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# WWW PRIVACY POLICIES IN LARGE AND SMALL BUSINESS ENTERPRISES: DO THEY EASE PRIVACY CONCERNS?

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## Abstract

*The increased interest in personal privacy has led businesses to issue privacy statements in hard copy and on Web sites that serve to notify the public of their intentions with regard to the collection and use of site visitors' personal information. This in-process research presents data derived from Web site visits to show the extent of use and the content of privacy policies in large and small U.S. businesses. The large Fortune 500 businesses have slightly more than 50% with privacy policies. In contrast, less than 15% of the Inc. 500 have privacy policies. These large and small businesses also differ in regard to the content of the privacy policies and the use of visible privacy seals.*

## Introduction

Internet-based electronic commerce has given business opportunities to offer better services to its customers and to attract new customers, regardless of the geographic location. According to *CIO Metrics* (2001), the online retail market is expected to grow from \$44.5 billion in 2000 to more than \$65 billion in 2001 in North America alone. Further, the online retail volume represented less than 2% of total retail in 2000, so there is much room for expansion of e-commerce activities to more customers.

As this growth occurs, businesses need to know their customers and build relationship markets. On the other hand, for several years now public opinion polls have shown an increasing level of customer concern about privacy. Obviously this concern is heightened as more customers engage in e-commerce activities that collect and or use personal information. Even though customers may benefit substantially from online information gathering by receiving customized products and services, concerns about their privacy are on the rise (e.g., Green, Alster, Borrus, and Yang 2000).

The overall objective of this study is to assess the extent to which businesses have responded to personal privacy concerns and how they manage their Web sites with regard to collection and use of personal information. A secondary objective is to compare large and small business in terms the extent of use of Web site privacy policies.

The study should contribute to e-commerce literature. First, it will help provide an accurate and current profile of how online privacy policies are being implemented and used by both large and small business enterprises. Second, the findings can be used as a solid foundation on which to continue research on privacy issues. This later research may help businesses build a more trusting environment for e-commerce, gain more customers, and retain more of their existing customers.

## Research Background

Privacy is the right of an individual to be left alone and to be able to control the flow of personal information. Concerns about privacy are not new, but these concerns often arise when new information technologies with enhanced capabilities for collection, storage, use, and communication of personal information come into play (Webster, 1998; 1995; Culnan, 1993; Clark, 1988).

In November 1999, the *New York Times* reported that RealNetworks Inc., whose products deliver audio and video content over the Web, used its downloadable ReatJukebox CD player to secretly collect all sorts of data on its customers' listening habits and automatically sent it back to Web servers at RealNetworks' corporate offices (Robinson, 1999). At the beginning, RealNetworks

claimed that they were collecting the information as a way to customize services for customers and to be able to offer music selections based on what RealNetworks knew about what their online customers were listening to (Bradner, 1999). Facing public outcry against privacy invasion and lawsuits, RealNetworks quickly announced that it took actions to disable the collecting features and to post a privacy policy to address privacy concerns. The RealNetworks' case is a common example of the risks businesses face when they use online technology to collect and process customers' personal information. However, it is not an isolated case, as is evidenced by the current resurgence of public concerns about privacy.

Just this month, there have been renewed concerns raised over the health care industry's policy of sharing personal health information, often without the customer's consent. In addition, the attorneys general from Michigan and New York took legal actions against DoubleClick Inc. for robbing people of their privacy and causing people to distrust the Internet. And, in the second quarter of this year, companies were bidding to purchase assets, including personal customer information, of the failed dotcom Toysmart

The above examples clearly show that advances in e-commerce provide many opportunities to collect and use customer information. However, it may be difficult for businesses to continue to pursue the opportunities without risking public backlash if the applications do not reflect concerns about privacy. Almost 95% of Web users have declined to provide personal information to Web sites at one time or another when asked, and 40% of those who have provided personal data have gone to the trouble of fabricating it (Hoffman & Novak, 1999). Many customers simply do not trust most Web sites enough to engage in "relationship exchanges" involving their personal information.

In order to ease customers' concerns about the online privacy, businesses' Web sites have begun to issue privacy policies or statements. They are descriptions of sites' practices of the online collection, use, and dissemination of personal information. The use of privacy policies represents an industry wide effort to use self-enforcement mechanisms to make the Internet a safe, comfortable forum for customers to exchange accurate information and conduct transactions, and for Web commerce to reach its full potential. Yet, the use of privacy policies has not been universally accepted as the cost to implement privacy for the business may be quite high. According to a report from the Association for Competitive Technology reported in ITworld.com (2001), the cost for business to enact privacy controls as being proposed by Congress could reach billions.

Privacy advocates propose that fair information practices include four dimensions (FTC Congress Report, 2000): (1) Notice/Awareness, where appropriate, prior to collection of data; (2) Access/Participation, allowing people access to data collected about them; (3) Choice/Consent, providing people a choice to share or use their information; and (4) Security/Integrity, keeping the data secure both internally and externally. In order to assess the effectiveness of privacy protection, the FTC promotes adherence to these principles.

## Brief Methodology

This study involves two stages of data collection. One in July 2000 for the Fortune 500 group and again in March of 2001 for the Inc. 500 group so there is some inconsistency with regard to when the data was collected. Nevertheless, these data sets provide some insight into the technological environment of these two kinds of U.S. businesses. Further, they provide a base of data to use for discussion purposes in comparing the two. According to IDC's (2001) *eWorld research summary*, 60% of U.S. businesses have Web sites, "virtually all with more than 1,000 employees," and 50% of them have commerce sites. But we do not know how those Web sites are used to address privacy concerns. Nor, so we know how large and small businesses differ in terms of their use of privacy statements and other privacy mechanisms on their Web sites.

*Fortune* Magazine provides a convenient online URL references for those companies (<http://www.fortune.com/fortune/fortune500>). Because of their size and revenue leadership, the Fortune 500 provides a base for research on privacy practices for large businesses in the context of e-commerce. Data were collected by browsing each Fortune 500 Web site and then searching for "privacy policy", "privacy statement", "privacy practice", or "information practice". These searches were made via a site provided search, if available, and by visual inspection of candidate pages, if the site did not provide a search facility. The results of this part of study will answer the following questions:

- (1) How many Fortune 500 companies have privacy policies on their Web sites?
- (2) Are privacy policies different among industry types?
- (3) To what extent is seal programs being used?
- (4) What is the content of online privacy policy statements?
- (5) Do privacy policies comprise all privacy dimensions: notice/awareness, choice/consent, access/participation, and integrity/security?
- (6) Do privacy policies ease customers' concerns?

The *Inc. 500* report is a convenient way to get a perspective on small business enterprises that are on the way up. For instance, Microsoft and Oracle were once members of the *Inc. 500*. These companies, which are based in a number of industries, often start small but experience high growth rates. Sooner or later, these companies take off during a period of intense growth and represent the fastest-growing privately held U.S. businesses. These businesses apply for the 500 list, but their credentials are verified. Each 2001, *Inc. 500* Web site was visited (<http://www.inc.com/500>) using the same search methods as with *Fortune*.

## Data Analysis and Conclusion

The results of the study are somewhat disappointing in that less than 15% of the *Inc. 500* Web sites contained a privacy policy and less than 50% of the *Fortune 500* Web sites provide a privacy policy or an appropriate link to a policy on their home page. Another disappointment is the use of seal programs. Only 5.7% of the *Inc. 500* and 11.3% of the *Fortune 500* sites that have some form of privacy policy display a seal. It is true that the use of stated privacy policies is increasing. This fact was verified by a follow up questionnaire that was mailed to webmasters of the *Fortune 500*. Additionally, it is true that a parent company Web site might not display a privacy policy, but a subsidiary that has more of a public interface might well have a privacy policy. Further it is clear that some industries do not have substantial public interface so the use of a policy, or a seal might be deemed less useful in some industries. Further, there is a difference in the need for privacy policies among Web sites that are used for Intra-commerce versus B2C or even B2B commerce. At any rate, the data in Table 1 provides a starting base from which additional research questions might be generated.

**Table 1. Profile of Fortune and Inc. 500 Web Sites**

| Measure                     | Fortune % | Inc. % |
|-----------------------------|-----------|--------|
| Has a Web Site              | 89.6      | 78.2   |
| Web site has privacy policy | 55.4      | 13.3   |
| Web site displays a seal    | 11.3      | 5.7    |

Future research should address the issues beyond privacy concerns. It seems important to establish a connection between privacy policies and business outcomes. Also, the almost non-existent use of seal programs raises questions as to the importance of seals. We intend to propose and test a research model for privacy, trust, and customer behavioral intentions. If we can conclude that posting well-developed privacy policies will lead to better business such as more repeat visits, more purchases, etc., we believe that businesses will be more likely to address online privacy concerns and to gain competitive advantages for building customer relationships. Also, future research might be conducted to examine the extent of business data collection activities complying with the stated privacy policies. Examining how well a business performs based on the use of a stated privacy policy, and in comparison to businesses without a privacy policy, is important so that customers can gain trust and build a stronger relationship with businesses in an e-commerce environment.

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