



Trust production and privacy concerns on the Internet

A framework based on relationship marketing and social exchange theory

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Abstract

Trust plays a key role in the electronic market that involves high uncertainty and lack of legal protection. Building trust online is proposed as a solution to consumers' privacy concerns. Drawing from relationship marketing and social exchange theory, this study examined several key mechanisms that can help increase customers' trust of e-commerce and decrease privacy concerns. These mechanisms include characteristic-based (e.g., community), transaction process-based (e.g., repeated purchases), and institution-based trust production (e.g., digital certificate). © 2001 Elsevier Science Inc. All rights reserved.

Keywords: Trust; Privacy; Social exchange theory

Lack of trust is a significant impediment to electronic commerce. Lori Fena, Director of Electronic Frontier Foundation, 1996.

People entering the brave new Internet world with their most personal financial information—using online tax preparation services—should take care to ensure the sites respect the privacy of taxpayer information and can transmit returns securely, experts warn. ABC News, March 10, 2000.

1. Introduction

As suggested by relationship marketing and social exchange theory (SET), trust is the most precious asset any business has, the bedrock on which business is built [2,46]. In the new era of the Internet and World Wide Web (WWW), it has been noted that trust is more crucial than ever [19,29], may determine the future of the Internet itself [24], and can rule the web as well [48]. Thus, it is pivotal to investigate trust issues on the Internet.

According to the Wharton Virtual Market Survey in 1999, the growth rate of online spending per person is declining and there is a significant dropout rate of online shoppers, although the total amount of business conducted on the Internet and WWW is growing [27,50]. Most people hesitated to purchase online or even left the electronic market because of a lack of trust [18,25,45] and concerns about privacy [19]. Consumers are simply unwillingly to trust e-business with their personal information. For example, McGraw III [29] noted that although some people will use the Internet to read news, look for job opportunities, and compare ticket prices, many still will not buy anything online basically because of a shortage of trust and high privacy concerns. Moreover, Wang et al. [45] reported that the most crucial issue that Internet customers have identified is fear and distrust regarding to loss of personal privacy in the electronic commerce markets. Lohse et al. [27] found that concerns about privacy and lack of trust online were among the most important factors that lead customers to drop out of the online business. In Europe, lack of trust has also been noted to hold back e-commerce [30].

In the context of database marketing such as direct mail and catalog marketing, both academicians [6,17] and practi-

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tioners [36,41] have suggested that relationship marketing [11,34] is an alternative perspective to manage customer privacy issues [31]. By analogy, this paper proposes that increasing customers' trust online is a solution to online related privacy concerns and an important way to boost e-commerce. In particular, the purpose of the present study is two-fold: (1) to examine the nature of online privacy concerns and customer trust of electronic business and (2) to investigate, in the context of online privacy concerns, a framework of three trust production mechanisms suggested by Zucker [46].

It should also be noted that in business-to-business (B-to-B) marketing, online trust issues have been identified as a major challenge to companies moving toward e-business [47]. As such, the proposed three trust production mechanisms have ample managerial implications for B-to-B marketers. The following section will review the privacy and trust research in the Internet marketing literature.

2. Privacy concerns and trust

Privacy, often termed as the right to be let alone, refers to personal information which has multiple dimensions: privacy of an individual's body, privacy of personal behavior, privacy of personal communication, and privacy of personal data [9]. In the arena of Internet marketing, invasion of privacy is commonly interpreted as the unauthorized collection, disclosure, or other use of personal information such as selling it to other e-marketers [45].

Consumer information collected via the Internet could be bundled and sold by a cybermediary to other marketers interested in selling products. From an economic point of view, such practices may have negative impacts on web users. First, unsolicited information in the form of spamming or junk email would cause an added cost to the consumers. The added costs in turn would enter into customers' valuation of the web experience. In the end, this could lead some customers to drop out of the virtual market. The second and more serious impact is the loss of consumer privacy, a key concern of web users [8].

In the Electronic Privacy Information Center's survey of the top 100 e-commerce sites in the year 1999, it was found that privacy policies were often confusing, incomplete, and inconsistent. The wide variation of these policies might frustrate consumers who try to determine which websites provide the best privacy protection (www.epic.org/privacy). This in turn could aggravate consumer concerns about their personal information, and thus negatively impact upon their attitude toward the web site and their purchasing behavior on the Internet [40].

Internet privacy concerns have propelled responses from both government and business industry. At the government level, both the Federal Trade Commission (FTC) and the US Department of Commerce (DOC) have pronounced a set of guidelines for businesses regarding the fair collection of

information. For example, the FTC requires that sites provide notice of what they collect and how they use it, offer consumers reasonable access to that information and opportunities to correct inaccuracies, and take reasonable steps to protect the security and integrity of the information [2]. It also recommends privacy regulations for sites that target at children and has endorsed the Children's Online Privacy Protection Act of 1998 (S. 2326). In the business industry, online seal programs are used to build consumer confidence regarding privacy. Examples of these online seal programs include TRUSTe, MasterCard, Visa, and BBBOnline. If an online business adheres to certain privacy principles, it is allowed to display a special seal of approval on its website. TRUSTe is dedicated to building consumers' trust and confidence on the Internet, and, by doing so, to accelerate the growth electronic commerce (<http://www.truste.org>). A similar approach is Better Business Bureau Online, which is designed to affirm consumers that their personal information will be safeguarded in cyberspace by the companies that participate in its privacy seal program (<http://www.bbbonline.org>).

A number of empirical studies have evidenced consumers' increasing privacy concerns regarding the e-commerce. In a sample of 420 consumers, Korgaonkar and Wolin [25] found that nontransactional privacy concerns (e.g., detesting junk email or concern about personal information) were significantly and negatively associated with the percentage of business web use. They also reported that transaction-based security and privacy concerns (e.g., concern about giving credit card number and the security of financial transactions on the web) were negatively related to web purchases over the past year. In another survey of 1123 advertising agencies and client organization decision-makers, Bush et al. [5] (p. 25) found that "security/privacy issues are major barriers to utilizing the Internet as a marketing tool." Finally, Hershel and Andrews [18] reported that many users are reluctant to purchase products because of uncertainty regarding the privacy and security of the transaction information.

Given the fact that consumers are highly concerned about their private information [9,19,23] and that privacy concerns have a deleterious impact on e-commerce [18,25], it is very important for e-business to find a way to solve the privacy concern problems. Building customers' trust, a core component of SET and relationship marketing, can be one of these solutions.

In the direct marketing literature, Mine and Boza [31] noted that in conjunction with the rise of database marketing, marketing organizations have implemented various procedures to comply with fair information practices. One such procedure is customer opt-out choice, by which customers can remove their name from the mailing lists. However, even with opt-out choice, consumers are still concerned about personal information. Thus, Campbell [6] and Gengler and PopKowski [17] were among the first scholars to conceptualize trust as an alternative way to

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