

## Chapter II

# Understanding the Impact of Household End Users' Privacy and Risk Perceptions on Online Behavior

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### **ABSTRACT**

*This chapter reports research concerning privacy, risk perceptions, and online behavior intentions on a sample of expert household end users. Findings include identification of (1) an e-privacy typology, consisting of “privacy aware,” “privacy suspicious,” and “privacy active” types, and (2) an e-privacy hierarchy of effects. Results suggest the presence of a privacy hierarchy of effects where awareness leads to suspicion, which subsequently leads to active behavior. Perceived risk was found to interact with the e-privacy hierarchy and to have a strong negative influence on the extent to which respondents participated in online subscription and purchasing. A key finding was that privacy active behavior which was hypothesised to increase the likelihood of online subscription and purchasing was not found to be significant. The chapter concludes with a number of important implications for managers, and directions for future research are discussed.*

## **INTRODUCTION**

Advances in online technologies have raised new concerns about privacy. Worldwide, more people are moving to the online environment with the number of Internet users growing to a population of 1093 million as of December 2006 (Nua Internet Surveys, 2003). In addition, household users of the Internet are increasing rapidly with 136.60 million Americans and 8.79 million Australians having online access at home (Greenspan, 2004). As this burgeoning number of household end users of the Internet embark on new activities online, the issue of privacy and security becomes a major concern for consumers (Milne & Rohm, 2000; Sheehan & Hoy, 2000) and governments and consumer organisations (Consumer Reports Org, 2002; Federal Trade Commission, 1996, 2000a, 2000b; Office of the Federal Privacy Commissioner, 2001a). As a result, specific calls have emerged for end user research on security and privacy to be extended to household end users (Troutt, 2002). Businesses also recognise privacy as an important positioning tool with, for example, the ISP EarthLink positioning itself on privacy in its competition against the dominant company AOL (Sweat, 2001) and myspace.com, a site for developing personal friendships, carefully delineating its privacy policy (Myspace.com, 2007). As more household end users become increasingly expert in that environment, privacy in the electronic domain (e-privacy) needs specific research attention (Perri 6, 2002). Given the growing number of competent experienced Internet users, e-privacy issues need to be reframed and investigated in the context of their online expertise.

This chapter focuses on the expert household end user, defined as highly competent experienced Internet users who consistently spend time online, are likely to have subscribed to commercial and/or government Web sites, to have purchased online, and have Internet access via a home computer. The chapter proceeds as follows. First, privacy conceptualisations and typologies are examined. Second,

theoretical approaches to consumers' online privacy and risk perceptions are addressed, together with the argument that privacy issues from the perspective of the expert online household user needs to be considered. Third, the methodology is explained, and the results of the two studies undertaken are provided. Finally, findings are discussed, management implications are drawn, and future research directions are identified.

## **CONCEPTUALISATION OF PRIVACY AND TYPOLOGIES**

The protection of privacy has received growing attention in the literature (Buchholz & Rosenthal, 2002; Charters, 2002; Cook & Coupey, 1998; Hoy & Phelps, 2003; Milne & Rohm, 2000; Miyazaki & Fernandez, 2001) in conjunction with the advances in technology and its applications to the Internet (Sappington & Silk, 2003). There are a number of conceptualisations of privacy, but fundamentally privacy has been viewed as the right to be left alone (Warren & Brandeis, 1890), manifesting in the definition that other people, groups, or entities should not intrude on an individual's seclusion or solitude (McCloskey, 1980). For many people, there is now an expectation of privacy as a basic consumer right (Goodwin, 1991). The issue becomes problematic when violations to privacy occur where consumers' control over their private information is unwittingly reduced (Culnan, 1995; Nowak & Phelps 1995; Lwin & Williams 2003). However, privacy is not enshrined in constitutional rights, nor is it grounded as essential to the operation of a democracy, as free speech is held to be essential in countries like the United States of America. Privacy is thus a weak right (Charters, 2002) which may be easily over-ridden by other legislative rights. Privacy and anonymity are also associated for many with personal freedom and liberty. Specifically, privacy is considered to exist when consumers are able to control their personal information (McCloskey, 1980) or restrict the

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