



Chapter VII

**Electronic Commerce and
Data Privacy: The Impact of
Privacy Concerns on
Electronic Commerce Use
and Regulatory Preferences**

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Electronic commerce (e-commerce) has had a profound effect on the way we conduct business. It has impacted economies, markets, industry structures, and the flow of products through the supply chain. Despite the phenomenal growth of e-commerce and the potential impact on the revenues of businesses, there are problems with the capabilities of this technology. Organizations are amassing huge quantities of personal data about consumers. As a result, consumers are very concerned about the protection of their personal information and they want something done about the problem.

This study examined the relationships between consumer privacy concerns, actual e-commerce activity, the importance of privacy policies, and regulatory preference. Using a model developed from existing literature and theory, an online questionnaire was developed to gauge the concerns of consumers.

The results indicated that consumers are concerned about the protection of their personal information and feel that privacy policies are important. Consumers also indicated that they preferred government regulation to industry self-regulation to protect their personal information.

Electronic commerce (e-commerce) is revolutionizing the way we conduct business. It is changing economies, markets, and industry structures; the flow of products and services through the supply chain; as well as consumer segmentation, values, and behavior (Drucker, 1999). “It is redefining commerce, transforming industries, and eliminating the constraints of time and distance. There is not a market on the face of the earth which will be ignored (PwC, 1999a).”

Despite the phenomenal growth of e-commerce, two studies recently released by the Wharton School indicated that while total spending was up, the average number of dollars spent per consumer was down. The researchers found that the concern about privacy and an unwillingness to trust online businesses with private data are the two biggest factors contributing to the decline in the dollar amount of sales per consumer (Garfinkel, 2000). According to PricewaterhouseCoopers, without privacy protection, there is no consumer confidence in e-commerce (PwC, 1999b).

This paper reports the results of a study that explored consumers’ concern about the privacy of their personal information and their perceived importance of privacy policies. We also looked at consumer preferences for the alternative regulatory approaches to protecting privacy—government regulation or industry self-regulation.

In the following sections, we first discuss the existing literature on both e-commerce and privacy. We then follow with a theoretical model that links consumer attitudes toward privacy with the different regulatory options. Details of the study’s methodology and results are followed by a discussion of the findings. We conclude with a discussion of the implications for both researchers and managers.

E-COMMERCE

Definitions of e-commerce vary widely, but in general e-commerce refers to all forms of commercial transactions involving organizations and individuals that are based upon the processing and transmission of digitized data, including text, sound, and visual images (OECD, 1997; US DOC, 2000). In its most basic form, e-commerce includes technologies such as telephones, facsimile machines, automated teller machines (ATMs), electronic funds transfer (EFT), and electronic data interchange (EDI). More often, though, e-commerce is simply thought of as the buying and selling of goods and services through the Internet, particularly the World Wide Web (WWW). The two most common forms of e-commerce are labeled business-to-consumer (B2C) and business-to-business (B2B) e-commerce.

B2C e-commerce may be thought of as the basic type of e-commerce because it was first exploited by retail “e-businesses” such as Amazon.com, eTrade, and eBay that were created as Internet-only versions of traditional bookstores, brokerage firms, and auction houses. These e-businesses could deliver almost unlimited content on request and could react and make changes in close to real time because of the freedom from the geographic confines and costs of running actual stores

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