



The penalty for privacy violations: How privacy violations impact trust online[☆]



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ABSTRACT

With information misuse as a particularly salient form of risk online, respecting privacy is often closely tied to trust in consumer surveys. This study uses factorial vignette survey methodology to measure the relative importance of violating privacy expectations to consumers' trust in a website. The findings suggest consumers find violations of privacy expectations, specifically the secondary uses of information, to diminish trust in a website. Firms that violate privacy expectations are penalized twice: violations of privacy (1) impact trust directly and (2) diminish the importance of trust factors such as integrity and ability on trust. In addition, consumers with greater technology savvy place greater importance on privacy factors than respondents with less knowledge. Violations of privacy may place firms in a downward trust spiral by decreasing not only trust in the website but also the impact of possible mechanisms to rebuild trust such as a firm's integrity and ability.

1. Introduction

Across context and industries, trust is important to maintain stakeholder relationships. Trust, as the willingness to accept vulnerability to the actions of another, has been found to be particularly important in situations with greater uncertainty, interdependence, and a fear of opportunism (Gefen, 2002; Mayer, Davis, & Schoorman, 1995a). Trust assuages the risk consumers perceive in regards to e-commerce (Gefen & Pavlou, 2012; Xu, Wang, & Teo, 2005) and is critical to users sharing information (Hoffman, Novak, & Peralta, 1999b) as well as the adoption of new technology (Miltgen, Henseler, Gelhard, & Popovič, 2016). When online, information risk persists as a source of vulnerability: who can use the information, for what purpose, and for how long? Information asymmetries and a lack of safeguards render online information exchanges fraught with greater uncertainty and a risk of opportunism (Martin, 2013).

With information as a particularly salient form of risk online, it is not surprising that meeting or violating privacy expectations is closely tied to trust by consumers (Pew Research Center, 2014; Turow, Hennessy, & Draper, 2015a). Privacy, as the norms and expectations of information flow within a context (Nissenbaum, 2010), governs how information should be treated. Respecting privacy means respecting the norms of what information is gathered, how information is used, and with whom information is shared; violating privacy means violating those information norms (Martin, 2016b; Nissenbaum, 2010). We have

yet to understand how privacy violating behavior, behavior that violates the rules about how information should be gathered and for what purpose within a context, impacts consumer trust in a website. Privacy seals and notices have been used as a proxy for privacy in research, yet recent work has shown users have privacy expectations and identify privacy violations regardless of the presence or substance of the privacy policy (Martin, 2015a).

While research has detailed important trust factors impacting trust online, specifics as to the role of meeting or violating privacy expectations online on consumer trust has not been examined. For example, consumers' online trust factors have included details such as the influence of recommendation types (Smith, Menon, & Sivakumar, 2005), a website's ease of use (Awad & Ragowsky, 2008), a user's relationship to fellow posters (Pan & Chiou, 2011), website design (Urban, Amyx, & Lorenzon, 2009), a website's characteristics, order fulfillment, and absence of errors (Bart, Shankar, Sultan, & Urban, 2005), a website's reputation and communication (Mukherjee & Nath, 2003), and even the legalistic-nature of a notice (Pan & Zinkhan, 2006). Such detail gives specific prescriptions to maintain trust online as well as contextualizing theoretical trustworthy concepts such as ability and integrity. Violations of privacy expectations, on the other hand, are difficult to measure, highly contextual, and have not been included in such particularized examinations of trust. Since much of marketing online relies upon gathering, storing, aggregating, and sharing consumer information, whether these practices impact consumer trust is

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critical for firms online.

This paper contributes to understanding the drivers of trust in online exchanges and makes the explicit link between meeting or violating privacy expectations and consumer trust. Specifically, this paper examines the role of violations of privacy expectations on consumer trust judgments in a firm and how respondents vary in assessing violations of privacy expectations in trusting a firm. Using a factorial vignette survey, realistic online scenarios were rated by respondents to identify which factors were important to trusting a website. Three surveys were run to systematically include privacy factors, trust factors, and both privacy and trust factors in the vignettes in order to isolate the impact of privacy on trust.

The findings suggest consumers find violations of privacy – operationalized as the secondary uses of information to sell to a data aggregator and retarget ads to friends – to diminish trust in the website. Firms that violate privacy expectations are penalized twice – violations impact trust directly and diminish the importance of trust factors such as integrity and ability on trust. Finally, while consumers with a high concern for privacy and low trust in websites are less trustful of specific firms, consumers with greater technology savvy – greater knowledge of the Internet and coding experience – place greater importance on privacy factors than those not technology savvy.

2. Hypotheses development: privacy and trust

2.1. Models of privacy & trust

Trust has been defined as the willingness to accept vulnerability of an individual, group, organization, or institution (Mayer, Davis, & Schoorman, 1995b; Pirson, Martin, & Parmar, 2014). Trust is studied at (at least) three levels: (1) individuals have a propensity or disposition to trust generally (Mayer et al., 1995b; McKnight, Choudhury, & Kacmar, 2002), (2) individuals may trust in an institution such as congress, banking, or online (Pavlou & Gefen, 2004), and (3) individuals trust a particular individual or organization by taking into consideration the trustworthiness signals of the trustee such as ability, benevolence, and integrity (Gefen, 2002).

Privacy and trust have parallel levels of analysis with both general attitudes, beliefs, and dispositions as well as particular judgments about a person or firm. Pirson et al. (2014) distinguish specifically between institutional trust and stakeholder trust in a firm. Stakeholder trust – here focusing on consumer trust – is closer to personalized trust in that an individual is willing to accept vulnerability of the actions of a particular organization. As shown in Fig. 1 Arrow D, consumer trust is based on the trusting tendencies of the consumer (Bhattacharjee, 2002;

Pavlou & Gefen, 2004) (McKnight et al., 2002) in addition to the ability, benevolence, and integrity of website or firm (Belanger, Hiller, & Smith, 2002).

In parallel, consumers have a general privacy disposition that transcends particulars of a situation. Similar to trust judgments about a website, privacy judgments are a combination of individual dispositions or attitudes about as well as contextual privacy factors around the type of information, context of use, and uses of information as shown in Fig. 1 Arrow E (Malhotra, Kim, & Agarwal, 2004; Martin & Shilton, 2015; Nissenbaum, 2010).

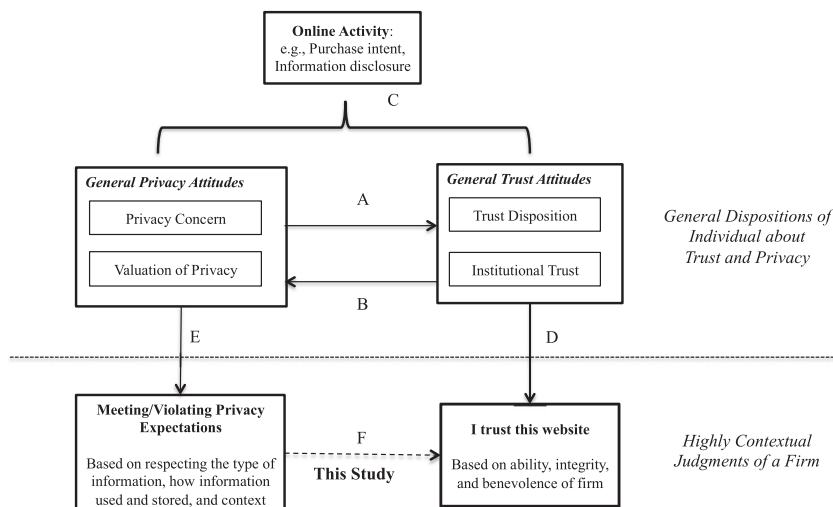
The goal of the review in Fig. 1 and Table 1 is to illustrate that the examination of the relationship between privacy and trust has focused on a general privacy concern of individuals or proxies for privacy violations partly because the empirical examination of context-dependent privacy definitions is relatively recent and partly because the actual information practices of a firm are not known by the consumer. What data is collected and how the data is used is not clear to consumers, so measuring how important such practices are is difficult in the field. Importantly, previous work linking privacy and trust has remained at the general level where consumers' general privacy valuation or concern impacts trust perceptions (Table 1 and Fig. 1 Arrow A). In parallel, trust disposition or institutional trust is found to reduce concerns about privacy (Rohm & Milne, 2004a; Xu et al., 2005) as in Fig. 1, Arrow B, and both general trust dispositions and privacy valuations jointly impact consumer intent and behavior (Arrow C).

While specific drivers of trust are examined, contextual approaches to privacy are difficult to empirically measure. Proxies – such as the existence of a seal or notice – are useful as a stand-in to respecting or violating privacy, where the presence of a seal is perceived as respecting privacy and the absence of a seal could be a violation of privacy. This study shifts to examine contextual definitions of privacy – such as privacy as contextual integrity (Nissenbaum, 2010, 2011) or a social contract approach to privacy (Martin, 2016) as shown in Arrow F. The focus of this study is the role of respecting versus violating privacy expectations in highly particular stakeholder trust in a firm – specifically the consumer trust in a particular website. The hypotheses below center on the role of violations of privacy expectations on consumer trust in a firm (H_1) and the role of violations of privacy expectations on the importance of trust factors on consumer trust (H_2) as well as how individual's differ in the importance of privacy violations on user trust (H_3 and H_4).

2.2. Role of violations of privacy expectations on trust judgments

Recent work on privacy suggests that privacy norms can be viewed

Fig. 1. Known relationships between privacy and trust (Table 1 includes references).



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