Study finds online marketplaces overplay safeguards and ignore social aspects of transactions

November 23 2011

As Cyber Monday approaches, a new study of e-commerce giants eBay and Amazon challenges a common assumption that trust and risk are always important considerations for buyers in online marketplaces, arguing instead that auction sites may have "over-invested in institutional structures" to reduce buyers' economic risk while ignoring social elements of their transactions.

It has been widely assumed that online auction sites always need to build trust and reduce risk, but a forthcoming article in *Information Systems Research* counters that it is not necessarily "the higher the better" for risk-reducing safeguards – which are costly for companies to build and maintain – because some buyers might view them as stifling good deals while others might not consider them at all.

The paper, co-authored by Paul Pavlou of Temple University's Fox School of Business and David Gefen of Drexel University's LeBow College of Business, both in Philadelphia, analyzed data from 398 buyers on eBay's and Amazon's marketplaces to gauge buyers' assessments of online safeguards, such as escrow services, feedback mechanisms and market rules.

The authors argue that the primary factors buyers consider when making purchases online are risk (potential economic loss) and trust (social norms with sellers). Pavlou and Gefen state that auction safeguards generally guard against risk and ignore elements of trust. But when typical buyers make online purchases, as long as there is some level of security – such as credit card guarantees – they really care about whether or not they can trust the community of sellers.

The "sharp distinction" between what marketplace providers guard against and what buyers deem as important indicates "that institutional structures in today's online marketplaces focus on tangible assurances aimed at reducing the buyers' economic vulnerability and not on the intangible aspects of the transaction that aim at reducing their social vulnerability," according to the study.

The authors found that risk is only a significant consideration for buyers using marketplaces with moderate levels of safeguards. In unsafe markets, buyers are simply unwilling to transact. In very safe markets, the chance of risk is so low that economic loss isn't even a concern.

Pavlou and Gefen also found that transaction activity peaks in online marketplaces with moderate safeguards. But the average level of current security measures is nearly 25 percent higher than where transactions peak. This finding demonstrates that current safeguards may be higher – and potentially viewed by some buyers as restricting bargains – than the socially optimal level for online auctions.

While economic risk was found to be an important consideration for buyers only in moderately risky marketplaces, the effect of trust on transactions "extends throughout the spectrum" of unsafe, somewhat safe or extremely safe auction sites.

Pavlou and Gefen state that online transactions, while primarily an economic exchange, also have intangible social rules of conduct, such as reciprocal favors in current or future transactions, and long-term relationship building.

"Although this may imply that online marketplaces have correctly recognized that buyers focus on economic losses in their transaction decision-making process, perhaps they have done so at the expense of ignoring relevant social aspects," the authors wrote.

Provided by Temple University

Citation: Study finds online marketplaces overplay safeguards and ignore social aspects of transactions (2011, November 23) retrieved 24 April 2024 from https://phys.org/news/2011-11-online-marketplaces-overplay-safeguards-social.html