

A MECHANISM-BASED PERSPECTIVE ON THE PERSONALIZATION-PRIVACY TRADE-OFF: THE ROLES OF PERCEIVED SURVEILLANCE AND TRUST IN AI-DRIVEN E-COMMERCE

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ABSTRACT

This study examines the personalization-privacy trade-off in AI-driven e-commerce by investigating how AI-driven personalization, privacy concern, and consumer trust jointly influence online purchase decisions among Generation Z consumers. Rather than treating personalization and privacy as opposing forces, this study proposes an integrated framework that explains consumers' behavioral responses through trust formation. Using survey data collected from 635 Generation Z consumers in Vietnam and analyzed using Structural Equation Modeling (SEM), the findings indicate that AI-driven personalization significantly enhances consumer trust and directly influences purchase decisions. Trust also exerts a strong positive effect on purchase decisions, confirming its central role in AI-enabled e-commerce environments. In addition, privacy concern significantly affects trust, highlighting the importance of consumers' privacy evaluations in shaping behavioral outcomes. These findings suggest that consumer responses to AI-driven personalization are governed by an interconnected psychological mechanism rather than by isolated direct effects. This study contributes to the literature by extending the personalization-privacy trade-off perspective and integrating trust as a key explanatory construct in AI-driven e-commerce. The findings also provide practical implications for e-commerce firms by emphasizing the need to develop transparent and trustworthy personalization strategies that balance personalization benefits with consumers' privacy expectations.

Keywords: AI-driven personalization, privacy concern, perceived surveillance, consumer trust, purchase decision, e-commerce.

1. INTRODUCTION

The rapid advancement of artificial intelligence (AI) has fundamentally transformed contemporary e-commerce by enabling firms to deliver highly personalized and data-driven consumer experiences [1], [2]. Through technologies such as recommendation algorithms, predictive analytics, and intelligent interaction systems, AI-driven personalization enhances information relevance, reduces search costs, and improves decision-making efficiency in online shopping environments [3], [4]. Consequently, personalization has become a strategic instrument for strengthening customer engagement and influencing purchase decisions in digital marketplaces [1], [5].

Despite these advantages, AI-driven personalization is inherently data-intensive and raises growing concerns regarding consumer privacy and the use of personal information. Consumers increasingly recognize that personalized services depend on the continuous

collection, analysis, and utilization of behavioral and transactional data [6], [7], [8]. This situation has intensified the personalization-privacy trade-off, whereby consumers simultaneously appreciate personalized experiences while expressing concerns about privacy intrusion and excessive data collection [9], [10].

Trust has long been recognized as a critical determinant of online consumer behavior because it reduces uncertainty and facilitates transaction decisions in digital environments [11], [12], [13]. However, trust formation has become increasingly complex in AI-enabled contexts due to the opaque nature of algorithmic systems and consumers' concerns about data usage and privacy protection [14], [15]. Recent studies suggest that consumers' privacy evaluations may substantially influence their trust in AI-powered platforms and ultimately shape their behavioral intentions [16], [17].

These issues are particularly relevant to Generation Z consumers, who represent one of the most active user groups in AI-driven e-commerce ecosystems. Although Generation Z demonstrates strong digital proficiency and extensive engagement with personalized platforms, this generation also exhibits heightened sensitivity toward privacy protection, data transparency, and algorithmic decision-making [18], [19]. Previous studies indicate that Generation Z simultaneously values personalization benefits and expresses concerns regarding privacy risks, creating a complex decision-making process in digital commerce environments [20], [21].

Although prior studies have investigated personalization, privacy concern, and trust separately, several research gaps remain. First, existing studies predominantly examine direct relationships among these constructs without integrating them into a unified framework that explains consumer purchase decisions in AI-enabled e-commerce environments. Second, empirical evidence from emerging markets such as Vietnam remains limited, despite the rapid adoption of AI technologies in digital commerce. Third, relatively few studies have simultaneously examined the interplay among AI-driven personalization, privacy concern, trust, and purchase decisions among Generation Z consumers.

To address these gaps, this study develops and empirically tests a structural model integrating AI-driven personalization, privacy concern, trust, and purchase decisions. Specifically, the study examines the effects of AI-driven personalization and privacy concern on trust and investigates how trust subsequently influences online purchase decisions. Using survey data collected from 635 Generation Z consumers in Vietnam, the proposed model is validated using Structural Equation Modeling (SEM) following established methodological guidelines [22], [23].

This study makes several contributions. First, it extends the personalization-privacy trade-off literature by integrating AI-driven personalization, privacy concern, and trust into a unified explanatory framework. Second, it advances AI-enabled consumer behavior research by clarifying the role of trust in linking personalization and purchase decisions. Third, it enriches empirical evidence from an emerging market context and provides practical implications for e-commerce platforms seeking to balance personalization effectiveness, privacy protection, and consumer trust development.

To address these research gaps, this study is guided by the following research questions: RQ1 examines the influence of AI-driven personalization on trust and purchase decisions; RQ2 investigates the effect of privacy concern on trust; and RQ3 explores the role of trust in shaping online purchase decisions.

2. LITERATURE REVIEW

2.1. Theoretical Background

The rapid integration of artificial intelligence (AI) into digital commerce has fundamentally reshaped how firms interact with consumers and deliver personalized experiences [1], [2]. AI driven personalization enables digital platforms to analyze large scale behavioral data, predict user preferences, and provide tailored recommendations, thereby improving customer engagement and decision efficiency [3], [4], [5]. While prior studies have primarily emphasized the performance enhancing benefits of personalization, increasing attention has been directed toward its unintended consequences, particularly those associated with privacy and digital monitoring.

The personalization-privacy trade off perspective provides an important theoretical foundation for understanding this tension [9], [10]. It suggests that consumers are willing to exchange personal information for convenience and personalized services while simultaneously expressing concerns regarding data misuse and privacy intrusion. However, previous studies have mainly conceptualized this trade off as a static cost benefit evaluation and have largely overlooked the underlying psychological mechanisms.

Building on recent advances in AI enabled consumer behavior research, this study adopts a mechanism-based perspective in which consumer responses unfold through sequential psychological processes rather than simple direct effects. Specifically, perceived surveillance is positioned as a key mechanism reflecting consumers' awareness of being monitored within AI driven environments [17]. This perspective provides a more comprehensive understanding of how AI driven personalization and privacy concern jointly shape trust formation and subsequent purchase decisions.

2.2. AI Driven Personalization and Perceived Surveillance

AI driven personalization has become a core capability of modern e commerce platforms, allowing firms to deliver context specific recommendations and predictive interactions based on consumer data [1], [2], [3]. Prior studies indicate that personalization enhances perceived relevance, reduces information overload, and improves decision efficiency, thereby contributing to more positive user experiences [4], [5].

However, the effectiveness of personalization depends on how consumers interpret the underlying data collection practices. AI systems continuously analyze browsing behavior, purchase history, and interaction patterns, which may increase consumers' awareness of algorithmic tracking [6], [7], [8].

Such awareness may generate perceived surveillance, defined as consumers' perception that their online activities are being monitored for commercial purposes [17]. Nevertheless, personalization does not necessarily intensify surveillance perceptions. When consumers perceive personalized recommendations as useful and value enhancing, surveillance concerns may be attenuated.

Accordingly, the following hypothesis is proposed:

H1: AI driven personalization significantly influences perceived surveillance in AI driven e commerce platforms.

2.3. Privacy Concern and Perceived Surveillance

Privacy concern has been widely recognized as a critical determinant of consumer behavior in digital environments [6], [7], [8]. It refers to individuals' concerns regarding the collection, storage, and use of personal information by online platforms.

In AI driven commerce, extensive data analytics and algorithmic profiling may intensify such concerns [10]. According to the personalization-privacy trade off perspective, consumers with higher levels of privacy concern tend to be more sensitive to potential privacy risks and may interpret digital interactions as intrusive [9], [10].

However, privacy concern and perceived surveillance represent distinct psychological constructs. Privacy concern reflects a higher order cognitive evaluation, whereas perceived surveillance captures an immediate experiential perception [18]. Therefore, consumers with strong privacy concerns may not necessarily perceive greater surveillance in every interaction, highlighting the need for empirical examination.

Accordingly, the following hypothesis is proposed:

H2: Privacy concern significantly influences perceived surveillance in AI driven e commerce platforms.

2.4. Perceived Surveillance and Consumer Trust

Trust is a fundamental determinant of online consumer behavior because it reduces uncertainty and facilitates digital transactions [11], [12], [13]. In AI enabled commerce, trust becomes increasingly important due to the opaque and automated nature of algorithmic systems [14].

Perceived surveillance represents an important psychological factor influencing trust formation. Excessive perceptions of monitoring may reduce consumers' sense of control, increase vulnerability, and generate concerns regarding data misuse, thereby weakening trust toward digital platforms [15], [17].

Previous studies consistently indicate that surveillance perceptions negatively affect trust and user engagement in digital environments [16], [17]. Therefore, understanding this mechanism is essential for explaining consumer responses in AI driven commerce.

Accordingly, the following hypothesis is proposed:

H3: Perceived surveillance negatively influences consumer trust in AI driven e commerce platforms.

2.5. Consumer Trust, Privacy Concern, and Purchase Decision

Consumer trust is widely regarded as a central determinant of online purchasing behavior because it reduces uncertainty and encourages transaction completion [11], [12], [13]. When consumers perceive e commerce platforms as reliable and secure, they are more likely to rely on personalized recommendations and complete purchase decisions.

In AI driven environments, trust becomes even more critical because consumers must trust not only the platform itself but also the underlying AI systems that process personal data and support decision making [14], [15]. Consequently, higher levels of trust increase consumers' willingness to engage in online transactions [19], [20].

Beyond its indirect influence through perceived surveillance, privacy concern may also directly shape trust formation. Consumers with greater awareness of privacy issues tend to evaluate platform transparency, data governance, and ethical data practices more carefully [6], [8], [24]. Therefore, privacy concern may function as a cognitive mechanism that influences trust judgments.

Accordingly, the following hypotheses are proposed:

H4: Consumer trust positively influences online purchase decisions in AI driven e commerce platforms.

H5: Privacy concern positively influences consumer trust in AI driven e commerce platforms.

2.6. Research Model and Hypotheses

Grounded in the personalization-privacy trade off perspective, this study develops a mechanism based structural model to explain how AI driven personalization and privacy

concern jointly influence consumer trust and purchase decisions in AI enabled e commerce environments.

Unlike prior studies that primarily focus on direct relationships, the proposed framework emphasizes indirect effects and underlying psychological mechanisms. Specifically, perceived surveillance is positioned as a mediating construct linking AI driven personalization and privacy concern to trust formation [17].

AI driven personalization is expected to influence perceived surveillance by shaping consumers' interpretations of data driven interactions. Privacy concern, in contrast, is conceptualized as a higher order cognitive construct that influences both surveillance perception and trust evaluation. Trust subsequently acts as a key determinant of purchase decisions, consistent with established e commerce theories [11], [12], [13].

Accordingly, the proposed framework integrates AI driven personalization, privacy concern, perceived surveillance, trust, and purchase decision into a unified process oriented model to explain consumer behavior among Generation Z consumers in Vietnam.

The proposed research model is illustrated in Figure 1.

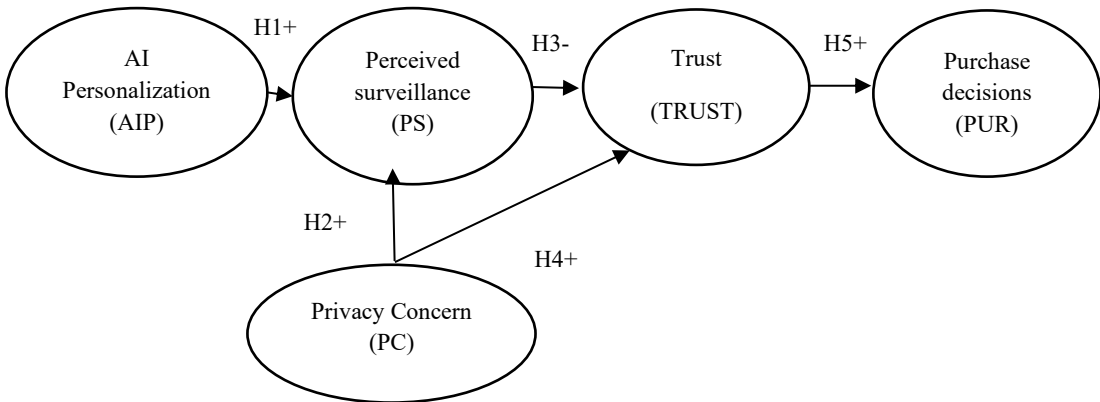


Figure 1. The AI-Driven Personalization-Privacy Trade-off Model (APPT Model)
(Source: Proposed by the authors)

3. METHODOLOGY

3.1. Hypotheses Development

Building upon the theoretical framework established in Section 2, this study empirically examines the proposed research model using Structural Equation Modeling (SEM), following established methodological guidelines for evaluating measurement and structural relationships among latent constructs [22], [23]. The model specifies AI - driven personalization and privacy concern as the exogenous constructs, perceived surveillance and consumer trust as the sequential psychological mechanisms, and purchase decision as the final endogenous outcome. This specification is consistent with the personalization - privacy trade - off perspective and prior research emphasizing the roles of surveillance perception and trust in shaping consumer responses in AI-enabled environments [9], [10], [17]. The hypothesized relationships are illustrated in Figure 1 and are evaluated simultaneously through the structural model.

Accordingly, the proposed hypotheses are summarized as follows:

H1: AI-driven personalization significantly influences perceived surveillance.

H2: Privacy concern significantly influences perceived surveillance.

H3: Perceived surveillance negatively influences consumer trust.

H4: Privacy concern positively influences consumer trust.

H5: Consumer trust positively influences purchase decisions.

3.2. Research Design and Sample

This study adopts a quantitative cross-sectional survey design to empirically examine the proposed framework using Structural Equation Modeling (SEM). Generation Z consumers in Vietnam were selected because of their extensive use of AI-enabled e-commerce platforms and heightened awareness of privacy-related issues [18], [19], [20].

Data were collected through an online survey distributed via digital platforms and social networking channels. After data screening, 635 valid responses were retained for analysis. This sample size exceeds the minimum requirements for SEM and provides sufficient statistical power to ensure model stability and robustness [22], [23].

3.3. Measurement Development

All constructs were measured using validated multi-item scales adapted from prior studies.

AI-driven personalization was adapted from AI and personalization research [1], [3], [5]. Privacy concern and perceived surveillance were adapted from established privacy and surveillance frameworks [6], [10], [18]. Trust and purchase decision were measured using widely validated e-commerce scales [11], [12], [13].

All items were assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), consistent with established SEM practices [22], [23].

3.4. Data Analysis

Data were analyzed using Structural Equation Modeling (SEM) following a two-step approach [22], [23]. First, Confirmatory Factor Analysis (CFA) was conducted to assess construct reliability, convergent validity, and discriminant validity. Second, the structural model was evaluated to test the proposed hypotheses.

This approach enables the simultaneous examination of measurement quality and structural relationships, providing a rigorous assessment of the proposed mechanism-based framework.

4. DISCUSSION

4.1. Measurement model evaluation

Table 1. Reliability and Average Variance Extracted (AVE)

	CR	AVE	MSV	PUR	AIP	PC	TRUST
PUR	0.876	0.585	0.473	0.765			
AIP	0.868	0.569	0.554	0.519	0.754		
PC	0.896	0.634	0.494	0.688	0.691	0.796	
TRUST	0.881	0.597	0.554	0.649	0.744	0.703	0.773

Source: Authors' calculations based on survey data.

Table 1 presents the reliability and validity assessment of the measurement model for the latent constructs, including AI-driven personalization, privacy concern, trust, and purchase decision. The results indicate satisfactory internal consistency, as all composite reliability (CR) values exceed the recommended threshold of 0.70 [22]. Convergent validity is also established because all average variance extracted (AVE) values are greater than 0.50, confirming that the indicators adequately represent their respective constructs [22].

Discriminant validity is supported based on the Fornell-Larcker criterion, as the square roots of AVE are greater than the corresponding inter-construct correlations, demonstrating sufficient conceptual distinctiveness among the constructs [23]. Although the correlation between AI-driven personalization and trust is relatively high, it remains within acceptable limits and does not indicate multicollinearity issues.

It should be noted that perceived surveillance is not included in Table 1 because it is operationalized as a composite observed variable derived from aggregated item scores rather than as a latent construct. Therefore, it is not subject to CR and AVE assessment. Nevertheless, perceived surveillance is retained in the structural model to capture its theoretically grounded mediating role within the proposed mechanism-based framework.

4.2. Structural model results

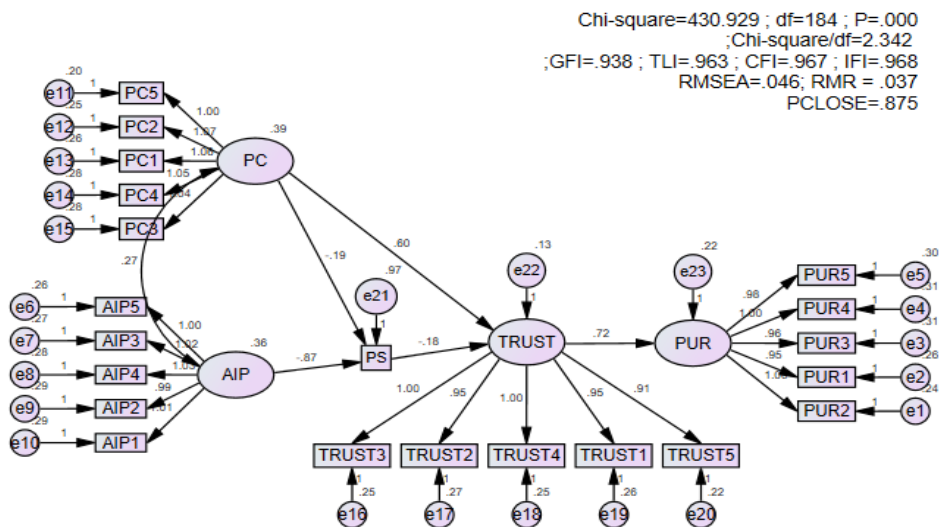


Figure 2. Structural Equation Modeling (SEM) Results

Source: Compiled from SEM analysis results

The structural model demonstrates a satisfactory fit to the data, with χ^2/df within the recommended threshold and goodness-of-fit indices meeting established SEM criteria (GFI = 0.938, CFI = 0.967, RMSEA = 0.046), indicating that the proposed model adequately represents the observed data [22], [23].

The structural results provide partial support for the proposed mechanism-based framework. AI-driven personalization exerts a significant negative effect on perceived surveillance, suggesting that well-designed personalization strategies may reduce consumers' feelings of being monitored rather than intensify them. In contrast, privacy concern does not significantly influence perceived surveillance, indicating that general concerns about personal data do not necessarily translate into immediate surveillance perceptions.

Perceived surveillance significantly and negatively affects consumer trust, confirming its role as an important psychological mechanism in AI-enabled e-commerce environments. Furthermore, privacy concern has a significant positive effect on trust, implying that consumers with higher awareness of privacy issues may place greater emphasis on evaluating platform transparency and data governance practices.

Trust subsequently exerts a strong positive influence on purchase decisions, highlighting its central role in facilitating online transactions and reducing uncertainty. Overall, these findings support a mechanism-based explanation of the personalization-privacy trade-off,

whereby consumer responses emerge through sequential psychological processes rather than simple direct relationships [22], [23].

Table 2. Structural Model Results

Hypothesis	Path	Standardized Estimate (β)	Unstandardized Estimate	p-value	Result
H1	AIP $\rightarrow$ PS	-0.448	-0.868	***	Not supported (opposite direction)
H2	PC $\rightarrow$ PS	-0.105	-0.195	0.072	Not supported (not significant)
H3	PS $\rightarrow$ TRUST	-0.332	-0.177	***	Supported
H4	PC $\rightarrow$ TRUST	0.612	0.605	***	Supported
H5	TRUST $\rightarrow$ PUR	0.689	0.716	***	Supported

Source: Compiled from SEM analysis results

The results indicate that not all hypothesized relationships are supported. AI-driven personalization significantly reduces perceived surveillance, suggesting that consumers may interpret personalized interactions as value-enhancing rather than intrusive when personalization is embedded within the overall service experience [2], [16]. In contrast, privacy concern does not significantly influence perceived surveillance, indicating that general concerns about personal data do not necessarily translate into immediate perceptions of being monitored [8], [17].

The structural results further reveal a mechanism-based process underlying consumer responses in AI-driven e-commerce. Perceived surveillance negatively affects trust, implying that consumers' attitudes are strongly shaped by their perceptions of system interactions and monitoring practices [15], [17]. Conversely, privacy concern exerts a significant positive effect on trust, suggesting that privacy-aware consumers tend to evaluate platform transparency, data governance, and ethical data practices more carefully before developing trust judgments [11], [13].

Trust subsequently emerges as the strongest predictor of purchase decisions, reaffirming its central role in reducing uncertainty and facilitating online transactions in AI-enabled environments [11], [12], [13].

Taken together, these findings suggest that consumer responses are governed by the interaction between experiential perceptions and cognitive evaluations, thereby supporting a mechanism-based explanation of the personalization-privacy trade-off in AI-driven e-commerce contexts [9], [17].

4.3. Discussion

4.3.1. Mechanism-Based Interpretation

The findings support a mechanism-based interpretation of the personalization–privacy trade-off in AI-driven e-commerce. Rather than being governed by direct linear relationships, consumer responses emerge through sequential psychological processes involving perceived surveillance and trust formation.

Specifically, AI-driven personalization significantly reduces perceived surveillance, suggesting that consumers may interpret personalized interactions as value-enhancing rather than intrusive when personalization is integrated into the overall service experience [2], [16]. This finding challenges the conventional assumption that personalization inevitably intensifies

surveillance concerns and instead highlights the importance of consumers' subjective evaluations of AI-enabled interactions [10].

Furthermore, privacy concern does not significantly influence perceived surveillance but exerts a significant positive effect on trust. This result reinforces the distinction between experiential perception (perceived surveillance) and cognitive evaluation (privacy concern), indicating that these constructs operate at different levels within consumers' decision-making processes [8], [13]. Rather than directly generating feelings of monitoring, privacy concern appears to function as a higher-order evaluative mechanism through which consumers assess platform transparency, credibility, and data governance practices.

Taken together, these findings suggest that the personalization-privacy trade-off is better understood as a layered and process-oriented phenomenon, thereby extending prior studies that have predominantly relied on direct-effect explanations [9], [17].

4.3.2. Theoretical Contributions

This study offers several important theoretical contributions.

First, it advances the personalization–privacy trade-off literature by reconceptualizing it as a mechanism-driven process, emphasizing the mediating role of perceived surveillance rather than relying on direct-effect assumptions [9], [10].

Second, it challenges the dominant view that personalization uniformly increases privacy risks by demonstrating that personalization can reduce surveillance perception when interpreted as beneficial, thereby introducing a perception-based boundary condition into personalization research [2], [16].

Third, the study refines privacy literature by differentiating privacy concern and perceived surveillance as distinct cognitive constructs, showing that they operate at different evaluative levels and exert asymmetric effects on trust formation [8], [17].

Finally, by integrating personalization, privacy concern, perceived surveillance, trust, and purchase decision into a unified SEM framework, the study provides a process-oriented and context-specific explanation of consumer behavior in AI-driven e-commerce, particularly within emerging markets [11], [12], [19].

4.3.3. Managerial Implications

The findings yield several implications for practice.

Firstly, personalization strategies should prioritize perceived relevance and user value, as effective personalization can mitigate surveillance concerns and strengthen trust [2], [16].

Secondly, reducing perceived surveillance requires not only limiting data intensity but also improving transparency and user control, which are critical for trust development in AI-enabled environments [15], [17].

Thirdly, privacy concerns should not be interpreted as resistance but as an indicator of cognitively engaged consumers who require credible signals of data protection and ethical platform behavior [8].

Finally, given that trust remains the primary driver of purchase decisions, firms should adopt a trust-centric approach in designing AI-enabled interactions to sustain long-term engagement and behavioral outcomes [11], [13].

5. CONCLUSION

This study examined the personalization - privacy trade - off in AI - driven e - commerce by proposing and empirically validating a mechanism - based framework that explains how AI-

driven personalization and privacy concern jointly influence consumer purchase decisions through the sequential psychological mechanisms of perceived surveillance and consumer trust. Using survey data collected from 635 Generation Z consumers in Vietnam and Structural Equation Modeling (SEM), the findings demonstrate that AI-driven personalization significantly influences perceived surveillance, while privacy concern shapes both perceived surveillance and consumer trust. Perceived surveillance negatively affects consumer trust, whereas consumer trust serves as the primary mechanism driving purchase decisions.

From a theoretical perspective, this study extends the personalization - privacy trade - off literature by moving beyond the conventional cost-benefit perspective toward a process - oriented explanation of consumer behavior. Rather than conceptualizing personalization and privacy concern as independent determinants of purchase decisions, the findings demonstrate that their effects are transmitted through a sequence of interconnected psychological mechanisms. By distinguishing the complementary roles of perceived surveillance and consumer trust, this study provides a more nuanced understanding of how consumers evaluate AI - enabled personalization in digital commerce environments.

From a managerial perspective, the findings suggest that effective AI-driven personalization should not focus solely on improving recommendation relevance and service efficiency. Instead, organizations should simultaneously minimize consumers' perceptions of surveillance while strengthening trust through transparent data governance, responsible AI practices, and effective privacy protection mechanisms. Such initiatives are essential for fostering sustainable consumer relationships and encouraging purchase decisions in AI - enabled commerce.

Despite these contributions, several limitations should be acknowledged. First, the cross-sectional research design limits the ability to establish causal relationships among the proposed constructs. Second, the empirical analysis focuses exclusively on Generation Z consumers in Vietnam, which may constrain the generalizability of the findings to other demographic groups and cultural contexts.

Future research is encouraged to adopt longitudinal research designs to capture the evolving nature of consumer responses to AI-driven personalization over time. Furthermore, incorporating contextual factors such as algorithm transparency, perceived control, AI literacy, and cultural differences may provide a more comprehensive understanding of the boundary conditions under which the personalization - privacy trade - off operates. Examining these factors would further advance knowledge of the dynamic psychological mechanisms underlying trust formation and consumer decision-making in AI-enabled commerce.

Overall, this study provides a theoretically refined and empirically validated explanation of how AI-driven personalization and privacy concern jointly shape consumer purchase decisions through the sequential mechanisms of perceived surveillance and consumer trust. By advancing a mechanism - based perspective on the personalization - privacy trade-off, the findings contribute to the growing literature on AI - enabled consumer behavior while offering actionable insights for designing trustworthy, transparent, and privacy - conscious AI-driven commerce systems.

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Artificial intelligence - based tools were used solely for language refinement, including grammar and stylistic editing; all intellectual content remains the responsibility of the authors.

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