Chapter XIX
The Retaliatory Feedback Problem:
Evidence from eBay and a Proposed Solution

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ABSTRACT

Online auctions are an increasingly popular avenue for completing electronic transactions. Many online auction sites use some type of reputation (feedback) system—where parties to a transaction can rate each other. However, retaliatory feedback threatens to undermine these systems. Retaliatory feedback occurs when one party in a transaction believes that the other party will leave them a negative feedback if they do the same. This chapter examines data gathered from E-Bay in order to show that retaliatory feedback exists and to categorize the problem. A simple solution to the retaliatory feedback problem—feedback escrow—is described.

INTRODUCTION

The past few years have seen the explosive growth of online auction transactions. In 2005, E-Bay listed 1.9 billion items for auction, representing a 33% increase over the previous year. Those listing were responsible for $44 billion in transactions (a 29.6%) increase over 2004 (E-Bay, 2006). While E-Bay is the major player in this area, it is not the only one. Many other companies, such as Amazon, Yahoo, and Overstock, offer consumer-to-consumer (C2C) online auctions.

While online auction sites are an increasingly popular avenue for completing electronic transactions, they are characterized by a high degree of uncertainty. They face what Akerlof (1970) calls a "Lemons" market; that is, they have a high amount of uncertainty about the quality of the information and/or goods. Uncertainty primarily derives from the fact that buyers and sellers typically know little

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about each other, are involved in one-time transactions, and pictures and descriptions of goods provide the only means for assessing the quality of goods available for bidding (Montano, Porter, Malaga, & Ord, 2005). This lack of information available to auction bidders, termed information asymmetry, leads to a higher level of uncertainty about potential outcomes from an auction transaction than if a bidder were able to learn more about the auction seller and his product prior to bidding (Liang & Huang, 1998).

In order to reduce information asymmetry and increase the level of trust between auction participants, reputation systems have been developed. Wilson (1985, pp. 27-28) states, "in common usage, reputation is a characteristic or attribute ascribed to one person, industry, and so forth, by another (e.g., A has a reputation for courtesy)." This is typically represented as a prediction about likely future behavior (e.g., "A is likely to be courteous"). It is, however, primarily an empirical statement (e.g., "A has been observed in the past to be courteous"). The predictive power of reputation depends on the supposition that past behavior is indicative of future behavior. Reputation systems (sometimes called feedback systems) allow the participants in a transaction to rate each other. Individuals' ratings are aggregated and are available for everyone to see. These systems promote trust between buyers and sellers because they serve as a benchmark for seller reliability. Trust has been shown to serve as a key factor in the success of online transactions, including electronic auctions (Brynjolfsson & Smith, 2000; Resnick, Zeckhauser, Friedman, & Kuwabara, 2000; Hoffman & Novak, 1999).

This chapter proceeds as follows. The next section discusses the existing literature on trust and reputations systems. Following that, the retaliatory feedback problem is further defined. The research methodology is then discussed. Finally, future trends and conclusions are detailed.

BACKGROUND

Trust and Reputation Systems

A large body of research has shown that trust plays an important role in a consumer's decision to purchase a product in an electronic market (e.g., Jarvenpaa, Tractinsky, & Vitale, 2000; Lim, Sia, Lee, & Benbasat, 2006; McKnight, Choudhury, & Kacmar, 2002). In many contexts such as off-line auctions and stores, buyers have multiple clues that help them determine their level of trust in a seller (e.g., branding, location, past experience, visual observation). However, in online auctions there is no such context, and there is no guarantee that any pictures or descriptions provided are accurate. Thus, performance on past transactions (reputation) is typically the only factor that can contribute to the development of trust.

An important aspect of reputation is the dissemination of reputation information. Landon and Smith (1997, p. 313) concluded, "results suggest that consumers place considerable value on mechanisms that disseminate information on the past quality performance of firms." One way in which reputation information can be generated and disseminated in electronic markets and online communities is through the use of a reputation system (Nielsen, 1998). These systems allow participants in a transaction to rate each other, and the ratings are aggregated in order to provide an overall score. The overall score is provided to potential participants in future transactions.

As E-Bay is the dominant online auction site, we focus on its reputation system as an exemplar. In the E-Bay reputation system (which E-Bay calls feedback), any completed transaction may be rated by the winning bidder of an item and the seller of that item. The feedback scores are +1, representing a positive experience; 0, representing "neutral" feedback; and -1, meaning the purchasing experience was negative for some reason. These ratings are then used to calculate

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