



# ‘Understanding consumers’ reactance of online personalized advertising: A new scheme of rational choice from a perspective of negative effects



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## ABSTRACT

Consumer reactance appears to be a major inhibiting result in the personalization paradox of online personalized advertising. The objective of this study is to uncover consumer reactance of online personalized advertising. We identify the rational choice factors rooted in the rational choice theory from a negative-effect perspective and examine their impacts on consumer reactance with consideration of affective factors. Our results confirm that three rational choice factors from a negative-effect perspective have significant impacts on consumer reactance, and affective factors such as ownership and vulnerability are dominant determinants of these rational choice factors. The effects of these affective factors on consumer reactance can be mediated by individual rational choice factors. The findings provide a new perspective on the paradox phenomenon and offer online personalized advertising providers new approaches to improving their performance.

## 1. Introduction

Many modern online companies (e.g., Tmall and Amazon) use advanced Internet and computing technologies to exploit user data in order to implement online personalized advertising (OPA) on their platforms (Kim & Dan, 2017). Consumers may perceive these services as more attractive and favourite (Lambrech & Tucker, 2013; Shareef et al., 2017). However, OPA may cause consumers’ unfavorable beliefs. For example, they may perceive privacy concerns in terms of personal data that is collected tacitly and limited capacities to choose and buy (Aguirre et al., 2015; Newell & Marabelli, 2015). This double-edged sword is a personalization paradox: there is tension between how online retailers exploit user information to offer personalized benefits, and users’ concerns over the risks in the usage of OPA (Sutanto et al., 2013).

The personalization paradox often produces a negative response in individual reactance towards certain online shopping applications (Fitzsimons & Lehmann, 2004). Reactance may make users resist OPA when they find coercive or threatened of their freedom (Brehm, 1989). It was reported that “only 13% of consumers admitted to clicking on one of these retargeting ads” (Guild, 2013). User click-through rates suggest that individual OPA campaigns are generally unsuccessful. However, prior studies were centred on individual positive responses (e.g., psychological comfort and willingness to disclose information) while paid little attention to the negative ones (e.g., reactance) (Li et al., 2017; Sutanto et al., 2013). Therefore, an understanding of what

factors of the personalization paradox influence consumer reactance is central to helping online retailers diagnose the deficiencies in their marketing strategies and providing them with ways to improve their performance.

The benefit and risk factors of the personalization paradox form users’ reactance, while consumer reactance may in turn shape these factors (Sharot et al., 2010). Consumer reactance refers to an individual final negative response towards OPA. Hence, in the context of consumer reactance, users may develop benefit and risk beliefs from a negative-effect perspective by interpreting them as a perceived concern, risky nodes, or unfavorable expectations (Liu et al., 2014; Samba et al., 2018). Therefore, there is a pressing need for reconstructing the benefit and risk factors from a negative-effect perspective in terms of individual negative response.

Affective factors are strongly associated with individual benefit and risk assessments (Slovic et al., 2004). Positive affections towards a given stimulus have more effects on perceived benefits, while negative affections involve perceived risks (Finucane et al., 2000). For example, ownership and vulnerability are two major affective factors which influence cognitive perceptions (Aguirre et al., 2015; Bandyopadhyay, 2011). Accordingly, these findings compel us to examine the precise natures of affective factors and their roles in individual cognitive processes from a negative-effect perspective.

In this study, we intend to extend the knowledge about the consumer reactance towards OPA by combining the rational choice factors

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from a negative-effect perspective rooted in the rational choice theory and affective factors. In particular, we aim to reconstruct the benefit factors of the rational choice theory from a negative-effect perspective defined as perceived costs of non-personalization. Privacy concerns and opportunity cost are suggested to be two main risk factors in the OPA context. Hence, we pose two research questions:

- (1) How do individual rational choice factors from a negative-effect perspective affect consumer reactance towards online personalized advertising?
- (2) How do affective factors affect individual rational choice factors from a negative-effect perspective in the OPA context?

The rest of this paper is organized as follows. Section 2 reviews the theoretical background of reactance, personalization paradox, and affective factors. Our research model and hypotheses are discussed in Sections 3. We then describe our research methodology and the results of our hypothesis tests in Section 4 and 5. The penultimate section discusses our findings in detail and draws some implications. Section 7 provides a conclusion.

## 2. Theoretical background

### 2.1. Reactance

Reactance describes a negative psychological response that consumers resist a persuasion attempt where they find coercive by performing against to that intended (Bleier & Eisenbeiss, 2015; Tucker, 2014). Individual attitude changes in response to anything perceived as a threat to his or her freedom (Edwards et al., 2002). If an individual's aesthetic choices are predicted based on a personality test, for example, he or she may respond in reactance to any predictions presented to him or her based on those choices (Hannah et al., 1975).

OPA can give rise to consumer reactance in terms of an array of potential risks (Bleier & Eisenbeiss, 2015). OPA aims to present consumers certain offerings related to their personal needs and preferences, but consumers may feel that it manipulates or threatens their freedom of choice (Aguirre et al., 2015). Presenting only certain options also may hinder consumers' evaluations of the remaining alternatives, which can further produce reactance (Newell & Marabelli, 2015).

### 2.2. Personalization paradox under rational choice theory

Rational choice theory offers a theoretical explanation of how individuals make decisions when faced with choices. It demonstrates that individuals' decision-making process is determined by balancing the benefits and risks of his options (Bulgurcu et al., 2010; Wang et al., 2015). Rational choice theory focuses on the rational behavior of users rather than the irrational and immediate one such as the impulsive behavior. Rational behavior occurs when a balance between perceived benefits and risks towards the behavior is needed, whereas impulsive behavior is motivated by a stimulus such as individual trait tendency and normative judgment (Ramanathan & Menon, 2005). In the personalization context, the personalization paradox is often considered as a trade-off between benefit and risk factors (Li et al., 2017). For example, it may be defined as the tension between consumers' perceived benefits of receiving customized applications and their growing concerns about privacy (Chellappa & Sin, 2005; Guo et al., 2012; Karwatzki et al., 2017; Lee & Rha, 2016). Users need to determine how they will act according to the balance between the benefits and privacy concerns (Sutanto et al., 2013). Similarly, our study aims to investigate the personalization paradox where both perceived benefits and risks existed so that users need to achieve a balance among these factors to make decisions. Hence, considering the benefit-cost trade-off nature of the personalization paradox context, we focus on the rational choice perspective rather than the other perspectives such as the impulsive one.

Therefore, based on rational choice theory, our study intends to investigate the personalization paradox considering rational choice factors such as benefit and risk perceptions. Our major dependent variable *Consumer Reactance* is related to an individual negative response towards OPA. Extant literature has confirmed that users' initial beliefs can be predicted by their decisions (Sharot et al., 2010). As such, because of the final responses to OPA as consumer reactance, users may form their initial beliefs towards OPA from a negative-effect perspective by interpreting them as a perceived concern, risky nodes, or unfavorable expectations (Liu et al., 2014; Samba et al., 2018). Prior studies have attempted to examine the rational choice factors from a negative-effect perspective. For example, Bulgurcu et al. (2010) proposed a rational choice framework in terms of two conflict courses (e.g., non-compliance and compliance with information security policy) and empirically verified the competing influences of beneficial and risk factors, including perceived costs of non-compliance and compliance (Bulgurcu et al., 2010). The perceived costs of non-compliance were the overall expected unfavorable consequences from non-compliance with information security policy. They were related to beneficial factors of compliance with ISP from a negative-effect perspective. The perceived costs of compliance were the overall expected unfavorable consequences from compliance. They were associated with the risk factors of compliance.

Thus, we intend to investigate the effects of the rational choice factors of the personalization paradox from a negative-effect perspective on consumer reactance. Following the studies of Bulgurcu et al. (2010), we posit that the rational choice factors from a negative-effect perspective consist of two key distinct beliefs: the perceived costs of non-personalization and the perceived risks of OPA. The former is defined as the cost (i.e., money, time) of online shopping without the support of OPA, which means the beneficial factors of the usage of personalization from a negative-effect perspective. The latter is related to the expectations of unfavorable consequences of OPA, implying the risk factors of the usage of personalization.

More specifically, we focus on two main unfavorable consequences, the privacy concerns and opportunity cost. Privacy concerns refer to the potential loss of control over personal information when released to a firm (Featherman & Pavlou, 2003; Xu et al., 2011). They were considered as the major risks negatively influencing individual attitude or behavior intention in the personalization paradox context (Aguirre et al., 2015; Karwatzki et al., 2017). Opportunity cost occurs when consumers have unlimited wants but limited resources so that they may satisfy one want while not satisfying another (Spiller, 2011). Accordingly, the opportunity cost is triggered by the limited access to various resources. In the personalization context, the "free" access to information is increasingly controlled by the personalized service through the determination of what users see (Newell & Marabelli, 2015). For example, Facebook reportedly reviewed which links users clicked more on and edited these links out while the other links disappeared (Pariser, 2011). In our paper, OPA offers customized products for users based on their previous browsing and purchase activities. Users may only access similar product information they have already been familiar with while the alternative offerings are hidden by OPA. Therefore, OPA may limit users' options or inhibit their capacities to make informed decisions regarding not only purchases but attitudes (Newell & Marabelli, 2015). Thus, we consider the opportunity cost as a kind of risk perceptions which may bring some negative outcomes for users (Bauer, 1960). It is defined as the risk of the potential information constraints in the usage of OPA which cause users' loss of the opportunities to see alternative information.

Prior studies have considered individual rational decision-making as an affection-motivated process (Slovic et al., 2004). The relationships among rational choice factors related to a given behaviour depend on the strength of positive or negative affections associated with it (Alhakami & Slovic, 1994). As such, individual judgments of benefits and risks are determined by the affective evaluations of the stimulus

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