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A Tale of Two Reputation Systems

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About Reputational Information

- Reputational information = information about an actor's past performance that helps predict the actor's future ability to perform/satisfy preferences
- Reputational information is crucial to the marketplace's invisible hand
 - Reputational information = invisible hand of the invisible hand
- Systems for reputational information are ubiquitous—and a growth industry

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- **#1: Job references**

- Former employer faces defamation/tortious omission liability for giving references
- State statutes immunize “good faith” references
- Nevertheless, job reference market has collapsed
- Demand for job reference information pushed to inferior sources

- **#2: Online consumer product reviews**

- Reviewers face defamation liability
- Review site operators protected by 47 USC 230
- Explosion of review sites and consumer reviews

Why the Difference?

- **Structural difference: online product reviews are (mostly) mediated**
- **Factual differences**
 - Online reviewers don't know the legal risks they face
 - Employers are good litigation targets; online reviewers aren't
- **Legal differences: Heightened legal risk for job references**
 - Single bad job reference can be life-changing
 - Employees have fewer legitimate evaluative sources
 - Job performance evaluations are inherently subjective

Possible Inferences

- Too much liability can kill a reputation system
- Demand for reputational information has a “balloon effect”
- Mediated reputation systems might produce more credible information than unmediated systems