

CHAPTER 1

BACKGROUND AND OVERVIEW OF THE STUDY

1.1 INTRODUCTION

The right to privacy is an issue that is increasingly raised all around the world. Consumer privacy issues are not new; and many studies report on findings which illustrate consumers' concern about how personal data are used by the government and, more recently, by private organisations (Nowak & Phelps, 1992:28; Wang & Petrison, 1993:7) Culnan, 1993:341; Loro, 1995:32; Petrison & Wang, 1995:19; Louis Harris & Associates & Westin, 1998a:ix; Milne & Boza, 1999:5; Phelps, Nowak & Ferrell, 2000:27; Udo, 2001:165; Westin, 2002:16). An increasing number of consumers are expressing a desire to be left alone and a desire to protect their confidentiality (Agre & Rotenberg, 1998:226; Devenish, 1999:146; Hagel & Singer, 1999:7; Longley & Shain, 1988:268; Joshi, Aref, Ghafoor & Spafford, 2001:40). The Internet has grown considerably during the past decade, particularly with respect to its use as a tool for communication, entertainment and market place exchange. This rapid growth has been accompanied by concern regarding the collection, use and dissemination of consumer information by marketers. The consumer privacy issue is becoming more urgent as many consumers are involved in marketing transactions, and, progressively, more marketers rely on technology in their day-to-day operations.

This chapter sets out background which serves as an overview of the topic to be researched. This is followed by the identification of the research problem and a discussion of the identified research objectives. The importance and scope of the study are the presented, whereafter the research design is discussed briefly. Finally, a chapter outline of the study is given, indicating the main discussion areas in each chapter of the thesis.

1.2 BACKGROUND

One of the earliest definitions of privacy was documented by Warren and Brandeis (1890:193) in the 1800s. They argued that the right to life refers to the right to enjoy life, including the right to be 'let alone'. Several definitions on privacy have emerged since the first definition by Warren and Brandeis. In South Africa, privacy has been defined by Neethling, Potgieter and Visser (1996:36) as 'an individual condition of life characterised by exclusion from publicity'. This condition includes all those personal facts which the person himself or herself at the relevant time determines should be excluded from the knowledge of outsiders, and in respect of which (s)he evidences a will for privacy. Violations of privacy can refer to an invasion of a person's private life or relate to the acquisition and disclosure of personal information (Devenish, 1999:145).

Underlying any definition of information privacy is an understanding that an individual's interests need to be balanced with those of society at large. Integrative social contract theory provides a means for understanding the current tensions between organisations and consumers regarding privacy. When marketing transactions are viewed as an implied social contract, consumers provide personal information in exchange for receiving solicitations and other information, based on an expectation that their personal information will be managed and protected in a responsible fashion (Milne & Gordon, 1994:206).

The perceived threats posed by new computerised record-keeping systems have contributed to bringing the issue of privacy to public attention in the United States of America (USA) in the 1960s. During this period, according to Culnan (1993:344), two books were published on the issue, namely Alan Westin's (1967) *Privacy and Freedom*, and Arthur Miller's (1971) *The Assault on Privacy*. In the late 1980s, information privacy again surfaced as a public issue, fuelled by the coming of age of both database marketing and telemarketing. Information technologies that promoted the collection, analysis and exchange of detailed personal information facilitated the compilation of

detailed personal profiles, causing the public once again to focus its attention on privacy (Cohen, 1991:5).

The beginning of the information age has increased the importance of personal data protection to a level where governments and international organisations around the world have been forced to adopt privacy legislation (Holvast, Madsen & Roth, 2001:1). In 2000, the South African Law Commission requested the Minister for Justice and Constitutional Development to introduce privacy and data protection legislation in South Africa as soon as possible. The Minister approved the inclusion of the investigation in the Commission's programme and Project 124 was launched to investigate the privacy and data protection issue with the aim of improving and adding new legislation as soon as possible (Mokgoro, 2000:10-22).

The world economic system's transformation from a dominantly mass-production model to a mass-customisation model is seen as creating an enormous demand for detailed data on consumer behaviour. If goods and services are to be customised, it appears to be necessary for organisations to have access to detailed customer information. Increasing fragmentation of mass audiences has also created a demand for data about the actual and potential users of specialised media channels (Agre & Rotenberg, 1998:277).

Many people perceive there to be a threat to their individual privacy owing to the staggering and increasing power of information-processing technology used to collect a great deal of information about them. Whether this information is accurate, relevant or complete or not, it is stored, analysed, interpreted, compared and exchanged at high speed, and often the individual has no knowledge or control over the information. While organisations may claim that they apply tight security and confidentiality controls over the data, these measures are often instituted mainly for the benefit of the organisation and may provide little protection to the individual who is the subject of the data (Collier, 1995:41). From a marketing perspective, consumer privacy thus revolves around the

There has been a well-documented increase in consumer privacy attitudes. There has been a shift from the issue's being a modest concern expressed by a minority of consumers in the 1980s to its being a matter that is intensely debated and desired by more than three quarters of American consumers in 2001 (Nowak & Phelps, 1992:28; Culnan, 1993:341; Loro, 1995:32; Louis Harris & Associates & Westin, 1998:ix; Westin, 2002:16). The increased perception of an erosion of privacy is primarily due to the

regulate certain data processing technology.

and data protection rights, above and beyond legislative attempts to control and a corollary to these personal experiences, more consumers request individual privacy consumers (Katzenstein & Sachs, 1992:71; O'Malley, Patterson & Evans, 1999:427). As relates to the physical intrusion of marketing communications into the daily lives of organisations. The sheer volume of direct mail, phone calls and e-mails they receive prefer to be left alone. Consumers have little or no control over the prospecting efforts of privacy concern of consumers is media intrusiveness, and they state that they would to keep their personal information more private (Agre & Rotenberg, 1998:225). Another unrestricted gathering, processing and dissemination of personal data, and now desire consumers have experienced quite distinctly and directly the potential dangers of Hagel & Singer, 1999:7; Longley & Shain, 1988:268; Joshi *et al.*, 2001:40). Many desire to protect their confidentiality (Agre & Rotenberg, 1998:226; Devenish, 1999:146; An increasing number of consumers are expressing a desire to be 'left alone' and a

or to cross-reference information in a meaningful way (Massey, 2000:19).

mining software, has made it easy and affordable to share information across a network information about citizens. The rise of e-commerce, combined with sophisticated data-opportunity that the Internet affords organisations and government to collect extensive Much of the attention to privacy issues has recently focused on the Internet, and the

buyer's ability to limit the accumulation and dissemination of psychological and demographic data relating to a specific marketing transaction (Goodwin, 1991:1).

proliferation of information technologies, which provides scope for, and the potential ability of, managers to intrude in the private domain of consumers.

The information revolution, moreover, opens up important public policy issues, as organisations are increasingly building comprehensive consumer databases and applying sophisticated data-mining techniques to target consumers. Organisations have good reason to collect information about customers. 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. However, many consumers have realised that the information they have divulged freely through their commercial transactions, financial arrangements and survey responses has value and that they receive very little in exchange for that value (Hagel & Rayport, 1997:53-4).

More consumers are demanding that their information be used to enhance their experiences and that the information is not used in ways that abuse a privileged relationship (Mabley, 1999:1). Yudelson (1999:63) defines marketing as activities that aim 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 over an extended period of time. If marketers want to look beyond exchange transactions and want to develop long-term relationships, they need to understand the problem areas surrounding information privacy. The next section in this study describes the problem statement that provides the rationale for a deeper investigation into the topic of consumer information privacy.

1.3 PROBLEM STATEMENT

The concept of information privacy has shifted in the space of a generation from a civil and political rights issue to a consumer rights issue underpinned by the principles of data protection (Agre & Rotenberg, 1998:143). There is ample evidence to suggest that consumers world-wide recognise a problem of lack of information privacy and control

over personal information, once such information has been divulged to various organisations. Consumer attitudes about privacy have been researched in various countries and have been addressed in public opinion surveys. Studies have been done from the perspective of a number of disciplines, including law, political science, sociology and psychology. Although some reference is made to some of the most important international studies on information privacy in this section, a detailed discussion can be found in Chapter 5.

Most international studies indicate that information privacy is an important concern to many consumers. The findings of a study by Nowak and Phelps (1992:28) indicate that privacy is an important concern and is affected by the type of practice and the specificity of information. The findings of a study by Wang and Petrison (1993:7) demonstrate that certain consumers (particularly in the older age groups) are more negative about potential threats to their privacy than others. The results of a study by Culnan (1993:341) show that consumers who believe they do not have control over their personal information are more concerned about privacy. Phelps, Gonzenbach and Johnson (1994:9) report that public concern about privacy was high even before increased media coverage in the mid-1980s, and they argue that the dramatic increases in the frequency of media coverage have little relation to public salience. Loro (1995:32) contends that rising consumer concerns about privacy are forcing organisations to utilise the information in their databases to the benefit of consumers. Another study on privacy concerns and consumer choices, done in 1998, analysed privacy attitudes and concerns, concluding that concern over threats to personal privacy remains at very high levels and is increasing (Louis Harris & Associates & Westin, 1998:ix). The findings of a study by Sheehan and Hoy (1999:37) indicate that as privacy concerns increased, respondents reported that they were less likely to provide personal information to organisations.

Various studies have investigated cross-cultural differences with regard to consumer privacy. The findings of a comparative study by Petrison and Wang (1995:19) indicate that Americans express more concern about privacy issues pertaining to solicitations,

while British consumers are primarily concerned with informational privacy issues pertaining to the collection and exchange of information. In another comparative study, Maynard and Taylor (1996:34) concluded that Japanese respondents express a stronger concern about privacy issues than United States respondents do. The IBM-Harris multi-national consumer privacy survey conducted among consumers in the United States, Britain and Germany demonstrated that consumers are moving from passive concerns about how their personal information is used into patterns of 'individual privacy activism' and that high levels of concern about privacy continue (Harris Interactive & Westin, 2000:5).

Several studies propose ways to decrease high levels of consumer privacy concern. Nowak and Phelps (1997:94) suggest strategies and tactics for alleviating consumer privacy concerns, such as informing consumers when information is collected, how it will be used, who will have access to the data, and offering consumers 'opt-out'¹ opportunities. Milne and Boza (1999:5) have established that organisations can improve consumer trust by managing their personal information better, which reduces concern about privacy. Phelps *et al.* (2000:27) suggest that privacy concerns can be reduced by providing consumers with more control over the initial gathering and subsequent dissemination of personal information.

Recent international research studies have focused on privacy in an online environment. The results of a study by Udo (2001:165) indicate that privacy and security concerns are the number one reason that web users are not purchasing over the web. Harris Interactive (2001a, 2001b, 2001c) also conducted a series of three surveys on consumer privacy attitudes and behaviours. Their findings are relatively consistent across all three surveys, indicating that consumers are willing to provide both online and offline organisations with basic information, but are more protective of personal information and are less comfortable sharing more sensitive information.

¹ An 'opt-out' opportunity means that an individual can specify that (s)he does not want to receive particular offers at his or her address, or at other contact points.

Four previous studies have measured different aspects of privacy in the South African environment. The first study was conducted to determine whether there is a correlation between the manner in which individuals transact consumer activities, and the acceptance of the use of personal data for marketing purposes (Fowler, 1995:5). However, although research objectives were formulated, no hypothesis testing was done and no results were reported in this study, limiting the conclusions regarding the correlation between consumer activity and use of personal data for marketing purposes. In 1996, another study was conducted by Daya (1996:32), who investigated the secondary use of information within South African banking institutions. On the basis of his findings, he pointed out that banks lack comprehensive policies regulating access to and the distribution of personal data.

In a third South African survey, Mann (1997:49) developed a privacy scale by investigating a variety of factors that might affect consumer concern regarding information privacy. After a refinement process, Mann developed a 19-item scale to measure privacy concerns, dividing consumer concerns into five dimensions: (1) willingness to provide information; (2) perception of the integrity of information provided by sales staff; (3) requirement for product information regarding quality, reputation and value for money; (4) experimental shoppers and early adopters; and (5) willingness to trade information for marketing benefits. Although this study developed a privacy measurement instrument, it did not measure the magnitude of privacy concerns or examine the underlying dimensions of privacy concerns. Sahd (1998:26) conducted a privacy survey in the electronic environment using Mann's privacy scale. Sahd 'tested' Mann's privacy scale and determined that a number of the dimensions in Mann's instrument lacked discriminant validity. Like Mann's study, Sahd's research also focused on the measurement instrument *per se*, and did not measure South African consumers' privacy concerns. In addition to the fact that these four studies did not measure South African consumers' concerns, the samples used were not representative and the findings of these four studies cannot be generalised to the South African population.

While international studies show ample evidence of different dimensions of information privacy concerns, such underlying dimensions have not been researched in South Africa. The research problem can thus be formulated as a **lack of knowledge and understanding of information privacy concerns of South African consumers**. On the basis of this research problem, several research objectives can be formulated, as discussed in the next section.

1.4 RESEARCH OBJECTIVES

The research objectives are divided into primary and secondary objectives. The primary objective is supported by several secondary objectives. These objectives are all discussed more fully below.

1.4.1 Primary objective

Consumers' concern regarding the privacy issue is very real, and any marketer who wishes to achieve long-term success has to take consumers' information privacy concerns into consideration (O'Malley *et al.*, 1999:421). In order to do this effectively, marketers have to understand consumer behaviour in a privacy sensitive environment. The primary objective of this study is **to identify and explore the information privacy concerns of South African consumers in a commercial environment**.

1.4.2 Secondary objectives

In the past decade, many researchers have recognised that consumer attitudes about privacy is a multi-faceted issue (Wang & Petrison, 1993:17; Campbell, 1997:45; Taylor, 2002:20). Therefore, several secondary objectives have been formulated to support the primary objective. The secondary objectives of this study are to establish:

- (a) the underlying dimensions of information privacy concerns;
- (b) differences between consumers' manifest behaviours to protect their privacy and their privacy concerns;

- (c) differences between consumers in terms of their personal experiences of invasions of privacy and their privacy concerns;
- (d) the dependency between gender and personal experiences of invasions of privacy;
- (e) differences between consumers in terms of their knowledge about information protection practices and their privacy concerns;
- (f) the dependency between age and knowledge about information protection practices;
- (g) the dependency between level of education and knowledge about information protection practices;
- (h) differences between consumers in terms of their Internet usage and their privacy concerns;
- (i) differences between consumers in terms of their direct purchasing behaviour and their privacy concerns;
- (j) different privacy sensitive segments based on consumers' general privacy concerns; and
- (k) differences between consumers in terms of their demographic characteristics and their privacy concerns.

1.5 IMPORTANCE OF THE STUDY

At the start of 2002, the Minister for Justice assigned a committee, as requested by the Law Commission, to investigate the privacy and data protection issue with the aim of improving and adding new legislation in South Africa. Since information privacy is currently on the public agenda in South Africa, this study will provide information to all organisations and associations concerned with managing their customer information processes and the results will make a contribution to the body of knowledge. The knowledge of understanding consumers' privacy concerns will be the provision of the ability to develop policies that align organisations' information handling practices with customers' concerns. Identifying the underlying dimensions of information privacy concerns will indicate the dimensions of information privacy that cause most concern.

This will enable organisations to address the appropriate concerns during relational exchange processes.

1.6 SCOPE AND DEMARCATION OF THE STUDY

This is a study aimed at identifying and exploring the information privacy concerns of South African consumers. Information privacy should be distinguished clearly from physical privacy, which is concerned with physical access to a person. It also differs from trade secrecy, which addresses the ownership of intellectual corporate assets. The focus of both the theory and the empirical investigation in this study is on information privacy in a commercial environment, mainly addressing the use of consumer data for marketing purposes. This excludes other areas of concern such as medical privacy, identity theft, workplace monitoring, intelligence systems and biometrics. Although privacy is a multi-faceted concept encompassing a number of specific issues, the study mainly addresses the privacy issues affecting consumers during data collection, data storage, data use, data disclosure and solicitation. The empirical investigation was conducted among South African consumers above the age of 18 years whose household telephone number is listed in a telephone directory. One adult per chosen household was interviewed telephonically.

1.7 LIMITATIONS OF THE STUDY

The sample was limited to South African households with telephone numbers listed in the various Telkom telephone directories. The sample thus excluded households whose telephone numbers are not listed in a Telkom telephone directory, as well as households which do not have a landline.

1.8 RESEARCH DESIGN

The main aspects of the research design are discussed briefly in this section, and are discussed in detail in Chapter 6. An extensive literature review on information privacy

was conducted, consulting a wide range of relevant scientific journals, research publications and media articles. The empirical survey used national telephonic interviews. The questionnaire was developed on the basis of the literature, and pre-tested among consumers in the selected survey population. A probability sampling design was used in this study to draw a representative sample of households with listed telephone numbers in the Telkom telephone directories. The sample units were randomly selected, whereafter the telephone interviews were conducted with the adult in the household who had most recently celebrated his or her birthday. Data was captured and verified to ensure that no data capturing mistakes were made. Data analyses were done using the SAS programme for processing purposes. Several data analysis procedures were used, including cross-tabulation, frequency distribution, factor analysis, multiple analysis of variance, and confirmatory factor analysis. Reliability and validity testing were also performed.

1.9 PLAN OF THE STUDY

The current chapter has provided an overview of the literature, described the problem statement, research objectives, the importance and scope of the study as well as the research design. The remaining chapters address the following issues:

Chapter 2: Privacy in a legislative environment

This chapter provides a theoretical discussion on privacy in a legislative environment and deals with South Africa's Constitution, as well as with the most recent and proposed data protection legislative actions. The chapter also provides an overview of the history of the development of international legislation since the advent of the information age has increased the free flow of personal information across international borders.

Chapter 3: Consumer information privacy

Chapter 3 reviews the literature pertaining to the main area of study, namely consumer information privacy. It discusses information privacy in a commercial environment from a consumer perspective. Because of the information revolution, many consumers' right

to privacy focuses on two desires, namely, the desire to be left alone, and the desire to protect the consumer's confidentiality. The main discussion addresses these two desires in an information-driven environment that focuses particularly on the collection, storage, control, use and dissemination of personal information, leading to consumers' desiring to conceal information about themselves.

Chapter 4: Relational exchange processes and privacy

This chapter is devoted to the role of privacy in relational exchange processes and addresses the key elements in buyer-seller relationships. The role of organisations in relationship-building is discussed, whereafter information privacy related consumer behaviour is addressed. The discussion on consumer behaviour focuses on the behaviour patterns and activities that precede, determine and follow a consumer's decision-making. Finally, the impact of external influences on a consumer's decision-making processes, as well as on organisations, is investigated.

Chapter 5: Problem statement and formulation of research hypotheses

Chapter 5 elaborates on the problem statement and research objectives as discussed in the first chapter (Sections 1.3 and 1.4). The research hypotheses as well as their link with the identified primary and secondary objectives are also discussed in detail in Chapter 5.

Chapter 6: Research design and methodology

The research methodology is the focus of this chapter, with special reference to the population, sample frame and selection and the development of the measurement instrument. It also provides insight into the statistical techniques used for the data analyses.

Chapter 7: Research results and interpretation

Chapter 7 presents the findings of the empirical research ranging from the general research findings to the more detailed results and hypothesis testing. The results are

presented, interpreted and discussed. The findings of the hypothesis testing and other statistical analyses are presented and interpreted to enable appropriate conclusions.

Chapter 8: Conclusions, implications and recommendations for future research

In this final chapter, the study summarises the main findings and draws conclusions. The chapter also identifies the limitations and presents recommendations for future research.

1.10 SUMMARY

The dynamic nature of today's market imposes a responsibility on marketers to anticipate, plan and respond effectively to consumer needs. Within the current privacy sensitive environment, an understanding of consumers' information privacy concerns can be critical to any organisation's profitability and sustainable competitive advantage. Therefore, this study investigates the magnitude and underlying dimensions of consumers' information privacy concerns in a commercial environment.

The next chapter provides a theoretical background on **privacy** as a concept and presents an overview of how privacy has evolved, both nationally and internationally, in a legislative environment.