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## The Role of Reputation in Shaping Peer-to-Peer Online Markets: A Meta-Analysis Perspective

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### Abstract

Most online market exchanges are governed by reputation systems, which allow traders to comment on one another's behavior and attributes with ratings and text messages. These ratings then constitute sellers' reputations that serve as signals of their trustworthiness and competence. The large body of research investigating the effect of reputation on selling performance has produced mixed results, and there is a lack of consensus on whether the reputation effect exists and what it means.

Reputation as a mechanism to govern market exchanges is undergoing its most successful propagation. Although humans' ability to share information about others' deeds and misdeeds has promoted market exchange throughout history modern information and communication technology (ICT) has reduced the costs of sharing information to a minimum.

### Introduction

The rise of peer-to-peer online markets has revolutionized the way individuals engage in transactions, enabling them to connect directly and exchange goods and services without the need for intermediaries. Reputation, often represented through user ratings and reviews, plays a crucial role in influencing user behavior and shaping market dynamics. This article presents a comprehensive meta-analysis of existing research on reputation effects in peer-to-peer online markets, shedding light on its impact and implications for both buyers and sellers.

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## **Understanding Reputation Effects**

Reputation systems in peer-to-peer online markets allow users to provide feedback on their transaction experiences, thereby creating a collective evaluation of trustworthiness for each participant. Positive reputations serve as social currency, enhancing trust and credibility, while negative reputations can deter potential transaction partners. The fundamental premise behind reputation systems is that individuals with a good reputation are more likely to be trustworthy and reliable in future transactions, leading to increased demand for their offerings.

## **Meta-Analysis Methodology**

To conduct this meta-analysis, we reviewed a comprehensive range of scholarly articles published in reputable journals and conference proceedings. Our study encompasses various disciplines, including economics, sociology, computer science, and marketing, ensuring a broad scope of analysis. By synthesizing the findings from multiple studies, we aim to provide a comprehensive overview of the reputation effects in peer-to-peer online markets.

## **Key Findings**

**Trust and Confidence:** The analysis consistently indicates that positive reputations significantly impact trust and confidence levels among users. Buyers tend to favor sellers with higher ratings and reviews, perceiving them as more reliable and credible. Similarly, sellers with positive reputations attract more buyers, leading to increased transaction volume.

**Price Premium:** Sellers with a good reputation are often able to command a price premium for their offerings. Buyers are willing to pay a higher price to transact with sellers who have established positive track records. This effect is particularly pronounced in markets where product quality is difficult to ascertain before the transaction.

**Market Efficiency:** Reputation systems contribute to market efficiency by reducing information asymmetry. Buyers can make more informed decisions based on the reputation of sellers, minimizing the risk of adverse selection. Moreover, sellers with positive reputations are likely to invest more in maintaining their reputation, resulting in higher quality offerings and improved market outcomes.

**Reciprocity:** A positive reputation can foster reciprocity in peer-to-peer online markets. When sellers receive positive feedback from buyers, they are more likely to reciprocate by providing enhanced service or discounts, leading to a virtuous cycle of positive interactions and improved market dynamics.



**Moderating Factors:** The meta-analysis identifies several factors that moderate the reputation effects. These include the volume of ratings, the credibility of the rating system, the type of goods or services being exchanged, and the context of the platform. Understanding these factors is crucial for platforms to optimize their reputation systems and ensure their effectiveness.

### **Implications and Future Directions**

The findings of this meta-analysis have significant implications for both researchers and practitioners in the field of peer-to-peer online markets. Understanding the influence of reputation on user behavior can guide the design and implementation of effective reputation systems that enhance trust and market efficiency. Future research should explore the dynamics of reputation systems further, including the impact of fake or manipulated ratings, the effects of reputation transferability across platforms, and the role of emerging technologies such as blockchain in improving reputation systems.

### **Discussion and conclusion**

The increasing popularity of peer-to-peer online markets brings attention to the role of reputation systems, which collect and present information on the trustworthiness and competence of traders based on their past online market exchanges. From a game-theoretic perspective, information about seller reputation helps to promote buyer trust as it decreases untrustworthy behaviors of sellers. Sellers have to behave cooperatively to build and maintain a good reputation, and since they also have to offer discounts when entering the market, their reputations and business success in terms of prices and sales will be correlated.

This relation between seller reputation and success, which also has been shown to be causal, is called the reputation effect. In the last 20 years, a large body of literature has accumulated that seeks to find evidence for the reputation effect in real-world online markets.

To our knowledge, our study incorporates the largest number of studies among the existing systematic reviews on the subject of reputation effects and is the first to consider effect sizes rather than only signs and statistical significances of reputation effects. We were also able to interpret papers in languages other than English. There are thirteen papers written in Chinese and one paper in German. Moreover, we exhibited great effort to incorporate any possible study or research outcome. For instance, 11% of the coefficients we used were not accompanied with information about standard errors, t-scores or p-values, which are needed to calculate effect sizes and make them comparable. Instead only p-value ranges indicated by stars were reported in these cases. We proposed different strategies to determine estimated



p-values for subsequent calculations of effect sizes. Finally, we used a relatively new approach that relies on the calculation of partial correlation coefficients to make effect sizes comparable.

Our results show that seller reputations affect seller performance in the expected directions: overall, positive ratings have positive effects on all types of selling performance and negative ratings have negative effects. Although the overall effect sizes appear to be small, they should not be interpreted as weak or substantially insignificant. Tracing back effect sizes to the original studies reveals that what sellers in online markets obtain for a good reputation can be substantial. However, the reputation effects included in our meta-analyses exhibit a high degree of heterogeneity that cannot be attributed to sampling error only. This is not entirely surprising given the differences in market platforms, item data, and modelling approaches used across studies. Although we already grouped coefficients that were estimated using the same type of seller reputation and performance variables, we will try to identify the different sources of variation of reputation effects reported in previous literature by means of subgroup analysis and meta-regression in a subsequent paper.

There are three categories of moderator variables that suggest themselves: (1) contextual factors, (2) overall characteristics of the traded products, and (3) methodological factors. It can be therefore expected that these product characteristics will have a positive, moderating effect on the reputation effect. However, it remains to be shown in how far meta-analysis that uses coefficient estimates from multiple regression models can shed light on substantial reasons for the variation in reputation effects. We conclude this paper with pointing out an often neglected, substantial reason for the excess variation in reputation effects.

## **Conclusion**

Reputation systems play a vital role in peer-to-peer online markets, shaping user behavior and market outcomes. This meta-analysis provides valuable insights into the effects of reputation, highlighting its influence on trust, confidence, pricing, market efficiency, and reciprocity. Platforms that effectively leverage reputation systems can foster trust, enhance market dynamics, and drive growth. As peer-to-peer online markets continue to evolve, understanding reputation effects and developing strategies to manage reputation will remain crucial for both buyers and sellers in the digital marketplace.

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