Chapter 16
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 trans-
actions, 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 transac-
tion 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 partici-
pants, reputation systems have been developed.
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 empiri-
cal 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. Reputa-
tion 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,
1999).

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