

CHAPTER 4

RELATIONAL EXCHANGE PROCESSES AND PRIVACY

4.1 INTRODUCTION

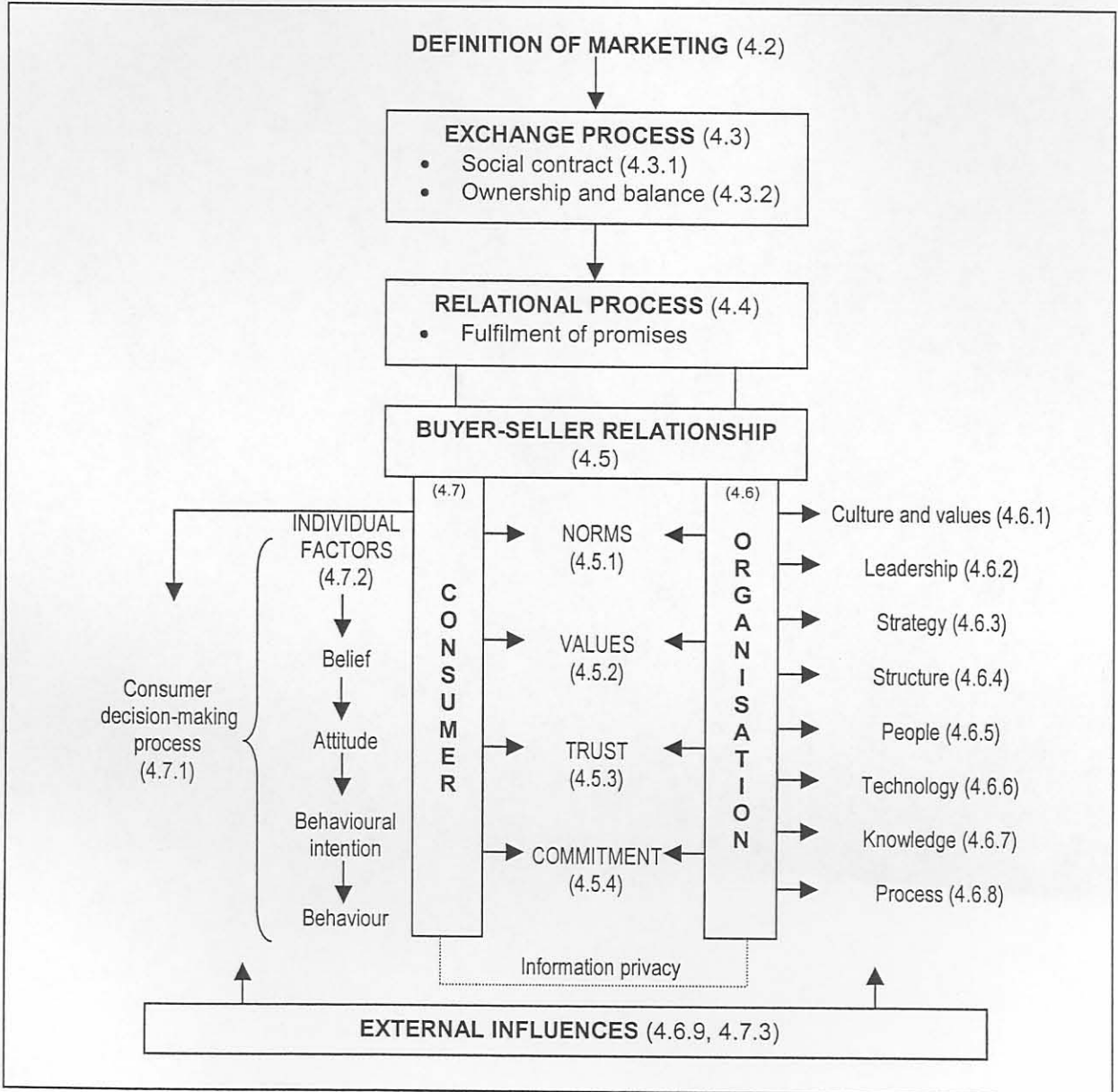
The chapter starts with a focus on the development of marketing definitions, indicating one central theme to all the definitions, namely the concept of exchange. In this exchange process, there is an implied social contract between consumers and marketers, where consumers provide personal information, amongst other things, in exchange for products, services or information. Extensive use of consumer information has become part of everyday exchange processes; hence, the issue of who owns consumer information is raised, since control of consumer information is a valuable commodity in the market and it is therefore a source of power.

As marketing developed, the exchange process developed a more relational character. An integral element of the relationship marketing approach is the promise concept. This concept implies that the fulfilment of promises is vital as a means to achieve customer satisfaction, to retain the customer base, and to attain long-term profitability. If promises are not kept, the evolving relationship cannot be maintained and enhanced. Given the relational exchange processes between organisations and consumers, the chapter also addresses norms, values, trust and commitment as key virtues in building a relationship between these two parties.

Finally, the chapter focuses on the dual nature of the information privacy issue in relational exchange processes. On the one hand, it explains the role of organisations in relationship-building, as well as external influences on its marketing activities. On the other hand, it discusses the consumer decision-making process and how it is influenced by individual factors and external factors. Figure 4.1 provides an outline that will serve as the basis of discussion for this chapter. It is important to note that the aim is not to question current consumer behaviour models, but rather to develop a framework to

serve as a platform for explaining interrelationships in exchange processes. The figure also indicates in which section(s) of the chapter the different matters are discussed.

Figure 4.1 Relational exchange processes*



* The relationships and/or influences indicated are used merely for illustrative purposes and do not imply tested theoretical and empirical relationships.

4.2 THE DEVELOPMENT OF MARKETING AS A BODY OF KNOWLEDGE

The term 'marketing' comes from the word 'market', which refers to a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services (Perreault & McCarthy, 2002:14). In 1948, the American Marketing Association (AMA) defined marketing as the performance of business activities directed toward and incident to the flow of goods and services from producer to consumer or user (Webster, 1992:2). The articulation of the marketing concept in the mid- to late 1950s posited that marketing was one of the principal functions of the organisation because the main purpose of any organisation was to create a satisfied customer (Webster, 1992:2). The marketing mix, known as product, price, place and promotion, was introduced to marketing education by McCarthy in 1960 (Yudelsohn, 1999:60).

Throughout the 1970s, the marketing literature emphasised transactions as a central construct and as the basic unit of analysis for the marketing discipline (Webster, 1992:6). Some authors even advocated a definition of a transaction that included any exchange of value between two parties, thus broadening the concept of marketing to include virtually all human interaction (Kotler & Levy, 1969:10). In the late 1970s and early 1980s, a new exchange paradigm was suggested where the focus was on understanding the relationship dimensions of the exchange (Pels, 1999:19). During the 1980s, marketing literature began to recognise the importance of managing buyer-seller relationships as strategic assets (Webster, 1992:7). In 1985, the AMA produced an updated definition of marketing which identified marketing as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organisational objectives (Grönroos, 1990:5).

The 1990s have seen a strong move away from the transaction perspective to a recognition of the role of relationships in the marketing activities of the organisation (Webster, 1992:14). Yudelsohn (1999:63) referred to marketing as those activities that

seek to influence voluntary exchange transactions in a wide range of settings and situations where both parties may look beyond the specific exchange transaction to the development of a mutually beneficial relationship during an extended period. The marketing process may be said to be enhanced by the fact that exchange parties have different goals. While these goals may or may not in fact be independent, the means for satisfying them is very often interdependent. This highlights the importance of the social system within which shared values and relationships are developed or it is because these needs may be satisfied differently that both parties in the marketing exchange are able to experience an increase in potency (Peters, 1997:220).

Kotler (in Grönroos, 1994:355) concluded that organisations have to move from a short-term transaction-oriented goal to a long-term relationship-building goal. The objective was no longer to make a sale, but to develop a customer relationship in which the sale is only the beginning of the relational process. As customer relationships replaced transactions as the focus of marketing activity, a new definition emerged and the customer became a long-term strategic business asset (Webster, 1994:26). Grönroos (1990:8) established a new definition of marketing which described marketing as a process to establish, maintain and enhance long-term customer relationships at a profit, so that the objectives of the parties involved are met. He believed the main objective of marketing was to create enduring relationships with customers through mutual exchange and fulfilment of promises. Here marketing is viewed as an interactive process in a social context where relationship-building and management are the cornerstones (Grönroos, 1994:353).

The above definitions all suggest that the concept of exchange has been central to marketing from the beginning. The literature indicates that marketing, as a body of knowledge, has always been concerned with understanding relationships between buyers and sellers (Kavali, Tzokas & Saren, 1999:576). Marketing thus revolves around customer relationships whereby the objectives of the parties involved are achieved through various kinds of exchange. Moreover, exchanges take place in order to establish and maintain these relationships (Grönroos, 1990:7). The definitions suggest

that the core of marketplace behaviour is the exchange of values within different relationships. The above definitions suggest that marketing has developed from 'transactions that included any exchange of value' to 'relationship dimensions of the exchange'. The next section focuses on the two key issues identified in most marketing definitions, namely the exchange process and the relational nature of these exchanges.

4.3 THE EXCHANGE PROCESS

Every exchange requires having two or more parties where the one party offers something, and another party obtains that which is given by offering something in return. Exchange is a value-creating process because it normally leaves both parties better off (Kotler, 2000:12). In the commercial world, this 'sacrifice' by the consumer is usually money, or something of monetary value, whereas the marketer offers products or services in return for value. In addition, the consumer may have to give up time, effort or comfort, may have to take on some risk or has to pay other forms of costs to obtain the item or service from the marketer. The growing emphasis on the exchange transaction between two parties has shifted the focus of marketing management from activities to influence consumers to activities designed to facilitate a mutually advantageous exchange (Yudelsohn, 1999:61, 63).

Exchange may be viewed either from the perspective of economic exchange or the perspective of social exchange. In economic exchange models, social interaction is viewed as an exchange of mutually rewarding activities in which the receipt of a needed valuable is contingent on the supply of a favour in return. According to social exchange theory, social relationships are based on each partner's motivational investment and anticipated social gain (Takala & Uusitalo, 1996:47). Underlying any definition of information privacy is an implicit understanding that the individual's interests are balanced with those of society at large. Individuals surrender a measure of privacy in exchange for some economic or social benefit (Culnan, 1993:10).

It is important to realise that there can be no transaction or exchange without the flow of information. The information does not need to be complete, or even accurate, but at the very least, the two parties must acknowledge each other's existence and have some idea of what will be exchanged, as well as what the respective benefits and costs may be (Yudelson, 1999:63). In particular, consumers must perceive that the economic or social benefits derived from the relationship with the marketer outweigh the personal information privacy costs (Davis, 1997:33).

Concern about privacy has focused on two different theoretical concepts of privacy. The first is a social relationship view, in which privacy is understood to act as a balance to the development of social relationships. This concept of privacy on the Internet would be manifested in anonymous interactions and assumed identities, like in chat rooms, where social relationships between members of various Internet communities evolve. A second concept of privacy is the better-known property view, in which individuals see privacy as the extent to which they control their own information in all types of exchanges. The property view manifests itself in willing exchanges of personal information in exchange for valued services such as free e-mail or special discounts from organisations (George, 2002:166).

Besides money and other costs, consumers invest their personal information in an exchange process. Close, long-term relationships can be achieved through the exchange of information, the exchange of goods and services and a social contract. In their turn these exchanges lead to certain benefits or gains (Grönroos, 1990:7). It has been suggested that transactions are more likely to be morally defensible if both parties enter into them freely and fully informed. This necessitates an investigation into social contracts between buyers and sellers, as set out below. Assuming that marketing and marketers want to be part of morally defensible transactions, the goal of marketing should be to increase the likelihood and frequency of free and informed transactions in the market (Kavali *et al.*, 1999:578).

4.3.1 Social contracts

The belief that information control is a key mediator of consumer privacy concerns has led many to suggest that marketers should view consumers' exchange of personal information as an implied social contract (Culnan, 1995:11; Milne, 1997:299). A social contract is defined as a fundamental compact that consists of the rules imposing basic duties, assigning rights and distributing the benefits of political, social and economic co-operation, unanimously agreed to by reasonable people in a state of perfect equality and absolute impartiality (Grant, 2000:20). In a marketing context, a social contract is established when a customer provides a marketer with personal information at the point of purchase with the intention that the marketer will use this information to serve the customer better (Milne, 1997:299). When marketing is viewed as an implied social contract of this nature, consumers are seen to provide personal information in exchange for products or services, receiving solicitations and other information, based on an expectation that their personal information will be managed responsibly.

Integrative social contract theory provides a means for understanding the current tensions between marketers and consumers regarding privacy. Integrative social contract theory posits that members of a given community or industry behave fairly if their practices are governed by shared norms (Donaldson & Dunfee, 1994:254). According to Phelps *et al.* (2000:29) the implied social contract is considered to have been breached if consumers are unaware that information is being collected, if the marketer rents the consumer's personal information to a third party without permission, or if consumers are not given an opportunity to remove their names from lists or otherwise restrict the dissemination of personal data about them.

It is important that the dual nature of the information privacy issue should be highlighted. On the one hand, it is concerned with the right of individuals to privacy. On the other hand, information protection negatively affects organisations in their right to full disclosure and a free flow of information (Walczuch & Steeghs, 2001:142). The tension between information access and information control has been presented as a problem

of striking a fair balance between the privacy interests of individuals and the financial interests of organisations. The effective utilisation of consumer data is essential to the development of a meaningful dialogue between organisations and consumers, and in many ways, the interests of consumers and organisations about the use of consumer information are similar (Campbell, 1997:47). One issue pertaining to the dual nature of information privacy is the ownership of information. This is addressed in the next section.

4.3.2 Ownership and balance in the exchange process

As the extensive use of consumer information has become part of the fabric of the modern market, the issue of who owns consumer information has been raised (Davis, 1997:35). The control of consumer information has been a valuable commodity in the market and is therefore a source of power (Prabhaker, 2000:164). Information technology is now having a vast impact in this area, changing the nature of relationships and the balance of power between the parties involved (Fletcher & Peters, 1996:145). In practice, consumers and organisations often disagree about who owns the information and what kinds of trade-off are acceptable in different situations (Campbell, 1997:48). Several perspectives on ownership have been offered, placing ownership rights either in the hands of consumers or in those of organisations.

Organisations have good reason to collect information about consumers. It enables them to target their most valuable prospects more effectively, to tailor their offerings to individual needs, to improve customer satisfaction and retention and to identify opportunities for new products or services (Hagel & Rayport, 1997:53-4). One view suggests that the organisation which has gathered such information through the expenditure of time, effort and money for the purposes of its business should control its use and dissemination (Davis, 1997:35). This view is supported by Taylor, Vassar and Vaught (1995:44), who suggest that marketers who have created databases posit that the information contained in the databases belongs to these marketers and that

therefore the marketers feel justified in using, selling or renting the information to others without the consumers' consent.

Personal information privacy rights could have a significant impact on information-trading practices. Many consumers vent their concern about their privacy by refusing to provide permission to disclose their information to third parties, diminishing the marketing opportunities of the organisation which is dependent upon the availability of lists. Others believe that placing ownership in the hands of consumers could improve consumer targeting and solicitation response rates, if consumer consent for contact was obtained. A consumer who granted permission would be better qualified and more interested in having contact with the organisation (Davis, 1997:39).

Foxman and Kilcoyne (in Davis, 1997:34) argue, on ethical grounds, that marketers should recognise consumer ownership rights to personal information because consumers perceive these rights to exist and resent their violation. If personal information can be defined as property, the original owner could control its use and dissemination, an idea consistent with the notions held by Westin and Miller (in Davis, 1997:35). In the late 1960s, they argued that property rights should be attached to personal information so that individuals could control its dissemination better and could safeguard their personal privacy. Consumers must perceive that the economic and social benefits derived from the relationship with the marketer outweigh the personal privacy costs; otherwise consumers will take ownership of information about themselves and demand value in exchange for it. Many consumers have now realised that the information they have divulged so freely through their commercial transactions, financial arrangements and survey responses has value and that they get very little in exchange for that value (Hagel & Rayport, 1997:53-4).

A consumer-controlled information market could offer advantages, as well as disadvantages from a social and economic perspective. One advantage can be the protection that personal information privacy rights can provide against unwanted mail and telephone solicitations. A social disadvantage to information privacy is the situation

where consumers cut themselves off from valuable marketing information by failing to provide consent to information use and dissemination (Davis, 1997:39).

Research in the Internet environment has revealed that consumers do not trust most Internet providers enough to engage in relationship exchanges involving money and personal information. This lack of trust arises from the fact the consumers feel that they lack control over the access that Web merchants have to their personal information during the online navigation process. Trust is best achieved by allowing the balance of power to shift toward more co-operative interaction between an organisation and its customers (Hoffman, Novak & Peralta, 1999:80). Westin (in Davis, 1997:36) provides a very workable solution to the above problem when he suggests that marketers merely hold the consumer's information and should thus be regarded as trustees of the consumer data.

Online businesses have to negotiate a delicate balance between strong consumer demand for privacy protection and a real consumer desire for personalised treatment. Successful organisations must collect relevant information and use it properly as a competitive tool. As consumers become more comfortable online, they are increasingly open to providing personal information to their favourite websites. However, they are stridently demanding that this information be used to enhance their experience and that the information is not used in ways that abuse a privileged relationship, or even be subject to a perception of abuse (Mabley, 1999:1).

The above discussion highlights the need for exchange processes with a more relational nature. The social system within which shared values and relationships are developed will only satisfy the needs of the different parties involved if the benefits they receive outweigh their costs; resulting in a beneficial trade-off.

The next section discusses critical elements in creating a mutually beneficial relationship against the backdrop of information privacy.

4.4 THE RELATIONAL NATURE OF EXCHANGES

The evolution of relationship marketing and the advocacy to extend relationship marketing into the management of the exchange processes within consumer markets have resulted in a growing interest in responding to every customer on an individual basis. The search for improved techniques for winning and keeping customers (considerably enhanced by the increasing availability, sophistication and cost-effectiveness of computer-based systems) has been paralleled by an increasing concern among consumers of the impact of these new marketing management techniques on their private rights (Long, Hogg, Hartley & Angold, 1999:5).

One of the most controversial aspects of relationship marketing in consumer markets centres on information privacy. A fundamental tenet of relationship marketing is that the role of the consumer has changed from a passive recipient of marketing practices to an interactive co-producer of marketing practices. It is implicit in this philosophy that marketers and consumers are partners in business. However, it may be difficult for organisations interested in relationship marketing to pursue customer partnerships if consumers and organisations do not share a common set of values or understanding about privacy (Campbell, 1997:45).

Morgan and Hunt (1994:22) define relationship marketing as all marketing activities directed toward establishing, developing and maintaining successful relationship exchanges. The concept of a relationship implies at least two essential conditions. First, a relationship is a rewarding connection between the provider and the customer, where both parties expect to obtain benefits from the contact. Second, the parties have some kind of commitment to the relationship over time, and they are therefore willing to make adaptations to their own production processes (Takala & Uusitalo, 1996:48).

Customer relationships lie at the core of marketing and are developed so that individual and organisational objectives are met. Each party in a relationship has certain expectations and objectives. Sellers, for instance, want continuing relationships

because they assume that these relationships are more profitable. An integral element of the relationship marketing approach is the promise concept. In establishing and maintaining customer relations, the seller gives a set of promises relating to goods, services, financial solutions, material administration, transfer of information, social contracts and future commitments. On the other hand, the buyer gives a set of promises concerning his or her commitments to the relationship (Grönroos, 1990:8). Relationship marketing demands the establishment of mutually accepted norms of redress. The buyer expects the seller or supplier to act responsibly in unforeseen and unplanned events (Selnes, 1998:310). The promise concept is important to both sides in order to ensure profitable business operations (Takala & Uusitalo, 1996:48).

Takala and Uusitalo (1996:49) present a number of issues which are critical in respect of long-term customer relationships (some of these have already been addressed and the rest are addressed in the remainder of the chapter). According to these authors, the following are relevant to a relationship marketing philosophy:

- Customers and their needs are the starting point of marketing.
- The objectives of the seller and the customer influence their mutual relations.
- Exchange, which is a focal issue in relationship marketing, includes continuous struggle for power of balance.
- There are various means of establishing relationships.
- Promises must be kept in order to maintain relationships.
- Mutual trust is a main factor in long-term relationships.
- Relationships imply dependence and commitment.
- Communication is essential.

Kavali *et al.* (1999:576) define relationship marketing as the process of planning, developing and nurturing a relationship climate that will promote a dialogue between an organisation and its customers which aims to imbue an understanding of, confidence in and respect for each others' capabilities and concerns when enacting their role in the market and society. This definition highlights the core issues addressed in the remainder of this chapter. First, the key elements in developing a relational climate are

discussed. This is addressed from both the buyer and the seller's perspective, since the concept of relationship marketing may be seen either from the sellers' perspective – as a means to tie customers into closer relationship with them – or from the buyers' point of view – as a way to obtain a group of preferred suppliers (Takala & Uusitalo, 1996:48). Second, there will be a focus on the role of organisations in the building of relationships within a privacy sensitive environment. The chapter concludes with a discussion on consumer behaviour in relational exchanges, with a focus on consumers decision-making processes and how these change when information privacy becomes an important driving force. It is important to note that, for the purposes of this study, relational exchange processes include transactional and relational marketing (Coviello, Brodie & Munro, 1997:506).

4.5 KEY ELEMENTS IN A BUYER-SELLER RELATIONSHIP

Kavali *et al.* (1999:576) have identified the following key elements in relationship marketing: equity, benevolence, norms, reliability, responsibility, commitment, diligence and trust. Selnes (1998:310) believes that relationship marketing is about healthy relationships characterised by trust, equity, responsibility and commitment, which proactively set the conditions that may influence ethical behaviour. Zineldin (2000:10) has identified personal relationships, interactions and social exchange as the most important core elements of relationship marketing, while Ravald and Grönroos (1996:19) consider value to be an important constituent of relationship marketing. Some of the key elements of relational exchanges that have an impact on information privacy are discussed below, namely norms, values, trust and commitment.

4.5.1 Norms

Norms are expectations about behaviour that are at least partially shared by a group of decision-makers. Norms may apply at different levels, but for the purposes of this study, the focus is on norms that govern individual exchange relationships between buyers and sellers. Norms differ in their general orientation content. So, for instance, norms

have been found to differ significantly in the extent to which they prescribe behaviours directed toward collective as opposed to individual goals. Macneil's (in Heide & George, 1992:34) typology of discrete versus relational norms reflects this difference. Basically, discrete exchange norms contain expectations about an individual or competitive interaction between exchange partners. The individual parties are expected to remain autonomous and pursue strategies aimed toward the attainment of their individual goals. By contrast, relational exchange norms are based on the expectation of mutuality of interest, essentially prescribing stewardship behaviour, and are designed to enhance the well-being of the relationship as a whole (Heide & George, 1992:34).

Kavali *et al.* (1999:579) report that inadequate basic norms and the absence of ethics are the biggest obstacles to success in relationship marketing. Strategic uses of information technology based on personal information may raise privacy concerns among consumers if these applications do not reflect a common set of values (Culnan, 1993:341). Long-term relationship-building efforts provide an effective way for marketers to build trust and loyalty among targeted consumers. One of the ways to achieve such affinities among consumers is to interact with targeted segments from ethical perspectives that are consistent with the segments' expectations, values and norms (Rawwas, Strutton & Johnson, 1996:58). There has been a movement toward thinking of marketing less as a function and more as a set of values and processes where all functions participate in the implementation (Moorman & Rust, 1999:180).

4.5.2 Values

Value is considered to be an important constituent of relationship marketing (Ravald & Grönroos, 1996:19). The success of a relationship that is a mutually profitable relationship for supplier and buyer depends on the ability to provide episode value and relationship value continuously (a discussion of the meaning of these two values is set out below).

Episode value is improved by increasing the benefits and/or reducing the sacrifice to the buyer. The benefits and the sacrifice can be viewed as two elements that are mutually dependent. Increasing the benefits should lead to a reduction in the customer's perception of sacrifice by minimising the costs involved in a discrete episode and in the relationship as a whole. Reducing the sacrifice or effort the customer has to undertake in order to purchase a product at an episode level involves activities such as lowering the actual price or increasing the convenience of the purchase. Consumers can also feel that they are making a psychological sacrifice when they worry about whether a supplier will fulfil its promises. The perceived sacrifice thus includes all the costs which the buyer faces when making a purchase, such as purchase price, acquisition costs, transportation, installation, repairs and maintenance, risk of failure or poor performance. The perceived benefits are a combination of physical attributes, service attributes and the technical support available in relation to the particular use of the product, as well as the purchase price and other indicators of perceived quality.

Research has indicated that buyers tend to be more sensitive to loss than to gain, and this constitutes an opportunity for an organisation to improve the customer-perceived value and thereby establish and maintain a long-term relationship. If the organisation can provide value in terms of reducing the customer's perceived sacrifice, so that the relationship costs are minimised and customer performance is improved, the chances of becoming successful are evident. But to be able to provide this kind of value, organisations have to understand the elements of customer-perceived value and how the organisation's activities influence customer performance (Ravald & Grönroos, 1996:21-26).

Information is increasingly emerging as an asset, with a market value and associated acquisition and handling costs. As an asset, information can have the property of increasing in value through use (Glazer, 1991:6). Records of customer purchase behaviour, held and accessed on a database system, can become the primary marketing resource of many organisations. Therefore, the focus for customers is likely to be the value they receive from the demonstrated use of their information by

organisations. By contrast, it is likely that for the organisation, customer information value may be sought from the anticipated use of such information (Peters, 1997:218). However, where the collection of customer data is not seen by the customer as resulting in greater value, difficulties may arise.

This distinction between anticipated and realised information value on the part of organisations can lead to problems of goal incompatibility with customers, and may well raise issues of privacy and a perception on the part of customers that organisations do not really need or appropriately use the information they collect from customers (Peters, 1997:219). To some, the value dimension of personal information implies that some type of compensation is due for such information. Compensation is a controversial topic and is a salient issue for some consumers. It has been proposed that consumers be compensated via coupons, discounts or rebates. Compensation, however, does not seem to be the driving issue for most consumers today. Instead, consumers are more likely to be interested in acquiring some control of, and enhancing the benefits associated with, the marketing relationship, while minimising potential abuse of their personal information (Davis, 1997:37).

Relationship value has a deeper meaning than the episode value (discussed above). As a relationship evolves, a buyer starts to feel safe with the supplier, and trust develops. Trust through safety, credibility and security reduces the sacrifices for the buyer and is assumed to be of value in itself (Selnes, 1998:305). The next section addresses trust as a key element in a buyer-seller relationship.

4.5.3 Trust

In order to establish long-term relationships with customers, organisations need to win consumers' trust on a continuous basis (Kandampully & Duddy, 1999:52). Trust has been defined as a willingness to rely on an exchange partner in whom one has confidence (Grönroos, 1997:327). Trust thus exists when one party has confidence in an exchange partner's reliability and integrity. This trust extends beyond the provision of

the actual goods or services to all aspects of the organisation-consumer interaction. The manner in which the information is obtained, stored and used is likely to affect consumer's trust in marketers. Thus, consumer privacy concerns related to collection, errors and secondary use of their information are all expected to have a negatively effect a consumers' willingness to respond to direct response advertising media (Campbell, 1997:47).

Trust is an important concept in relationship exchange, since it allows exchange partners to look beyond short-term inequities or risks and to concentrate on long-term gains. The role of trust in relationships and exchange is to stimulate co-operation and to create goodwill, which helps to preserve the relationship. There is general consensus that trust is critical in exchanges involving interdependence, uncertainty and risk (Milne & Boza, 1999:316).

Perceived risk in a relationship enhancement decision may be reduced by trust alone or trust in combination with a number of mechanisms. Anderson and Narus (in Selnes, 1998:308) found a close connection between co-operation and trust. They suggest an iterative process where co-operation leads to trust, which in turn leads to greater willingness to co-operate in future, which then generates trust, and so on. Trust can be an important antecedent of relationship enhancement to the degree that it reduces perceived risk more efficiently than other available mechanisms. Satisfaction is a manifestation of the other party's ability to meet relational norms, and is an important source of trust (Selnes, 1998:309). Interviewees from multi-national corporations in Germany and the Netherlands argued that customers were more likely to trust an organisation if they knew that their private information was well protected (Walczuch & Steeghs, 2001:156).

Honest and timely communication with consumers has a strong effect on both trust and satisfaction (Selnes, 1998:317). Hunt (in Harker, 1999:15) identifies relational trust and commitment as critical elements in relationship development. To gain the loyalty of customers, the organisation must first gain their trust. When customers trust an online

vendor, for instance, they are much more likely to share personal information. That information enables the organisation to form a more intimate relationship with customers, offering products and services tailored to the consumers' individual preferences, which in turn increases trust and strengthens loyalty (Reichheld & Scheffer, 2000:106).

Thoughtful organisations realise the value of becoming the 'consumer's advocate'. They can also promote that value to other organisations to build a powerful network of associates, each of which espouses guardianship for the consumer. The promotional value of revealing the latest method to collect information that compromises the consumer's privacy and the latest response to protect that privacy would position the advocate as an organisation of trust. While some organisations strive to find new ways to ferret out information and use it to gain a marketing advantage, others will find new ways to use that information while keeping it private. The value is consumer co-operation, even if it entails a price. The price is likely to be very small compared to the efficiency benefits of knowing exactly what the consumer wants. However, paying for consumers' private information would help the organisation to arrive at the value of that information. It would also encourage more technological developments to protect information (Franzak, Pitta & Fritsche, 2001:640).

As the relationship between two parties develops over time, and as they gain experience and learn to trust each other, they will gradually increase their commitment through transaction-specific investments in products, processes or people dedicated to the particular relationship (Selnes, 1998:307). Commitment is discussed in detail in Section 4.5.4.

4.5.4 Commitment

Relationship commitment is central to relationship marketing, and has long been central in social exchange literature. Social exchange theory explains the causal relationship between trust and commitment and that trust is an important determinant of relationship

commitment (Morgan & Hunt, 1994:24). Relationship commitment refers to a situation where an exchange partner believes that an ongoing relationship with the other partner(s) is so important as to warrant maximum efforts at maintaining it. When that happens, the committed party believes that the relationship is worth working on to ensure that it endures indefinitely. As the practice of relationship marketing develops, consumer-organisation relationships may well develop along more rigidly defined lines, even if this involves limiting entanglements and introducing more contractual elements into the interaction. The benefits of such actions would be a clearer understanding of the motivations and expectations of the parties involved (Peters, 1997:220). The next section focuses on the organisation and its role in developing and maintaining long-term relationships.

4.6 THE ROLE OF ORGANISATIONS IN RELATIONAL EXCHANGES

The goal of relationship marketing is to align all the aspects of an organisation with the needs of its chosen customers and stakeholders. Gordon (1998:22) has identified eight components of relationship marketing which are needed to obtain the above-mentioned goal, vis-à-vis culture and values, leadership, strategy, structure, people, technology, knowledge and process. Each component is discussed briefly below, relating it to relational exchanges and information privacy. Thereafter, the different external influences affecting organisations' marketing activities are discussed, because developing these influences allows organisations to serve as sources to protect consumers.

4.6.1 Culture and values

Organisational culture is the basic set of values and beliefs that are shared throughout the organisation. These values and beliefs help employees understand how the organisation functions and dictate behavioural norms (Webster, 1994:29). At the basis of all organisational functioning there is a core of values and beliefs, the culture shared by members of the organisation (Webster, 1988:37). Management must develop a

broad concept of organisational culture that focuses the organisation outward – on its customers and competitors – and creates an overwhelming predisposition toward entrepreneurial and innovative responsiveness to a changing market.

Shared values and the development of commitment, trust and long-term orientation between the organisation and its customers become key factors in facilitating an expectation of positive gain in future dealings between customers and organisations (Peters, 1997:215-221).

4.6.2 Leadership

The leaders within an organisation must be prepared to focus on the value that can be unlocked through relationship marketing. No organisation can successfully implement a relationship marketing initiative as long as the leadership in the organisation is focused on winning at the expense of others. Organisations with greater bargaining power than their customers and suppliers must play a role in leading their own organisation and their customers to a higher state of relating, one in which value can be created and shared. The leadership must regard sharing as a virtue and understand the real meaning of a relationship before committing the organisation to relationship marketing (Gordon, 1998:24).

The findings of an online survey conducted among corporate privacy officers in October 2001 indicated that 86 per cent of organisations had a Privacy Notice and Privacy Policy on the organisation's website, while 65 per cent had in place a Consumer Privacy Policy for the organisation's offline activities that collect and use personal information. A total of 49 per cent said that their organisation's top management was strongly behind a proactive, leadership-oriented privacy policy. Of the privacy officers surveyed, 30 per cent believed that while management sees privacy as an important issue, management preferred not to take a leadership role. According to 21 per cent of the respondents, senior management sometimes view privacy issues as an annoyance, but managers do

recognise the need to comply effectively with laws and regulations (Opinion Research Corporation International & Westin, 2001:6-7).

Privacy leadership involves setting the highest possible standard of respect for personal information, applying it to all customers, promoting the standard as a competitive edge and making sure compliance is seamless (Privacy Council, 2002). Setting privacy standards has to be part of an organisation's strategy and is discussed in the next section.

4.6.3 Strategy

At the corporate strategy level, the role of marketing is threefold (Webster, 1992:11):

- to assess marketing attractiveness by analysing customer needs and requirements and competitive offerings in the markets potentially available to the organisation, and to assess its potential competitive effectiveness;
- to promote a customer orientation by being a strong advocate for the customer's point of view versus that of other constituencies in management decision-making, as called for by the marketing concept; and
- to develop the organisation's overall value proposition (as a reflection of its distinctive competence, in terms reflecting customer needs and wants) and to articulate it to the market and throughout the organisation.

Organisational strategies include customer strategies to develop an understanding of the capabilities needed to advance the customer relationship. The customer must be central to the business strategy if the organisation is to implement relationship marketing effectively. Strategy needs to be aligned between the organisation and its customers to ensure that each understands the direction of the other, enabling each to assess the other in its role as long-term partner, and to create the value each wants. Thus, strategy needs to be customer-centric, with relationship objectives and strategies geared to individual customers (Gordon, 1998:25). In a traditional economy, value was typically a result of scarcity, while in the new digital economy value comes from

plenitude. This important observation points to the foundation for business strategies of the future. Managing supply and demand for products is not as important as managing networked relationships of products (Prabhaker, 2000:164). A structured approach to the utilisation of customer information is needed if organisations are to exploit its value and use it effectively to build customer relationships. Such an approach must begin with an understanding of how the value created between organisations and their customers may be characterised (Peters, 1997:214). An organisation's long-term success in a market is essentially determined by its ability to expand and maintain a large and loyal customer base (Kandampully & Duddy, 1999:51) and the issue of privacy can be an important element in this strategy.

4.6.4 Structure

Gordon (1998:25) believes that organisations that organise according to relationship marketing should go beyond considering traditional organisational structures such as business units organised by product or market and should consider organising by relationship and capability. Interactive databases are making relational marketing a reality for consumer goods (Webster, 1992:6). An organisation that applies a relationship-type strategy can monitor customer satisfaction by directly managing its customer base. In a relationship marketing situation, the organisation can build up an information system to provide management with a continuously updated database of its customers and continuous information about customers (Grönroos, 1997:331). An important role for marketing management is to ensure that information about customer service and satisfaction is gathered and distributed to all parts of the organisation on a regular basis (Webster, 1988:39).

A customer orientation is more than a set of beliefs. It must be supported by up-to-date and accurate information about the needs, wants, preferences and buying habits of customers obtained through direct contact with them. The central question that should guide all information gathering is 'how does the customer define value and how well are we providing it?' (Webster, 1994:30). As was mentioned in Section 4.3.2, information

has emerged as an asset with a market value. A structure approach to the utilisation of customer information is therefore needed if organisations are to exploit this value and use it effectively to build customer relationships. Value adding marketing activities should provide benefits for both consumers and organisations, thus increasing their goal satisfaction and alignment (Peters, 1997:215). The creation of value for both organisations and customers relies increasingly on the co-ordination of business activities and individual customer information and is addressed in Section 4.6.5.

4.6.5 People

People are the key to any relationship and people have to be supported by technologies and processes to multiply their capabilities and make them even more effective. However, the findings of a study among United States and European organisations indicate that only six in 10 organisations have implemented employee training programmes to lower their technology risk (Green, 2001:57; Kelly, 2001:18). Organisations should train, develop and grow people into owners of a process which seeks to build customer relationships (Gordon, 1998:27). Skill and effectiveness in the use of information can be seen as critical to becoming market-oriented and gaining success in an intensely competitive business environment (Peters, 1997:225). Employees' future role in relational exchange processes lies in protecting consumer privacy and being accountable for their processes for collecting and using personal information, including e-mail addresses. Indiscriminate use and careless trading of information should be eliminated (Schwartz, 1998:51).

Internationally, many organisations have appointed chief privacy officers (CPOs) to help organisations reassure customers that their privacy will be protected. In general, the job description of a CPO is to train employees with regard to privacy, to align the organisation's privacy policies to avoid potential risks, to manage customer privacy disputes and to inform senior executives of how the organisation should deal with privacy issues (Nash, 2000:62).

Marketing can no longer be the sole responsibility of a few specialists. Everyone in the organisation must be charged with the responsibility for understanding customers and contributing to developing and delivering value for them. It must be part of everyone's job description and part of the organisation culture, as previously discussed in Section 4.6.1 (Webster, 1992:14). The ability to deliver on commitments made to customers by the organisation rests at least in part on internal co-ordination within the organisation. This co-ordination may foster co-operative interdependence between the organisation and its customers, whereby each party views its goals as being linked to that of other parties, and recognises that as one party moves towards its goal, this in turn helps the other party to achieve its own goal (Peters, 1997:221).

4.6.6 Technology

Technology can serve multiple roles within an organisation, and can mediate between an organisation and its customers. Information technology changes the role of the customer and the patterns of market communication, relations and interactions. Marketers and managers must be aware of new developments in the relevant technology and the possible effects thereof because technology can and does affect business activities and relationships in many different ways (Zineldin, 2000:11). Technology provides an invisible, automatic means of collecting and analysing consumer data and can construct consumer profiles. This very invisibility compromises consumer privacy. Most consumers do not realise that their information is being collected and used to construct profiles. Most have not consented to divulge the information nor to be the target of promotion (Franzak *et al.*, 2001:637).

The Internet and World Wide Web will dramatically alter the way organisations conduct business and establish business or customer relationships, changing both the market opportunities and the information technology and network infrastructure. Information technology and other technologies present opportunities to develop new relationships with end users (Zineldin, 2000:13,15). Information technology, through the appropriate use of customer information, can facilitate goal satisfaction and compatibility between

the organisation and its customers, and provide ways in which to recognise and enhance the long-term value of customers.

One of the most profound implications of information-processing technology is the realisation that traditional strategic trade-offs may be obsolete. This can be illustrated by the withdrawal of a proposed customer profile database by the Lotus Development Corporation and Equifax in the USA. In 1991, the Lotus Development Corporation intended to produce and sell a CD-ROM called Lotus Marketplace: Households. Using data from the Equifax credit bureau, the CD-ROM contained information on the buying patterns and estimated incomes of more than 120 million Americans. While the product did not contain information which was not already publicly available, consumers perceived the aggregation and availability of this information as a threat to their privacy and the ensuing outcry caused the organisations concerned to abandon the project (Peters, 1997:225).

A survey among 1 500 companies in the USA and Europe has indicated that organisations do not adequately understand the risks posed by technology, have difficulty identifying potential risks, and lack the tools to manage them effectively (Veysey, 2001:1; Zinkewicz, 2001:50). As the use of the Internet develops further, an organisation's capability to collect information from customers and the potential to create value from such information also increases. Apart from having the capability to leverage such information, organisations likewise need to build a level of trust so their customers can comfortably provide sometimes highly personal and confidential information. Technology must enable marketers to develop new knowledge and insight about the customer relationship and facilitate action on the information. In essence, knowledge is what employees know about customers, products, processes and past successes and failures. Knowledge creates value in use and is discussed below, in Section 4.6.7.

4.6.7 Knowledge

Relational marketing theory holds that social and structural ties between organisations and customers can be established and leveraged to stimulate mutually beneficial economic exchanges. Directly related to and underlying customer relationship management (CRM), is the emerging discipline of knowledge management. In a marketing context, knowledge is defined as information that is relevant, actionable and based at least partially on experience. Customer profile information is crucial for relationship building. It provides an advantage in a competitive marketplace, where knowledge about the target buyer needs to be more detailed, more personal, increasingly timely and preferably exclusive. For relationship marketing, rich descriptions of personal behaviour that indicate wants and needs are more valuable than estimates of characteristics based on large samples. Ongoing developments in information technology facilitate the gathering, processing and analysis of the information required to forge close buyer-seller relationships. Information helps organisations overcome barriers to transactions by guiding judicious allocation of resources to strategic marketing variables. Private information, with its restricted distribution, can produce the type of knowledge that provides a competitive advantage (Franzak *et al.*, 2001:634).

Personal information moves through a complex web and access to personal information is enabled by the availability of large commercial databases compiled from public records or from responses supplied by consumers. Organisations seeking information on consumers may tap into this network in two ways. First, organisations can use their own data to profile their existing customers. Second, to enable better targeting of their existing customers, organisations may have their customer files overlaid with additional personal information by obtaining a list compiler or list broker to match the customer file against a third-party marketing database (Culnan, 1993:347).

As the dynamics of the global marketplace and the requirements for competition success have changed, the need for managing the customer relationship has grown.

CRM involves attracting, developing and maintaining successful customer relationships over time. At the core of CRM is the development of a 'learning relationship' that engages customers in a two-way dialogue that is effective and efficient for both customers and the organisation. Interactions are no longer discrete transactions; rather, they reflect an ongoing knowledge-based process. A key challenge in the application of knowledge is transferring it from where it was created or captured to where it is needed and should be used (Massey *et al.*, 2001:157).

4.6.8 Process

Organisations should focus processes around existing customers, giving each the value (s)he wants by communicating with the customer as an individual. There is a need to be market-oriented in customer information use, in other words to understand and address consumer needs through the information collected in a way which is perceived as valuable by customers themselves (Peters, 1997:226). Electronic information is the lifeblood of an organisation and the value of information being stored and transmitted across organisational networks is growing (D'Aversa-Williams, 1999:6). Information is a valuable corporate asset, but many organisations are still unaware of how much at risk information can be from Internet technologies. Organisations can commit to spending on the physical security of their buildings and contents, but neglect the security of their information; the loss of which may be more damaging financially than the loss of actual physical assets (Woodward, 2000:22).

Managing information systems involves two fundamental but interdependent dimensions. First, a sophisticated technological infrastructure that enables the design and construction of high quality systems needs to be implemented. Second, organisation-wide quality-oriented behaviour needs to be established (Ravichandran, 2000:119).

In addition to hardware and software solutions, the establishment and enforcement of security policies are also critical (Gunst, 1999:62). The current data avarice, which is

leading marketers to seek out and capture more personal information, has a definite downside. The more effective the information gathering, storage and retrieval process becomes, the greater the tendency to encroach on individual privacy. At some point, marketers are likely to bump into an effectiveness ceiling, where responsiveness increases no further without the addition of personal sensitive data to the analysis process. Maintaining the balance between information and individual privacy will be one of the important challenges in the future (Fletcher & Peters, 1996:148). The cost of building a quality marketing database is high, but the return on that investment is directly related to the marketer's ability to manage, maintain, grow and use it (Williams, 1991:59).

The above section discussed the eight components of relationship marketing needed by an organisation to align its activities with the needs of its chosen customers and stakeholders. Apart from these eight components, organisations also have to be aware of the influence of external activities on their marketing strategies, as discussed below.

4.6.9 External influences on organisations' marketing activities

In exchange processes, a number of constraints or external influences on marketing activities have developed to serve as sources of consumer protection. These include legal influences, political influences, competitive influences and ethical influences (Peter & Olson, 1996:412).

Legal influences refer to relevant legislation and the agencies and processes by which these laws are upheld. The legislative environment was addressed in detail in Chapter 2. Legal influences serve to guide organisations to keep their activities within the law. Agencies such as the Advertising Standards Authority (ASA) and the Consumer Union regulate business and marketing practices in South Africa. As was mentioned in Chapter 2, the Law Commission has instituted a Project Committee which is currently investigating the privacy and data protection issue in South Africa, with the aim of improving existing legislation and adding new legislation as soon as possible. The DMA,

the ASA, the Harmful Business Practice Act, and other relevant industry law and codes were recently synthesised to provide guidelines to organisations regarding unsolicited e-mail marketing practices (Direct Marketing Association, 2001b).

Political influences refer to the pressure exerted by various consumer groups to control marketing practices. These groups use a variety of methods to influence marketing practice, such as lobbying with various government agencies to enact legislation or working directly with consumers in redress assistance and education. Several consumer protection groups have been formed to address privacy on the Internet. Two main groups have launched programmes to help consumers distinguish between legitimate e-mail pitches from marketers and other unsolicited e-mail which may be sent by scam artists or pornographers: website privacy certification organisation TRUSTe and privacy consultancy ePrivacy group launched a certification and seal programme for commercial e-mail, called Trusted Sender, in February 2002. The seal is intended to let consumers verify that the message is not spam and that the organisation sending the message is in compliance with the programme's guidelines (Schultz, 2002b).

Competitive influences refer to actions of competing organisations intended to affect each other and consumers. Consumer privacy concern is a source of competitive advantage and should be leveraged by an organisation. Organisations have a choice in how they respond to the matter of consumer privacy. They can see it as a threat and simply react defensively, or they can treat this as an opportunity and be proactive in maximising the gains through technologies and sharing such gains with the customers (Prabhaker, 2000:165). Consumers can benefit from the development and marketing of better products and services and better privacy policies and information handling practices brought about by competitive pressure. Organisations can set high standards with regard to privacy policies as a means of gaining a competitive edge.

Perhaps the most important constraints on marketing practices are ethical influences and self-regulation by marketers. Information privacy has been called one of the most important ethical issues of the information age (Campbell, 1997:47). The concern about

ethics in marketing is closely related to the issue of social responsibility, which refers to the doing of societal good unrelated or minimally related to business activities (Kavali *et al.*, 1999:573). Social pressures increasingly require marketers also to examine, from an ethical perspective, how they deal with consumers, competitors, suppliers and the government (Takala & Uusitalo, 1996:50). The Direct Marketing Association has, for example, established a number of codes and guidelines for self-regulatory actions for its members. Examples are the industry's Code of Ethics, Privacy File and Media Preference Services.

As was mentioned at the start of the chapter, discussion will focus on the dual nature of the information privacy issue in relational exchange processes. The role of organisations in relationship building as well as external influences on its marketing activities have been discussed. The remainder of the chapter addresses the consumer's decision-making processes as influenced by individual and external factors.

4.7 INFORMATION PRIVACY RELATED CONSUMER BEHAVIOUR

The field of consumer behaviour is characterised by various definitions emphasising certain dimensions of consumer' behaviour, such as affect, cognition, behaviour, decision-making processes and environmental influences. For the purposes of this discussion, the definitions of various authors (Du Plessis & Rousseau, 2003:9; Hawkins, Best & Coney, 2001:7; Peter & Olson, 2002:6) have been adapted to place consumer behaviour in perspective against the backdrop of consumers' concerns about their personal information. Consumer behaviour is defined as the behaviour patterns and activities that precede, determine and follow a consumer's decision-making, as influenced by environmental events, conducted during exchange relationships with marketers, impacting on themselves and society. Consumers' decision-making processes regarding the protection of their personal information are influenced by their beliefs, attitudes, behaviour intentions, buying behaviour and the environment. The next section discusses consumer decision-making, whereafter different factors influencing this decision-making process are addressed.

4.7.1 Consumer decision-making

Depending on the context, privacy exists when an individual can control social interaction and/or unwanted external stimuli, can make autonomous decisions without outside interference, and/or can control the release and subsequent circulation of personal information (Culnan, 1993:344). The findings of a study by Harris Interactive and Westin (2000:14) indicate that an overwhelming number of consumers in the USA, United Kingdom and Germany contend that it is 'absolutely essential' or 'very important' for organisations to show privacy notices before consumers will provide personal information for purchases. There is ample evidence to suggest that consumers worldwide view a lack of information privacy control over personal information (once divulged to organisations) as a problem. A Wall Street Journal/NBC News poll of 2 025 adults by phone found that the loss of personal privacy was the number one concern of Americans as the twenty-first century approached (EPIC, 2002:11). High majorities, ranging from 72 per cent in Germany, 78 per cent in Britain to 94 per cent in the USA, said they perceived the possible misuse of their personal information as problematic (Harris Interactive & Westin, 2000:2). The findings of a consumer behaviour survey indicate that 79 per cent of consumers agree that they have lost control over how their personal information is collected and used by organisations (Harris Interactive, 2002b:29).

The findings of the above-mentioned studies suggest that information privacy forms part of consumers' daily activities, thus impacting on their decision-making processes. The process of consumer decision-making consists of five stages, namely problem recognition, information search, alternative evaluation, the purchase and the post-purchase experience (Sheth, Mittal & Newman, 1999:520). Each of the five stages is discussed below, with specific reference to how privacy can be affected at each stage.

4.7.1.1 *Problem recognition*

The decision-making process begins with a consumer recognising a problem to be solved, or a need to be satisfied. Problem recognition is defined as the result of a discrepancy between a desired state and an actual state that is sufficient to arouse and activate the decision process (Hawkins *et al.*, 2001:512). Problem recognition can be a physical problem, but can also be a state of deprivation or discomfort. It is necessary to point out that the presence of need recognition does not automatically activate action. The kind of action taken by consumers in response to recognised problems relates directly to its importance to the consumer, the situation and the dissatisfaction or inconvenience created by the problem. This depends on whether there is a need of sufficient importance and whether the consumer believes there is a solution to the need that is within his or her means (Engel, Blackwell & Miniard, 1995:176).

Problem recognition can be the result of a variety of factors that influence consumer desires and perceptions, such as previous experiences, motives, emotions and culture. If a consumer has experienced a situation where there was a lack of information privacy and the consumer's information privacy has been violated by an organisation, the consumer may remember a loss of control over his or her information use. This past experience may affect the consumer in the problem recognition phase (and all other phases), leading to a situation where the consumer will consider terminating all future dealings with the specific organisation, and turn to other organisations who offer privacy protection to satisfy their needs.

4.7.1.2 *Information search*

Once a need or problem has been recognised, consumers search for information about various alternative ways of solving the problem. An information search is selective, since consumers choose information that is most relevant to their needs and most likely to conform to their beliefs and attitudes (Du Plessis & Rousseau, 2003:118). An information search can be internal or external. An internal search is nothing more than a

memory scan for knowledge stored in long-term memory. An external search occurs when information is collected from the environment, from family, friends, advertisements and salespeople (Engel *et al.*, 1995:183).

Information reduces uncertainty in decision-making and is the foundation for value of information. Like organisations, consumers need information to make wise decisions (Franzak *et al.*, 2001:634). Perceptions regarding the costs versus the benefits of an information search play a vital role in guiding the search process. Consumers usually invest more effort in an information search when the perceived benefits of this activity increase and the costs decline. The magnitude of information sought depends on factors such as perceived risk, involvement, familiarity and expertise, time pressure and information overload (Sheth *et al.*, 1999:529).

One of the main objectives facing marketers is to present consumers with information on which to base their decisions. Part of this process can be to inform consumers of privacy protection policies and privacy seals. The global customer quickly learns about the wide range of choices available through various kinds of modern telecommunications technologies that give virtually instant access to information worldwide (Webster, 1994:24). One of the most interesting and distinguishing dimensions of such information systems is the level of control which the consumer has over the information system (Ariely, 2000:234). As with an information search, control over the information flow seems to have both advantages and disadvantages (benefits and costs). In terms of benefits, information control allows consumers to deal with information systems that fit their individual informational needs better and are more flexible, whereas in terms of the costs, information control requires the user to invest processing resources in managing the information flow (Ariely, 2000:235). Privacy enhancing technologies are growing at a dramatic rate with the purpose of enabling Internet consumers to be informed and to make choices about the collection, use and disclosure of their private information on the Internet (Wang, Lee & Wang, 1998:68).

4.7.1.3 *Evaluation of alternatives*

The third stage in the consumer's decision-making process is an evaluation of alternatives. This occurs when the consumer decides on the value offered in the potential exchange process versus the costs (s)he has to incur. The type of evaluative criteria which a consumer uses in a decision varies from tangible costs and performance features to intangible factors such as information privacy (Hawkins *et al.*, 2001:566). Present day global consumers can choose among a much larger variety of products and services from producers located worldwide. Consumers are much more likely to judge products and services in terms of their fundamental value, defined simply as the ratio of benefit to cost (Webster, 1994:24). Placing privacy in the market environment together with such choices as colour, durability and size creates an environment in which privacy becomes another cost (Agre & Rotenberg, 1998:161). Consumers will relax their concern about information privacy if they feel that the benefits of disclosure are significant. For example, if consumers prefer custom-designed promotional offerings that fit their profile, they may decide that disclosing their information is worth it. This trade-off implies that consumer information has value (Franzak *et al.*, 2001:640). Sourcing and decision-making costs are thus reduced as consumers develop trust in a single provider.

4.7.1.4 *Purchase*

Once the consumer has evaluated the alternatives, (s)he makes the decision to purchase. It is important to note that not all purchase intentions are fulfilled, because the consumer always faces the option of aborting the purchase process. This can happen when motivations for the purchase change, circumstances change, new information provides new purchasing options, an desired alternatives are no longer available (Engel *et al.*, 1995:236).

There is a substantial proportion of consumers who maintain that the benefits of purchasing through the Internet do not outweigh their concerns (Harris Interactive,

2001b). An average of 60 per cent of online American respondents state that security and privacy concerns stop them from doing business on the Internet (GartnerG2, 2000:59; Harris Interactive, 2001b). It is estimated that as much as \$24.5 billion worth of online sales will be lost by 2006 because websites are not addressing consumer's fears about privacy and security (Jupiter Media Metrix, 2002).

The Information Technology Association of America postulates that high-profile computer crime incidents sensitise people to become more concerned about the privacy and security of their personal information (Creed, 2000). It was reported that only 14 per cent of Internet users indicated that they feel safe when releasing their credit card information on the web (Udo, 2001:171). A survey of Chinese Internet users showed that 37 per cent regard a lack of information security as the biggest disadvantage of online shopping (Johnson-Page & Thatcher, 2001:266). Between 52 per cent and 60 per cent of Internet users are more willing to purchase products online when there is a secure ordering process (Greenfield Online, 2001:58) and 82 per cent believe that online companies should inform consumers exactly how their sensitive information will be secured during transmission and storage (Taylor, 2002:21). From an information privacy point it is not only important that the consumer makes the decision to purchase, but also that (s)he will be satisfied after the purchase. The final phase in the consumer decision-making process, namely post-purchase behaviour, is addressed next.

4.7.1.5 *Post-purchase*

The consumer's decision-making process does not end with the purchase. Instead, the experience of buying and using the product or services provides information that the consumer will use in future decision-making (Sheth *et al.*, 1999:547). If a consumer realises that the organisation discloses his or her information to others without permission after a purchase, it can lead to dissatisfaction. Dissatisfaction with delivered products and services or information practices can affect consumers' decisions to continue a relationship, and conversely increase the likelihood of exit from the

relationship, as well as negative word-of-mouth (Hirschman, 1970:55; Selnes, 1998:306).

Hirschman (1970:30) was the first to suggest a taxonomy of consumer complaining behaviour responses. This taxonomy classified options available to dissatisfied consumers into three groups: they could exit the relationship; they could voice their dissatisfaction to the seller; or they could show loyalty to the seller by neither exiting from the relationship or voicing their dissatisfaction.

Singh (1988:95) added to this taxonomy by providing more consumer complaint behaviour response categories. Besides voicing complaints to the seller, informal complaints can also be voiced to friends and relatives, and formal complaints can be lodged with agencies not directly involved in the exchange, such as consumer protection groups.

Customer service and loyalty programmes created with the best intentions by organisations are sometimes viewed as annoying junk mail and can lead to dissatisfaction after a purchase (Caisse, 2002). The Opinion Research Group Corporation contacted a random sample of 1 017 adults in the USA and reported that 60 per cent of respondents regarded junk mail as an invasion of privacy, and 47 per cent contended that receiving unsolicited e-mails from marketing made them more likely to believe that certain information practices are unethical, rather than privacy invading.

Improper activities from organisations after purchases can lead to consumer dissatisfaction. An example is activities by web-based organisations that monitor (through the use of cookies) a consumer's Internet activities without notice to or acknowledgement from the consumer, as well as a transfer of consumer's private information to other organisations without notice to or acknowledgement from the consumer (Wang *et al.*, 1998:65).

Maintaining an ongoing relationship with customers is crucial to an organisation's success. One way to secure this is by creating and publishing a customer-friendly privacy policy. Organisations have to recognise that when a consumer shares personal information with the organisation, it is an expression of trust. If an organisation protects its customers' privacy, it is protecting the proprietary nature of the relationship with its most valuable asset: its customers (Mabley, 1999:4).

In theory, all participants in an effective marketing relationship benefit. Organisations acquire the information needed to tailor product offerings and provide superior customer satisfaction in the long term. They retain customers, and through retention they obtain continuously updated information. Consumers, the recipients of improved products and services, enjoy the benefits of products designed to meet their needs, personalised attention and the stability of longer-term contracts and relationships. But both parties also sustain additional costs. For the consumer, a major cost issue relates to loss of privacy. Aspects of costs associated with loss of privacy range from the time and attention needed to eliminate or attend to unsolicited advertising, to the loss of identity.

Value requires that the benefits from information in a relationship exceed the costs associated with acquiring and using it (Franzak *et al.*, 2001:633). The above discussion on the consumer decision-making process would not be complete without some reference to the different factors that influence this decision-making process. The remainder of the chapter discusses some of the individual and external factors influencing consumers' decisions regarding information privacy.

4.7.2 Individual factors influencing consumer decision-making

The literature identifies several individual factors relating to consumer decision-making. This section focuses on the link between beliefs, attitudes, behavioural intentions and behaviour. A consumer's evaluation process begins with a combination of his or her beliefs about a product or service. Through previous experiences, knowledge and perceptions, consumers acquire many beliefs about products and services in their

environment. These beliefs form a consumer's attitude that is in turn related to behaviours toward a product or service. Consequently, consumers' intentions to perform certain actions should increase as their attitudes become more favourable.

Behavioural intentions are created through a decision process in which attitudes about two types of consequences are considered and integrated to evaluate alternative behaviours and select among them. Behaviour is expected to be highly related to behavioural intention even though certain behaviours cannot be accurately predicted from beliefs, attitudes, and intentions. The behaviour of consumers who have little knowledge and low levels of involvement are virtually impossible to predict because such consumers have very few beliefs in memory on which to base attitudes and intentions (Engel *et al.*, 1995:366; Peter & Olson, 2002:166). The different factors, namely beliefs, attitudes, behavioural intentions and behaviour are discussed individually below, with specific reference to their relevance to the empirical study.

4.7.2.1 Beliefs

Beliefs are thoughts linking an object to some feature or characteristic, and represent the information that consumers have about a situation or object (Arnould, Price & Zinkhan, 2002:460). A belief is the result of a relationship between knowledge, previous experiences and perceptions, and it eventually affects a person's attitude toward an object (Du Plessis & Rousseau, 2003:264). There appear to be different beliefs among consumers regarding unethical issues versus privacy issues (Taylor *et al.*, 1995:39). For example, consumers are more likely to believe that certain information practices are unethical, than that they are invading privacy.

Consumers' beliefs are relevant to the empirical study and some of the privacy concern questions in the measurement instrument represented belief statements pertaining to consumers' information privacy concerns. The section below focuses on the influence of knowledge, previous experiences and perceptions on consumers' beliefs regarding information privacy.

(a) *Previous experience*

If a consumer's knowledge is acquired from past experiences, then these experiences can be important mediating variables in understanding consumers' views on privacy. This implies that previous exposure to attempts by organisations to collect data would affect consumers' willingness to become involved in relationships (Long *et al.*, 1999:6). Personal negative experiences with any misuse of information by specific organisations are likely to increase all aspects of consumer privacy concerns, since such experiences undermine consumers' trust not only in the particular organisation involved, but in all organisations. The findings of a study by Campbell (1997:51) indicated that there was a significant positive correlation between direct negative personal experiences and consumer concerns about personal information collection.

In a study by Louis Harris and Associates (1998b:ix), 41 per cent of consumers reported that they had personally been the victim of an improper invasion of privacy by an organisation. Privacy can rapidly become an important issue, based either on bad personal experiences or on negative media coverage of offensive violations of privacy (Taylor, 2002:20). It is believed that changes in consumer perceptions about how most organisations operate and whether existing laws and practices provide reasonable privacy protection, is caused by the continued critical mass media treatment of consumer profiling, target marketing, and business information-sharing practices – especially on the Internet (Westin in Harris Interactive, 2002b:23).

(b) *Knowledge*

There is evidence that knowledge, or the lack thereof, is a key determinant of privacy concerns (Nowak & Phelps, 1992:37). Consumers' knowledge of actual information privacy policies and information practices may also affect their privacy concerns, although two opposing arguments have been formulated about this effect. The more knowledge consumers have about the collection and use of personal information, the more concerned they may be about information privacy practices. Milne and Boza (1999:18) have reported that consumers were less likely to trust organisations once

they become more knowledgeable about their information practices. At the same time, if consumers understood that the information collected had the potential to build a relationship in which they could participate in the creation of goods or services, privacy concerns might be diminished or superseded by their desire to participate (Campbell, 1997:46).

Privacy becomes a more meaningful concern, however, when consumers lack knowledge of the information collection and therefore its actual use. According to Nowak and Phelps (1997:100) consumers' knowledge of the method employed to gather information typically falls into one of three categories: full knowledge of information collection and information use; knowledge of information collection but not information use; and ignorance of both information collection and use.

(c) *Perceptions*

Both previous experience and knowledge of information practices influence consumers' perceptions of and beliefs regarding fair information practices. Perceptions concerning information privacy have a strikingly negative influence on consumers' willingness to engage in relationship exchanges (Hoffman *et al.*, 1999:81). A study by Eddy, Stone and Stone-Romero (1999:347) provided empirical evidence that the ability to authorise the disclosure has important main and interactive effects on perceptions of invasion of privacy. Consumers' perceptions affect their actions and buying habits because they make decisions and take actions based on what they perceive to be a reality (Du Plessis & Rousseau, 2003:231).

Results from research by the Web Credibility Research group at Stanford University indicate that more than 50 variables affect online users' perceptions of credibility (O'Connell, 2002). The concerns over privacy span the dimensions of environmental control and secondary use of information control. Environmental control, or the consumer's ability to control the actions of an organisation, directly affects consumer perception of the security of the exchange. In the physical world, a consumer may be concerned about giving out credit card information over the telephone to an unknown

voice within a mail-order company. On the Web, consumers may fear typing in credit card information to any commercial Web provider. Control over secondary use of information reflects consumers' perceived ability to control the use of their personal information for other purposes subsequent to the transaction during which the information is collected (Hoffman *et al.*, 1999:81).

4.7.2.2 *Attitudes*

Hawkins *et al.* (2001:394) refer to attitudes as the ways individuals think, feel and act toward some aspect of their environment, such as an organisation. The relationship between attitudes and beliefs is part of the cognitive and the affective processing of learning. An attitude can serve several key functions for individuals. One is a knowledge function that serves primarily as a means of organising beliefs about objects or activities such as information practices by organisations. Another is a value-expressive function where attitudes are formed based on a set of beliefs, and serve to express an individual's central values and self-concept. Hence, consumers who value privacy are likely to develop attitudes about organisations and activities that are consistent with that value. Attitudes can also serve a utilitarian function where consumers tend to form favourable attitudes toward objects and activities that are rewarding, and negative attitudes toward those that are not (Hawkins *et al.*, 2001:395).

It can be argued that the motivation for privacy often has its roots in a desire for autonomy, or at least in an avoidance of future control of one's behaviour by others (Berscheid, 1977:94). Attitudinal commitment research indicates that this is true even when the threat of control is 'self-imposed self-control, stemming from the individual's desire to act in a way consistent with his or her publicly known attitude.

Consumers' attitudes are relevant to the empirical study and some of the privacy-concerned questions in the measurement instrument represented attitude statements pertaining to consumers' information privacy concerns.

4.7.2.3 *Behavioural intention*

The theory of reasoned action proposes that every voluntary form of behaviour is determined by a behavioural intention. Behavioural intentions are consumers' plan to engage in specific behaviour to reach a goal. This theory assumes that consumers consciously consider the consequences of the alternative behaviours before them and choose the one that leads to the most desirable consequence. The outcome of this reasoned choice process is an intention to engage in the selected behaviour (Peter & Olson, 1996:155).

Previous research (Stone, Gueutal, Gardner & McClure, 1983:461) suggests that consumers have different beliefs about the information handling practices of organisations, based on their information-related experiences. If consumers' beliefs about information-handling practices change, their attitudes also change (attitude changes because beliefs change). If attitudes change, then behavioural intentions will also change. In the case of information privacy, a consumer may perceive that the desired level of information control was not achieved during a particular interchange with an organisation (belief), and is now experiencing a negative affect as a consequence (attitude), and, therefore, (s)he does not intend to disclose any additional information to the organisation during subsequent interactions (behavioural intention).

Consumers' behavioural intentions are relevant to the empirical study and some of the privacy-concerned statements in the measurement instrument addressed the issue of whether consumers intend to engage in specific behaviour to protect their information privacy.

4.7.2.4 *Behaviour*

The relationship between attitudes and behaviour, and particularly the importance of attitudes as either a precondition or a predictor of behaviour, has been widely discussed in marketing and consumer behaviour literature (Long *et al.*, 1999:6). Several

researchers have struggled with the link between privacy concern and behaviour (Sheehan & Hoy, 1999:40). Whether an individual determines that his or her privacy is being invaded or not depends on the characteristics of the situation, on an individual's own judgement of the situation, and on the perceived reputation of the organisation using the information (Sheehan & Hoy, 1999:40; Wang & Petrison, 1993:17).

Several studies have indicated that consumers are willing to change their purchasing behaviour due to privacy concerns. A study conducted by Cyber Dialogue (2001:57) has shown that 27 per cent of Internet users stated that they had abandoned an order online because of privacy concerns, while 21 per cent had switched from online purchasing to placing an order offline. Findings from a study by Harris Interactive (2002b:14,44,72) concluded that consumers are willing to change their behaviour if they feel an organisation has established strong and trustworthy privacy practices. A total of 83 per cent said they would stop doing business entirely with an organisation if they heard or read that an organisation was using its customers' information in a way they considered to be improper. In the same study, 56 per cent of consumers decided not to use or purchase something from an organisation because these consumers were not sure how the organisation would use their information. These findings demonstrate that consumers will alter their behaviour if they are confident that an organisation, whether online or offline, will follow its privacy policies. Interesting findings from a study by Sheehan (1999:26) indicated that men were likely to adopt behaviours to protect their privacy when they become concerned, whereas women rarely adopt protective behaviours. Harris Interactive (2002b:77) reported, however, that women are more likely than men to change their behaviour if they were confident an organisation would follow its privacy policies.

Harris Interactive and Westin (2000:11) identified six information privacy protective behaviours by consumers. First, they remove personal information such as a name and address from marketing lists. Second, they may refuse permission to sell or give personal information to another organisation. Third, they may demand to be informed on information practices before the purchase. Fourth, they may refuse to provide

information considered irrelevant or too personal. Fifth, they can decline a purchase opportunity when they feel unsure of how personal information will be used. Finally, they can request access to their own personal information in organisational databases.

There is also evidence to suggest that even though consumers are concerned about their privacy, they do not necessarily change anything about their behaviour to address the concern. Some individuals consider privacy an absolute right, and many people are concerned about their privacy in an abstract sense. However, there have recently been indications that individuals are increasingly changing or adopting behaviours in light of information requests which they feel invade their privacy (Sheehan & Hoy, 1999:40). Many consumers surrender their personal information willingly, knowing that they receive substantial benefits in return. For most people, the benefits gained by providing such potentially invasive information far outweigh any of their concerns.

Some organisations, however, do not intelligently organise and use the information they collect, much less deliver value to consumers in return for it (Hagel & Rayport, 1997:55). Turner and Varghese (2002:11) reviewed the results of five major consumer privacy surveys conducted in 2001. Their report concluded that these consumer surveys were consistent in finding high levels of concern about privacy. However, they caution that a closer look shows wide variations in results and a disconnection between consumer preferences and behaviour.

Consumer behaviour is relevant to the empirical study and specific items in the measurement instrument addressed the issue of whether or not consumers adopt protective behaviour when it comes to their information privacy.

In the previous sections, the link between beliefs, attitudes, behavioural intentions and behaviour as it pertains to information privacy, was addressed. This is particularly relevant to the study, since the privacy-concerned statements in the measurement instrument represent consumers' beliefs, attitudes, behavioural intentions and

behaviours. Detail on the different questions in the measurement instrument is discussed in Chapter 6.

The final section in this chapter relates to external influences and its impact on both organisations' marketing activities and consumers' decision-making processes.

4.7.3 External influences on consumers' decision-making processes

A powerful approach to understanding external influences is to analyse the situations in which the consumer experiences the environment (Peter & Olson, 2002:266). While the business environment continues to provide a relatively friendly climate for accessing personal information, consumers are increasing their demands for protection. However, although more consumers are concerned about attacks on their privacy, the courts continue to uphold the rights of commercial free speech. Most consumers are unaware of how personal information is collected, used and distributed, and they are unaware of how technology helps in collecting personal information. There is also widespread misunderstanding about existing privacy laws and regulations. Frustrated by their lack of control, more consumers demand to know how their personal information will be used by organisations.

The social environment includes all social interactions between and among people. It is especially the social interactions between consumers and organisations that affect consumers and their behaviour regarding information privacy. Indirect social environmental factors such as culture, subculture and social class can also influence the beliefs, attitudes, behavioural intentions and behaviours of consumers.

4.7.3.1 Culture and subculture

Culture is defined as the meanings that are shared by people in a social group (Peter & Olson, 2002:290). Cultural factors can have a strong impact on individual responses

and sometimes overshadow the impact of other individual background factors such as education (Milne, Beckman & Taubman, 1996:23).

Consumers from different cultures tend to view information privacy issues differently (Rawwas *et al.*, 1996:53). It was found that a country's cultural values have a significant role in explaining the level of privacy concern in a country (Smith, 2001:12). Higher levels of individualism, masculinity and power distance in a society such as the USA, were associated with higher levels of privacy concern. The relationship with uncertainty avoidance was the reverse in European countries. There also seems to be a relationship between the cultural values in a country and the regulatory approach embraced by that country.

Subcultures are distinctive groups of people in a society that share common cultural meanings. Marketers use a variety of demographic characteristics to identify subcultures based on factors such as age, gender and income level. Various studies have reported that information privacy concerns increased with age, indicating that older people were generally more concerned about privacy and less positive about data collection practices (Nowak & Phelps, 1992; Milne *et al.*, 1996; Campbell, 1997:51; Milne & Boza, 1999:18; Harris Interactive & Westin, 2000:5; Rainie, 2002:20). Studies comparing consumer attitudes of high and low income consumers found conflicting results. Some studies indicated that more affluent and established individuals viewed the concept of privacy more seriously (Wang & Petrison, 1993; Harris Interactive & Westin, 2000:8), whereas other studies indicate that consumers with a lower income are more concerned about potential misuse of their information (Milne & Boza, 1999:18; Harris Interactive, 2002b:43). Women were generally more concerned about the secondary use and potential misuse of their personal information than men (Louis Harris & Associates, 1998b, ix-xviii; Milne & Boza, 1999:18; Sheehan, 1999:24-38; Harris Interactive, 2002b:93). This led to women's being more likely to express concern about insecure transactions or situations where their personal information could be stolen (Harris Interactive, 2002b:32).

Consumer culture and subculture are relevant to the empirical study since privacy concerns were compared between language groups (reflecting different cultures) and age and gender groups (reflecting subculture).

4.7.3.2 *Social class*

Social class refers to a national status hierarchy by which groups and individuals are distinguished in terms of esteem and prestige. Social class is influenced by the level of education and occupation (Peter & Olson, 2002:340). Findings from a study by Harris Interactive and Westin (2000:5, 8) indicated that more highly educated consumers were more likely than less educated consumers to report personal experiences of privacy invasion and to limit the use of their personal information. This was supported by findings from studies by Phelps *et al.* (2000:34) and Rainie (2002:20). Other studies, however, showed conflicting results. One study suggested that respondents with the least and the most education were the most concerned about privacy, while the middle group was less concerned (Milne *et al.*, 1996:25). A study by Harris Interactive (2002b:43) found the opposite: consumers with less education were more concerned about privacy than those with more education.

Social class is relevant to the empirical study since comparisons between different income groups, educational groups and occupational groups in terms of privacy concerns were investigated.

4.7.3.3 *Family and reference groups*

Direct social environmental factors such as family and reference groups also have a strong influence on consumers' knowledge and feelings about organisations. People learn acceptable and appropriate behaviours, and acquire many of their values, beliefs and attitudes through direct social interaction with their families and reference groups. A reference group is a group whose presumed perspectives, attitudes or behaviours are used by an individual as the basis for his or her perspectives, attitudes, or behaviours

(Arnould *et al.*, 2002:553). Consumers who are concerned about their information privacy will be influenced by consumer advocacy groups and may share their common values, beliefs and behavioural norms.

Marketers are interested in how family members interact and influence each other when making decisions for themselves and/or the household. Through socialisation processes, families transmit the cultural meanings of society, subcultures and social class to their children (Peter & Olson, 2002:361).

One area of concern that has arisen as part of the international privacy issue is children's safety issues as they relate to databases (Direct Marketing Association, 2001a:3). In 1998, the USA passed the Children's Online Privacy Protection Rule (COPPA) to force operators of youth-oriented websites to obtain parental consent before collecting any personal data about children younger than 13 years (McGuire, 2002). The findings of a research survey conducted by David Binder Research (2001:22) in the USA have indicated that 82 per cent of parents said that it was necessary for households with children to be equipped with child-filtering and spam control to block unsuitable Internet material from reaching children, and 81 per cent of parents showed concern about violations to their children's privacy when using the Internet.

4.8 SUMMARY

The evolution of marketing and the advocacy to extend relationship marketing into the management of the exchange processes within consumer markets have resulted in a growing interest in treating customers on an individual basis. This chapter has provided an explanation and overview of the relational exchange processes between consumers and marketers, and of the key elements in this process. On the one hand, it focused on the role of organisations in relationship building, and on the other hand it focused on consumers and the factors influencing their decision-making process. This chapter has addressed certain consumer elements such as beliefs, attitudes, behavioural intentions,

behaviour and consumer decision-making. Together with the background on consumer information privacy set out in Chapter 3, Chapter 4 creates the basis for the empirical part of the study. The next chapter provides a discussion on the different research hypotheses and their underlying rationale.