

What Influences the Market Outcome of Online P2P Lending Marketplace? A Cross-Country Analysis

Yun Xu, Information School, Southwestern University of Finance and Economics, Chengdu, China

Chuan Luo, Information School, Southwestern University of Finance and Economics, Chengdu, China

Dongyu Chen, Dongwu Business School, Soochow University, Jiangsu, China

Haichao Zheng, Information School, Southwestern University of Finance and Economics, Chengdu, China

ABSTRACT

Online Peer-to-Peer (P2P) lending marketplaces allow individuals to lend and borrow directly among each other without the mediation of a creditor bank institution. Prior literature has examined online P2P, but has largely been limited to the Western context. This paper thus explores how social capital and other factors influences online P2P lending in the U.S. and China. Based on the archival data of Prosper and PPDai, we compare market outcome of two online P2P lending marketplaces in the U.S. and China. The empirical results show that social capital is not equally important in different online communities. Social capital seems to be more influential for likelihood of getting funded in China than in the U.S. In contrast, social capital has influence on interest rate in the U.S. only. The authors' study thus extends current understanding about how social capital influences online communities to a global perspective.

Keyword: Cross-Country Analysis, C2C, E-Marketplace, Peer to Peer (P2P) Lending, Social Capital

INTRODUCTION

Online Peer-to-Peer (P2P) lending allows individuals to lend and borrow directly among each other without the mediation of a creditor bank institution (Greiner & Wang, 2009; Lin,

Prabhala, & Viswanathan, 2013). The first P2P lending company to launch was Zopa in UK in February 2005. Today, many online P2P lending marketplaces emerge worldwide, such as Prosper in the U.S., Zopa in UK and Japan, CommunityLend in Canada, and PPDai

DOI: 10.4018/JGIM.2015070102

in China. P2P lending marketplaces act as brokerages and provide a venue where lenders and borrowers can connect with each other online directly. Usually, the transactions start when a borrower creates and publishes a loan request (called listing) that describes the purpose and conditions of the desired loan (e.g., debt consolidation, business use), the requested amount, and a maximum interest rate the individual is willing to pay. Lenders on the marketplace can search for listings and then bid on listings. Listings receiving enough bids to meet the requested loan amount become loans.

Like other online businesses, a fundamental problem in online P2P lending is information asymmetry between the lenders and the borrowers, the lenders have less information about borrowers' capabilities and willingness to pay back than borrowers do (Greiner & Wang, 2009; Mishra, Heide, & Cort, 1998; Pavlou, Liang, & Xue, 2007). Consequently, there are considerable uncertainties regarding borrowers' intentions, trustworthiness, and behavioral patterns in online P2P lending. How to mitigate the asymmetric information thus becomes a key issue for the online P2P lending. Like traditional bank loan, many P2P lending marketplaces first use borrowers' credit information as a measure. For example, only people with a Fair Isaac Credit Organization (FICO) score above 520 are allowed to borrow in Prosper.com. Later, researchers found that some "soft" information about credit quality beyond credit scores and standard ratios was critical to successful lending outcomes in P2P lending marketplaces (Lin, et al., 2013). Social capital was highlighted as important "soft" information in P2P lending marketplaces because an individual's network of relationships can provide a valuable resource for lending. For example, Prosper allows its members to connect with each other by creating networks of friends and endorsing each other; Lending Club lenders can see whether s/he and the borrower have a shared background; PPDai develops forums for their members to share their experiences, stories, and advice.

Online P2P lending originates from Western countries, thus prior literature has largely

been limited to the Western context. However, as this innovation increasingly transcends national boundaries, national differences become a critical research issue. Prior literature has pointed out that attempts to introduce western theories and practices into other cultures may not be always successful. People from different cultures have different ways of doing business. National differences are important for the diffusion and use of different technologies, such as computer-mediated communication (Tan, et al., 1998), ERP (Sheu, Chae & Yang, 2004). Therefore, national differences could be important for P2P lending market too. Specifically, we choose the U.S. and China as our comparison objects since both countries have prosperous online P2P marketplaces and their people espouses significant different national cultures (Hofstede, 1980) as well as different infrastructures, laws and regulations. For example, Prosper's borrower must be a U.S. citizen over 18 years of age with a valid credit scores. In contrast, borrowers do not have such a valid credit score in China.

Prior literature has examined how social capital and other information influences P2P market outcome (Collier & Hampshire, 2010; Greiner & Wang, 2009; Lin, R.Prabhala, & Viswanathan, 2009). However, the effect of social capital and other information on market outcome remains largely explored in the U.S. context. For example, prior research mainly utilizes Prosper's transaction data (open to the public by Prosper.com), and examines how social capital and other information influences P2P lending in this specific Western community. Little research analyzes or compares different P2P lending marketplaces in other countries, which thus influences the external validity of these studies (Nelson & Clark Jr, 1994). Prior studies have pointed out that the effectiveness of social capital may be contingent on important contextual factors (Li, Poppo, & Zhou, 2008), thus the effects of social capital may be varied in the U.S. and China.

In order to fill in this research gap, this paper will compare the different influences of social capital and other information (e.g. credit

16 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/article/what-influences-the-market-outcome-of-online-p2p-lending-marketplace/127023

Related Content

What Determines the Pattern of China's Cross-Border E-Commerce With the World?

Gaoju Yang, Yujie Wang, Futao Lu, Linhui Yuand Shuzhong Ma (2021). *Journal of Global Information Management* (pp. 55-70).

www.irma-international.org/article/what-determines-the-pattern-of-chinas-cross-border-e-commerce-with-the-world/279664

B2B E-Commerce Diffusion: The Efficacy of Institutional Discourse

Kim Virborg Henriksenand Helle Zinner Andersen (2008). *Global Information Technologies: Concepts, Methodologies, Tools, and Applications* (pp. 2072-2114).

www.irma-international.org/chapter/b2b-commerce-diffusion/19095

Ford Mondeo: A Model T World Car?

Michael J. Mol (2006). *Cases on Information Technology and Organizational Politics & Culture* (pp. 281-297).

www.irma-international.org/chapter/ford-mondeo-model-world-car/6315

Outsourced IT Projects from the Vendor Perspective: Different Goals, Different Risks

Hazel Taylor (2007). *Journal of Global Information Management* (pp. 1-27).

www.irma-international.org/article/outsourced-projects-vendor-perspective/3650

User Perceptions of Information Quality in E-Learning Systems: A Gender and Cultural Perspective

Mona Alkhattabi, Daniel Neaguand Andrea Cullen (2012). *Globalization, Technology Diffusion and Gender Disparity: Social Impacts of ICTs* (pp. 138-145).

www.irma-international.org/chapter/user-perceptions-information-quality-learning/62882