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# Trust Building in the Car-Sharing Platform: An Empirical Study in China

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# TRUST BUILDING IN THE CAR-SHARING PLATFORM: AN EMPIRICAL STUDY IN CHINA

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## Abstract:

This study draws upon institution-based trust theory to examine the impact of four institutional mechanisms and social influence on customers' trust formulation and continuance intention in the car-sharing platform. Data was collected from 307 customers in DiDi-which is one of the largest sharing platforms for travelling in China, and structural equation modeling statistical method was used to test the research model. The empirical results suggest that feedback mechanism and surge pricing are the most significant antecedents in building customers' trust, followed by payment security, driver certification and social influence. Further, customers' trust in the car-sharing platform is positively associated with their continuance intention. Theoretical and practical implications are discussed in the final section.

## Key Words:

Institutional Mechanism; Trust; Continuance Intention; Sharing Economy

## 1. Introduction

With the development of information and mobile communication technology, a new term of "sharing economy" has emerged as people increasingly choose to make their possessions, such as their house, cars, bikes and other items of everyday life, accessible to others on various online platforms (Botsman and Rogers, 2010; Böckmann, 2013). The popularity of mobile devices has promoted the convenience of resource acquirement (Zekanovic-Korona and Grzunov 2014), and numerous digital sharing platforms such as Airbnb, Uber, Zipcar have emerged to facilitate an efficient access to goods and services in the fields of accommodation and transportation. PWC (2015) predicted that the global revenue generated by sharing economy will exceed $300 billion within next 10 years.

Although the sharing economy has bloomed rapidly all over the world, the potential risk existed in the transactions has increased customers' worry of financial loss and physical harm, and trust building was considered as a critical procedure to successfully complete a transaction in the digital sharing platform (Yang et al., 2016). According to PWC (2015) report, 89% of respondents attributed success of their sharing transactions to trust, and participation in the sharing economy is promoted when trust is guaranteed. Thus it is important to establish a trusted marketplace for people to list, discover and book products and services around the world (PWC, 2015; Airbnb, 2016).

Previous literatures in the e-commerce field have examined the critical antecedents of trust from an institutional theoretical perspective (Pavlou and Gefen, 2004; Gefen and Pavlou, 2012; Fang et al., 2014). Pavlou and Gefen (2004) applied institution-based trust in the online marketplace to examine the effects of institutional mechanisms on trust and customer purchase intention. Empirical results suggested that three IT-enabled institutional mechanisms—specifically feedback mechanisms, third-party escrow services and credit card guarantees—engender customers' trust in the community of online vendors. In addition, trust is a critical predictor for customers' subsequent transaction behaviors.

Although institution-based trust has been widely applied in the e-commerce research, to our knowledge, few studies have examined the critical antecedents of customers' trust in the sharing economy from an institutional theoretical perspective. Since the impact of trust is dependent on its context, the existing research findings in e-commerce may be unable to fully explain customers' trust formulation in the sharing economy, where customers not only get in touch with others through the online platform but also contact with them in the offline world (Mittendorf, 2017). Given the significance of trust concern and the incomplete regulations in the car-sharing platform in China, it is important to explore what are the critical factors that promote customers' trust in the new context.

The remaining open question drives the research objective of this study. Drawing upon institution-based trust theory, this study aims to examine the impact of four institutional mechanisms-specifically payment security, driver certification, surge pricing and feedback mechanism-on customers' trust formulation and continuance intention in the sharing platform of DiDi. In addition, this study also includes social influence in the research model to examine if peers' suggestions and recommendations play a significant role in building customers' trust. The structure of the paper is organized as follows: the next section reviews the extant literatures in the sharing economy and institution-based trust. Then the research model and corresponding hypotheses are proposed, followed by the structural equation modelling analysis. The theoretical and practical implications are discussed in the final section.

## 2. Literature Review

### 2.1 Sharing Economy

The term 'shared economy' refers to a type of business model that builds on the sharing of resources between individuals through peer-to-peer services-allowing individuals to access goods from others when needed (Böckmann, 2013). In the past few years, sharing economy has gained notable attention as a new economic paradigm that leverages digital platforms to facilitate exchange of resources among peers online, and many famous platform enterprises have emerged and developed rapidly.

As a pioneer company in transportation sharing, Uber enables its users to offer, share, and request a ride in the peer-to-peer online platform. Millions of customers and drivers have participated in the peer-to-peer online marketplace in the past few years, and Uber was estimated to be worth more than 50 billion dollars, which has exceeded the market value of Facebook (Demos, 2015). DiDi, another successful car-sharing platform in China, has just achieved a strategic agreement with Uber, and its market value was estimated to be around 35 billion dollars. In the past few years, DiDi has experienced a rapid development and has become the world's largest diversified one-stop car-sharing platform (IResearch, 2017).

Previous studies have examined the critical factors that influence individuals' participation in digital sharing platforms from social, economic, environmental, and practical perspectives (Lea, 2015), and how to formulate individuals' trust related to the online transaction was identified as a critical issue to sustain sharing economy's growth and success (Botsman and Rogers, 2011).

Compared with traditional marketplaces, the car-sharing marketplace lacks a legal power from the government, and institution-based trust may play a prominent role in regulating the behaviors of service providers (Marton et al., 2017). Thus this study focuses on how to build customers' trust in the car-sharing platform with institutional mechanisms, which will be described in the next section.

## 2.2 Institution-based Trust

Institutional trust originated from social psychology, and was defined as trust that is based on guarantees and recommendations from third parties (Zucker, 1986). Institutional trust effectively balanced the gaps of people from different social and cultural backgrounds, and strong institutions in the form of regulative, normative and cognitive structures can enable and inspire trust-relations among people at the interpersonal and inter-organizational level (Fuglsang and Jagd, 2015).

In the past decades, institutional trust has been widely applied in the IS and e-business research since it is especially suited for online marketplaces where buyers predominantly transact with new and unknown sellers under the aegis of third parties who provide an institutional context (Gefen et al., 2008; Pavlou and Gefen, 2004; Gefen and Pavlou, 2012; Fang et al., 2014). The previous literatures argued that some effective legally binding institutional mechanisms in traditional environments may not enjoy the same legal enforcement provided by governmental agencies because of the underdeveloped legal environment of e-commerce and the lack of clarity about online rules. In contrast, market-driven institutional mechanisms may play a more significant role in online markets (Pavlou and Gefen, 2004).

Previous studies identified payment security guarantee and driver certification as critical legally binding institutional mechanisms in the car-sharing platform (Kamal and Chen, 2016). While feedback mechanism was considered as a market-driven institutional mechanism complementary for legal mechanisms in online markets (Pavlou and Gefen, 2004). In addition, surge pricing was also recognized as a critical market-driven institutional mechanism, which refers to a dynamic pricing adjustment mechanism according to the demand and supply in the transportation platform such as Uber and DiDi (Edelman and Geradin, 2015). This study included the four institutional mechanisms in the research model to examine their influences on customers' trust in the car-sharing platform.

## 3. Research Model and Hypotheses

Drawing upon the extant literatures, this study develops a research model to examine the effects of four institution-based mechanisms, regarding payment security, driver certification, surge pricing and feedback on customers' trust formulation and continuance intention of the car-sharing platform. In addition, social influence is included in the research model to examine if peers' suggestions and recommendations play a significant role in building customers' trust. The research model is described in Figure 1. We added gender, age, education and frequency as control variables in the research model, as suggested in the previous literatures (Qureshi et al., 2009). We illustrate the theoretical logic of each hypothesis in the following sections.
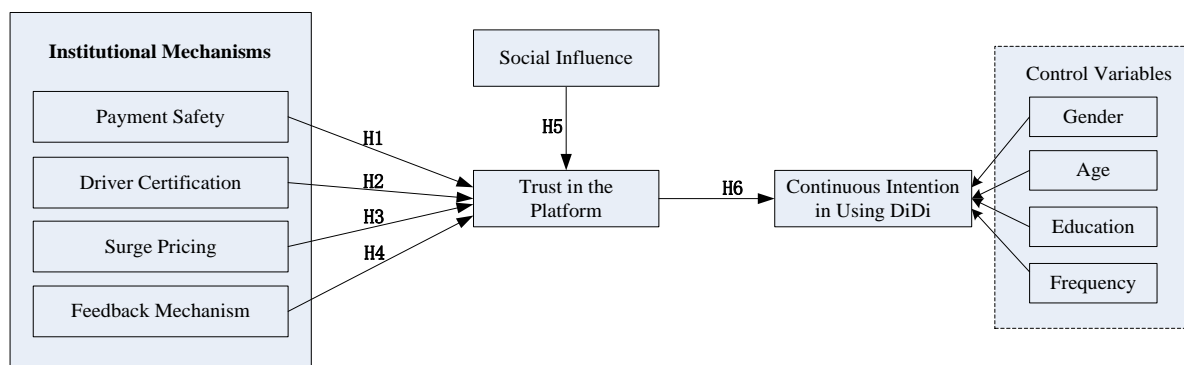


**Figure 1:** Research Model

## 3.1 Payment Safety and Trust in the Platform

Payment safety was considered as a legally supported, third-party institutional mechanism that safeguards online transactions by providing protection to the customers (Pavlou and Gefen, 2004). In order to reduce customers' perceived risk of monetary loss in case of illegal and opportunistic behavior, most financial institutions have provided identity authentication and encryption mechanism to customers. This is beneficial to increase customers' confidence that paying online will not lead to information disclosure of the credit card. Previous studies argued that payment security of e-commerce is critical in developing and maintaining customers' trust in the online transaction platform, which can decrease their perceived risk in completing the transaction (Kim et al., 2008).

Payment safety also plays a significant role in the sharing platform such as DiDi. When the customer arrives the destination, he/she needs to pay the driver by confirmation using the mobile phone, and the money is automatically transferred to the drivers' account through the credit card institutions. The online transaction process may increase customers' uncertainty regarding the credit card security. If a customer finds payment security features and protection mechanisms in the transaction platform, his/her trust in the car-sharing platform will be increased accordingly (Yang et al., 2016). The above analysis leads to the following hypothesis:

**H1**: Payment safety mechanism is positively associated with customers' trust in the platform.

## 3.2 Driver Certification and Trust in the Platform

Driver certification is considered as another critical institutional mechanism provided by the platform. In the sharing economy platform such as DiDi, drivers are the direct service providers and make most contact with customers during the offline transaction. Since customers are not familiar with the drivers in the online transaction, they need to depend on the platform to avoid unexpected incidents related with the ill-disposed drivers. Prior studies have identified that third party certification of online vendors is a significant antecedent to build trust by reducing information asymmetry in the online platforms (Head and Hassanein, 2003). It was found that there exists a remedy effect of sellers' certification on buyers' intention to finish the online transaction (Dewally and Ederington, 2006).

In the context of car-sharing platform of DiDi, the driver certification mechanism guarantees that the driver is eligible and capable by checking their certificate identifications, personal photos and driver licenses etc. A newly registered driver can receive order and provide service to the customers only after he/she has passed the certification. Perceived effectiveness of driver certification can help customers understand the level of security measures implemented by the platform and eliminate the uncertainty about the driver (Kim et al., 2008). This is beneficial to increase customers' trust in the platform. The above analysis leads to the following hypothesis:

**H2**: Driver certification mechanism is positively associated with customers' trust in the platform.

## 3.3 Surge Pricing Mechanism and Trust in the Platform

The surge pricing mechanism is firstly used in the sharing economy platform of Uber to effectively manage the balance of offer and needs during rush hours. Uber adjusts its price using a dynamic algorithm known as surge pricing to reallocate the resources in different time periods. In peak hours with larger demand, higher price is provided in order to motivate drivers to offer service on the platform (Chen et al., 2015).

DiDi has adopted the surge pricing mechanism to provide a more stable service system during rush hours in China. If a customer recognizes the effectiveness of surge pricing mechanism in

DiDi platform, he/she is more likely to believe that the platform can respond to his/her requirement rapidly. This is beneficial to build trust and usage habit for customers, and also, to mobilize the enthusiasm of the service provider to offer better service. Previous studies have examined the influence of price value on customers' attitudes and behavioral intention in the online marketplace, and the price value is positive when the benefit of using an application is perceived to be greater than the monetary cost (Venkatesh et al., 2012). If a customer perceives a higher value of the car-sharing platform, he/she is more likely to formulate a trust belief in the platform. Drawing upon the extant literatures, we propose the following hypothesis:

**H3**: Surge pricing mechanism is positively associated with customers' trust in the platform.

### 3.4 Feedback Mechanism and Trust in the Platform

The feedback mechanism is another important way to alleviate the information asymmetry between buyers and sellers, and is universally adopted in the e-commerce platforms including eBay, Amazon and Alibaba. The trust-building transference process allows buyers to trust sellers based on the information they receive from other buyers (Doney and Cannon, 1997). Pavlou and Gefen (2004) proved that feedback mechanism can effectively engender buyer trust in the community of online sellers.

In the DiDi platform, feedback is a reflection of the degree of customer satisfaction and the service provided by the driver. Meanwhile, it is also an effective mechanism for the protection of consumers' rights and interests. Feedback mechanism is a good way to monitor and control the drivers' behavior because customers' comments and evaluations will be published online immediately after the transaction is completed. This is beneficial to prevent the drivers not to engage in opportunistic behavior and stimulate them to offer better service to the customers. The drivers are encouraged to treat their customers seriously in order to accumulate more credibility and enhance their reputation in the platform (Pavlou and Gefen, 2004). Accordingly, customers' trust in the platform will be increased if they are provided with better service. The above analysis leads to the following hypothesis:

**H4**: Feedback mechanism is positively associated with customers' trust in the platform.

### 3.5 Social Influence and Trust in the Platform

Previous studies found that consumers are far more likely to believe recommendations from people they know rather than from automated recommended systems in e-commerce websites (Sinha and Swearingen, 2001). Especially in the Chinese "guanxi" culture, people rely on high quality social interactions and the reciprocal exchange of mutual benefits to help making decisions (Ou et al., 2014). Consumers who do not have complete information about a product or service often depend on their friends and family-members' opinions, and social influence plays a significant role in determining customers' purchase decisions in the online transactions (Venkatesh et al., 2012).

DiDi offers abundant coupons to encourage their customers to share their use experience in the social network, such as WeChat Moments. This is beneficial to expand its social influence by letting others know who are using the platform, and make them believe that DiDi has obtained a great degree of recognition within their friends circle. By reading the numerous online recommendations and suggestions, people are getting much more information and options, which is beneficial to reduce their anxiety and social uncertainty regarding the car-sharing platform. Accordingly, customers' trust in the platform will be increased. Thus we propose the following hypothesis:

**H5**: Social influence is positively associated with customers' trust in the platform.

### 3.6 Trust in the Platform and Continuance Intention

In the context of e-commerce, many studies were done to explore the impact of trust on customers' transaction intention in the online platform. It was found that trust in the community of sellers increases customers' intention to transact in an online market (Pavlou and Gefen, 2004), and a consumer's behavior is largely determined by a trustworthy platform in the electronic market (Hong and Cho, 2011). In the car-sharing platform of DiDi, customers rely on the third-party platform to make transaction decisions. If a customer has formulated trust in the DiDi platform, he/she is more likely to continue using the platform for daily travelling. The above analysis leads to the following hypothesis:

**H6**: Trust in the Platform is positively associated with customers' continuance intention.

## 4. Research Methodology

### 4.1 Instrument Design

The instrument was designed drawing upon the extant literatures and all items were measured using 7-point likert scale ranging from "strongly disagree" (1) to "strongly agree" (7). Items for payment safety, feedback mechanism and trust in the platform were designed based on Pavlou & Gefen (2004)'s study. Driver certification was adapted from Kim et al. (2008)'s study. Social influence was measured based on Lewis et al. (2003)' study, and continuance intention was adapted from Bhattacherjee (2001)'s study. The items for surge pricing was developed following a procedure of literature review, expert panel and content validity test based on Straub (1989)'s study, and three items were developed for this construct. We conducted a pretest before the final data collection, and invited users of DiDi to complete the questionnaires. Several items were refined to better adapt to the research context of car-sharing platform. The definitions and corresponding items for each construct are illustrated in Table 1.

| Constructs | Definitions | Items |
|---|---|---|
| Payment Safety | The extent to which a user believes that credit card is used and protected before and after making a transaction | PS1-PS3 |
| Driver Certification | The extent to which a user believes that drivers in the platform have passed through a rigorous certification procedure | DC1-DC3 |
| Surge Pricing Mechanism | The extent to which a user believes that the dynamic pricing adjustment in the platform is rational and effective | PM1-PM3 |
| Feedback Mechanism | The extent to which a user believes that the feedback mechanism in the platform is accurate and effective | FB1-FB3 |
| Social Influence | The extent to which a user is influenced by friends' opinions and recommendations | SI1-SI3 |
| Trust in the Platform | The extent to which a user believes that DiDi will behave in a favorable way. | TP1-TP3 |
| Continuance Intention | User's intention to continue using DiDi sharing platform | CI1-CI3 |

**Table 1:** Constructs and Items

### 4.2 Data Collection

DiDi was selected as a major research site of data collection since it is one of the largest car-sharing platform in China. In the year of 2016. DiDi has announced a strategic collaboration with Uber in China by merging Uber's Chinese market. DiDi's service has covered 80% of China's market of 300 million city dwellers. The rapid development of DiDi and its huge market scale has provided us a good datasource. Data collection was conducted during January to

February in the year of 2017 using survey. We invited users of DiDi to complete the questionnaires online or using mobile phone. In addition, we also encouraged users to share the survey in "WeChat Moments", which is one of the most popular mobile social community in China. Finally we got 351 questionnaires of DiDi users from more than 15 cities of China. We deleted the incomplete questionnaires and finally got 307 dataset for analysis. The demographic characteristics of the data is described in Table 2.

| Items | Types | Numbers | Percentage |
|---|---|---|---|
| Gender | Male | 159 | 52% |
| | Female | 148 | 48% |
| Age | <24 | 114 | 37% |
| | 25-30 | 95 | 31% |
| | 31-40 | 87 | 28% |
| | >40 | 11 | 4% |
| Education | Senior high school and under | 36 | 12% |
| | Bachelor | 192 | 62% |
| | Master | 48 | 16% |
| | PhD | 31 | 10% |
| Use Frequency per month | <10 | 130 | 42% |
| | 10-20 | 78 | 26% |
| | >20 | 99 | 32% |

**Table 2:** Sample Characteristics

## 4.3 Structural Equation Modelling Analysis

We selected SmartPLS as the primary statistical tool for data analysis since it is more suited for theory exploration and can accommodate smaller data samples without requiring normal distribution of the data (Chin et al., 2003). The sample size of 307 can satisfy the requirements of PLS-either 10 times the larger measurement number within the same construct or 10 times the larger construct number affecting the same construct (Chin et al., 2003).

### *4.3.1 Measurement Modelling Analysis*

The measurement model was firstly tested to analyze the reliability and convergent validity of the constructs. The results are illustrated in Table 3. Reliability refers to the internal consistency of the items, and convergent validity indicates the extent to which the items are related to the construct as theoretically predicted (Chin et al., 2003). As illustrated in Table 3, each construct's Cronbach's alpha has exceeded 0.7, and the item loadings of all constructs have exceeded 0.7. In addition, the average variance extracted (AVE) for each construct is greater than 0.5, thus indicates an adequate support of construct reliability and convergent validity (Chin et al., 2003).

Discriminant validity assesses if a construct is different from other constructs, and it is examined using the following two criteria: 1) the square root of the AVE for each construct exceeds that construct's correlation with other constructs; and 2) the items load more highly on constructs they are intended to measure than on other constructs (Chin et al., 2003). This study conducted the correlation analysis following the first criterion. As described in Table 4, the square root of the AVE of each construct is highly above that construct's correlation with other constructs, indicating a good discriminant validity of the constructs.

| Construct | Items | Factor Loadings | T Test | Cronbach's | AVE |
|---|---|---|---|---|---|
| Payment Security (PS) | PS1 | 0.79 | 31.46 | 0.78 | 0.69 |
| | PS2 | 0.85 | 43.10 | | |
| | PS3 | 0.84 | 47.47 | | |
| Driver Certification (DC) | DC1 | 0.85 | 58.71 | 0.82 | 0.72 |
| | DC2 | 0.84 | 42.27 | | |
| | DC3 | 0.81 | 35.19 | | |
| Surge Pricing Mechanism(PM) | PM1 | 0.87 | 53.94 | 0.81 | 0.73 |
| | PM2 | 0.86 | 54.29 | | |
| | PM3 | 0.82 | 37.96 | | |
| Feedback Mechanism (FM) | FM1 | 0.83 | 42.04 | 0.79 | 0.70 |
| | FM2 | 0.84 | 58.87 | | |
| | FM3 | 0.83 | 36.29 | | |
| Social Influence (SI) | SI1 | 0.75 | 27.52 | 0.76 | 0.61 |
| | SI2 | 0.78 | 22.90 | | |
| | SI3 | 0.80 | 31.76 | | |
| Trust in the Platform (TP) | TP1 | 0.78 | 21.67 | 0.75 | 0.67 |
| | TP2 | 0.84 | 46.16 | | |
| | TP3 | 0.82 | 38.36 | | |
| Continuance Intention (CI) | CI1 | 0.82 | 45.61 | 0.79 | 0.70 |
| | CI2 | 0.85 | 53.15 | | |
| | CI3 | 0.83 | 41.22 | | |

**Table 3:** Reliability and Convergent Validity Analysis

| | PS | DC | PM | FM | SI | TP | CI |
|---|---|---|---|---|---|---|---|
| PS | 0.83 | | | | | | |
| DC | 0.66 | 0.85 | | | | | |
| PM | 0.68 | 0.72 | 0.85 | | | | |
| FM | 0.67 | 0.60 | 0.66 | 0.84 | | | |
| SI | 0.55 | 0.56 | 0.64 | 0.58 | 0.78 | | |
| TP | 0.64 | 0.63 | 0.67 | 0.67 | 0.57 | 0.82 | |
| CI | 0.56 | 0.57 | 0.59 | 0.55 | 0.57 | 0.61 | 0.84 |

*Note:* Values on the diagonal and bold are square root of AVEs

**Table 4:** Discriminant Validity Analysis

### 4.3.2 Structural Modelling Analysis

The structural model was analyzed to examine the path relationship among the constructs and the $R^2$ value of the endogenous variables. Bootstrapping procedure method was used to calculate the statistical significance of the parameter estimates in order to derive valid standard errors or t-values (Temme et al., 2006). The analysis result is illustrated in Figure 2.

As hypothesized in H1 and H2, payment security and driver certification are positively associated with trust in the platform ($\beta1=0.149$, $\beta2=0.150$, $p<0.01$), indicating that institutional mechanisms of payment security and driver certification are beneficial to enhance customers' trust in the sharing platform.

As noted in Figure 2, surge pricing mechanism is a critical driver of customers' trust in the platform ($\beta$=0.249, p<0.01), thus supports hypothesis H3, suggesting that perceived effectiveness of the dynamic price adjustment is helpful in building customers' trust in the sharing platform by balancing the demands and supplies in different time periods. While feedback mechanism is the most significant driver of customers' trust in the platform ($\beta$=0.284, p<0.01), thus supports hypothesis H4. The result indicates that positive online feedback is beneficial to enhance customers' trust in the platform.

As hypothesized in H5, social influence is also positively associated with trust in the platform ($\beta$=0.103, p<0.01), demonstrating that suggestions and recommendations from friends can help facilitate customers' trust in the platform. Further, trust in the platform is positively related with continuance intention ($\beta1$=0.619, p<0.01), thus provides support for hypothesis H6, indicating that trust is a critical antecedent in promoting customers' transactional behavior.
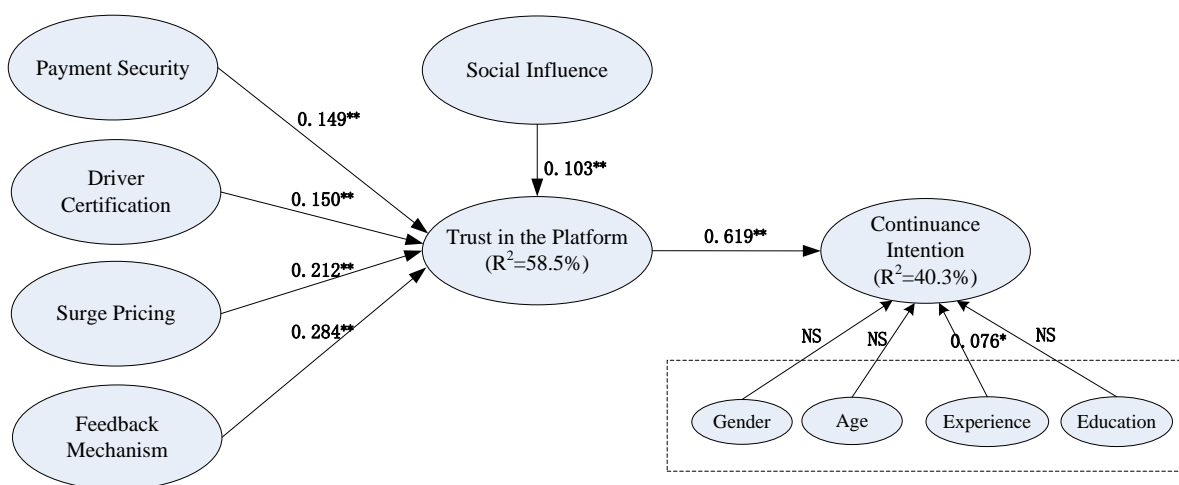


Notes: ** represents p < .01; * represents p < .05; NS represents not significant

**Figure 2:** Structural Model Analysis Results

Regarding the influences of the control variables, prior experience is positively associated with continuance intention, while gender, age and education have no significant influence on continuance intention. We then examine the $R^2$ value of the endogenous variables explained by the exogenous variables. $R^2$ value of trust in the platform and continuance intention are 58.5% and 40.3% respectively. The results indicate that payment security, driver certification, surge pricing mechanism, feedback mechanism and social influence can explain a large variance of the endogenous variables, demonstrating a good explanatory power of the research model.

## 5. Theoretical and Practical Implications

The research findings make at least two major contributions to the extant literatures. Firstly, this study applies the institutional trust from social psychology in the context of sharing economy, to examine perceived effectiveness of four institutional mechanisms in promoting customers' trust and continuance intention in the DiDi sharing platform. The research findings can extend the traditional literatures by identifying the significance of market-driven mechanisms combined with traditional legally-binding mechanisms in building customers' trust. Secondly, this study introduces perceived effectiveness of surge pricing in the research model, which is a critical market-driven mechanism in the DiDi sharing platform. The empirical results suggest that surge pricing is beneficial to build customers' trust by rationally adjusting the price according to the demands and supply in the sharing platform. The research findings further

enrich previous literatures in trust building in the context of car-sharing. For practical implications, this study can provide guidelines for the administrators to establish effective institutional mechanisms in order to build customers' trust in the sharing platform. On the one hand, the administrators need to implement legally-binding mechanisms such as driver certification and payment security guarantees in the car-sharing platform. On the other hand, the administrators need also adopt and implement the market-driven mechanisms appropriately in order to enhance customers' trust and promote their transaction behaviors in the car-sharing platform.

## 6. Conclusions and Future Research Directions

Drawing upon institution-based trust, this study develops a research model to examine the influences of four institutional mechanisms and social influence on customers' continuance intention in the car-sharing platform. A survey was conducted in China and 307 valid questionnaires were collected from DiDi users. Structural equation modelling analysis results suggest that feedback mechanism is the most significant antecedent in building customers' trust, followed by surge pricing, driver certification, payment security and social influence, while customers' trust in the car-sharing platform is beneficial to promote their continuance intention. This study has several limitations that leave open future research directions. Firstly, this study mainly focused on institutional mechanisms implemented by the platform, and future studies can add government support in the theoretical model in order to examine the joint influences of platform structural assurance and government legal power in building customers' trust. In addition, future studies can also add interpersonal trust in the research model to examine if there exists a trust transfer between trust in the platform and trust in the driver.

## Acknowledgements

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