

# Engineering Incentive Schemes for Ad hoc Networks

## A Case Study for the Lanes Overlay\*

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**Abstract.** In ad hoc networks, devices have to cooperate in order to compensate for the absence of infrastructure. Yet, autonomous devices tend to abstain from cooperation in order to save their own resources. Incentive schemes have been proposed as a means of fostering cooperation under these circumstances. In order to work effectively, incentive schemes need to be carefully tailored to the characteristics of the cooperation protocol they should support. This is a complex and demanding task. However, up to now, engineers are given virtually no help in designing an incentive scheme. Even worse, there exists no systematic investigation into which characteristics should be taken into account and what they imply. Therefore, in this paper, we propose a systematic approach for the engineering of incentive schemes. The suggested procedure comprises the analysis and adjustment of the cooperation protocol, the choice of appropriate incentives for cooperation, and guidelines for the evaluation of the incentive scheme. Finally, we show how the proposed procedure is successfully applied to a service discovery overlay.

## 1 Introduction

In ad hoc networks, devices have to cooperate in order to make up for the absence of infrastructure. However, each participating device is under the control of its user and, thus, aims at maximizing its utility. This means that devices will only cooperate if this is profitable for them. Most often, cooperation is not profitable in itself. Therefore, distributed schemes have been proposed which offer incentives for cooperation, thereby making it attractive for devices to cooperate.

Such incentive schemes make use of incentive mechanisms in order to foster cooperation. Yet, the choice and configuration of appropriate incentive mechanisms is highly non-trivial. This is partly due to the dependency on the specifics of the application

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domain. Currently, there is no systematic procedure that supports the developer of an incentive scheme by managing the complexity of his task. As a result, the conception and evaluation of incentive schemes is still more approached as an art than a engineering principle. This situation is especially harmful since each of the various cooperation protocols of ad hoc networks demands for a specific incentive scheme that takes its characteristics into account.

Our approach is to systematically engineer incentive schemes. In Section 2, we discuss the state of the art for the development of incentive schemes. In Section 3, we take a closer look at appropriate models of cooperation. This provides the foundation for presenting and discussing a systematic procedure for engineering incentive schemes in Section 4. We exemplify such engineering for the cooperation protocol *Lanes* in Section 5 and, finally, conclude the paper in Section 6. An extended version of this paper is available as technical report [12].

## 2 Related Work

In this section, we discuss the state of the art for the development of incentive schemes in ad hoc networks. Furthermore, we discuss incentive engineering as an approach that is used in economics for the conception of appropriate incentives.

*Existing Incentive Schemes in Ad hoc Networks.* In the absence of any systematic procedure for their development, the design of the existing incentive schemes [2, 3, 9, 10, 14] is characterized by the ex ante choice (and configuration) of incentive mechanisms [11]. For the development of further incentive schemes, the usefulness of the existing incentive schemes is limited. (1) They are bound to specific cooperation protocols, often without making this explicit. (2) Their conception is monolithic and, thus, hinders the reuse of their components. (3) Their evaluation is not performed on the basis of comparable criteria.

This means that it is unlikely that a developer can simply reuse one of the existing schemes in order to enhance cooperation in a given situation. On the other hand, he is given little if any help in designing his own incentive scheme. Thus, despite the fact that incentive schemes need to be tailored to the cooperation protocol used, little is known on how to achieve this tailoring.

*Incentive Engineering.* In economics, incentive engineering [4] has been proposed as a means of systematically developing incentive schemes. It assumes an incentive mechanism that is arbitrarily quantifiable and provides full incentive compatibility. For example, the use of money provides such an incentive mechanism. For each action of the cooperation protocol, the engineer determines the quantification of the incentive mechanism that yields a maximization of some utility. This approach has been applied in [8] for an incentive scheme on the link layer.

However, incentive engineering is not suitable for the development of incentive schemes in ad hoc networks. This stems from the following reasons: (1) In [13], we have shown that, in ad hoc networks, it is impossible to conceive an incentive mechanism that it is both arbitrarily quantifiable and fully incentive compatible. (2) The

exogenous determination of the quantification is contradicted by the autonomy of the devices. Consequently, the devices do not adhere to the developed scheme. **(3)** In ad hoc networks, it might be reasonable to adjust the cooperation protocols in order to facilitate the development of the incentive scheme. However, incentive engineering does not make use of this means.

### 3 Cooperation Models and Incentive Schemes

In previous work [11, 13], we proposed a transaction-centric cooperation model. It assumes that cooperation is composed of transactions among autonomous protocol entities. Each entity may commit to participate in one or several transactions.

The transaction-centric model makes sense for the provision and consumption of application services. However, it is difficult to apply the transaction-centric model to cooperation in networks and overlays. This stems from difficulties of capturing continuous cooperation among several entities into the transaction-centric model. We conclude that a more generic cooperation model is needed.

According to the commitment-centric cooperation model, an entity *enters into a commitment* if it commits to exhibit certain behavior. An entity *adheres to its commitment* if it actually exhibits the behavior it committed to. The transaction-centric model is a specialization of this cooperation model since it confines commitments to single transactions. More specifically, participating in a transaction means entering in a commitment, whereas adhering to a commitment refers to refraining from defecting in the course of a transaction.

## 4 The Procedure for Engineering Incentive Schemes

The systematic design of incentive schemes comprises several steps. As a first step, the engineer analyzes and adjusts the cooperation protocol that requires an incentive scheme. Subsequently, crucial design decisions have to be made regarding the choice of incentives and the means of implementing them. Finally, the engineer evaluates the resulting cooperation protocol by applying an appropriate evaluation method. In the following, we give an in-depth discussion of these steps. The discussion will be exemplified by the case study of Section 5.

### 4.1 The Cooperation Protocol

*Analysis.* A thorough understanding of the cooperation protocol is required for the design of an appropriate incentive scheme. Therefore, an analysis has to be conducted in order to answer the following questions: **(Q1)** What kinds of inter-entity cooperation exist? The answer to this question is determined by the cooperation protocol that the entities run. **(Q2)** Which steps of the cooperation protocol are not beneficial to the executing entity? The engineer focusses on influencing behavior regarding detrimental protocol steps. **(Q3)** Is behavior perceptible? If yes, how costly and reliable is such perception? It is clear that a rational entity only exhibits cooperative behavior if other entities are able to perceive such cooperativeness.

*Adjustment.* Before turning to the incentive scheme, the engineer has to consider whether the protocol should be adjusted. Such adjustment aims at ameliorating the properties of the protocol. More specifically, the protocol should be extended by mechanisms that make behavior more perceptible (Q3).

The engineer may choose among several perception mechanisms. If *digital signatures* are appended to protocol messages, the receiver of a message is able to verify the authenticity of the sender and to check whether the entities of the forwarding path altered the message. *Redundancy* enhances the perceptibility of specific protocol steps. For example, the cooperation protocol could be extended in order to accommodate the issuance of *receipts*. If a receipt is a non-repudiable evidence, it may be transferred to other entities. Consequently, these entities are able to perceive the behavior that is described by the receipt. A cost-effective perception mechanism is *overhearing*. An overhearing entity perceives which packets or messages are sent by other entities. However, due to physical or topological restrictions, the overhearing entity might not receive the same transmissions or messages as the intended receiver. *Probing* is based on the idea that an entity behaves similarly under certain conditions. Therefore, it suffices to perceive only parts of the behavior in order to conjecture which behavior is typically exhibited. Probing is attractive for behavior that is costly to perceive.

## 4.2 The Choice of Appropriate Incentives

Based on the analysis and adjustment of the cooperation protocol, the engineer has to choose incentives that effectively stimulate cooperative behavior. The definition of commitments sets the scope of the respective incentive mechanisms. Some of these mechanisms provide incentives for entering into commitments, whereas others provide incentives for adhering to them.

*Definition of Commitments.* A major design decision for incentive schemes consists of determining which type of behavior should be remunerated and which type should be taken as granted. Only misbehavior regarding the latter type has to be punished since, for the first type of behavior, the absence of remuneration constitutes a disincentive for misbehavior. It seems promising to remunerate if an entity commits to specific behavior. Accordingly, failure to adhere to such a commitment should be punished. The two extremes of defining commitments are as follows: **(a)** Participation in the system is the only commitment. This means that, upon participation, each entity has to adhere to the predefined protocols and transactions. This extreme fits best to cooperation protocols that require unconditional cooperativeness in order to be effective. Furthermore, this extreme allows for rather simple incentive schemes. Yet, the incentive compatibility of adhering to the own commitment is difficult to achieve if behavior is not perceptible. Then, the lack of adherence cannot be identified and punished. Consequently, imperceptible behavior should be exempted from commitments. **(b)** Each transaction is separately committed to. In this regard, a rational entity only participates in beneficial transactions. This extreme is suitable if cooperation can be decomposed into transactions.

*Incentives for Entering into Commitments.* In previous work [13], we have proposed incentive patterns as a means of rendering commitments mutually beneficial. This is necessary if a commitment appears to be beneficial only for some of the concerned

**Table 1.** Overview of incentive patterns and their properties

Pattern \ Properties	Trust based		Trade based	
	Collective pattern	Community pattern	Barter trade pattern	Bond based pattern (eg.: note pattern)
Roles	asymmetric		symmetric	asymmetric
Type of remuneration	none	reputation	service in return	note
Enforcement of remunerat.		-	+	o
Overhead	small	medium	small	high
Scalability	- -	-	+	o

entities. An incentive pattern induces that an entity enters into a otherwise detrimental commitment. The incentive patterns and their most important properties are summarized in Table 1. It provides a foundation for the choice of incentives that remunerate for entering into commitments. Incentive patterns fall into two classes: On the one hand, an entity may believe that its peers will reciprocate by entering into future commitments. This approach is based on *trust* and is applied by the collective pattern and community pattern. On the other hand, an entity is convinced to enter into a commitment if its peers enter into commitments that are beneficial for itself. Such a *trade* based approach is applied by the barter trade pattern and the bond based incentive patterns. For the barter trade, the temporal scope of the respective commitments coincides. Hence, the committing entities assume symmetric roles. In contrast, a bond is a commitment regarding behavior at some future point in time. The most relevant type of bonds are notes. A note contains a commitment of its issuer.

*Incentives for Adhering to Commitments.* Bilateral or multilateral commitments often refer to the mutual provision of services. From an abstract point of view, such mutual provision of services represents an exchange of items. Exchanges are processed according to *exchange protocols* [1]. The considerable overhead of existing exchange protocols has to be matched by the value of the items that are exchanged. For the repeated exchange of items, the sliding window mechanism provides a promising alternative solution. It limits the number of outstanding items. This means the entities' balance of delivered items is coupled.

If exchange protocols are not viable, there exists another means of inducing the adherence to commitments, namely *distributed reputation systems* [5]. They keep track which entities adhere to their commitments and which do not. An entity may defect by refraining from adhering to the own commitment while the peers adhere to theirs. However, the betrayed peers may disseminate their view of the defector to other entities so that other entities are aware of the defection. As a result of such awareness, other entities (and the defected peers) may refrain from entering into commitments with the defector or they may even refuse to adhere to their outstanding commitments. Such punishment provides an incentive for adhering to one's own commitments. The choice of the distributed reputation system is contingent upon the characteristics of the considered cooperation protocol. Distributed reputation systems make differing assumptions

regarding the perceptibility of behavior and find different tradeoffs between the benefits and costs of keeping track of the entities' behavior.

### 4.3 Evaluation

After the design of the incentive scheme, the engineer has to evaluate her work. In general, simulations provide the only cost-efficient means for such evaluation. In the following, we discuss how such simulations can be conducted.

Evaluations of existing incentive schemes are focussed on the total utility of the participating entities. In addition, we propose to evaluate the fairness of the incentive scheme with respect to the individual utility/costs that arise from cooperation. High degrees of fairness indicate that entities have to exhibit cooperative behavior in order to benefit from the behavior of other entities.

The entities' behavior regarding the cooperation protocol has to be modelled appropriately in order to obtain meaningful simulation results. Such modelling consists of assigning strategies to each entity. For stateless strategies, the model defines the probability of exhibiting specific behavior. Stateful strategies are based on the trust mechanisms of the distributed reputation system and, thus, consider the past behavior of other entities.

Behavioral models are parameterizable and, thus, provide for some of the simulation parameters. The second type of simulation parameters is derived from the configuration of the incentive scheme. Finally, the specifics of the cooperation environment constitute the third type of simulation parameters.

According to the objectives of the evaluation, the engineer has to measure the total utility  $u$  and the total costs  $c$  that arise from cooperation. If the objectives of the evaluation include fairness, the individual utility  $u_i$  and individual costs  $c_i$  have to be measured separately for every entity. The coefficient of correlation between the  $(u_i, c_i)$  pairs is called the fairness coefficient. A straightforward means of correlation is the calculation of a regression line between the individual utilities and costs. In case of good linear correlation, the slope of the regression line indicates the magnitude of the incentive effects.

## 5 A Case Study: Lanes

In this section, the procedure of engineering incentive schemes is exemplified for a service discovery overlay.

### 5.1 The Lanes Protocol

Because of the lack of infrastructure in ad hoc networks, decentralized trading of application services becomes necessary. The *Lanes* [7] approach provides such a cooperation protocol for the announcement and search of services. The Lanes overlay is shown for three lanes in Figure 1. Services are announced along a lane across the proactive vertical overlay links, whereas services are searched via anycast across several lanes. By this means, the Lanes overlay ensures that any participating entity is able to find the services that are offered in the network.

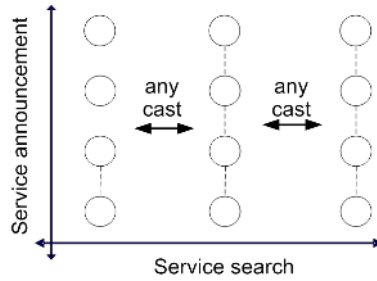


Fig. 1. The Lanes service discovery overlay

*Analysis.* Let us consider the questions introduced in Section 4.1. (**Q1: Kinds of Transactions**) The Lanes protocol is composed of five sub-protocols, i.e., service announcement, service request, overlay login, intra-lane and inter-lane maintenance. (**Q2: Non-Beneficial Steps**) Processing and (unaltered) sending of service announcements, searches and maintenance messages are all non-beneficial under certain circumstances. (**Q3: Perceptibility**) Behavior regarding the overlay maintenance can only be perceived by some of the immediate neighbors. Parts of the behavior for the announcement and search of services is not perceptible at all.

*Adjustment.* Lanes is conceived as an efficient service discovery overlay. Therefore, the complete protocol (including the non-beneficial protocol steps) is necessary for the effectiveness of the service discovery. Due to the imperceptibility of most behavior, several perception mechanisms have to be applied. We introduce redundancy by double linking overlay nodes. Further redundancy is added by promoting the uppermost entity of a lane to the coordinator of maintenance decisions. Furthermore, the sub-protocols that involve several entities are extended with the transmission of receipts. Finally, digital signatures are appended to those messages that are likely to be altered by misbehaving entities. The adjustment of the protocol cannot cope with the imperceptibility of some protocol steps. For instance, an entity is still able to return negative results for service searches without actually processing them.

## 5.2 The Choice of Appropriate Incentives

*Definition of Commitments.* If participation in the overlay was the only commitment, the design of the incentive scheme would become simple. However, in such a case, the imperceptible parts of the service announcement/search protocols are not executed. Therefore, participation in service announcements and searches should be separately committed to. In order to log into a lane, a newcomer commits to comply with the remaining sub-protocols. This means that each lane member has to participate in the maintenance protocols. Entities that do not adhere to their commitments are treated as outlaws. This means that the other entities opt to exclude them from the overlay. Such step is executed locally within a lane.

*Incentives for Entering into Commitments.* For logging in a new entity into the overlay, both the newcomer and the remaining entities have to commit to participate in the maintenance protocol. Therefore, the barter trade pattern provides appropriate incentives for this type of commitment. The second type of commitment refers to answering a service search of another entity. For this purpose, we have to choose an incentive pattern that supports asymmetric roles. According to Table 1, the note pattern appears most appropriate. This is because the note pattern provides better enforcement of remuneration than the community pattern. Such enforcement is needed since the costs of processing service searches are considerable. Since we apply the note pattern, the issuer of a service search has to hand over a note to the entity that finds a matching service.

*Incentives for Adhering to Commitments.* Conventional exchange protocols are too expensive for the operation of the maintenance protocols. However, the sliding window mechanism could be applied in order to limit the number of outstanding notes. This means that every entity is only willing to accept a certain number of notes from other entities. The size of such *note credit* corresponds to the window size of the sliding window mechanism. If the note credit is reached, the bearer of the notes refrains from processing service searches of the notes' issuer. The lack of exchange protocols demands for the application of a distributed reputation system. For this purpose, we make use of the *Buddy System* [5].

### 5.3 Evaluation

In the following discussion of the evaluation, we will refer to the combination of the adjusted Lanes protocol and the incentive scheme as the *S-Lanes* protocol.

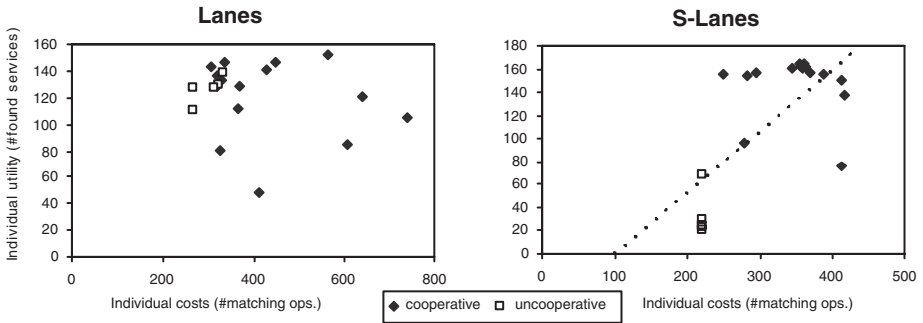
The *objective* of the evaluation is to assess the efficiency and fairness of the S-Lanes protocol. For the *behavioral modelling*, we distinguish between three types of entities. Altruists always cooperate, whereas uncooperative entities never cooperate. Cooperative entities only cooperate with those entities that have exhibited cooperative behavior towards themselves before. The behavior is further parameterized by the note credit that an entity accords to other entities. Further *simulation parameters* are the type of cooperation protocol (Lanes versus S-Lanes) and the cooperation environment. The system consists of 20 devices that participate in the overlay. Each of them provides a unique service and looks for services in a uniformly distributed manner. The cooperation environment is parameterized by the number of service searches that are initiated by each entity. The *measurement categories* consist of the number of found services (utility) and the number of sent messages or matching operations<sup>1</sup> (costs).

The simulation has been conducted with DIANEmu [6]. Figure 2 shows the individual utilities and costs<sup>2</sup> of 15 cooperative entities and 5 uncooperative entities. The uncooperative entities are able to profit from cooperation in the Lanes protocol as much as the cooperative entities. However, they do so with a minimum of costs. Therefore, the Lanes protocol is not fair. In contrast, uncooperative entities profit much less from co-

<sup>1</sup> A matching operation processes an incoming service search by testing whether it matches one of the hoarded service advertisements.

<sup>2</sup> For clarity reasons, the costs only refer to the number of matching operations.





**Fig. 2.** The individual utilities and costs of 15 cooperative and 5 uncooperative entities

operation in the S-Lanes protocol than cooperative entities do. As a result, the respective utility/cost-pairs correlate well with the regression line. The correlation coefficient is  $0.69$ . The slope  $b$  of the regression line is  $0.54$ . This means that an entity has to perform approximately two matching operations in order to find a service. We have obtained similar results for other parameterizations<sup>3</sup>. The simulation results clearly demonstrate that the S-Lanes protocol complies with the demand for fairness. According to the results, the more searches are conducted and the tighter the note credit is, the higher the fairness coefficient and the incentive effect is.

## 6 Conclusion

In ad hoc networks, devices have to cooperate in order to compensate for the absence of infrastructure. Incentive schemes have been proposed as a means of fostering cooperation among self-interested devices. However, it is difficult to conceive an effective and efficient incentive scheme for a given cooperation protocol. Therefore, in this paper, we have proposed a systematic approach for the engineering of incentive schemes. For this purpose, we suggested a procedure for the design of incentive schemes. It comprises the analysis and adjustment of the cooperation protocol, the choice of appropriate incentives for cooperation, and guidelines for evaluation of the incentive scheme. The procedure has been exemplified for the Lanes protocol. The design and evaluation of an incentive scheme for this cooperation protocol is performed according to the steps of the proposed procedure. The simulation results have shown that the engineered cooperation protocol S-Lanes complies with the demand for fairness.

In the future, we aim at engineering incentive schemes for other service discovery overlays and for application layer cooperation protocols. In addition, we have to provide an enhanced guideline regarding the choice of appropriate incentives for the adherence to commitments.

<sup>3</sup> The simulation results are presented for various parameterizations in the technical report [12]. Results regarding total utility and costs are also included in the report.

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