

Online Reviews as an Alternative to Professional Regulation?

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Have online reviews of practitioners made professional regulation obsolete? A research article published last month suggests that the answer may be yes. Another article, published in 2018, says online reviews only alter how professional regulation can be conducted. Either way, regulators need to consider how online reviews affect the regulation of professions.

Professional Regulation Is Largely Irrelevant

Consumer Protection in an Online World: An Analysis of Occupational Licensing is written by Chiara Farronato and three others and is published by the non-partisan National Bureau of Economic Research based in Massachusetts. By studying massive amounts of data from an online platform that consumers use to hire home improvement practitioners, supported by a survey of consumers, the researchers made the following observations:

- The two largest factors affecting consumer choice of practitioners are prices and online reviews.
- The researchers were able to compare consumer hiring before and after evidence of the practitioner's licensure showed up on the platform. The licensure information had no impact.
- Stringent licensure resulted in less competition and higher prices but did not appear to affect customer satisfaction as demonstrated by the

rating of the practitioner or the repeated use of the online platform. The researchers also pointed to other research indicating that stricter regulation also hampered labour mobility, thereby decreasing productivity.

The researchers acknowledged that their study was limited to home improvement practitioners and may not identify rare but serious negative outcomes. They also acknowledged that short-term consumer satisfaction (associated with the usual timing for online reviews) may not reflect problems that appear in the longer term (e.g., leaky roofs). However, they pointed to numerous other studies that indicate that rigorous regulation does not seem to result in higher quality services.

Limits to Online Reviews and their Regulatory Uses

Another view is contained in a 2018 paper by Sofia Ranchordás from the University of Groningen entitled *Online Reputation and the Regulation of Information Asymmetries in the Platform Economy*. Ms. Ranchordás identified a number of limitations in online reviews of practitioners:

- For some services, reviewers may not have the expertise to fairly and accurately evaluate the service.
- The content of reviews are influenced by factors other than the quality of the service. For example, some clients may feel guilty for providing a less than stellar review because of the impact it can have on the practitioner. Reviews may also be influenced by how much the client relates to or likes the practitioner.
- Online review systems are open to fake reviews, manipulation and deleted reviews.

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- Many online review platforms are not transparent on the criteria they use to prioritize reviews (i.e., which reviews show up first). Due process for inaccurate or unfair reviews is often limited or non-existent.
- Many hosts for online reviews are not accountable for the accuracy and fairness of the posted reviews, which limits the hosts' interest in ensuring fair and accurate reviews.

While online reviews may provide an incentive to change behaviour, Ms. Ranchordás differs from Ms. Farronato in her view that “they may not be enough to address market failures and manage important risks to consumers”.

Ms. Ranchordás argues for a more nuanced approach to the role of online reviews in the regulation of professions and businesses. She suggests a “co-regulatory or collaborative approach for the interaction between online reputational mechanisms and traditional regulation”, including the following:

- Online reviews can be used by regulators to quickly identify practitioners who may not be complying with standards or who may be going through personal difficulties and who may warrant more frequent inspections or quality assurance assessments.
- Regulators and external platforms providing online reviews can work together so that regulators can act on emerging risks arising from data received by the platform. Regulators could also assist the online review platform and use approaches that are more meaningful (e.g., encouraging individual reviewers to fill in a relevant comment form) and transparent (e.g., measures to reduce fake reviews; due process).

Another Option

Ms. Ranchordás does not explore the option of regulators establishing their own platforms to host online reviews. Doing so could address some of the identified limitations for online reviews, such as having a transparent and accountable system for posting reviews where due process is available. In addition, the regulator could include in the platform other publicly available information it has available, including inspection outcomes and the practitioner's complaints and discipline history.

In the alternative, online review platforms could enter into a data sharing agreement using publicly available information from the regulator to enhance the information it provides to the public. For example, the platform could develop an algorithm to assign a regulatory compliance rating to each practitioner (e.g., one to five stars) with a link to the regulator's website for those wishing to uncover more detailed information.

Conclusion

The relationship between online reviews and professional regulation is at its infancy. Much more research, creative thinking and policy analysis is needed to develop the potential of this rich regulatory opportunity.

An abstract of the Online World paper can be found at <https://www.nber.org/papers/w26601>. The Online Reputation paper can be found at <https://cal.library.utoronto.ca/index.php/cal/article/view/29508>