers on CS appear to select members that they can bond with during their 3-4 days stays and for that they look for learning more about the person before the offline sharing happens. This naturally increases familiarity and would also put peers on CS in the category of sharing in rather than sharing out based on Belk's differentiation (Section 1.1.1, p.14), where the former shares with a somewhat familiar stranger compared with a total stranger in the latter. In Airbnb however, where monetary exchange comes in, the users increasingly look for a tangible value in the space which is also evident in the peer rating dimensions that accompany written references: "accuracy, communication, cleanliness, location, check-in, the value" primarily focus on the qualities of the space.

This is also in line with the trend that shows people increasingly use the Airbnb platform not for finding an at-the-same-time shared accommodation (with the host) but for renting a whole flat as Slee found (2016). This implies that travelers go after a "service" rather than sharing the space with the host, which also reduces the need for bonding beyond a certain threshold enough for establishing a trustworthy exchange at first place. This is not really distant from

finding a trustworthy hotel to stay in, so the users are in a way replacing their hotel stays with Airbnb. The finding that more users looking for this kind of exchange makes Airbnb a replacement platform.

Among other complementary tools for uncertainty reduction, the availability of SNS connections would represent “shared networks” as a potential factor reducing uncertainty which was put forth by Berger and Gudykunst (1991) in a separate study extending the URT. The practices of SNS links are not homogeneous across platforms. Airbnb, for instance, allows users to connect their profiles to their SNS such as Facebook, Google, and LinkedIn, but not Twitter, while a special emphasis is put on Facebook and Google accounts allowing signing up through both.

**Table 3.3 Comparative Features of different platforms**

Trust-related features	Collaborative Consumption Platforms	Crowdfunding platforms
<b>Current key mechanisms for establishment of trust</b>	-More detailed profiles and reference system with informative content -Verified user system -A better-used SNS link system	-Detailed project descriptions -Communication channels between parties/commenting on project page -Funding performance so far & list of funders/contributors
<b>What does trust in a crowdfunding platform represent ?</b>	-the system gets the payment to the trustee -the trustee would comply with acceptable norms of sharing -the system would protect the members against externalities/misuse of info	-the system gets the contribution to the trustee -the trustee would deliver the promised reward or project -the system would protect the members against externalities/misuse of info
<b>Nature of interaction</b>	Convergence of online-offline interaction	Interaction is limited / not even mandatory
<b>Community aspects and personal familiarity</b>	i.e. Couchsurfing community's detailed profiles with non-trivial questions like philosophy of life allow the users get a more wholistic perception of other users	<u>Community aspect less prevalent:</u> Can a safe neighbourhood / 'community' feeling be better utilized by crowdfunding platforms for enhancing trust?

Crowdfunding examples are observed lacking effective use of social network site connections. Although the placeholder is given for users to connect their profiles, this is not a widely used mechanism. In view of the lack of user references, this indicates a potential tool that could be better utilized by crowdfunding platforms to compensate for the gap in uncertainty reduction. Couchsurfing and Airbnb both fare better than their crowdfunding counterparts through enough access to verbal communication between strangers too. Table 3.3 summarizes the key findings of this review.

## **3.2. KEY TOOLS FOR PLATFORM TRUST**

### **3.2.1. Transparency on key platform statistics & platform fees**

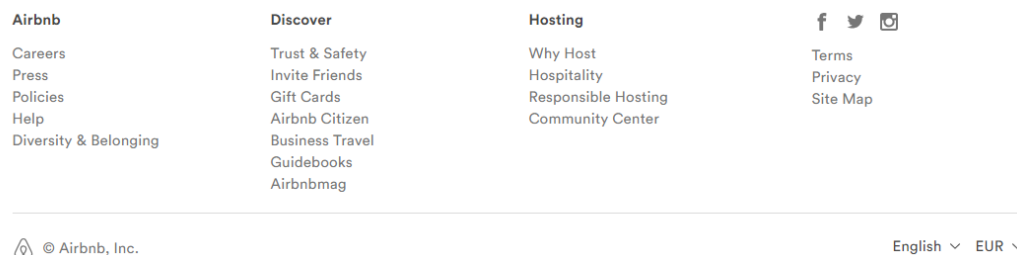
As part of the exploration on different sharing economy platforms' disclosure practices for reducing uncertainty and building trust, the study considered sites' ability of transparent disclosure of their functioning. This is because we can perfectly map the theoretical framework of uncertainty reduction between persons to trust building between a platform and its user. As personal self-disclosures form the first station of familiarity building, as users of sharing economy platforms we would expect platforms' own self-disclosures to be rich, too. This content can be part of site principles like Terms of Use, however the essential feature we look for would be accessibility of key terms. Operational data and key operating rules such as commission rates form the basis of this transparency requirement. Clear communication of these items would serve as uncertainty reducing disclosures of the platform per se and such transparency would also contribute to their perception as direct, consistent and trustworthy.

My screening of this is also based on a curiosity on how these burgeoning platforms handle their peculiar sharing economy platform roles. This study argues that the transparency-related standards for trust-building can be applicable to all kinds of online platforms. However, sharing economy platforms are representatives of an alternative economic model, which not only builds a sharing transaction between two peers usually unknown to each other but also a partnership between a platform and a peer. Its reliance on an emerging revenue-sharing collaboration with its users donates sharing economy platforms a new and peculiar economic role rising on peers' shared resource and a higher level of responsibility to be transparent about operational information. A sharing platform needs to explain itself on a more sophisticated basis for users to manage introduced uncertainties. This can vary from commission rates –the financial basis of partnership –, simple figures such as size of revenues, business volumes to the risks of the operation as well commission rates and more detailed company

disclosures in terms of shareholder structures, levels of funding and presence of financial investors. These pieces would basically form transparency about the value created as a result of this partnership with users.

Seeking such self-disclosures of sharing platforms, I reviewed mainly the “About Us” type of information on sites which was not even really accessible in two of the platforms, Airbnb and Lyft. On Airbnb website, it is almost impossible to reach Company related information tabs even after scrolling endlessly through hundreds of home listings on Homepage which also includes Airbnb’s new business areas like “Airbnb Plus” and “Experiences”. Only when one clicks at the Help tab that is next to a user’s profile photo on the top right corner and selects to “visit the Help Center”, the informational links shown in Figure 3.6 appear.

**Figure 3.6 The appearance of Airbnb Sitemap - in Search for “About Us” Section**



Source: Airbnb Help Center

Still, the About Us section is missing, instead we can opt to look around in sections like Press, Policies, “Diversity & Belonging” or “Why Host” and “Hospitality”. However, if as a user I want to learn how Airbnb came to being and how it explains what kind of a platform it is, then I have look at the Press section. Or a faster method is actually to google “About Us and Airbnb” keywords to land at this section directly without this long trip through the Help Center. Once finally in Airbnb’s About Us, we see that the platform uses the expressions “global travel community” and “accommodation marketplace” in its brief paragraph with no reference to “sharing” or “sharing economy” at all – which at least seems consistent with the platform gradually turning into a peer service platform.

As a researcher, I would also want to learn about platform’s management and shareholding structure, yet I can only access information on the 11 key leaders of Airbnb. I am also interested in learning what kind of funding and

valuation rounds this platform has gone through if it did, at least the final figures. Yet, this is again not reachable on the site. Of course, due to its enormous media coverage, a research on the internet may lead curious users like me to pieces of information here and there but these are scattered and do not compensate for the absence of an orderly self-presentation of the site itself.

With this concern about transparency, I replicated this research exercise for the other sharing economy platforms in this study and present the results in the summary table below (Table 3.4). All platforms except Crowdcube, Wikipedia and Zopa leave out proper accessible information on shareholder structure and most of them also fail in terms of easily findable data on the management team, board structure as well as funding rounds and their valuation. Kickstarter, Crowdcube, and Zopa are also the only ones providing detailed operational statistics on their operations.

I should note that Zopa does not present a like-for-like case for comparison and deserves a separate handling in that it acts like a bank and does not show investors' (lenders) and borrowers' data to each other. As it pools the investment contributions itself and makes available to borrowers as combined loans, the presented comprehensive data in terms of actual historical series of funding performance through realized returns as well as default rates becomes like its own (investment) performance.

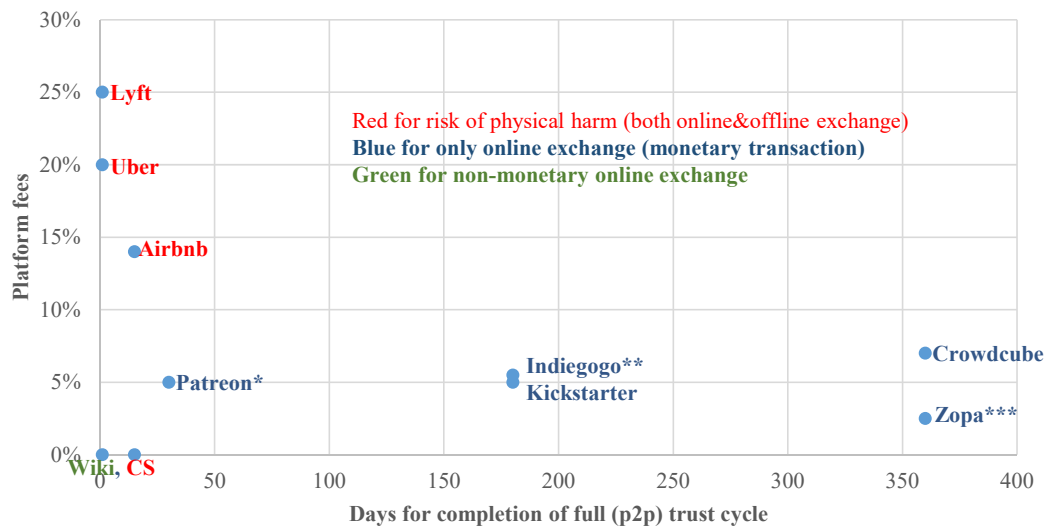
**Table 3.4 Comparison on Transparency of Platforms' Self-Disclosures**

Platform's Transparency	About Us Link on Homepage	Management team	Shareholder Structure	Board composition	Their Funding rounds	Key Operational Statistics	# of employees
Airbnb	X	✓	X	X	X	✓	X
Couchsurfing	✓	X	X	X	X	✓	X
Crowdcube	✓	✓	✓	✓	X	✓ detailed	X
Indiegogo	✓	X	X	X	X	✓	X
Kickstarter	✓	✓	X	X	X	✓ detailed	✓ 126
Patreon	✓	X	X	X	X	✓	X
Lyft	X	X	X	X	✓ (blog news)	✓	X
Uber	✓	✓	X	✓	X	✓	✓ 16,000
Wikipedia <Wikimedia Foundation>	✓	✓	✓	✓	✓	✓ detailed	✓ 280
Zopa	✓	✓	✓	✓	X	✓ detailed	X

Before giving an overview of quality of fee information as the second step of our uncertainty reduction research on platforms' operational disclosures, a comparative perspective on fee levels is drawn in Figure 3.7. For also better presenting the selected platforms' nature and scope of trust relations, commission

rates are drawn against the estimated time period for fulfilling the trust cycle between the trustor and the trustee also exhibiting the type of exchange and risk of physical harm. For example, in one extreme there is instantaneous sharing such as in Uber – at the very left of the y-axis – with a clear risk of physical harm and also the highest commission rates. On the other side there is equity-based crowdfunding, for which we are not able to define a specific date for returns to investors which may even never come. It is typical that venture capital or angel investors look for exits in a few years. This graph incorporated a simplified assumption of a year (to signify beyond a period of one year).

**Figure 3.7 Platform commissions versus duration of trust cycle**



Notes: \*trust cycle assumed one month, \*\*allows partial funding, \*\*\* fee rate calculated by this research, CS color put red but it poses both a non-monetary online exchange & risk of physical harm

In reward-based campaigns, the estimated delivery times vary between a few months to about a year but also considering usual delays an average of six months seems as a reasonable assumption. In Patreon contributors start subscription as of the date of the pledge yet membership fees are deducted once a month and new content is also usually published at least once a month, therefore, this comparison used one month period for this membership-based platform. Moreover, as Zopa’s platform fee is variable and not explicitly stated the result of my calculation on data points (detailed calculation in Section 4.4.5) is used as

platform commission in the graph at 2.6%. Airbnb’s commission is calculated by adding the two fees charged on both the host and the guest as shown in Table 3.5 as a range and taking the middle point at 14%.

As shown in Figure 3.7 and Table 3.5, the level of fees is divergent across the platforms. Reward-based crowdfunding platforms, Kickstarter, Indiegogo and Patreon collect about 5% on successfully funded projects while Indiegogo allows partial funding for projects. The equity-based crowdfunding platform Crowdcube takes 7% commission, while as abovementioned the lending-based crowdfunding platform Zopa is assumed to take c. 2.6%, at a quite suboptimal level, raising questions for the sustainability of otherwise successful and well-known platform. Quite in line with their higher filtering role due to risk of physical harm, the other types of sharing economy platforms apply higher commission rates, the ride-sharing platforms, Uber and Lyft, collect from drivers’ pay about 20% while they also deduct a service fee from the paying party, passengers in this case, usually between US\$1.55 to US\$5.00 based on geography etc.

**Table 3.5 Overview of commissions and payment processing fees**

Platform	I - Commission % on transactions (from receiver)	II - Payment processing fees (r=receiver, p=payer)	III - Other fees on the paying party	Revenue generating tool
Airbnb	Host service fee: 3%-5%	No extra fees: built-in in-house payments operation	Guest service fee: 5%-15% (commission for the platform)	I & III
Couchsurfing	no transaction	-	-	Non-mandatory Verification Fee of [\$50]
Crowdcube	7%	r: 0.5% for the UK 1% for Europe	-	I
Indiegogo	5%-9%	r : 3% + US\$0.30 per pledge	-	I
Kickstarter	5%	r : 3% + US\$0.20 per pledge	-	I
Patreon	5%	r: 2.9% + US\$0.35 per pledge	-	I
Lyft	20-25%	-	"Service fee": variable starting from US\$1.55 Airport surcharges if applicable	I - III
Uber	20%	-	"Booking fee": variable starting from US\$1.55 Airport surcharges if applicable	I - III
Wikipedia	no transaction	-	-	-
Zopa	Loan servicing fee Administrative fee [depend on the loan amount&duration - no info provided on the range]	Other fees or charges that may be charged by the Collections Agency	-	I

In each booking, Airbnb deducts a host service fee of generally 3% (but may go up to 5% depending on the host’s cancellation policy) of the total booking amount (before fees and taxes), whereas a guest service fee between 5% and 15%

of the reservation subtotal is charged to guests, with the variation based on a mix of factors including length of the stay, the reservation subtotal and characteristics of the listing. Airbnb also incorporates additional VAT charges on host- and guest- service fees depending on the requirements of the local jurisdiction. Airbnb's commissions in this framework vary from 8% to 20% commission on each transaction.

Most of the platforms do not make an explicit reference to fees on their Homepage or the initial access points. The information is either reached through their Support/Help Centers and Frequently Asked Questions sections. Only two of them placed the explicit information about fees in their Terms of Use, Kickstarter, and Patreon citing their 5% commission. The analyzed ride-sharing platforms are found to be the worst performers in terms of transparency of fee details and fee change announcements, which will be discussed in the following section.

### **3.2.1.1. Opacity of fee policies of Uber & Lyft**

Lyft has a separate section on its Help center as "Fees and Charges" where it also hyperlinks to a separate subdivision called "Lyft's Fees". Yet the platform does not disclose here the percentage fee applied on Lyft rides on payments to drivers. "Lyft Platform Fee" is defined as a variable amount that keeps the platform running, while the "Service Fee" compensates for "regulatory, safety and operational costs" (Lyft's Fees). As a researcher on the subject, finding some clarity, at least a percentage range indicating how the revenue sharing occurs between the users and the platform, took great effort.

Finally, in another post (dated July 2016) on a distinctive blog called "The Hub" for Lyft's user community, the platform shared the information I was looking for. Lyft's Pay Calculation here shows that the platform charges 20-25% commission from the ride fare on top of which also comes the service fee starting from US\$1.55. However, this one is added on top of the ride fare and is borne by the passenger. Although it is shown in this 2016 blog post as US\$1.55, after some

further research this fee turns out to be variable depending on the city of the ride. Both Uber and Lyft reflect this charge to the rider as kind of a safety cost.

Previously until 2016, Uber named this as “safe ride fee” but because of some safety-related incidents in San Francisco and Los Angeles, both Uber and Lyft faced a legal dispute. Not only had Uber to pay around US\$25m fines (US\$50m including a previously related suit), but also to neutralize some of its safety language, including statements like “safest ride on the road” or background checks as “the gold standard”. Another regulatory touch was on this “safe ride fee” that had to be renamed as “booking fee” in Uber’s case (Hern, 2016).

About a year later in 2017, Uber incorporated some adjustments for making this booking fee variable for different cities compared with a flat fee earlier at US\$1 per ride. Reportedly, some research on the “fare estimator” page of Uber implied that the fees range from US\$1.55 to above US\$2, which were claimed to have risen by about US\$0.35 in most cities in 2017 (N. Levy, 2017). Yet, an explanatory announcement on the matter could not be found on the site.

Furthermore, my personal experience in a Los Angeles trip in June 2017 pointed to a booking fee of US\$0.85 compared with US\$2.10 that the fare estimator currently as of April 2018 shows for the same trip, more than doubling. On a minimum fare of US\$5.60, this fee constitutes 37.5% of the fare price. One user claimed in a discussion on an online forum space (Uberpeople.net) that booking fee increases during 2017 occurred three times in the US, first in February 2017 from US\$1.30 to US\$1.65 then to US\$1.80 in the second one and lastly to US\$2.20 in July 2017, yet the research was not able to verify these. These fees actually belonged to the affordable popular version of UberX. The booking fee in Los Angeles for instance for UberXL numbered US\$2.35 versus US\$2.10 for UberX. According to a third-party online fare estimator, booking fees reach for instance US\$5 in Hong Kong or US\$3.15 in Detroit (Uberestimator.com).

In terms of its commissions cut from drivers’ pay, Uber had increased its rates in its low-cost branch of UberX from 20% to 25% and 30% in 2015 in some cities like San Francisco and San Diego respectively while also introducing a higher commission rate of 25% for all the newcomers in five cities reported in

Forbes as New York City, Toronto, Indianapolis, Boston and Worcester (Huet, 2015). It appeared that Uber first implemented this fee increase in 2015 –which involved a progressive fee practice – as a test and not clearly communicated it. Some new driving members had to find out when they received a notification from Uber saying that they were “close to getting enough rides to move to a 25% commission for the week” (Huet, 2015). A driver admitted to Forbes that he searched online and saw “everywhere” 20% commission, which was confusing compared with what he experienced in reality. It should be noted that Uber’s application of certain rules may vary geographically.

Perea on the The Rideshareguy –“a blog and post for rideshare drivers” – who analyzed the ridesharing platforms like Uber and Lyft – observed that on top of increasing commission rates gradually, platforms also have recurrently lowered riding prices that implied higher commissions for them. This is because, in both platforms, the applied commission rates decline as the fare goes higher. According to the Perea’s, a driver who left his full-time job in 2014 for becoming a driver for Uber and Lyft, analysis on the platforms they call in the blog smartly as “transportation network companies (TNCs)”, TNCs promote about 25% commission rates for each ride yet the effective commission rate on rides can become as high as 42.75%. With a sample of 37 actual Uberx trips, Perea found that the median fare of US\$8.30 left only US\$5.08 for the driver implying a 39% median actual commission rate for the platform. With both lower fare prices and higher effective commission rates, the 2016 pays meant that drivers had to “drive longer hours while incurring heavier expenses” compared with 2013. This exploration indicated that Uber drivers had to drive about 2.36 miles for earning US\$10 which in 2016 surged to 4.71 miles as shown in Figure 3.8 (Perea, 2016).

With 132 comments under Perea’s post, drivers mostly seemed to find Perea’s findings in line with their own experiences. Some users’ sentiment carried confusion as they interpreted this kind of initiatives conflicting with the birth spirit of these platforms. One user, Stephen Grossman, expressed this quite vividly: “they are ripping off the very foundation of their business and will be case studies on how to screw up a good concept in the years to come...Haven’t

decided whether its greed or stupidity both are pretty dangerous”. In general, many follow-up comments underneath this post accused Uber for lacking a big deal of transparency including the difficulty of response to drivers’ questions.

Uber drivers also gathered and protested for their declining earnings in some cities. In New York (February 2016), London (November 2016) drivers seemed furious on the fare cuts with posters expressing “Uber is a modern slavery” (Guardian: Booth, 2016) or “stop the wage cut” (NY Times: Santora and Surico, 2016). Guardian, for instance, cited a driver complaining of having spent 70 to 80 hours a week but only earning 4 pounds an hour. On 28 November 2016, Uber drivers also enacted a protest called “Day of Disruption” in US where drivers in about 24 cities stopped working, carrying signs of “Your Uber Driver is Striking” and asking for a minimum wage of US\$15 per hour (Cnet: Kerr, 2016).

**Figure 3.8 Rideshareguy analysis on real commissions**



Source: Perea (2016).

Although the comments and calculations shared in this section are obtained through an archival research of news reports and blog posts, hence not directly verified in this study, they are included here as anecdotal evidence to present drivers’ perspective better. These bits of observation and analysis mainly come from the users, which make them secondary sources compared to the platform itself which is the one that decides and applies the fees directly. However as the information does not come from the primary source on a routine, consistent and verifiable basis, these kinds of user posts on different web pages serve the purpose of uncertainty reduction instead of the platform.

They present the gaps in the transparency of platforms pretty well, as platforms like Uber leave much room for speculation and discussion on fees. Both ride-sharing platforms', Uber's as well as Lyft's Terms of Use as well as some of the Help Center posts mentioned presented ambiguity on "commission" information. For a platform sharing revenues with its users the basis of this sharing normally needs to be crystal clear rather than left as a controversial subject. As the transparency on revenue generation metrics appeared weak to me as well, the confusion and frustration from the drivers' view supported the need for higher and more accessible information on the platforms.

Uber exhibited an enormous upsurge in its valuation from US\$4m in 2010 to US\$68m in 2018, ranking for long as the most valuable sharing economy platform, yet this apparently did not couple with a similar increase in satisfaction of its partners in business. Uber drivers were expressing progressively discontent regarding their Uber experience. As Cnet underlined the rivalry against conventional taxis everywhere and most competitively in the US, forced the platform to curb down ride fares which affected drivers' earnings who were also devoid of various social benefits as Uber's "independent contractors". As such we can argue that the increasing valuations for a sharing economy platform that generates its revenues through a p2p service and has been consistently attractive to financial investors have not really mirrored any benefit or improvement to its contracted drivers through time. This however is mutually exclusive from the sentiment of Uber's passengers who may gradually appreciate the platform more as the quality of service increases.

Overall, the uncertainty issues reviewed in this section are quite critical for sharing economy platforms. The platforms were observed having low-key announcements or none at all regarding increases in their fee levels. Although it is the platform itself creating this network that empowers individuals for generating alternative earnings, the users would deserve an empowerment in information sharing too. The platforms are the key drivers for resolving and creating a transparent environment where each side needs to know the operating dynamics as much as non-disclosure types of confidentiality principles at work allow. In this

respect, it was observed that the crowdfunding platforms fared better in communicating platform commissions and changes in fees (see Section 4.2 for a related discussion on Patreon's payment processing fees).

### **3.2.2. Sharing Platforms' Different Visions on Growth**

Platforms also carry different ambitions on what they are and they want to become compared to where they originated from. While for instance Couchsurfing and Wikipedia have risen on rather intangible qualities and still maintain them, Airbnb and Uber have shifted from a place of sharing/co-habiting spirit towards becoming service platforms where one peer serves the other. Betting on substantial growth stories, these sites have been obtaining significant interest from financial investors, too.

A rather newcomer, Lyft, a rival ride-sharing platform to Uber, has been growing rapidly and is also reported to be grabbing considerable market share in US from its competitor platform Uber which has recently had trouble in diverse areas from a big data hack that was concealed from the public to litigation around trade-secrets theft and bribery issues in Asian countries (Somerville, 2018). Amidst this turmoil periods of Uber, Lyft the rival, announced one of its latest funding rounds in October 2017 when the company raised US\$1bn from a fund called CapitalG (Alphabet's growth investment fund), while also declaring to have achieved its "500 millionth ride" with a coverage of 95% of the US population compared with 54% at the beginning of 2017 (Lyft's Funding 2017). With a disclosure on the low penetration of rideshare networks in total miles traveled in the U.S. as 0.5%, the platform obviously claimed a big potential for aiming high. Company's openness on its funding rounds is a positive effort, yet the transparency on how the revenue sharing with the community occurs has clear room to catch up with such huge ambitions.

Airbnb is on an ever-amplifying growth drive too through an interesting evolution from renting out air mattresses in San Francisco in 2007 to a US\$69 billion giant. It can easily remind us of Alice in Wonderland who first fit into a

rabbit hole by being small enough after drinking a secret juice in a bottle, but then became colossal with her head reaching the ceiling after eating a cake on which “eat me” was noted. We can certainly associate the cake with investor funds in our case, which may be pushing Airbnb towards a ceiling too.

The already massive accommodation marketplace platform that we have originally considered as a collaborative consumption platform of peers, nowadays aims to embrace all steps of a travel network setting goals for further expanding into new segments like for instance bed and breakfast type of conventional tourism spaces. Asked in an interview with Menze (2018) at Phocuswire, Airbnb’s co-founder Brian Chesky shared that there are 180,000 B&B places on Airbnb and he believes that one day the platform would have more B&Bs than the Booking.com. This is an aspiration which would make Airbnb’s original individual hosts compete against their conventional counterparts on the same platform.

Bringing in bed&breakfasts (b&bs) was recently covered by Suzanne Bearne (April 2018) from the Guardian, too who showed actually that hotels are indeed having a hard time in competing with the Airbnb’s listed homes. As cited by the Guardian, a research by Morgan Stanley in November 2015 had pointed out that 42% of the users on Airbnb have switched to the platform from a “traditional hotel stay”. Some hotels recognizing this trend join the platform as they feel that they cannot “battle” the platform. To sustain their existence small b&bs were coming online to Airbnb some of which complained about their higher costs as well as higher regulatory controls than a regular host just renting out own space: “We have to pay 20% VAT, and business rates are horrendous, but people hiring out their own homes are able to earn an income without any of those requirements,” (Bearne, 2018). The tax issues of course gradually come into the radars of the government authorities in many countries and become subject to different enforcement mechanisms.

Airbnb’s moves to include hotels alongside B&Bs come parallel to their new product offerings such as “Airbnb Plus” and “Beyond by Airbnb”, which intend to capture a share of premium clientele. Acquisition of a premium travel

rental agency like Luxury Retreats International for more than US\$200m in February 2017 as covered by Wall Street Journal (Bensinger, 2017) indicated how keenly this move to the high-end segment was structured. Another recent addition, Airbnb's "Experiences" branch brings different kinds of tour operator-like activities to the platform. This, however, is a yet unglamorous addition that Airbnb apparently keeps under control at 5,000 offerings as of now. The co-founder Chesky mentioned 55k requests on the waitlist that the platform does not want to welcome without heavy filtering first (Menze, 2018), pointing to a rather quality versus quantity approach currently.

Aggressive targets on B&Bs as well as introducing these new segments like luxury and experiences must have come as a result of strategic initiatives that obviously means for Airbnb to fit through every rabbit hole possible as they now aimed "to have something for every type of traveler" (Menze, 2018). Expanding the business volumes would obviously complement some future planning for the series of financial investors who'd look for exit opportunities for realizing investment returns. The typical way to do that would be an initial public offering (IPO), which according to the co-founder Chesky is not planned soon. Yet Airbnb desires to make sure to provide the required "liquidity" to their investors at the right time (Menze,2018).

Uber also spreads out into new territories such as food delivery through UberEats and UberRUSH running package delivery service in some cities in the US. As it is framed by Uber itself now, Uber network can be defined as a platform that "delivers food and packages as well as people, all at the push of a button" (Uber Rebrand). Furthermore Uber also made public its plan to kick-off "flying cars" (Uber Elevate) in a few cities by 2020.

As shown, expanding also on external financial resources Airbnb or Uber, certainly have become giant sharing platforms and created ambitions to become everything about something. This obviously poses a growth trap and also departs from the notion of the amateur birth spirit of p2p sharing to a great extent. Kickstarter is an exception among these sharing economy platforms as it has not obtained any consecutive investor funds into the platform since its initial funding

round in 2011 where it got a US\$10m investment from a venture capital firm Union Square Ventures. Furthermore, the platform has been able to report a profit on a steady basis since 2011, hence internally creating enough income to sustain its operations as well as ensured steady dividend income to its investors. The founders openly stated their promise in keeping the platform as is now without accepting new investors.

Kickstarter also showed a differentiating pioneer effort among the studied platforms in turning the corporation into a “public benefit” corporation in 2015 and committing to publicly set social targets. Acting on a concern over the effects of their business acts and decisions on society and the community, three co-founders, Yancey Strickler, Perry Chen and Charles Adler, decided to modify the corporation status in order to incorporate the ability of chasing “social good at the expense of shareholder value”. The typical business mandate of for-profit companies as “maximizing shareholder value” could now be altered with social goals under the U.S. corporate law with the Public Benefit Corporations (PBC). Compared with the for-profit mandate of caring about shareholders only, PBCs were envisaged to consider the effect on all stakeholders being committed to taking responsibility for the impact of their decisions on the society.

As part of this agenda, KS platform opted for supporting “arts and culture” every year by donating 5% of their net earnings (after tax) into education and initiatives addressing inequality. Since then KS also has also promised to publish annually the assessment on their “performance on commitments” (Kickstarter a Benefit Corporation, 2015). In its first annual Benefit Report as of 2016, Kickstarter disclosed its mission as “to help bring creative projects to life”, along with “supporting a more creative and equitable world” which would also accompanied with a dedication to arts and “fighting inequality” (Kickstarter 2016 Benefit Statement).

Obviously, Kickstarter’s move is a deliberate decision that makes a distinction among corporate tendencies. Especially in an environment which we call sharing economy, donating 5% of post-tax profits to arts education and organizations fighting inequality on a sustainable basis is a sharing effort with the

community. Yet it also brings to mind the missing uncertainty reduction tools of the KS that will be further discussed in Section 4.1, which the platform could address to strengthen its system and empower the crowd with stronger tools.

### **3.2.3. Transparency & Accessibility of Site Principles**

Terms of Use (ToU) acts like a contract between a platform and its users. Most of the risks and warnings that might not come to forefront directly in a user's visit to a platform take their strictest as well as the most legally sophisticated form in Terms of Use. In an abstract system like of sharing economy that is currently being shaped and revised, both the platforms and the users can be considered to be in a learning curve. Their proper education can be most effectively run by platform efforts; hence the principles of sites' functioning are to be grasped thoroughly. A consensus is needed between the platforms and their users on what their roles and responsibilities are.

Checking a box of "I have read and accept these terms" kind of statement usually serves this. However, it is also well known that majority of users accept these terms without thoroughly reading them (Bakos, Y., F. Marotta-Wurgler & D.R. Trossen, 2009). Bakos et al. found that "only one or two out of every thousand retail software shoppers choose to access the license agreement", while the median time consumed by accessing ones was only indicated as 29 seconds, "too little" for grasping long texts on terms of use (p.1, 26).

Similarly, in their study on peoples' tendencies of reading ToU and Service sections of online sites, Obar and Hirsch (2017) found that 86% of participants' time spent in reading the terms was less than one minute whereas 97% spent less than five minutes and the average time spent in reading terms and conditions was about 14 seconds: "Fourteen seconds is hardly enough time to read, understand and provide informed consent to policies between 4,000 and 8,000 words in length. Spending 14 seconds (or 60 seconds for that matter) is akin to not reading the policies at all..." (p.21). People trying to read policies usually commented that they are "too long" or "too many to read" as well as that they do

not have time to read them (p.23). As a “Study on consumers’ attitudes towards Terms and Conditions” by European Commission (Elshout et al., 2016) also elaborated, the length and difficulty of language are one of the main factors behind low levels of the readership of terms and conditions (p.16). Likewise, the heavy legal language and the lengthy descriptions the platforms rely on for protecting and ensuring their liberty from certain responsibilities and liabilities are also deterring users from putting the reading effort.

The length of these policies cannot be a real measure of how digestible they are by the users. Yet, as shown below in Table 3.6, the word counts do not make it an easy read. Also, the wide variety of word counts of different sharing platforms is remarkable. Comparing the word count of Terms of Use (or Terms and Conditions) of crowdfunding sites revealed that the numbers vary from 3,318 (Patreon) to 13,868 (Zopa). The median word count –eliminating these two outliers – is on average above 7k. Patreon makes use of short overviews of the terms and achieves a more accessible policy, which is similar in KS too that provides user-friendly summary versions of platform terms available in its Terms of Use.

**Table 3.6 Overview of Word Counts in Policies**

Platform	Made in Country	# word count in ToU	# word count in Privacy	# of word count in Community Guidelines
Airbnb	US	12,861	4,980	992
Couchsurfing	US	5,193	2,208	381
Crowdcube	UK	1,258 but 9,414 including all Terms Due Diligence Charter : 2,462 Investor Terms : 5,694	2,685	510
Indiegogo	US	8,375	2,800	no guidelines
Kickstarter	US	4,241	1,418	342
Patreon	US	3,318	1,891	2,827
Lyft		10,936	3,181	328
Uber	US	5,715	3,747	5,793
Wikipedia	US	5,991	5,785	595 ('behavioral' guidelines) 12 separate 'Conduct Policies'
Zopa	UK	13,868	2,411	no guidelines

Source: Platform Policies

The discrepancy in word counts is quite wide for two platforms in the same field, reward-based crowdfunding. Kickstarter’s ToU is about 4,240 words, which makes it half size of the Indiegogo’s. My general impression is that IG covers more details than KS in various terms, which might be also due to its flexible- funding as well as filtering process compared with stricter rules on KS.

IG, therefore, may have felt the need to thoroughly safeguard the platform in more detailed descriptions. Similarly, another divergent gap between word counts of two leading platforms' terms and conditions in the same field is in ride-sharing. Lyft with 11k word count and Uber at about half of its size make one question the practicality of their principles, whether one of them misses on some principles or one of them exaggerates its avoidance of responsibility.

In any case, these platforms which need to make their users more aware of the 'manufactured risk' of reward-based crowdfunding concept that is still only about ten years old, should work out a more user-friendly and accessible version of their Terms of Use, making proper disclaimers on risks visible to any user that starts using the site. This might be incorporated and repeated in the steps that are required when for instance a project creator attempts to prepare a project post and similarly when a user attempts funding a project.

Apart from the principles such as ToU and Privacy Policies that users may just find boring, another common denominator for platform's users is "community guidelines". These can serve as simpler and more accessible versions of how this platform operates. The community guidelines can contribute to the uncertainty reduction vis-à-vis a platform and its functioning not only for the users of a platform but for the platform and its employees, too to be at the same page regarding basic behavioral as well as operating principles. The platforms that put an emphasis on this can be seen in Table 3.6 above. Only Indiegogo and Zopa lack a separate guideline set for the community, while Uber, Patreon, and Airbnb have quite a lengthy description of their community principles.

#### **3.2.4. Degree of Filtering of Content**

All the selected platforms in this study have an in-house "trust and safety" team, however, their scope of work varies. In terms of filtering peers and their offers, none of the platforms run a very detailed screening and analysis process (Table 3.7). Among the crowdfunding sites, only Crowdcube and Zopa execute a more thorough filtering than the rest. Crowdcube as an equity investment platform

makes an analysis of the presented investment stories of companies. Mainly focusing on the extremities in companies' factual as well as future-related statements, Crowdcube's analysis team attempts to screen through unrealistic elaborations and exaggerations on ability in executing its promises. Running a fact check on the verifiable information pieces the platform also provides disclaimers on the risk that forward-looking statements can be ambitious and unattainable. This process is of course executed with the cooperation of the platform's team with the fundraising company.

Zopa –the lending-based investment crowdfunding platform – also performs a thorough screening of a background check in terms of the creditworthiness of the applying borrowers. The platform actually is the only one that accesses the investors' and borrowers' information while users cannot view others' profiles or track records. Both of these UK-based platforms, Crowdcube and Zopa, have to abide by the regulatory authorities in the UK, hence their checks and balances procedures are also in some form for better meeting these still shaping compliance standards (Section 4.3.3.).

**Table 3.7 Overview of Degree of Filtering**

Platform	Made In Country	Degree of filtering	Responsibility on filtering	Trust&Safety Team (or similar)
Airbnb	US	Screening of identity against regulatory, terrorist, and sanctions watchlists (checks passport)	partially/regulatory no "responsibility for the confirmation of any Member's identity"	yes
Couchsurfing	US	"We do not investigate or verify any member's reputation, conduct, morality, criminal background, or any information members may submit to the Services" (except the address-verification tool described in Section 3.3).	no	yes
Crowdcube	UK	<u>Due Diligence:</u> Factual check on company numbers, business, background	partially / regulatory	yes
Indiegogo	US	no filtering: anyone can post any project <but a project can be suspended on suspicion>	no	yes
Kickstarter	US	basic filtering	no	yes
Patreon	US	basic filtering	no	yes
Lyft	US	<u>Background check:</u> -motor vehicle record review -criminal background	partially / regulatory	yes
Uber	US	<u>Background check:</u> -motor vehicle record review -criminal background	partially / regulatory	yes
Wikipedia	US	Peers self-edit & monitor	no	yes
Zopa	UK	Identity, fraud, and credit checks (may also obtain credit rating from the partner credit agency)	partially / regulatory	yes

Source: Platform Policies

Not to the same detailed extent, though the other types of sharing economy platforms run background checks too like Lyft and Uber executing some basic motor vehicle and criminal record reviews in order to ensure a standard level of

filtering to provide a safe basis for peer trust to be built. Apart from some regulatory constraints that also vary from country to country, Airbnb and Couchsurfing, do some simple checks yet refrain from taking responsibility on a filtering role. As provided below in Table 3.8, an analysis of platforms’ stance on their liabilities in legal terms indicates that sharing economy platforms rarely accept liability in failure cases. All users when signing the related ToU, recognize that they would both indemnify and hold harmless the platforms concerning any legally pursued damages, and as such platforms factor in their liberty from potential liabilities regarding potential harms to the extent permitted by the applicable relevant laws and jurisdictions.

**Table 3.8 Details on Terms Of Use – Liabilities of platforms**

Platform	Users 'indemnify' the platform & affiliates	Users 'hold harmless' the platform & related personnel/affiliates	Limitation of Liability	Liability for direct damages	Liability for intent & gross negligence	Fraud liability in ToS	Fees explicitly stated as % in ToU
Airbnb	yes	yes	yes: "except for jurisdictions that don't allow limitation of liability"	max: \$100 or the transacted volume on Airbnb	only in EU	no	No
Couchsurfing	yes	yes	yes "except for jurisdictions that don't allow limitation of liability" Also: 16.5 Notwithstanding anything to the contrary in these terms, nothing in these terms excludes or limits our liability for death or personal injury caused by our negligence or for fraud	max: \$100	yes	no	no but "Price changes related to Couchsurfing Verification will not affect members that have purchased a lifetime subscription"
Crowdcube (CC)	yes	no	yes but: "This does not affect our liability for death or personal injury arising from our negligence, nor our liability for fraud or fraudulent misrepresentation, nor any other liability which cannot be excluded or limited under applicable law"	max: lesser of total amount invested and £1,000	yes	yes	No, only definitions
Indiegogo (IG)	"if/when any claims, losses etc. arise from use of the Services, breach of these Terms or violation of any laws"	yes	yes: "except for jurisdictions that don't allow limitation of liability"	max: \$100 or the fees paid to IG	no [except for jurisdictions that don't allow to limit liability]	no [except for jurisdictions that don't allow to limit liability]	no, but reference to Support page
Kickstarter (KS)	if/when the platform is sued	yes	yes: "If something bad happens as a result of your using KS, we're not liable (beyond a small amount)." "If you lose money as a result of using Patreon, any payment to you is limited to how much you have paid us, and we don't have to pay you if your loss is unexpected"	max: \$100	no	no	yes, explicit statement of 5%
Patreon	yes	no	"If you lose money as a result of using Patreon, any payment to you is limited to how much you have paid us, and we don't have to pay you if your loss is unexpected"	no except as specified on the left	no [except for jurisdictions that don't allow to limit liability]	yes	yes, explicit statement of 5%
Lyft	yes	yes	yes: "except for jurisdictions that don't allow limitation of liability"	no [except for jurisdictions that don't allow to limit liability]	no [except for jurisdictions that don't allow to limit liability]	no [except for jurisdictions that don't allow to limit liability]	No, only definitions
Uber	yes	yes	"Uber's liability shall be limited to the extent permitted by law"	except for "rights as a consumer that cannot be excluded under applicable law"	no [except for jurisdictions that don't allow to limit liability]	no [except for jurisdictions that don't allow to limit liability]	no, but reference to Support page
Zopa	yes	yes	"we shall only be liable for foreseeable loss or damage arising directly out of our own breach of these Principles, negligence or willful misconduct"	6. "Nothing in these principles shall exclude or limit the liability of either you or us for death or personal injury caused by our own negligent or fraudulent acts or omissions."	yes	yes	No, only definitions

Source: Platforms’ ToU as cited in References

Platforms’ decoupling from responsibility to a great extent brings Giddens’ approach to mind on manufactured risk and the associated responsibility (as elaborated in Section 1.4.1.). Crowdfunding and sharing economy fit well in Giddens’ description, as they are totally new and create new uncertainties to handle. Where uncertainty and risk originate from here is an integrated function of many inputs ranging from bringing together strangers through a platform to

sharing revenues with them through automated payment systems. It is manifold and therefore complicated as to who can own up to what degree of responsibility.

The major operators of this new system, platforms, find the solution in shying away from the liabilities. This is totally understandable as a thorough filtering on all users and their posts would be an insurmountable task to accomplish. The liability –as the equivalent of responsibility in legal terms – is pushed away by the middleman mainly towards project creators in crowdfunding universe and to the hosts in Airbnb or to drivers in Uber. For signing off this responsibility, however, the platforms need to ensure an educated consent of users through making their terms accessible and comprehensive. This may require richer and stronger tools for uncertainty reduction so that trust vis-à-vis other peers and trust in platform level can be formed and sustained, warranting this transfer of responsibility to users.

The responsibility matter is of course not always legally pursued and platforms also show intentions to ameliorate users' experiences in certain frustrating instances. Trust is actually tested when things go wrong and carries the potential of making people forget positive experiences because of a negative one. Therefore, the attitude of a platform towards unsatisfied user feedbacks is influential in shaping users' confidence in their systems. Giddens' access points approach is totally applicable here to operations of sharing economy platforms, where users usually seek assistance from the platforms when they experience some problems. When such instances occur, the platforms' actions can either reinforce the trust put in them initially or weaken it.

As part of the study, during the last few years, my enthusiasm on the subject made me explore and collect evidence whenever possible of how sharing economy participants among my acquaintances were experiencing the platforms at these access points and thought about their trustworthiness. This type of interview-based method was not central to the study –may be in the future studies –, but it provided additional points for understanding platforms' tendencies.

Few instances regarding Airbnb and Uber, demonstrated that these two giant platforms becoming consumer brands sometimes try hard to improve users'

experience when something negative happens. For example two of my friends booked and paid in advance for a stay in San Francisco in 2017 but the place turned out to be quite chaotic and totally inapt for a two weeks stay. After staying one day they left and found a new place also informing the platform: following a chain of communication the platform made them stay in the new flat free of charge. Similarly, Uber took a parallel approach when a passenger submitted a complaint about a significant price change in a trip he made in Canada: the driver asked about a route change to which the passenger nodded but had no idea that the price would increase steeply. After the trip was over, the passenger informed the platform about the almost doubling price and got refunded by the platform.

It is understandable that refunds and reimbursements become important for these sites that have to rely on constant user faith. Whenever something happens to challenge that, they either have to intervene for compensation or leave it as is and they have to decide quite quickly. Crowdfunding sites' policies are strict in this case. They offer no refunds to frustrated supporters of a successfully funded project except until the closing date of a campaign which means withdrawal of funds before the closing. The judgment on potential feasibility of a project fully belongs to the crowd that also has to take into account the possibility of failure. It is therefore crucial for the crowd to be furnished with rich uncertainty reduction tools in crowdfunding universe (this will be further discussed in Section 4).

In line with their visions of becoming a full-fledge service platform, Airbnb for example behaves a bit differently. Being financially comfortable to afford a post-transaction service to its users, the accommodation marketplace Airbnb has a separate division called "Resolution Center" as well as a 24/7 Support team for processing complaints and requests. Following a checkout date from a host's place, users have 60 days to submit such a request. Eligibility for refunds comes usually as a result of at least one of these three cases: the guests are not provided "reasonable access to the booked listing", the representation of the home is inadequate or misleading, or the accommodation is unclean, unsafe or there is an animal undisclosed prior to the stay.

Airbnb also started a coverage for hosts' potential damages in 2012, which covers hosts for damages as a result of a "Covered Loss" which has to fall into categories like "direct physical loss or physical damage to a Host's Covered Property" (Host Guarantee Terms and Conditions). The company's coverage policy for hosts carries a limit of US\$1,000,000. Airbnb clearly frames this guarantee as "not an insurance policy" (Airbnb Host Guarantee Terms and Conditions, Section V. Disposition of Host Payment Requests). As stated by Airbnb openly, the guarantee is there for strengthening users' faith in the system: only for "promoting use of the Airbnb Platform by building customer loyalty and strengthening customer confidence" (Section VI. Acknowledgements & Agreements by the Host).

Although offering the Host Guarantee, the site assigns the full risk of a stay to the host in its General Terms and Conditions (See Figure A.2 for Airbnb's disclaimer on Host Guarantee). Airbnb also holds all members responsible for "compliance with any and all laws, rules, regulations, and Tax obligations that may apply to" use of site as shown in Figure 3.9. This is quite a serious responsibility to push towards the hosts and guests using the platform, and as argued in Section 3.2.3 lengthy ToUs do not ensure users' grasp of serious terms as this one. With this rule the platform fully detaches users' relation to the regulatory level from users' view of site principles –hence reinforcing the trust pyramid approach proposed in Section 2, where trust in regulatory layer is viewed separate from the platform trust.

Naturally, Airbnb can only afford the outlined safety and quasi-insurance mechanisms as it has reached a certain size of income and financial capacity which makes the filtering ability and mentioned activities of customer service feasible. Airbnb and the other giant platform Uber are estimated to handle nearly US\$20bn and US\$30bn of transaction volumes respectively (Table 3.9). Grabbing more than double of commission rates of their crowdfunding counterparts, these collaborative consumption spaces clearly have a higher capability in spending for safety related measures.

### Figure 3.9 Airbnb’s Disclaimer of Terms of Service

#### 16. Disclaimers

If you choose to use the Airbnb Platform or Collective Content, you do so voluntarily and at your sole risk. The Airbnb Platform and Collective Content is provided “as is”, without warranty of any kind, either express or implied.

You agree that you have had whatever opportunity you deem necessary to investigate the Airbnb Services, laws, rules, or regulations that may be applicable to your Listings and/or Host Services you are receiving and that you are not relying upon any statement of law or fact made by Airbnb relating to a Listing.

If we choose to conduct identity verification or background checks on any Member, to the extent permitted by applicable law, we disclaim warranties of any kind, either express or implied, that such checks will identify prior misconduct by a Member or guarantee that a Member will not engage in misconduct in the future.

You agree that some Experiences, Events or other Host Services may carry inherent risk, and by participating in those Host Services, you choose to assume those risks voluntarily. For example, some Host Services may carry risk of illness, bodily injury, disability, or death, and you freely and willfully assume those risks by choosing to participate in those Host Services. You assume full responsibility for the choices you make before, during and after your participation in a Host Service. If you are bringing a minor as an additional guest, you are solely responsible for the supervision of that minor throughout the duration of your Host Service and to the maximum extent permitted by law, you agree to release and hold harmless Airbnb from all liabilities and claims that arise in any way from any injury, death, loss or harm that occurs to that minor during the Host Service or in any way related to your Host Service.

Source: Airbnb Host Guarantee Terms and Conditions

The contrast in size of crowdfunding platforms compared with the dimension of the two most famous sharing economy platforms is striking based on findings on some financial metrics of selected CF platforms (Table 3.10). I should note that I had to estimate annual figures based on data points usually provided cumulatively either through sites’ own disclosures or news sources. For instance Crowdcube reports the annual performance figures, while Kickstarter updates the cumulative funding data almost daily hence it is possible to calculate funding volumes between two dates. In Indiegogo, however, no disclosures on funding statistics are shared, and therefore I depended on available news sources (one from 2015 and the other from 2018) to calculate the site’s average volume per annum. Still, all of these figures should be viewed as approximation.

**Table 3.9 Comparison of financial estimates for two giant platforms**

Two sharing economy giants	Commission % on transactions (average aggregate)**	Estimated transaction volume* (US\$ m)	Platform revenues (US\$ m)
Airbnb (2017)	14%	18,571	2,600
Uber (2016)	20%	32,500	6,500

Source: News reports (<http://www.businessinsider.com/airbnb-profit-revenue-2018-2>, <https://www.statista.com/statistics/550581/uber-global-gross-bookings/>)

Notes:\*estimated by dividing the revenue figure by commission rates \*\*middle-point of total charges to host + guest

In terms of size, the market leader, Kickstarter, alone intermediated so far a total crowdfunding volume of US\$3.3 billion (as of 2 June 2018). This means

that the platform created over US\$160m of revenues for its share of 5% commission on projects' funds in nearly nine years since its foundation in 2009. The competitor, Indiegogo, on the other hand, is just expected to surpass US\$1.5 billion total funding volume as CEO Mandelbrot shared recently on FastCompany (April 2018). Its rival Kickstarter not only recorded double of its revenues, but also attained profitability since 2010. IG is anticipated to break even just this year and to record a profit only starting from 2019 on.

**Table 3.10 Comparison of key financial estimates across selected crowdfunding sites**

CF Platforms	Commission % on transactions (from receiver)	Funding volume	Platform revenues (US\$ m, 2017)	Avg.pledge per backer (US\$)	Avg.funding per campaign (US\$)	Degree of Filtering	Limit on overfunding
Crowdcube	7%	122	9	1,017	824,324	High	✓
Indiegogo*	5%	320	16	n.a.	n.a.	Low	✗
Kickstarter	5%	623	31	81	32,200	Low	✗
Patreon	5%	150	8	144	1,500	Low	✗
Zopa	2.4%-2.6%	1,000	25	10,123	5,996	High	✓

Source: Sites' own disclosures in Crowdcube, Kickstarter, Patreon; news reports for others Notes: \*Takehashi (2018), Span (2015)

Surely, not only the after-service but the degree of filtering a platform can afford would be a natural function of its financial capacity and workforce. Moreover, setting aside the possibility that different cultures may create distinctive needs for the middlemen filtering function, the need for platform's filtering also varies among different types of sharing in platforms. In an online, collectively created encyclopedia-always-in-progress like Wikipedia, a self-correcting mechanism where peers edit, review and correct each other's entries becomes a plausible model with lack of top-down filters leading to more productivity. This bottom-up process is also feasible due to flexibility born from freedom from direct physical harm. However in a platform like Couchsurfing, Airbnb or Uber and Lyft, the online meeting leads to offline encounters and the risk of physical harm comes in as well as transaction risk necessitating certain basic filtering like these platforms undertake.

On the other hand, contributing to a project through a crowdfunding platform seldom leads to offline meeting of both parties; hence pose a very

limited danger of physical harm. Yet, crowd's funds are at stake, and the most likely party the crowd would hold liable for fraud or undelivered promises would be the intermediating platform itself, against which platforms try to protect themselves as widely as possible in their terms as elaborated in Section 3.2.3.

A crowdfunding platform's, especially equity crowdfunding one's, where bigger funds of the crowd are at risk, initial reaction seems like building a rigorous filtering process for fund-raising projects in order to ensure credibility of projects. However, once the filtering is tilted more heavily to discretion of the platform selection criteria, access to funds becomes too dependent on a small group of people rather than the crowd, which moves away from the openness principle at the other end of the filtering spectrum. If the platform imposes too many filters, then it runs the risk of eliminating some users and ideas that at least part of the community may be willing to test, hence limiting the freedom of access for both the trustor (aka contributor) and the trustee (aka fundraiser). Moreover, for the filtering mechanism to stay consistent over the long run, it should be subject to some sustainable methods.

Similarly, if users know that, let's say, particularly a crowdfunding platform filters heavily, then this might in some cases communicate a faith that the projects on display are 'good enough' which may misguide users for free-riding on the platform's decision, hence the platform runs the risk of manipulating the decision-making process. This might create an environment where the platform and the crowdfunding project even look like pitching the idea together. The same goes for classifying certain projects as "Projects We Love" or "Team Favorites" as Kickstarter and Indiegogo respectively present. Although the final decision maker about funding a project is still the crowd, lack of enough transparency on the site for the community to build its own aggregate educated wisdom of crowd, may obscure the sustainability of the system in the long-run. This also reinforces the necessity for stronger information-absorbing designs tailored for the needs of the specific types of crowdfunding.

### **3.2.5. Additional Tools for Reinforcing Platform Trust**

From time to time, sharing economy platforms take some actions to specifically address trust issues. For instance, Airbnb platform launched certain initiatives to tackle “discrimination” which became an accusation on the site as it was criticized of leaving to the users to select whoever they wanted to share with. Approaching an experienced expert, Laura Murphy –“the former head of the American Civil Liberties Union’s Washington D.C. Legislative Office” – for investigating “diversity” on the platform, the platform facilitated cooperation for a comprehensive research report issued in September 2016 that the co-founder Chesky invited all members of the Airbnb community to read (Airbnb Diversity).

Laura Murphy (2016), in her foreword to the report, highlighted her observations and own involvement regarding the inherent troubles embedded in the real estate and lodging industries long before Airbnb was born, and how she was convinced by the founders about open dialogue “about bias” on Airbnb (p.4). Certain measures were enacted like a stricter Nondiscrimination Policy, an inclusion of a “permanent team dedicated to fighting bias while encouraging diversity” as well as updated Community Commitment and initiation of certain partnerships with organizations working with underrepresented groups.

The Couchsurfing (CS) platform that has been founded in 2004 long before its commodified version Airbnb, did not feel the need for such an initiative as it inherently promoted a belief in the universality of the need for intercultural exchange. Born as dominantly non-profit (but later on turned into a profit corporation, too) CS has been largely associated with a core spirit of advocating and promoting tolerance and dialogue as a bridge between differences. Airbnb, on the other hand, was born mainly with a profit-oriented mechanism that let individuals earn money on their homes through sharing with strangers and was getting a lot of complaints about unequal opportunities for hosts and guests from different ethnic backgrounds.

The Airbnb Community Commitment, asks each member since November 1, 2016 directly to “affirmatively agree to uphold”, which shows Airbnb’s

dedication to clearing doubts on tolerance at its site: “...By joining this community, you commit to treat all fellow members of this community, regardless of race, religion, national origin, disability, sex, gender identity, sexual orientation or age, with respect, and without judgment or bias” (Murphy, 2016, p.10).

Furthermore, Airbnb worked on another resolution for promoting diversity through a new system called “Instant Book Listings” that are aimed to allow “booking a listing” immediately without a need for host approval. Murphy’s (2016) report underlined that “Airbnb will accelerate the use of Instant Book with a goal of making one million listings bookable via Instant Book by January 2017 (p.11). This is to create a more automated system for matching of host and guests, which however intrinsically incorporated more intervention by the platform even if it’s an automated algorithm, and would require more intensive filtering of users by the platform.

Before going into the separate analyses on selected crowdfunding platforms, I conclude this section with an overview of the discussed tools and platforms’ performance in the utilization of their uncertainty reduction capacities, shown in Table 3.11.

**Table 3.11 Overview of typical tools for handling trust by sharing economy platform**

<u>Everybody’s on the learning curve here</u>		
Trust concerns two main layers:	Tools used for establishment of trust:	
•Trusting other users/peers : <i>interpersonal system trust</i> [Uncertainty reduction between peers]	•Self-disclosures •p2p rating/reference systems •ID checks •Links to users’ social networks	Space provided by platforms for users to fill in Not widely used in crowdfunding Mostly not required, optional Not widely used in crowdfunding
<u>Safe Technical Infrastructure:</u>		
•Trusting the platform&its system [Uncertainty Reduction regarding the platform]	•Secure payment mechanisms •EV SSL certificates / encryption <u>Accessibility/Transparency of important information :</u> •Site Policies / Terms of Use •Risks inherent in the related sharing practice •Warnings •Platform fees •Openness on failure cases	User-friendliness varies Not widely used Not widely used Not all include in Terms of Use No routine follow-up procedures in crowdfunding
<b>Other factors related with development of trust in the platform&amp;system</b>		
•Lack of mature legal frameworks and regulatory support for sharing •Platform’s level of intervention in content/proposal selection/the aftermath •Accountability of the platform		

## SECTION FOUR

### 4. TRUST IN CROWDFUNDING PLATFORMS

#### 4.1. REWARD-BASED CROWDFUNDING PLATFORMS

The great irony of crowdfunding is that it ultimately boils down to a direct one-to-one relationship between a project's creator and individual backers. Indiegogo is the middleman in that relationship: it connects, it facilitates, but it doesn't actually assume any of the legal responsibility...In the end, Indiegogo's greatest risk may be to itself — if it doesn't evolve to provide better tools for assessing projects and real checks and balances to weed out the dubious ones, it may lose the one indispensable contribution from all of its users: their trust (Savov, 2014).

Trust is a double-edged sword in crowdfunding, being both the foundation and a slippery ground that can act like the very reason of success and a potential threat to the sustainability of these platforms at the same time. This consideration lies at the very center of this research. Savov, a senior editor at the Verge, pinpointed a latent possibility for reward-based crowdfunding (CF) platforms quite vividly. Making money on successful funding of projects by the crowd regardless of the fulfillment of projects' promises creates the major dilemma of reward-based crowdfunding platforms. In that respect, providing an environment with sufficient tools and transparency for the crowd to develop an educated stance on building trust and the associated risks becomes a moral responsibility, too.

Reward-based crowdfunding is a novel process like various other sharing economy platforms. Despite the precedents like in gift economy and cooperative communal funding, contributing to imaginative projects of "strangers" through an online platform in exchange for to-be-created rewards (aka "perks") is a new concept introducing new uncertainties. As it is still fresh, there is apparently a "learning process" both for the crowdfunding community and for even the longest-operating leading reward-based crowdfunding platforms, Indiegogo (IG) and Kickstarter (KS). As their crowdfunding samples grow through time, the odds

of failures have shown themselves through real examples which shape perceptions of the users and the platforms. Only with these experiences and correct lessons, the platforms and the user communities can gradually manage the manufactured uncertainties as in Giddens' perspective and build a truer crowd opinion on the true character and risks of crowdfunding. For this information to accumulate smartly both backers and creators need the necessary uncertainty reduction tools of analysis and access to accumulated knowledge and these tools can only be activated by the platform even if it may not directly become the one to analyze it.

This section forms the focal part of this study and will examine the reward-based crowdfunding platforms, IG and KS. As with the other sharing economy platforms investigated, this study analyzes the platforms through the lens of uncertainty management for trust formation, also benefiting from Giddens' notion of trust in abstract systems. Both the "interpersonal" relation of sharing economy peers among themselves (peer trust) and their relation vis-à-vis a platform (platform trust) are facilitated primarily through the design and substance of the space, and the provided information exchange points – "access points" as Giddens would call them – hence they are also the main focus of the study.

Throughout this section, findings on certain missing design, content and policy elements that hint to detected gaps in platforms' transparency and furnishing of tools for uncertainty reduction and trust formation will be outlined. Since trust usually gets challenged when things do not go as planned, this section also investigates platforms' practices in terms of uncertainty reduction on projects' post-funding performance and explores two failure stories of "successfully funded" crowdfunding campaigns (Section 4.1.3).

#### **4.1.1. Main Pitfalls of Reward-Based Crowdfunding**

##### **4.1.1.1. Uncertainty on the Notion of "Success"**

Usually, the most covered part of crowdfunding is how to successfully reach funding. As of the latest check (12 June 2018), there are 9.3 million Google

results on “successful crowdfunding campaigns”. “Failed crowdfunding campaigns” on the other hand are covered in only 759,000 Google results, and “unsuccessful crowdfunding campaigns” yield 162,000 results. This overlaps with the general common-sense that people are more interested in success stories. The rhetoric of success also usually becomes tied to making the best first impression so that funding can be reached. This interest in funding success treats the realization of a project with delivery of rewards as secondary. As Table 4.1 shows, Kickstarter, for instance, reveals that it delists the projects not reaching funding targets (unsuccessfully funded) from search results, hence contributing to lower transparency even from the angle of the funding platform.

**Table 4.1 Kickstarter’s browsability on “unsuccessful” projects**

**Are projects that were not successfully funded browsable on Kickstarter?**

Kickstarter doesn't have a browse area for projects that didn't meet their goal. However, unsuccessfully funded projects are accessible through Kickstarter's search engine and the profile pages of the project's creator and backers. When users click on a creator's profile they can see all of the creator's past projects — successfully and unsuccessfully funded.

In terms of external search engines (Google, Bing, etc.), Kickstarter de-indexes projects whose funding was unsuccessful. This means that unsuccessfully funded projects shouldn't show up in those search results.

Source: Kickstarter Help – Creator Questions

Thus, the crowdfunding platforms themselves also usually dwell and educate on the success of funding part of the process rather than the how to deliver and materialize the project once funding is there, as prevalent in for instance Indiegogo’s email post of educational content to users (Figure 4.1). Likewise, Kickstarter’s “Creator’s Handbook” (Figure 4.2.) spares a relatively small focus on “fulfillment” process compared with the funding process. Nevertheless, some recent initiatives launched in 2017 by both platforms like the “Concierge” program by IG and Hardware Studio or the Creative Independent by KS seem to be small but appreciable steps for providing at least stronger guidance on the realization of projects. In general, in terms of educational resources and tools for project creators, Indiegogo platform appears richer than its counterpart Kickstarter. Apart from free-of-charge educational posts and tools, certificate

programs like Arrow that teaches on how to bring “tech projects to life” is provided on IG’s “entrepreneur” platform (Indiegogo Entrepreneur).

#### Figure 4.1 Indiegogo email post to Entrepreneurs –Tips for Crowdfunding Success

Hello Selin Oner,

If you're looking for insightful and helpful resources to guide you throughout the crowdfunding process, look no further. The [Indiegogo Education Center](#) is full of great tips, tools, and guidance for your campaign.

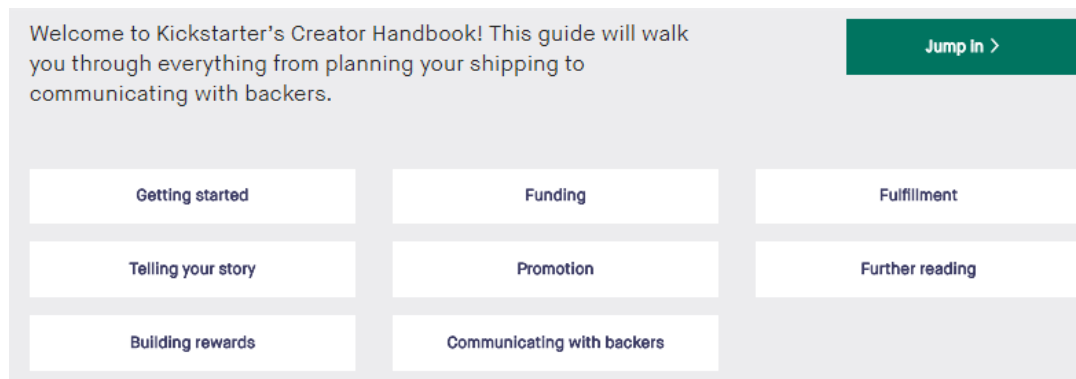
We've compiled our greatest hits of 2017 below:

- Article: [6 Tips for A Good Pitch Video](#)
- Article: [How Rocketbook Raised an Additional \\$1 Million on InDemand](#)
- Guide: [Campaign Pre-Launch Calendar and Checklist](#)
- Guide: [Prototyping 101: Turn Your Idea into A Prototype](#)
- Webinar: [Pre-launch 101: How to Build Your Audience before You Launch](#)

Ready to explore more? Check out all the resources in the Indiegogo Education Center.

Source: Indiegogo Email to Users dated 21 December 2017

#### Figure 4.2 Overview of Kickstarter’s Creator Handbook



Source: Kickstarter Creator’s Handbook

#### 4.1.1.2. Uncertainty on Definition of “Rewards”

There is an ambiguity in reward-based crowdfunding universe where mainly two different types of projects blur the definition of the rewards between pre-order and contribution. Especially projects which aim to deliver finished products appear as pre-sellers (usually in technology category), while some projects collect funds to kick start or complete an art project such as a movie where the rewards may vary from a backer’s name appearing on credits, a signed

poster, etc. On KS and IG, there are various projects at different levels of development status, some more advanced fitting in a more pre-order category as well as the ones that are built from scratch. Yet there is not a categorization that the platforms make room for in terms of reducing uncertainty on development status, except Indiegogo's more recent efforts in introducing a scale for product stages in tech projects (Figure 4.13).

Yet, with a significant amount of famous successful projects such as Pebble watch (raising US\$10m in 2012, Pebble Time raising US\$20m in 2016 but subject to partial refund or Ouya game console with US\$8.5m in 2013) that delivered finished products, crowd's impression can easily tilt towards a pre-order site. This creates confusion: is the community purchasing a product whether artistic or technologic or just helping for its creation (like a gift)?

The question also boils down to what the crowdfunding supporters are really contributing. It is an exchange that is embedded not only in monetary units but also in certain goodwill. Backers are looking for getting their rewards as well as the pleasure of seeing something being materialized on the back of their support. In light of that and also considering the implications and the connotation of the "reward" terminology, the transaction cannot be considered as altruism. The giving version could occur in donation-based crowdfunding and indirectly to some extent in equity crowdfunding where contributors invest in a company for becoming a shareholder in view of a belief in future returns but knowing that this may never materialize.

Reward-based platforms –neither a philanthropic platform nor "pre-order" store – basically fall somewhere in between and can be actually both at the same time as well as none of them exactly. It is a brand new category that can carry features of both a purchase of a product and a gift of contribution to project creators but also does not have to belong to any of them. For instance, in an interview with Wallis (2017) from Wired.com, Kickstarter's co-founder Strickler made a categorization of "three main ways money changes hands: commerce, investment, charity" and put reward-based crowdfunding into a fourth category with similarities to all. This is a smart approach as it totally meets the necessity of

opening a brand new box for crowdfunding. Still, at times an identity misperception rises, especially following campaigns that although successfully funded cannot deliver the promised rewards, which confuses the community. Then the platforms sometimes feel the need to intervene and come up with new rules on fundraising as a result of experiences on their learning curve.

For instance Kickstarter, in order to clear this dichotomy and to protect themselves legally, declared in a blog-post in 2012 famous in the crowdfunding community that the platform is not a “store”. Since then the site, as well as its competitor Indiegogo, are trying to overcome the belief of some users considering them as alike to Amazon, through new rules or educative content to users. In clearing these kinds of confusions and reducing the uncertainty on their functioning as well its own role, the platforms mostly rely on their Terms of Use and additional explanatory blog posts throughout their site which will be reviewed in 4.1.2.1 and 4.1.2.2.

#### **4.1.1.3. The Specific Pitfall of Indiegogo: Partial Funding**

KS has a strict funding rule that allow fundraisers to collect money only if the project meets its funding goal. Indiegogo, however, allows partial funding for projects which lets project owners collect the funds even if the funding target is not met. Previously Indiegogo’s commission rates varied between fully funded and partially funded projects from 5% to 9% respectively. Yet, in July 2015, IG removed the duality and started a flat fee (Span, 2015) as its competitor Kickstarter –which gets 5% flat on funded projects. IG’s post on this change is not accessible on its website, and we can learn when this shift occurred in archive research through news pieces. The unavailability of a platform post forms one of the typical examples of platforms’ staying low-key or fully silent in key policy changes. Kickstarter seems more consistent in keeping old posts accessible.

The strict funding rule has both advantages and disadvantages for the crowdfunding spirit and community. The basic advantage is that if the project is short of raising the targeted funding goal and there are not enough funds to

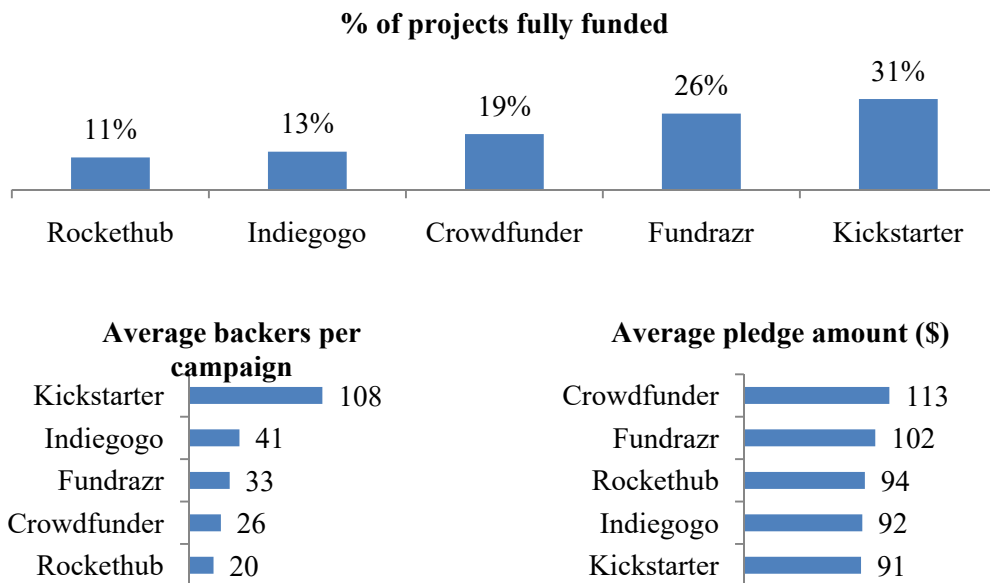
“initiate” the project, then the backers of the project need to say bye-bye to a project that might not realize at first place, hence in a way backers are protected. Even if partial funds would be collected at Indiegogo, the odds that it would be feasible with lack of full funding may not bear full certainty. On the other hand in the extreme scenario when a project comes very close to meeting its target such as raising 98% of the funding goal but is not eligible to collect funds on Kickstarter, may do so on the rival Indiegogo and kick off the project anyway. Here it is rather the creator of a project that is protected directly. Indirectly, of course, the crowdfunding community that believes in the project and wants to see its realization also benefits from this rule.

The flexibility of funding rule at IG is somehow reflected on the ratio of fully funded projects. Since its foundation in 2007 until 2013, Indiegogo has presented about 1.3 times more projects than Kickstarter –founded in 2009 –, but only about 9.3% of projects reached full funding based on an analysis of public data by the Verge under the headline of “Indie no-go” (Jeffries, August 2013). A spokesperson from IG iterated the need for adjustment for the “test” projects, yet also fell short of providing an alternative figure at the publication date. Compared with Kickstarter this ratio is considerably poor. Kickstarter projects registered a success rate of 44% of meeting their funding goal between 2009 and 2013 compared with 36% currently (June 2018). Comparatively, 80% of projects at Indiegogo collected only about 25% of their funding target and less based on the search engine results whereas 46% of Kickstarter’s projects remain below the 20% level of fund-raising. This can be attributed largely to higher visitor traffic and also Kickstarter’s stricter guidelines on the purposes of funding prohibiting projects that raise money for “charitable causes, beauty products, and social networking apps” and so on (Jeffries, August 2013).

A more recent elaboration on success rates portrayed a similar picture. According to the analysis of the Crowdfunding Centre cited by Clifford (Figure 4.3), 69%-89% of projects in 2015 have not succeeded in reaching their funding target in the five largest crowdfunding platforms across U.S., U.K. and Canada, with Indiegogo delivering a full funding success ratio of 13% vs. Kickstarter’s

31%. As of the latest data as of 2 June 2018, over KS' whole history the ratio of successfully funded projects recorded as 36% (see p.145 for more details on Kickstarter statistics).

**Figure 4.3 Overview of 2015 crowdfunding key statistics**



Source: The Crowdfunding Centre/Entrepreneur.Com

From the start on Kickstarter stood out with mostly high-tech but in general popular hit projects such as Pebble smartwatch, the Ouya gaming console or Veronica Mars movie. According to the Verge's analysis, in the technology section of Indiegogo only around 3.6% of campaigns reach their funding goals while this is c.34% in Kickstarter. Despite this divide, Canonical company that issued the Ubuntu Edge, presenting itself as the "next generation of personal computing: smartphone and desktop PC in one state-of-the-art device" posted its project on Indiegogo looking to raise US\$32m. When asked by the Verge about this selection, Canonical acknowledged the platform's wider coverage and "better variety in the way perks can be set up". Kickstarter's stricter guidelines such as prohibiting perks offering multiple or bulk items and quantities could have discouraged the project at first place. With Ubuntu Edge being offered in bulk quantities such as US\$1,400 contribution for two Edges or US\$80,000 for 100 Edges for enterprise use would not be possible on Kickstarter.

Succeeding in raising 40% of its hefty goal, Ubuntu Edge registered itself as one of the biggest crowdfunding projects thanks to Indiegogo's partial funding ability. Indiegogo itself framed the perception on "success rate" as "We don't quantify the percentage of campaigns that are successfully funded because even if a campaign doesn't reach its funding goal, it can still be considered a success" (Jeffries, August 2013). This actually captures another important dimension of crowdfunding success, namely the impact of the publicity on the back a presence on a platform with worldwide reach. Apart from success of funding and of project realization –that this study focuses on –, a holistic understanding of success in crowdfunding would possibly require a view on impact element, too. Although this is a rather intangible quality that would be hard to measure, this perspective would call for a fairer utilization of words of "success".

#### **4.1.2. Platforms' Key Uncertainty Reduction Tools**

##### **4.1.2.1. Terms of Use as the Less User-Friendly Mechanism**

One of the main tools for building healthy and transparent relations between the stakeholders is the Terms of Use (ToU). Both the engagement of the platform with the users as well as the interaction of users with each other is governed by the principles defined by the platform. This is a significant element of uncertainty reduction within all online platforms, yet for the newly evolving crowdfunding universe posing new uncertainties, this is of paramount importance.

Knowing that the typical terms and conditions language may be heavy and hard-to-follow for users, Kickstarter provides a simpler version of almost every rule in a summarized fashion throughout its ToU. Blue boxes in every section contain compact and more precise notes about what is meant in the relevant rule. In terms of the simplicity and user-friendliness, Kickstarter's ToU fares well above Indiegogo's, also in numeric terms with the former containing half of its counterpart's: 4,241 versus 8,375 words respectively.

For any sharing economy platform, one of the most critical building blocks of forming trust among its community is how it positions itself in the sharing process so that the users can have confidence on the intermediary role of the platform and know what to expect from it. This role is typical of providing a marketplace or meeting spot for peers without direct involvement, in crowdfunding too. Kickstarter clearly frames how supporting a campaign constitutes a “direct legal” contract between the creator and the backer of a project: “When a creator posts a project on Kickstarter, they’re inviting other people to form a contract with them. Anyone who backs a project is accepting the creator’s offer and forming that contract. Kickstarter is not a part of this contract”. The creator’s responsibility is defined in ToU as “high standard of effort, honest communication, and a dedication to bringing the project to life”. In turn, backers’ job is comprehending that backing a project is “helping to create something new – not ordering something that already exists” and modifications as well as delays or inability to finish a project, are part of the process (KS Terms of Use, Section 4).

When such problems occur, the actions a project owner needs to take are having “remedied the situation and met their obligations to backers”. This includes providing updates on the project spending, accomplishments and the reasons for the deviation, showing if possible proof of using campaign proceeds properly and their on-going commitment to materializing the project. Creators are also advised to return either any available funds to supporters who haven’t received the perks or explaining an alternative use of proceeds for completing the project. Platforms precisely emphasize that they do not provide refunds: “Responsibility for finishing a project lies entirely with the project creator. Kickstarter doesn’t hold funds on creators’ behalf, cannot guarantee creators’ work, and does not offer refunds”. In the section “How Funding Works”, Kickstarter summarizes embedded features of crowdfunding. The platform also emphasizes that the mostly complained item “delivery date” should only be considered as an estimate and does not form a guarantee for completion.

Although clearly specifying what the responsibilities of project creators are, KS refrains from any type of statements on what the platform’s

responsibilities are. Instead, it underlines what the platform does not do (Figure 4.4). Hence, the platforms Kickstarter and Indiegogo like most of their other counterparts alleviate the potential pressures on their liabilities in ToU and refrain clearly from any duty or guarantee neither on following up the promised use of contributions nor the delivery of the promised rewards (See Annex B.1-B.3).

**Figure 4.4 Excerpt from Kickstarter’s Terms of Use**

**6. Stuff We Don’t Do and Aren’t Responsible For**

We don’t oversee projects’ performance, and we don’t mediate disputes between users.

Kickstarter isn’t liable for any damages or losses related to your use of the Services. We don’t become involved in disputes between users, or between users and any third party relating to the use of the Services. We don’t oversee the performance or punctuality of projects, and we don’t endorse any content users submit to the Site. When you use the Services, you release Kickstarter from claims, damages, and demands of every kind — known or unknown, suspected or unsuspected, disclosed or undisclosed — arising out of or in any way related to such disputes and the Services. All content you access through the Services is at your own risk. You’re solely responsible for any resulting damage or loss to any party.

Source: Kickstarter Terms of Use

In stating the duties of the campaign owners (aka “creators” in Kickstarter’s terms) Indiegogo is a little more explicit: “Campaign Owners are legally bound to perform on any promise and/or commitment to Contributors (including delivering any Perks). This commitment includes shipping Perks to Indiegogo Contributors before fulfilling any orders received after the Campaign has ended” and encourages campaign owners to prioritize the platform’s crowdfunding delivery ahead of other orders that may be created somewhere else (Indiegogo Terms of Use). Kickstarter’s statement only refers to the responsibility as “the creator must complete the project and fulfill each reward” (Kickstarter Terms of Use), obviously free from any special treatment of the crowdfunding platform. Actually, in Kickstarter’s Zano Drone project failure story (Section 4.1.3.2.); this was one of the problems where the creators prioritized a consecutive pre-order they built on their own site to increase the funding and order volume.

Indiegogo is also more specific about the updates a campaign owner must provide to the project’s backer community with a frequency of at least once a month quality updates. Another part Indiegogo is clearer and stricter is the

previous track record of a campaign owner: “Indiegogo reserves the right to prohibit or remove a Campaign if the Campaign Owner is delayed by three months or more in fulfilling a prior crowdfunding project on Indiegogo or another platform”. This type of track record data is valuable information that backers would want to see as well, however, in both platforms, this data point is not accessible and there are no organized mechanisms to track project performance.

While Kickstarter’s Terms of Use has an emphasis on the creators’ role and what tasks they should satisfy, Indiegogo goes a step further and also defines the role of the contributors: “Contributors are solely responsible for asking questions and investigating Campaign Owners and Campaigns to the extent they feel is necessary before making a Contribution”. This is a strong part of its ToU as it puts the platform in equal distance to both sides of the equation.

Indiegogo calls itself a “venue” in its ToU whereas Kickstarter presents itself as a “platform”. IG also uses the term “platform” across the site, for example in About Us where it greets the visitor with a description of the site as “giving entrepreneurs a platform to launch new and groundbreaking products” and assisting innovations in “technology, design and much more” to emerge “all before they go mainstream”. Also referring to “clever and unconventional things that solve everyday problems large and small”, the platform almost positions itself as a shopping venue with an emphasis on “innovative products” and solutions, which can easily be associated with a perception of “pre-order”. The site also identifies itself as an “open platform where any project can be posted” in its own comparison of Indiegogo versus Kickstarter (see Figure 4.7).

In light of this, the differentiation of “venue” or “open platform” compared with “platform” could be associated here with Kickstarter’s “screening” role through a simple check of projects while Indiegogo lets in any project to its display. Based on our street analogy of the offline versus online realms (mentioned in Section 1.5.2., p.50), Indiegogo venue can be thought of as an open-access plaza for any visitor while Kickstarter tries to be more like a shopping mall that has an x-ray screening at the entrance.

Another nuance between the two platforms is regarding openness about any updates on Terms of Use (presented in Table 4.2 along with other key terms).

**Table 4.2 Kickstarter vs. Indiegogo Key Terms Compared**

Key Terms	Kickstarter	Indiegogo
Info on Terms of Use	We may change these terms from time to time. If we do, we'll let you know about any material changes, either by notifying you on the Site or by sending you an email. New versions of the terms will never apply retroactively — we'll tell you the exact date they go into effect. If you keep using Kickstarter after a change, that means you accept the new terms.	Indiegogo may amend the Terms at any time by posting a revised version of the Terms on our Services. Access to or continued use of the Services after the effective date of the revised Terms constitutes your acceptance of the revised Terms.
Calls itself	"A funding <b>platform</b> for creative projects"	"Online crowdfunding <b>venue</b> for people and entities"
Project approval process	"Project screening" through a 'quick review' against Project Guidelines	"No applications or approval process"
Fundraising causes	"Projects can't fundraise for charity"	"Open platform": "raise money for anything"
Funding success	Fixed funding: Funds released only if 100% or above is reached	"Multiple Funding Models: Option to keep whatever funds you raise, even if you don't hit your goal"
Global Fund distribution	"Open to backers all over the world"	"Receive funds in almost every country"
Worldwide reach	Project creation is currently available to individuals in the US, UK, Canada, Australia, New Zealand, the Netherlands, Denmark, Ireland, Norway, Sweden, Germany, France, Spain, Italy, Austria, Belgium, Switzerland, Luxembourg, Hong Kong, Singapore, Mexico, and Japan	"Run a crowdfunding campaign from almost any country or territory"
Prohibited Items	Typical set of illegal or ambiguous items such as weaponry, lottery, alcoholic bev.'s, nicotine, drugs etc.	Typical set of illegal or ambiguous items such as weaponry, lottery, alcoholic bev.'s, nicotine, drugs etc.

Source: Kickstarter, Indiegogo websites, and their Terms of Use

Kickstarter proclaims to notify users on any updates, while Indiegogo states that changes may occur anytime and "continued use" may form recognition of the updates by the users. The site recommends users checking Terms of Use "frequently" as it can be changed "at any time" and moreover informs that if

changes are “material” the users may be notified “by email, by means of a notice on the Services, or other places” the site finds suitable: “A “material change”, however, will be determined at Indiegogo's sole discretion, in line with “common sense and reasonable judgment” (Indiegogo Terms of Use). Indiegogo’s flexible approach that only expresses that they “may notify” regarding changes was confirmed by the answer upon a question I sent to the Support team asking what changes occurred between August 2016 and November 2017 (Figure 4.5).

#### Figure 4.5 Indiegogo Support’s Information Exchange on Changes in ToU

17.12.2017: I saw that your Terms of Use changed because the last time I checked it was as of August 2017 now it's of Nov.17. I guess there is a problem with the end of the page where you show the summaries of changes on each update. After December 2016 is missing. I assume you normally inform what changed but a simple error occurred on the page. It would be good to know what is the new update about? Also, are you notifying your members when Terms of Use changes? I haven't received an email on that

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#### Figure 4.5 Continued



**Brian (Indiegogo Support)**  
Dec 25, 22:25 PST

Hi there,

Thanks for writing in.

As our Terms states, "Indiegogo may alter the Terms at any time, so please review them frequently. If a material change is made, Indiegogo may notify Users in the Services, by email, by means of a notice on the Services, or other places we think appropriate. A "material change" will be determined at Indiegogo's sole discretion, in good faith, and using common sense and reasonable judgment."

You may learn more about it here: <https://www.indiegogo.com/about/terms>

Regards,

Brian

Trust and Safety

[Indiegogo](#)

[Generosity](#)

Source: Email Exchange with Indiegogo Support

This arbitrariness in notifying about changes in policies performs poorer compared with the example of another sharing platform Airbnb’s corresponding term. Airbnb’s Terms of Service outlines a process for notifying users when modifications take place through an email “at least thirty days before the date they become effective” to give a right of choice to its users for terminating their agreement in case of disagreement with revisions (Figure 4.6).

## Figure 4.6 Comparison: Airbnb's Modification of Terms

### 3. Modification of these Terms

Airbnb reserves the right to modify these Terms at any time in accordance with this provision. If we make changes to these Terms, we will post the revised Terms on the Airbnb Platform and update the "Last Updated" date at the top of these Terms. We will also provide you with notice of the modifications by email at least thirty (30) days before the date they become effective. If you disagree with the revised Terms, you may terminate this Agreement with immediate effect. We will inform you about your right to terminate the Agreement in the notification email. If you do not terminate your Agreement before the date the revised Terms become effective, your continued access to or use of the Airbnb Platform will constitute acceptance of the revised Terms.

Source: Airbnb Terms of Service (as of 19 June 2017)

The most important bottleneck and where most of the uncertainty lies in a crowdfunding process is apparently the step where the backers are rewarded. As earlier mentioned, the whole crowdfunding concept mostly dwells on the first stage where the creator is rewarded with the contributions from backers. We can see which project fails at the first stage, however, there is no explicit summary on the projects that fail at the second stage except news coverage and comments or updates sections on each project page separately. There are no clear guidelines on a well-defined path for backers to follow in such a delaying or unfulfilled project case other than showing patience and resolving without "litigation".

At Indiegogo, it is stated that "if any Campaign Owner is unable to fulfill any of its commitments to Contributors (including delivering any Perks), the Campaign Owner will work with the Contributors to reach a mutually satisfactory resolution, which may include refunding their Contributions" (Indiegogo Terms of Use). Based on KS' statistics, we can calculate a number of backers for successfully funded projects at 255 on average. Considering a similar number might apply for Indiegogo, it is questionable how the campaign owner can work with over hundreds of contributors to agree on a consensus plan for resolution. For blockbuster projects with thousands of backers, this gets even more stretched. Here, there is a missing link of bridging function between the backer community in a project and the project creators. This along with the other detected gaps may be constructed to be taken care by representatives from the crowd in a carefully structured autonomous methodology that also needs to be sustainable.

**Figure 4.7 Indiegogo’s Own Comparison – Indiegogo vs. Kickstarter**

Partnerships & Support: Indiegogo vs. Kickstarter	GO	KS
<b>Design, Prototyping and Manufacturing Partners</b> Through an innovative program with Arrow, you'll have partners at your side from design to prototyping and manufacturing.	✓	✗
<b>Cutting-Edge Technology from Leading Partners</b> From our support for Apple Pay on the web to our robust integration with Stripe, we work with leading companies so all users benefit.	✓	✗
<b>Fulfillment Partners</b> Get fulfillment assistance from dedicated partners, including Amplifier and Brookstone.	✓	✗
<b>Retail Partners</b> Sell your product on major e-commerce platforms through dedicated retail partners, including Amazon and Newegg.	✓	✗
<b>24-7 Support from Real People</b> Receive round-the-clock support from our customer happiness team.	✓	✗
<b>Tools: Indiegogo vs. Kickstarter</b>	GO	KS
<b>Pre-Campaign</b> Easily capture email addresses before your campaign launches.	✓	✗
<b>Equity Crowdfunding*</b> Raise money from an engaged community of investors while maintaining company control.	✓	✗
<b>InDemand + Marketplace</b> Continue raising money and building your community after your crowdfunding campaign is over.	✓	✗
<b>Flexibility &amp; Reach: Indiegogo vs. Kickstarter</b>	GO	KS
<b>Multiple Funding Models</b> Option to keep whatever funds you raise, even if you don't hit your goal.	✓	✗
<b>Open Platform</b> Raise money for anything – no application or approval process.	✓	✗
<b>Global Fund Distribution</b> Receive funds in almost every country.	✓	✗
<b>Worldwide Reach</b> Run a crowdfunding campaign from almost any country or territory.	✓	✗

Source: Indiegogo Learn

## Figure 4.8 Excerpt from Indiegogo’s Terms of Use on Refunds

### Recovering Funds

By using our Services, you acknowledge that Indiegogo reserves the right to attempt to recover or hold funds from your Campaign, or the connected Stripe or bank account associated with your Campaign, for reasons including but not limited to: refunds, lost chargebacks, a Campaign Owner does not act in accordance with Indiegogo’s Terms, or other situations resulting in negative balances.

We may obtain reimbursement of any amounts owed by a Campaign Owner to Indiegogo by holding funds from your Campaign, or the connected Stripe or bank account associated with your Campaign, or seeking reimbursement from the Campaign Owner by any other lawful means, including by using third-party collections agencies. You authorize us to use any or all of the foregoing methods to seek reimbursement.

If the amounts raised by a Campaign on Indiegogo exceed a certain threshold, and/or a Campaign has a high number of refunds or chargebacks (each as determined by Indiegogo in its sole discretion), Indiegogo may withhold a percentage of the Campaign funds for period of time as determined by Indiegogo in its discretion and in accordance with Campaign reviews. Indiegogo will manage all refunds during this time. The minimum goal set by a Campaign Owner must be at least \$500. This is applied to Campaigns with either Fixed or Flexible funding.

You acknowledge that as a Campaign Owner, if you do not act in accordance with Indiegogo’s Terms, Indiegogo may obtain reimbursement of any amounts owed by a Campaign Owner to Indiegogo by holding funds from your Campaign, or from the connected Stripe or bank account associated with your Campaign, or by seeking reimbursement from the Campaign Owner by any other lawful means, including by using third-party collections services.

Source: Indiegogo Support

Indiegogo is free from a basic screening of projects’ quality in contrary to Kickstarter, yet it underlines its commitment to “keeping the platform safe and trusted”. Yet, as a platform that openly expresses that they let in “any project” (Figure 4.7, IG’s own comparison against KS), it lacks an explanation on its actions to ensure this safety and trust. It is understood that the platform tries to eliminate basically fraudulent acts on its site, in line with Kickstarter’s approach.

Indiegogo is not checking projects through a preliminary review like Kickstarter yet it also declares itself rightful for “recovering” or “holding” funds from a campaign not only regarding refunds but also in cases where the campaign owner “does not act in accordance with Indiegogo’s Terms” (Figure 4.8 above). This sounds a bit harsh also in view of Indiegogo’s discretion on when to release what part of funds to campaign owners. This is apparently what happened in the failing Robot Dragonfly project covered in Section 4.1.3.1. Kickstarter, however, releases funds immediately once the campaign is over.

### 4.1.2.2. Sites Post to Reduce Uncertainty on Definitions

Apart from Terms of Use, another important dimension for crowdfunding platforms to manage the uncertainty regarding the platform’s functioning is

educational posts through the site which not only target enlightening the community but also clearing the path for the platform management, too. As mentioned in the beginning of this section, the novelty of reward-based crowdfunding puts all the stakeholders into a learning process, where certain grounds are only tested when they are stepped on. The platform themselves are also learning, examining and adapting through experiences or sometimes upon useful questions asked by third parties from a possibly more objective distance.

In 2013, NPR's Business Correspondent Shahani inquired fairly: "when a Kickstarter campaign fails, does anyone get their money back?", mainly covering the Ouya game console project after its remarkable funding of US\$8.6m from 63,416 backers while only seeking US\$950,000. At the time of the news report in September 2013, the campaign was looking to deliver the promised perks within a six months period in next March denoting a one year period from the date of the campaign. NPR basically posed the never really asked-out-loud question: what if it fails to deliver, will the backers that contributed US\$8.6m be refunded?

Both the campaign creator Julie Uhrman and Kickstarter's co-founder Yancey Strickler who were asked by NPR could not take a clear position. The campaign owner Uhrman noted: "Technically, from the Kickstarter perspective, I actually don't know the answer to that. But from a doing-the-right-thing perspective, we will treat our backers the best possible way". Platform's co-founder Strickler did not sound firmer: "You know, that would be new ground...I don't know. I mean, no, I don't think that we would. But certainly, the kind of thing you're talking about is not a bridge that has been crossed yet. Someday it will. And you know, I think if something did go awry, it would be — it wouldn't be my favorite day". This very basic elaboration showed that the platform was not prepared at all to face such a big fail or shied away from a conclusive response, in any case hinting to a serious potential bump in their learning curve that yet lacked a clear direction even by the platform's founders.

That day came not too long after US\$3.2m worth funding Zano drone project failed (see Section 4.1.3.2.). As NPR rightly pointed out there is not a defined process for refunds. Although site policies stipulate project owners to

refund backers in failing projects, there is not an embedded tool or tracking option to structure or at least make the process visible and organized. The scholar Ethan Mollick who was cited by NPR underlined the evident: “Enthusiasm is ahead of [the] tools...So, Kickstarter is a very minimal system in some ways. It's not really built to police itself.”

#### **4.1.2.2.1. Kickstarter Explains Its “Accountability”**

One day after the NPR news report, Kickstarter’s co-founders released a post on “Accountability on Kickstarter” for a clearer answer as reviewed here:

- Projects are only screened through a “quick review” with a check only against the Project Guidelines (next page). The ability of a creator for completing the project is not inspected: “Backers ultimately decide the validity and worthiness of a project by whether they decide to fund it”.
- The platform takes no responsibility for completion of a project. Creators are expected to provide updates on the progress of their projects.
- A successful project’s funds, after Kickstarter’s share of 5% are channeled to project creators’, and the refund boils down to the creator’s decision.
- Backers should show patience and understanding while requesting “accountability” if a project creator seems to put “good faith effort to complete their project with openness backers.
- “If the problems are severe enough that the creator can’t fulfill their project, creators need to find a resolution. Steps could include offering refunds, detailing exactly how funds were used, and other actions to satisfy backers”.
- ToU necessitates creators to deliver all the perks or “refund” backers who cannot receive rewards, and create a “legal requirement for creators” and “recourse” for backers if the creators fall short of their promises: “We hope that backers will consider using this provision only in cases where they feel that a creator has not made a good faith effort to complete the project and fulfill”.

The basic screening the platform performs is a checking of each project post request against Project Guidelines. These guidelines are some general rules that can be summarized as i.) project creators need to have a target idea or product that can be materialized with the funds, ii.) if the project involves a manufacturing process, the creators must show a prototype, iii.) “projects can’t fundraise for charity”, iv.) “projects can’t offer equity”, v.) “projects can’t involve prohibited items” (Kickstarter Rules). Prohibited items include various things from claims for treating illnesses, gambling, energy food, and drinks to live animals, alcohol, tobacco and drugs or to weaponry, etc. as similar to IG’s prohibited scope.

In both its Terms of Use as well as these explanatory blog posts such as this one on Accountability, Kickstarter clearly declared the spirit of crowdfunding as a “risky” bet on new ideas expressing that the platform targets enabling a variety of ideas: “...A Kickstarter where every project is guaranteed would be the same safe bets and retreads we see everywhere else” (KS Accountability). This view is not far from what Nissenbaum argued (as mentioned in Section 1.4.2, p.40) where full removal of risks undermined the meaning of trust anyway. However, this does not imply that users of a platform can accept all the risks without demanding tools for managing and understanding the uncertainties better.

There is an imaginary side of Kickstarter as described by the platform. Project creators imagine it and backers breathe life into it, but the platform basically does not take any responsibility other than directing the crowd’s funds into creators’ hands. Yet, this almost passive intermediary role position creates a discrepancy with the platform’s prevailing greeting message of “bringing creative projects to life” on its homepage, as it sounds like the platform has an active role in realization of a project. These kinds of inconsistent statements can feed uncertainties rather than reducing them. A passive filtering role for a crowdfunding platform would be actually more sustainable than an active one, if the crowd is furnished with enough mechanisms to self-monitor itself actively.

Kickstarter communicated in its Accountability post that suspicious projects alarmed by the community are screened through their expanding trust and safety teams. The focus is on avoiding fraudulent acts in line with a simple

screening attitude. In its Help on Backers' questions, Kickstarter also transfers some of the responsibility of trusting the project owners to backers who supposedly should screen actively on their own as well get to know more about a project creator. If they are not connected to the creator, they "may want to get a better idea about who they are". This recommendation for researching on other peers is perfectly in line with the self-disclosure comparison we draw in Section Three. Yet an internet platform's affordances on absorbing more detailed profiles on user pages is a necessity to lay a fundamental basis for users' uncertainty reduction as in Couchsurfing (Section 3.2, p.76).

Although Kickstarter supposedly forces every project creator for identity verification, and supplementary resources like "links to websites, relevant background information, and in some cases, a connected Facebook account" (Kickstarter Backer Questions), the profile pages of project creators lack in substance as outlined. Hence, the activation of the crowd required by a passive platform stance cannot fully happen because the system does not furnish the users with enough tools for uncertainty reduction on crowdfunding peers. Educated users such as Chris Stewart (Annex, B.3) for instance, learn to form their own key criteria such as investing only if they see a past success hence credibility record or if their contacts "have invested" showing trustworthiness. They look at the critical ingredient of "social credibility" as the "new barrier to entry".

Kickstarter frequently heard from backers in comments under the Accountability blog post the question of "in what scenarios will Kickstarter refund their 5% fee?" (Ben Forman, backer). The platform firmly preserved its strict distance to the process of following up deliveries or creating a tool for users to follow up project deliveries and made clear that it cannot intervene for refunds (Annex B.2). We can contemplate on this by considering one of the failing projects, Zano Drone, as an example (see details in Section 4.1.3.2). In this project, the revenues Kickstarter generated amounted to about US\$180,000 from the total funds collected at US\$3.6 million. If this Kickstarter portion would be distributed to the backers, a backer would receive on average US\$15 compared with the average spending of US\$298 per backer. Although there are different

levels of spending, approaching the average numbers makes it easier to understand the gap. In view of this big divide, the redistribution of Kickstarter funds to backers do not seem satisfactory. It can create a positive atmosphere in terms of showing the platform's goodwill; however, it will always fall short of closing the refund gap and also of pleasing the backers. Therefore it is not an effective remedy for these kinds of situations.

Kickstarter leaves the decision of asking for refunds to backers, recommending them to be patient when they see "good faith" and "transparency" in a creator's efforts. Furthermore, the platform frames creators' refunds as a last-resort for backers that should only be used if the backers do not sense good faith in project creators. While some creators may willingly initiate a refund process themselves, in many examples of delayed or failing projects a lot of backers request a "refund" under the Comments Section of campaigns, sometimes a few years later than the campaign. There appears still an uncertainty in what kind of an optimal path to follow, which some users complain about that it took so long for the platform to form an answer to the probably "most FAQ" and that KS could "still be more transparent".

**Figure 4.9 Excerpt 1 from Comments on Kickstarter's "Accountability"**



**Jeffrey Kesselman** on September 5, 2012

So, what they are saying is "its our policy that projects deliver... but you'll have to chase the project owners 'cause we aren't liable".

Which is to say, its a fairly meaningless policy. At most, they might ban people with projects that don't deliver from doing another project, but given the anonymity of the internet I am not sure they can and certainly haven't heard of them doing so yet...

Or am I misunderstanding and would someone from Kickstarter like to explain clearly what \*they\* will do for backers of a failed project?



**Carl Bussema** on September 5, 2012

I think Jeffrey Kesselman nailed it. If you have a policy but no means to enforce it, what good is the policy? Backers gather into a class-action-lawsuit to sue the creator who has already spent the money? Good luck.

Source: Accountability on Kickstarter (5 September 2012)

Other users shown in Figure 4.9 also work out the gap in this kind of platform statements where the intentions can be meaningful but incompatible with actions. Apparently, although Kickstarter incorporates a policy on creators' responsibility of delivering the rewards, there is no organized follow-up mechanism to track whether they did in fact deliver. So what should the users do in case of no delivery? Should they count for example number of people who did not receive the rewards under the Projects Comments section –the only space they can communicate with other peers (see Table 3.2, p.67)? Let's say if that happens, as one user asks can they come together and file litigation to a campaign owner who may have just spent the money? (Carl Bussema, 2012, Figure 4.9) – not necessarily with bad intentions?

**Figure 4.10 Excerpt 2 from Comments on Kickstarter's "Accountability"**



**Kimberly Chapman** on December 1, 2012

I have stopped doing most Kickstarter stuff - whereas once upon a time I was enthusiastic about contributing - because of <http://www.kickstarter.com/projects/soypayaso/cookie-connections-clever-cookie-outters-out-cleve>. I got burned, now I fund less. All of the wiffly-waffly language about "we take it very seriously" is meaningless because in the end, I went to lengths to support someone on a project I believed in - including upping my contribution, spreading the word, and inviting him to multiple local events where he could promote this thing - and now the jerk doesn't even answer communications. Meanwhile he's set up a website about consumers being screwed. WTF. There is NO accountability on Kickstarter. Only give money here if you don't mind losing it if the project goes under because that's a real possibility and the lack of accountability is depressing unless you anticipate it.



**Maggie Dodd** on January 27, 2013

I think there needs to be a distinction between "failure," and simply taking the money and running. I have only supported one project that funded in September. <https://www.kickstarter.com/projects/548200252/help-support-beekeeping-bees-have-a-lot-to-teach-u> Deliveries to be made in October. Nada. No progress reports. I contacted creator---no response. Contacted on Facebook---no response. Interestingly, creator seems to make posts on Facebook ALL the time, 24/7!  
I do think that Kickstarter could at the very least send the creator an email inquiring about their progress.  
Really disappointed in the whole process!

Source: Accountability on Kickstarter

This looks also kind of exaggerated as the contributions are small and compared with costs of litigation they do not seem worth pursuing from the viewpoint of backers. This on its own creates a conflict of interest because as even Kickstarter board member Sunny Bates formulated in an interview with Polygon

(2012), even if there is a scam the size of the contributions makes it negligible: “Here's the deal...It's one thing to be scammed like Bernie Madoff, where you've gone and you've been seduced by something and put in all your life savings. It's another thing for something not to come through for \$25” (Polygon).

This dilemma indicates that no one including the platform and the contributors has real incentives to follow up with what happens in the aftermath of a successfully funded project. A platform that can still make money on the crowd's good faith and successfully funded projects even if projects fail to deliver their promises because the contributions are too small to legally pursue, may pose a risk of sustainability in the long run. Even if backers might feel it is meaningless to file a lawsuit where the average stake per backer is low, repeated failing experiences might lead them to find crowdfunding throwaway too and this might become a fundamental threat to the basic premise of crowdfunding sites. Kimberly Chapman and Maggie Dodd (Figure 4.10 above) are two examples of many users who shared how they lost the enthusiasm for contributing to crowdfunding projects.

Once users participate in crowdfunding projects that do not fulfill their promises, they start digging more about what the platform commits to in terms of accountability. Ralph Miller, a Superbacker who contributed to 129 mainly game production projects, criticized the platform severely on its “not actionable” ToU and the lack of any extra efforts on security (Annex B.4). He asked the site to establish a legal team to support backers in non-delivering projects. There are harsher comments too, accusing Kickstarter being part of “scams” and not taking enough measures for preventing fraudulent cases.

Although such users usually accuse Kickstarter on its Terms of Use and Accountability making the platform free of responsibility regarding failing projects, there are also cases where backers complain about Kickstarter not properly doing the one and only screening that it promises. This is the initial check that the platform performs to see if a project abides by the Project Guidelines. Kumar Jhuremalani (Figure 4.11) claimed that a project called “Agent” lacked a working prototype as normally required by the platform.

### Figure 4.11 Excerpt 3 from Comments on Kickstarter’s “Accountability”



Simon on January 12, 2015

Kickstarter use weasel words to shirk responsibility. It is pretty clear that with the number of failed projects rising Kickstarter is soon going to need to do something for the out they get.

Take for example AGENT. The "worlds smartest watch" is still no where near shipping and many believe the "creator" Chris Walker is doing just enough to keep this failed project going so that he can spend KS money that can be used on his other business activities. Sadly he refuses to give any meaningful updates so the backers who gave him over \$1 million can only guess.

Kickstarter refuse to get involved despite the ToS. This is shameful and totally inexcusable.

KS doesn't have enough accountability and this is being exploited by some "creators".



Kumar Jhuremalani on January 15, 2015

Kickstarter, you are accountable for not checking the prototype submitted by Chris Walker of AGENT - <https://www.kickstarter.com/projects/secretlabs/agent-the-worlds-smartest-watch/comments>. You have clearly mentioned that it should meet your Project Guidelines where a working prototype must have been created before moving forward. It seems you have failed us backers by not adhering to your own set guidelines. You have failed us Kickstarter. And for obvious reasons you are running away from your accountability. Shame on you Kickstarter!

Source: Accountability on Kickstarter

As these user opinions demonstrate, alienating some users seems inevitable in this kind of system. Kickstarter co-founders and management are wise enough to know this risk of shying away backers. It is by the nature of crowdfunding that uncertainty is high and as it appears the observed tools at hand do not suffice for the users to manage it with ease. That is also why the platform looks for filling the uncertainty gaps where they can through explanations, blog posts and frequently asked questions.

A system putting the liability of refunds on the fundraiser side may also be exerting some exaggerated pressure on creators who with good intentions may have spent the funds but fail to deliver. This can shy away creators from funding projects on Kickstarter as one possibly creator complained: “Why would anyone take that on their shoulders, especially when anyone with an internet connection can back a project, including crazy litigious strangers?” (Garth, 9 September 2012). Some other users elaborated rightfully on the differentiation between fraud and failure and the first one is the one to avoid, while the latter one can be a natural part of the efforts of many successful people yet present a story to learn from. These kinds of users are showing lots of empathy and patience with the struggle of an entrepreneur or creator to complete a rigorous creation process.

If you back a project, that's exactly what you do: You give money to someone to support them to do something. Of course, you \*want\* that person (or organization) to succeed - and your part in their success is the money you give them. But that's it. Of course, you don't expect to fall victim of fraud - so if a campaign seemingly is fraudulent, that's something that needs to be determined by a hopefully just legal system with all the relevant consequences. Failure, however, is not fraud. And most successful people have their fair share of failure as well. So, failure is by far not as bad as many people try to make it sound (Jashan Chittesh, 10 September 2012).

There are also users such as Eleri Hamilton (Annex B.5) who seemed to be more at peace about Kickstarter's middleman role that is free of the burden of diligence –beyond a first look- and checks. Her analogy about a trade show versus the platform is smart yet then again the online space offers so many alleys for piling up and presenting information that can contribute to the reduction of uncertainty on a more educated basis rather than a lottery kind of betting. Although a crowdfunding platform can be similar to the street, the Internet has a much more spacious capacity than the street. A platform that can compile and make known relevant data points to the crowdfunding community would enable them to make a well-informed guess on which project to back. As reward-based CF platforms lack the most typical tool, a simple References mechanism that collaborative consumption platforms compile about each and every user, they sooner or later would need to make up for this in complementary ways. This ideally requires establishing a sustainable enough tool that relies on crowd's inputs and self-monitoring and also is customized for the specifics of a platform, rather than copying the same type of References tool.

#### **4.1.2.2.2. Is Kickstarter a Store?**

As briefly overviewed, the comments sections under Kickstarter's Accountability blog post became a discussion forum. While at first posts seemed

to address Kickstarter management itself, a lot of peers entered into dialogue with each other, sometimes trying to correct perspectives on which category their contribution to a project belonged to, whether it was an investment, a pre-order or philanthropic backing.

Kickstarter is not a place at which to make investments. One doesn't get stock, bonds, bills, or notes here. One makes a preorder for a product...(Daniel Kian Mc Kiernan, 16 September 2012).

I have to agree with Daniel Kian Mc Kiernan on a lot of points: - We make no investments or donations (though it's interesting that every term used is chosen to make it look and feel like one); it is, like it or not, some sort of pre-order. -A failed project is not one that doesn't make its funding goal (that's just a failed funding campaign), but one that does and fails to deliver its promise. -At Kickstarter they're more concerned with trying to avoid accountability and legal liability and how to get out of it should the day come. -Doing so does not make them more credible or trustworthy (Aura, 21 September 2012)

After reading a few posts it seems clear that the far left users of this site apparently think dreams are all that matter and every investment is rather a flip of the coin at best, I on the other hand (backed by the legal system) believe in dreams but require responsibility and accountability for my investment of any amount. If someone says they will provide an item for x amount of dollars then they must provide the item or a full refund. No other outcome is acceptable and I for one would peruse legal action just for the point of it (Dave McGhie, 15 December 2012).

The fact that even contributors cannot be aligned on what their supports into a project represented as rights, form the core of the struggle at reward-based crowdfunding. Unlike donation-based or equity-based (we can, in general, say investment-based) crowdfunding schemes, this category largely relies on backers signing up for receiving perks, small or large, be it a full product or just a name on a website or movie credits. Regardless of the market value of a perk, many contributors are in a project for supporting but also obtaining what they are

promised. As such, it is unrelated with a donation or investment-based crowdfunding.

Irrespective of whether the creator put in the best efforts or not, the good faith of a backer can exhaust if perks never show up. As such, it is important for the platform to create an environment where best efforts can really be aligned and cooperate. Even if we put reward-based crowdfunding in a hybrid category carrying notions of a gift, we cannot rule out that contributors may want to see that their gift helps in the materialization of something in the end. Otherwise, the gift can become like annulled with the intended contribution not finding its purpose anyway.

Steve Bradford, a Law professor specializing in crowdfunding, situated Kickstarter both in pre-selling as well as in novelty of reward-based crowdfunding model, considering that putting money into a project against a reward does not make a backer legally the owner of a “final product” because at Kickstarter a backer is only getting the promise of a reward. Hence, this is a mechanism where contributors receive no direct “entitlement” over a product and therefore Kickstarter makes it clear that it is a “buyer beware” market with “backers’ rights only restricted within Terms of Use, and “the system in its current form relies on the collective force of the community to keep its individuals safe” (Polygon, 2012). For this reliance to be realistic, however, the platform may better facilitate certain checks and balances features at visible access points that absorb and make more information handy, so that the crowd has the ability to set sanctions in motion for instance in future campaigns when a creator who failed realizing a former crowdfunding project tries to attract funds again.

The prevailing uncertainties on its definition and scope of functions having become evident in the discussion forum under the Accountability post triggered another explanatory post by platform co-founders. About two weeks from the post on “Accountability” in September 2012, the platform carefully declared that “Kickstarter is not a Store” and announced new rules for fundraising in order to counter the misperception that whatever is on Kickstarter is a secure campaign which would deliver its reward like a seller on Amazon. Despite all the previous

efforts, apparently, the impression from users' eyes that the platforms filter enough before listing a project was not so easy to destroy. This is why also Kickstarter released this special statement on differentiating itself from the likes of Amazon and even recommended consumers looking for finished products to buy them on Amazon, not on Kickstarter. This post was directly an uncertainty management effort by the platform, painting the "experimental" part of the crowdfunding and handling users' expectations on certainty of rewards.

The revised site principles now required each project owner to elaborate on "Risks and Challenges" and introduced new restrictions on technology projects and their target products. The question that needs to be addressed since then by every project owner is: "What are the risks and challenges this project faces, and what qualifies you to overcome them?" This is to highlight that the products subject to order are being developed and are not completed yet, and also for the backers to explore project owners' capability to successfully deliver the products and their integrity. For the sectors that live the most delays and complications, "new hardware and product design" projects, special guidelines were integrated which prohibit "product simulations" as well as "renderings": "projects cannot simulate events to demonstrate what a product might do in the future", "product images must be photos of the prototype as it currently exists", "products should be presented as they are. Stating that "Over-promising leads to higher expectations for backers", Kickstarter emphasized the best rule of thumb as "under-promise and over-deliver" (Kickstarter is not a Store, 2012).

The informative content and the modifications of rules seemed to be in the right direction at least in educating the user community about what the site was about. The announcement stirred a significant amount of positive as well as negative feedback from users, who commented again on the announcement blog post. Many of them supported increasing awareness on risks but mostly complained about limiting the posting of renders which they thought are very important in presenting the vision of a finished product. An impression also came out that protecting the backers can come at a cost of killing the spirit of Kickstarter's own philosophy for encouraging the creation and new ideas.

As Jeffries (2013) put, Kickstarter's labeling itself as "Kickstarter is not a store" led to over 65,000 Google results at the time of the news report in April 2013, showing the initial resonance it created in nearly 7 months after September 2012. Currently, the "catchphrase" that seems to be used frequently in many references, mostly within Comments beneath Kickstarter campaigns, produces over 46 million Google results as of the latest data (June 2018), demonstrating how it became a powerful slogan in crowdfunding community. Interestingly also since I started analyzing the echo this particular motto created, the number of Google results continued to significantly increase – also exhibiting that reactions actively keep on building, from 41 million in December 2017.

Two of the most successful projects until that time, Pebble smartwatch and Ouya game console that collected over US\$10.3m and US\$8.6m crowdfunds respectively and delivered promised rewards, strengthened the pre-order tool impression. As Jeffries mentioned (2013), in some of these overfunded projects like Pebble smartwatch there were also some contributors who supported with only US\$1 only to get live updates from the project but the dominant crowd support came in form of purchases of the main products.

In view of remarkable accomplishment of these sizeable projects in terms of both their funding success as well as delivery of promised rewards, the backer community might easily perceive a rosier perception than on average regarding successfully funded and actually extremely overfunded projects performance at the aftermath of funding. Also with obviously wider coverage of success stories as previously mentioned, reward-base crowdfunding can easily get associated with famous success stories. Kickstarters' founders were trying to depict this duality of crowdfunding. It was a warning against the chance that a funded project can go awry. Hence, for some projects, it is not like pre-ordering but only like motivational funds. Yet, the tag reward-based itself induced a non-gift.

Elaborating smartly on the complexity of deciding what the platform really is, Jeffries (2013) put that "donations, investments or purchases" would not be correct labels and placed the platform into a fourth category, with contributors giving money to creators based on some kind of "affinity for an idea". This falls

“somewhere between philanthropy, patronage, and consumption. It runs into the kind of ambiguity that can corrupt friendship when money gets involved”.

It is not surprising that rewards in many technology projects were presented like pre-order by creators. The AirDrone (for the Project Drone) project, for instance, diverted the visitors on its website with “Click now to buy on Kickstarter” to the crowdfunding platform (Couts, 2014). This demonstrated that even some creators themselves regarded this as a purchase. Currently, Kickstarter uses “pre-order now” and even “buy now” clicks in some projects which mostly divert to project creators’ ongoing pre-order campaigns on their own separate sites or even on the competing platform, Indiegogo. Brixi, which is like an advanced version of traditional Lego sets that can “conduct electricity and connect to phone”, is an interesting example as it has run crowdfunding campaigns on both Kickstarter and Indiegogo which successfully collected more than thousand times of its original funding goal, raising in total US\$1.5 million instead of US\$102k. Interestingly, at Kickstarter Brixi page there is a “Pre-order Now” button that redirects to the project’s Indiegogo Campaign page.

Evidently, emphasizing its vocation as not a store is not only an attempt for clearing up confusion, it is also a protection against all the liabilities that may come through the simple day-to-day business of Kickstarter. The basic structure of reward-based crowdfunding allows both contributors and creators to raise expectations about what they give to each other. As much as the creator wants the funds of each contributor to be properly in place and not fake at the campaign’s end, the contributors wish that the project and the creator they are supporting are real, too. However, this relates more to a question of “fraud” and “authenticity”. Both sides wish that the other side of the transaction is the person that he or she claims to be. Past the processing date of the funds, we can consider the first part of the trust cycle about the uncertainty of the backer as closed to a great extent based on the analysis in Figure 3.7. Then, the directly vulnerable side of the equation remains the backer who may not get the deserved reward even if the project creator is authentically the enthusiastic creative mind behind the idea. There is a chance that the creator can put lots of effort but still fail due to external

as well as internal factors such as poor performance in the management of funds and the project. In terms of the crowdfunding concept, the ultimate measure of success is fluid as projects can become also successful thanks to publicity impact as mentioned before (p.110). Yet, in terms of this view focusing on the closing of the full trust cycle, the ultimate measure of success from backer's view would be delivery of perks, which would prove that trust was warranted.

Babbage (2014) on the Economist also calling Kickstarter a store, resembled the concept to “a modern, distributed version of the kind of patronage relationship that artists have long had with their rich masters”, where the platform was basically supposed to match “people with an idea” to the ones who desire seeing that idea as materialized. Obviously, there were many backers who contributed much higher amounts to obtain “premium” or “limited versions” of the products. This made it hard to tell apart supporting a campaign “out of altruism” from a purchase “out of straightforward self-interest”.

Shuptrine (2016) from Huffington Post did not regard Kickstarter as a “true crowdfunding platform” either, as he regarded crowdfunding as the process whereby the output of the campaigns can only get created thanks to the funds from the crowd. Yet, however, this was different from the equally growing crowdfunding spirit where many creators and companies used Kickstarter also as a pre-order tool where they can collect advances in their products. “The Pebble Time” is a clear extreme which raised over US\$20m February 2015 from about 80,000 backers who were promised rewards in around 2 months delivery time as of the campaign's finishing date. This, Shuptrine, smartly put as evidence that the promised products were already probably in place before the campaign. In this example, Pebble must have used Kickstarter platform rather as a pre-order tool than a crowdfunding one.

Although this is a smart observation, it has its shortcomings. When we limit crowdfunding only to the creation of products that are not in place yet, then we are also ruling out companies that can only start production with enough stock of orders. In many technology projects, creators alleviate the burden of producing large quantities of products through crowdfunding as accumulated orders

contribute to economies of scale, hence lower unit production. Therefore the power of the crowd creates an impact on the creator's manufacturing ability, too. Although the rewards can be products themselves, there is a benefit of crowdfunding both for the creator and the contributor to make something real that could not be possible elsewhere. The creators come to Kickstarter because it is a platform with a built-in global and very wide customer base, a "crowd" any entrepreneurial endeavor would be after. In that sense, a crowdfunding platform like Kickstarter has a definite value for the creators. If we ask then what the value is for contributors, then we see it is a platform that brings in access to all kinds of innovative and creative projects including arts.

KS is currently one address for both types of creators, pre-ordering ones and funding for the very initial kick start. For example, if the crowdfunding project is the making of a movie and an average contributor gets a signed movie poster, then we can not only talk a contributor's sense of accomplishment in supporting a piece of artistic creation but also the creator's sense of fulfillment from a crowd support behind his or her work. As such, we may not necessarily need to separate both types of projects into different platforms strictly yet a proper categorization is definitely missing on the sites which could alleviate users' own efforts to differentiate between risk levels of different projects that all seem in the same basket. A need to categorize especially technology projects based on their status of development could be a simple yet effective tool in uncertainty reduction. Finally, one of the platforms, IG just recently introduced such a "product stages" tool in technology projects' self-description categorizing between concept-prototype-production-shopping classes.

As Kickstarter co-founder Strickler admitted to the Verge "there's a learning process that's happening where we're all figuring out how long it takes to make things" (Jeffries, 2013). Obviously, in the last five years from the date of this statement, many experiences must have contributed to the co-founders' own perception of the system. The "learning process" takes place for both the crowdfunding platforms and user communities, where the crowd understands gradually the risks of crowdfunding. Not every member can analyze each project

through hundreds of comments to understand if it delivered promises and build also a general opinion on the crowdfunding concept's deliverability performance. Hence, accessible and transparent tools facilitated by the platform but filled in by the crowd's expertise can better contribute to comprehension of the "success" concept of crowdfunding.

Users had various feedbacks upon Kickstarter's declaration of not being a store. While many applauded the highlight of risks, the dominant sentiment about restrictions on multiple product offerings as well as the presentation of "product renderings" was interpreted as an unwarranted change that would kill the spirit and very foundation of the crowdfunding platform. For instance, one user (John Kelley, 20 September 2012) criticized limitation on bulk orders and claimed that "A lot of hardware projects need minimum orders to enter into mass production economically and allowing someone to order 2 or more can make it much easier / cost effective to reach that goal". A user called Daniel McGauley (20 September 2012) criticized the changes harshly: "these are pretty bad changes. Just hire more people to police campaigns", or of users like Brian Todoroff (20 September 2012) who advocated users should be allowed to meet their own decisions only being informed about risks and about the crowdfunding process.

I despise the rule about no multiple quantities. I go in knowing full well that this is likely my only chance to acquire one of these items as the chances are low that they will really become a product. If I want more than one and am willing to risk losing that money then get out of my way. I'm a big boy and don't need a nanny to protect me from myself. If you want me informed, great, make me agree to a very clear statement that I may lose all my money when I back multiples, but let me make my own informed decision. Inform but don't overly constrain the informed (Todoroff, 2012).

The crowd clearly had a critical tone in many instances where they checked by themselves on whether some rules of the platform really applied to certain projects. For instance, Robert Burke (12 February 2014) observed that one of the projects called Kingdom Builder had no feature of a "creative project" as it was a game "already published and won the Spiel des Jahres 2 years ago. Another

one challenged the changes with the example of a high-success project like Pebble Time: “It’s time to update this blog. The Pebble Time project violates most of the rules of this blog post - and is extremely obviously a case of ‘a purchase from a store’ project” (Ed Hurlley, 25 March 2015). KS seemed to be squeezed into a corner as the crowd smartly observed that a group of successful projects could not be possible if these restrictions were in place. Many tech projects relied on multiple offerings as perks and also presented renderings. The user, Josh Holloway summarized these projects as:

A very incomplete list of successful projects that couldn't have existed if these rules were in place: Capture, The Oona, TikTok + LunaTik, Infinite Loop, Isostick, Trigger Trap, Elevation Dock, Nesl, Brydge, Synergy Aircraft, Taktik, Nifty MiniDrive, OUYA, POP, Oculus Rift, Slim, Instacube, SmartThings, LIFX, and of course, Pebble. That represents about \$1.5MM in revenue for Kickstarter. Just an observation (20 September 2012).

So just like the outside news reviews mentioned earlier, there was a dominant impression among many users that they found a lot of pre-selling projects on the platform also recognizing that creators also presented projects as if they were selling products (MadMage, 15 May 2013). There are various comments in line with the user Nick Coghlan’s (Annex Figure B.9) who argued for putting all disclaimers but making the platform free of “bans” such as of product “renders” or “simulations” that function as showcases of the final look. Coghlan’s smart suggestion is providing both the render as well as the “current prototype” “so that backers know both where the project is now \*and\* where the developers would like to take it” (21 September 2012). Various other comments supported this view of seeing both the renderings and the prototype in progress.

There were users sounding harsher such as Peter K. Homer, both creator and contributor (Annex B.10), who mentioned that the only response received from the platform regarding the complaints of the community on a project as red-flag was “buyer-beware” and an explanation that “it was the backers' responsibility to determine the likelihood of success before backing”. Following

the restrictions on project presentations, the user found discrimination among different categories of projects unfair and the platform's positioning as 'hypocritical' (13 November 2012). Many users shared a similar view in terms of black or white approach to Kickstarter's standpoint. Zorak (16 December 2012): "Kickstarter needs to make up its mind. It either takes a responsibility to ensure that every offer presented is completed as stated or it stays out of the way".

In general, it seems that KS is quite open in allowing users comment beneath platform's announcements and blog posts –which is absent in some of the analyzed platforms. Yet despite this, the platform does not use these comments evolving as a discussion forum for a more interactive and open communication atmosphere with the crowdfunding community. Here there was a very eager crowd that can be turned into a true community without necessarily engaging in day-to-day dialogue, yet the platform refrained from meddling much and appeared protecting its distance.

There were also voices from the crowd elaborating rightly on the observation that some creators are trying to put all the work into one project whereas they would better separate funding for "prototypes" versus "full products" and should not load the platform with a process that is starting from only a scratch: "Expecting a single point of entry to supply you all the capital to fully back an idea is kind of arrogant and really speaks more to a fundamental lack of business acumen" (Alexander Morano, 21 September 2012).

One of the platform users (Vishnu, 21 September 2012) outlined a neat suggestion for managing what he thinks Kickstarter is trying to establish with these new rules. Vishnu recommended a milestone-approach where funds are released based on accomplishment of certain project targets. These would be of course defined in advance at the time of the crowdfunding campaign. This kind of approach is actually close to what Indiegogo is applying, namely releasing the money in a few phases. However, with this, there is also a risk of threatening project's healthy cash flow because the required spending pace of a project may be jeopardized with the funding coming only in installments. This actually seems

to be one of the challenges project creators complained about in the selected failure case, Robot Dragonfly at Indiegogo (see Section 4.1.3.1).

In contrary to what the platform aspired to achieve with this explanation of not being a store, some users concluded that the new rules actually made the platform look more like a store than it was before (Annex B.11, Charles Waugh). With product renderings prohibited and multiple-quantity orders killed off in technology section, what is presented is moving away from a “vision” that is partly the spirit of the crowdfunding platform. If the project creators cannot demonstrate what they are targeting to create, then there is no way that the creative idea can be really seen and “turned into reality”.

There were also commentators among the community who clearly considered some users that complain a lot about undelivered or delayed rewards as “naïve” (Annex B.12, Clark, 21 September 2012). According to this user, the platform risks its creative foundation for the sake of protecting “a small group of naïve, whiney backers” who at first place need to understand the level of risk in crowdfunding projects. This user even suggested “mass-emailing” every backer with words of caveats of contributing to projects, as the confusion of a crowdfunding project lied mainly on the side of the contributor but not the project creator, hence the platform should educate its backer community.

This perspective, of course, is a little biased as it comes from a project creator who cannot really put himself into the shoes of an enthusiastic backer that is not only up for supporting a creator but also for getting the promised reward. Certainly, both sides of the crowdfunding transaction need to be educated for the success and sustainability of the platform’s community. The user also at peace with the site being used for pre-selling regards this not as a negative but plausible feature for the crowdfunding community. The platform’s spirit this user (CLARK) describes is powerful: “This site is clearly intended to provide pre-sales interest and commitments for innovative new products by assisting the creators to bring these products to market. The great reward to backers is first adoption bragging rights, early access to new products and prices well below anticipated retail” (Clark, 2012). There are some users who support these feedbacks and also admit

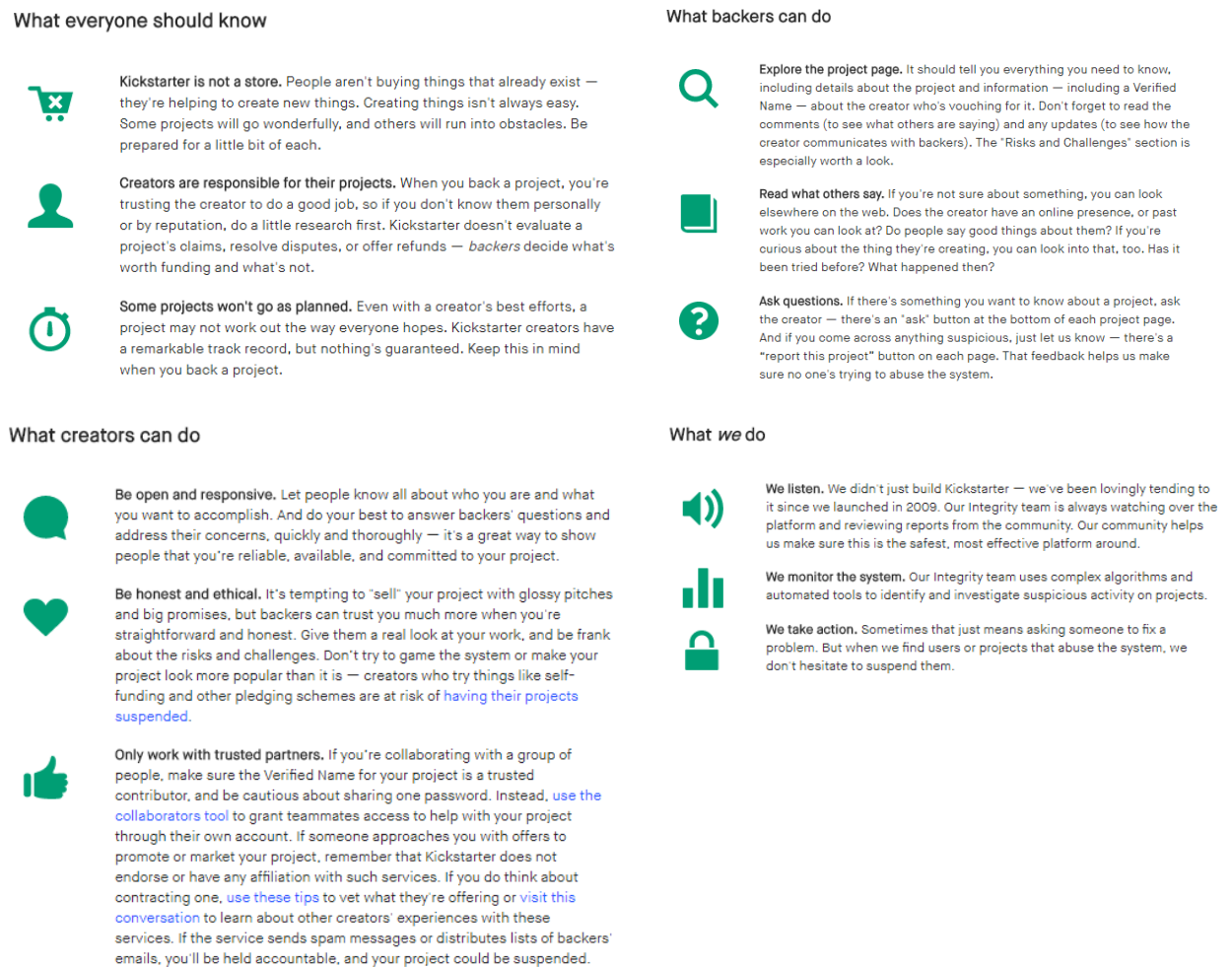
that they would not have backed several projects if there were no renderings. Another user shared the same view: “You are trying to protect consumers from backing projects that would eventually either fail or not meet expectations. That’s an honorable goal. However, challenging each project isn’t the answer. What consumers need is to understand that backing KS projects is risky, period (Kirill Zubovsky, 20 September 2012).

In its specifically named “Trust” section (Figure 4.12), Kickstarter underlined with big fonts how they see themselves and actually how the community should see the platform. Highlighting the famous, not a store-perspective, the platform basically presented creators and backers their responsibilities. For instance, one-bit creators are told to do is to “let people know all about who you are”.

However, this is easier said than done. As mentioned before, without a platform guiding and actually inserting the placeholders for users to fill in like for example Couchsurfing does, what we would see is a discrepancy and inconsistency in self-disclosures without much motivation for project creators to present themselves and their individuality. The right and useful profile headlines that fit a more educated crowdfunding experience should be selected after careful elaboration because these will serve like cat’s eye on a road that guides the way. A thorough effort that will be put once can provide a sustainable and dependable uncertainty reduction tool for the peer trust –the top layer of the pyramid envisioned in Section 2 and also function as a useful step in allowing a true user community to shape up.

What Kickstarter can do (under “what we do”) – which is basically missing as a definition in Terms of Use – comes here at the very end after the project creator and backers’ best practices, with a focus on ‘listening’ to complaints from community and “monitoring” the “suspicious” activities. Although Kickstarter’s effort in building the transparent environment the crowdfunding universe requires is worth praising, it can actually do a lot more than the three items stipulated in “what we can do”. Creating a self-monitoring success tool after funding would be a fundamental step in that respect.

**Figure 4.12 Kickstarter Trust – What the crowdfunding chain should know**

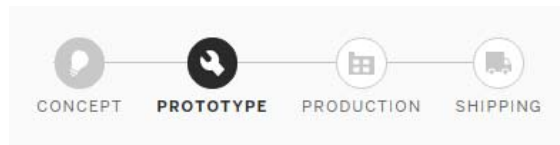


Source: Kickstarter Trust Section

Indiegogo as of October 2017 actually made a move to incorporate a new feature that can contribute to the refining of the distinction between sellers of ready to deliver products versus fundraisers for product development. The novel section, Indiegogo Marketplace is defined as a space “where customers can discover new, innovative, ready-to-ship products. All products in the Marketplace are guaranteed to ship” (Indiegogo Marketplace). Different than in its crowdfunding section, Indiegogo’s Marketplace now guarantees to deliver items that are linked with “buy now” within a scheduled time period, and deserves exactly the “Amazon”-type of connotation that both reward-based platforms but

especially Kickstarter wanted to stay away from. With this shift, IGG marked a move divergent from its competitor, Kickstarter.

**Figure 4.13 Indiegogo’s Product Stages Add-on Technology projects**



This campaign has built only a working demo of their product, not the final product.

Product development challenges may affect the campaign owner's ability to ship the product to backers. [Learn more](#)

Source: Indiegogo FAQ <https://support.indiegogo.com/hc/en-us/articles/221613968>

This follows another differentiation the platform actualized by integrating product stages alert for technology projects as shown below in Figure 4.13. A tech project on IG needs now to specifically pick the category it falls into from “concept, prototype, product, shipping” options, which the platform cross-checks given the provided project information. Kickstarter so far stood firm on its premise of “bringing creative projects to life”, and a spokesman David Gallagher underlined platform’s aim of supporting “the creation of something new” (Schleifer, 2017).

The project categorization can be also considered connected with risk of overfunding impact on potential failures. The important failure cases in overfunded campaigns may create a remarkable conflict of interest with the platform’s middleman role as it generates higher revenues on overfunding regardless of delivery success. The project status classification would serve as a significant uncertainty reduction tool, therefore the project information needs to be done on a very noticeable fashion. IG successfully implemented project classification tool for tech projects with a high visibility on top of the campaign page. However Indiegogo’s overview of some platform numbers, used actually as a form of promotion of its platform success, highlights the figure of “18,983% the most a campaign has exceeded its goal... so far!” and demonstrates how extreme this overfunding can become (Figure 4.14).

**Figure 4.14 IGG’s post on “the most a campaign has exceeded its goal...so far!”**



Source: <https://entrepreneur.indiegogo.com/how-it-works/>

This magnitude of overfunding appears fairly alarming as it would exert substantial pressure over the deliverables in these crowdfunded projects that in many cases take already a long time to materialize. Platforms started to become aware of this bottleneck and Indiegogo for instance introduced in 2017 a special “Concierge” program for assisting projects achieving funding more than US\$500,000. A similar program called “Hardware Studio” was initiated by Kickstarter also in 2017 for manufacturing support. Although these efforts for offering an expert hand in sizeable projects can be helpful, the infinite liberty in oversubscription may necessitate stronger initiatives for giving a hand to the successful delivery of these projects.

#### **4.1.2.2.3. How Often Do Projects Fail Post-Funding?**

Kickstarter is one of the only wide-scale reward-based crowdfunding platforms that updates its funding statistics almost every day. As summarized in Table 4.2-4.3, the provided statistics basically showed how many projects are successfully funded, what value total funding volume reached (US\$3.3 billion as of 2 June 2018), along with number of backers and pledges. As the given graphic demonstrates, about 144k out of 405k projects on Kickstarter have reached their targets, which make them “successful” in funding terms.

However, this information falls short of demonstrating whether projects have “successfully” delivered the rewards they promised. Becoming aware of this shortcoming, Kickstarter invited Mollick, a scholar from Wharton School of the University of Pennsylvania to find out “how many projects fall short of delivering what was promised?”. Kickstarter in its own words presented the study as “the

largest study to ever examine the Kickstarter community. We had no influence over its findings” (2015). Before research began, Wharton and Kickstarter agreed that they would “co-publish the results, whatever was found” (Kickstarter Fulfillment Report). Mollick (2015) analyzed the delivery rates in an independent study using Kickstarter project data. Based on an extensive survey with 47,188 Kickstarter backers who replied from a randomly selected pool of 456,751 contributors related with 65,326 projects dating from the start of Kickstarter in 2009 to May, 2015, Mollick found an overall failure rate of 9% for projects ranging from 5% to 14% (p.5) with the period 2009-2012 indicating higher failure rates of about 12.3%. In terms of dollars, 8.2% of contributions were directed to successfully funded projects which failed to deliver the promised perks.

Although seven backers were surveyed in 89% of the projects yielding a mean of 7.2 backers per project, 47,188 contributors who responded represented on average 1.56 respondents per project, with the mean contributor supporting with US\$76.43 for the contributed project. As “failure” of a project could be interpreted differently, such as i.e. a theatre play being successfully put on stage but failing to deliver the perks, Mollick rightfully chose to measure the failure of a project as failing to deliver the promised rewards to backers. Mollick’s survey revealed that when counting all projects as “failed” if at least one backer reported not having received the rewards, then 9.95% of all projects would count as a failure, whereas if at least “half of backers” are selected as the criteria, this drops to 8.6% of projects.

According to Mollick’s findings, about 13% of contributors who report a project as failed also stated they received a form of refund or compensation while 17% of them agreed or strongly agreed having comprehended the reason for failure (p. 6). An interesting survey result was that 73% of the backers of the failed projects “agreed or strongly agreed that they would back another Kickstarter project” (p. 6). Referring in general to a low fraud rate, Mollick also underlined in general that the creators are found to be honest while at the same creators underestimated the delivery periods in many projects (p.2.) About 65% of

backers agreed or strongly agreed with the statement that “the reward was delivered on time”.

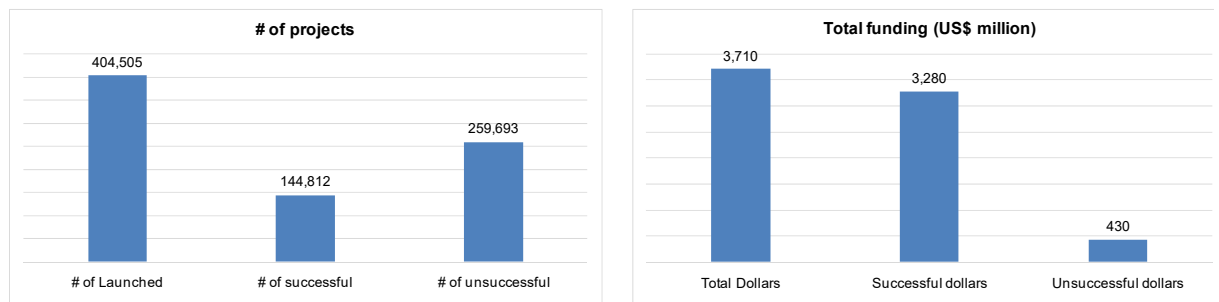
Kickstarter makes an effort in transparently publicizing general funding statistics (summarized in Table 4.3) as well as in certain cases facilitating an academic research such as Mollick’s or hiring an independent journalist to make an unbiased investigation into a failure story of a successfully funded project (see Section 4.1.3.2). However, implementing a routine reporting tool for successfully launched projects that lets users fill in confirmation of delivery of perks both from the creator as well as backer perspective can be a more sustainable mechanism to ensure transparency on performance rather than one-off attempts.

**Table 4.3 Overview of Kickstarters’ statistics**

Kickstarter average funding	US\$	Kickstarter # of backers	
Average funding per unsuccessful project	1,655	Repeat # of backers	4,776,944
Average funding per live project	8,781	Total # of backers	14,722,269
Average funding per successful project	22,650	Total # of pledges	45,958,057
		Average # of pledges per backer	3.12

Source: <https://www.kickstarter.com/help/stats> (as of 2 June 2018)

**Figure 4.15 Number of Projects vs. Total Funding**



Source: *Kickstarter Stats* (as of 2 June 2018)

This kind of mechanism through which peers can monitor each other without requiring the intermediation of the platform, would resemble and serve the function of “References” section –an indispensable part of users’ uncertainty reduction for interpersonal platform trust to be established in collaborative consumption platforms such as Couchsurfing, Airbnb or Uber. Especially this kind of a routine uncertainty reduction tool would also fit in line with its leading

position and strong commitment to “safety and trust” along with its conscious move to becoming a benefit-corporation (as mentioned in Section 3.5).

#### **4.1.2.2.4. What Indiegogo Filters? HealBe GoBe Project**

Savov (2014) in his criticism on Indiegogo highlighted a sudden twist in the platform’s “fraud FAQ” overnight following media coverage by James Robinson (Pando Daily). Robinson scrutinized the reliability of one of Indiegogo’s ongoing campaigns at the time called Healbe GoBe claiming that the “wearable device” in question cannot measure calorie intake as promised. Right after the news report, the platform revised a statement saying that “all campaigns and contributions go through a fraud review, which allows us to catch any and all cases of fraud” into “campaigns and contributions that have been flagged by our fraud detection system go through a thorough review” (Pando Daily, 2014).

Currently, this kind of statement is not on the platform’s FAQ content anymore. Yet the existing article on fraud review underlined that the site is giving only best efforts to avoid fraudulent acts through reviews of campaigns.

Your trust in Indiegogo is important. We do our best to ensure you have a positive and safe experience with Indiegogo. Our experienced Trust & Safety team is as passionate about innovation as our community is, and we’re dedicated to making sure that we do everything we can to prevent fraud on the platform so that we can keep you safe. This includes both automated and manual reviews of campaigns and working closely with payment leaders to ensure your funds are processed securely and efficiently. We also have round-the-clock monitoring to protect the information we collect online and prevent unauthorized access (Indiegogo Trust, 2017).

The project questioned by technology experts undertook to deliver a wearable device which promised to be “the only to automatically measure calorie intake”. Healbe GoBe’s claims caused a considerable amount of criticism especially from Pando Daily that issued more than a dozen separate investigative

reports regarding the impossibility of its promises also backed by views of a group of scientists and doctors. There was considerable controversy around the project. Technology sites with expertise such as TechCrunch and Digital Trends also analyzed the campaign yet remained relatively unbiased. Digital Trends released several news reports, first also criticizing and then after meeting the company officials and reviewing the prototypes sounding more convinced on the project's viability. The device looked real to them rather than a con yet also seemed to require "a lot of professional marketing and branding help" due to the project owners' (from Russia) lack of fluency therefore difficulty in marketing the product in English: "Still, Healbe's difficulty explaining its gadget does not make the gizmo a fake. We don't know how accurate the GoBe is, but after seeing it, we're prepared to give Healbe the benefit of the doubt — for now" (Digital Trends, 2014).

The Healbe GoBe campaign on Indiegogo raised US\$1,080,585 (2014) – around ten times of its initial funding goal – in about 40 days from 4,461 backers, with an average contribution of US\$242 per backer. The device was launched in the following year in the market and mostly received poor reviews based on the weakness of the promised calorie counting performance, with an indication though that an amelioration of the "calorie-counting abilities" could make it the "health product of the year" (Engadget, 2015). A second version of the device came to market in 2017 which received more positive reviews. After testing the product Engadget summarized in July 2017 that it surpassed expectations –that were lowered by the disappointment with the first version and HealBe GoBe 2 is "a very good health and fitness tracker" with hands-on guidance.

The comments section on the campaign page is full of mixed reviews where some users still try to get hold of their rewards while some of them have received but also divided between happy and unhappy with the product (Annex Figure B.13). The product's Facebook page that is related to the upgraded second version fares better in terms of reviews, also followed by about 24k people and with around 24k likes as well. The company seems to be eagerly responding to all the feedback and the overall rating on the Facebook page is 3.4 out of 5 stars out

of only 24 reviews. The authenticity of these reviews is, of course, unknown, yet here is a still ongoing company selling its health tracker product for US\$199 and also receiving positive coverage following the launch of its second upgrade. So in that sense, the original alert of Pando Daily could not really be confirmed.

Burns (2014) writing for TechCrunch cited a source from Indiegogo commenting severely that the platform takes no responsibility regarding the accuracy of the promises and even if the promised perks are not shipped on time or not at all: “the platforms are the medium and whether or not customers trust and fund a project is entirely out of their hands. If Healbe does not ship the GoBe, that’s their problem, not Indiegogo’s” (TechCrunch, 2014). As long as users are equipped with enough uncertainty reduction tools, this kind of passive platform filtering can be a reasonable and sustainable approach.

#### **4.1.3. What if it fails: Two Successfully-Funded Failed Projects**

##### **4.1.3.1. Robot Dragonfly (Indiegogo Campaign)**

Robot Dragonfly was an Indiegogo project that promised a dragonfly-like little robot and raised US\$1.1 million in 2013, more than ten times of its funding goal. 3,203 backers contributed to the project, implying about US\$356 contribution on average per backer. So the question arises: how did a project that collected US\$1.1 million instead of US\$100,000 fail?

On the campaign site on Indiegogo, the comment section is flooded with over 4,900 comments corresponding to c.1.5 comment per backer (latest as of June 2018). When the campaign was initiated in 2012, the launching team and the contributors seemed very excited. The enthusiasm was also evident in applause for the project including remarks such as “the most awesome flying machine I’ve ever seen” (Stephan Paternot, 2012). One of the complaining users Dan Radcliff was also one of the first ones to wish all the success to developers “TechJect”, 5 years before he led in protesting the failure of the campaign.

As also stated by the project creators, Robot Dragonfly was the first US\$1million plus project of Indiegogo (Annex B.14, Update, November 2015). After 3 years of frequent updates and progress reports about the development on the campaign page, the developers announced the troubles of the project and apologized from the supporters for not delivering the perks by November 2015. In their closing remarks, they outlined their problems as not only “lack of experience with dealing with Asia to minimize expenditures as was suggested” due to production issue in China but also “lack of actual engineers due to non-approval from PayPal to support the Mechanical development” (Robot Dragonfly Update, 7 November 2015). In a consecutive update on the next day, the team again repeated that insufficient release of funds from PayPal and Indiegogo exacerbated their problems because they held the funds for about 14 months. This was pointing to the deviation of Indiegogo that does not release funds immediately like its counterpart Kickstarter.

The team shared that they are uploading all the details and failing parts of the project into a Wiki so that every supporter and anyone interested in learning the “pitfalls” can study, also giving hopes on the possibility of refreshing the project when enough sources are available: “Hopefully in the future we will reconvene and finish what we started. For now, we will shift to making sure everyone has the complete Wiki with all designs uploaded for anyone to use as necessary and we will continue our talks with PayPal and Indiegogo” (7 November 2015). A final post came on 26 November 2015, where the TechJect team stated that “out of 3,200 supporters only 67 have been hostile” and that they keep on pushing Indiegogo and PayPal to play their part in refunding contributors.

Techcrunch (2015) covered the project both at the time of the campaign and at the closure, commenting on the project’s “a bit far-fetched” impression even at the onset: “We covered the campaign after visiting the Georgia Tech labs where the project was born. But good engineers do not always make good founders. It takes a special team to see a product from CAD drawings to prototypes to store shelves”. This seemingly simple observation comes from an

expert eye that hinted again to the lack of educated opinion in the initial funding phase, which could maybe ease some of the inexperienced steps in projects.

One of TechJect's latest comments on the site stated that IG was not transparent on the money "being wrongfully withheld" and "PayPal didn't offer an option to demand a refund when money was with them for over a year. Classic fraud on both...I wish someone would sue PayPal and Indiegogo on our behalf" (Don Radcliff, October 2017). This vivid reaction to both the crowdfunding platform and the payment processor is provided here as is, for demonstrating what kind of a process takes place from the perspective of a project backer.

From the start of funding until the project was suspended on Indiegogo, there has been a real interaction between the contributors and the project owners especially at the time of the campaign and right after. For instance, the developing team thanked the backer community for feedbacks some of which they planned implementing in the production. During the time of the campaign, the overflowing demand led the project owners to increase the planned supply: "DRAGONFLY Quantities increased! We have been overwhelmed by emails, complaints, and demands that we had no choice but to leave everyone with a happy weekend. We've increased the availability of the Dragonflies! Let your friends know!" These were the times when everything seemed rosy and achievable.

With the absence of any cap neither on orders nor the amount of funding that could be raised, the project developers topped up the volume of rewards and continued to raise money beyond their funding goal. It is unknown whether the project could deliver the promised rewards if the campaign was kept restricted to its initial funding size of US\$110,000 instead of the hefty US\$1.1 million (Table 4.4). However, the immense size of the order expansion from about 300 pieces of perks to about 2,800 units indicated an alarming shift whose marginal impact on the workload as well as estimated delivery time cannot be negligible.

An interesting note about this project is that it received a lot of media coverage also having originally received a US\$1 million grant from the US Air Force. The project owners presented this fact on campaign page apparently contributing to the perception and trustworthiness of the project positively: "The

research behind the dragonfly began with a \$1,000,000 grant from the US Air Force. The dragonfly has been developed at the Georgia Institute of Technology, as a joint effort between 20+ researchers, PhDs, professors and students from multiple universities across the world”.

**Table 4.4 Numerical analysis of Robot Dragonfly project’s rewards and funding**

<b>Robot Dragonfly Funding Overview</b>	<b>US\$</b>	
Funding goal	110,000	
Funding raised	1,140,975	
Number of backers	3,203	
Average funding per backer	356	
Smallest reward (perk)	99	
Biggest reward (perk)	2,899	
Number of comments	4891	
Average #comment per backer	1.5	
Number of updates by the creator	104	
<b>Initial funding goal :</b>		
<b>Perks (Rewards) Price Categories</b>	<b># claimed</b>	<b>Funding</b>
99	47	4,653
179	50	8,950
349	74	25,826
499	100	49,900
949	25	23,725
Subtotal	296	113,054
<b>After expansion of the campaign :</b>		
<b>Perks (Rewards) Price Categories</b>	<b># claimed</b>	<b>Funding</b>
119	1,030	122,570
149	252	37,548
249	169	42,081
399	531	211,869
599	331	198,269
1,199	122	146,278
2,899	64	185,536
Subtotal	2,499	944,151
<b>Total</b>	<b>2,795</b>	<b>1,057,205</b>

Source: Indiegogo Robot Dragonfly Campaign page

Once the project kept lingering, contributors started getting angrier and comments’ tone changed from friendly towards harsh. Also, it was observed that usually the ones that posted more were the ones who were the most enthusiastic backers caring more about the project’s successful delivery. Again below an excerpt from those comments is shared as is for exhibiting the thought process of an almost fanatic supporter in the beginning:

No one believes anything you guys say because any team even with the setbacks you guys keep mentioning would have a working kit bashed prototype by now. Not one that is ready for sale, one that proves the concept works. You guys were supposed to be grant winning geniuses and you can't even produce the old prototypes you had pictures of for a video? What kind of tech heads supposedly had a working model 2 years ago and didn't work on it at all? (Cap'n Bludd, 2014)

With the backers blaming the campaign owners who in turn holding Indiegogo and PayPal at least partly responsible for the fate of the project, the ambiguity on the project seemed high. The complaints about Indiegogo's approach for the release of funds raised concerns about the viability of the platform's dialogue with campaign owners and regarding the transparency of its policy, too.

#### **4.1.3.2. Zano Drones (Kickstarter Campaign)**

One of the biggest crowdfunding failures to date is "Zano drone" at Kickstarter, also often labeled as "one of the most funded projects in the platform's history" (Verge 2016). Zano drone campaign owners raised more than US\$3.6 million at the onset of January 2015 promising delivery of over 12k Zano drones to 12,075 backers as early as Summer 2015. The original funding target was a more modest figure of £125,000 (c. \$190,000). Collecting nearly twenty times of its initial target, the Zano drones project ended up failing on delivering its promises and announced liquidation towards the end of the same year.

In its Kickstarter campaign video, the presenters gave a rosy pitch of the Zano showing off its technological capacity and background briefly which seemed impressive especially to someone that does not have tech know-how like me. The video finished with the words of the campaigners who say: "To make Zano truly accessible to everyone, we need to get volumes up so the price goes down. It's simple as that. We're really excited to bring this technology to you guys. We just need some help getting over the final hurdle. The future of Zano is in your hands". Apparently, the crowd did its best to help and even in twenty times bigger

magnitude than it was originally intended by the project owners. However, more funds not necessarily always lend a hand but can become a big hurdle themselves both in terms of meeting the deliveries as well as communicating with such a huge backer force.

**Table 4.5 Numerical analysis of Zano Drones project's rewards and funding**

<b>Zano Drones</b>	<b>GBP*</b>
Funding goal	125,000
Funding raised	2,335,119
Number of backers	12,075
Average funding per backer	193
Smallest reward (perk)	5
Biggest reward (perk)	540
Number of comments	10415
Average #comment per backer	0.9
Number of updates by creator	53

*\*GBP: Great Britain Pound*

<b>Perks (Rewards) Price Categories</b>	<b># claimed</b>	<b>Funding</b>
5	89	445
15	51	765
139	500	69,500
139	500	69,500
149	806	120,094
149	405	60,345
154	500	77,000
154	500	77,000
164	2663	436,732
164	1778	291,592
189	500	94,500
189	498	94,122
189	1000	189,000
215	663	142,545
215	565	121,475
290	40	11,600
290	51	14,790
308	50	15,400
308	50	15,400
308	50	15,400
328	108	35,424
328	76	24,928
328	192	62,976
378	100	37,800
430	50	21,500
430	50	21,500
540	97	52,380
<b>Subtotal</b>	<b>11,932</b>	<b>2,173,713</b>

*Source: Kickstarter Zano Drone campaign (Note difference between this sum vs. final result)*

The analysis I put together on campaign numbers is provided in Table 4.5. Contrary to Robot Dragonfly explored in the previous section, it was not possible to detect the amount of the original crowdfunding allocation of rewards in Zano campaign. However, based on the final amount of orders we can estimate that the original campaign only covered around 600 units of rewards. The 20x times of increase in order size should normally raise considerable concern about the feasibility relative to the original scope, still scheduled to be distributed in the same period of time: just six months following the campaign without an adjustment in delivery schedule.

Overall, the dominant problem seemed to be a typical working capital crisis of a rapidly and significantly growing company that both drowned under the gigantic order it created itself and substantial inability on project management. A big dose of optimism coupled with crucial mistakes on certain technical decisions such as skipping a “pilot build” before going to mass production just to meet the deadlines as Harris (2016) revealed, loaded the company with a huge inventory of unfinished and semi-finished products that were not even really functional, hence worth basically trash, reaping developers’ cash piles too early.

Technology expert and journalist Mark Harris (2016) published an inquiry on Medium covering the chronology of the project “Zano drone” including interviews with the project developers, Kickstarter team and some of the contributors, which exposed the major loopholes of the project. Although it was Kickstarter that hired Mark Harris for an investigation on the project created by Ivan Reedman, Harris kept his independence. KS’s efforts in mobilizing an expert analysis, although at the aftermath of the funding, demonstrated platform’s ambition at least to learn from a significant bump in its learning curve. The examination was after a factual summary of where the money went and what lessons can be learned from the failed experience a project that met its funding goal only in 10 days and received a wide applause from the tech world as well also garnering certain prestigious awards like Best of CES Award “among an estimated 20,000 new products at the world’s biggest trade show” as Harris puts. The project was “Kickstarter’s most funded European campaign” (Harris, 2016).

Based on Harris' investigation report, the key turning points that led to Zano Drone's failure story are summarized as follows in a fashion where the first sentence gives what happened according to Harris, usually followed by my comment in the italic format:

- The developer company, Torquing, expanded into another duplicate pre-order campaign on its website beside Kickstarter campaign, for ramping up the volume and pre-sold 3,000 additional units. These separate pre-ordering users received their “barely operational” drones before the KS backers, as *KS terms were not enforcing priority of treatment in order handling.*
- The campaign owner, Reedman admitted to Harris that increasing the order was to reduce unit costs as this was the only way to manufacture such a drone. *This is a typical manufacturing practice where large quantities of order justify the production with economies of scale. Yet I cannot get my head around how initially a 600 piece-campaign can be feasible with only 125k pounds but an order of 20x bigger magnitude still does not reduce unit costs sufficiently.*
- The campaign video contained features that hinted at the possibility of fake footage at careful observation as the shown prototype was not even fully functional demonstrating the early-on discrepancy between the reality and the vision. There were “red flags throughout”. If this was the case, it was violating Kickstarter's policy prohibiting “product simulations” to display “what a product might do in the future”. *This was something only an expert eye could detect. Hence, the question brings me to the same resolution: how can the platforms incorporate some independent expert opinion earlier on especially in this kind of blockbuster projects?*
- With orders and requests for extra features overflowing, the project owners expanded the deliveries with extra features such as “built-in storage, high-def (1080p) video recording, thermal imaging cameras, wireless charging, the ability to fly upside down,...facial recognition, 360-

degree panoramas, and more” (Harris, 2016). These sophisticated the drones further that already suffered from problems of feasibility.

- Developer of a compatible and competitive product (Kerswell from Micro Drone 3.0 that raised US\$3.5m on Indiegogo) admitted to Harris: “...analyzing the tech behind it...I realized, ‘Oh my god, there’s no way they’re going to do this’. This is completely bonkers. You can’t do obstacle avoidance with infrared, and the 15-minute flight time was completely ridiculous.” *Again for someone with background on the functioning of such a product, catching the feasibility of certain features was likely.*
- In order to rush with the orders due to delays, Zano team skipped a crucial milestone in the production process, which is pilot build. This typical step in mass manufacturing is useful for exhibiting the potential flaws – “assembly bugs” – that the prototypes sometimes leave hidden. Not discovering the errors with pilot production early enough before the real production led to a mass order with significant hiccups.
- Even at one of the biggest technology conferences, CES, near the schedule for the rewards, developers left the Zano “grounded” because as Reedman acknowledged in Harris’ investigation they were basically not ready (*not flying*) yet: “Consumers expect to see a fully functional...consumer product. Zano wasn’t at that stage at that point. With that sort of publicity, you make one mistake, and that’s the end of the product.” *Well, it turned out that there was even no working prototype at first place – hence the end of the product was already inborn at the first moment of CF campaign.*
- Actually interviewed company employees had no clue as well whether Zano was really getting operational as Reedman closed the doors when testing the prototypes.

During the time of the campaign, actually, one user raised a red flag about the project by clicking the “Report This Project” button. This is a reporting mechanism for any user to submit a personal alarm to the platform through a button placed at the end of each campaign page, which according to Michael Harris remains hardly noticeable at the end of the project page. Kickstarter

expressed to Harris that “a single report is low for a project this size”. Although an analyst on KS’ Integrity team reviewed the project, apparently no evidence of fraud was found that could suspend the campaign.

KS’ argument to Harris exhibited a clear trap: the reference project size in determining one red flag as “too low” should be taken as the original funding target, not the overfunding. If it is the latter assessed here, then the statistical significance criteria for red flags should definitely be reviewed. After the funding was completed, other complaints started to flow to the platform reaching 62 at the end. One of the key takeaways from Harris’ exploration was that most of the contributors who contacted him stated that Zano failure “soured them on Kickstarter itself and crowdfunding in general”, although it was not the first time they lost money in “unsuccessful crowdfunding projects”. This basically proves quite intensely how the platform trust can be shaken with these failure experiences that actually originate from the peer trust being unwarranted at first place or becoming unwarranted later when an innocent, a few hundred thousand dollars targeting projects can be overwhelmed by a huge overfunding success.

As Kickstarter co-founder Strickler explained to Harris, there are also examples where the platform rightfully suspends a project based on concerns. For example, Skarp, a “laser-powered razor”, had already achieved about US\$4 million funding when it got canceled by the platform. Harris reported that the same project creator initiated another campaign at the competing platform Indiegogo with “fewer rules and restrictions” and collected US\$450,000.

Although there is enough flexibility in terms of posting campaigns on its site, Indiegogo’s methodology for the release of funds in technology projects incorporates some phasing. A similar project, Micro Drone that raised US\$3.6 million at Indiegogo could obtain the funds in two installments with the latter one being at the time of production start showing invoices. As opposed to that, Kickstarter releases funds immediately at the completion of the fundraising campaign. Kickstarter’s Strickler mentioned to Harris that although having considered this option, the “capital-intensive” projects could be killed by this method because of a large amount of upfront funds needed for the production.

If you want 100% success with hardware and new products, I think the only solution is that you just shop on Amazon...We're all still searching for what is the right playbook for these moments of extreme catastrophe. Thankfully, it's been six years and we're experiencing one on the scale of Zano really for the first time...Let it be an educational moment for a lot of people, and really very clearly set the expectations here (Strickler talking to Harris on Kickstarter's methods).

#### **4.1.4. Transparency on Payment: Story of a PayPal Intervention**

As highlighted in 4.1.3.1 Indiegogo has a more discretionary approach than Kickstarter in the release of funds. Part of this discretion also comes from the payment platform the site uses for transferring contributed pledges to campaign owners. Indiegogo's payment partner PayPal has been the subject of some controversy regarding its own initiatives in freezing funds in certain crowdfunding campaigns as revealed in Micro Dragonfly project.

“Mailpile” –an email client product – is an example of a crowdfunding campaign that became a hot topic due to a dispute with PayPal over the release of its funds. The project earned relatively moderate funds of US\$45,000 funds at its Indiegogo campaign in 2013, however, faced a freeze of the campaign owner's PayPal account based on the requirement of a more developed version of their final email client product. The owner Brannan Novak was told that PayPal has frozen the Indiegogo funds for a year or until a “verifiable 1.0 release of their product” was issued. The other option for Mailpile was to submit “an itemized budget” and “development goal dates” for the project. Novak put in Mailpile's own blog (again shown below for the authentic original point of view):

Communications with PayPal have implied that they would use any excuse available to them to delay delivering as much of our cash as possible for as long as possible. ...PayPal's position [is] particularly ridiculous when contrasted with IndieGoGo's policy of transferring all funds to successful campaigns within 15 days of their conclusion. If

IndieGoGo can do it, so can PayPal... I am left with the very strong feeling that this entrepreneurial freedom is in jeopardy. If PayPal has financial risks to mitigate, why is that especially true in our case? (Mailpile Blog, 2013).

Ars Technica, a leading online technology publication covered the Mailpile story and described PayPal's fraud initiative in crowdfunding as "notoriously obtuse and unresponsive – a process so broken that PayPal itself has acknowledged it's in need of "aggressive changes"". After a day of freeze and increasing media coverage including Ars Technica's, PayPal reacted to requests and released the funds to the developer also acknowledging that a revisit of their crowdfunding processes is necessary. PayPal not only freed the funds to Mailpile but also donated US\$1,000 to Mailpile's Indiegogo campaign, supposedly in a move to smooth away the mini-crisis. PayPal highlighted its lifting of restrictions and the excitement about backing crowdfunding projects, for which they were cooperating with platforms like IndieGoGo for advancing their systems "to better serve the innovative companies that are relying on PayPal". They never wanted to block innovation yet they required compliance with worldwide legislations. Acknowledging the frustration, the platform underlined upcoming modifications in North America "to adapt to the unique needs of crowd funding campaigns" that were to be applied to other regions, too (2013).

Hutchison (2013) writing for Ars Technica further followed up the story upon PayPal's request for a talk with its Senior Director of Global Initiatives at that time, called Anuj Nayar, who emphasized that the company does not want to "insert itself a roadblock in the crowdfunding process" and there are considerable internal considerations on restructuring its fund-release processes. Apparently, there were also certain location-based issues that PayPal tried to stay in compliance with concerning the origin of the fundraising project creator and the backers: "We are not in the business of evaluating business plans...We are working with the crowdfunding sites to work out the best approach to ensure that fewer dolphins get caught in the net, but we still catch all the sharks..."

Nayar told to Ars Technica that usually in many occasions that among the first groups that try out “new developments in the online payments world are folks attempting to game the system”, meaning the fake ones. One thing that PayPal’s Senior Director pinpointed is that “the problem with crowdfunding is that sometimes it hits triggers”, admitting that PayPal currently (at that time 2013) is in the process of figuring out these triggers. The Senior Director of Global Initiatives could not provide a direct response regarding the demand of a business plan in Mailpile campaign, but again referred to “complex and shifting international financial regulations” through which false positives may “creep through”.

What happened here is that PayPal tried to protect itself from refund requests that may come up if the campaign does not deliver its promises. When a purchaser cannot get a delivery, a chargeback policy flows from the credit card company to PayPal which cannot be blocked easily. Such a process starts with the purchaser calling for a “chargeback” from the credit card company, which then alerts the merchant bank to directly pull the funds out from PayPal. PayPal at this point can only warn the seller and freeze the related funds until a plausible explanation is provided by the owner of the funds (PayPal – Resolving Disputes).

As there is not much room for PayPal to stop the merchant bank from withdrawing the funds, the risk that can be associated with crowdfunding can be considered high from PayPal’s perspective. Because the crowdfunding campaigns usually involve an unfinished – sometimes not even started – products or creative processes, the probability of delivery of promised perks may not be as high as when people buy finished goods from an online retail store. In such a high-risk environment in 2013, PayPal seemed to have put some effort of scrutinizing funded campaigns with that risk perspective that in this case Indiegogo –as the crowdfunding venue working with PayPal – could not truly police.

PayPal’s review of its crowdfunding policies triggered by the reactions to its freezing of crowdfunding accounts culminated in a few gradual moves. First, in 2014 the payments platform integrated certain initiatives to ensure conformity of campaigns and campaign owners with PayPal’s policies and related country

legislation. In a blog post that should be still online but currently is not accessible (probably because it is outdated) PayPal's Chief Risk Officer, Tomer Barel, shared that along with crowdfunding partners PayPal aims to "identify if campaigns are strictly fundraising or preselling merchandise" – which actually again brings us back to the uncertainty on what category the crowdfunding projects really fall under. The payment processor's considerations carry this questioning on the definition of reward-based CF from a philosophical question to a practical one. The payment processor's reaction meant another layer subject to the effects of this uncertainty.

PayPal's outlined method involved getting in contact with campaign owners early on and asking for more complementary information such as Tax or Social Security numbers as well as "business plans, mission statements, and vendor or manufacturer information". PayPal only refrained from freezing funds when a campaign developer was openly communicating with the backers that the deliveries were not assured (Murphy, 2014). The payment processor also required the risks to be acknowledged by backers in this framework, which brings us back to the risks versus responsibilities. For backers to take on the responsibility of their crowdfunding decisions, they need to be made aware of the associated risks.

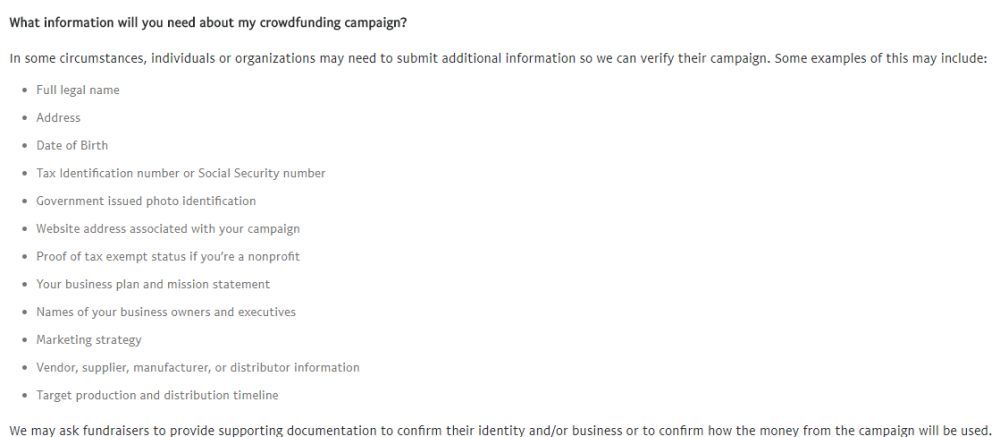
This approach also embedded a differentiation between crowdfunding for donation purposes which usually do not promise a delivery and projects that pre-sell a specific product. As long as the campaigns explicitly made known the "potential non-delivery" they can be free from PayPal's intervention like freezing accounts. However, in campaigns where a delivery of an item is promised then PayPal is likely to intervene in the process for more information like business plans or further identification details with the ultimate purpose being to safeguard refund to the customer when the fundraiser cannot hold the promises.

Ultimately in May 2016, Paypal announced the modification of its user agreement to rule out "reimbursement" for crowdfunding payments altogether in its Paypal Purchase Protection as of 25 June 2016 annulling the abovementioned distinctions. This solved the puzzle completely and probably with less effort. Paypal indicated that contributions directed to crowdfunding campaigns as of that

date are excluded from “buyer protection programs”, hence refunds. This was in line with the “risks and uncertainties involved in contributing to crowdfunding campaigns”, which were exempt from guaranteed returns. PayPal underlined its decision to collaborate with crowdfunding partners in supporting campaign owners to disclose the uncertainties to contributors (Kamen, 2016).

Indiegogo’s payment partner PayPal supports only reward-based and donation-based crowdfunding excluding the lending-based and equity-based campaigns. Within the allowed categories, the projects that target new product development such as “video games, movies or new gadgets” or charitable contributions are welcome. The site requires that each campaign owner has to provide a clear disclaimer on the campaign page that the owners “will make a best effort to provide the reward but delivery is not guaranteed”. If the disclaimer is not included, the reward-based campaigns would fall under “pre-selling” and as a result of this may experience “payment holds”. As in Mailpile experience, PayPal in its crowdfunding policy underlined that for verification of a campaign additional information may be requested, which might include social security number, business plan, mission statements as well as target production and distribution timeline (Figure 4.16).

#### **Figure 4.16 PayPal additional info request in crowdfunding campaigns**



Source: PayPal Crowdfunding- Business Resource Center

With PayPal’s differentiation, the pre-selling versus crowdfunding dilemma takes on a practical substance. The former is assumed when project owners “accept payments independent of their reward-based campaign”, and for

this group, PayPal grants itself the right to hold the money for guaranteeing that purchasers are really awarded their products “within the agreed timeline or “a refund if the product isn’t available” (PayPal Crowdfunding Policy). Pre-selling may include fundraising through pre-orders on own site apart from the crowdfunding campaign as well as instances when campaign owners take orders after crowdfunding campaigns are closed.

As disclosed in PayPal’s Crowdfunding Policy (Figure 4.17), the site can decide whether some accounts can be considered as having “heightened risk” and as a result of this they can be subject to “payment hold or reserve”. Such kind of monitoring starts from the time a campaign is launched onwards and causes for higher risk may include suspicion of anti-money laundering to “negative publicity about a campaign” resulting in backers’ money-back option.

#### **Figure 4.17 PayPal intervention**

When fundraisers are preselling PayPal may hold the money to help ensure that buyers receive the product or service they paid for within the agreed timeline or a get a refund if the product isn’t available. Occasionally, businesses that presell items run into unexpected problems that leave them unable to deliver what was promised and can even put them out of business. This puts PayPal in a tough spot when something goes wrong, our highest priority is protecting our customers and creating a positive experience. We want fundraisers to get paid and we want the customer to get what they ordered.

If fundraisers can't deliver, we need to enable the customer receive a refund.

Examples of Preselling associated with crowdfunding are:

- During an active campaign fundraisers are also accepting pre-orders for the campaign product or service on their website.
- After a campaign has closed fundraisers are accepting pre-orders for the product or service on their website.

Once the campaign has been launched, we will continue to monitor the account to ensure it remains compliant with our policy and government regulations. Accounts with heightened risk may require us to take action such as a payment hold or reserve:

Sometimes this review takes time and in rare situations, an account will immediately be put on hold until the review can be completed.

Some heightened risks are:

- High likelihood of negative customer experiences from chargebacks, refunds, or fraud.
- Non-compliance with our Anti-Money Laundering Policy.
- Negative publicity about a campaign causing donors to ask for their money back.
- Accepting payments unrelated to the campaign for a high risk business through the same account.

Source: PayPal Crowdfunding- Business Resource Center

As shown in this construction, PayPal itself clearly faced the need to take a more active involvement than IG in shaping the fate of funds in crowdfunding. This say can be denoted as “intervention” for our purposes as originally the fate of a campaign is determined on the campaign site at Indiegogo and when PayPal steps in by smoothly flowing – or slowing the funds this becomes a secondary intrusion. Yet it can become a powerful reconfirming part of an abstract expert

system, where the payment expert takes an active say in freezing the transaction process of a successfully funded campaign.

In terms of the effect on the campaign funds' destiny, PayPal's intervention clearly supersedes Indiegogo's screening where although a campaign can be successfully funded the campaign owner may end up finding funds frozen at PayPal due to scrutiny on delivery performance of a project. PayPal of course not only supports crowdfunding through Indiegogo. It allows other crowdfunding applications through its "Adaptive Payments" model where people can fundraise "with or without small incentives (such as T-shirts or mugs)", for "nonprofit organizations" and "in exchange for compatible value of products and services" (PayPal Crowd-funding application guidelines). Complementary documents such as Article of Incorporation are asked for example for non-profit or political campaigns. Also, in reward-based campaigns, a cap is imposed on price of rewards as US\$100, where rewards cannot involve "gift cards, equity shares, raffles, or sweepstakes".

PayPal not only stipulates certain monitoring rules for its own processes also highlights some best practices for crowdfunding applications. As shown in Figure 4.18 these include "pre-screening" projects, "monitoring" user activities as well as "all cross-border payments" and more specific recommendations such as "limiting" both "the maximum amount per contribution" and "number of fund-raising campaigns an organization can host in any given year". The most critical input is that PayPal sees the "all-or-nothing fund-raising structure" as a best practice where funds are only collected when the funding goal is met. This, however, is not the case in its crowdfunding partner Indiegogo.

Kickstarter faced less controversy regarding its payment processing partners. The platform used to work with Amazon Payment Services until it switched to Stripes in January 2015. Previously users needed to create an Amazon Payments account whereas now with Stripes they are just required to fill in their bank account details –that supposedly takes only about two minutes compared with the earlier finalization of the process taking up to a few days. The information request includes identity verification through Social Security

Number. When announcing the change, the platform highlighted that the new mechanism means “simpler, faster and easier checkout process” that no more requires users utilizing another service they are automatically redirected from Kickstarter: “it takes half the steps, and it all happens on Kickstarter” (Kickstarter Payment Easier).

#### **Figure 4.18 PayPal underlines best practices for crowdfunding platforms**

##### Crowd-funding platform best practices

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Pay attention to the following when integrating a crowd-funding model into your application:

- Create processes to pre screen events that are submitted to your platform. You should also have processes that monitor the ongoing user activities during the course of the crowd-funding events.
- Vet and know your project owners. You should know their country of origin and you should encourage events where there are no cross-border payments. Your application should carefully monitor all cross-border payments.
- Set limits on the maximum amount per contribution, per fund-raising campaign, as well as the amount that a single person can contribute.
- Limit the number of fund-raising campaigns an organization can host in any given year.
- Set reasonable time limits for fund-raising campaigns. For example, 90 days or less.
- Implement an all-or-nothing fund-raising structure that collects funds only when the predetermined target of an event is reached during the allotted fund-raising time period.
- Ensure that all activities are in compliance with local laws, the [PayPal Acceptable Use Policy](#), and the [PayPal Developer Agreement](#).

Source: PayPal Crowdfunding- Business Resource Center

The reason for the move from Amazon –which was an “excellent partner, processing \$1 billion in pledges” – to Stripes was acknowledged as Amazon’s decision to discontinue its Flexible Payment Service and so Kickstarter took the time to find the best alternative partner.

## 4.2. MEMBERSHIP-BASED CROWDFUNDING: PATREON

Founded in 2013 by Jack Conte, a YouTube star and member of a band called Pomplamoose, Patreon is a platform that allows artists and all kinds of creators to get paid by their fans and supporter base on a recurring basis, or even create a fan base at first place. This is a different kind of intermediation where not only a one-time but monthly continuing support channel is created as long as supporters do not cancel their subscription for a business. Presenting itself as “powering membership for creators”, Patreon rightfully holds a unique position in introducing a membership business possible into crowdfunding and the digital economy, also in a kind of both complementary and competitive form to YouTube. This uniqueness was also prevalent in terms of competition until several platforms merged like the most prominent and potentially strong one being Drip rebooted by Kickstarter (acquired, originally owned by Ghostly International). In this study, the focus will be on Patreon as the first and longest-present example of membership crowdfunding.

How Patreon was born basically shows a fundamental need of artists and creators, to fund their creations on a continuous basis.

In 2013, YouTube musician Jack Conte was looking for a solution to his problem: millions of people loved his videos, but only hundreds of dollars were hitting his bank account. This didn’t add up, so he drafted up an idea (hi, we’re Patreon) and brought it to his college roommate Sam Yam. Now it’s 2017, and Patreon is the solution to this same problem for over 50k creators (Patreon About).

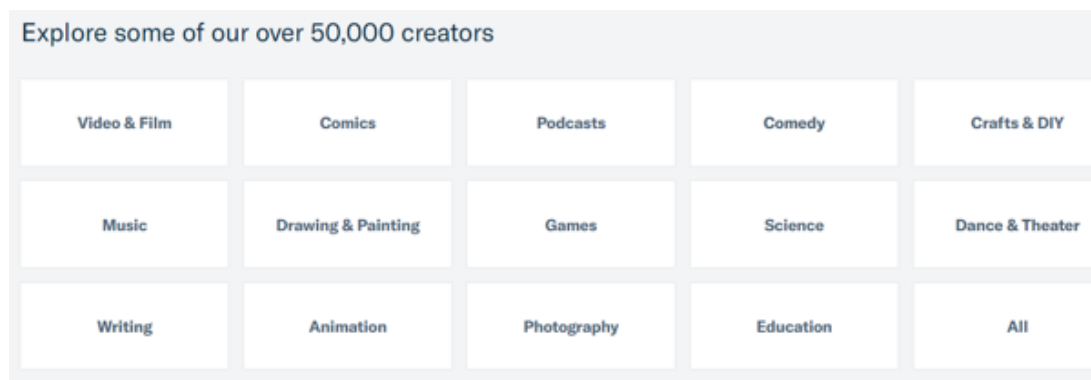
Patreon defines itself as a platform that brings together “creators with their biggest fans and enables those fans to become paying members, or patrons, of their creators” (Patreon Press). It is another facet of crowdfunding where a faith is put into the sustainability of a creation and the only reward is accessing the creation. It is in a sense like a subscription to arts and creativity that may otherwise not survive, like a contemporary version of classical patronage. As of the latest update, Patreon disclosed 2 million active supporters (as of June 2018)

actually labeled as specifically “patron” who are like investors and believers of a creator. With 100,000 monthly active creators, the average number of patrons per creator is calculated as 20. Patreon also estimates that creators are projected to generate US\$300 million earnings in 2018 (Patreon About), which implies an average monthly support of US\$12 by a patron. On an interesting note, before the latest update on numbers, Patreon was disclosing 1 million active patrons and 50,000 active creators (as of as March 2018) with US\$150m projected in 2017 – compared to which the revised 2018 figures point to a considerable growth with doubling figures in all aspects.

#### 4.2.1. Form of Rewards at Patreon

The main types of rewards at Patreon are the creative works in diverse areas ranging from podcasts to games or movie critics (Figure 4.19). The creators with primarily digital outputs usually provide an online access to their creation i.e. posted videos. It is like the artists have members who sign up for their works. The members can “unlock” the content that is for “patron-only” – which can only be viewed by the supporters –so-called patrons. As in Kickstarter and Indiegogo, there usually are categories of rewards but to a much narrower extent. As much as it is content that forms the reward, the frequency of creative outputs can also form a dimension of a user’s contentment with a particular subscription.

**Figure 4.19 Patreon’s main categories of creators**



Explore some of our over 50,000 creators

Video & Film	Comics	Podcasts	Comedy	Crafts & DIY
Music	Drawing & Painting	Games	Science	Dance & Theater
Writing	Animation	Photography	Education	All

Source: Retrieved from <https://www.patreon.com/explore>

**Table 4.6 Summary of Top 5 Creators on Patreon as of 20.03.2018**

Creator	Category	# of patrons	Support per month (US\$)	Average support per patron (US\$)
Chaapo Trap House	Podcast (weekly)	21,867	97,577	4.5
Kurzgesagt	Science (animation videos)	10,803	37,240	3.4
Blind Wave	Videos	6,168	35,072	5.7
Last Podcast on the Left	Podcasts	5,736	32,598	5.7
Pentanonix	Music Videos	3,871	17,473	4.5
Median		6,168	35,072	4.5
Average		9,689	43,992	4.8

Source: Calculated based on data from <https://www.patreon.com/explore/all>

As the examples above demonstrate, supporters –so-called patrons – of the top 5 creators pledge on average less than US\$5 per month which however can accumulate to above US\$30,000 per creator (per month). For example, the top creator “Chaapo Trap House” publishing weekly podcasts earns about nearly US\$100,000 per month through around 22,000 patrons. Of course, this includes the platform’s share too. Patreon takes out 5% of each pledge, and asks the content provided on the site to be considered as under a royalty-free license to Patreon. In the example of Chaapo Trap House, Patreon’s implied share from revenues is about US\$5k per month on its 5% commission. This leaves about US\$92k for the creator. Interestingly, in only a week period (from 13.03.2018 to 20.03.2018) the creator’s support base expanded by 179 patrons and by 786 dollars. So for successful creators that attract interest, not only it is possible to make a living on Patreon pledges but it also gives the potential to enlarge their patron base and their earnings gradually. The same goes for the site Patreon. An example view from a specific section of creator categories is shared in Annex Figure B.12 showing Creators in Comedy Section with the highest popularity where the highest monthly creator income appears as US\$7,753.

The creative content may vary from podcasts to videos or movie critics. As in Kickstarter or Indiegogo, there are reward types but to a much narrower extent. The rewards usually give special access to different types of content (examples shown in Annex Figure B.13), where some categories like the lowest ones with mostly US\$1 support per month only get a thank you note or a mention.

#### **4.2.2. Terms Of Use & Community Guidelines at Patreon**

Maybe on the back of its facilitation of artistic business and being funded by an artist himself, Patreon's latest Terms Of Use (accessed as of March 2018) succeeds in building a relatively more user-friendly presentation of its rules than the average statement. By directly stating that "we know that most people skim through terms of use statements because they're boring and go right over our heads, but we have done everything we can to make this easy to get through" (Patreon Terms of Use), the site offers short summaries as was the case in Kickstarter's Terms Of Use. With total word count of 3,318 Patreon's ToU is also a compact document compared with 4,241 words of KS and 8,375 words of IG.

Summaries provided at beginning of each section are naturally simpler versions of what is stated in detail and can sometimes become less accurate than the actual terms. That is why the site also clearly underlines that "the summaries are not legally binding, but they give you a short version of terms". While the site makes it clear in the introduction to the terms that it will "always" notify when changes occur on the terms, within the first few paragraphs it is also acknowledged that the platform will inform changes either by posting an announcement on the site or by sending an email. The last effective change was done in February 2017 and users are prompted to accept the policies once they enter the site.

As its other counterparts, Patreon also takes no responsibility on the "quality, timing or legality of content or rewards" and does not promise "refunds" as well: "We may grant refunds at our sole discretion in exceptional circumstances". It is highlighted that these refunds do not depend on a "failure to deliver rewards". Although the platform makes efforts to find out "fraudulent creator pages", the creators and their promises cannot be considered as fully verified as the content is neither screened nor certified.

On the other hand, as active creators usually post frequently at least once a month, it is easy to monitor a creator's activity and whether the content is in line with users' expectations. This gives users flexibility in canceling their membership to a creator whenever they want. In this regard, at Patreon


uncertainty management concerning the expected rewards becomes easier than in the reward-based counterparts. Peer trust formation can take less time, even in a few months a patron can with no trouble decide whether a creator’s performance can be trusted. Moreover, many contributors usually follow several creators which also put them into the learning curve on various quality of creations, among which they can pick the ones they sustain through trial and error. Pledges can currently be either made on a monthly or per creation basis. For instance, for a literary magazine that publishes every month usually the creators ask for a monthly support.

As shown above, Patreon names itself as the “limited agent” that also represents the patrons collectively so any creator cannot totally face a patron directly but only the platform itself (Figure 4.20). The platform putting itself as a legal counterparty to the creators is relatively something novel compared with the reward-based CF platforms. Yet also as its other counterparts the platform tries to rule out any association with “failure to deliver rewards” or any potential losses: “We are specifically not liable for loss associated with failure to deliver rewards and from losses caused by conflicting contractual agreements.” In ToU there are clear statements that Patreon can revert to the users in case of legal suits: “If we are sued because of you, you have to help pay for it”.

**Figure 4.20 Patreon – Excerpt from “All about being a Creator”**

To become a creator, you may convert your regular account to a creator account or directly make a creator account, and launch the page.

You may choose to charge patrons per month or per creation, in either case most payments are processed at the start of each month. In connection with your charges to patrons, you appoint us as your limited agent for the sole purpose of receiving, holding, and settling payments to you. As your agent, our receipt of funds from a patron on your behalf is the same as receipt of funds by you directly, and you will only have recourse against us, and not against any patron, for any failure by us to settle funds to you. We try to provide timely access to your funds, but you may occasionally experience delays in accessing your funds. We may also block or hold payments for violations of the terms or compliance reasons, including collecting tax reporting information. When payments are delayed or blocked we try to communicate the reasons to you promptly. In order to protect creators, we may block patrons’ payments if we believe them to be fraudulent.



Source: All About being a Creator

As many of the sharing platforms, Patreon also regularly reviews and improves its content as it grows on its own learning curve. “Community

Guidelines” was one of these sections that significantly expanded from August 2016 to October 2017. While previously it was only about 800 words, now Patreon’s Community Guidelines covers around 2,827 words and explains the site functioning in a more detailed fashion. Some items also discussed in the previous version now have become a proper section on their own. For instance, due to its creative content the site shows sensitivity to issues like “hate speech”, for which there is now a separate part while previously it was only mentioned under “Bullying, Harassment, Threats and Hate Speech”. In that earlier version, “hate speech” was used three times compared with nine times in the new text.

Like some sharing platforms, Patreon also enacted community guidelines that the site promotes as “enforced”. “Enforced” in this case means that the creators who break “community guidelines” may get a “strikes” on the account or even expelled from the platform (Patreon Community Guidelines). Patreon asks users for notifying them on any kind of doubtful behavior of other users as similar sites, too: “when you see a page on Patreon that you feel violates our community guidelines, please take the time to report them via our reporting tool...The Trust & Safety team will review the report and if the Community Guidelines have been violated, the team will get in touch with the creator to let them know”. Both the “reporting tool” and “Trust & Safety” team have been newly added, which were not present in the previous version of guidelines.

Although looking for catching violations through the reporting of the users and with the Trust & Safety team, the site is careful in not dismissing creators on non-fair grounds probably also because the platform was founded by a creator. Patreon therefore iterates in the guidelines that they care about their “commitment to creators” and provide them an “open line of communication” to give room for “educating” creators and remedying situations that can be cured. Only in conditions where there is a deliberate abuse, the platform gets decisive and may suspend or remove an account, which of course can be plead by a user.

In its Community Guidelines, the site communicates that the content is not reviewed by the platform “to determine if it is a fair use”. The only time the site looks into the content specifically and usually removes it is when the platform

obtains a “DMCA takedown notice”. DMCA, Digital Millennium Copyright Act, a “copyright law” of US, which basically shapes digital rights management (DRM) based on the relevant 1996 treaties of World Intellectual Property Organization (WIPO). DRM considers unauthorized use of copyrighted material as “criminal” act.

Patreon is also sensitive about evading “spam” content on its pages as much as possible. With a separate section in its Community Guidelines on the matter, the platform prohibits acts like commenting on other creators’ pages for marketing their own projects, “sending a large number of unsolicited private messages asking for support”, “using incorrect tagging in order to drive more search results” or “posting multiple paid posts per day if you are a per-post paid creator” (see Annex B.13).

#### **4.2.3. Dialogue with Community: Patreon’s Fee Change Initiative**

In a move that seems to have surprised its users, Patreon attempted to change its fee structure in December 2017 to cover payment processing fees in a more structured way (Figure 4.21). The changes were supposed to introduce a brand new fee of “2.9% + \$0.35” for each pledge by a patron as of 18 December 2017 (Patreon Updating Fee Structure). This meant that if a patron wanted to contribute US\$5 to a creator, the exact amount to pay was supposed to increase to US\$5.5 after the change that implied about a one-off 10% increase in cost of a US\$5 pledge to the patron. For the smallest and frequently used pledge category of US\$1, the change however indicated a sudden 38% inflation.

The reason for the escalation of the cost of pledge to a patron was explained by the site as “predictability” and “consistency” of the support the creators receive. As “a creator’s income on Patreon often varied from month to month because of third-party processing fees” and different timing of each initial subscription, the payment fees were not foreseeable and it was hard for creators to predict their pay-checks. The site also mentioned that patrons usually had no idea about the additional deductions on their pledges until their contributions reach the

creator. Apparently, apart from the 5% share Patreon takes on each pledge, the credit card processing and transaction fees were denting the amounts transferred to creators also repetitively due to various dates of initial subscription.

**Figure 4.21 The proposed fee structure**



Source: Patreon blog

Patreon’s statement on the change also referred to its mission of “funding the creative class”, which they seemed to take quite seriously also on the back of the “US\$150 million of support” that was announced as being paid to creators in 2017: “...we’re always looking for ways we can help creators continue to grow their creative careers. We’re committed to building tools that transform communities into thriving, long-term membership businesses” (Patreon Updating Fee Structure). The site also openly expressed its “creator-first mindset” that basically prioritized creators over backers.

The openness of the site on its inclination towards protecting the creators first may be considered as a contribution to the transparency of its intentions and the sincerity of a dialogue with the site’s user community. Yet, the lack of supporting data on fee deductions left their argument quite vague. Rather than giving a range of “2-10%” for transaction fees, any information on the statistics of average processing fees could enrich their approach. The claim that the site would

be able to standardize third-party fees with this new fee structure was not convincing enough on the properness of the suggested fee structure. It was also not clear in the demonstrated visual how the transaction fee that varies from 2% to 10% is controlled in the new model with only “2.9% + \$0.35” service fee. Apart from the 5% Patreon’s share on pledges, the service fees Patreon pledges are subject to have been “2.9% + US\$0.30” on Stripe and “5% + \$0.05” on PayPal (Koehler, 2017).

#### Figure 4.22 Excerpts from Patreon’s immediate update on the post

##### Update: 3:57pm PST

We know creators and patrons want more information about our fee decision today, so we’re going to go one level deeper for those interested. Here is more about the decision, from our payments product manager.

Today, payments on Patreon are weird. There, I’ve said it. Payments are weird. Today, creators can use any one of three different ways of charging patrons.

**Per creation** – You, as a creator, can charge your patrons for multiple creations per month. These are bundled together and billed on the first day of the following month. (So, all creations made in November are added up together and charged in one bundle on December 1.)

**Monthly** – You, as a creator, charge your patrons for the previous month’s access on the first of each month.

**Monthly with charge up front** – you, as a creator, charge your patrons as soon as they pledge for immediate access, and charge them on the first of each month thereafter for that month’s access. **This is, by far, the most creator-requested feature over the last 2 years.**

It’s a lot to understand – for scale, we receive literally thousands of support tickets (complaints) about payments confusion every single month. Creators and patrons are confused in our current system. Not only that, but if you’re a creator on the monthly plan *without* the benefit of charge up front, you are constantly worried that your patrons are going to delete their pledges before they’ve paid. That’s why we’re hustling to release charge up front to every creator, to really make sure you get paid for your creations up front.

Some creators already have charge up front enabled and, even at its current state, it’s far from perfect. Example: let’s say you become a patron of a creator who has charge up front enabled on November 29. You’ll be charged the full amount immediately, and then you’re kind of double-charged that same amount again on December 1. That’s bad. Patrons are surprised by it (and sometimes angry about it), and some creators feel the need to refund their patrons because of it. That’s obviously not a great, long-term solution!

How on earth does this relate to the new service fee? We’ll get there. But first, let me talk about our plan to address all of these concerns and all of the confusion around payments. Our vision for our payments system is that creators have confidence that their content will always be paid for, and patrons have absolute clarity about how much they will be charged, and when.

Source: Patreon Updating its Fee Structure

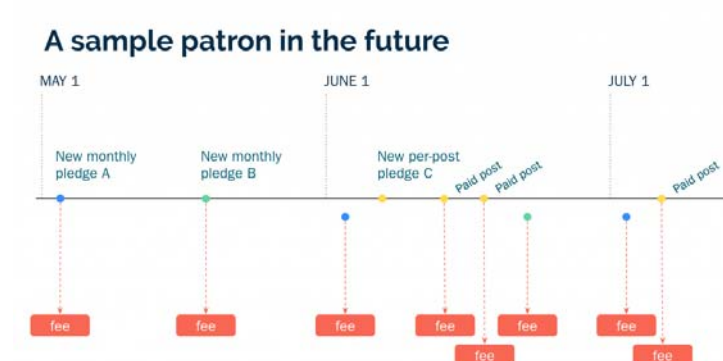
Even if one can try to make sense of the introduction of a percentage-based fee like the 2.9% plus “\$0.35” as it resembles the transaction and processing fees, the lack of a clear and user-friendly explanation why the change is needed now, made it seem ad hoc and noticeably risked challenging the trust of certain part of the patron community, for instance my confidence in the site as a patron. This or similar questioning apparently must have come from patrons and creators as well as through media coverage, the platform had to provide more details regarding the background of the payment processes on the same day.

As referred in Figure 4.22, Patreon wanted to resolve confusion about the timing of the pledges and when the next recurring pledge was supposed to be activated. The site intended to eliminate what was like double-charging from a

patron’s view who subscribes to a creator at the end a month and makes the first pledge, but is charged again the second pledge at the beginning of the next month, only a few days away. On the other hand, creators requested “charge up front” as they needed the commitment of the patrons in terms of pledges right away rather than taking the risk of their cancellation too early, losing a one month pledge although the access to content was already provided before the pledge was transferred. The resolution to this conflict was incorporating a “charge up front” policy combined with the charge of next pledge on the anniversary of subscription. This is a typical and well-known subscription model anyway, which was also to eliminate the double-charge perception when Patreon was taking consecutive monthly pledges always as of 1<sup>st</sup> day of the month.

With this anniversary-type of subscription model (shown in Figure 4.23) of course the transactions increase (as each patron would pay on the subscribed date instead of a one fixed date) and so do the transaction fees. Patreon continued its argument to demonstrate that the cuts on creators’ earnings increased significantly with this ideal payment method. However despite the posted visuals and explanations it was not straightforward how the changing fees could really cover this. Furthermore the site could gather the individual pledges together and then release it to the creators, which could basically help them in reducing the number of transactions and the associated fees.

**Figure 4.23 Patreon’s immediate update on the post**



Source: Patreon Updating its Fee Structure

The ambiguity that Patreon could pocket part of the increased fees was not minor. Furthermore the patrons who were contributing about \$1 dollar were supposed to be charged \$1.38 after the new fees that implied about 38% in their cost of pledge. This was also not negligible, especially considering patrons that donate US\$1 to multiple creators. As Table 4.7 shows, the cost impact was getting smaller as the pledge amounts got bigger, for instance 38% cost increase in US\$1 category dropped to 10% for US\$5 pledges.

**Table 4.7 The calculation of the new pledge for different pledge amounts**

Pledge (\$)	New pledge (\$)	Increase in pledge
1.0	1.4	38%
2.0	2.4	20%
3.0	3.4	15%
4.0	4.5	12%
5.0	5.5	10%
10.0	10.6	6%
20.0	20.9	5%
50.0	51.8	4%
100.0	103.3	3%

---

*New fee of “2.9% + \$0.35” added to the original pledge*

Patreon faced a lot of complaints from the creators who lost patrons especially the ones who were contributing single digit pledges, and this got considerable media coverage as well. Many creators depending on smaller pledges complained of losing patrons. From the perspective of a multiple-creators backing user who supported US\$1 to 30 creators, the new fees would imply a total payment of US\$41 versus US\$30 before –which may have trigger elimination of some creator subscriptions.

The site had to acknowledge that the changes affected the “\$1-2 patrons” in a “disproportionate” way. Of course, they already made it clear in their fee change announcement that they were aware of this possibility sharing key takeaways from a months-long research on “patrons” potential reactions:”...patrons were happy knowing that this change will send more money to creators. While some patrons may leave in the short-term, we know this will

help creators earn more money in the long term” (Patreon Updating Fee Structure). However the backlash from creators whose support base was dominated by small contributions seems to have been larger than the site expected so the platform took a step back and cancelled the change altogether (Figure 4.24).

**Figure 4.24 Patreon’s apology and cancellation of the fee change**

**We messed up. We're sorry, and we're not rolling out the fees change.**

Features | By Jack Conte

[f](#) [t](#) [in](#) [m](#) **27.7K** SHARES

Creators and Patrons,

We've heard you loud and clear. We're not going to rollout the changes to our payments system that **we announced last week**. We still have to fix the problems that those changes addressed, but we're going to fix them in a different way, and we're going to work *with you to come up with the specifics*, as we should have done the first time around. Many of you lost patrons, and you lost income. No apology will make up for that, but nevertheless, I'm sorry. It is our core belief that you should own the relationships with your fans. These are *your* businesses, and they are *your* fans.

I've spent hours and hours on the phone with creators, and so has the Patreon team. Your feedback has been crystal clear:

- The new payments system disproportionately impacted \$1 - \$2 patrons. We have to build a better system for them.
- Aggregation is highly-valued, and we underestimated that.
- Fundamentally, creators should own the business decisions with their fans, not Patreon. We overstepped our bounds and injected ourselves into that relationship, against our core belief as a business.

We recognize that we need to be better at involving you more deeply and earlier in these kinds of decisions and product changes. Additionally, we need to give you a more flexible product and platform to allow you to own the way you run your memberships.

I know it will take a long time for us to earn back your trust. But we are utterly devoted to your success and to getting you **sustainable, reliable income** for being a creator. We will work harder than ever to build you tools, functionality, and income, and our team won't rest until Patreon is making that happen.

If you haven't sent us a note yet, or if you don't see your concerns listed above, please leave us your feedback [here](#).

Thanks for continuing to create. We are nothing without you, and we know that.

Jack

Source: Patreon Not Rolling Out Fees Change

Patreon also seemed to be reconsidering its intermediary position between creators and their supporters, and claimed that the decision how creators would like pledges to be charged (up front or at the beginning of each month etc.) is their own decision. The responsibility of this decision and how it affects the patrons of a creator should be out of Patreon’s scope: “Fundamentally, creators should own the business decisions with their fans, not Patreon. We overstepped our bounds and injected ourselves into that relationship, against our core belief as a business” (Patreon Not Rolling Out Fees Change). This stance also appeared to be a result of the feedbacks received from the creator base following the fee update announcement.

Patreon’s change of mind not only stemmed from considerable criticism from its creator community. The change was subject of several news reports, too, reflecting the discontent of the Patreon community and probably triggered the

site's revisit of its decision. According to a news report by the Verge, many supporters especially in the small-contributing categories of US\$1-2, dropped their membership to certain creators on the basis of dissatisfaction with Patreon's service and the change in fee structure (see Annex Figure B.14 ). This has not left any controversy about why the patrons left.

Even one creator, Liz Bourke (2017, December 7), announced suspending her Patreon campaign and openly blamed the site on her Patreon page for “dishonestly advertising these changes”: “If Patreon wanted to increase that commission in order to cover their costs and make a reasonable profit, I'd understand. (I'd be annoyed, but I'd understand: commission of 10-20% is *not unreasonable* for services that connect people who make things to people with the money to pay for them)”. Bourke expressed outrage also stating that the platform cannot be trusted to handle creators' money as it was untruthful about the fee change (Figure 4.25).

**Figure 4.25 A creator (Liz Bourke's) posts**

**Patreon: What Should I Do?**  
Dec 19, 2017 at 4:16pm

So, Patreon's reversed (for now) its ass-backwards decision about charging patrons fees. This doesn't change the fact that a) they took the decision in the first place; b) they lied about money; and c) they represented themselves very poorly between taking the decision and reversing it.

I don't know that I trust them to continue to provide the service that they were originally providing. With that in mind, I need to ask you - because you're my patrons here - what should I do? I can't weigh the balance between an ethical decision and an unethical one when I stand to personally benefit from prioritising one choice over another.

---

**Rhode Red** 3mo  
Keep using them for now because it's the pragmatic choice, and as human creations no company is perfect. But keep an eye out for other ways to gather contributions. Something will come along because human inventiveness.

**Liz Bourke** 3mo  
Thank you. I appreciate your support. Hopefully there'll be other platforms soon!

**Heather Shipman** 3mo  
Broken trust is a big deal, and they "have" said they still need to "fix" the fee structure for some reason... I think it's reasonable to still be concerned. But, IMO, Patreon is stable for the moment - so you have time to research and consider other options, and Patreon has time to get its act back together and grovel before you.

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**Now Hear This**  
Dec 26, 2017 at 10:52pm

I hope everyone's enjoying their midwinter (or midsummer, for our friends in the southern hemisphere) holidays. I had a cold. That was fun, but it did mean I got to escape forced social activities in favour of hiding behind a videogame.

You may remember I was mulling over what to do here, in light of Patreon's mid-month hijinks. Whatever else Patreon might be or do, relying on it to be a stable platform in the long-term is a bad idea. On foot of this, I've decided to make some changes, and dedicate more of my time to exploring other ways to get paid for my work.

As of now, there are no goals and no reward tiers.

What that means: I'm not offering you anything tangible in return for your support. Reviews will still happen here, but they won't be tied to any schedule or metrics. Instead of paying for a specific thing, your support will now be paying for me to have more *time* to think and talk about books - not just here, but in a variety of places.

I'll be moving the pledge-charger back to its monthly status tonight. I fully understand if you choose to cancel your pledge, by the way: I'm as ambivalent about this decision as I am about continuing to use Patreon's services.

Let me know your thoughts, please.

Source: Bourke (2017)

Not surprisingly, several critics questioned the motives and the explanation of the platform regarding the fee change. One of them, Natalie Luhrs (December 2017), made an analysis on the numbers and pointed to the possibility of Patreon grabbing a considerable amount of the generated cash as the fees would be collected on a per pledge basis but the platform may gather pledges in bulks and

process them through cheaper fees, also underlining that the change would move out the patrons supporting in the US\$1-5 categories. The potential increase in Patreon’s portion was attributed to the intention of “making investors happy” who recently joined the company injecting US\$60m in a valuation round of US\$450m. Yet, Patreon later made clear that charges were supposed to be processed separately, hence there were no gains for Patreon.

Overall, the underlying consensus seemed to be that Patreon was not successful in convincing the crowd for the real motives of the fee change, which led users question the trustworthiness of the platform. As Glycer (2017) covered, some of the users criticized the way the change was presented as even the creators who were supposedly protected by the Patreon’s new fee structure were not happy with the change, especially creators who rely on the small contributions who saw their supporters leave following the change (Figure 4.26).

**Figure 4.26 Some consequences: Patrons who leave subscriptions to some creators**

Sandra Tayler criticized the fee implementation for the way it damages the creator/donor social dynamic:



Douglas MacKrell further observed —

*And what’s worrisome is that supporters who leave the @Patreon platform aren’t going somewhere else. That audience isn’t hopping over to support other artists at the same level – they’re leaving the world of microdonating all together.*

The webcomics blog *Fleen* has a [great summary of the online reaction](#). And they conclude —

*What’s really surprised me (apart from the ham-handedness about the entire rollout that I noted yesterday) is that I couldn’t find one person with an interest in Patreon that’s even neutral on this change. I’ve spent all my free time since last night trying to find one person – creator or backer – whose irritation went no higher than meh, whatcha gonna do? But no; **literally everybody** whose email address doesn’t end in @patreon.com hates everything about this change.*

Source: Glycer (2017) writing on File770.com

Following the backward move on the update, Patreon disclosed its intention of following-up on potential changes in advance with creators and the community. As covered by Josh Constine (2017) from Techcrunch, the Patreon founder Jack Conte outlined that the platform is going to get into more one-to-one dialogue with creators and get their opinions about potential issues and to collaboratively find resolution. Conte underlined that the site desires to “honor the

idea of letting creators own their relationships and run their businesses the way they want to run them”.

This positioning of course if genuinely meant and executed can bring a fruitful collaborative sharing experience between all the stakeholders. However in Patreon, despite all this stated intention to take creators’ opinions, there is a simple missing element: enabling users to post comments under platform’s posts such as this controversial blog post on the fee change. In Kickstarter for example users can freely share their opinions on platform’s announcements where sometimes hundreds of comments pile up under famous posts such as “Kickstarter is not a Store” and also users can come into a joint discussion. This aspect obviously enriches transparency of opinions rather than a bilateral discussion between one creator and the platform as it seems now to be the case in Patreon. Comments can only be posted under each creator’s own page but not on site-driven posts.

Moreover, as of to date, the explanation on fees is still not clear (as of 26 March 2018) and in the Helpdesk –so-called Zendesk –, there are no percentages provided other than the 5% of Patreon share (Figure 4.27). Quite recently (probably somewhere between May and June 2018), however, Patreon probably sensed this gap and provided a better and much more accessible graphic directly on its Homepage as shown in Figure B.19 in Annex. This visual exhibits well the portion of transfer fees –also displayed as around 5% – along with the platform’s 5% commission rate, hence leaving about 90% of collected patron support to creators. This simple disclosure responds well to this study’s inquiry on platform’s performance in transparency, making both the basic revenue sharing basis and the other fee percentage available on its Homepage.

In this example of Platform’s step for fee change, the ability of the site in acknowledging its failure in managing the process and dialogue, let alone introducing a new fee structure, shows dedication to consent of its user community. Yet obviously, the apology and the step back itself may have come from a place of being scared of the negative publicity and losing a big part of the site’s user community. Still, the site openly shared apologies without being afraid

of accepting its own mistake and showing readiness to give the upper hand to the community. However, the summarized happening only took place about three months before the date of writing and what happens next is currently unknown, yet it is understandable that if the payment matter is as important as it was presented, sooner or later the site will need to take some initiatives to improve the functioning of the site for a more sustainable pledge support and fee flow.

#### Figure 4.27 Patreon Helpdesk explanation on fees

There are **three different fees** on Patreon. They are explained in detail below:

**#1: Patreon Fee** - Patreon takes 5% of successfully-processed payments. This means that we only take money if the creator is making money. This is also listed on your Dashboard as "Patreon Fee".

**#2: Payment Processing Fees** - the cost of moving funds from your patrons to your creator balance. This fee can be viewed in your Dashboard and is listed as the "Processing Fees".

Payment processing fees represent the amount that our payment processors (e.g., Stripe and PayPal) charge each time they process a payment. Payment processors typically charge a percentage of each pledge plus a fixed number of cents.

Patreon reduces processing fees by batching charges at the beginning of each month. For example, if a patron is paying more than one creator each month, Patreon only charges the patron once for all of the pledges. This reduces processing fees by reducing the total number of transactions, and the lower fee is split among the creators.

One other thing to keep in mind: If you have many patrons with small pledges, then processing fees will be a larger percentage of your overall earnings. If you have just a few large patrons, then processing fees will be a smaller percentage of your overall earnings.

**#3: Payout fees** - the charge for moving funds from your creator balance to your bank or PayPal account. This fee **is not listed** on your account and is taken once you transfer funds out of your Patreon account and toward Paypal, Payoneer or Stripe.

All payout fees are not listed in a creator's Patreon profile and can be found on the payout processor's platform through your own individual login.

*Note: This does not include any fees associated with converting USD to your native currency. Payment processors may also change their fees at any time without notice. In the event of a fee change, we would update our fee structure accordingly.*

Source: <https://patreon.zendesk.com/hc/en-us/articles/204606125-How-do-you-calculate-fees->

Whether the payment matter is really related with a concern of enriching the earning generation and the valuation of the platform because of pressure from financial investors backing it or not cannot be verified at this moment. Nevertheless, there is a true first hand statement by Tal Raviv, heading Growth&Platform at Patreon, on an operational metric that Patreon truly watches.

In an interview with Brian Balfour in June 2017, the key operational metric of the platform was outlined as “active, financially successful Creators” (let’s call this FSC). Underlining that the site has an “internal” threshold for FSC,

Raviv defined the concept as “life-changing” for creators: “It's a number where we believe the platform has meaningfully changed a creator's life and ability to create more, focus more on their craft, and in many cases go full time” (Balfour, 2017). With about 1 million monthly active Patrons (supporters) and 50,000 active creators, the platform disclosed its projection about US\$150 million payout to creators in 2017 (site's 2018 estimate: US\$300m with doubling number of users). The share FSC in revenues is not known, yet it is clear that this segment of creators is considered as the key driver of Patreon's business model: “We'd rather have our GMV be made up of fewer, but truly life-changed creators rather than a lot of creators making a few dollars”. Balfour summarized well the essence of Raviv's statement: “For the company, Patron growth is a linear lever, while Creator growth is an exponential lever. Patron growth is a given as long as there is Creator growth. At Patreon, Creator growth is key not because it triggers more Patrons (it does that as well), but because it seeds more Creator growth” (Balfour).

GMV in Raviv's account here stands for “Gross Merchandise Volume” and is one of the fundamental measures used in valuation of online marketplaces which bring together two ends. Basically financially successful creators are regarded as the anchor creators and they not only drive the patron growth on the site but also attract demand from more creators to come. An analogy could be given from commercial real estate world, a shopping center. In every shopping mall, there are so-called anchor tenants, the big blockbuster names like the Inditex Group including Zara or H&Ms of the retail world which not only occupy a relatively bigger space of the mall but also are known to attract more traffic to the site. Hence they lead to more popularity for a shopping mall and in turn more demand from other brands to be included on the site. Similarly FSCs would create visibility and promotion of site's success in intermediating flourishing artists and would pull other affluent creators towards the site.

Expanding the FSC base on the site has shown some difficulties for the site, since a successful creator attracting more creators to the site did not suffice on its own when people tried to market themselves first time through Patreon.

This led to “drop-offs” of the unsuccessful creators who did not have a fan base prior to Patreon and could not attract enough support. Patreon does not necessarily see these drop-off’s as negative, as the “unqualified leads are getting weeded out” as Balfour stated.

This tendency is actually in line with the fee change announcement where the platform pointed its expectation that part of the patron community may leave following the updated fees yet this is supposed to bring “more money” to creators “in the long term”. That means the platform was ready not only to lose part of the patron base that mostly donated US\$1 pledges around a group of creators but also part of the creator base who relied mostly on small contributions. The lost creator community would not be formed by the ones that the site labeled as “active, financially successful creators’ who could make a living through their earnings on Patreon but the ones who stayed below a certain threshold at which level Patreon was not making much profit either.

Assuming that the attempted fee change of “2.9% + \$0.35” was really necessary for the site to maintain its operations, the next query becomes who will bear this additional burden. This question probably troubled the platform due to its “creator-first mindset” that it heavily promotes. When it comes to the direct counterparts of Patreon in crowdfunding universe, Kickstarter or Indiegogo, the 5% commission has become like a rule. Yet, there is a difference that is actually more vivid than it first appears: Patreon carries a recurring business for creators, with average monthly pledge amount per patron quoted as around US\$12 in 2017 from about 1 million active patrons. This would imply about US\$144m annual revenues generated by creators and a descent US\$7.2m for Patreon’s 5% share of revenues.

In the reward-based crowdfunding platform Kickstarter, however, not only the base of supporters is much higher at nearly 15 million (as of 2 June 2018) whereas also the historical average support (per pledge) was recorded c.US\$81 between 2009 and June 2018 (data as of 2 June 2018). Compared with about US\$3,000 pledged in a year (2017) per 50,000 creators (stated for 2017) in Patreon, the funding raised per launched project was recorded as US\$9,171 on

average between 2009 and June 2018 on Kickstarter. This US\$9,171 average support per project was calculated as the total dollars of US\$3.7bn raised at Kickstarter in 2009-5M2018 (denoting the first five months of 2018) divided by the total number of launched projects of 404,505 disregarding whether a project reaches the target or not, so that a more like-for-like metric can be compared for the two platforms, Patreon and Kickstarter. If we truly look at the dollars raised per successful (funding successful) project, then this average goes up to US\$22,650 as we have to take into account only 144,812 projects that raised US\$3.28bn funding and reached their goal.

What these numbers indicate can be manifold. For Patreon to increase its annual pledge sum to billion dollar league from the current US\$150m requires its current 1 million patron base to expand by 6 million new contributors. However if the US\$1-2 contributions that may be dominating pledges disappear gradually and the averages go to higher categories, then the site would structurally walk towards higher average payment by patron and this in longer term would provide a higher average pledge base as new coming creators would be also inclined to eliminate the small reward levels as these punish the patrons heavier than the higher pledge categories in terms of fee burden.

Although the weight of fees was on the creators, which is in line with other platforms, the number of transactions that occurs through Patreon much higher than at Kickstarter. This is because any patron can start funding a creator anytime in the former whereas there are definite funding periods at the end of which collected funds are released to the fundraiser in the latter. This puts Patreon structurally in a different position than its counterparts, and the given wide range of “2-10%” is probably also because of that unpredictability.

Kickstarter for example reflects the processing fees on the fundraising user’s fund, not the backer’s pledge. Patreon’s pro-creator environment it had in mind at the onset may have directed the site towards deciding to revert the processing fees at the backer instead of the creator. Yet, this is a fine line as it seems to punish the one that pays rather than the one who gets proceeds. Normally in traditional finance the broker or the intermediary usually gets the

commissions from the party that sells something, be it a home or a company. The fees may be split or again be borne by the seller. In more comparative platforms which generate earnings from creativity, the commissions for instance get quite high. For instance, in stock photography sites like Getty Images or its microstock site Istock, the rates are variable however the photographers usually pocket only around 20% of their images' selling price.

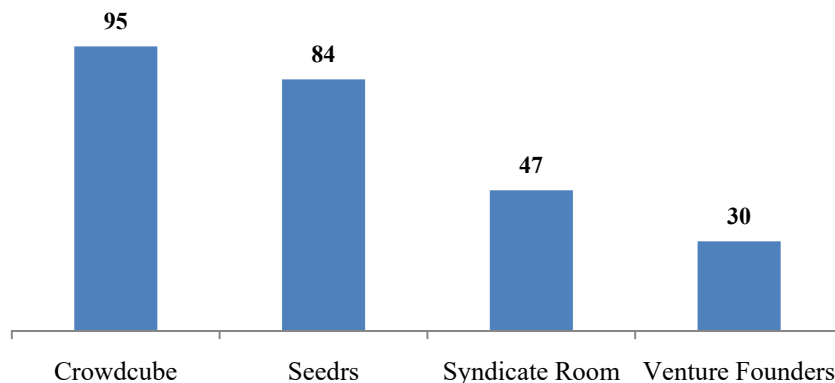
Overall, there are several factors Patreon needs to work out for a more sustainable operation flow and trust in the platform. The flat scheme that punished the small contributing patrons relatively more than the higher contributing ones may not be a plausible idea in view of the philosophy of the crowdfunding if there is any, namely that small contributions matter. Pro-creator mindset may have led to their decision for not charging the creators for processing fees however a fairer split could be promoted and explained in detail. The historical average processing fees can be gathered and shared with the Patreon community to provide more background on the realized flows and the necessity for resolution on fees. Furthermore, if there is any truth in the accusation that Patreon tries to pocket part of the fees it was trying to implement, it may be now a good time to decide whether 5% commission is really sufficient for this kind of an intermediation service.

### **4.3. EQUITY-BASED CROWDFUNDING: CROWDCUBE**

Crowdcube, the first equity-based crowdfunding platform of the world, is founded in 2011 by two individuals, Darren Westlake and Luke Lang, who have been experienced in two complementary different areas, serial entrepreneurship and public relations respectively. Westlake, who established two companies before and exited them prior to foundation of Crowdcube (CC), is a well-known personality in British business environment, counted as one of “Britain’s 500 most influential people in 2015” by “Debrett” and “one of top 100 influential leaders in fintech” by CityAM (Crowdcube Management). The other co-founder, Lang, also ranked among Debrett’s 500 most influential people of Britain list, has experience both in blue-chip corporates as well as start-ups, also having established a marketing consultancy on his own before Crowdcube. With a well-experienced Board team composed of four experts, all with a long working history in relevant industries and also appointed by the funds which invested in Crowdcube, the management team of the platform is quite skilled.

The founders explain the basis for the platform relying on their experience of the challenges in raising money for a business. Since they established different companies before, they realized the difficulties in reaching funds “to start and grow a small business”. As finding both investors as well as closing a deal with them is a complex and rather slow process which got even tougher currently, the founders desired to provide entrepreneurs an established framework in which they can handle fund raising smoothly from a wide variety of sources including their “own network of friends, family, customers and strangers”. The platform also offered an investment platform to this other side of the circle, “the opportunity to become an armchair Dragon and build their own investment portfolio” (Crowdcube About Us). One can resemble Crowdcube’s birth story to that of Patreon’s, as here the founders are coming from a similar background with that of the platform’s fundraising users. In Patreon, it was Jack Conte, an artist who was trying to make money on YouTube while CC’s founders are familiar themselves with entrepreneurship and raising money as a business owner.

**Figure 4.28 Equity crowdfunding platforms in UK (volume in £ million)**



Source: Crowdcube Leads the Industry (original data by Beauhurst 01/01-31.12.2017)

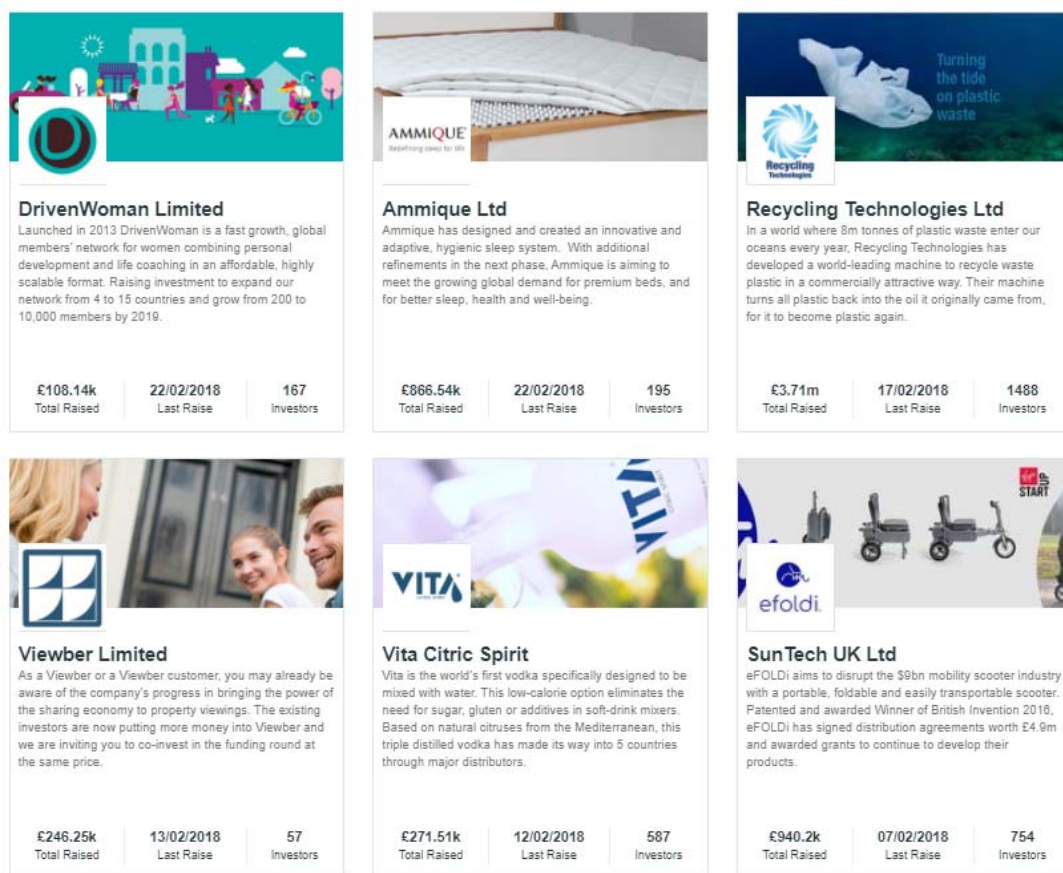
In 2017 alone, the platform intermediated about £95m (US\$122m) in fundraising, £87m within UK and the rest overseas (Figure 4.28). This recorded about £10m higher figure than the next competitor platform, Seedrs. When only UK fundraising is considered, Seedrs stayed further behind with only £55m funding. The average funding size per deal was registered as £692,000, while the highest amount raised was £3.2m (Crowdcube 2017 Records). Crowdcube reports that the average funding size is increasing on the back of the large-ticket deals above £1m threshold. In 2017, £1m and higher funding deals numbered 33 at Crowdcube, representing about 40% increase over the 2016 level. As of end-March 2018, the platform completed 641 successful funding deals since the foundation in 2011, intermediating around £404m. This indicates circa £631k pounds on average per funding. With about 516k registered members as of March 2018, the total funding sum of £404m implies that average crowdfunder (aka investor) contributed about £783 per person.

#### **4.3.1. Form of Rewards at Crowdcube**

Equity crowdfunding is not tied to a defined reward as in counterparts like Kickstarter or Indiegogo, other than a shareholding in a company which may never yield a tangible return (Figure 4.29). The funding contributed to a company is entitled to an ownership calculated according to the valuation and funding that

the company is seeking. The transaction occurs when the investors form trust in the proposed company valuation and the shareholding level, which ultimately is the reward in itself. However whether this equity shareholding in a business will have a materialized value in the future as all parties – fundraisers, the funders and the crowdfunding platform – would desire, is a big unknown and creates the major uncertainty in equity-based crowdfunding.

**Figure 4.29 Excerpt from Crowdcube’s funded deals**



Source: <https://www.crowdcube.com/companies>

The aim for contributors is to find a viable business that presents either a stable income stream in form of dividends or a growing business along with capital appreciation potential (increase in company’s valuation). The invested contribution might yield an investment return in the long term (at least a few years) once the company goes through an initial public offering or share sale of

similar kind, where investors can liquidate their equity stakes in the companies at a higher value than they initially invested.

One of the most famous equity crowdfunding success stories is BrewDog, which quoted as “one of the UK’s fastest growing food and drink brands” by Crowdcube achieved several successful crowdfunding rounds with the initial ones actually transacted outside of the CC platform. The round funded on CC was around £13m in 2016 that was reached in only three weeks. That time different than the initial rounds, instead of raising only equity funds through shareholding, BrewDog issued a bond – debt instrument for investors with 7.5% interest per annum. 2,700 people signed up for investment, with the average investment recorded as £3,600 and the highest amount being £200,000 (Crowdcube 2016 Records).

Since 2010 when BrewDog, which actually was founded only in 2007 by two friends who started producing beers at home, commenced crowdfunding the first time, raised over £14m and company’s number equity investors reached over 30,000. BrewDog calls them “Equity Punk Investors”, in line with the name of their branded beer “Punk IPA”. The company promoted a stake in their brewery as well as the international network of bars that now covers around 50 craft beer bars with 31 of them in the UK and the rest overseas including countries like Brazil, Japan, Sweden, Italy (Crowdcube BrewDog Bond Pitch). In its 2016 equity funding round at CC, the brewery company also promised rewards along with the equity shares as shown above (Annex B.15). The rewards gave the shareholders discounts in BrewDog bars as well as in online sales and perks like “birthday beer” every year.

BrewDog has uniqueness among equity crowdfunding examples, as the company became a £1bn valued business that was also funded by Crowdcube users. In April 2017, a prominent growth investment fund called TSG Consumer Partners, invested £213m into BrewDog in exchange for 22% of equity stake making the valuation public. Only two years ago, the company was valued at £305m (US\$468m) when it raised £13.13m at Crowdcube first time through both equity and debt, where £10m came through the abovementioned bond issue.

From the new £213m investment into the company, £100m took place as an injection into the company through capital increase while the rest £100m was being paid to co-founders James Watt and Martin Dickle along with £13m to be distributed to first round equity crowdfunding investors who would be able to sell 15% of their total equity stakes to TSG Consumer Partners (Crowdcube’s first unicorn BrewDog).

On Crowdcube, there have been actually six deals as of to date that paid out real positive rewards in terms of investment returns from exits. The first of them, E-Car Club was also considered as the “first successful investment crowdfunding exit”. Information on realized returns on this and other exits, however, have been only provided on a limited scale (Figure 4.30).

**Figure 4.30 Exits that yielded positive returns**

Companies	E-Car Club	Camden Town Brewery	Wool & the Gang	BrewDog	Celixir	Mettrr Technologies
Business	UK's first entirely electric car sharing club for businesses&communities	One of London's biggest breweries	Disruptive global DIY fashion brand	One of UK's fastest growing food&drink brands	Cell Therapy Ltd discovered&developed Heartcel, a medicine treating heart failure by regenerating cardiac muscle	the first 'professionally built website' provider dedicated to sole traders/proprietors&small business owners globally
Funding date	2013	2015	2015	2015	2014	2012
Funding size (£ 000s)	100.0	2,750	1,000	13,130	691	100
# of investors	63	2,173	492	2700	300	25
Average investment per investor	1,587	1,266	2,033	4,863	2,303	4,000
Exit type	Acquired by Europcar in 2015	Acquired by Anheuser-Busch InBev	Acquired by BlueGem Capital Partners	Investment from TSG Consumer Partners	Share buy-back	Acquired by Angel Investors - secondary share sale on CC platform
Info on return	positive returns'	multiple return'	20% return on investment	n.a.	2.7x return on investment	9x return on investment

Source: Summarized based on data from Crowdcube Help Center

Apart from the positive exit deals mentioned above, there have been six exits in different businesses funded by Crowdcube that provided sub-optimal returns “equal or in some cases, lower than their original investment” (Crowdcube Exits). Interestingly, the platform did not share any more details than this about these less appealing examples. This of course hints to a gap for the platform in providing an environment where both the success and failure stories can be shared openly and with more details so that CF crowd can effectively manage uncertainty and expectations about a platform and the wide scale set of possibilities in CF concept in general. Although each case is unique, the variety of results would be valuable contributions to crowd’s –among which the average user may well lack financial knowledge – understanding of the concept better. A trustworthy design would require making enough disclosures available about traceable investment performance in CF campaigns historically. Crowdcube that integrated a Due Diligence scope in its functioning to offer a more reliable filtering system would

be apt to gather important data through funding campaigns which would facilitate more information sharing both between the platform and the users as well as by the fundraising deal owners.

Crowdcube also became a fundraiser on its own platform benefiting from the diverse reach of the site. In 2016 the platform issued its own offer for £5m of funding target and received demand for £7.9m from investors based on a company valuation of £65m.

#### **4.3.2. Crowdcube's Due Diligence Charter**

One of the key distinguishing features of Crowdcube vis-à-vis other crowdfunding platforms is a process called Due Diligence (DD). With a dedicated team analyzing crowdfunding requests, the platform undertakes an affordable version of the typical investigation practice in traditional business transactions where a detailed examination of a business is usually completed before entering into a deal.

##### **Table 4.8 What is Due Diligence – Definition**

Cambridge Dictionary: the detailed examination of a company and its financial records, done before becoming involved in a business arrangement with it

Merriam Webster: research and analysis of a company or organization done in preparation for a business transaction (such as a corporate merger or purchase of securities)

Oxford: A comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential

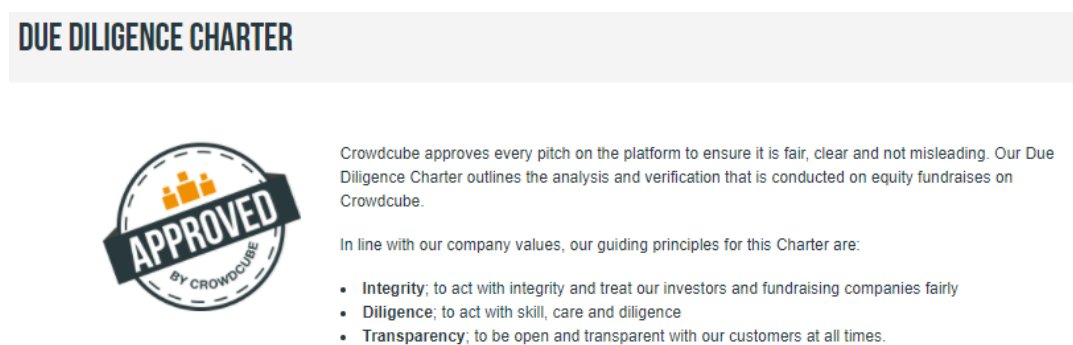
Source: Various Dictionaries cited above

In conventional business world, a due diligence (DD) procedure is quite extensive and can cover a wide range of areas like legal and compliance, financial, technical and commercial, may take months (Table 4.8). Different arms of a DD are usually assumed by differing expertise channels, like legal DD completed by a

law expert or a law firm that is separately hired for making the DD. All parts require an expertise to review a company’s operations and business specifics.

Crowdcube incorporated a DD activity in its platform as of April 2017. Since then, the platform runs a cross check with its legal, financial and compliance teams on each company applying for funding and filters or educates projects through this process (Figure 4.31). The fundamental check point of the DD is verifying the provided factual data and statements. The platform’s DD process has three steps. Before a funding pitch becomes eligible to be posted online, Crowdcube runs a “pre-live” DD, in which mainly “background checks on the company and its directors” for disqualification, bankruptcy situations and similar business risks, cross checking of factual statements for fair and clear representation, receiving of material commercial contracts and obtaining warranty statements from businesses for the accuracy of their shareholder structure are completed along with all the relevant disclosures ensuring also that a company is not subject to any significant litigation.

**Figure 4.31 What is Due Diligence – Definition**



Source: Crowdcube Due Diligence Charter

During the time the pitch is online, CC’s compliance team assesses further the funding sequence to ensure there are no manipulations. Discussion forums on each campaign page are by definition not reviewed by the platform. When one enters the discussion forum of a funding campaign, a warning comes at the beginning of the site: “Crowdcube does not review Discussions unless flagged to us and they are not part of the approved campaign. Please abide by the Discussion Forum Rules”.

The DD may normally finish once the funding is completed. However, before release of funds, Crowdcube continues further to examine the company documentation checking primarily the conditions that largely concern the viability of company’s commercial, financial and shareholder structure to be compatible with the completed funding size. The platform shares the findings from the post-funding legal DD in a document called “Legal Review Document” through an email sent to investors at the onset of the cooling-off period before the share certificates are allotted (Figure 4.32).

### **Figure 4.32 Crowdcube – Excerpt from Post-funding Due Diligence**

#### **Post-funding Due Diligence:**

Once a pitch has reached its funding target we conduct further due diligence on the business before investments are completed and prior to any funds being captured:

- check the company’s share structure against Companies House filings and seek clarification of any discrepancies;
- review the Articles of Association to ascertain the share classes and their rights;
- review any existing Shareholder Agreements, Subscription Agreements or Investment Agreements to check whether the shareholder rights and company obligations are compatible with a crowdfunding round. Based on this review we may, if we consider necessary, recommend amendments to the documents or make appropriate disclosures to investors to outline investor rights or risks;
- review any known commercial loan agreements, convertible loan instruments and any director and/or shareholder loan agreements, and require any undocumented loans to be documented;
- require the company to warrant that the share price payable by investors has been calculated on a fully-diluted basis, taking into account all issued shares, options and convertible loans;
- a full search and review of intellectual property rights are not carried out but claims of trademark, patent, or URL ownership in pitch text are checked by seeking verification from the company and searching public registers. We also require the transfer of ownership to the company if Crowdcube becomes aware that any material intellectual property rights are not wholly owned by the company.

Any necessary disclosures from the post-funding legal due diligence process are set out in the Legal Review document, which will be emailed to investors at the beginning of the seven days cooling off period.

Source: Crowdcube Due Diligence Charter

Disclosing the investigation substance in its DD Charter as shown above, CC also sketches out the areas that remain out of the DD scope and encourages the investors to “carry out their own due diligence and read all information and documents on the pitch page carefully, read the risk warnings; and understand that forward-looking statements and entrepreneur opinions may not turn out to be correct and many early-stage companies fail” (Crowdcube Due Diligence Charter). While the platform focuses on filtering in what I call “eligible” investment opportunities –that are verified and present goodwill–, it also shows credible effort in educating the investors in applying their own research (Figure 4.33).

### **Figure 4.33 Crowdcube’s stance on its position**

#### **Can Crowdcube give me advice on what to invest in?**

No. While we undertake due diligence to ensure the company is exactly what it says it is, we do not make judgements about whether it is a good business, and cannot advise on what investors should (or shouldn't) invest in. However, we do curate the platform and won't allow any business that is participating in illegal or unethical activity, or which we do not believe is going to appeal to investors, to raise funds with Crowdcube.

*Source:* Crowdcube Help – Advice on what to invest in

### **4.3.3. Brief Overview of the Regulatory Environment in UK**

As this study particularly focuses on the platform level trust and peer trust of the envisioned trust pyramid in Section 3, it leaves the regulatory aspects out of the scope although acknowledging them as a critical attribute of a sustainable trust formation in CF environment. Therefore, without going into a thorough review, this section will have an overview of the major regulatory forces prevalent in equity-based crowdfunding in UK. As UK is one of the most first countries in developing a functional crowdfunding framework, this background can also be useful in approaching crowdfunding regulations in general.

The Financial Conduct Authority (FCA) is the “conduct regulator” in UK covering around 56,000 financial services companies and the “prudential regulator” for about one third of these companies. As an “independent public body” that is fully financed by the regulated companies, it lives through the generated fees charged to these watched firms. Although independent by definition, FCA is accountable to the UK Parliament and to UK Treasury that is responsible for the entire financial system of UK. FCA’s scope of work is dictated by the Financial Services and Markets Act 2000. The regulatory body cooperates closely with a wide variety of stakeholders ranging from EU representatives, national and domestic watchdogs to trade- and consumer groups (FCA About).

FCA regulates only loan-based and equity-based crowdfunding platforms in UK that also fall under the Financial Services and Markets Act 2000. Although the scope of the investment-based CF platforms and their basic requirements were

covered by this act, FCA issued a specific CF legislation in 2014 naming the crowdfunding concept as “non-readily realizable equity or debt securities” and enacted certain standards for the relevant platforms. One factor in the context was the transfer of consumer credit market from the Office of Fair Trading (OFT) to the FCA from 1 April 2014 onwards which made loan-based crowdfunding also FCA’s duty of work. Both equity-based and loan-based type of crowdfunding platforms are required to obtain authorization from the FCA to offer the specific financial activity for their operation as well as to “meet the minimum standards”. Naturally, FCA allowed a transitional period of about six months for the companies which had to complete certain steps in order to meet FCA’s norms. Yet for instance, the “fair, clear, and not misleading communications rule” started as of 1 April 2014 straightaway.

One of the most critical attributes was FCA’s rule on the selection of eligible investors from the crowd which stipulated that an investor’s investment in CF offerings would not exceed more than 10% of investor’s net investible assets. This restriction was not relevant for the typical investor base that includes “professional clients, advised retail clients, corporate finance and venture capital contacts, sophisticated or high net worth clients” (FCA 2014, p. 7). Furthermore, the investment-based platforms were required to assess investors’ understanding of the concept and the risks involved. Crowdcube accomplishes this through an Investor survey. Consumers were also recommended to check whether a particular CF platform was regulated by the authority on FCA website (Note: [FSA.gov.uk/register/home.do](http://FSA.gov.uk/register/home.do).)

In an interim review in 2015, the authority regarded the prevailing 2014 framework still competent, yet after a two years period of monitoring the industry practice, the legislative body came up with a need for certain amendments in 2016, also taking inputs (90 responses) from the industry stakeholders. Assessing both equity- and loan-based CF, the authority mainly detected that the CF environment particularly lacked in sufficient informative disclosures that could enable proper risk and return assessment by the investors and certain conflict of interest areas, one of which was about discrimination of certain investor groups

compared with some institutional investors (Business Insider on FCA). FCA expressed clear concern for the level of “standards of disclosure” being inadequate and its intention to introduce a “consistent minimum basis for investor disclosures (FCA 2016 Feedback Statement, p.19). In terms of company and campaign owner disclosures, FCA took a preference for more prescriptive rules imposed by the platforms on the frequency and content. The possible conflict of interest areas were identified as the platforms’ potential discrepancy in treating fundraising – versus investing users in view of “own interests”, which is quite in line with this study’s observation of reward-based crowdfunding platforms, too. This conflict would require proper disclosure of the potential conflict areas (FCA 2016 Review, p.28). Conflict of interest is a typical subject that is specifically taken care in conventional financial intermediation usually through disclaimers on conflict areas. A classic example of intermediation occurs between a seller and a buyer, where an intermediary that represents the seller earns a success fee from a transaction –regularly a percentage of the deal price, when it brings a buyer to the seller.

Furthermore, FCA explored the room for setting minimum Due Diligence standards for platforms’ filtering process in fundraising deals, which faced divergent responses from the investment-based CF platforms. They mostly argued for platforms’ approach on Due Diligence requirements to be shaped by their own discretion. FCA took currently a temporary position of imposing no minimum due diligence standards, yet with the notice that further consultation on the matter would take place that may primarily dwell on imposing some “specific disclosures” rather than “minimum standards” (p.30).

On its current crowdfunding page, FCA also tried to be of service in investor education and highlights the high risks involved with CF that the crowd should be mindful of with a wording quite tilted to the negatives rather than neutral or positive, with also the cliché of “you should only invest money you can afford to lose”, too (FCA Crowdfunding). The authority recommended investors to have a clear understanding on the level of due diligence the platform undertakes

and ensuring that they are content with the level of risk for the “value of money” they invest, where the set of possibilities

It is very likely that you will lose all your money. Most investments are in shares or debt securities in start-up companies and will often result in a 100% loss of capital as most start-up businesses fail...If you hold shares in a business or project, it is unlikely that income in the form of dividends will be paid. The value of your investment may be diluted if more shares are issued, and this is likely as many start-up businesses undergo multiple rounds of funding...You should be prepared to wait for a return on your investment, as even successful start-up businesses tend to take time to generate income (FCA Crowdfunding, last updated 02 February 2018).

UKCFA – UK Crowdfunding Association – is another independent body that was established in 2013 for “promoting the interests of crowdfunding platforms” and their stakeholders. UKCFA has formed a Code of Conduct that all members of the association agree. With 16 principles varying from technical infrastructure to transparency along with compliance with laws and to rules such as offering “cooling off periods” where cancellation of investment decisions can be taken this policy outlines requirements for CF platforms to abide by: “All UK Crowdfunding Association’s members agree that the principles laid out in the Code are important for both business and individuals. Adherence to these principles is a requirement of membership of the UK Crowdfunding Association” (UKCFA Code of Conduct).

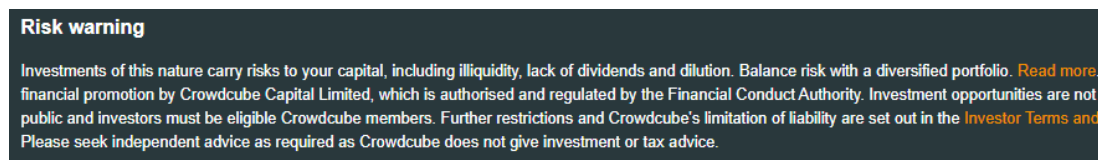
Meanwhile, EU is working on a European-wide legislation for crowdfunding, for which the associated proposal came out in March 2018 with the feedback period being open between March – May 2018. EU Commission explained the motive as enabling CF platforms for providing their operations “EU-wide” and meet the demands of those in funding need. When the proposal is accepted by the European Parliament and the Council, this new legislation is to let platforms obtain an “EU label” based on a unified framework. The background was described as “protection” of investors on CF platforms in terms of

“information disclosures, rules on governance and risk management and a coherent approach to supervision” (EU Crowdfunding Proposal, March 2018).

#### 4.3.4. Risk Disclosures and Warnings

The risk disclosures in crowdfunding are surely a critical part of informing the users for them to be able to reduce uncertainty. Especially in an area like crowdfunding and sharing economy which is still in a learning curve, users need to be well aware of the risks of crowdfunding.

**Figure 4.34 Example of Risk Warning on deal pages**



Source: An on-going funding: “Wave”. Retrieved from <https://www.crowdcube.com/companies/wave-preemption/pitches/bvB7mb>

Different than the other types of crowdfunding platforms, a critical attribute of equity crowdfunding is the uncertainties regarding the returns, which we can call here rewards as well for the sake of like for like comparison. On each funding deal page, Crowdcube utilizes a worthwhile “Risk Warning” disclaimer to clarify that the rewards carry a high risk which can be “diversified” through investing into multiple crowdfunding deals. This disclaimer as shown below in Figure 4.34, also connects to CC’s separate Risk Warning page and Investor Terms and Conditions. The Risk Warning (Figure 4.35) distinctly sheds light on why diversification matters and how it can be done.

Apart from the similar type of visual and informative content on a crowdfunding page like on Kickstarter and Indiegogo that explains specifics of a project or company, there are usually additional documents provided as part of the equity fundraising process on each funding deal page on Crowdcube. These documents carry similarities with the traditional and regulated initial public offering (IPO) disclosures but as the regulatory burden and compliance are not as heavy as in a formal IPO process the requirements are usually much slimmer. The

“prospectus” that each formal IPO must issue is also included in some campaigns. Usually in on-going campaigns, these included documents are classified as “Restricted Documents” and only provided to investors following a request of access. In several campaigns I reviewed as a user, I personally was granted access to documents upon a request through a tab on the funding page.

### **Figure 4.35 Excerpt from CC’s Risk Warning**

#### **The need for diversification when you invest**

Diversification involves spreading your money across different types of investments with different risks to reduce your overall risk. However, it will not lessen all types of risk. Diversification is an essential part of investing. Investors should only invest a proportion of their available investment funds via Crowdcube and should balance this with safer, more liquid investments.

#### **Risks when investing in equity or funds**

Investing in shares (also known as equity) on Crowdcube does not involve a regular return on your investment unlike mini-bonds which offer interest paid regularly.

Investing in a fund may help to diversify your investments and to spread the risk but general risks while investing in equity continue to apply. Further specific risks are set out on the applicable fund pitch page.

Please bear in mind the following particular risks for equity and fund investments:

#### **Loss of investment or tax relief**

The majority of start-up businesses fail or do not scale as planned and therefore investing in these businesses may involve significant risk. It is likely that you may lose all, or part, of your investment. You should only invest an amount that you are willing to lose and should build a diversified portfolio to spread risk and increase the chance of an overall return on your investment capital. If a business you invest in fails, neither the company – nor Crowdcube – will pay you back your investment.

Source: CC Risk Warning

Of course the motivation behind equity-based crowdfunding in general is to facilitate funding to those who cannot really find it elsewhere. Startups and small to medium sized companies can be motivated to raise money through crowdfunding from the public. Still, these informative documents that resemble the traditional IPO process are necessary to show a company’s historical evolution, operational metrics along with some industry data, its growth prospects and background on the founders and the management team. In line with Kickstarter’s approach, Crowdcube asks each fundraising company to also provide content on the specific risks regarding the company and its business. This complements the platform’s typical risk warning on that these type of investments are subject to risks to the “capital as well as potential rewards.

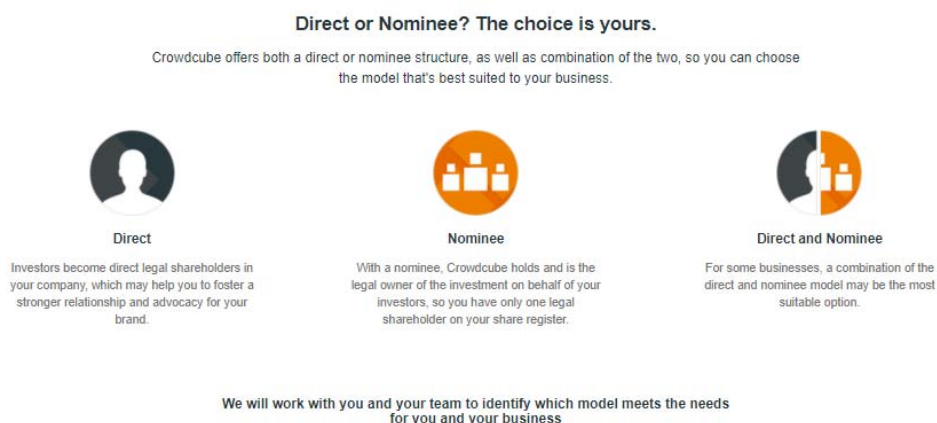
As an internal check mechanism, Crowdcube lets an investment run only privately until 20% of funding goal is achieved. In this period the fund raising company first locks in contributions from what is typically called in startup financing as “friends and family round”. This is sometimes also called the 3F round with “friends, family and fools”, indicating only the acquaintances of the

company. After 20% of funding is achieved, Crowdcube lets the deal pitch be visible to the whole platform community.

When a funding pitch achieves its funding goal and the allocated period is finished, CC’s ‘completions process’ starts, upon which a defined “cooling off” period of seven days is kicked off with an email including the Articles of Association is sent to investors by CC. This period is provided in order to allow the investors “review their investment”, also in compliance with the UK Crowdfunding Association’s Code of Conduct. At the end of seven working days, Crowdcube processes the payments and electronic shares are certified and distributed (Crowdcube After Investment).

In Crowdcube’s equity investment model, the companies have the option to choose between directly issuing shares for the individual investors or issuing shares for Crowdcube that acts as the nominee on behalf of the individuals. In that “nominee” model, it is the platform which becomes the legal owner of the shares but this is also certified as representative of the individual contributors (Figure 4.36).

**Figure 4.36 Crowdcube Investment Method**



Source: Crowdcube Raising Finance

Crowdcube’s commission rate is 7%. This is higher than the reward-based crowdfunding platforms examined in previous section, yet the pledges and the risks can also be considered to be larger in parallel as well as the work process that CC runs. CC’s integrated Due Diligence process acts as a verification of the

provided information rather than an investment advice. The basis of this process is fact-checking and filtering funding applications of projects, however it is considerably a more intensive intermediation role than in reward-based crowdfunding also because of relatively higher contributions of the crowd in equity-based crowdfunding.

#### **4.3.5. Terms of Use at Crowdcube**

Crowdcube has a concise “Terms of use” with only 1,258 words, also easy to follow. However the site has other complementary documents that are prerequisite for using the platform. For instance, “Investor Terms” that is nearly 6,000 words separately outlines the principles for being a contributor, (aka “investor”) on Crowdcube.

Becoming a member investor on the site necessitates completing the “Investor Assessment Questionnaire” (Figure 4.37) that based on the answers of the users categorizes the investor among certain investor types. In its Investor Terms that may be one of the key documents that differentiates Crowdcube from its counterparts, Crowdcube obliges the investors to categorize themselves “as either a (i) certified “high net worth investor”, (ii) certified “sophisticated investor”, (iii) self-certified as a sophisticated investor or (iv) certified restricted investor, in each case in accordance with the FCA’s Conduct of Business Sourcebook Chapter 4.7”. Also, the site automatically classifies investors as “retail investor” in accordance with FCA Conduct of Business Rules.

Only when membership is granted through the results of the questionnaire can users qualify to invest in fund raising deals, in that respect the investments are not “open to the public” (Crowdcube Investor Terms). With the provided answers, Crowdcube users accept that the platform will count on the responses as a basis for the investment services. In case of changes regarding their information and profile, members agree to inform the platform of updates. However, Crowdcube’s method in terms of changes to its own Terms of Use is not following the same principle: “We may revise these terms of use at any time by amending this page.

You are expected to check this page from time to time to take notice of any changes we make, as they are binding on you” (Crowdcube Terms of Use). This notification practice fares weaker for facilitating uncertainty reduction for platform trust compared with other sharing economy platforms in the study.

**Figure 4.37 Crowdcube – Excerpt from Investor Terms : Who can invest?**



Source: Crowdcube Investor Terms

Although clearly stating that the site is free of any losses by users originating from the use of the site in line with similar platforms, Crowdcube also underlines that the company does not rule out liabilities related with “fraud or fraudulent misrepresentation”. In line with reward-based crowdfunding equivalents, Crowdcube clearly eliminates its presence as a “party to the agreement”, where the agreement is to “invest between the Investor and Investee and Crowdcube’s service is limited to arranging the investment”. Crowdcube as a rather financial agent between investor and “investee” specifies in its Investor Terms that the sole presence of a fund raising company on the platform does not indicate an “advice or recommendation”, and the site promotes that investors diversify their risks over “multiple investments”. Although the platform approves “the pitch as a financial promotion” and crosschecks with the investee about the “accuracy of the factual statements”, this check and approval solely abide with the quality of the pitch in terms of that it is “fair, clear and not misleading”: “the Investor's attention is drawn to the fact that the evidence is obtained from the Investee itself and has not been audited by Crowdcube, which means that it may contain inaccuracies, be incomplete or be a forgery” (Investor Terms 8.6.).

Furthermore, the investors are asked for recognizing that the ambitious goals stated in investment pitches are checked by Crowdcube only in their wording being respectful of “their speculative nature”. The platform also tries to form awareness on the fact that the fund raising companies are usually start-ups and therefore these projected targets may never be achieved (Investor Terms 8.7). Also, as not every country has completed its equity crowdfunding regulatory infrastructure, Crowdcube underlines that every individual registering on the site is an “individual” of at least 18 years, residing in the UK or in a country where one is permitted to obtain “financial promotions of the nature provided by Crowdcube, and are legally entitled to invest in the investments offered” (Crowdcube Investor Terms).

**Table 4.9 Crowdcube – Excerpt from Investor Terms : About fees to the Investor**

4.2. Crowdcube reserves the right to impose a fee or charge for its services upon the Investor in the future, and will do so by providing advance written notice by email of the proposed charges or fees and any variation of the same, to the Investor whereupon the Investor may, by notice, terminate this agreement forthwith, if it so wishes, and any outstanding orders for shares in Investees will be cancelled.

4.3. The Investor acknowledges that ancillary charges or fees may be payable to third parties in connection with the Investment, and acknowledges that such charges or fees are not associated with these terms. The Investor warrants to Crowdcube that it shall pay such fees or charges and shall indemnify Crowdcube against any loss, liability, cost or expense resulting from the same.

Source: Crowdcube Investor Terms

One interesting aspect of Crowdcube’s Investor Terms is that it includes a clause that reserves the right for a potential fee imposition on the investor for platform services – different than third party fees. This is a smart clause that incorporates room for different tariff structures. With its platform commission – which we can think of as success fee like typical in financial intermediation – is drawn from the fund raiser’s funds collected, Crowdcube also makes investors aware that in future some fees can be collected from the investor’s side as well (Table 4.9).

#### **4.4. TRUST IN LENDING-BASED CROWDFUNDING: ZOPA**

Being online since 2005, Zopa is the first peer-to-peer lending platform, also qualifying as the first investment-based crowdfunding platform in the world. In its more than a decade long history of operations, the site intermediated about £3.16bn lending to “UK consumers”. Nearly £1bn of this sum materialized in the last 12 months. The site discloses the average lending amount per active investor (aka lender) as £13,000, while 311,000 borrowers used on average £7,700 (Zopa About).

The site was founded by Giles Andrews, an experienced entrepreneur and consultant who was able to see the gap in the banking service to some customers. He therefore wanted to offer borrowing solutions to these consumers whose need was not being met by the traditional banks. He considered that banks hardly remembered their original motivation of placing customer needs at the focus (Dunkley and Arnold, 2017, FT). The solution came through becoming a platform like a bank that diversified and matched borrowers and lenders without letting them choose and take standalone risks. On the platform, the peer-to-peer lending idea is presented as: “More than a decade ago our founders saw a simple problem; people borrowing money were being charged high rates and those able to invest money were getting low returns. Everyone was losing out” (Zopa About Us).

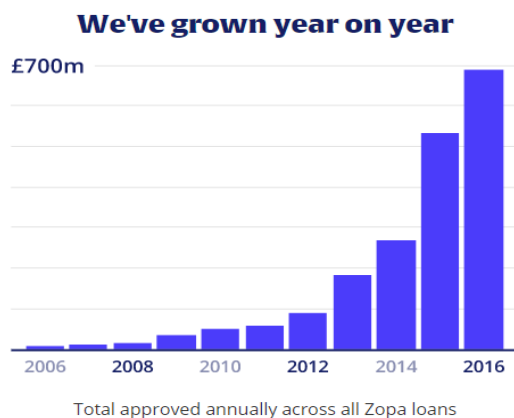
##### **4.4.1. Form of Rewards at Zopa**

Zopa provides lending for amounts of £1,000 to £25,000 for a term of 1 to 5 years. According to site disclosures, since its start of operations the platform let above 76,000 investors and financial institutions lend to 311k users (joined the site later) £3.21 billion in total for their needs to “buy new cars, improve their homes, or take control of their finances”, which implies about £7,700 per borrower. The ability of the site to ask and tell for what purposes the loans are drawn is an important consideration in traditional financial intermediation, too. Whether the loan is used by an individual or a corporate, the financial institutions

usually get interested in the use of proceeds and try to secure their credit offering against an asset or cash flows. This is also something that is in certain cases followed up because the lenders may file a claim in the asset that is acquired with the use of loan proceeds. The same was applicable for Zopa car loans for instance.

Functioning like a conventional bank but at a much lower operating cost base through the abilities of an online platform, Zopa established itself a “leader” position in peer-to-peer lending space (Figure 4.38). In 2014, FCA became regulator of the peer-to-peer lending industry in UK. Following this, Zopa became a regulated platform and also initiated service for institutional customers’ investments however the address of lending is tailored only towards individuals. Institutions cannot borrow from Zopa in contrary to Crowdcube’ business scope which also started intermediating loan raising for businesses.

**Figure 4.38 Excerpt from Zopa’s operational history**



Source: Zopa About, “Our Story”

#### 4.4.2. Zopa’s Risk Analysis & Ability in Disclosing Performance

At Zopa, no lender is matched with one single borrower. The investment by lenders is distributed in form of portions as small as £10 into different loans to diverse set of borrowers so that no peer forms “more than 1%” of an investor’s investment” (Zopa Risk Management). This makes the platform execute the approach of “diversification” for minimizing risk itself (as shown in Figure 4.39), which the Crowdcube actually recommends to equity investors.

## Figure 4.39 Zopa – how the money is distributed

### Matching your money

Once you've selected a product, your money joins the queue and waits to be matched. This can take up to a week (longer in peak times), but typically takes a few days.

Your investment then gets broken down into £10 chunks or up to 1% of the total amount you have invested. Why? So we can spread your money across multiple loans, diversifying your portfolio.

Every month, borrowers pay back capital and interest on your loans. These repayments can be recycled in new loans or withdrawn.

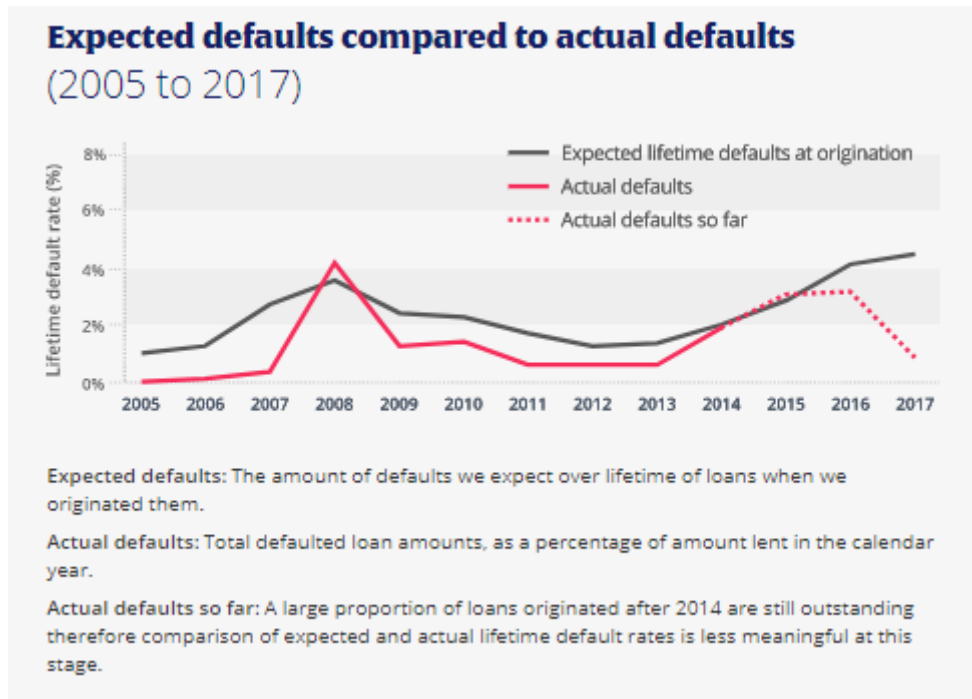
Keeping reinvesting on recycles your repayments in the same investment product. Your new loans will always be at our latest rates, meaning that the overall rate on your loan book will evolve over time.

Source: Zopa Lending-Matching

The platform puts “risk analytics” at the center of their data disclosure and analyses the risk statistics and relies on correctly estimating default rates for delivering promised returns to lenders. At the beginning of each lending line, the site decides on a “default rate”, which is revised regularly as the performance goes on. The platform regards a case of “default” when a borrower cannot repay “four months’ worth of repayments”. The site shares the collected historical data on default expectations versus performance as below (Zopa Risk Performance) and preserves the transparency efforts on investor returns as well. With average historical default rate at 2.4% and loan returns at about 5%, the data on default and return performance demonstrates that actual figures largely overlap with expectations at Zopa (Figure 4.40-4.41).

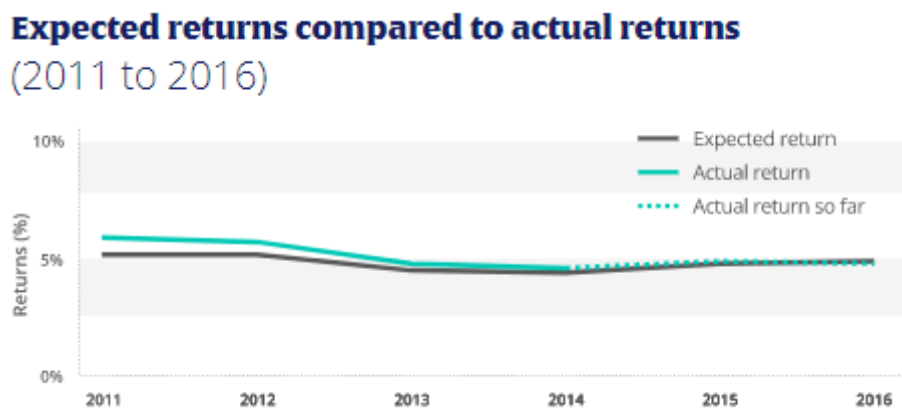
Zopa in light of these provides a benchmark case of how accumulated platform data can be presented to user community in a transparent and consistent way rather than a one-off effort. This obviously comes as a result of platform’s belief in its responsibility for the service they provide: “We publish our loan book performance data in full for anyone to see, because we believe in being held accountable for our performance”. This approach comes quite in contrast to other crowdfunding examples’ approach however it is also related with the difference of decision-making process for investing at Zopa compared with for instance Kickstarter or Crowdcube. Zopa executes investment decisions itself rather than the lending investors, which makes the platform assume both the risk and the responsibility of its decisions.

**Figure 4.40 Zopa’s historical data on default performance**



Source: Zopa Risk Performance

**Figure 4.41 Zopa’s historical data on investor returns**

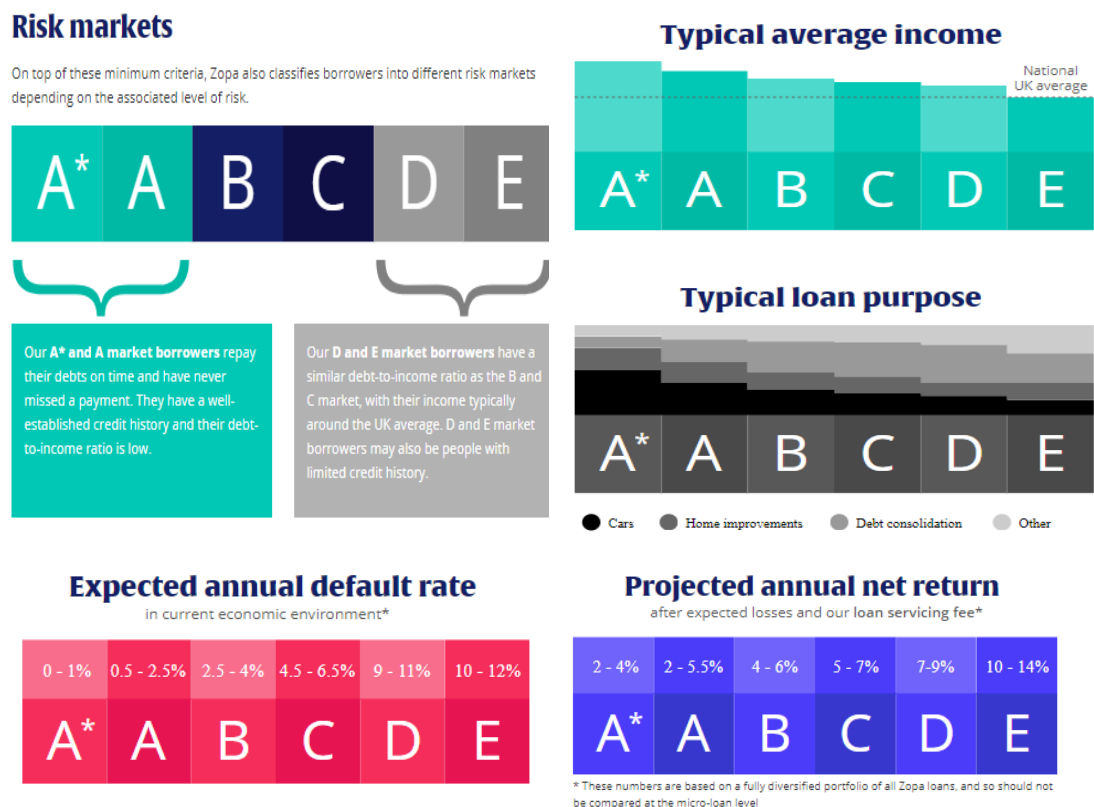


Source: Zopa Risk Performance

In its separate “Operational Risk Mitigation Policy”, Zopa highlights one of the key considerations of this study with an emphasis on its own liability: “We believe that transparency and accountability is key to maintaining the trust of our borrowers and investors, and we have a contingency plan to ensure loans are still serviced even if Zopa were to go out of business” (Zopa Operational Risk Mitigation Policy). Zopa takes certain measures to ensure that the lenders are paid

back their loans such as the “contingency plan” that would facilitate the repayment of the loans by the “loan servicing fee” amounts collected monthly by Zopa for each loan. However, still the individuals and institutions are reminded that the “capital is at risk and is not protected by the Financial Services Compensation Scheme (FSCS)”.

**Figure 4.42 Risk Markets’ key metrics**



Source: Zopa Risk Markets

Similar to Crowdcube’s assessment on investor types as a prerequisite for investing in funding projects, Zopa uses a classification, too. Here, borrowers are segmented based on their “associated level of risk” (Zopa Risk Markets, Figure 4.42). With “risk markets” named as “A\*, A, B, C, D, E” the segments resemble of a credit rating (E being lowest), and depends on metrics like “debt to income” ratios. Zopa meets a decision on a borrowing request usually within 2 business days. Like investors’ categorization, loan requests are also categorized according to “purposes” including “cars, home improvement, debt consolidation and other”.

Two products called “Zopa Plus” and “Zopa Core” allow investors to invest in different types of risk markets such as Zopa Plus channeling 10-20% of the loan amount to D and E risk categories hence indicating an increased level of risk compared with Zopa Core that only lends money to A\*-C risk markets. This way, the lenders can choose how their investments can be directed towards borrowers according to risk levels.

#### **4.4.3. Terms Of Use at Zopa**

Zopa’s Terms of Use is called “Zopa Principles” and it is quite extensive with nearly 14k words, significantly higher than the other counterparts. The loan pools are created and diversified by the platform, yet like in the other crowdfunding platforms Zopa is not a party to the loan agreements between lenders and borrowers. Similarly, Zopa also limits its liability only for “foreseeable loss or damage arising directly out of Zopa’s own breach” of the principles, “negligence or willful misconduct” (Zopa Principles, 16.). Other than that, the platform frees itself from losses and damages that originate from any “negligence, misrepresentation or willful misconduct” of customers.

Applying a standard “eligibility criteria”, the platform filters applications first based on a minimum age of 18 and with UK residency, then some regulatory checks like authorization by FCA for lending. Also “identity, fraud and credit checks” and in certain cases “credit rating” from the credit reference agency can be gathered to complete the application process along with the anti-money laundering checks that are basically called under the umbrella of “Know Your Client (KYC)” checks. A borrowing request that is denied by the platform can only be renewed after six months.

Loan contracts are generated when “lending offers” of eligible customers are matched automatically with borrowers’ “confirmed bids”. Borrowers’ bids are either paired with “either many small Market Offers from many different Lenders or a single Market Offer from a Lending Business” (Zopa Principles, 4.)

Zopa platform had previously a built-in “Safeguard Trust”, which served as a fund that could only be accessed in special cases. As it is a “fund held in trust by a not-for-profit organization called P2PS Limited, the proceeds can only be used in compliance with certain rules. This is basically a buffer fund for intervene if some borrowers” financial situation worsen and they cannot repay their due debt payments. According to Zopa, from the time it was launched, the fund has taken care of all the “bad loans” (Zopa Safeguard). In 2015, when a tax law update allowed investors to get tax relief for “losses on bad debt”, Zopa announced of its withdrawal of the safeguard fund.

Zopa as a lending platform seems to have thought and incorporated a very comprehensive set of measures and practices which cover almost every aspect of the lending practices including the securitization if for example a loan is for purchase of a vehicle. In that case, the lenders proportionate with their share in the borrowed amount are entitled to the purchased vehicle.

**Table 4.10 Zopa – Excerpt from Zopa Principles: Summary of 8. Fees and Charges**

Borrowing Fee: each time a successful confirmed bid is submit

Fast Track Fee: An amount that is capped at £10 and is applicable in fast track option

Loan Servicing Fee: From 6 April 2015; a monthly loan servicing fee as equal to the difference between the Borrowing Rate and Lender Rate

Safeguard Contribution: may be added to Loan Servicing Fee to incorporate a potential default possibility based on the risk rating of the borrower

Late Payment Fee: 22.5% of the amount that is overdue to Lenders

Option to Purchase Fee: If application is for a vehicle finance loan, then the last repayment is coupled with the purchase fee where ownership of vehicle is transferred to the borrower from Zopa lenders

Other fees or charges: Tracing charges, document retrieval charges, debt counselling service fee, litigation costs and expenses, certain administrative fees

Source: Zopa Principles (8. Fees and Charges)

Although it is lengthy, Zopa Principles are very clear and do not leave much uncertainty regarding the functioning of the site as well as what is expected from the lenders and borrowers. The major unanswered question seems like of what the percentage range of the collected fees is. In one of the probably most accessible posts on its site under “How Zopa works”, the platform talks of an

“origination fee” as one of the three fees the platform collects (Table 4.10). The other two mentioned fees are named as “loan servicing fee” and “selling fee” – if an investor wants to sell an existing loan (Zopa How). However, the origination fee does not come up in Zopa Principles and the 8. Section called “Fees and Charges” refers to the fee categories mentioned below. One can only think that “origination” and “borrowing” fee notions are used interchangeably, yet a consistent utilization of the terms would make it clearer and easier to comprehend.

Also, similar to other sharing platforms habits Zopa also does not provide the percentage or absolute fee numbers in their Terms of Use called Zopa Principles. There is a numerical representative example on the site referring to a £7,500 loan for 5 years with a total annual cost as provided “annual percentage rate (APR) as 9.9% that includes a £180 fee –which implies 2.4% of the 7,500 loan amount.

**Figure 4.43 The drivers of the fee calculation explained by Zopa**

How is the fee calculated?

The fee we charge depends on 3 things:

1. Your Zopa credit score, which is based on the information in your credit file as supplied by credit reference agencies CallCredit and Equifax.
2. The amount of money you borrow.
3. The length of time you take out a loan for.

Source: Zopa Article on “why is there an origination fee?”

As fees are denoted as variable depending on a borrower’s credit score, borrowed amount and the duration of borrowing (Figure 4.43), it is not possible to define an exact commission rate. The 2.4% commission in the example is in line with my calculations of Zopa’s revenues based on collected data (see p.234-235). Yet, it would be still expected that the platform shares some numbers regarding average fees or percentage range applicable for borrowers. No other relevant explanation is present on Zopa platform regarding the platform fee figures, which leaves a significant uncertainty loophole on the very essence of the platform’s functioning, where users can only access this info probably in processing of their personal application.

#### 4.4.4. Some Controversy Around Zopa’s Banking License Move

In November 2016, Zopa announced its decision to found a “next-generation bank” (digital). The platform’ banking move was explained by its new CEO, Jaidev Janardana, as a natural extension of its accumulated experience and track record over 12 years with a “profitable, scalable, and viable business” that uses technology’s capacity at best (Figure 4.44). In CEO Janardana’s words: Zopa is “uniquely placed to make the next generation bank a leader in consumer finance combining our customer-centric culture, agile technology and data excellence with a track record of loan origination and risk management. No other provider has this combination of attributes” (Zopa Why Building a Bank). The initial products Zopa’s banking division will focus on are disclosed as “protected deposit accounts for savers, peer to peer investments, personal loans, car finance and credit cards for people looking to borrow”.

**Figure 4.44 Zopa’s self-assessment vis-à-vis traditional banking**

	Established banks	ZOPA	Start-up banks
Strong customer centric culture		✓	✓
Excellent customer experience		✓	✓
Risk management capabilities	✓	✓	
Innovative technology		✓	✓
Proven origination engine	✓	✓	
Established franchises	✓		
Agile and nimble		✓	✓
Lean operating model		✓	✓

Source: Zopa Building a Bank

Anthony Hilton, a senior commentator at the Independent and the Standard, interpreted the move as indicating a “watershed” and as conflicting with their initial philosophy as a social peer to peer platform (Hilton, 2016) that originally proclaimed of eliminating the bank from the picture. Yet, in doing that it obviously became more like a traditional bank itself, which may be decided on the potential for higher earning generation scope. A former Zopa co-founder and co-founder of another peer-to-peer platform called Abundance Investment, Bruce Davis commented to Telegraph that the banking initiative would not be something

that they preferred investing as there is no need for “more “challenger” banks but for viable saving options with proper risk profiles that can be sustained for longer term”. A Zopa spokesperson on the other hand indicated that the idea is to assist “savers” in the new banking business alongside the lenders at the Zopa platform (Suter, 2016, Telegraph).

The banking plan also brings to mind the profitability issues that Zopa platform suffers since it became operational in 2005. The profitability of peer-to-peer lending business in general has been questioned as both Zopa and Funding Circle have been reported to have made a loss of more than £50 million based on Business Insider’s accounts analysis (July 2016). Two platforms having managed more than £3 billion of lending-borrowing volume between peers but not produced stable profits pinpoints to a significant mismatch of intentions and the viability of these platforms. From 2005 to 2014, Zopa is stated to have lost £21.8 million on its £25.8 million stated revenues, while it booked a profit only in 2011 and 2012 at a total of £58,648. Funding Circle, which is founded in 2010, recorded a total loss of £28.7 million on £20.9 million of total revenues between 2010 and 2014. After 2012, Zopa first time started making a profit in 2016 again while Founding Circle still awaits turning its net bottom-line to positive territory.

Of course to mitigate these losses, the platforms have been relying on investment funds that brought £208 million (US\$273 million) to Funding Circle whereas Zopa only received more than £43 million (US\$56.6 million). Both platforms have attributed their losses to their focus in growing their businesses and investments in the required technical infrastructure for that. The CEO of another marketplace lender in UK called LendInvest, Faes expressed a concern for chasing growth as the peer-to-peer lending growth is interpreted to slowly mature after a decade: “It's no longer going to be about hitting impressive headline lending numbers; it's got to be more about trying to build financially viable businesses” (Williams-Grut, July 2016).

In these regards, Zopa’s decision for launching a digital bank could also be to enrich revenue and profit generation possibilities, by expanding the customer base using the same technological infrastructure. Still the move must have

required additional funds for investment so Zopa had to turn to investors again for raising £32 million to launch the planned banking division in view of the lack of enough profits. The platform also mentioned the benefits of “diversifying their funding base” through the banking expansion so that the platform is “less exposed to cyclical downturns in peer-to-peer lending”, in line with the slowdown of peer-to-peer lending growth (Williams-Grut, November 2016).

#### **4.4.5. Finding the Right Commission for a Platform**

Although the peer-to-peer business of lending may be slowing down, such a spirited pioneer platform should be able to sustain itself through the generated platform revenues. Zopa does not explicitly state a percentage fee on the intermediated funding, also because this varies depending on the borrower’s credit background as well as borrowing amount and specific terms like duration and credit score. However my extrapolation using the data provided by Business Insider (Williams-Grut, July 2016) on Zopa’s reported revenues of £26 million between 2005 and 2014 vis-à-vis circa £1 billion (US\$1.5 billion) of reported lending volume during the same period points to the platform fees as only 2.6% as percentage of funding. This is fairly in line with the 2.4% fee calculated on Zopa’s loan example £7,500 outlined on page 231.

Zopa’s reported loss amount of about £22 million on £26 million revenues between 2005 and 2014 points to a total operating cost base of c. £48 million. For this cost base to break-even, meaning that the company would be able to make just enough revenues to match the cost base, Zopa platform would have needed to charge in total about 4.8% of total commission rate on the total funding volume if not as high as Crowdcube’s 7% commission. This would naturally fall on the borrower side as the side that usually pays the commission in these kind of funding transactions is the one who receives the sum of money, in this case the borrower.

Hypothetically, from the same revenue base Kickstarter would have realized £50m in revenues on its 5% commission rate. In fact, Kickstarter reported

US\$3 billion in total successful funding since its inception until end-2017, which corresponds to about US\$150 million revenue stream on its commission rate. Similarly, the other UK-based investment-crowdfunding platform analyzed in this study, Crowdcube, charges 7% commission rate on the funding volume, which would correspond to £70m in revenues on Zopa's £1 billion funding transacted between 2005 and 2014. Crowdcube since its start of operations in 2011 until March 2018 intermediated £404 million of crowdfunding in total, which means £28m of revenues for the platform on their 7% commission rate. This figure compared with Zopa's only £26 million of revenues on a £1 billion funding total represents quite an incongruity, as both are observed as similar platforms in terms of amount of filtering and risk management of funding requests and type of operation as investment crowdfunding. Zopa may even fare higher on its risk management work probably due to necessity of a more intensive technological infrastructure including matching algorithms in place that tie lenders' risk appetite to the compatible risk category of borrowers. Yet Crowdcube also has a Due Diligence function which requires significant manual work.

The challenge that Zopa faces seems to be of making the p2p lending attractive to both the lenders and borrowers. The former would require higher returns than they receive on traditional channels while the latter would look for affordable interest rates in paying their debt back. Yet, since the application processes at peer-to-peer lending are much easier than the traditional banking, these kind of platforms need to find a middle ground between providing an attractive solution to individuals' funding problem and the real costs of running such an intermediary marketplace that also invests heavily in risk management and diversification the tailored investment products. As the above calculation shows, the peer-to-peer lending platforms such as Zopa that still barely makes profit after a decade of operations should find a way to reflect their costs onto the benefiteres in the most optimal way. This may require in this case that Zopa tops up its collected fees, largely reflected on the borrower side.

## SECTION FIVE

### 5. REVIEW OF OTHER SHARING ECONOMY PLATFORMS

#### 5.1. COUCHSURFING: A COMPLEMENTARY REVIEW

Couchsurfing (CS) stands out as a showcase platform for being one of the first sharing economy sites and for also providing a sustainable trust-forming environment that probably also inspired its commodified version, Airbnb. CS platform is analyzed here as a benchmark sharing platform that mostly preserved a consistent middleman role offering self-sufficiency to users in uncertainty management and trust formation both vis-à-vis other users and the platform itself. With an accessible and autonomous atmosphere suitable for uncertainty reduction, the platform and the founders appear as having grasped the related trust dynamics.

Yet, it had a serious bump on its learning curve too when it made a transition from a Commons framework that sought a non-profit status to a for-profit in 2011 getting some financial investors onboard. This risked the trust of especially commoners community significantly. The challenge lied in explaining the necessity of the change to an active volunteer group of around 1,000 users/developers without making them feel alienated. The co-founder Fenton planned a world tour of 12 cities to personally tackle this difficult transition through facework with the volunteers as probably Giddens would also recommend. Some commoners still left the platform, nevertheless, in contrary to suspicions that it would alter its philosophy for meeting return expectations of financial investors, the platform seemed to stay true to its spirit of the intangible quality of meeting intercultural diversity and continued to grow its user community through time.

This section will first provide a brief examination of uncertainty management and trust formation mechanisms prevalent in Couchsurfing platform using mainly the lenses of intercultural communication theory, Anxiety and Uncertainty Management Theory (AUM) of Gudykunst to analyze its implications for the functioning of a global social travel network that has at its core

“intercultural communication”. Following this, the gift economy aspects of sharing at CS will be reviewed. In-depth semi-structured interviews with 10 couchsurfers conducted during April-May 2015 and content analyses through the CS site are taken as a source of reflection on this study’s exploration on trust-building in sharing economy platforms. The interviewees, 6 from Turkey and the rest being travelers visiting Istanbul, were selected on the basis of availability and their willingness to participate.

Quite surprisingly, an important addition to this examination of CS platform came right before completing this study in April 2018 when Casey Fenton himself –the founder of CS – replied to my interview request, which I actually sent on Facebook Messenger three years ago (see Annex Figure C.1). He expressed he returned to the message late because Facebook filtered it and with courtesy accepted my interview request, which we held on 25 April, the next day of his reply. The notes from this one-hour phone interview will be also shared at various points in this section complementing the considerations on CS platform luckily also with a view from the eyes of its founder.

### **5.1.1. Couchsurfing Universe and its Members**

By definition, Couchsurfing is a social travel sharing network that describes itself as “a global network of people willing to share in profound and meaningful ways, making travel a truly social experience” (CS About). With an explicit emphasis on “cultural exchange”, it is one of the earliest sharing platforms still preserving its core spirit and one of the widest active communities.

CS site came online in 2004, yet the founder Casey Fenton developed the idea long before when he emailed 1,500 students from the University of Iceland in 1999 asking for staying over (Mixergy Interview). Driven by the question of “Can I get people to trust me over the Internet using the information I have and will they host me?” he gathered some personal information, including hobbies, pieces like philosophy of life together with some photos and sent it to students. This type of a presentation still forms the essence of a typical CS self-disclosure, and Casey

Fenton's own CS page on CS is an example displays well how rich a CS profile can be (see Figure 3.5 and Annex Figure A.1). His email returned somewhere between 50 to 100 positive replies, leading him to design the conception that "people anywhere would want to share their homes with strangers", also called "friends you haven't met yet" by CS (About Us). Fenton launched the site in 2004, doing most of the programming himself alone. For a long time the site was advanced and maintained by Casey, some of his colleagues such as Daniel Hoffer who also became co-founder and a group of volunteers that are reported as having reached around 1,000 later around 2010 and 2011.

As a platform for basically intermediating meaningful intercultural connections, CS follows a unique path in line with its premise and provides room for users to reduce uncertainty about each other that contributes to the formation of a community. In CS, the interactors start their dialogue online as "strangers" with a high degree of uncertainty about each other, yet devise memorable intercultural encounters and dialogues with people they would not naturally meet. People interact both online and offline, hosting – or staying with each other for a few days as well as just meeting locals in CS weekly city gatherings. It was observed that the 10 interviewed (2015) CS members sought to manage uncertainty in their current as well as ahead of their future intercultural connections utilizing the site's affordances that allowed a multi-layered form of visibility, predictability of behaviors and interaction creating an environment suitable for trust-building.

"Host" in particular, also overlapping with Gudykunst's (1998) notion of a member of the in-group (p. 228) who is encountered by a stranger, is acknowledged as the person who accepts "couchsurfers" (aka travelers) to home, while "guest" as expected is the member who is travelling. Other than the typical members, there exist several special labels on the site, such as "Ambassador" and "Pioneer". The former title is given by the site developers to enthusiastic and dedicated users for their voluntary efforts in running the site as well as their promoter role of the CS spirit. They do this usually being active hosts or couchsurfers who organize regular gatherings and/or sometimes run

organizational and administrative tasks. CS explains the Ambassador role as “Couchsurfers who exemplify our Core Values in the way they live and share their lives...They inspire us every day, both from home and on the road” (Couchsurfing Ambassadors). CS’ Core Values (Table 5.1) are denoted as sharing the life journey and experiences, “creating connection”, “offering kindness”, “staying curious” and ‘leaving it better than you found it” (Couchsurfing Core Values).

#### **Table 5.1 CS Core Values**

**Share Your Life:** Couchsurfing is about sharing your life, your experiences, your journey, your home, your extra almonds or a majestic sunset. We believe that the spirit of generosity, when applied liberally, has the power to profoundly change the world.

**Create Connection:** Connection makes us happier; we need more of it. Connecting with and accepting the kindness of "strangers" strengthens our faith in each other and helps us all become better people.

**Offer Kindness:** Tolerance, respect and appreciation for differences are embodied in kindness.

**Stay Curious:** We appreciate and share a desire to learn about one another, about the world and about how we can grow as people and become better global citizens through travel.

**Leave It Better Than You Found It:** This applies to the world, to relationships, to your host's home or to the sidewalk you meander down on your way to the coffee shop. We're here to make the world better, to enhance each other's lives and to become stronger in that purpose by coming together.

Source: CS “Our Values”

“Pioneers” are the members who donated monetarily to the site in the past as it was a commons platform before becoming a for profit corporation. In its Support Center, CS defines “pioneer” symbol on some profiles as denoting “members who helped lay the foundation for Couchsurfing's success. These members made donations to Couchsurfing before 2011, when Couchsurfing operated as a non-profit. We will always be grateful to the people who helped us go from zero to over 11 million members!” (Couchsurfing Pioneer).

While the pioneer term only applies to certain group of people for their efforts before 2011, the Ambassador title continues and gives room for formation of supposedly more dedicated user profiles, who carry willingness to be an influential part of the community. Among interviewees in 2015 there was an Ambassador, Anil Sethi (“Reloadedinfinite”), who had the highest number of references (175 positive references and 91 vouches by other users as of 23 May 2015) in the group, and was awarded the title by the CS team because of his leading role in organizing large-scale CS regular gathering meetings in Istanbul.

The users that these more “trusted” members have interacted and referred to positively pass a certain test of trust from a stranger’s eye. Ambassadors can act like friends in common who validate the truthfulness or reliability of a user profile. This “Ambassador” concept along with the general rich reference feature where each user is encouraged to give feedback for the interacted users, pave the way on CS for a chain of trust and this seems to be one of the particular aspects other sharing platforms –especially crowdfunding platforms – seem to be lacking relatively in effectiveness.

### **5.1.2. The Initial Impression: Self-disclosures & References**

Parallel to Berger and Calabrese’s view on self-disclosure as a tool to reduce uncertainty through reciprocity (Griffin, p. 128), Gudykunst considered “self-disclosure” as a key factor that facilitated building interpersonal relations with “strangers”, also noting that the motivation to “disclose information in initial intercultural encounters” is higher than in initial intracultural encounters (Gudykunst, 2004, p. 332-333). CS lays a suitable groundwork for this including enough details for a quick first impression.

Multiple layers of self-disclosure including photos, “about me” profile, references –the ones written for him or her and/or the ones member wrote for other interacted users, and personal messaging furnish the initial online encounter, some of which would not be available to a stranger in a face-to-face meeting. The profile page of a CS member on the CS site is the first station of self-disclosure

that gives attentive users tools for a quick initial judgment about whether the stranger looks trustworthy. Users provide detailed information about themselves in their profile pages for which CS guides through default questions like “why I’m on Couchsurfing”, “what I can share with CS” or “one amazing thing I’ve done” as well as providing spaces for languages, interests, hobbies, favorite music, movies and books. These details are meant to reflect the characteristics of the disclosing person that he or she considers worth sharing about oneself.

This design successfully let users first transfer their uncertainty reduction responsibility to the platform, which in turn with selected questions absorbs the information and transfers back the uncertainty management responsibility to the users, in line with the platform’s role articulated in Section 1.5.3.1. Usually a host is also motivated to provide enough information concerning the home such as where the couchsurfer can sleep, whether a key can be given, and if there are specific hours of coming to and leaving the house. Users pay attention to other CS members’ self-presentations looking for hints of interesting people they think they can communicate with. The belief in the presence of people worthwhile meeting on CS drives the functioning of the site. Encouraging site design and uncertainty reduction tools have successfully achieved an open community spirit.

With guiding questions to fill in, CS allows members to share also more private views such as one of the interviewees, Valérie (29, female, France-Paris/Marseille) did: “As freedom and equality are most important values for me, racists, homophobics, straight religious people and so on are not welcome at my place!”. Users have all the incentive for being more open rather than hiding as they would like to cross paths with the right people. The preparatory and voluntary-provided details on a host’s profile clearly reduce uncertainty for both sides of the transaction – which Casey Fenton (April 2018) smartly called as a “trust transaction” in our phone interview. Details about one’s life including hobbies, interests and favorite music, books and movies are potential connection points for a quick intuitive affinity and familiarity to a stranger which may lead to trust-building more rapidly than basic demographic information. Building a

starting point for discussion these personal bits easily lead to checking up the next information and to a one-on-one private messaging.

This second layer of disclosure is created through a brief review of CS experiences people go through with other members. “References” categorized as “positive”, “neutral” and “negative”, written by users for others, accumulate on the profile. Every member can read references on the site. The interviewees agreed that this cross-check mechanism contributes to the reduction of uncertainty for CS users in initial online screening. Although one can gather substantial information about someone who has references, as the interviewee Anil Sethi (39, male, India-New Delhi / Turkey-Istanbul, Ambassador) indicated one should also look for the reference chains to understand the authenticity of the write-ups: “who are the people that are writing the references to a particular user, whether they themselves look trustworthy”.

In past, the site developers had added another complementary trust tool to CS which allowed a member to carry a “vouch” in the profile as a result of another member’s recommendation. The vouch sign was presented by joined hands and signaled a chain of trust: only people who are trusted by others could give vouches to other users, hence the chain of trust and reference is accepted as authentic. From the end-of 2014 on, however, CS informed that no more new vouches will be added. Yet, a previously obtained “vouch” is still present in the “old school badges” section of the user profiles. CS clarified in the Support Center that the vouching was eliminated as it created confusion along with References, hence CS decided to solely focus on the latter.

### **5.1.3. Risk & Responsibility of Sharing on CS**

One of the key and self-explanatory propositions of AUM theory is on the link between predictability and anxiety presented in Axiom 10: “an increase in the predictability of hosts’ behavior will produce a decrease in our anxiety”, with predictability increases bringing uncertainty “below our maximum thresholds” (Gudykunst, 1998, p.243).

For a social site to facilitate communication and sharing, users' ability to predict fate of online and offline encounters must be at a reasonable level. This requires collecting and filtering of information to manage anxiety and uncertainty. Axiom 12 and axiom 38 capture this: "An increase in our ability to gather appropriate –" (Axiom 38) and "complexly process (Axiom 12) information about hosts will produce an increase in our ability to accurately predict their behavior" (p.243-245).

The whole CS idea requires its users to "complexly process information" about other members by "gathering" the necessary data on the site. In Terms of Use, CS recommends users to use good judgment and keep "safety" in mind, underlining that although the site offers some mechanisms such as address verification tool (optional) through payment of US\$50 (currently only once for lifetime), it does not confirm members' identities. It is a member's own responsibility to determine the "identity and suitability" of other CS members they communicate with. Hence, even though the site provides placeholders for users to fill in the information and monitor other members' profiles in a comprehensive way, it is a self-filtering tool that members use at their own risk to increase predictability of intercultural connections. Separate interviews showed that participants utilized uncertainty reduction in their own ways relying on CS' rich pool of information, where everyone prioritized different parts of the information exchange, also adjusting their methods through learning by doing.

Basak (30, male, Turkey-Istanbul) explained how he tries to chat with the couchsurfers face-to-face through Skype, Facebook or Messenger before accepting the trip request to ensure that the stranger "is not going to kill you in your sleep". He said "when I chat with them, I sense better what they are like". Five of the ten interviewees reflected the same thought and clearly showed a preference for a brief chat to acquire further data about a stranger. These findings were in line with Gudykunst's recommendations for effective communication to reduce AU.

As in gift literature, "reciprocity" in communication is seen as a common catalyst too for the other person to reply back: "essentially, the reciprocity norm

states that if we tell Atsuko something about ourselves, she will reciprocate and tell us similar things about herself. The reciprocity norm appears to be a cultural universal; it exists in all cultures” (Gudykunst, 2004, p.245). Altman and Taylor’s (1973) social penetration theory, which affirmed a law of reciprocity, would also support people’s reciprocal self-disclosures on CS, where private messages may be considered as consecutive attempts to “peel the onion” representing someone’s personality.

Axiom 20 in the AUM theory stipulated that “an increase in the personal similarities we perceive between ourselves and hosts will produce an increase in our ability to manage our anxiety and our ability to accurately predict their behavior” (Gudykunst, 1998, p. 244). Most of the interviewees actually indicated an inclination towards picking people they think (i) they have similar views on travelling and the CS experience, (ii) they have at least something in common and can easily talk to, and (iii) they find interesting yet trustable. This shows another functional use of the rich personal profile page as it makes it possible for the similarities to come out such as the personal profile helping people discover specific information about each other such as favorite movies or books, interests, etc. For instance, Fikriye (29, female, Turkey-Gaziantep) expressed that she usually found out that the other person noticed a common interest on her profile and particularly one of her CS experiences came to being because of a shared favorite movie director, Tarkovsky.

A similar anecdote was expressed by Valérie, who had a mention of a favorite Russian contemporary writer on her profile and a Russian host sharing the same taste accepted her request straightaway. In these instances, the self-disclosures seem to dominate the uncertainty management process where References can serve like a secondary tool. These users showed an inclination towards sharing a home and a social exchange experience with people they find a personal common interest and taste. This is also supported by the view that preferences for friendship may be driven by “similarity in beliefs” (Rokeach et al. qtd. in Gudykunst and Nishida (1989, p. 24)). Similarity was underlined as a factor that contributed to formation of trust towards a stranger, in a way going in

hand with “willingness to trust” in Rotter’s approach to trust (Section 1.4, p.33). This tendency was likewise in line with the “familiarity” notion Luhmann and Giddens also elaborated on in relation with trust.

#### **5.1.4. “Willingness to Trust” & CS Spirit as unifiers**

Through all these simple-looking mechanisms mentioned above, a social normative framework is established by CS about the way of travelling and trusting strangers, challenging traditional norms. Deliberately meeting strangers offline who pass some certain criteria online and believing this is in fact a really good idea are probably the key drivers of the site. Simply put, trust becomes the “norm, not the exception” in CS (Bialski and Batorski, 2010, p.183), who also highlighted that one cannot become a Couchsurfer without a desire to trust a peer “enough to let him into your own home, your own private space” (p. 185). This view can be modified to reflect members who only prefer meeting CS members in CS gatherings or the ones who want to bridge the uncertainty gap in offline encounters first. Having personally chatted with people from CS without sharing a home, I realized that the dialogue that opens up when you show an interest in knowing a stranger does not only bring rewards when you stay with them but also communicate for hours.

CS in fact creates a social environment that promotes intercultural encounters between strangers and forms a big community of like-minded individuals around a shared idea, goal or a certain kind of characteristic. This also becomes the initial common denominator that triggers the starting act of looking for sharing. The mutual CS idea gives couchsurfers a common denominator to start with “willingness to trust”, and the site encourages them to comfortably reduce uncertainty through the site’s tools using most of the affordances of the Internet (as mentioned in Section 1.3, p.18-22) quite successfully. In that way, platform’s functioning goes hand in hand with uncertainty management and effective communication by users who also seemed comfortable in coping with uncertainty and meeting diversity.

It would not be extreme to say CS interviewees shared a similar spirit about openness to the world and to different cultures. “About our Values” page underlines the basic premise of intercultural mobility and connection as a means to “respond to diversity with curiosity, appreciation, and respect” and “spread tolerance”. This type of presentation brings CS spirit also closer to “mindfulness” Gudykunst (1993) and Langer (1989) emphasized. Building and appreciating diverse categories for people with mindfulness would surely qualify as a major ability that CS intercultural encounters enable.

A sense of belonging to the world and contentedness of performing this in a social network were not hard to decipher in interviewees that in some occasions even let them differentiate between people on CS and out of it. Some interviewees indicated that they feel like a world citizen rather than of a particular nation or culture. CS in a way represented to interviewees the embodiment and validation of this feeling, handing them in the ability to talk to and become friends with people from anywhere. Mustafa (36, male, Turkey-Istanbul), for instance expressed that “people on CS appreciate the real dialogue, we have so much overlap; we find a lot of similarities in people we think are different, and this brings us closer”.

Mustafa sounded right about big overlaps between CS users. One of the most memorable impressions I gathered through my encounters with the people on CS was that I could imagine all the personalities I interviewed to become friends among each other. In fact, one of the interviewees, Valerie from France, became a close friend of mine and we are still in touch. Although this may be a coincidence, it is in line with the interviewees’ opinions that indicated a significant potential of CS encounters in bringing you lasting friendships.

#### **5.1.5. Couchsurfing’s Test of Gift Economy & Commons**

CS as a 14 year old social travel network lived its seven years until 2011 as a platform run by founders and a team of volunteers. With its development and maintenance taken care by dedicated members to facilitate people’s intercultural

encounters for sharing time and/or homes for free, CS clearly has been a unique sharing economy platform that carries both links to gift-economy and digital commons. In briefly elaborating on the grounds of gifts and commons-type of development in the functioning of CS, this section aims to dwell on the main instance that challenged the platform trust on its learning curve.

The non-monetary exchange type of sharing brings CS quite near to gift-giving and gift economy. Reciprocity, a common aspect of the gift that has been widely studied by Mauss, Derrida, Marion as elaborated in Section 1.1.3, is a notion greatly absorbed by the home-sharing Couchsurfing community and also endorsed by the CS social bonding. In CS, the social norm of reciprocity may work through hosting not necessarily the same person but other members. Among the ten interviewees met in 2015, the existence of one CS member who was only up for “hosting” shows also that some CS members were not necessarily up for receiving the gift of becoming a guest in return. Also reacting to a reference with a response conforms to the typical norms of the reciprocity of CS practice.

Hence, an “asymmetry” is prevalent in the ways gift-giving works on CS. The spirit is not necessarily about returning the good through the same act to the same person but sharing the rewards with a community of people. Inherently CS community becomes like a pool of abstract social exchange where every member is able to define own preferences and terms for giving and receiving the gift of meeting strangers. Some want to share their homes, some travel, while others just meet up travelers as locals, or all of them at the same time. The common denominator becomes their willingness to interact; a motivation to share.

The “communion” notion used by McAteer and Marion (Section 1.1.3, p.10) could capture CS spirit to a great extent, where people choose deliberately to connect with similar-minded strangers worthwhile meeting. The attention CS members put in approaching other users convey elements of an appreciation of the unique personality and the cultural background, evident in the interest for building an intercultural connection.

Members who solely focus on monetary benefits (i.e. saving the accommodation cost) were not positively regarded by the interviewees and

considered as people who lack the “true” CS spirit. The Ambassador interviewee Anil, called them free-loaders: “I never accept free-loaders” he said, and all interviewees stressed that they like communicating with people who approach CS for intangible rewards. Hellwig, Morhart, Kocher and Zisiadis (2014) found also that non-monetary rewards such as “experience sharing”, development of “experiential capital”, and “reciprocity and intermingled self-centered and other-related goals” come up as major drivers of the mutual CS exchange (p.1).

An important dimension about the CS encounters for example is the exchange of stories. Throughout my own encounters with CS members, I noticed that the active couchsurfers become like story-tellers of CS experiences. They are able to accumulate different stories and information than the ones outside the CS, and they appeared to be enjoying transmitting them around. Even someone who has a very steady work and life can bring diversity and new interactions to his or her life through becoming a host, and most of the hard-working interviewees disclosed that they host more than they travel. For them, the norm of being stuck in a fixed environment was broken even just by going to CS gatherings.

CS basically becomes a sharing network allowing both the presence of conditional and unconditional gifts, in line with Kearney’s hermeneutical model. Kearney’s hybrid category of gift as situated between “purely conditional” and the “unconditional gift” (Section 1.1.3) can relate to the spirit in CS. The positive references often dedicated to praise the gift of “hours of talks” or “discovering the local culture” are also supportive of an explicit gratitude and recognition of the CS interchanges that serve as a fortification of the whole sharing act without a need for the giver of the gift to disappear as Derrida or Marion would suggest (see Section 1.1.3).

#### **5.1.5.1. CS’ Commons Period**

If we think about CS’ tangible benefits, such as offering accommodation for free, it may not fall into the digital commons category Wittel (2013) described as “it does not refer to things that are already there and used and maintained by

humans (e.g. the land), but to things that are being created” (p.320). Nevertheless the practice of incorporating intangible rewards such as sharing of a journey, exchange of world views and life stories alongside a shared accommodation with so-called strangers from different cultures can be regarded as a novelty that could classify it as a realm of digital commons. The platform when it was maintained by volunteers until 2011 who were couchsurfers themselves basically created and promoted a new type of intercultural exchange initiated online with a spirit of diversity and tolerance.

Hess and Ostrom’s (2007) definition of Commons is based on “a resource shared by a group of people” that encompassed a large array of scales and involved “challenges of use, governance, and sustainability that can be characterized as social dilemmas (Frischman, 2005, p.1533). Kelty (2008) defined Commons as “more than a collection”, intending to indicate “public interest, collective management, and legal status of the collection” (p.16-17), and conceptualized a “collective technical experimental system” which used the Internet as its infrastructure and is interested in reshaping relations between knowledge and power (p.15). “Geeks” according to Kelty are “builders and imaginers” of this system and the space, and the space is what allows them to build and imagine it”, who also “argue about technology” and “also argue through it” (p.29).

Fenton (Mixergy interview, 2015) explained how in temporary gatherings called “collectives”, held in various places of the world such as Montreal (first one, 2006), Thailand, New Zealand, Rotterdam, Costa Rica and Istanbul, people used to sit together and try to overcome the complex technical bottlenecks on the site. They came together because of a common ground in terms of “moral and technical understandings of order” in line with Kelty’s argument. The so-called geeks’ experience with the technical requirements led to formation of a recursive public in CS too, because the Internet was just their kind of place giving them room for both “inhabiting” as well as “transforming” it (p. 61). As Fenton (2018) put in our interview, the need for collectives and the number of participating volunteers peaked between 2009 and 2010. In general there were naturally two

different tasks for two separate groups: builders and operators. Part of the volunteers was true developers building infrastructure while the others focused on maintaining operating existing infrastructure.

This pre-corporation structure definitely had elements of digital commons, where users were contributing to the flourishing of the site without a financial reward, compared to a professional team now in place. The funders and original developers of the site were couchsurfers themselves who believed in the spirit of intercultural sharing. The so-called “geeks” of CS’ “recursive public” in Kelty’s (2008) terms, laid the foundation for what is now a very professionally-run social travel network of nearly 15 million individuals.

The technically capable people brought by CS platform from all over the world to coordinate, to physically come together in regular sit-ups for tackling the difficulties on the site and further progressing it as needed. Kelty called this type of coordination as part of “self-organizing systems” (p.105), where efforts of countless “volunteer contributors” across the world are pulled together. These were people who were most attuned to the core motivation of CS as well and wanted to contribute to its progress, as they were individuals aligned on the openness for diversity and intercultural dialogue. Anil Sethi, the “Ambassador” interviewee, told how everyone could see any message dropping on the site, technical questions as well as routine operating ones, whereas now one can access all kinds of discussion groups and/or bulletins on locations. An overlap between individual and common goals can attract those right people who would feel more comfortable in a like-spirited community, feeling the contentment of finding an outlet for surpassing the intercultural barriers in CS case.

Three essential features of commons are considered by Wittel (2013) as (i) people sharing the commons (the “commoners”), (ii) shared resources, and (iii) “a normative framework that sets out how the common resources should be created, shared, maintained and developed further” (p. 320). Commons was not supposed to be free from rules; in fact the third element above ensured that there is a common ground and institutional support for the functioning of the concept. Apart from establishment of a set of rules, an equally important ingredient was

considered as the mutual knowledge that people who disregarded these rules must be “sanctioned by the community of commoners”.

Without a need to be checked from outside, but from within, a gift economy controlled itself in “bottom-up processes” (p.328). This “sanction” kind of practice is closely in line with what Nissenbaum’s recommended as a necessary tool by rewarding “trust-affirming” actions and punishing the opposite for “trust” to be built (Section 1.4, p.29). In CS, for example, the reference mechanism becomes the main tool for cross-checking and auditing from within, and it is also known that people who are complained about by other members can be spelled out from the community.

Hardin (1968), the scholar who cast shadow on the meaningfulness of the commons towards the end of sixties, presented a conflict between individual pursuits and common goals. His angle exhibited a challenge between individualist and collectivist approaches. According to Wittel, what Hardin missed was the ability of commoners for forming mutually beneficial “normative frameworks” and take care of potential conflicts between “individual” vs. “common” interests in a “productive way” through communication (p. 320).

#### **5.1.5.2. End of CS’ Commons Period As We Know It**

After about seven years from its foundation, CS had to be converted into a B-corporation in 2011, argued as the only way out in handling the controversial tax payment of the company. The tax liability as Casey Fenton (Mixergy Interview, 2015) explained arose from authorities’ long-time refusal of CS’ tax-exempt status of non-profit nature. The objection ultimately turned into a filing of a nearly US\$1 million of tax payment that the platform paid after a capital raising of US\$7.6 million from venture capital funds Benchmark Capital, Omidyar Network and some angel investors. The funding synchronized with the conversion into a B-corp, basically a for-profit with social considerations.

A dilemma and alienation of the very dedicated volunteer teams that made the platform thrive from scratch was inevitable when the investors came onboard,

as the site owed part of its spirit and progress to user-driven efforts. Many volunteers and supporters got furious. Bollier (2014) – an “author, activist, blogger and consultant” specialized in commons – severely criticized CS’ move and put that CS was stolen from members: “This was code, content & community built by the members, for the members. None of those volunteers, working for free under the false pretense that Couchsurfing would stay non-profit, received any equity in this new corporation. Why couldn’t there have been another way? I would have donated money”. An estranged volunteer even stated that the conversion was a “coup”:

I used to say that Couchsurfing was globalization done right, where ideas and exchange mattered more than money or status. When you met someone who said they were a Couchsurfer, that it meant they had a different viewpoint on life, that they knew how to share, and were culturally open minded...Lost beneath this frenzy of numbers are the disappearing quality interactions,..which can’t be quantified (p2p CS).

The possibilities for fundraising must have been vast. The first thing coming to mind is actually kick-starting a user-sourced crowdfunding campaign, however at the time only reward-based crowdfunding was accessible. The crystallization of platform’s valuation expelled the commoners from the new structure without recognizing their contributions to this value. Yet a way to involve the volunteers’ efforts into the company valuation would make the members benefit from the opportunity and grant them an actual shareholding in the platform they have been working for so long without a monetary reward. This would also preserve the commons spirit, at least to some extent. If with a minor likelihood the commons way survived, volunteers could have kept on contributing without receiving a prize.

However sustainability of this type of model is also doubtful for an ever-expanding sharing platform as CS. As Fenton in our interview (2018) expressed nobody was able to commit full time as this was on a voluntary spirit, but lack of full time efforts was also starting to effect site’s performance and reliability. The temporary collectives were not sufficient anymore with the expanding site’s

growing infrastructure requirements. Co-founders felt the need for full-time commitment. Fenton had earlier also acknowledged the collectives – with people gathering for a few months and then vanishing – as a “great bridge” but not fit for “continuity” (Mixergy Interview, 2015).

Fenton (2018) also underlined that collecting further donations or contributions from members was not permitted by the authorities. The site basically lived through verification fees and pioneers’ donations both of which were optional, yet needed fresh capital to survive which was only resolved with the entry of financial investors. This required a valuation on an independent basis and materialized at the company level through investors’ cash injection into the company. As mentioned, crowdfunding equity contributions at the time was not yet in place in 2011 both practically and also legally. Fenton admitted that if equity-based crowdfunding was possible at the time as it is now, then crowdfunding options next to the investor entrance could have been explored. Responding to my question on how the potential for crowdfunding could be interpreted currently by the founders, he admitted that if a need arises or a positive value is seen, a crowdfunding possibility could be tapped in the future.

Fenton, in our interview (April 2018), admitted that the decision for conversion was challenging in many ways but as one of the founders he concentrated on one key dimension, selecting the path that would maximize the possibility of CS’ solidity. The main objective at that vital moment was to decide for the best path for the sustainability of the site also considering that there was no foreseeable assurance that the collectives were to sustain the platform. He admitted the toughness of the situation in view of circumstances working against clicking of the clock while the volunteers deeply mattered to the founders.

Yet frustrating them seemed inevitable, and for demonstrating how significant this community was to the founders, Fenton organized face-to-face gatherings in 12 most active Couchsurfing cities, ranging from Paris to Istanbul to further inform the community. An e-mail notification was first sent to about 1,000 active volunteers explaining the transition in a detailed three-page note, whereas the other regular members obtained a brief message with links to additional

information. Of course, these were all only ex post and after a point of no return. At this stage, there was not much room for involving the volunteer community but only giving them the details and the background of the situation. Despite the worldwide tour for communicating with Commoners face-to-face, the founder Fenton admitted in another interview (Mixergy, 2015) that the team could have done a better job in explaining the bottleneck and the resulting move to members.

#### **5.1.6. Lessons Learned From CS' Transition**

CS founders run the risk of eroding the faith of a volunteer group probably through an urgent move for funding, which did not give a chance to all-time contributors to be compensated for their past contributions in the commons framework. The collaborative environment through which volunteer endeavors advanced the site in the first seven years would obviously deserve a transparent and timely discussion. We could also logically tell that since this commons structure was not based on members' belief in the possibility of future compensation, these voluntary members may not have felt bothered at all by the transition. In the end, they put faith in what the platform was offering to them and to the world, and sustainability of this platform was of higher importance.

However different than regular users, commoners' affinity to the whole CS idea was probably also linked to the voluntary, self-service digital commons framework that members built with their own hands. What they serviced was a common good and okay to free ride on –as they benefited from it as a community – until it turned into a for-profit corporate, becoming privatized in a way. Their voluntary free labor clearly got blended into human capital and goodwill of the new company as part of the valuation of the Couchsurfing platform.

The action active volunteers took in 2011 actually shows that this transition was seriously contested. The group of volunteers resorted to Change.org to disapprove the change of platform's legal status they found unjustified. A petition signed by 876 supporters exemplifies that the volunteers uttered the concerns out loud regarding the new status. Claiming to “represent thousands of

CS members, donors and volunteers” the group noted that they were committed to the CS ideals “as a non-profit organization” and to the “global connections they found on CS (Couchsurfing Petition).

They were not only skeptical of the management arguments that “verification income” –which they calculated about US\$6 million from the beginning on – was not enough to cover the operating costs they also regarded the investor funding as selling the gifts that represented “volunteer labor, time and talent which created much of the network’s current value” to investors. The founders ultimately gave up the non-profit framework without much notice.

We believe these changes betray the relationship the organization had with its network of volunteers and members, the relationship that shaped CouchSurfing into what it is today, and are concerned that its values will not persist...Volunteers built the website and the community network – promoting CS while travelling, organizing events and welcoming new members...We provided oversight, guidance, research data for scholars, money, time and talent..... CouchSurfing, as a community, was built by the members, for the members, under the explicit guarantee from its founders that CouchSurfing will always remain a public non-profit entity. The management convinced members that they were creating a value for public benefit and then sold that value. The use of CouchSurfing for profit is forbidden to all members, as per Terms of Use 2i, yet the founders and investors, also members, have taken the liberty to break the agreement to abide by the rules prescribed by this document...We are not willing trust in-house communication. We demand that CouchSurfing be restructured as a Benefit Corporation...We believe that the C-Corporation was not created, in the interest of the community but, in the investors’ and founders’ financial interests... We demand that shares, issued to management, be placed in a charitable trust or foundation serving the CS mission since they represent a value created by, and belonging to the community (October 2011, Couchsurfing Petition, Change.org)

The petitioning “most active” members as they call themselves simply regarded the C-corporation status as conflicting with CS ideals and argued for a real execution of Benefit-corporation –because the transition although labeled as CS becoming a B-corporation was not practically effective. They thought that CS’ application for non-profit was rejected because the platform’s handling of financial matters and the non-profit requirements was not abiding by the rules – stipulating that money to be spent in “charitable or educational programming”.

The fact that commoners had difficulty in grasping why the income sources of CS was not adequate for meeting the operating costs also points to an important controversy about a sharing platform’s transparency of operational income. Following the funding and conversion into a for-profit corporation in 2011, there has been some debate on the Internet about the financial capacity of CS in the pre-funding era (p2p). The verification tool, that allows users to become “verified members” by paying about US\$50 per year, existed before 2011, so did the contributors called “Pioneers” who donated to the site in monetary terms. For a group that mainly relies on a commons framework, these two tools must have probably brought in a noteworthy amount of cash to cover certain infrastructure costs such as server expenses, certain key personnel’s salaries and the organizational expenses to coordinate the collectives. These may have also resulted in IRS’ objection to accept CS’ charitable status, as the money was not directly spent in philanthropist events but rather enabled a social platform where people could devise online and offline social, intercultural encounters.

The transition was a clear test for the platform and its founders, where they obviously lost the trust of this active couchsurfers group and also surrendered a part of CS conception they promoted until the time. If the main pillar of CS structure can be described as formation and preservation of an open, sharing community that welcomed intercultural exchange and diversity free from monetary benefits, another complementary supporting column of its architecture until 2011 was its reliance on non-profit commons effort in building an open culture of spirit of sharing. For both pillars to be preserved, a more consistent and trustworthy flow of events could be discussion of the company status with the

commoners before the funding move through an ex ante communication channel as well as looking for alternative means for funding. Even if funding from the volunteer base at that time was not legally permitted, a compensation for rewarding the volunteers efforts if not through a symbolic type of shareholding maybe through job offerings could engage volunteers and their trust further and would bring a smoother transition.

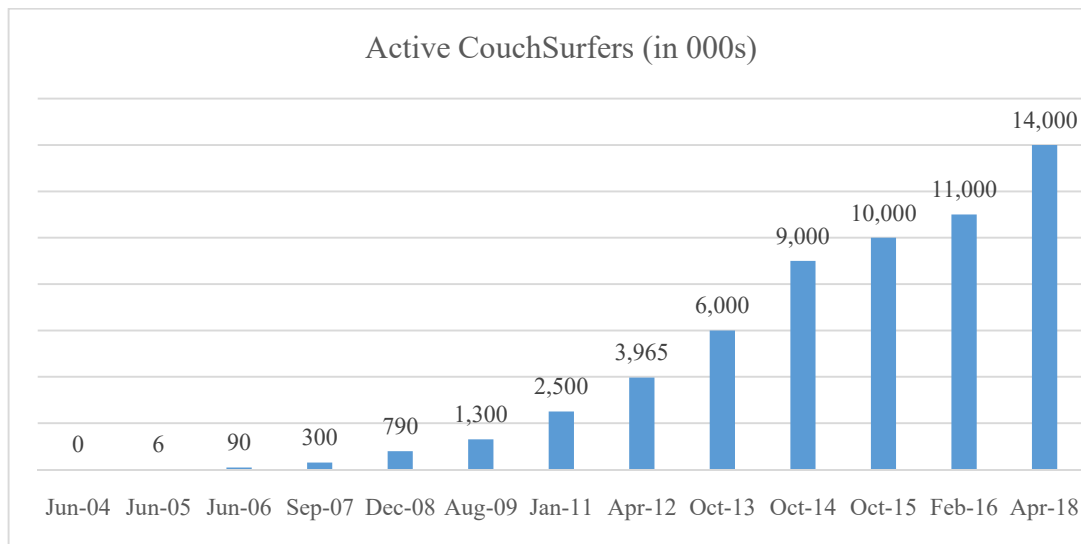
CS, however, had to give away one part of its existence, the commons framework to continue for the rest of the member community. In numeric terms, this represented about 1,000 active members compared with about 3 million couchsurfers in 2011. Considering this critical breaking point in CS' learning curve, the question mark that blurred the appropriateness of the funding decision at the time was also related with the type of investors who invested in the company. Obviously these were venture capitalists who would be expected to look for a profitable growth story and could be interested in pushing the revenue sources further that could eventually culminate in the erosion of the site's spirit. In that respect, the main question regarding the continuity of the platform was actually whether this new structure would give away the main pillar, its spirit of sharing as a gift.

Nevertheless, after nearly seven years of the fund raising the site still looks user-friendly and as clean as possible in terms of minimum advertisement visible on the site. Researching on the site in the last 3 years since 2015, my observation of the platform has been that the level of advertisements hasn't changed much compared with before either. Fenton in our interview also stated that advertisements are kept on a very reasonable level and there is a differentiation between verified and non-verified members. He expressed that the investors were also selected particularly for their consent in leaving CS as it was to a great extent.

In terms of revenue generation, the main source is still the verification tool. As of the date of the research, there are more than 500,000 verified users as stated on the site that must have brought a revenue sum of US\$25m. As of recently, however, CS turned the verification cost to US\$60 and made it chargeable only for once and lifetime. Since there are no additional revenue

sources created following the funding, until now the growth of revenue seems to be mainly driven by rise in number of members, hence verifying ones.

**Figure 5.1 Number of CS platform members**



Source: Wikipedia CS page

Looking back to the evolution of member statistics reveals that the numbers recorded an average annual growth of 33% (CAGR) each year between 2005 and 2018. The platform kept growing with members reaching 14 million in 2018 (as of April 2018) from 10 million in 2015 and around 4 million in 2012 - near the time of the capital raising. Some active members may have left the platform but naturally CS continues to attract new users, and especially the new generations joining the community to explore the world and different cultures would further enrich the pool. Yet, the ones who left the platform through their loss of trust in the platform may never return.

Also the endeavors of the founders in explaining the move to these Commoners as demonstrated by Casey Fenton's personal visit to 12 major CS cities to meet the volunteers cannot be disregarded as it carried a certain level of effort in facework. Following this, the ability of the site in preserving the platform and its operations in the following period in line with its status before funding could be considered a proof of its rather pure intentions.

Furthermore, not every CS member fully cared about the platform's funding and new shareholder structure and instead primarily focused on the

continuity of the CS spirit and its system. One CS user interviewed in 2015 for this study, who did not technically contribute to the site but donated money in the past as “Pioneer”, indicated his strong appreciation of the CS spirit and practice. The stability of the site was important to them, regardless of the continuity of the digital commons type of framework. The interviewed couchsurfers praised CS’ rather intangible and by now irreplaceable rewards that fueled their lives in a way that according to them people outside of CS may not necessarily appreciate. A gratitude to CS and its founders in providing such a social norm of travelling and connecting with people counter to traditional ways that usually put a price tag on everything also resulted in loyalty to CS.

If Airbnb.com, through which people can rent parts or whole of their homes to visitors temporarily, is commodification, then CouchSurfing becomes a perfect example of counter-commodification, where people produce and exchange cultural knowledge, relations and stories without involving monetary consideration. Digital commons process works towards “counter-commodification”, which may alter the essence of capitalist production methodologies in Wittel’s view: “the commodity frontier might have arrived at its final stage as there is not much left that can be turned into a private good any more”, and digital commons becomes the legitimate ground of debate “over the future of the Internet and the future of the capitalism itself” (Brook et al., p. 278-279). Believing that digital commons type of formations build a strong alternative to a “commodified Internet”, Wittel sees it as “potentially the moment that pushes back the frontiers of measurement, value and quantification towards qualities, values and an expansion of the gift economy” (p.320).

...This is not just some niche within the real economy, this is the realm where all knowledge production and cultural production can be shared and freely accessed. For this to happen on a large scale, we have to think about policies that compensate contributors and stimulate what is emerging as an economy of contribution (Wittel, p.329).

This approach represents rightfully what could not be achieved by CS and its transition from Commons framework. Finding the right ways to compensate

the Commons may create resources to align platforms' and their users' motivations in sustainable ways. Building solid alternative platforms with different form of collaborative revenue-sharing with users can definitely enrich and strengthen the sharing economy ecosystem, also preserving the examples like CS that rely on non-commercial exchange.

This non-commercial nature still makes the CS platform unique with the core spirit being dominated by peers sharing with each other not services but genuine experiences. CS may have lost its original self-maintenance type of Commons structure, however meeting up strangers still preserve the gift-giving nature that adds to the variety of platforms in sharing universe. Many recent CS members appear to have no idea about the status of the CS itself, however use its normative grounds with joy for cultural exchange. Some of them differentiate between their travelling attitudes in different contexts, admitting their need to stay sometimes in hotels with less time to meet people. The true CS spirit for these people seems like the willingness to dedicate some attention to strangers. Interviewees who mentioned that they prefer hosting couchsurfers on weekends so that they can show around the city are a proof of this belief. Despite the surging member numbers may have brought in superficially interested users to the community as well, as long as these type of individuals loyal to CS spirit stay in, it would continue to sustain the core of the CS motivation.

## 5.2. COLLABORATIVE ENCYCLOPEDIA: WIKIPEDIA

When one considers the immense material for an encyclopedia, the only thing one perceives distinctly is that it cannot be the work of a single man...an opus that can only be carried out by a society of men of letters and artists, dispersed, each concerned with his own division, and joined together only by the general interest of humankind, and by a feeling of mutual beneficence (Diderot, 635-648A)

Diderot's self-definition of the "intellectual" features needed for writing an encyclopedia, includes a concern for humanity, and is in many ways not remote from what Wikipedia aspires: a "sum of all human knowledge" that anyone can freely access while anyone can form bits of it independently, yet under the scrutiny of other contributors (Wales, 2015, The birth of Wikipedia, TED). Fulfilling Bauman's (1987) description of "being an intellectual", both works' writers, regardless of their occupational roles, seem to share the spirit of "engaging with the global issues of truth, judgment and taste of the time" (2), yet in a different level of neutrality and relation towards knowledge.

Founded by Jimmy Wales and Larry Sanger, Wikipedia's slogan is "the free encyclopedia that anyone can edit", run through a Commons framework with readers/contributors maintaining the site themselves. 136,946 active users (including 1,222 administrators) out of 33,322,597 registered users (alongside "an unknown number of anonymous contributors"), make up an online encyclopedia whose total number of articles reached nearly 44.7 million (as of 8 April 2018). With 5,608.034 content articles, Wikipedia's English version is the most prolific out of the 299 Wikipedia editions (Wikipedia Statistics). The site each month has about 18 billion page views by nearly 500 million unique visitors (Wikipedia entry).

Like Diderot uttered more than a few centuries ago, an encyclopedia could only be sustained by a group of people interested in the continuity of knowledge and information. Yet this time, the writers did not necessarily be 'intellectuals' or

artists per se more than they were experts in sharing knowledge on a neutral fashion. Wikipedia is the perfect example of a sharing platform that can operate with users regulating and editing each other and their inputs for maintaining a neutral tone without a top-down filtering imposing what can be posted.

In both works that are separated by nearly three centuries, there is a distinctive tone of trust in the continuity of the knowledge creation and collection. Giddens' (1990) ontological security which refers "the confidence that most human beings have in the continuity of their self-identity and in the constancy of the surrounding social and material environments of action" (p.92) could be applied here. The self-identity in this case becomes "encyclopedia writer" and a certain belief is kept in the permanence of the occupation of encyclopedia-writing. The ones that write it now or the ones that wrote it in 1750s would be accompanied by other people in future generations with a similar interest in collection of knowledge. Trust is put in the meaningfulness of this occupation that can only deserve continuity, and therefore users also put faith in the spirit of such a sharing platform. Wikipedia as an abstract system in Giddens' terms that succeeds in presenting a trustworthy environment.

### **5.2.1. Principle of Neutrality and Unbiased Information**

Wikipedia aspires to establish unbiased grounds of knowledge in equal distance to different views. Hence, it is not the voice of the writer that is heard but of multiple experts. Every individual editor, who may still execute "legislative" roles inside their special area of expertise as Bernstein elaborated on (quoted in Bauman, 1987, p. 145), is allowed to contribute his or others' special knowledge in a neutral fashion. As such, the platform becomes a ground where multiple perspectives are amalgamated.

The functioning of the community rules ensures that multiple edits and checks try bringing back neutrality whenever it is lost. Furthermore if the editors come across usage outside these guidelines, the "arbitration committee" or "the community" itself may impose a sanction on editors. This sanctioning practice as

also underlined in the previous section on Couchsurfing, offers a rule that leads to visible consequences on certain acts and both acts as an inducement on trust-formation between the peers and on platform level. Users know that the platform has sufficient built-in tools to detect sanctionable conducts, hence an abstract system they can put their faith into, a system whose operation is ensured by the community's involvement – a visible hand.

This neutrality principle also deters placing novel ideas into Wikipedia without verified sources. Under the “no original research” policy, the editors are encouraged to avoid “any unpublished theories, data, statements, concepts, arguments, or ideas; or any new interpretation, analysis, or synthesis of published data, statements, concepts, arguments”, or ideas that, in the words of Wikipedia's co-founder Jimbo Wales, would amount to a “novel narrative or historical interpretation” (No Original Research).

It is therefore that many entries on concepts provide multiple approaches. For an example, an entry like “curiosity” in Wikipedia becomes a long, thorough attempt of summary of different theories and studies on the subject. It has no legislative rhetoric but rather a rich array of available knowledge produced by experts. It is an expanding encyclopedic entry created by 379 editors (as of 2 January 2015), who obviously have some sort of special expertise or interest in the context that allow them to recap different findings, starting from the first edit in October 2004 until the latest one in December 2015. Linked to 54 verifying external sources of information (“Curiosity History”, as of 2 January 2015), multiple references are ready for readers who want to learn more on the subject.

Kliever's elaboration on “pluralism” is of significance here: “pluralism is the existence of multiple frames of reference, each with its own scheme of understanding and criteria of rationality. Pluralism is the coexistence of comparable and competing positions which are not to be reconciled. Pluralism is the recognition that different persons and different groups quite literally dwell in irreducibly different worlds” (81). Kliever has a valid concern on the risk of this pluralism though, that the persistence of old habits of universal truths and lack of “modesty” may lead to “multiple absolutisms” and this can only be deterred by

“mobilization of intellectuals” in fighting partial, local absolutisms with the same energy with which their predecessors fought for an “impartial”, universal one” (Bauman, p. 129). Wikipedia co-founder Wales promoted this by saying “Don't tell me what to think, don't feed me one side of the story; give me actual facts and I will think for myself to decide. And I respect you as a human being enough to return the favor” (Guardian, 2008).

Self-policing of users/editors and constant editing ensures this unbiased quality of inputs put into this collaborative encyclopedia, relying mainly on Community Guidelines, which could potentially provide some reference points for the other sharing economy platforms that may want to increase the self-regulatory features. For example, once an editor breaches “community standards” it is up to other members of the community of convincing the violating editor to comply with “accepted norms of conduct” that may escalate towards heavier intervention like “administrative and steward actions”. In case of deliberate behavior against guidelines users may be “blocked from editing”. In complicated instances, “Arbitration Committee” intervenes. With mostly the community of users sustaining this type of checks and balances mechanism, the Wikimedia foundation and management refrains from intervening unless requested by the community.

### **5.2.2. Intellectual as “Interpreter” in Wikipedia**

Simmel (1968) regarded the dissolving of the role of the intellectual in the time of the “Men of Letters” of Enlightenment into separate arrays and fragments of knowledge as a “tragedy of culture”. According to Bauman, intellectual’s story resembled to “the sorcerer’s apprentice’s feeling of having lost control over his own product and heritage” as a consequence of new forces coming into play that now “control” society and life with a new kind of institutionalized, specialized, and autonomous force: “new validating meta-authority: the market, with price and “effective demand” holding the power of distinguishing between true and false, good and bad, beautiful and ugly” (p.158). With “validation of culture” being delegated to the forces of the market, once centrally located and carefully listened

state elites and intellectuals have become marginalized. As such, the intellectual became a “tragic, homeless wanderer” in his conventional status as a ‘cultural legislator’ ” (Bauman, 1987, p.157).

This was largely in line with Marx’ tone too, who interpreted that the “bourgeoisie” removed the “halo of every occupation” that was once highly esteemed: “It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage-laborers” (p.76). As the world was now “saturated with science, technology and arts”, the conceptions of intellectuals were not needed anymore, not even by the ruling class –which left the intellectuals mainly talking among each other (Bauman, p.148). Giddens’ description of the “expert systems” elaborated on in Section 1.4.1. (p.41-46) is in many ways synchronized with Bauman’s notion of “fall of the legislator” and “rise of the interpreter”, where trust in modern societies and trust in systems occurred through faceless commitments and faith has been kept in effectiveness of this special expert knowledge.

The response that the new Information age brought to this mix is the necessary network of knowledge at fingertips integrated with technology. This marked a new phase, where authors and readers or in another framework producers and consumers have become the same people. Similar to Bauman’s reference to sorcerer and apprentice story for describing the fall of the legislator, Luigi (2014) indicated that the anonymously creative process that has been taking place seems both sustainable and innovative –which he named “Culture 3.0” – and is challenging the very origins of the system – “copyright” – which created it.

This anonymity is a striking difference of Wikipedia’s reader-writers vis-à-vis their counterparts who wrote the Enlightenment period’s *Encyclopedie* 300 years ago. The author in a sense is dead in Wikipedia as in Barthes’ (1977) formulation and the language itself is the one speaking and writing. In place of the author as the person, Barthes gives the name of “scriptor” to the dying author: “the scriptor no longer bears within him passions, humors, feelings, impressions, but rather this immense dictionary from which he draws a writing that can know no halt” (147). Foucault (1998) followed a similar line on how “authorship” could

vanish: “We can easily imagine a culture where discourse would circulate without any need for an author. Discourses, whatever their status, form, or value, and regardless of our manner of handling them, would unfold in a pervasive anonymity” (“What is an Author?”).

Vugt (2010) argued that Wikipedia is an “authoritative” community, where everyone could contribute, yet nobody could assume the full authorship of this anonymous text. This makes the author a collective form with “two opposing forces”: The author is nowhere, nowhere is authority. And the author is everywhere, everywhere is authority. It is the essence of this communal form we can call authority” (p.73). In Wikis like Wikipedia, the collective was in the focus rather than the individual efforts. This collective sum of authors deters anyone from becoming owner of the text. One can only focus on the “behavior of the collective” as Shirky puts (2008, p.128).

As Shirky formulated Wikipedia does not require a single individual to “know everything”, while “all contributions can be incremental” and “every edit is provisional” (p.118-119). In Wikipedia, usually the vast amount of production originates from a more concentrated and active group, and this suffices to maintain and enrich the platform: “...a short, uninformative article can be the anchor for the good article that will eventually appear. Its very inadequacy motivates people to improve it; many more people are willing to make a bad article better than are willing to start a good article from scratch” (Shirky, p. 122). As also Pierre Lévy (1997) put for “collective intelligence” of cyber communities which benefits from an aggregated know-how of its members “no one knows everything, everyone knows something, all knowledge resides in humanity” (p.3).

As a result of all its content being subject to further change all the time, Wikipedia creates a participatory but at the same time transitory text. The degree of participation determines the degree of temporariness of the content. Jenkins (2006) also emphasized this transitive quality that “the most interesting and controversial aspect of the Wikipedia project has been the ways it shifts what counts as knowledge and the way it shifts what counts as expertise (Convergence Culture, p.265).

In light of these, Wikipedia is a novel manifestation of the intellectual's 'interpreter' role a la Bauman's analysis in the 21<sup>st</sup> century. Its being short of putting any legislative ideas that dictate what to think about a certain subject into its pool of information is a result of all the crystallization of generalist knowledge of 18<sup>th</sup> and 19<sup>th</sup> centuries and rising expert systems of industrial and to some extent capitalist, consumerist order. After all that is solid melts into air (Berman), Wikipedia's content also becomes a fluid text, like in Bauman's notion of "liquid modernity". In this interpretative framework it has to fit into, Wikipedia becomes a self-cultivating tool that leaves it to the reader-writers to find their own legislative rules for life. The intellectual legislative power in Encyclopédie shifts from the author to the reader-writer in Wikipedia and its exercise becomes an individual process outside of a text that hierarchically stipulates what to think. Now, it is the reader's turn, who may also overlap with the author, to distill the multiple voices of multiple experts. Words of Wikipedia's co-founder Wales exhibit this view, too

I advocate for the value of a universal encyclopedia which is accessible to everyone and which rationally puts forward the basic facts about various arguments and controversies in such a manner that newcomers to an issue can understand what the disagreement is about. Don't tell me what to think, don't feed me one side of the story; give me actual facts and I will think for myself to decide. And I respect you as a human being enough to return the favor (Guardian).

The challenge of the expert system looks like the separate expertises' difficulty in entering into a dialogue with different, complementary views and relevant specialisms, where pluralism prevents "a world-scale consensus on world-views and values", with all views stuck in their own routine and traditions (Bauman 143). The boxes they fill in are bounded by their rather occupational reach; while a synergy that may come into place may never be discovered as every category is concerned with its area of expertise. As Bauman acknowledged, the challenge of "communication across traditions" requires an imminent supply

of “specialists in translation between cultural traditions” (143), which would definitely require a multi-disciplinary approach. What this would mean practically is for instance the need for a sociologist and psychologist in urban planning next to an architect and an engineer, yet as well as someone that can understand from both sides’ perspectives and can act as a bridge between them. Could Wikipedia contributors be these contemporary translators of different special knowledge arrays that appeal to a “shared vocabulary, a common world, a community of meanings” as Bauman describes (145)?

Contributors of Wikipedia filter complex knowledge into relatively understandable pieces of information and serve it to a wide audience including people with no clue on a particular topic. With the physical limits of carrying encyclopedic knowledge around oneself having changed considerably, one can access any type of these descriptions within a second without traditional encyclopedias. Hence, the possibility of accessing and utilizing encyclopedic knowledge in everyday life whenever needed has grown so extremely that anyone with access to the Internet can try different expert opinions on himself like changing clothes. It looks like as if knowledge becomes transferrable and wearable without the necessity to absorb or memorize what is written in order to utilize it, but anytime available when the need arises. “Intellectual” features become transferrable from authors to readers and then back to authors from readers-authors. It is as if intellectual capabilities become exchangeable and the Wikipedia is like the marketplace of this information exchange, except one thing: information comes for free if one excludes the cost of reaching the Internet.

Imagine someone taking care of the child of a friend for a little while and out of curiosity reads a few Wikipedia entries such as “early childhood education” or “child care”. The information or knowledge may not stay for long but for a few hours, this person can have an intellectual exercise on that particular subject, may leave it there and go to another topic the next day. Whoever has the mental capacity and wants to dwell on these encyclopedic knowledge bits more thoroughly and internalize them, can develop intellectual aptitude in a more full-fledged way. With these possibilities, a new dimension of intellectual features

may be arising for everyday use, as participatory and as fluid as the content itself is.

It is a collective body of contributors that becomes like a meta-intellectual: formed by pieces of an ever-growing community of translator or experts of knowledge, where nobody should know everything or enlighten on every subject, yet everybody knows something, which complement each other like pieces of a puzzle and constitute an enormous hyperlinked network of information. With instant access at fingertips, any reader can try wearing the shoes of an expert that wrote a particular encyclopedic entry, and the whole process of access to knowledge as well as gaining “intellectual” features become transient as well.

## CONCLUSIONS

This study formed an initial attempt at investigating sharing economy platforms' role in trust formation with a higher concentration on the crowdfunding universe. Focusing on users' trust vis-à-vis both peers and the platforms, the research aims to introduce a structured ground for understanding the online middlemen's capacities in creating suitable environments for trust building. This also makes this the first comparative and comprehensive inquiry on online collaborative platforms' performance in cultivating trust.

As a basis for this analysis, I proposed a trust pyramid in Section Two, where a user's sharing act entails trust is put in (in the order from bottom to top): (i) the internet, (ii) p2p sharing (economy), (iii) the legal support for p2p sharing; (iv) the platform (v) peers. This layering, mainly inspired by Giddens' (1990) abstract system approach, constructs that for trust to be in place at a particular level; confidence in the preceding layers –denoting systems – is a pre-requisite. Hence, users with a willingness to trust peers proceed inherently on confidence in the foregoing systems which however can be challenged through learning experiences. The top two layers as platform- and peer trust are like the tip of the iceberg visible to public, much accessible for research and are also under the platforms' direct influence on design; hence craft the main axis of this inquisition.

The platforms inquired in this study were selected based on their leadership in a field, like Kickstarter and Indiegogo among reward-based-, Patreon, Crowdcube, and Zopa as the pioneering platforms in membership-based, equity-based and lending-based crowdfunding platforms respectively. Kickstarter and Indiegogo took a larger focus in the research also due to richer history and resources as well as relatively bigger challenges observed in trust formation. A comparative investigation of mainly collaborative consumption type of platforms; Couchsurfing, Airbnb, Uber and Lyft, and Wikipedia to a more limited extent have been also carried out with an emphasis on their key features.

Utilizing uncertainty management theory in communication and its two main pillars, self-disclosures and information-seeking practices of agents; as a

tool, this qualitative analysis assessed these sites' main practices in making information, both about peers and platforms themselves, transparent and accessible. This procedure mapped the uncertainty reduction framework not only to the relations among peers but to the links between a platform and its users, too. Just like peers' self-disclosures are useful in reducing uncertainty and forming peer trust, rich and sufficient disclosures of a platform are acknowledged as facilitator of users' formation of platform trust. For that, the key ingredients of platforms' communication with user base such as company policies, frequently asked questions, blog posts as well as their filtering processes were explored combined with online participant observation using mainly publicly available data on sites such as user profiles and comments. These resources were examined for understanding platforms' efforts to level playing field for their users' uncertainty management and trust-building processes. This was complemented with further archive research covering news reports and expert opinions.

Such a transparency-focused view of platform trust can be applicable to all platforms. Yet, the ones in sharing economy carry a peculiar disposition for openness, as they are representatives of an emerging alternative economic model that lets them generate their income on a new level of revenue-sharing connection with their users. Their reliance on peers' resources for p2p exchange donates these platforms a different level of responsibility as what we can call "peer partners", to be transparent about not only platform principles but also operational information and the value created as a result of this partnership with users. Disclosures on their revenue drivers, size of revenues, business volumes on top of company disclosures such as shareholder structures and levels of investor funding would not only make the whole exchange between peers and platforms reciprocal in terms of information, too, but also contribute to the confidence in platforms.

With such a perspective the study found that all the studied platforms, except for Crowdcube, Wikipedia and Zopa, leave out proper accessible information on shareholder structure, funding and valuation rounds. The platforms exhibited some weaknesses of clarity and consistency of policy communications, too. Most of the platforms do not even explicitly state their commission rates on

their initial access points on Homepage or in Terms of Use, apart from Kickstarter and Patreon. Also, the analyzed platforms usually take a discretionary approach in communicating policy changes. Airbnb fares stronger here with a well-defined process of sharing updates at least one month in advance to users with the option for termination if they do not approve the changes. Among all the crowdfunding platforms examined in this study, the reward-based Kickstarter, the lending-based Zopa and equity-based Crowdcube fare well in sharing detailed periodical statistical data about their operations, in their case crowdfunding volumes. Patreon, although a newcomer, also started disclosing a few business figures and even forecasts going one step further. Indiegogo, which does not disclose any statistics, is much less transparent than its competitor Kickstarter that provides almost daily updated funding statistics.

Yet even this noticeable transparency effort, makes KS only able to track the funding success rate which currently indicates about 36% (the ratio of successfully funded projects to total projects posted, as of 2 June 2018). Kickstarter and Indiegogo fall short of measuring whether projects have delivered the promised rewards. Although this looks like the second part of the process, it is, in fact, the goal of the crowdfunding project, hence an important measure of success. A simple glimpse on crowdfunding sites can easily misguide a user due to dominating rhetoric of funding success, which ties the general perception of success in crowdfunding to reaching the funding target only. Yet, this monetary evaluation fails to represent the full circle as even the publicity factor in campaigns can sometimes make an impact on projects' or creators' success later on, but this is also harder to measure than assessing the delivery of perks. (Mollick's 2016 study on Kickstarter's impact on creative economy – facilitating generation of 8,800 new companies and 29,600 full-time jobs – shed an important light on that direction).

As such the closing of trust cycle – elaborated in Section Three (Figure 3.7) – in crowdfunding becomes rather inaccessible without a checks and balances mechanism for post-funding phase. This indicates the biggest gap in reward-based crowdfunding platforms' uncertainty reduction environment for peer trust

formation compared with the studied collaborative consumption platforms. Except a few one-off appreciable attempts of Kickstarter for studying failure rates and cases (see Sections 4.1.2.2.3, 4.1.3.2 respectively), leading reward-based crowdfunding platforms Kickstarter and Indiegogo miss on collection of organized data on real completion performance of projects. This deficiency distorts both creators' and backers' education regarding the odds of crowdfunding and hinders an active awareness on the risks. This also limits the room for effective crowd measures and sanctions –as would be required by platform trust to develop – and moreover performs poor in view of the outlined affordances of the Internet (Section 1.3). With remedies on better information-absorbing designs, the platforms, the supporting as well as the creator crowd can gradually build a truer crowd opinion on the true character and risks of crowdfunding.

Richer user profile pages could compensate for the absence of objective evaluation tools and help in cultivating peer trust in crowdfunding. Yet across all the studied sharing platforms except Couchsurfing, user profiles remain fairly shallow due to lack of platforms' guiding placeholders. In harmony with varying purposes of sites, the listing and presentation functions put different parts under the spotlights, for instance homes in Airbnb or projects in crowdfunding. CS performs the strongest here in inspiring users to provide deeper individual profiles to better connect with strangers, also facilitating community formation. This is also in line with its intercultural exchange spirit that calls for higher familiarity between two individuals than in a pure monetary transaction in other platforms.

The mentioned loopholes in peer trust formation also affect platform trust in crowdfunding as they pose a potential conflict of interest and threat to an unbiased middleman function since the platforms generate earnings on funding success. As analyzed in Section 4.1.3, Kickstarter and Indiegogo exhibit a history rich with enormous success stories but also some striking failure cases that can easily cause permanent damage in trust in the reward-based crowdfunding ecosystem. The study of two big-size failure cases of reward-based crowdfunding campaigns revealed that backers as well as creators still lack a simple accord on how to proceed when things go wrong. Online participant observation and content

analyses showed that a stronger consensus is needed between the platforms and the peers on their roles and responsibilities.

As a usually responsive platform, Kickstarter, for example felt the need to clear ambiguity on users' understanding of the platform and explained its definition in a few blog posts in 2012 –with the most famous one as “Kickstarter is not a Store” turning in over 40 million Google results so far. This post even now addresses the most typical debate on reward-based crowdfunding which boils down to what the platforms exist for: for channeling gift-like support to creators – be it entrepreneurs or artists – or pre-ordering first-time products.

As the concept inherently involves the term “reward” and promises delivery, the transaction cannot be considered as true altruism or “gift”. Yet, with no means to follow up the realization of projects, the relevant dangers are not thoroughly and routinely digested by the crowd. Furthermore, we would be looking at a platform that lives through a dilemma in its own foundation, which would both say “do not consider this as a gift if the project is successful, but do consider it as gift if the project does not successfully deliver its promises”. The slogan on Kickstarter's current homepage greeting users as “bringing creative projects to life” further demonstrates that the controversy lives on even at the platform level, since the post-funding performance is left optional.

It is not that the crowdfunding eco-system should be free of failures and uncertainties, which would totally kill any need for trust-formation. The idea is to provide enough room for backers to make educated judgments on crowdfunding notion as well as campaigns and to enable creators to gain capacity to learn from crowd experiences on how to convert themselves from idea generators to project completers. The observation that some of the crowdfunding participants carried no mindfulness on the risks of crowdfunding juxtaposed with the site rhetoric on materializing projects exposes one of the cracks of this system, which necessitates further work on the platforms' side as the main facilitator of user education. Users obviously learn through experiencing defaulting campaigns on their own, yet when they do not digest the risks early enough, the weakening of their platform trust can also occur more dramatically. Therefore, the reward-based crowdfunding

platforms still need to figure out how to define themselves and what kind of a consistent story they would like to tell the crowd that can be sustained and plausibly deserves platform trust in their system.

This is easier said than done as there is also some ambiguity on whether reward-based crowdfunding platforms are representing the crowd or the fundraising creators or stand neutrally in an equal distance to both. Patreon, for instance, emerged through a rather new type of membership-based crowdfunding that facilitates recurring support to creative people's works –which serve as rewards. Also being founded by an artist, the platform openly communicated its inclination to take a “creators first” approach. This made the site both fairly transparent in its proposition as well as consistent with its purpose.

If, on the other hand, a fairly objective stance like of the equity crowdfunding site Crowdcube, is chosen, this would require platforms to be free of any impositions and guidance on projects such as “Projects We Love” or “Team Favorites” types of listing both prevalent on reward-based crowdfunding sites Kickstarter and Indiegogo respectively. Investment-based crowdfunding examples rely on relatively higher filtering than reward-based category, hence somewhat less democratic access to funds to build and maintain platform trust yet they also do not promote particular projects over the others. If they can enable higher activation of user screening and opinions, this may also allow through time a shift to a more passive filtering approach that would be also more sustainable. The studied reward-based crowdfunding platforms offer different tendencies on filtering among themselves too. Based on our street analogy, Indiegogo venue can be thought of as an open-access plaza for any visitor while Kickstarter tries to be more like a shopping mall that has an x-ray screening at the entrance.

Another important difference of investment-based crowdfunding over reward-based is the potential restrictions on oversubscription. The room for overfunding is unlimited in reward-based crowdfunding, where platforms' incomes grow proportionally when a US\$100,000 targeting project attracts US\$1 million of crowdfunds even if the project never gets realized. This is also in contrary to the traditional intermediary commission structure which usually bases

success fee on a reverse scale with deal size and there are usually defined absolute caps on commission amounts, too. This overfunding dilemma may cause a struggle with a neutral middleman role over the long run when failure stories of overfunded projects accumulate further. Furthermore, unlimited funding also potentially pressures the amount of deliverables in projects. In the investigated two failure cases of successfully crowdfunded projects (Section 4.1.3), extreme overfunding amplified the moderately sized projects to immense order sizes such as about 2,800 units in Robot Dragonfly from nearly 300 pieces of perks and to 12,000 units in Zano Drone projects from 600 initially, also potentially magnifying the risk and size of failures.

Such failure experiences are very critical in understanding the pitfalls of the reward-based crowdfunding system, hence requires careful study. Not only the crowdfunding community in general but also the longest-operating leading reward-based crowdfunding platforms, IG and KS themselves are in a learning curve. Through experiencing different type of trust-warranting or frustrating cases, perceptions of crowdfunding evolve constantly. Openly sharing learning experiences, both positive and negative, in right and useful formats customized for the specific types of sites, would create valuable lessons for crowd's education and add to platforms' truthfulness and integrity, and enable trust to be formed on a more educated construct. This type of openness would also facilitate the collaboration of all stakeholders for creating more positive experiences in a conscious evolution of this sharing-spirited environment. KS' efforts for initiating a blog-like guide prepared by creative people for "creative people" –the Creative Independent – since September 2016 provides noticeable room for campaign creators to share their success or failure stories. These kinds of efforts may however need better visibility and embracing.

For ensuring a stronger trust nourishing environment in crowdfunding, platforms' openness should be combined with self-maintaining uncertainty reduction tools tailored to the specific type, character and vision of a platform's business model. If these would be costly to design and implement, then they should be reflected on commission rates for platforms. In the end, it is only the

platform that can directly activate and afford these instruments that would empower the users in informational terms on top of the financial benefits from sharing. As long as users are equipped with enough information, a passive filtering intermediary role mainly assumed by reward-based crowdfunding platforms can prove itself as a reasonable and sustainable approach. Users would be encouraged for more active engagement in uncertainty management and trust-building vis-à-vis peers and the platform. This, in turn, would also build up the capacity for the platform itself to trust its peer base in managing uncertainties, hence allowing an accordance with the transfer of risks and responsibilities to the crowd as the currently in place passive intermediary roles execute mostly.

This is also needed because confidence in the system of sharing economy and crowdfunding is required for the healthy operation of both in the same fashion that Giddens argued for laypersons' faith in expert systems as a facilitator of the flow of our daily lives. In both the crowdfunding type of examples and to less extent also in collaborative consumption examples explored in this study, the "pragmatic element in faith" due to accumulated experiences that these systems and expertise usually work as expected is not fully applicable, it is only in progress. Neither the average host at Airbnb starts hosting as an expert of hosting nor the average project creator on a crowdfunding platform is an expert on crowdfunding and materializing a project. The platforms that bring these promises together with the peers are also yet developing into experts.

With platforms mostly not older than a decade and running in a very fragmented fashion with numerous sites building up a dispersed set of platform economy, the 'business-as-usual' approach is not fully established yet in sharing economy and crowdfunding environment. This obviously makes improvements a natural part of the process and trial and error kind of actions understandable like for instance Patreon's stepping back from its fee change move as a result of reactions of the crowd. As this case also showed, if there is going to be any simple rule of thumb in building and maintaining platform trust it is communicating changes in a transparent way. It is even better if the platforms can consult with their revenue-sharing partners as the changes would affect the partnership

structure. These kinds of partnership efforts and clear educational tools on these continuously shifting grounds can keep users' confidence in platforms.

Both reward-based crowdfunding platforms studied here recently started to show efforts in educating project creators better such as for instance Indiegogo's Entrepreneur platform teaching on bringing tech projects to life. The ways to better integrate the crowd and experts into the crowdfunding platforms' filtering and uncertainty management processes in a structured, sustainable and reasonably independent fashion need wide-scale analysis and further elaboration also considering the specific type and direction of each platform, to be plausibly accomplished in view of the particular needs of each system. This also necessitates discussions with various stakeholders from platform founders as well as regulatory authorities and last but not least taking into account the voice of the crowd that is begging to be heard. This study mainly outlined the problematic areas challenging the sustainability of trust formation in sharing economy and especially crowdfunding platforms. Specific resolutions and remedies for addressing the bottlenecks in this eco-system through a stronger design and structure are left out of the centre of the analysis for now, likely to be worked out case by case in deeper reviews on each platform or type of crowdfunding.

Incorporating a sustainable revenue scheme and fee structure securing a platform's operations in a healthy way is another complementary consideration for further research. The studied Zopa platform example (Section 4.4) demonstrated how a hard-working platform can barely make a profit. Despite being the most rigorous one in terms of filtering, providing traceable performance information and diversification of investment, Zopa's relatively low commission rate seemed to deter the platform from covering its running costs on a sustainable basis and made it fragile regardless of its popularity.

Also, the resolution centre or host-guarantee type of devices of Airbnb (outlined in Section 3.2.4), for instance, have become feasible largely due to the expansion of the platform's financial capacity. Compared with the annual average revenues in the band of US\$10-30m per platform in the studied crowdfunding

eco-system, with above billion dollars revenues Airbnb and Uber clearly built stronger muscles to experiment around and advance trust-enhancing tools.

Yet as the highest commission generating and the largest sharing economy platform Uber's depicted case of bottlenecks with its revenue-sharing driver users (Section 3.2.1.1) shows, ever-increasing business size and valuations do not necessarily lead to increased satisfaction by users where the growth pressures mostly weigh on the service-providing users' pays. Both Airbnb and Uber, being the highest valued two among all the sharing economy platforms at US\$31bn (2017) and US\$69bn (2018) respectively, have financial investors in their shareholder structures betting on substantial exit returns on their investment, and this requires the significant growth pressure to continue.

This obviously sounds like the very typical route for a for-profit corporation that would fall into the trap of the capitalist growth paradigm if it does not find better ways to share its revenues fairly with its users, hence may inherently start to coerce the revenue partners. This would also conflict with the original p2p sharing spirit that emphasized empowering peers. Alternatively, a sharing economy platform that can sustain itself through operational resources like Kickstarter easily promises to keep out external financing from investors except in the first years of the platform. In light of these, trust in the true spirit of sharing economy along with an investigation on what kind of a motivation is sustainable by each type of platform may create some related research questions.

Sharing economy examples like Couchsurfing and Wikipedia which do not involve a monetary but intangible peer exchange have proven their sustainability also on the back of an alignment with their users on a well-absorbed and well-defined spirit of sharing giving empowerment to users. These platforms succeeded in community formation whereas crowdfunding and most collaborative consumption examples, on the other hand, have rather risen on a crowd as the name suggests in the former. Yet, sustaining the trust of this crowd seems to be the main challenge going forward. Whether a similar community structure like Couchsurfing or Wikipedia could contribute to trust formation in long run could be explored in a potential extension of this study. These considerations could also

serve as an elaboration on the suggested second layer of the proposed trust pyramid (Section Two), trust in the motivation and meaning for sharing.

On the other hand, even Couchsurfing had challenges on platform trust when the founders converted the company to a for-profit status and received financial investment without rewarding the long-time dedicated commoners who developed and maintained the platform for years (see Section 5.1.5-5.1.6). Therefore, finding the right ways to compensate the Commoners or users of platforms in general, alternatively also a potential method in crowdfunding, may create resources to align platforms' and their users' motivations in resilient ways. Addressing the specific weaknesses in trust formation through implementing solid complementary forms of collaboration with users can definitely be a viable alternative tool to enrich and strengthen the sharing economy ecosystem.

A more detailed study of another critical layer of the proposed trust pyramid, (iii) trust in legal/regulatory support for p2p sharing, could also form a continuation of this research. The regulatory environment for various types of crowdfunding, especially investment-based, stands out as a critical subject. If platforms can empower users both in financial and informational terms, the agents would have sufficiently absorbed the risks. Then this system may also smoothly sustain itself without much intervention of legal restrictions with authorities only providing certain guidelines in a yet flourishing area. Yet, the legislation should be comfortably prepared in addressing cases when platform trust is breached at the upper level of the pyramid. Then, the related agents need to work on regulatory systems' access points for reinforcing trust in legal support.

The implications of "cryptocurrencies" for treating trust in sharing economy poses another important area for exploration, as it also distributes the intermediary functions to a dispersed set of agents through shared ledgers in a very similar fashion to Commons type of environments. The argument about "trustlessness" of cryptocurrencies seems a bit misleading though, as there is still trust required to get engaged in crypto transactions yet in a potentially lowered magnitude that also may make uncertainties more bearable and afford a lower effective threshold for uncertainty reduction.

Even in these practices spread worldwide, the adaptability of users to online transactions with peers that are total strangers may vary between geographies as cultural differences may cause diverse levels of skepticism and thresholds of uncertainty reduction. This may also necessitate variable degrees of platform intermediation. For instance, two of the researched sharing economy platforms that are not included in this current study, Fongogo and Adim Adim from Turkey, rely on the use of experts to a higher degree than the studied global platforms, possibly to reinforce trust in their system. Fongogo is a reward-based crowdfunding platform that also recently started equity-based crowdfunding following the start of the Turkish equity-based crowdfunding legislative framework. Adim Adim, a donation-based crowdfunding site executes strict criteria of rules in its charity run concept, both in filtering eligible civic society associations as well as in requiring traceable transparency in use of proceeds.

Tracking use of proceeds can be considered along with the perception of success that also came out in this study as a considerably fluid area of crowdfunding, which is worth further research too. This is not only because of its argued position falling between gift economy and pre-ordering a product but also because the reward-based crowdfunding concept clearly carries a considerable but hard-to-measure impact on the success of projects in general through providing visibility at a wide reach even if a project fails in reaching funding success.

This and various other issues this study either elaborated on or just glimpsed, probably mostly hint to the tip of the iceberg, with many more reflection points waiting to be further called forth or new ones being manufactured every day. We, all the parties from scholars and regulators to platforms and users are in a learning curve viewing this iceberg that does not stand still but moves along regardless of our deliberation, but we still aspire to see the remainder of the iceberg, too. With the systems still in the making and their websites, their policies as well as designs progressing at a high pace, this very research itself becomes an attempt to offer just an anchor on this rapidly flowing journey for providing some structured perspective on potential directions and pitfalls. Just like the Wikipedia constantly subject to further change, participatory

and transitory forms of sharing economy platforms and experiences assemble fluid grounds for a liquid sharing eco-system.

With one leg always with the crowd an amateur spirit may prevail in most of the sharing economy examples over the long-run, too. Still, while it is fairly early enough for avoiding sharing economy from turning into a “failed” project like “modernity” that needed a “discursive redemption” as Bauman advocated (1995), this emerging eco-system needs more serious collaboration between all the stakeholders than it needs more platforms and users. What factories signified for industrial revolution or corporations for 20<sup>th</sup> century may be paralleled by rising platforms in our contemporary 21<sup>st</sup> siècle. An eco-system develops itself with both mega corporations, almost monopolistic, like Google, Facebook or sharing economy’s Airbnb and Uber and a funding intermediary like Kickstarter collecting over US\$3bn for projects, yet at the same time with many mini sites forming a patchy platform economy. In this emerging and exciting sharing economy universe, there is possibly room for every kind of collaborative platform that enjoys much richer potential than previous corporations, for better aligning with their users as their partners and empower them while they satisfy shareholders at the same time.

Yet, the level of fragmentation and detachment between platforms are also potential factors hindering the digestion of the potential pathways and an educated progress. More collaborative grounds and constructive basis among platforms as well as between platforms and their users are needed not to suffer from the same monoculture type of pitfalls of modernity. The pioneering platforms in their fields reviewed in this study carry a bigger responsibility in this respect in implementing a ‘sharing’ design that truly levels the playing field for their users and deserves their platform trust and also sets an example for the smaller sites. Certain efforts, at least on transparency, can save burgeoning platforms of liquid sharing economy from becoming weak links that may risk the aggregate platform trust in this eco-system and throwing the baby out with the bathwater.

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## ANNEXES

### A. COMPARATIVE ANALYSIS OF SHARING ECONOMY PLATFORMS

**Figure A.1 Remainder of Couchsurfing Co-founder Casey Fenton's profile on CS**

#### COUCHSURFING EXPERIENCE

I've been fortunate enough to travel to many different countries including at least one on six of the seven continents. Antarctica is definitely on my "to-do" list. My dream would be to stay with the surfers at McMurdo or South Pole Station. Anyone able to invite me?

I've been so busy with CouchSurfing over the last few years that I haven't actually gotten to CouchSurf as often as I would like, however, last Christmas I did get to CouchSurf in the Galapagos. It was a wonderful experience for me not only because of all the amazing people I met, but because of the fact that I was able to take a week's vacation. This meant that CouchSurfing as an organization had entered a new stage in its evolution. Now, I'm still incredibly busy but I can rely on a number of talented people who make vacations possible. Thank you!

#### Interests

My favorite thing to do is learn. I love learning about people, cultures; anything really different. I'll usually listen to an audio lecture about philosophy, sociology, anthropology, anatomy/physiology or cosmology. Whenever possible, I try to go on really long hikes, often 10 miles or longer so that I can get through one of the lectures. Also, I try not to plan too much. I find I have more inspiring experiences that way. I don't know what to expect!

 [traveling](#) [hiking](#) [anatomy](#) [anthropology](#) [history](#) [sociology](#)

#### Music, Movies, and Books

I don't really watch movies all that much and don't like to watch any movie more than once. The ones I do like usually have something to teach me, rather than just being for purely entertainment value. The same goes for books. I don't often read fiction as I find that I have so little time, I prefer to read books that I feel will move me forward in life. I'm always happy to get recommendations so if you have any books you think I should read I'll be happy to add them to the 100 or so already on my list!

#### One Amazing Thing I've Done

The first time I ever CouchSurfed, long before the idea of CouchSurfing as we know it today, was in Egypt. In the city of Giza a friend and I got to explore one of the pyramids. He was of Iranian descent so looked as though he could fit in with the people of the town. This meant we were able to travel around and see things that otherwise would have been quite difficult. With the help of some locals we were able to reach and explore the pyramids, inside and out. It was a thrilling and deeply philosophical experience. Later we went to Luxor and made friends with an Egyptian boy and his family. We couldn't speak to them very easily. My friend may have looked the part but he was from Texas and had a thick, southern drawl. We mostly got by on gestures and a few English words that one of the daughters had picked up from working in the nearby town. Despite the fact that we were strangers, they fed us and let us sleep on benches outside of their mud hut. Early the next morning one of the daughters guided us back to our hotel on her way to work. It showed me that people are interested in getting to know you, and sharing their lives with you. The whole trip was so inspiring that I was left asking myself "Is there a way to do this all the time?" A couple of years later I ended up finding out the answer to this question :-).

#### Teach, Learn, Share

I can teach you all about the history of CouchSurfing and all about social networking in the context of it. It's what I do every day of my life. I'm very interested in people and I've been told I'm good at helping people feel more comfortable and connecting in a way where we can all open up about ourselves. Making meaningful connections with people is important to me.

What would I like to learn? Here's something specific: I would love to learn about how to get to the South and North Poles. If anyone has any advice on how best to do this, I'm listening!

#### Countries I've Visited

Austria, Barbados, Brazil, Cambodia, Canada, Czech Republic, Ecuador, Egypt, France, Germany, Iceland, Ireland, Italy, Kiribati, Laos, Mexico, Netherlands, Poland, Spain, Taiwan, Trinidad and Tobago, United Kingdom, United States

#### Countries I've Lived In

Canada, Netherlands, New Zealand, Switzerland, Thailand, United States

Source: Fenton CS Profile

## Figure A.2 Airbnb's Disclaimer and Limitation of Liability on Host Guarantee

### IX. Disclaimers and Limitations of Liability

If you choose to use the Airbnb Platform as a Host, you do so at your sole risk. The Airbnb Host Guarantee is provided "as is", without warranty of any kind, either express or implied.

You acknowledge and agree that, to the maximum extent permitted by law, the entire risk arising out of your access to and use of the Airbnb Platform, and your listing of any Accommodations via the Airbnb Platform remains with you. Neither Airbnb nor any other party involved in creating, producing, or delivering the Airbnb Platform will be liable for any incidental, special, exemplary or consequential damages, including lost profits, loss of data or loss of goodwill, service interruption, computer damage or system failure, or for any damages for (1) personal or bodily injury or emotional distress arising out of or in connection with these Host Guarantee terms, (2) from the use of or inability to use the Airbnb Platform, (3) from any communications, interactions or meetings with other users of the Airbnb Platform or other persons with whom you communicate or interact as a result of your use of the Airbnb Platform, or (4) from your listing of any Accommodation via the Airbnb Platform. Airbnb will not be liable for any such damages described above, whether based on warranty, contract, tort (including negligence), product liability or any other legal theory, and whether or not Airbnb has been informed of the possibility of such damage, even if a limited remedy set forth herein is found to have failed of its essential purpose.

Source: Airbnb Host Guarantee Terms and Conditions

## B. TRUST FORMATION IN CROWDFUNDING PLATFORMS

### Figure B.1 Excerpt from Indiegogo's Terms of Use: Disputes

#### Communicate with Campaigner

If project doesn't succeed, campaign owners are expected to explain the situation to their backers quickly and clearly. In the event that a campaigner cannot fulfill the perks they promised, they are required by our [Terms of Use](#) to work with their contributors to find the next best option. We've seen campaigners offer a variety of solutions, including a full or partial refund, alternative perks, or discounts on a similar product.

#### Resolve Disputes

We always encourage our community to resolve disputes without turning to litigation, but if you're still not satisfied with the alternative you're offered, you can use our [Terms of Use](#) to bring a suit against the campaigner. If you choose this course of action it is best to consult your legal counsel.

Please note that while we are committed to keeping our platform safe and trusted, Indiegogo is not able to mediate disputes between customers, including those regarding refunds or the fulfillment of perks.

*Disclaimer: This article does not constitute legal advice. We recommend for you to consult with your attorney before taking legal action against any party.*

Source: Indiegogo Support - What happens to my money if a campaign fails?

### Figure B.2 Indiegogo's Limitation of Liability clause (Terms of Use)

#### Limitation of Liability

INDIEGOGO (INCLUDING ITS AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SUBCONTRACTORS OR LICENSORS) IS NOT LIABLE FOR ANY INDIRECT, PUNITIVE, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES OR, IN ANY EVENT, FOR DAMAGES EXCEEDING THE LESSER OF ONE HUNDRED U.S. DOLLARS (\$100.00) OR THE FEES PAID TO INDIEGOGO FOR THE TRANSACTION FROM WHICH THE CAUSE OF ACTION AROSE. THIS LIMITATION OF LIABILITY SECTION APPLIES WHETHER THE ALLEGED LIABILITY IS BASED ON CONTRACT, TORT, NEGLIGENCE, STRICT LIABILITY, OR ANY OTHER BASIS, EVEN IF INDIEGOGO HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE AND TO THE FULLEST EXTENT PERMITTED BY LAW IN THE APPLICABLE JURISDICTION.

For jurisdictions that do not allow Indiegogo to limit its liability: Notwithstanding any provision of the Terms, for Users in a jurisdiction that has provisions specific to waiver or liability that conflict with the foregoing, then Indiegogo's liability is limited to the smallest extent possible by law. Specifically, in those jurisdictions not allowed, Indiegogo does not disclaim liability for: (a) death or personal injury caused by its negligence or that of any of its officers, employees or agents; or (b) fraudulent misrepresentation or intentional misconduct; or (c) any liability which it is not lawful to exclude either now or in the future.

Source: Indiegogo Terms of Use (05 November 2017)

## Figure B.3 Kickstarter's Limitation of Liability clause (Terms of Use)

### 15. Indemnification

If you do something on Kickstarter that winds up getting us sued, you have to help defend us.

If you do something that gets us sued, or break any of the promises you make in this agreement, you agree to defend, indemnify, and hold us harmless from all liabilities, claims, and expenses (including reasonable attorneys' fees and other legal costs) that arise from or relate to your use or misuse of Kickstarter. We reserve the right to assume the exclusive defense and control of any matter otherwise subject to this indemnification clause, in which case you agree that you'll cooperate and help us in asserting any defenses.

### 16. Limitation of Liability

If something bad happens as a result of your using Kickstarter, we're not liable (beyond a small amount).

To the fullest extent permitted by law, in no event will Kickstarter, its directors, employees, partners, suppliers, or content providers be liable for any indirect, incidental, punitive, consequential, special, or exemplary damages of any kind, including but not limited to damages (i) resulting from your access to, use of, or inability to access or use the Services; (ii) for any lost profits, data loss, or cost of procurement or substitute goods or services; or (iii) for any conduct of content of any third party on the Site. In no event shall Kickstarter's liability for direct damages be in excess of (in the aggregate) one hundred U.S. dollars (\$100.00).

Source: Kickstarter Terms of Use (as of December 2018)

## Figure B.4 Q&A Excerpt from Kickstarter’s blog post on “Accountability”

**Can Kickstarter refund the money if a project is unable to fulfill?**

No. Kickstarter doesn't issue refunds, as transactions are between backers and the creator. In fact, Kickstarter never has the funds at all. When a project is successfully funded, money is transferred directly from backers' credit cards to the project creator's Amazon Payments account. It's up to the creator to issue a refund, which they can do through their Amazon Payments account. (Like PayPal, Amazon Payments allows refunds for 60 days from the date of charge. After 60 days, creators cannot reverse the same charge to backers' credit cards, so to issue refunds they'll need to initiate a new transaction to send money via Amazon Payments or PayPal, send backers a check, or use another method. Our support team has guided creators in how to issue refunds like these before.)

**Why can't Kickstarter guarantee projects?**

We started Kickstarter as a new way for creators and audiences to work together to make things. The traditional funding systems are risk-averse and profit-focused, and tons of great ideas never get a chance as a result. We thought Kickstarter could open the door to a much wider variety of ideas and allow everyone to decide what they wanted to see exist in the world. Kickstarter is full of ambitious, innovative, and imaginative ideas that aren't possible anywhere else.

The pursuit of these projects with a guarantee doesn't work. A Kickstarter where every project is guaranteed would be the same safe bets and retreads we see everywhere else. The fact that Kickstarter allows creators to take risks and attempt to create something ambitious is a feature, not a bug.

**What is Kickstarter doing about fulfillment?**

As Kickstarter has grown, we've made changes to improve accountability and fulfillment. In August 2011 we began requiring creators to list an "Estimated Delivery Date" for all rewards. This was done to make creators think hard about when they could deliver, and to underline that Kickstarter is not a traditional shopping experience.

In May 2012 we added additional guidelines and requirements for Design and Technology projects. These include requiring creators to provide information about their background and experience, a manufacturing plan (for hardware projects), and a functional prototype. We made this change to ensure that creators have done their research before launching and backers have sufficient information when deciding whether to back these projects.

We've also allocated more staff to trust and safety. We look into projects reported by our community for guidelines violations and suspicious activity, and we take action when necessary. These efforts are focused on fraud and acceptable uses of Kickstarter, not a creator's ability to complete a project and fulfill. On Kickstarter, people ultimately decide the validity and worthiness of a project by whether they decide to fund it.

Source: Accountability on Kickstarter (4 September 2012)

## Figure B.5 Excerpt 4 from Comments on Kickstarter’s “Accountability”



**Andy Hilal** on September 4, 2012

>We take accountability very seriously at Kickstarter

This is easy to say, but when I experienced a failed project a year ago, I could find absolutely no information on your site about what to do. It wasn't even in your FAQ. Now that the press is giving you a hassle, you "take this seriously" but you ignored my support inquiry about it when I wrote in to you.

All I see here is that you're not involved, you don't touch the money so you're not accountable. You leave the backers and the creators to work it out.

Oh, but your Terms of Service obligates the creators! I would file that detail under "gee thanks." In practice, that's not a lot of help to those of us who've lost money to a deadbeat project.

If you took accountability seriously, you would actually serve as the arbiter of these transactions and enforce trust and safety standards on the release of funds to creators. Plain and simple. What you're doing here is minimizing your own accountability, which anyone can understand. But please don't turn right back around and tell us how seriously you take these matters.



**Chris Stewart** on September 4, 2012

Thanks, Perry, for reminding the community that projects involve risk and our investment is first and foremost a vote of confidence in the creator. With Kickstarter and other like-minded services in place, past experience and social credibility is the new barrier to entry more than starting capital. I only invest in projects where A) the backer has genuine market credibility for past successes, or B) my peers have invested, lending social credibility to the creator's ability to deliver the goods.

I'm tired of the mass media's shallow and pessimistic coverage of crowdfunding. This is a new industry that's fundamentally good for creators and consumers and should be protected from the old guard. Keep up the great work!

Source: Accountability on Kickstarter

## Figure B.6 Excerpt 5 from Comments on Kickstarter’s “Accountability”



**Ralph Miller** **Superbacker** on March 24, 2014

First, Kickstarter's Terms of Use are not actionable. There's really no way to enforce them, and Kickstarter isn't going to do anything to help a backer of a project until a lawyer is involved, and that means more money than it's worth for an individual.

Additionally, class action suits are extraordinarily difficult to organize. Again, you can't gather backer information from Kickstarter until a lawyer is involved.

Second, this is a serious issue that's going to threaten this platform as it grows in popularity. As a backer of many projects, I am seeing more and more that are going undelivered, and many where the creator simply stops communicating.

You can bet I won't be funding as many projects, nor will I be endorsing Kickstarter to others as I have in the past.

And as for those Terms of Use...Filing a lawsuit for a \$20 pledge is silly, but when it amounts to thousands, or hundreds of thousands of dollars from multiple backers, it's not funny anymore. Until there's an actionable way to deal with this, people need to be very careful about what projects they back.



**Ralph Miller** **Superbacker** on March 24, 2014

I thought about this a bit more...and really, SHAME ON YOU, Kickstarter for creating a false sense of security for backers with your Terms of Use. It's not until backers are knee deep in it that they're going to realize they can't actually take an action against a creator of a project. But your words sure do sound pretty.



**Ralph Miller** **Superbacker** on March 24, 2014

The more I think about this, the more it makes me mad! Kickstarter should take that \$50 million they made from the \$1 billion in projects backed, and have a team of lawyers on hand to help backers file against fraudulent creators. HOW HARD WOULD THAT BE, Kickstarter?

Source: Accountability on Kickstarter

## Figure B.7 Excerpt 6 from Comments on Kickstarter’s “Accountability”



**Eleri Hamilton** on September 6, 2012

I think a lot of people misunderstand what Kickstarter is. It is the facilitator, the venue, for putting creators and backers in the same space- it is not the manager or monitor of projects.

If you went to a trade show, and invested in an unreleased product, and that failed to materialize- would you call the convention center that hosted and complain? No, you'd call the creators, and if that failed to bring results, you'd call a lawyer for small claims court.

Kickstarter works the same way. Their ToS tells the creators "Yeah, you can show off your idea here- but by doing so, you are entering into a legal agreement with your funders to follow through- if you bail, the people who gave you money can sue you.", not "If you bail, we'll nag at you until you do something, and we'll tell all your backers how to nag you, too; and we'll hook them up with lawyers, and tell them how to file a claim, etc..."

Once money changes hands, that is a contract between \*you\* and the \*creator\*, Kickstarter's job is done- other than providing an outlet for the creator to easily communicate with all their backers. If you feel that the contract has been broken, then it is up to \*you\* to take appropriate steps, up to and including legal action.

Source: Accountability on Kickstarter

## Figure B.8 Excerpt 7 from Comments on Kickstarter’s “Accountability”



**Jack Mentessana** on January 28, 2013

It seems to me that Kickstarter is participating in a scam, with Amazon acting like somewhat of a money laundering portion. When I decided to spend \$45. on a "project", my "reward" was to be 2 "innovative" cutting boards. The \$45. was processed in October 2012, and it is now January 2013 and still no cutting boards. I've been in contacted with "the creator", and was told they used up all the money and there will be no refund, and no accountability I might add. This is fraud, plain and simple. I will pursue this matter with Amazon, and my bank, and submit claims. This type of scheme



**Daniel Fish** on June 7, 2013

What does KS do to stop fraud?

See Odin's Ravens; in this case, the creator "went dark" and cut off all communication after successful funding. Aggressive follow-up by backers including communications with the other members of the creative team (against whom restraining orders were filed) revealed that the creator (Seth Nemeo) did not invest in the project at all but rather had spent over half of the funding on Ebay.

What (if any) measures does Kickstarter employ to prevent this site from becoming a home to con-artists who can make piles of money defrauding hundreds or thousands of people at a time?

Without this question answered, I don't know that Kickstarter can really flourish as a community.



**Jonathan F** on April 18, 2014

This blog post is such a bunch of PR bull.

"We take accountability very seriously at Kickstarter..." and how are they demonstrating this? By having terms that shield them from helping defrauded backers and allowing shady project creators to shirk away.

Creators can create projects willy-nilly on Kickstarter, then disappear with the money. Kickstarter got their out of the money and doesn't care. For example, Tom Baker scammed videographers out of \$30k: <https://www.kickstarter.com/projects/baker/airtracks-inflatable-all-terrain-camera-slider/>

Unless Kickstarter makes changes to their policies and practices, their demise and downfall cannot come soon enough. Its time for this platform of fraud to stop victimizing consumers.

## Figure B.8 Continued



**Alan Brzozowski** on October 31, 2014

Honestly, your "Terms of Service" aren't scary at all. There's really not much stopping anyone from fleecing people here and getting away with it. I could give one example of a project that's 3+ years overdue and all backers are getting are excuses. Deadbeats just hurt other projects by making people more wary of backing anything here.



**Brian** on March 15, 2015

I no longer back anything on Kickstarter because of the lack of accountability. And I'm definitely not alone.



**deadpeon** on August 13, 2015

Myself and 323 other backers were just scammed. We have virtually no recourse. Kickstarter does absolutely nothing to protect backers. I did some research and found that Kickstarter Scams aren't all that uncommon either. Would anyone like to take a guess as to what legal actions those people faced? You got it, none. They got away with it and laughed. Just in case anyone wants to take a look at what a scam looks like.

<https://www.kickstarter.com/projects/1307934933/bourbon-barrel-aged-copper-kettle-cooked-sriracha>

Source: Accountability on Kickstarter

## Figure B.9 Excerpt 1 from Comments on "Kickstarter is not a Store"



**Nick Coghlan** on September 21, 2012

+1 on requiring the Risks & Challenges section. Most good projects have been explaining that in their project descriptions anyway.

-1 on disallowing renders, mock-ups and simulations. These are fundamentals in pitching an idea to backers - if you went to a conventional funding meeting without these, you'd be kicked out the door as clearly being woefully unprepared for the task. Slap all the disclaimer and labelling rules on them that you want, but banning them is just wrong. Even require that, if renders or simulations are provided, a photo of a current prototype is also required, so that backers know both where the project is now \*and\* where the developers would like to take it.

-1 on disallowing multiple orders. Not only is it a matter of meeting minimum production runs (which is important), but there's also a matter of convenience for people ordering multiple copies as a group rather than having to each submit their own order. More useful would be for projects to be required to clearly separate out a "Speculative" category for the items that will only be available if the project is successful.

Source: Kickstarter is not a Store –Comments, 21 September 2012

### Figure B.10 Excerpt 2 from Comments on “Kickstarter is not a Store”



Peter K Homer on November 13, 2012

Hey Kickstarter, it's time for you to stop being hypocritical.

You require projects to describe risks and challenges, and project creators to give detailed accounts of their personal qualifications. Yet you hide your comments behind unrecognizable (as KS employees) names, don't tell the community of substantial policy changes before you implement them, and don't give the real reasons for the changes that you have enforced -- just platitudes about "not being a store" (an argument which many have already refuted as nonsensical).

When I first got involved with KS, as a backer, I and others complained of an open project (<http://www.kickstarter.com/projects/1747147409/projektor-make-your-mobile-devices-larger-than-lif>) that was clearly just someone seeking easy cash with no intent of delivering and no chance of the project succeeding. Your response then was "buyer beware" and that it was not KS policy to "police" projects, that it was the backers' responsibility to determine the likelihood of success before backing.

Now you have gone 180 degrees in the opposite direction with the poorly thought-out rules.

And you are being hypocritical because you are unreasonably applying these rules to just a few "categories" of projects.

There is no difference between a product designer communicating her vision through a photorealistic rendering and a filmmaker communicating his vision through a trailer. They are both essential parts of the creative process and also of the fund raising process.

There is no difference between offering multiple quantities of a product and multiple quantities of a game as rewards.

In short, you are discriminating against a narrow subset of projects. You are doing so without giving any legitimate reasons for doing so. If you don't want KS to be a platform for the creative realization of products, then simply eliminate those categories from your site and let those projects find other avenues for crowd funding. Don't try to squeeze them out.

I was once a big proponent of KS but my experience has been going south fast since these rules were created. After my project closes I will definitely be leaving a review at <http://crowdsunite.com>.

Source: Kickstarter is not a Store – blog post/Comments section, 13 November 2012

### Figure B.11 Excerpt 3 from Comments on “Kickstarter is not a Store”



Charles Waugh on September 21, 2012

This is penalizing the creators when the BACKER's expectations are the issue.

When a POTENTIAL backer clicks on the 'Back This Project' button they should be met with an agreement that explains that they are HELPING a project BECOME reality, not just buying a pre-made product. They must check buttons indicating their level of risk-awareness and ability to absorb the risk.

By restricting renderings you just killed Ikea - who is moving towards all-digitally-created sales material. Oh! Wait! That's OK, because they are \*already in business\*. But it's not OK to help a guy with an idea turn it into reality.


Huh?

Kickstarter is intended to Kick-START projects, not just be a store. The new guidelines make it more of a store, less of a start-up incubator.

Bummer.

Source: Kickstarter is not a Store – Comments, 21 September 2012

## Figure B.12 Excerpt 4 from Comments on “Kickstarter is not a Store”

 **/CLARK/** on September 21, 2012

Kickstarter - you're ambition to over-protect a small group of naive, whiney backers is destroying a good thing and you're quickly demoralizing the innovative spirit of this website and community. Please understand that Kickstarter is not a game we are playing - you are a commercial foundation for authentic start-up companies that provide real jobs for brave creators and the talented people they provide work for. Your new rules are detrimental to our business and livelihood and you're dumbing down to the lowest common denominator of moronic backers - this utopian approach is absurd at best. If backers do not understand that there is a risk of delayed product then they should not participate.

As a successful project creator, I can tell you and everyone who has cried about the time it takes to deliver a new product, it's one of the hardest, most pressure intensive things I've done in my entire life and career. There's a reason large companies like Logitech take a year to launch a new product - because it's hard! I have invested nearly \$4000 in 7 other Kickstarter ventures and I've never whined or complained, because I understand and support the great effort these people go through.








Again, why would you choose to stifle the creators of innovative products like this? Instead, I suggest mass emailing every prescribed backer and provide a clear warning of the risks presented here. It's that simple. This site is clearly intended to provide pre-sales interest and commitments for innovative new products by assisting the creators to bring these products to market. The great reward to backers is first adoption bragging rights, early access to new products and prices well below anticipated retail.

Clearly, the only confusion here is on the part of the backer, not the creators. The backers need you to provide this clarification. Making rules like preventing developers from using 3D visualizations and selling multiples means you are stopping innovation and minimizing our desire to participate - I guarantee that nobody is getting rich on this site and the money raised is spent trying to deliver great product in a hurry.

It's time to wise up and grow up Kickstarter, before you completely run off the people who take great risk and pay your bills.


Source: Kickstarter is not a Store – Comments, 21 September 2012

## Figure B.13 Indiegogo’s HealBe GoBe campaign – excerpt from Comments

-  **Almond Joseph Mendoza** almost 2 years ago  
Same as others i havent receive any device yet. I would like a refund .
-  **George Mikaberydze** Campaigner almost 2 years ago  
Dear Contributors,  
all orders was sent to the address you indicated while making the contribution.  
I forwarded your comments to fulfillment company and they will check why you didn't receive device(s).
-  **Ajay Nambiar** almost 2 years ago  
Hi  
Haven't received the device yet. pls respond.
-  **Ersan Temizyurek** almost 2 years ago  
Hi sent messages several times but still did not receive my device.....
-  **kilemmon99** 2 years ago  
I've tried everything and the only thing that appears on my Gobe is "SYNC ME". Until a real software update is found, this doesn't work. I uninstalled and then installed the app and my phone shows that I have the updated version but when I sync, it says the app stopped working.
-  **Ruben Sanchez** 2 years ago  
hi. my device has not arrived. I need a refund please..
-  **Christophe Burnotte** 2 years ago  
Hello George, I can't upgrade to latest firmware announced on the blog (with new meal confirmation interface). Contacted support 2 weeks ago and since (everyday email reply), they can't help me. What to do now? I can be patient, but it is getting annoying... Here are my

Source: Retrieved from <https://www.indiegogo.com/about/terms> (05 November 2017)


**Figure B.14 TechJect Team Update – Excerpts from Closing Remarks**

 posted by TechJect Team 2 years ago  
Nov 7, 2015 • 5:48AM

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**Part 3/3**

We sincerely apologize to our supporters about our dismal approach to the finish line, we could finish every part of the system but could not get some parts to work properly. Attributed to lack of actual engineers due to non-approval from PayPal to support the Mechanical development and our previous lack of experience with dealing with Asia to minimize expenditures as was suggested. Our founding team primarily completed all the electronics with the help of a number of interns, but after 3 years of non-stop work through so many hardships, dealing with frustrated supporters and fighting with vendors and manufacturers over quality, pricing and more, fighting with PayPal for year plus to get our funds released, crying/begging Indiegogo to help get funds released or help get a notice to supporters or anything to help, we have to now shift our focus elsewhere. We are in no position to complete the Dragonfly project in our current condition without a helping hand (partners, additional funding or community support).

 posted by TechJect Team 2 years ago  
Nov 8, 2015 • 1:20AM

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Hello Everyone!

**(Follow-up Part 1/2)**

Seems there have been a lot of confusing statements and a lot of name calling. Please do realize that team and people working hard to realize these systems are at the end of the day people like everyone else. If there is enough pressure, it would lead to a complete collapse and will result in nothing getting disbursed to anyone with no one to support either. For now to make clear the updates that were sent out and to answer some questions:








1. The Project has NOT stopped. We have held development forward until funds are replenished through sources (any source).
2. There is no possibility of a refund through TechJect, first because our contracts are with PayPal and Indiegogo. Your contract are with PayPal and Indiegogo, there is no direct contract between supporters and campaigns. All suits and cases have to be filed against either PayPal and Indiegogo and the rest of the information will flow through those channels. We had refund requests through the campaign and we sent requests to Indiegogo to process since that was the contract and that was the channel we were informed to follow. Also with the nearly elapsed funds remaining it would be impossible for us to circumvent regulation and process them directly, which in itself will be a very small fraction of what was originally disbursed also given that Indiegogo and PayPal commissions were already extracted by them at the onset itself without regard for the principal to be released to get actual work done. Refunds would have to be done in collaboration with PayPal and Indiegogo since we were under direct supervision and direction by those companies.

Note: We will make all communication available for everyone to know that indeed your funds were withheld for as long as 14 months despite numerous requests for release.

...Continued (please excuse as Indiegogo doesn't allow more than 2500 words per update)

Source: Robot Dragonfly Project, 8 November 2015

**Figure B.15 An excerpt from Patreon’s Top creators in Comedy Section**

	<b>Live Mince 2017</b> is creating a video of our live 2017 show	3442 patrons
	<b>Small Beans</b> is creating Comedic Writings, Podcasts, Film, Rap, and Other Shenanigans.	1668 patrons \$7,753 / month
	<b>The Jimmy Dore Show</b> is creating News and Political Comedy	3410 patrons
	<b>Cody Johnston</b> is creating Podcasts, videos, and more about the, um, news.	1440 patrons \$6,651 / month
	<b>Hbomb</b> is creating Videos and Video Essays	2448 patrons
	<b>Simone Giertz</b> is creating Shitty Robots	1975 patrons
	<b>YKS</b> is creating "Your Kickstarter Sucks: The Podcast"	1300 patrons \$5,910 / month

Source: Retrieved from <https://www.patreon.com/explore/comedy>

**Figure B.16 Some Rewards at Patreon’s Comedy Section Creators**

YKS Podcast	Small Beans	Hbomb	The Jimmy Dore Show
<p><b>REWARDS</b></p> <p><b>Respect Level Gold</b> \$1 or more per month · 19 patrons</p> <p>Thank you to our Respect Level Gold members. At this level, you have earned 1 respect from EITHER Mike or Jesse. We can not accomodate specific Respect requests at this level. Sorry!</p> <p><b>GET \$1 REWARD</b></p>	<p><b>REWARDS</b></p> <p><b>The Buck-A-Month Club!</b> \$1 or more per month · 79 patrons</p> <p>Buck-A-Monthers are legally entitled to a warm fuzzy feeling inside (not valid in TN, HI, ID), and will enjoy access to roughly HALF of all Small Beans content!</p> <p>This officially makes you special, as the general non-bean public only sees about a THIRD.</p> <p>Includes Discord rewards</p> <p><b>YOUR CURRENT REWARD</b></p>	<p><b>REWARDS</b></p> <p><b>Pledge \$2 or more per Video</b></p> <p>If you donate this much a month you get access to the backer videos, such as all the outtakes, BTS, and other stuff I cut out of the videos for time. Usually goes up within a few days of the original video.</p> <p><b>GET \$2 REWARD</b></p>	<p><b>REWARDS</b></p> <p><b>Member!</b> \$2 or more per month</p> <p>Thank you! You are a Member of the Jimmy Dore Show. You will receive a mention in a video, and know that you are awesome!</p> <p><b>GET \$2 REWARD</b></p>
<p><b>Respect Level Sapphire -- PODCAST PASS ELITE</b> \$5 or more per month · 1269 patrons</p> <p>Classic, Refined, Elegant: the Respect Level Sapphire member will not be denied the premium YKS experience. Includes multiple monthly Respects and access to all content.</p> <p>Crucially, the RL Sapphire tier awards access to the YKS Bonus Pod Chamber via the Podcast Pass Elite, where hours and hours of additional pleasure await the discerning patron.</p> <p><b>GET \$5 REWARD</b></p>	<p><b>The Triple Threat Society!</b> \$3 or more per month · 34 patrons</p> <p>Triple Threats are entitled to an unenforceable sense of vague superiority over the Buck-A-Monthers, and will enjoy access to roughly THREE FOURTHS of all Small Beans content!</p> <p>A perfect membership for the medium bean.</p> <p>Includes Discord rewards</p> <p><b>GET \$3 REWARD</b></p>	<p><b>Pledge \$5 or more per Video</b></p> <p>I will thank you in the credits of a video, immortalising you as an enabler of my dumb garbage! Thanks buddy friend!</p> <p><b>GET \$5 REWARD</b></p>	<p><b>Premium Audio!</b> \$5 or more per month</p> <p>This is the same as our \$5 premium membership. You get access to our premium audio content, a podcast released one to three times a week only for members, and you get a mention in a video as a Member of The Jimmy Dore Show!</p> <p><b>GET \$5 REWARD</b></p>
<p><b>Respect Level Ruby -- VIP STATUS</b> \$10 or more per month · 29 patrons</p> <p>Welcome...to the VIP section. Allow the luxurious, opulent arms of pure indulgence envelop you in a blissful embrace. In addition to YKS Premium Vault Access (the Bonus episodes), treat yourself to Member of the Board Status and get a say in which crowdfunding projects the show should officially support. Plus, did somebody say discounts on any future merch? Whoa baby...</p> <p><b>GET \$10 REWARD</b></p>	<p><b>The Cool Beans Club!</b> \$5 or more per month · 1433 patrons</p> <p>Cool Beans are the only human beans with access to EVERY SINGLE PIECE of Small Beans content. Each month, we will release multiple bonus episodes of our shows available to supporters and no one else.</p> <p>If you aren't a member, you're missing half the fun! Come be a bean with us.</p> <p>Includes Discord rewards</p> <p><b>GET \$5 REWARD</b></p>	<p><b>Pledge \$10 or more per Video</b></p> <p>I will openly thank you in-video for it and be all genuine about it or something. Using clever editing you can then make it look like I'm calling you the next Jesus. Which you probably are.</p> <p><b>GET \$10 REWARD</b></p>	<p><b>Premium Audio and Video!</b> \$10 or more per month</p> <p>You get access to audio AND video content only available to members and a mention in a video as a member of The Jimmy Dore Show!</p> <p><b>GET \$10 REWARD</b></p>

<https://www.patreon.com/yourkickstartersucks>

<https://www.patreon.com/SmallBeans/posts>

<https://www.patreon.com/Hbomb>

<https://www.patreon.com/jimmydore>

**Figure B.17 Excerpts from Patreon’s Community Guidelines: Spam**

Spam [↗](#)

While it can be hard to grow your patronage, no one likes being spammed. These are some of the actions we consider to be spamming, which is prohibited on Patreon:

- Don't create pledging schemes; don't contact other creators to have a pledge-for-a-pledge kind of trade deal.
- Don't use Patreon to release or link to malware or phishing content.
- Don't post misleading content to grow your patronage.
- Don't post comments on other creators' pages promoting your own page.
- Don't send a large number of unsolicited private messages asking for support.
- Don't use incorrect tagging in order to drive more search results.
- Don't post multiple paid posts per day if you are a per-post creator.
- Don't create Bots.

When reviewing reports about spam, we will distinguish between commercial spam and friendly abuse such as legitimate creators spamming other creators pages. If we determine the spam is friendly abuse, the account will be flagged; repeat offenses will lead to full removal of the creator or patron page. Commercial spamming without any form of content creation will be removed from Patreon. In other word, be creative and original because nobody likes Spam (not the canned type).

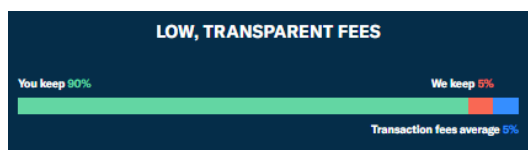
Source: Patreon Community Guidelines (last update in October 2017)

**Figure B.18 Some consequences: Patrons who leave supporting some creators**



Source: Robertson (2017)

**Figure B.19 Patreon new Homepage visual on Fees**



Source: Patreon Homepage as of June 2018

## Figure B.20 Rewards at the Crowdcube funded BrewDog funding, 2016

### Equity

In 2010 we launched our first Crowdfunding campaign, Equity for Punks. Today, we have over 30,000 Equity Punk Investors. Together we have strived to put the flavour and craftsmanship back into people's beer glasses and built the fastest growing food and drinks business in the UK. But the craft beer revolution is just getting started, and so are we.

This year, we are proud to present Equity for Punks to the Crowdcube Investor community. We want your support to help us take our business to the next level as we continue on our craft beer mission.

Your investment gets you a stake in our brewery and our international network of bars. More than anything your investment is a chance to share in our future growth and join the 30,000-strong crowd of Equity Punks.

As we grow you'll have the opportunity to sell your shares on our trading platform (see page 28 of the Prospectus) or you can stay with us for the long haul.

As well as your equity stake, an investment in BrewDog entitles you to a host of benefits too. We've crammed all the juicy details into our prospectus, so check it out if you like the sound of being an Equity Punk.

### Rewards

- **Epic Discounts in our Bars** As a BrewDog shareholder, you will entitle yourself to amazing discounts in all our bars. Invest £95 and you'll receive 5% off every visit to our venues, and if you invest £475 or over, you'll notch up a 10% discount in all BrewDog bars and BottleDogs. 2 Shares (£95) = 5%, 9 Shares or more (£475+) = 10%
- **Awesome Discounts Online** Our online shop plays host to a world of BrewDog beer alongside beers from some of the most exciting breweries in the world. As an Equity Punk shareholder, you'll entitle yourself to a discount on every single order. 2 Shares (£95) = 10%, 4 Shares (£190) = 15%, 6 Shares or more (£285+) = 20%
- **Beer Bucks** Along with your official share certificate, we will send you £10 worth of beer bucks. With these beer bucks you can toast your investment, on us, in a BrewDog bar, which you now own a part of.
- **A Birthday Beer every year, on us.** As an Equity Punk shareholder you will be entitled to a free beer each and every single year in a BrewDog bar on your birthday. This includes any standard measure of any of our draft beers. Happy Birthday Punk!
- **AGM Invite** BrewDog shareholders receive an annual invite for you and a friend to our soon-to-be-legendary AGM. Awesome live music, beer tastings, loads of cool people and the lowdown on all things BrewDog and our company performance. 2015's AGM will feature live music from Idlewild and Twin Atlantic, as well as Ballast Point and Beavertown as guest breweries.
- **Beatnik Brewing and the Shareholder Brew Day** The Beatnik Brewing Collective is completely controlled by our Equity Punk shareholders. You have the opportunity to vote on what we brew and dictate our next instalment of bottled anarchy. You are then invited to join us at the brewery for our annual shareholder brew day to brew the beer you created. Expect live music, a BBQ and some other fun stuff too.

Information on the key risks specific to the securities:

- The value of BrewDog shares can go down as well as up and, if you invest you might not get back your money back.
- BrewDog is not yet listed on any stock exchange so shares can only be sold once a year via our trading platform. Also, as we are not yet listed we are also not subject to all the rules and regulations which apply to listed companies.
- It is our current policy not to pay any dividends but to reinvest all profits to fuel further growth.
- Over three quarters of the shares in BrewDog are owned by our founders and staff. As such, they can vote decisions through at general meetings, even ones investors in the Offer, as minority shareholders, might disagree with.
- The directors have the right to refuse to register any transfer of shares. This means we can prevent multinational monolithic beer companies from buying shares in BrewDog.

Source: Retrieved from <https://www.crowdcube.com/investment/brewdog-20465>

## C. OTHER SHARING ECONOMY PLATFORMS

Figure C.1 Excerpt from Facebook Messenger chat with Casey Fenton



Figure C.2 Petition against Couchsurfing

### Petition against the new legal status of CouchSurfing

**Petition Closed**  
This petition had 876 supporters

**Manual (m a n u) GARCIA** started this petition to **Couchsurfing Corporation Couchsurfing Founders**

**CouchSurfing:**  
**Expressions of Concern from the General Membership**

October, 2011

**Who are we and why are we concerned?**

We represent thousands of CouchSurfing (CS) members, donors and volunteers. We found meaningful work and global connections to each other through our commitment to the ideals of CS as a non-profit organization.

CouchSurfing Intl. was established as a non-profit corporation in April 2003 and registered with the state of New Hampshire as a public charity in 2007. It was dissolved and its assets were acquired by a newly-created for-profit C-Corporation with the name "Better World Through Travel Inc" in Delaware in August 2011. Since its inception, the organization received >US \$6,000,000 in member donations and verification fees. Community volunteers freely donated volunteer labor, time and talent which created much of the network's current value. (12)

We find it difficult to believe that the verification income was insufficient to operate a travel website and disagree that these gifts should be sold to investors. We believe that these gifts belong to the community that created them.

**Post to Facebook**

- Send a Facebook message
- Send an email to friends
- Tweet to your followers
- Copy link
- Embed

Source: Couchsurfing Petition