Online Privacy Policies:
An Empirical Perspective on Self-Regulatory Practices

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EXECUTIVE SUMMARY

Based on U.S. census data, more than three-fourths of Internet users are concerned about having control over the release of their private information when using online services. To ease consumers’ concerns, the Internet industry has come up with self-regulatory practices. The effectiveness of self-regulatory practices and the commitment of the Internet industry to online privacy are yet to be evaluated. The questions regarding self-regulation, what it means from the industry point of view, and to what extent it is implanted remains unclear. This study is exploratory in nature and attempts to examine privacy issues in the context of fair information practices and how they are perceived and practiced by the top 500 interactive companies in the United States. Our results confirm that most companies ask for consumer trust by claiming benevolence. However, they fall short when it comes to costly implementations of comprehensive privacy protection policies.

Keywords: e-commerce; fair information practices; privacy; seals programs; self-regulatory practices

INTRODUCTION

The field of computing has witnessed tremendous changes during the past 30 years. While solving many of the complex problems of our modern society, it nonetheless has generated new ones. The most notable problem is that of placing the privacy of personal information in jeopardy. The e-commerce phenomenon, in conjunction with other advancements in technology, has promoted the development of entire information systems dedicated to analyzing and finding patterns among personal data (Cranor, 1999). Knowledge management, business intelligence, data warehousing, and, lately, customer relationship management, are some of the areas that rely on personal data and are used by corporations to serve customers better while help-
ing companies reach their internal goals. The advanced technology allows consumers to search for information and make transactions online with unprecedented ease. On the other hand, the aggregation of data that makes this service possible also allows the entrepreneur to extract significant profiles of Internet users.

Balancing consumers’ rights to privacy and the move to a dossier society, in which the corporate world wants to know everything about the individual and base many of its business decisions upon these presumed facts, is not easy. Businesses argue that mining personal information is used to advance customer convenience via personalization and mass customization, in addition to furthering their own business objectives (Flammia, 2000). On the other hand, privacy advocate groups have a spectrum of concerns ranging from the collection of information in the first place to how it is aggregated and used, its disclosure, and security. They mostly fear the risks of secondary use by entities outside of the corporation and despise the intentions of profiling. National and international apprehensions have been expressed in widely disparate edicts about personal privacy data and the means of its safe handling (Bennett, 1992; Bygrave, 2002; Reidenberg, 2000).

Despite this tension between the interests of the consumer and those of e-commerce operations, the overall Internet-based economy is on the rise. By the end of 2002, the number of Internet users worldwide reached 655 million. Additionally, the value of goods and services bought and sold over the Internet in 2002 exceeded $2 billion, a 50% rise from 2001 (Rohde, 2002). According to the Forrester Research Group, the U.S. will continue to lead the global e-commerce market with online sales in 2004 of $3.2 billion. They also predict that traditional brick-and-mortars will become the dominating players. Powerhouses, such as Federated Department Stores, General Electric, Southwest Airlines, and Staples, are entering the online trade and changing the dynamics of e-commerce (McCormick, 2000). The presence of traditional companies with their established brand names creates a tough and competitive environment. In such an environment, luring customers from competitors will not be easy and requires giving consumers something that they have been asking for — the protection of their privacy.

Online privacy laws and regulations are debated and discussed extensively in the literature, but the questions regarding self-regulation, what it means from the industry point of view, and to what extent it is implanted remains unclear. This study is exploratory in nature and attempts to examine privacy issues in the context of fair information practices and how they are perceived and practiced by the top 500 interactive companies in the United States. In the next section, we provide a brief discussion on how privacy issues became a source of concern and what actions the international community has taken to deal with them. We then provide a summary of prior research in this area followed by a brief description of self-regulatory practices. We look into privacy issues covered by the top 500 interactive companies to determine the depth and breadth of the self-regulatory practices in these companies. Our empirical study reveals very interesting results that could be of interest to the readers as consumers and as online businesses, who are interested in learning about the status of such important issues and practices. Finally, we offer conclusions and report some limitations with this study. The
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