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On the efficacy of imperfect public-monitoring of seller reputation in e-commerce



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ABSTRACT

Reputation is crucial in promoting exchanges in online markets, since it may overcome information inefficiency through successful signals of sellers' quality to less informed customers. To explore this issue, I study web sellers' reliability in business-to-consumer online transactions with reference to reputation games. Customers can gather information in online marketplaces like e-Bay through public feedback systems. In contrast, without a centralized reputation system, it is not clear how potential buyers form their beliefs. For the latter case, I provide empirical evidence on perceived reliability and its determinants for some virtual shops operating worldwide in the clothing retail sector.

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1. Introduction

Electronic commerce means no physical meeting of sellers and potential buyers, incomplete information about the seller, inability to directly verify the quality of a product and to monitor sellers' behavior in the stages of packing, shipping, and so on. In the absence of perfect information, a buyer who perceives a risk related to the likely seller's opportunistic behavior and reputation is crucial in promoting the seller's reliability and facilitating online transactions.

Reputation can be theoretically analyzed in terms of reputation games with a long-run seller and several short run buyers. It may be interpreted as a successful signal of sellers' quality to less informed potential customers. The latter form their beliefs in several ways by means of some imperfect public-monitoring devices, which are strictly influenced by the characteristics of online transactions.

Online transactions are managed in most cases by means of online marketplaces, such as e-Bay, Alibaba and Yoonx, among others, and information gathering is centrally managed by the web master of the marketplace. Electronic marketplaces are characterized by the simultaneous presence of several sellers, after they register their accounts. Buyers and sellers can evaluate their transactions by providing feedback. Customers also can obtain seller transaction histories through a public feedback system. Feedback consists of a general rating of positive, neutral, or negative for a transaction. In addition to leaving general ratings, buyers can rate specific aspects of a transaction. A buyer may review item quality to verify if it matches with the item that was received, may rate the degree of satisfaction about the seller's communication, the time it took to mail the item for receipt, and the shipping and handling charges.

Recently, several enterprises have explored the use of alternative channels for e-commerce. Increasing diffusion of independent e-commerce websites directly implemented by sellers is observed in the marketplace. In these websites, no public feedback systems are available. In the absence of an independent and well-recognized

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