

PRIVACY ORIENTATION: AN EMPIRICAL STUDY OF FIRMS' INFORMATION PRIVACY BEHAVIORS

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Information privacy is defined as “the ability of the individual to personally control information about oneself” (Stone et al. 1983). Privacy operates at three levels: (1) the individual or consumer level, (2) the organizational level, and (3) the political level (Westin, 2003). Several studies in the literature have examined privacy as an individual and national level phenomenon. Fewer studies have specifically looked at organizational strategies to manage consumer information privacy. Accordingly, the objective of this paper is to present exploratory findings that attempt to understand how firms differ in their privacy policy strategy formulation, implementation and measurement.

We frame this paper in the context of the resource based view (RBV) of the firm. RBV posits that firms pursue sustainable competitive advantage through the development and use of firm resources. Greenaway and Chan, 2005 argue that some firms differentiate themselves based on superior customer insight and trust. In order to achieve this organizational goal, firms choose to develop and use customer information as a resource.

We argue that customer trust along with customer insight is obtained through the use of appropriate privacy policies and practices. We determine a firm’s privacy strategy policy through the privacy orientation of the firm. Privacy orientation is defined as the extent to which the firm believes in using privacy as a means to encourage consumer trust. Privacy orientation can be viewed as a continuum running from a legal perspective to a customer oriented perspective. The legal perspective assumes that the privacy policy has been framed primarily in response to regulatory requirements and institutional pressures. The customer perspective assumes that the privacy policy has been framed with a view to protecting the customer and enhancing customer trust in the firm.

In the context of RBV, we view customer relationship management and relational information processes as organizational resources. Superior performance with respect to customer relationships is the desired organizational goal. A firm’s customer (legal) privacy orientation can enhance (detract) the positive effect of firm resources on firm performance. Based on this argument, we propose a model (Figure 1) which seeks to explain firm specific privacy behaviors.

Customer relationship orientation refers to the propensity of an organization to focus on building and maintaining relationships with its customers (Jayachandran et al. 2005). Relational information processes are defined as the specific routines employed by an organization to manage customer information to establish long-term relationships with customers (Jayachandran et al. 2005). These include the processes used to contact customers, capture, access and use customer data. Based on the resource based view of the firm we hypothesize that customer relationship orientation and relational information processes will positively impact the privacy orientation of the firm. Additionally, privacy

orientation will mediate the relationship between the organizational capabilities of CRM and information processes and firm performance.

The contributions of this study are the following. First, this is among the first empirical studies on information privacy that seek to explain firm-specific behaviors. Second, we attempt to explain the strategic value of a firm's information privacy policy by examining the effect of firm privacy orientation on firm performance. Third, we show that a customer relationship orientation is crucial to the strategic use of information privacy, which in turn has a positive direct effect on firm performance. Overall, the results from this study have significant managerial and theoretical implications.

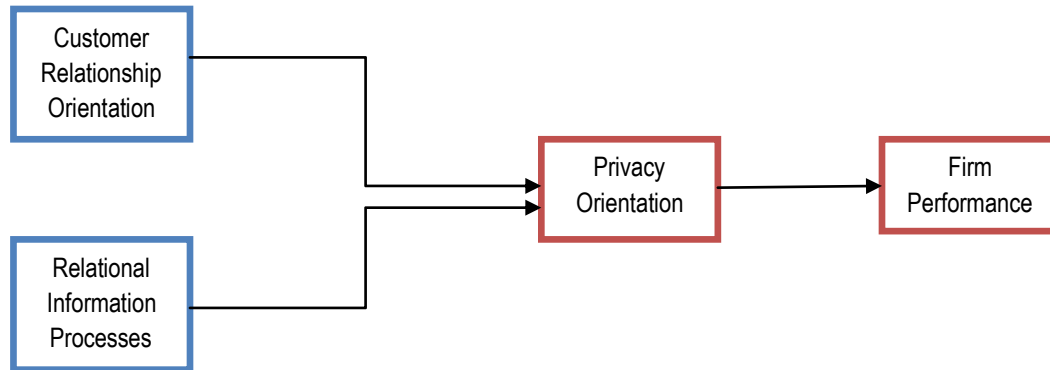
RESEARCH DESIGN AND METHOD

Established scales were used to measure the key constructs of customer relationship orientation and relational information processes. Firm performance was measured using self reported evaluations of market share, financial performance, and customer satisfaction relative to competition. Two approaches were used to measure privacy orientation. One measure assesses the cultural belief of the firm in the driving principles of the privacy policy. The other measure simply looks at the departments (ranging from legal to marketing) that primarily influenced the formulation of the privacy policy.

SAMPLE AND DATA COLLECTION

Based on preliminary interviews and pre-testing, a competent key informant was identified as a marketing, sales, or customer service executive, typically at the level of Vice-President or General Manager in a strategic business unit (SBU). The final sample also included some IT senior executives. The sample was restricted to firms that engaged in e-commerce. Since this was an exploratory survey, a sample of 50 managers corresponding to the above requirements was recruited from an online panel. Of this sample, 37 firms had privacy policies in place for more than 2 years. Key informant and firm level demographics were collected. Preliminary results indicate that the relationships hypothesized in Figure 1 are supported.

FIGURE 1: FIRM PRIVACY ORIENTATION



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