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Ethics in the Sharing Economy: Creating a Legitimate Marketing Channel

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The sharing economy is a regulatory-disruptive business model in transportation, accommodation, household services, and other service sectors. In this article, we examine the ethical issues in the sharing-economy business model that depends on trust and reputation. We draw from the stakeholder, trust, and institutional theory literature to explore ways to encourage conformity of practices in the relatively infant marketing channel of the sharing economy.

Keywords: *business ethics, institutional theory, regulatory disruption, sharing economy, stakeholder*

Calls for regulating businesses operating in the sharing economy garner attention by media and consumers. Newspaper headlines include "A Michigan Shooting Spree Kindles Fear of the Sharing Economy" (Vick & Steinmetz, 2016), "Uber and Lyft Face Legal Test to Sharing Economy" (Mintz, 2015), and "NJ Bill Seeks to Regulate Airbnb-Type Rentals" (Ensslin, 2016). Sensationalism of ethical challenges with Airbnb, Lyft, and Uber are indicative of the novel platform of the sharing economy that leads to inflated news coverage.

A Pew Research Center study reports that almost half (48%) of adults in the United States (U.S.) have heard at least something about the debate happening in cities across the country over how best to regulate ride-sharing services (A. Smith, 2016). Public perception of the degree of risk in the sharing economy skews to the high side because of the urgency of news reports. People tend to overestimate the frequency of extreme events due to an *availability heuristic bias*—the ease with which one can bring to mind exemplars of an event (Folkes, 1988; Tversky & Kahneman, 1973).

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EXAMINING ETHICAL CONDUCT IN THE SHARING ECONOMY

Sharing economy is an encompassing term for market access to underutilized assets for monetary or nonmonetary benefits (Belk, 2014). Firms in the sharing economy facilitate peer-to-peer (P2P) business models connecting users (i.e., purchasers of products) with providers (i.e., sellers of services) via mobile applications (apps) or Internet sites. At startup, many sharing firms use independent service-providers that own the assets and users pay for their use at a lower cost than traditional channels.

O. C. Ferrell et al. (2017) discuss the sharing economy within the context of a marketing channel. As a marketing channel, the sharing economy combines aspects of direct-to-consumer selling through independent workers, Internet commerce, and online auctions that offer services and goods across multiple sectors such as travel, car sharing, finance, staffing, music / video streaming, and health and beauty services. Revenues of the five largest sectors of the sharing economy in 2014 are US$15 billion and expected to reach US$335 billion by 2025 (PricewaterhouseCoopers LLP, 2015).

Perceptions of risks in the sharing economy derive from the media attention to actions of a few large multinational firms. Airbnb and Uber are the leaders in the ride-sharing sector at US$62.5 billion and the home-sharing sector at US$25 billion, respectively (Telles, 2016). With a greater market presence comes greater demands by stakeholders for responsible and ethical conduct.

Media coverage of Uber using surge pricing when people in downtown Sydney, Australia, were needing to flee a gunman and of Airbnb hosts discriminating against African-American guests encourage sharing-economy companies to respond to multiple stakeholders. The consequences of not attending to community, user, and provider responsibilities include legal action, regulation, and loss of markets (Freeman, 1984).

Regulatory Disruption

As an innovative business model, the sharing economy is experiencing legal action although regulation is lacking. The sharing economy contests existing regulatory schemes, termed by Cortez (2014) *regulatory disruption*. Circumventing existing regulation or failure to anticipate ethical issues is damaging to the reputation of the firm and the service providers (Gonzalez-Padron & Nason, 2009). However, the varied sectors and transitory business models make regulation of the sharing economy challenging. Most state or country government pressure is for regulation to maintain a competitive market, protect consumers, and collect taxes.

Sharing-economy firms should adopt industry self-regulation or collaborative approaches to regulation of the marketing channel to avoid legal action, stakeholder distrust, and an unattractive business environment for innovation. Firms respond to regulatory pressures through minimal compliance, self-regulation through government and industry programs, or collaborations with regulatory agencies. Firms adopting a minimalist approach to regulation reflect views that the cost of compliance stifles innovation (Miles et al., 2002). The sharing economy relies on lower regulatory costs to compete and so resists compliance with existing industry regulations (Hartl et al., 2016; Jonas, 2015).

Gonzalez-Padron and Nason (2009) find that a strategic-based approach to the regulatory environment enhances innovation. Strategic approaches include adopting industry guidelines or collaborating with governing authorities to develop regulation favorable to innovative growth. Attention to company stakeholders and a strategic approach to regulation can alleviate the negative effect of regulatory attention on innovation and reputation of the sharing economy. Therefore, sharing-economy firms should follow existing industry models and best practices to address community, user, and provider responsibilities to avoid cumbersome regulation of their marketing channel.

Community, User, and Provider Responsibilities

Community responsibilities relate to the infancy of the marketing channel and the reaction of traditional business disrupted by the sharing economy. *Disruption* describes “a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses” (Christensen et al., 2015, p. 46).

The sharing economy is threatening firms in the transportation and accommodation sectors with increasing consumer acceptance of peer-to-peer sharing (Kathan et al., 2016). Home sharing is in position to take 10% of the U.S. accommodations market and ride sharing could reach 5% of the global taxi market by 2025 (Telles, 2016).

Reactions of taxi drivers to Uber competition include protests in France and Hungary; in the U.S. taxi drivers are lobbying local legislators for bans on ride sharing or restrictive regulation in cities nationwide (Castelluccio, 2014; Hill, 2014; Keszthelyi, 2016; Verbergt & Schechner, 2015). But it is not surprising that resistance to challenges by novel platforms is a prevalent reaction. In describing business-model innovations in healthcare, Hwang and Christensen (2008) recognize that “every company and industry that was eventually disrupted has had supporters who at one time lobbied against change and argued that disruptive enterprises could never offer more than substandard performance and unacceptable quality” (p. 1335).

Misconduct by the service providers or the company erodes the trust of consumers and damages the reputation of the industry. *User responsibilities* relate to maintaining user trust in the sharing economy that would be eroded by misconduct, bending of rules, and poor experiences: reliance on independent providers for quality and consistency of service can increase uncertainty and risk for the sharing-economy firm. *Trust* represents confidence in a relationship that Ganesan (1994) describes as “expectation about an exchange partner that results from the partner’s expertise, reliability, and intentionality” (p. 3).

Users are satisfied with sharing economy when the service experience matches the promised level of service. Sharing-economy firms should take user trust seriously as 72% of users in the U.S. feel that the experience is not consistent (PricewaterhouseCoopers LLP, 2015). Jonas (2015) states pointedly that “every aggrieved user complaint has the potential for a lawsuit and every violation creates an opportunity for penalties” (p. 205).

Provider responsibility refers to fair treatment of the independent providers contracting with the sharing-economy firm. The market platform of the sharing economy relies on a reliable supply of providers with excess assets. Thorne and Quinn (2017) reference three regulatory concerns that shape ethical responsibilities of sharing-economy firms toward providers of assets in the sharing economy including employment classification, property rights, and data privacy. The sharing-economy firm must balance providing the flexibility that attracts independent providers with the need to comply with regulations and meet user demand.

A tension exists among providers between the desire for work-life balance, flexibility, and control over income with a desire for more benefits and training (Steinmetz, 2016). Fair treatment of independent workers includes the workers receiving adequate compensation for work on time and protection from cancelled services. Unfair treatment of independent workers fosters a high turnover of providers. A former Postmates driver indicated that she started out "optimistic, then grew disillusioned as parking fees, smartphone costs and her frustrations with company protocol piled up" (Steinmetz, 2016, p. 47).

Airdnb and Uber are the market leaders and have the resources to invest in influencing the regulatory environment related to competition, user safety, and provider status. Regional firms or startups may not have the expertise or capacity to fight lawsuits or cultivate relationships with regulatory agencies. Therefore, sharing-economy firms rely on the leading firms to define the marketing channel with regulators, industry sectors, users, and providers.

From the institutional perspective, firms operate within a social framework of norms, values, and assumptions about what constitutes acceptable behavior (DiMaggio & Powell, 1983). Conformity to social constraints of firm behavior encourages homogeneity, or institutional isomorphism. A fundamental consequence of institutional isomorphism is *organizational legitimacy*, the acceptance of an organization by its external environment.

Organizations within an industry that conform to the strategies used by other firms are recognized as being more legitimate than those that deviate from "normal" behavior. Both regulatory endorsement of a firm by governing bodies that formally regulate the industry and public endorsement of an organization expressed by the media increase the legitimacy of an organization (Deephouse, 1996).

Purpose of this Research

This article reviews the ethical issues in the sharing-economy business model from a perspective of industry, customers, and workers. The multifaceted nature of the sharing economy as a marketing channel calls for research that integrates theoretical perspectives at multiple levels of analysis.

In a review of the scant research of the sharing economy, Cheng (2016) uncovers that trust is not included in studies relating to sharing-business models or the nature of the sharing economy. Additionally, O. C. Ferrell et al. (2017) call for managerial attention to the ethical risks inherent in the sharing economy and suggest the need for ethical values, culture, and standards.

Therefore, we explore the ethical responsibilities to company stakeholders to maintain the reputation of the business model and create trust with consumers. Considering aspects of the stakeholder, trust, and institutional theory literature, we seek to explore ways to encourage conformity of practices in the relatively infant marketing channel of the sharing economy.

THE SHARING ECONOMY AS INDUSTRY DISRUPTOR

Imagine needing to get to the airport without the hassle of driving and parking. A friend or relative could drive you to the airport and save you the expense of parking. Scheduling a taxi or limo service may be costly, yet convenient. Airport shuttles are less convenient with strict departures and frequent stops. Ride-sharing services such as Lyft and Uber provide on-demand transportation that includes confirming information on driver and arrival information. According to A. Smith (2016), 86% of Americans believe ride-sharing services save time and stress over other transportation options. Ride-sharing models are a successful sector in the sharing economy and threaten the global taxi industry.

The market leaders of the sharing economy, Airbnb and Uber, grew from literally nothing in 2008 to multibillion dollar international firms within seven years. By 2015, the sharing economy consisted of 10,000 firms offering services such as the use of boats, doctor visits, dog sitting, and haircuts from independent providers (Stein, 2015). Worldwide there are 17 companies in the sharing economy valued at more than US$1 billion (Telles, 2016).

Fast growth of a novel business model attracts the attention of stakeholders such as communities, industry incumbents, and regulators. Active engagement with external stakeholders should incorporate the sharing-economy societal benefits, consider partnerships with incumbents, and shape regulatory frameworks (Marchi & Parekh, 2016). A trade association could represent sharing-economy members' interests to regulators, legislators, and the public.

Definitional Challenges

Differing definitions create challenges to measuring the size and influence of the sharing economy and the impact it has on the community and existing businesses. Sharing-economy models rely on technology to connect consumers with on-demand access to excess capacity. Often referred to as *collaborative consumption* or *on-demand economy*, the sharing economy is a marketing channel that offers a business opportunity to owners of underutilized assets (Belk, 2014). The U.S. Department of Commerce, Economics and Statistics Administration (Telles, 2016) describes companies in the sharing economy as *digital matching firms* that exhibit the following characteristics:

- They use information technology (IT systems), typically available via web-based platforms, such as mobile apps on Internet-enabled devices, to facilitate peer-to-peer transactions.
- They rely on user-based rating systems for quality control, ensuring a level of trust between consumers and service providers who have not previously met.
- They offer the workers who provide services via digital-matching platforms flexibility in deciding their typical working hours.
- To the extent that tools and assets are necessary to provide a service, digital-matching firms rely on the workers using their own.

The term digital-matching firms may not catch on globally, but critics of the Department of Commerce report admit that "sharing economy is a misnomer for companies like Uber and TaskRabbit, which involve the exchange of money for services, and where no one is sharing anything" (Roberts, 2016, p. 1). Facilitating market exchanges via technology could include online retailing firms such as Amazon, crowdfunding, online auctions such as eBay, or knowledge-sharing platforms such as Wikipedia (Belk, 2014). A sharing-economy firm is a digital platform owned and operated separately from the products / services exchanged.

However defined, as the global sharing-economy develops more industry sectors have a P2P-market channel. The largest sectors of the sharing economy are accommodations offering excess space in a home (Airbnb) or a vacation rental (HomeAway) and transportation that includes sharing a ride (Lyft, Uber), car (Turo), bike (Spinlister), boat (Sailo), or parking space (Parking Panda).

On-demand household services include beauty (The Glam App), delivery (Postmates), dog sitting (DogVacay), errands (TaskRabbit), home doctor visits (Doctor on Demand), and meals (Munchery). Staffing and professional services include Amazon Mechanical Turk and GigSalad. Goods sharing via apps include fashion (Tradesy) and peer-to-peer borrowing (NeighborGoods). Crowdfunding, online ticket resellers, and music / video-sharing services are considered by some to be part of a sharing economy (PricewaterhouseCoopers LLP, 2015; A. Smith, 2016).

Disrupting Traditional Business

The role of the sharing economy in disrupting traditional business attracts much attention in the business press. In a *Fast Company* article during the infancy of the sharing economy, economists and investors warn that this disruptive business model will change the way of thinking about ownership and erode margins of incumbent businesses (Sacks, 2011). The sharing economy is seen as disrupting the labor market compensation structures for independent providers, affecting wages for traditional service providers (McEvoy, 2015). The sharing economy is also seen as a disruptor in human resources management by changing ways of meeting staffing needs and expanding the independent-worker pool (Horney, 2016; Steinmetz, 2016).

Scholarly attention to the sharing economy as a disruptor focuses on disruptive technology or regulatory disruption.[1] The type of innovation can guide success as a disruptive innovator or for defending against a disruptive challenger. Disruptive technologies are usually less complicated, less expensive, and more accessible for new markets than existing technology, whereas *sustaining innovations* involve marketing improved products or services to an incumbents' existing customers (Bower & Christensen, 1995; Christensen et al., 2015). The work of Christensen et al. (2015) suggest that Uber and other sharing firms are sustainable innovations that offer better services than incumbent firms do, thereby attracting existing taxi or hotel customers.

Cheng (2016) explores the themes in the fragmented literature on the sharing economy over the years 2010 to 2015 and ascertains that theories of social and disruptive innovation mainly explains the sustainability benefits of the sharing economy through utility of excess resources and addressing inequalities in access to goods. Sustainability benefits do resonate with users of the sharing economy.

Surveys find that 76% of people believe that the sharing economy is better for the environment (PricewaterhouseCoopers LLP, 2015) and that ride-sharing services provide access to underserved areas and populations that may not be able to hail a taxi (A. Smith, 2016). Sharing companies need to educate communities on the contribution their business model makes to the environment and to social issues such as employment (Marchi & Parekh, 2016).

Disrupting Regulatory Frameworks

As noted previously, regulatory disruption refers to business models that do not fit within existing regulatory schemes thereby disrupting the regulation framework (Cortez, 2014). Sharing-economy firms seem to have an unfair competitive advantage by not following the existing regulations for incumbent firms.

[1] In the business press, disruption describes any "shaking up" of existing business practices.

Taxi drivers in some municipalities must comply with local laws prohibiting raising rates, pay for taxi medallions that decrease competition, secure insurance, and undergo regular drug testing. In the State of California, since ride-sharing services entered the market, there are 50% fewer taxis and a 30-year old taxi company closing resulted in 300 jobs lost (Williams, 2016).

To attempt to level the playing field, municipalities or states are requiring ride-sharing firms to pay application fees, secure insurance, conduct background checks, and require special licenses for ride-sharing cars (Jonas, 2015; Sharp, 2016). Home-sharing providers fail to collect and report taxes and violate occupancy laws, prompting scrutiny from regulators in some municipalities (Ensslin, 2016; Telles, 2016).

Public opinion can influence the degree of regulation of the sharing economy. A 2016 survey (Vaughan & Daverio, 2016) highlights that 15% more Swiss consider taxation or safety regulations as unnecessary (36%) than Swiss that support regulation (21%). The U.S. sample in the study did not have as large a difference between the positions with 25% supporting regulations and 28% opposing regulations.

A U.S. survey by A. Smith (2016) delved into the issue of regulating the sharing economy by sector. For example, 42% of Americans knowing of the sharing economy and 57% of ride-sharing users feel that ride-sharing companies should not have to follow the same rules as taxi companies regarding pricing, insurance, or disability access. Similarly, 56% of U.S. adults using home-sharing services consider it appropriate that owners do not pay local hotel or lodging taxes required of incumbent hotels.

Incumbent and government reaction to the sharing economy seems to depend on whether officials expect the business model to be a short-term fad or a long-term shift in consumption patterns (Kathan et al., 2016). The cofounder of Airbnb relates how in 2008 no one was willing to discuss the externalities or regulations that peer sharing of rooms would entail in their municipality (Stein, 2015). But, as Airbnb expanded to more cities and attracted more hosts, contacts from homeowners complaining about parties, loud noises, and strangers in their community or building created government scrutiny of rentals (Lockwood, 2016; Weisberg, 2016). Sharing-economy companies are encouraged to shape regulations rather than ignore legal responsibilities until their operations are questioned.

USER TRUST IN THE SHARING ECONOMY

User trust is an essential determinant in service satisfaction of the sharing economy that relies on exchanges between individuals that are most often strangers. Almost 90% of Americans familiar with the sharing economy believe that trust between service producers and users is necessary, yet 69% will not trust sharing-economy companies until they are recommended by someone they trust (PricewaterhouseCoopers LLP, 2015).

Users are key stakeholders that help establish the firm's reputation in the market. A customer is more likely to install and use a mobile app from firms with high rankings on trust by peers (Harris et al., 2016). The relationship between a customer and a firm exists because of mutual expectations built on trust, good faith, and fair dealing in their mutual interactions.

Social connections and relationships drive many consumers to engage in the sharing economy. Enthusiastic participants in the sharing economy are committed to maintain a relationship with trusted companies (Morgan & Hunt, 1994). Trust represents a confidence in a relationship that Ganesan (1994) describes as an "expectation about an exchange partner that results from the partner's expertise, reliability, and intentionality" (p. 3). This is especially germane here as users of sharing-economy services rely on peer evaluations of the reliability and performance of individual providers (D. Smith et al., 2005).

The provider's intentions and motives also influence user trust in a sharing-economy firm. Bucher et al. (2016) find that providers are more likely to share for social and moral motives relating to meeting new people, playing a new role, and contributing to environmental sustainability. The provider's motives align with user's sentiments that the sharing economy is more fun than traditional companies are and better for the environment (PricewaterhouseCoopers LLP, 2015).

Individual-Level Trust and Organization-Level Trust

Trust in channel relationships consists of individual-level trust and organization-level trust (Zaheer et al., 1998). Considering individual-level trust, in app-based peer-to-peer exchanges users trust that the provider will act honestly and fairly as in providing a safe ride or promised accommodations. The Pew Research Center finds that only 16% of ride-sharing users had a bad experience and only 12% of users had a bad experience with a room-sharing service (A. Smith, 2016); however, there remains room for improvement.

Organizational-level trust is the extent of overall trust placed in the sharing-economy firm to ensure quality providers of services, confidentiality of private information, and truth in advertising.[2] Ride-sharing users expect that the vehicles that customers request are clean and safe (A. Smith, 2016). Likewise, users expect that companies deliver on promises for safety. Customers sued Uber for falsely advertising state-of-the art background checks of drivers funded by a US$1 fee charged for each ride (MacMillan, 2016). Sharing-economy firms can instill

[2]Organizational-level trust is also referred to as *institutional trust*.

trust by secure and transparent payment services, returns policies, and dispute resolution (Li et al., 2012).

Trust and Customer Satisfaction

Users of sharing firms state that along with cost savings, trust in the service providers drives customer satisfaction of the business model (Möhlmann, 2015). *Customer satisfaction* is defined as an overall evaluation based on the customer's total purchase and consumption experience with a good or service over time (Fornell, 1992).

An equity approach to exchange evaluation shows that perceived fairness from the customer's view is a strong predictor of customer satisfaction (Symanski & Henard, 2001). Unethical marketing that exploits or harms another party reduces the user's evaluation of perceived fairness and risks alienating the most committed customers (Ingram et al., 2005). For example, sharing-economy firms are under scrutiny for discriminatory practices in accepting short-term rentals and refusing rides to users requiring guide dogs (Begley, 2015; Quittner, 2016).

Guest decisions on lodging rely on the attributes of both the room and the host's reputation. In addition to online review scores and personal information, hosts have begun to provide personal photos that exhibit trustworthiness and attractiveness (Ert et al., 2016). However, research has shown that the personal photos foster greater discriminatory practices in sharing-economy use from the guest (Edelman et al., 2016).

Reliance on independent providers in a sharing economy complicates a firm's ability to control the quality and consistency of the service that users experience. Sharing-economy firms must balance a need to ensure quality and meet user demand with a need to avoid exerting too much behavioral control over providers that would indicate an employee, rather than an independent-contractor, relationship for providers (Dennis-Escoffier, 2016). Consequently, the model to use independent providers may not work for all on-demand services. Sprig, a startup app to request meals delivered to a residence, found that freelance chefs working out of their own kitchens were not able to meet demand, used expensive ingredients, and delivered incomplete meals (Kessler, 2016).

Trust and Reputation

Reputation refers to "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals" (Fombrun, 1996, p. 72). Misconduct by the service providers or sharing-economy firm erodes the trust of consumers and damages the reputation of the company and, depending on the degree of the misconduct, of the industry (Kathan et al., 2016).

Ride-sharing services have abuses similar to those of traditional taxi drivers, yet the global presence of ride-sharing providers Lyft and Uber (and home-sharing provider Airbnb) generates media attention more so than do local firms. For example, *Time* magazine reports that an Airbnb customer in Argentina was mauled by the host's Rottweiler dog, a California Uber driver was charged by police with driving while intoxicated on the way to pick up a fare after a "Super Bowl" championship football game, and a Michigan Uber driver allegedly killed six people before and after driving passengers to their requested locations (Vick & Steinmetz, 2016). Uber may be liable for two sexual assault cases in Boston, Massachusetts, and Charleston, South Carolina, where at least one of the drivers had a criminal record (Kendall, 2016a). Inconsistent quality and misconduct in the sharing economy generates distrust among users or potential users that leads to calls for regulating the sharing economy (Hartl et al., 2016).

RESPECT FOR PROVIDERS OF ASSETS IN THE SHARING ECONOMY

The nature of the relationship between the providers and the app-based sharing-economy firm dictates ethical responsibilities for respect in the marketing channel. The majority of the estimated 45 million Americans offering the use of an asset or providing a service in the sharing economy act as independent contractors with control over their business interactions (Steinmetz, 2016). As part of the firm's downstream supply chain, the owner of the asset or skill is the primary contact with the customer. Ethical treatment of the supply chain includes "managing the optimal flow of high-quality, value-for-money materials, components or services from a suitable set of innovative suppliers in a fair, consistent, and reasonable manner that meets or exceeds societal norms, even though not legally required" (Eltantawy et al., 2009, p. 101).

Not all sharing-economy firms rely solely on independent contractors. Firms striving to emulate an Airbnb or Uber discover that independent providers are not able to deliver reliable and consistent service in other sectors. Honor started with independent medical-practitioners for its home health on-demand service before transitioning to an employee model to respond to provider turnover, health-care provider desire for a long-term commitment, and greater trust of trained health-care providers in a customer's home (Weise, 2016). Trusted, an on-demand babysitting service, uses only trained employees to ensure safe and reliable childcare for customers (Kessler, 2016). But grocery-delivery firm Instacart has a mixed system, using employees to fulfill customer orders and independent contractors to courier the groceries to their homes (Steinmetz, 2016).

Whether an employee or independent contractor, an individual has few avenues to influence the pricing policies, job assignments, or contractual responsibilities related to an app-based service. Kumar et al. (1995) explore how smaller and vulnerable resellers in a marketing channel perceive fairness in their relationship with a stronger channel partner. Their findings can relate to the relationship quality that providers have with an app-based sharing-economy firm.

Relationships Among Channel Partners

Relationships among channel partners improve when policies and processes meet six components of procedural fairness. These components are (a) bilateral communication, encouraging two-way dialogue; (b) impartiality, maintaining consistency of policies across providers; (c) refutability, allowing providers to challenge policies; (d) explanation of changes in policies; (e) knowledge of the situations faced by providers; and (f) courtesy of providers by being polite and respectful (Kumar et al., 1995).

Ride-sharing drivers express feelings of unfairness and disrespect in the compensation structure of the business model as the provider firms respond to market pressures to increase the number of drivers and lower prices to compete. Sharing-economy firms change fare structures or reduce commissions at will, forcing providers to increase workload to make the same amount of income (Bensinger, 2016; Van Grove, 2016a).

In the U.S. State of California, ride-sharing drivers sued Lyft and Uber for adequate compensation that would cover costs of gas and mandated car repairs. One driver stated, “It seems lopsided to me. As a driver, I feel like I’m a lab rat. Disposable” (Mintz, 2015).

The relationship erodes further as driver expectations for income earnings and working conditions do not match with reality. Uber made unsubstantiated claims that an average driver in New York earned over US$90,000 a year, intentionally misleading drivers about prospective income (Rogers, 2016). The lack of communication or respect for drivers of ride-sharing services creates the perception that driver freedom and flexibility is lost.

There are two approaches to address concerns of the providers in the sharing economy. One is to allow independent contractors to organize and negotiate working conditions. Providers can organize informally through creating a trade association such as when high-volume eBay sellers formed the Professional eBay Sellers Alliance trade association and used their influence to negotiate with eBay about offering more payment options than PayPal in Australia (Foo, 2009). An advocacy group for the sharing economy, Peers, offers safeguards for providers such as insurance, tax advice, and repair or replacement services for damaged assets (Stein, 2015).

California is considering allowing formal bargaining units of independent contractors. The 1099 Self-Organizing Act under consideration in the State of California would allow independent contractors leverage to bargain with firms regarding pay and benefits (Van Grove, 2016b). In May 2016, Uber drivers in New York created an Independent Drivers Guild through a workers union that provides dialogue with the California-based firm on pay and benefits (Scheiber & Isaac, 2016).

Another approach to address concerns of providers is through legal clarification of the employment status of the providers in the sharing economy. As the leaders in the ride-sharing sector, Lyft and Uber defend against lawsuits from disgruntled drivers seeking the benefits and compensation of employees. A State of California newspaper reports that after resolving 60 lawsuits in 2015, Uber is fighting 70 lawsuits in federal courts in 2016 for issues relating to driver misconduct, driver employment status, and company misrepresentation (Kendall, 2016b).

In the U.S., nontraditional workers may not fit into the complex compliance structure that classifies workers as employees or independent contractors. To help remedy this discrepancy, some are calling for creating a “dependent contractor” category of worker that would allow companies to provide independent workers benefits and training without risking an employee classification (Weber, 2015).

Digital matching of independent owners of assets or services to customers is no longer the only business model of the sharing economy. Firms are recognizing that customers may desire continuous service and offer subscriptions or that on-demand does not mean immediately but at a time in the future (Kessler, 2016). Likewise, providers of assets or services may be attracted to flexibility and independence whereas others may desire stable employment. As the sharing economy matures as a business model, the regulatory and ethical issues become more complex.

AN INSTITUTIONAL PERSPECTIVE OF THE SHARING ECONOMY

Sharing-economy firms require legitimacy to maintain functional, long-term relationships with the various communities on which they depend (Nasi et al., 1997). Legitimacy is a measure of the attitude of society toward an industry and its activities, based on cultural norms for corporate behavior. The term *legitimacy* most commonly refers to the right to exist and perform an activity in a certain way, referred to in practice as the “license to operate.” Government regulators and stakeholders pressure for acceptable behavior of like businesses (Lenox, 2006). The sharing-economy firms offer an innovative business model that would benefit from the creation of governance practices to establish legitimacy (Palacios et al., 2016).

The Direct-Selling Channel's Experience as a Roadmap for the Sharing Economy

The sharing economy can learn from direct selling ways to address ethical issues that guide regulation and public opinion. Similar to the sharing economy today, direct selling was a growing yet relatively new business model that afforded business opportunities to independent workers who would offer products and services. Over the years, direct selling has used door-to-door selling, party plans, personal sales presentations, and more recently digital platforms to reach personal networks of customers (L. Ferrell et al., 2010; L. Ferrell & Ferrell, 2012).

As a marketing channel, direct selling disrupted traditional retail channels, relied on independent contractors to deliver goods and services, and operated in a sometimes-ambiguous regulatory environment. A 1954 *Harvard Business Review* article examines the threat of door-to-door sales to retail store sales after a year that cosmetics newcomer Avon had profit of more than three times that of cosmetic brands at retail counters (Buell, 1954). Buell identified challenges with the then-novel business model of direct-selling companies that are similar to the challenges of the sharing economy today (see Table 1).

TABLE 1
Shared Challenges with Direct Selling

Direct-selling challenges[a]	Sharing-economy challenges
Recruiting large numbers of salespeople due to low volume per salesperson.	Recruiting providers of assets. Only a third of on-demand providers earn 40% of income through sharing economy.
High turnover rate among sales personnel.	Disillusioned workers who find compensation does not cover expenses quit or join class action suits.
High sales costs relating to commission, training, and recruiting.	Costs rising to conduct background checks, confirm asset acceptability, and training.
Control of a sales force made up of "nonemployees" and many part-time salespeople difficult.	Control of providers as independent contractors restricted to avoid employee status.
Local ordinances preventing or harassing door-to-door selling.	City, state, and national regulations banning or inhibiting sharing-economy business model.
Need for highly aggressive sales management and promotion to motivate sales force.	Need to motivate providers to be exclusive or engaged with one sharing-economy firm.
Damage to the company reputation through misrepresentation by sales personnel.	Damage to company reputation through misconduct or misrepresentation by providers.

[a]See Buell, 1954, p. 116.

Ethical issues over the years with direct selling include consumer protection (Jolson, 1972; Tootelian, 1975), independent-seller misconduct (Cahill, 1999), international expansion (Quilter, 2004), and provider compensation plans (Barkacs, 1997; Muncy, 2004; Vander Nat & Keep, 2002). One response to these ethical issues was the enactment of consumer-protection regulations to allow consumers to cancel orders without repercussions (Tootelian, 1975).

A shift of many direct-selling firms to a compensation plan allowing independent salespeople to earn commission on the sales of salespeople they recruit in addition to their own sales created many ethical issues for the industry (Crittenden & Albaum, 2015; Koehn, 2001). In response, direct-selling firms developed and enforced codes of conduct for the sales force and company to address these—and other—ethical issues. As a now-legitimate marketing channel, direct-selling sales has grown worldwide to US$183.7 billion in 2015 (World Federation of Direct Selling Association, 2016).

Legitimization of the sharing economy requires changing the institutional environment. The institutional environment refers to formal (e.g., laws and contracts) or informal (e.g., culture, customs, habits) rules that structure interactions among organizations in a field (de Leeuw & Gössling, 2016; DiMaggio & Powell, 1983). Legitimacy of the sharing economy entails attaining legality in addition to shifting the culture of how a customer relates to existing service providers such as taxis and hotel chains.

In a process model for institutional change, de Leeuw and Gössling (2016) examine five steps to legitimatize the sharing economy that includes social and functional innovations for prompting change, the de-institutionalization of incumbent providers, theorization on perceived challenges and solutions, and diffusion of the market platform that leads to social acceptance of the sharing economy. They argue that ride-sharing services can attain legality through de-institutionalization of incumbent providers by dismantling regulations that protect conventional taxi services from competition. For example, taxi fare regulations reduce the ability to compete in a market. In Toronto, Canada, a new rule is being considered that permits taxicabs to offer lower rates on rides booked through an app or on the phone allowing rates to fluctuate in response to demand (Sharp, 2016).

Institutional Isomorphism

Institutional isomorphism is the process whereby like businesses force firm behavior. DiMaggio and Powell (1983) identify three types of isomorphic processes that legitimize like firms. *Normative isomorphism* requires

TABLE 2
Isomorphic Change in the Sharing Economy

	Normative	Coercive	Mimetic
Key concepts	Professionalism: formal/legitimate. Endorsement of particular practices. Codes of conduct. Seek organizational efficiency.	Compliance with official and unofficial rules. Fear of punishment.	Modeling of leading firms. Widespread adoption of practices.
Industry / firms	Create best practices and code of conduct for use by mobile applications as a common platform.	Educating regulators on industry and lobbying. Developing practices to safeguard against misconduct.	Look at Airbnb, Lyft, and Uber practices to address ethical issues.
Users	Sense of community generates ethical conduct and loyalty to application. Require user agreements.	Provider ratings can reduce access.	Provide an avenue to report problems. Complaint management.
Providers	Provider contracts with conduct guidelines. Professionalism creates consistent, reliable service; more likely to continue.	User ratings can reduce work assignments or ban from sharing-economy firms.	Provide insurance to drivers and / or other benefits to providers.

professionalism to define the conditions and methods of work and arise from the endorsement of particular practices by key, respected, or influential actors in an organizational field. *Coercive isomorphism* includes compliance with official and unofficial rules that arise from expectations of rewards or fear of punishment for noncompliance. *Mimetic isomorphism* represents imitation based on the widespread adoption of practices and can define the character of the like firms.

The three isomorphic processes for the sharing economy can apply to the ethical issues relating to the participants in the sharing economy, the firms, users, and providers. Table 2 proposes considerations for conformity of ethical practices in a maturing and evolving sharing-economy business model. Conformity to ethical practices of sharing-economy firms can have important returns. Besser and Miller (2011) find that actions of peers speak louder than words and deeds.

Normative isomorphic processes focus on formalizing the roles and expectations of the participants in the sharing economy that leads to organizational efficiency. Standards of conduct for the sharing economy should relate to the similarities of the diverse firms, users, and providers involved in the marketing channel. For example, sharing-economy firms use mobile apps as a common platform. Related ethical practices include privacy policies to protect user information, secure payment services, protection from malware, and the ease of installing apps (Harris et al., 2016).

User agreements to access the services through the app foster a sense of community and set expectations for the user and for the firm. User loyalty to the app service increases when expectations are met (Yan et al., 2013). Provider contracts provide conduct guidelines such as expected service quality. Professionalism by providers creates consistent and reliable service for the customer and it becomes more likely that a provider will continue with the app and a customer will continue with the service.

Coercive isomorphism comes from pressures to comply with official and unofficial rules of expected behavior. Pressures can include rewards for good behavior or fear of noncompliance. The sharing-economy firms can address societal demands for ethical conduct through enforcement of ethical standards and through educating regulators about the business model to help shape regulatory frameworks (Gonzalez-Padron & Nason, 2009).

A trade association can represent sharing-accounting firms' interests to regulators, legislators, and the public. Users and providers rely on user-based rating systems for quality control. Low ratings can prevent customers from accessing services or providers from operating within the sharing economy. Thus, providers are motivated to improve their ratings and establish a reputation for a reliable and likeable option for users (Ert et al., 2016).

Mimetic isomorphism occurs to address uncertainty in defining expected behavior by modeling leading firms and adopting best practices. Firms model themselves on other organizations identified as the best practice by industry associations and trade press, even though the efficiency of the strategy is unproved. As the leaders of the sharing economy, Airbnb and Uber receive regulatory scrutiny by local and federal jurisdiction on worker status, discrimination, provider misconduct, and business approval (Telles, 2016). Some business practices that Lyft and Uber have already implemented are support systems for users to report problems and insurance for drivers.

DISCUSSION

The sharing economy is still a rather young business model that allows customers to obtain on-demand services from mostly strangers. Regulatory scrutiny intensifies as the sharing economy attracts more users and expands operations globally. This business model disrupts labor relationships, impacts communities, and challenges incumbent businesses, calling for sharing-economy firms to engage with external stakeholders and shape regulatory frameworks.

However, compliance with existing regulatory schemes may not relate to an innovative business to match customers and independent providers through a mobile app. Consistent regulation of sharing-economy firms becomes challenging because firms operate in diverse sectors such as transportation, lodging, delivery, and personal services through varied structures.

Sharing-economy firms should adopt industry self-regulation or collaborative approaches to regulation of the common feature of the marketing channel—a digital platform owned and operated separately from the products / services exchanged. Mobile apps act as "digital-matching" exchanges connecting customers with providers possessing excess assets. Although based on peer exchanges, the app-based firm interacts with customers and suppliers only through online technology.

The stakeholders of the sharing economy are not different from traditional business, but the relationships and ethical issues differ. Users and providers of services enter into agreements that dictate conduct in the marketing transaction, but do not have a long-term agreement with the app-sharing firm. User loyalty and continued patronage of an app-sharing firm depends on trust that service quality matches expectations for a consistent, safe, and reliable experience. Providers seek to affiliate with firms that respect concerns regarding income, encourage two-way communication, maintain consistency of policies across providers, allow providers to challenge policies, explain changes in policies, and understand the situations faced by providers.

The sharing economy has roots in online auctions that encourage peer-to-peer exchanges. As a marketing channel, the sharing economy offers entrepreneurial individuals a business opportunity to serve customers similar to, yet different from, direct sales. Ethical issues of the sharing economy deal with consumer protection, independent-provider misconduct, provider compensation, local regulatory environment, and international expansion.

Trade associations are a vehicle to represent members' needs to regulators, legislators, and the public that are key to establishing legitimacy (Besser & Miller, 2011). The adoption and enforcement of industry codes of conduct encourages self-regulation of member conduct and fosters normative isomorphism (Hemphill, 1992; Lenox, 2006).

The Direct Selling Association (DSA) is the trade association for firms that offer entrepreneurial opportunities to independent sellers to market and sell products and services personally to consumers (Direct Selling Association, 2016). The DSA establishes and enforces ethical guidelines for firms and independent sellers to assist firms with regulatory compliance.

The DSA provides guidance on issues relating to deceptive or unlawful consumer or recruiting practices; truthful representation of products, services, promotional materials, and earnings; terms of sale; warranties and guarantees; provider identification and customer privacy; inventory loading; and training of providers (Direct Selling Association, 2016). It appears that this guidance is effective as a survey showed DSA member firms believe the DSA Code of Ethics lessens misconduct in their company and of their independent sales force (Chonko et al., 2002).

It is encouraging that the leading sharing-economy firms are implementing ethical practices as issues arise. However, the industry has yet to create powerful trade associations such as the DSA to shape regulations and counteract negative media (Marchi & Parekh, 2016).

CONTRIBUTION AND FUTURE RESEARCH

This article reviews the ethical responsibilities to company stakeholders of the sharing economy and provides recommendations to legitimatize this relatively new market channel. As a disruptive innovation and regulatory disruptor, the sharing economy is changing the competitive landscape in communities and prevailing regulatory frameworks.

The sharing economy relies on lower regulatory costs to compete and resists compliance with existing industry regulations. Media, incumbent businesses, and regulators demand a level playing field. Therefore, sharing-economy firms should address community, user, and provider responsibilities by adopting ethical approaches to build trust among consumers, providers, and the community. Drawing from the institutional theory literature and considering direct-selling practices, this article provides recommendations for creating avenues to establish ethical standards and culture to address ethical risks faced by the sharing economy, maintain the reputation of the business model, and create trust with consumers.

An institutional perspective provides a structure for academic research that addresses the multifaceted nature of the sharing economy as a marketing channel. Legitimacy of an industry requires enforcement of formal policies as in codes of conduct and informal processes relating to norms and culture. The framework to foster conformity of ethical practices integrates isomorphic processes (i.e., normative, coercive, and mimetic) with the three primary company stakeholders (i.e., firm, customer, and provider).

Current direct-selling policies and practices addressing concerns relating to ethical conduct toward consumers, providers, and regulators can serve as a model for the sharing economy to emulate. As a marketing channel, the sharing economy combines aspects of direct selling, Internet commerce, and online auctions to connect customers with providers of goods and services through technology. Years of experience, particularly within the U.S., have taught the direct-selling firms valuable lessons on behaviors consistent with societal expectations.

The ethical issues identified in this article are not comprehensive nor could they be given the scope of the sharing economy and the new issues quickly arising. Sharing-economy firms cross many product sectors and present varying structures to serve customers, just as direct-selling firms do. As a marketing channel, conformity of practices is more likely to occur with commonalities of the sharing-economy firms. For example, apps would need to address privacy and security concerns of users and providers. Fair treatment of service providers is the right thing to do regardless of service providers being classified as independent contractors or as employees.

Research in the sharing-economy business model and evolutions of the app-based marketing channel warrants more attention by marketing scholars. As trust is the basis for peer-to-peer exchanges, additional research could explore how trust among users, providers, and the firm develops or erodes.

A stakeholder approach to the sharing economy could broaden the ethical responsibilities of the firm beyond the primary stakeholders to include those stakeholders associated with traditional marketing channel ethical and social responsibility issues. The tendency of the sharing economy to ignore legal obligations encourages studies of the impact of compliance versus firm strategic regulatory approaches on the reputation of the channel. Likewise, future research into the degree of conformity within sharing-economy firms as the model matures could explore whether mimetic isomorphism encourages imitation of inappropriate strategies.

The sharing economy offers a rich context for marketing research to further understanding of this innovative marketing channel. It is hoped that this article will encourage that exploration.

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