



## Information Asymmetry and Its Implications in Online Purchasing Behaviour: A Country Case Study

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**Abstract:** The objective of this study is to analyse how certain variables in the online market affect the decision-making trajectory and actions toward reducing the information asymmetry faced in online purchasing. A survey and observation are conducted in order to understand the behavior and perceptions of online buyers toward the information given in online platforms. Descriptive and correlation analysis have been employed in order to evaluate the data collected and test the correlation between variables of the research model. It results that most participants take for granted the fact that sellers have more information than them when entering into a transaction agreement and this makes them feel inferior towards the superior power sellers possess in such interactions. This makes the traditional markets more preferred for them, however multiple sources such as reviews and ratings result as an alternative way of reducing the perceived information asymmetry.

**Keywords:** information asymmetry; online purchasing; decision making; Albania.

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### Informacijska asimetrija in njene posledice pri obnašanju ob spletnih nakupih: primer Albanije

**Povzetek:** Namen te študije je analizirati, kako določene spremenljivke na spletnem trgu vplivajo na usmeritev odločanja in ukrepe za zmanjšanje asimetrije informacij pri nakupovanju prek spleta. Raziskava in opazovanje sta bili izvedeni, da bi razumeli vedenje spletnih kupcev in njihovo dožemanje informacij, ki so podane na spletnih platformah. Za oceno zbranih podatkov in testiranje povezanosti med spremenljivkami raziskovalnega modela smo uporabili opisno in korelacijsko analizo. Posledica tega je, da večina udeležencev kot samoumevno upošteva dejstvo, da imajo prodajalci več informacij od njih, ko sklenejo transakcijsko pogodbo, zaradi česar se počutijo manj vredno od moči prodajalcev, ki jih ti imajo v takih interakcijah. Zaradi tega so tradicionalni trgi zanje bolj prednostni, vendar več virov, kot so pregledi in ocene, predstavlja alternativni način zmanjšanja asimetrije zaznanih informacij.

**Ključne besede:** informacijska asimetrija; online nakupovanje; odločanje; Albanija.

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## 1. Introduction

The emerge of new technologies has revolutionized the way of doing business by pushing companies to shift their operations to the virtual market. This journey began with Amazon.com in 1994 that now has turned into one of the most successful companies in the world. The disruptive technologies are incorporated even in the traditional businesses while the trend of the customer transference in the virtual market has reallocated the sources toward research and development emphasizing the importance of knowing the customers in order to decide how to approach them. Even though claimed to be in the era of Big Data, many companies do not show complete information related to the product they present in the market.

A purchase is a contract between two or more parties. Despite being an 'online commitment', the nature remains the same. The contract must present a transparent rights-obligation relationship and set expectations for all parties involved. Online markets can be perceived as partially regulated environments not fully observed and controlled in the way they operate, which may lead sellers to take advantage of the situation and hide information from buyers in order to manipulate them and guide toward reaching their profit goals, thus making them less trusted by many online navigators. In this way information asymmetry emerges and decisions based on uncertainty because of partial information flow. The difference from the traditional market in this case stands in the fact that it cannot be reached a physical contact with the product before making the purchasing decision leading to adverse selection or moral hazard. The risk of not having taken the same decision in case particular information would have been shown prior to the purchase is very high.

The objective of the study is to examine the effect of Information Asymmetry in the online purchasing behavior, by focusing to the case of Albanian users. The main focus is to analyze how certain variables in the online market that are not found in the traditional one, may change the trajectory of the decision-making process when purchasing online and reduce information asymmetry. The central research question to be studied is "How does information asymmetry affect the purchasing behavior among Albanian users in the online market?"

This study will benefit to the respective literature since to our knowledge there are no previous studies related to the information asymmetry topic and its implications in decision making in Albania. In this aspect this study presents a novelty and an added value to the respective literature by opening new research frontiers, especially for the Albanian case. It will give some insights upon how users perceive information asymmetry and their approach towards online purchasing. Additionally, this study can be a reason for emerging and existing businesses in the online market to improve their strategies and incorporate the consumer centricity as an important milestone of a successful organization in their functional structures.

While analyzing the variables present, a new variable has emerged which has been named as the 'sleeping variable'. This 'sleeping variable' stands for the fact of taking information asymmetry for granted in online market transactions and is used to explain how other variables are affected.

## 2. Literature review

In the last decades there has been a fast development of the online market. The technology has made possible to make it a serious competitor to the traditional one. Many Local businesses are able to reach to global markets and customers are presented with plenty of choices and facilities, consequently increasing competition. In this virtual space, products that cannot be obtained in the traditional way in respective countries are found. Boundaries have been reduced and the availability of massive data in the internet has lead to prior research and careful evaluation when making purchasing decisions.

The online market, somehow, has changed perceptions and given more importance to some parts of the purchase decision making process, like searching for information and evaluation, in order to cover the lack of physical contact with products (Chen, 2009). The purchase decision making process starts with a need recognition followed by information search, alternative evaluation, purchase and the after purchase evaluation or the outcome. In online market the information search may seem easier, but actually only some of the data exposed may grab buyer's attention and not all sources may be reliable. This depends on previous experiences and other product influencers. Furthermore it is to be noted that there are some products the need for which was 'not known' to consumers, and through the online market it is much easier for these products to be firstly marketed and then delivered to targeted customers in relatively lower costs.

The amount of search done by customers is dependant on the importance of the purchase. Based on their level of education and/or expertise buyers tend to be involved in multiple source search when making purchases. Instead, the evaluation of alternatives may be based on the information exposed about the product and the information exposed about the source itself in order to measure its reliability. When talking about the product, the main evaluative criteria considered are price, quality, and quantity while the source of purchase is evaluated based on previous trading experiences and its reputation (Kotler and Amstrong, 2012).

However, generally speaking there are other factors to be taken into account too. A strong influence comes from the idea of *perceived risk* and *differential attribute*. The perceived risk is related with uncertainty or the belief that the product may have negative outcomes. There has been an increasing trend in this aspect in the online market because of the growing concern about credit cards fraud which negatively affects purchasing behavior. In addition due to the lack of the possibility for prior examination of the product, e-commerce is perceived to be riskier than the traditional market. In this perspective there is a lack of trust and reliability between the buyer and the vendor (Naiyi, 2004). Differential attribute on the other hand is related with an evaluation criteria based on what makes the product or service special compared to other offers in the market (Solomon et al., 2006).

Useful metrics such as Reviews and Ratings, necessary to measure the source credibility by the same target group of customers have played an increasing positive impact in the evaluation stage related to online purchasing (Nowak and McGloin, 2014). In Nowak and McGloin (2014) they are viewed as a solution to the unavailability of pre-purchase examination of products and as a way of measuring the risk of being involved in the transaction, yet helpful in giving only an average evaluation. Even though in some cases it is claimed that such mechanisms are manipulated in favor of sellers, they still remain important ways of comparison and indicators of successful or non-successful products.

## **2.1. Information asymmetry**

Information has always been a powerful and helpful tool for whoever possessed it while making decisions. In (Tsao, Leyland and Berthon, 2002) it is talked about the possibility of an opportunistic behavior in different transactions by taking into consideration the strong desire for profit and as a result of imbalanced information possession. If there is an imbalance between the information shown to each other, from parties involved in an agreement, it is said to be an information asymmetry case. When talking about information asymmetry it is meant the lack of awareness related to the information involved in a specific situation. Many companies tend to use this fact in their advantage to 'manipulate' other parties and increase their superiority in the market. The existence of the phenomenon leads to decision making based on imperfect or partial information. As a result, the existence of uncertain inputs may lead to undesirable outcomes in the following

periods, because the uninformed party may make purchasing decisions, not being aware of the information that the informed party already possesses.

Initially, the concept was introduced by Nobel Laureate George Arkelof while observing the problem that relies in the existence of goods that are of many grades, concerning quality and other uncertainty issues. Arkelof explains the idea and its application in several markets like automobiles, insurance, employment of minorities, and credit markets in underdeveloped countries. Consumers can not make the difference between a high-quality product and a low quality one, at the moment they first see it. In this way, sellers can abuse and sell low quality products as high-quality ones and bad products may be sold at the same price as good ones. The perception about good and bad products can be confused based on the information revealed. Buyers tend to use data from the market to value a product, but this valuation is actually an average projection compared to the real value. The consequence may be the driving out of honest sellers from the business (Arkelof, 1970).

Other people followed his path by contributing to the topic in different dimensions. The information asymmetry literature has since then been enriched continuously through further contributions of various scholars. In this perspective a separation of information asymmetry in two forms as horizontal and vertical information asymmetry emerged.

#### *2.1.1 Horizontal and vertical information asymmetry*

*Horizontal information asymmetry* exists when valuable information is distributed to parties in similar situations. In this case, no side involved in the transaction has complete information or data on the situation, however one side of the transaction may be more informed than the other side involved. The *vertical information asymmetry* appears when one party has information the other party has not and there is no intent in sharing it with the uninformed player.

*Horizontal information sharing* and *vertical information sharing* are two respective strategies that have been developed as a response to both information asymmetry categories and aim to reduce the asymmetry based in their nature and increase transparency in the market. These strategies should be implemented after assigning the situation to one of the forms mentioned. Main focus while applying them must be on information sharing, as a tool that would certainly create a win-win situation for the participants. Horizontal information sharing is not conditioned to the engagement of the informed party. It can be executed between the uninformed parties by sharing with each-other the information available to them. On the other hand the vertical information sharing requires the involvement of the informed player in the reduction of the asymmetry. Different incentives can be given in order to release the information to the uninformed player and increase satisfaction and rational decision making. In this context, institutional intervention can give a hand to solve the improper balance of information in specific markets that results in adverse selection and moral hazard effects in the purchasing behavior of online buyers (Clackson, Jacobsen and Batcheller, 2007).

#### *2.1.2 Adverse selection and moral hazards*

*Adverse selection* happens when two or more parties are about to enter in an agreement and one of them has information that the others do not have, like quality of the product provided, side effects etc. It is a pre-purchase asymmetry problem that can encourage inefficiencies in the market. When talking about information possession asymmetry, by default we understand it as the seller may be superior to the buyer in terms of knowledge obtained, however the opposite can be the case too. The insurance market is one of the most mentioned cases related to adverse selection where the party that lacks awareness about certain parts of the transaction is actually the service provider and not the service receiver. The problem stands in the

results that the existence of such situation leads to, which can be inappropriate decision making (Chiappori and Salanie, 2000).

*Moral hazards* on the other hand is a post-purchase result of asymmetric information that is developed when the contract is not a *bona fide* one. The informed player misleads the uninformed player toward a purchase that is beneficial to him (informed participant). This can be explained through the principal agent problem. Considering the uninformed party as the principal and the informed one as the agent, the main idea behind the concept stands in a situation where there is an abuse from the agent by not acting in the best interest of the principal (Jensen and Meckling, 1976). When known by the principal what the agent is doing, the result may be the non-occurrence of the transaction at all. In addition, if the purchase has been concluded or the contract is signed and the principal agent problem is revealed by one party, change of behavior after the purchase is expected and the trust between parties will break leading reputation crisis and punishments.

## 2.2. Information asymmetry resistance

Nevertheless, everyday more the effect of information asymmetry in the online market is being reduced because of ratings, reviews, warranties, terms and conditions etc. In the case of eBay, the fact that sellers are partially contracting on the quality of goods by showing private information through photos and text, offers a kind of agreement with buyers that the product will be delivered as being presented. Sellers' superiority in the online market is losing its power to affect uncertainty as consumers are gaining power to control the purchasing process and decisions on channels and products (Chen, 2009). Consequently, information asymmetry seems to play a diminishing role in the performance of such companies (Lewis, 2011).

## 3. Case of Albania

In Albania, online purchasing is manifesting itself differently compared to other countries. The post '90-s Albania has gone through various economic, political, social and demographic changes. Globalization has pushed Albania's opening towards the market economy and pressure from Albanian and international investors has pushed for new regulations regarding the e-commerce sphere, when at last in 2008 Albania adopted the law for electronic commerce for the first time which has been an important starting point to vitalize the e-commerce competitiveness in the market.

Online purchasing data for the Albanian market are difficult to access; there are no reliable public data about this type of purchase, however, referring to reports published by the Albanian Post, which is at the same time the main national provider for the transport services of online purchased products, an increasing trend had been noticed until recently (Posta Shqiptare, 2016).

Domestically speaking, even though there are only few local companies contributing to the online purchasing market the number of online purchasing users has been increasing through years due to its improved availability. Lately, some changes in the customs regulations and directives about the upper limits of international postal payments to be taxed, which directly affects online purchasing has brought with some serious drawbacks for this sector. Actually, starting from the summer of 2016 a custom tax of 22.4%, is to be paid for any international purchase that exceeds the value of 22 Euro coming from another country as an online purchased package (Directory of Customs, 2018). In the past years this limit has been 150 Euro. This obviously has lead to reduced online purchasing levels. In January-May 2017 period, a 12.1% decrease in international postal packages compared to the same period in the previous year was observed, which seems to come from the increased taxable limit of international packages (Revista Monitor, 2017).

#### 4. Research methodology

To our knowledge there are no previous studies related to this topic in Albania. As a result, for the specific purpose of our study a set of questions for a survey has been tailored based on the information assymetry and online purchasing literature. Data has been gathered through a purposive sampling technique where in order to catch the user experiences as fresh and clear as possible the precondition of having had a recent online purchasing experience was set for participants to attend the study. Due to this precondition we conducte an observation and survey with a limited sample of 60 local albanian online purchase users.

The survey was composed of 10 questions and targeted the online buyers to analyze the effect of the information asymmetry in their purchasing behavior. By the consent of participants memo notes have been taken for participants as well, to be later analyzed and compared to their survey answers. These questions can be used in the future, for further studies, with greater number of respondents, in order to increase the reliability of this study or to compare changes in online buyers' attitudes. Each individual answer was analyzed separately and then altogether with the help of SPSS 20 statistical package to see for possible correlations and trends. Unstructured answers were later on quantified for further processing in the software.

As seen in Figure 1 below, a research model has been proposed by bringing together the main variables included in the survey, with the intent to observe how these variables affect the decision making in online purchasing. In this model *source of information*, the *sleeping variable*, *terms and conditions*, *reviews and ratings* together with the *market superiority* are analyzed as antecedents of the lack of information awareness and are considered as independent variables. For this part of the model, *lack of information* in the online market is considered as the dependent variable. Meanwhile for the second part of the proposed model *buying preferences* is considered as the dependent variable and the *lack of information* is considered as the independent variable.

The model emphasizes the importance of information asymmetry in the online buyer's behavior. Terms and conditions, reviews and ratings help shaping perceptions and together with the 'sleeping variable' that stands for the idea of taking for granted the fact that sellers have more information than buyers in the online market, the source of information that consists on the focus given to arguments or photos, and market superiority that stand for whom online buyers consider as superior in the online transactions are indicators of the attitude of online buyers towards information asymmetry or the lack of information. This lack of information is later translated into concrete behaviour as of hesitating to use online purchase means and focus on the traditional market or the vice versa.

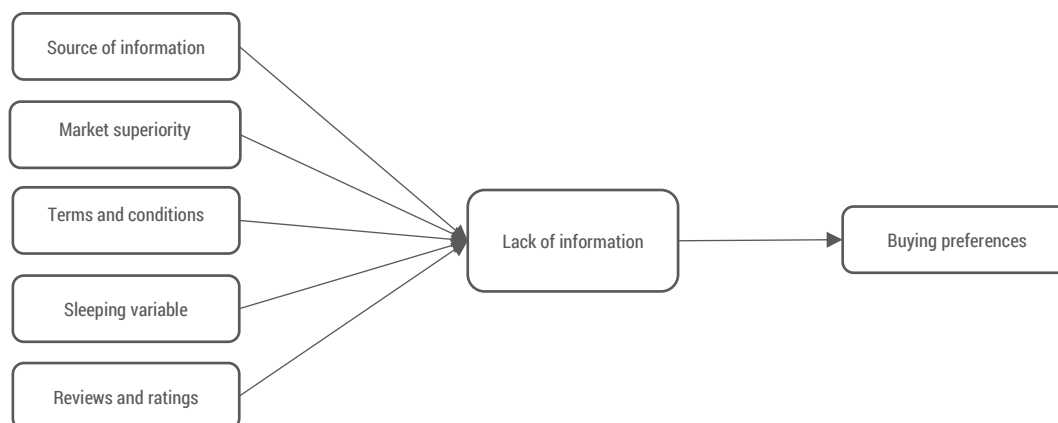


Figure 1: Proposed research model

## 5. Data analysis and findings

In this part of the study we show the results of the conducted survey and the explanations about the results generated from the in-depth observations.

Regarding the *buying preferences* of participants in the study it was aimed to understand online buyers' preferences and then further process the information to finding the reasons behind the preferences. Results show that between buying online and the traditional market 80% of participants would rather prefer the traditional market. Observation and further in-depth study reveal that there are many factors that may lead to such preferences. Some of them include; lack of trust which can even be a consequence of information asymmetry, delivery time due to the fact that it is less time consuming going to a physical store and choosing what to buy than waiting for the products to be delivered as well as past experiences on delivery problems related to the product's physical conditions that may arise during the delivery process. Additionally, it must be mentioned that many buyers consider the physical contact with the product before purchasing it as an important element in the process. Online market does not offer this opportunity, increasing the uncertainty about real products' characteristics.

Later, the *information asymmetry* concept was studied in the form of buyers taking for granted the fact that sellers have more information than them in online transactions. We have called this as 'the sleeping variable', meaning that online buyers may not know that this variable can affect their decision making, but indirectly may act towards reducing its effects. More than half of participants admit entering an online transaction with the mindset of the seller explicitly knowing more than them, thus proving the existence of information asymmetry. The presence of this variable allows sellers to take advantage of the extra information they have and decide not to present all the information about a product to buyers. This may result in distorted decision making based on partial information with buyers accepting this situation only because of the mindset that sellers always have superior information in such transactions. However, even though many times unconsciously most of the buyers despite this sleeping variable act upon balancing the power in the transaction by searching for alternative and substitutes that the online market offers.

The issue of *market superiority* was discussed in order to understand whom online buyers consider as superior in the online transactions. It seems that the 'sleeping variable' effect is present in here too as the highest number of participants (70%) in the study consider sellers to be superior in the online market. The sleeping variable, the impossibility of having a prior physical contact with the product before purchasing it and the latest developments in technology that keep track of searching history of online buyers leaving space for possible manipulation by companies, emerge as possible factor during further observation of results.

Furthermore, we asked participants about the existence of the *lack of information* awareness upon every product or whether it is limited with certain products. And in line with our information asymmetry thoughts about 65% of participants believe that lack of information exists, but not for all products purchased online. This depends on what kind of products do the online buyers shop online. The participants may have done several transactions online involving different products and may have seen similar features toward lack of information to specific group of products.

In order to observe what kind of possible risks online decision makers take into consideration when purchasing a product, participants were asked about *perceived risks* such as fraud risks where information provided is not true, delivery risks related to losing or physical damages of the delivered products, information risks when information showed is not sufficient, and the financial risks which are related to

unforeseen extra fees or more money spent when making an online transaction. Perceived risk is one of the major contributors in certain purchasing behaviors (Naiyi, 2004). In this perspective, about 40% of participants claim that fraud risk has the greatest impact and is a significant driver in their decision-making processes in online purchasing. Being limited to what information the seller offers the buyer, can lead into thinking that maybe the seller is not acting on buyers' interest like in the principal agent case. Furthermore, certain negative experiences that have been shown in media, may have grabbed users' attention and affect their decision making, especially if the situation has been lately heard. Delivery risk too seems to have an important impact as about 30% of participants view it as the most important criteria in online purchasing decisions. Through further observation it results that this percentage is a result of the fact that packages usually take a long time to arrive in Albania considering that purchases online mainly are done in United States or China based companies. Another observed reason too is the excessive bureaucracy involved in case of physical damages from the Albanian postal service providers.

*Terms and conditions* documents are supposed to reduce moral hazard and adverse selection because they represent a kind of a virtual contract, however Becher (2008) claims that very few people tend to actually read them, thus having little to do with lowering the effects of information asymmetry. In our case, most of the participants (73%) consider terms and conditions to have a moderate to high impact in their purchase decision. The non-reading trend of terms and conditions by buyers grants space to sellers to abuse with long and complicated terms and conditions. Instead, online purchase users tend to focus on more visible features like photos of how products look like or arguments and information provided.

*Reviews and ratings* used by buyers to evaluate the products and the source they have purchased from represent in a way the peer exchange of information where none of the parties has complete information, but one can have more than the other and as a result can share it which can lead to the reduction of information asymmetry. The use of these estimators has contributed a lot to the increase of transparency in the online market. In our case, participants highly value (80%) the effect that reviews and ratings have in their decision making. In this way they evaluate the product quality and source credibility. Sometimes it may be claimed that they can be manipulated, but however remain an important source affecting decision making because they tend to reveal positive and negative sides of products previously consumed by other users.

When asked about their *information search* efforts in evaluating various sources of online purchasing as a mean of understanding if buyers make decisions based on simple research or they put more effort towards extended research, it results that the vast majority of buyers (95%) search for different alternatives before making a purchase decision in order for a proper evaluation of the value advertised by different sources.

## 6. Model validation

The data analysis in SPSS 20.0 package has produced encouraging results in terms of validating the proposed model and in terms of correlations between the variables analysed in this study. In the case of the Lack of Information model the results were obtained as seen in Table 1.

Table 1: Lack of information model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.691 <sup>a</sup>	.478	.399	.346

a. Predictors: (Constant), Market Superiority, Reviews and Ratings, Source of Information, Sleeping variable, Terms and Conditions



The model shows that 47.8% of the variance is explained by the Market Superiority, Reviews and Ratings, Source of Information, Sleeping variable, and Terms and Conditions independent variables altogether. The rest of the variance is explained by variables not object of this study.

Meanwhile, in the case of Buying Preferences Model the results were obtained as seen in Table 2.

Table 2: Buying preferences model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.572 <sup>a</sup>	.327	.276	.557

a. Predictors: (Constant), Lack of Information

The model shows that 32.7% of the variance is explained by the Lack of Information as the independent variable. The rest of the variance is explained by variables not object of this study.

Later, correlation tests were conducted for some of the variables included in the proposed model. In this perspective, correlation analysis between Buying Preferences and the Sleeping Variable is shown in Table 3.

Table 3: Correlation analysis

		Buying Preferences	Sleeping variable
Buying Preferences	Pearson Correlation	1	-.430**
	Sig. (2-tailed)		.006
	N	40	40
Sleeping variable	Pearson Correlation	-.430**	1
	Sig. (2-tailed)	.006	
	N	40	40

\*\* Correlation is significant at the 0.01 level (2-tailed).

The results show a significant correlation at 10% level of significance. The correlation coefficient shows a weak to moderate correlation between the variables. The negative sign of the coefficient of correlation means that an increase in buying preferences in favor of traditional markets would decrease the sleeping variable or the vice versa. These results show that the higher the number of online purchase users the higher the sleeping variable, thus more partially informed transactions favoring the seller in that kind of market. Correlation analysis between the Market Superiority and Lack of information variables is as shown in Table 4.

Table 4: Correlation analysis

		Market Superiority	Lack of information
Superiority Lack information	Pearson Correlation	1	-.332*
	Sig. (2-tailed)		.036
	N	40	40
	Pearson Correlation of	-.332*	1
	Sig. (2-tailed)	.036	
	N	40	40

\* Correlation is significant at the 0.05 level (2-tailed).

The variables are significantly correlated at 5% level of significance. The correlation coefficient shows a negative correlation between the two. The negative correlation shows that an increase or decrease in one of the variables will have the opposite effect to the other variable. Nevertheless the correlation coefficient shows a weak correlation between the two variables. This result indicates that the more superior are sellers considered in the market the less information possessed by buyers is perceived. Normally if there is no lack of information in the market it means that all the details a buyer wants to be presented to when making a purchase, are provided by the seller. However this study has shown the opposite and maybe it is the sleeping variable that affects the selection of alternatives.

## 7. Conclusions

At the core of the research purpose of this study lies the information asymmetry concept and how it affects the Albanian online buyers' behaviour. After an extensive literature review, research gaps about the Albanian case were defined and based on the research purpose of this study relevant survey questions and observation protocols were developed.

As already stated, the aim of the study was to test if information asymmetry led to certain decisions that would not be the same without the presence of improper information distribution in the market. In addition, considering the different behaviours that buyers exhibit in these markets, it was necessary to test the effect that certain variables present in online market but not in the traditional one affect the decision making process of online buyers and reduce the overall information asymmetry.

Results were analysed separately for each variable and then incorporated in the presented models. The testing of the variables was done through the correlation analysis as opposed to a regression analysis with special focus on the explained variability. The empirical findings show that the majority of online buyers consider sellers as superior in the market and the information asymmetry to be widely present confirming the assumption of distorted online purchasing behaviour. There is uncertainty among participants of this study about the credibility of the information provided in the online market. The idea of manipulated information resulting from the inability of having physical contact with the product is strongly affecting their attitude. This may have led to the majority of participants claiming they would rather prefer to buy in the traditional market than in the online one. Despite the lack of trust in this kind of market the participants use different tools to reduce the information asymmetry. The usage of multiple sources, reviews and ratings, terms and conditions show to have a significant importance in their purchase decision-making. Therefore, the availability of the online market can be said to positively influence this kind of decision making, even though the information asymmetry effect can be certainly not ignored in the insecurity of buyers regarding the decision whether this risky behaviour will justify the monetary value they provide in exchange.

To increase the reliability of the study, further analysis can be done by increasing the sample size and testing the variables in various contexts. The study can be even continued to observe longitudinal changes in the online buyers' behaviour as time passes and the online market changes in Albania.

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