

Chapter 7.11

The Quality of Online Privacy Policies: A Resource–Dependency Perspective

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ABSTRACT

Privacy concerns and practices, especially those dealing with the acquisition and use of consumer personal information by corporations, are at the forefront of business and social issues associated with the information age. This research examines the privacy policies of large U.S. companies to assess the substance and quality of their stated information practices. Six factors are identified that indicate the extent to which a firm is dependent upon consumer personal information, and therefore more likely to develop high quality privacy statements. The study's findings provide practical and theoretical implications for information privacy issues, particularly for consumers who need to determine whether or not to disclose

their personal identifying information to firms. The results illustrate the complexity involved in managing personal private information.[Article copies are available for purchase from InfoSci-on-Demand.com]

INTRODUCTION

Many reasons exist as to why it is important to understand information privacy. With today's globalization, a company may be registered in one country, hosted in another, and do business with consumers anywhere in the world (Jensen, Sarkar, Jensen, & Potts, 2007). Companies are increasingly dependent on consumer information. In this age of e-commerce, real time enterprises,

and globalization, firms collect consumer information to provide customized services, identify buying trends, and target goods and services for specific markets (Kobsa, 2007; Chellappa & Sin, 2005). Although privacy is highly valued, most people believe that absolute privacy is not attainable. Consumers make choices on how much and what type of privacy they are willing to give up in exchange for outcomes that are valuable to them (Diney & Hart, 2006).

In some cases, consumers and privacy advocates protest the use of personal identifying information by asserting a right to information privacy; that is, the right of any individual to control the way companies collect, store, and use their personal information (Culnan, 1995, 2000). Stakeholders include those who have privacy interests in a system (Preibusch, Hoser, Gürses, & Berendt, 2007).

Although the use of individual personal information is regulated in some industries, the majority of information privacy protection is voluntary. Extending protection to consumers, however, is not without costs. First, companies promise to limit their use of consumer information in particular ways and, presumably, surrender some of the potential value of the information compared to unrestricted collection, storage, and usage. Second, since privacy protection is voluntary, most companies are subject to legal repercussions *only* after they develop privacy promises. Thus, although companies are not required to make any privacy guarantees to consumers, once companies do make such promises, they are legally bound to deliver on the promises made (Chan, Culnan, Laden, Levin, & Smith, 2004). Finally, the direct cost of addressing information privacy concerns is high. Firms hire attorneys, chief privacy officers (or their equivalent), privacy consultants, and other staff to identify and manage firm-specific privacy issues. Writing and enforcing a privacy policy as well as implementing other privacy enhancing mechanisms are time-consuming and costly.

Providing information privacy protection is a complex and often paradoxical issue for firms. Privacy is an important determinant in customer behavior (Castañeda & Montoro, 2007; Yao, Rice & Wallace, 2007). In some cases, a strong, consumer-oriented privacy stance has only detrimental consequences for the company. The direct and indirect costs of addressing privacy concerns may lead to self-imposed restrictions that limit the firm's future actions. On the other hand, a proactive stance makes the firm appear more consumer-focused in the eyes of the consumer, privacy advocates, and potential government regulators. It is, therefore, important to understand why some firms extend privacy protection to their customers as well as the extent of the privacy protection they afford. The objective of this research, then, is to pose and address the following research question:

What factors explain a firm's willingness to develop high quality privacy policies when these protections appear to limit the firm's ability to leverage consumer information to its advantage?

Specifically, this research seeks to provide insight into the motivation for privacy policies and to assess the extent of information privacy protection provided by large corporations.

Identifying the factors that lead firms to extend privacy protection to consumers benefits both the companies and their customers. First, companies can assess their business need to provide privacy protection to consumers as a function of their dependency on consumer personal information. Second, consumers benefit by knowing the characteristics of firms that are more likely to protect their privacy. The task of examining the privacy policies of each company every time a customer provides personally identifying information is onerous. Understanding the general characteristics of firms that are likely to protect personal information provides the customer with a better understanding of the overall information privacy

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