



Subject: Management Information System

Semester: VII

Ethical Issues

Many of the ethical and global issues related to IT also apply to e-business. Here you will learn about two basic issues: privacy and job loss.

By making it easier to store and transfer personal information, e-business presents some threats to privacy. To begin with, most electronic payment systems know who the buyers are. It may be necessary, then, to protect the buyers' identities. Businesses frequently use encryption to provide this protection. Another major privacy issue is tracking. For example, individuals' activities on the Internet can be tracked by cookies. Cookies store your tracking history on your personal computer's hard drive, and any time you revisit a certain Web site, the server recognizes the cookie. In response, antivirus software packages routinely search for potentially harmful cookies

In addition to compromising individual privacy, the use of EC may eliminate the need for some of a company's employees, as well as brokers and agents. The manner in which these unneeded workers, especially employees, are treated can raise ethical issues: How should the company handle the layoffs? Should companies be required to retrain employees for new positions? If not, how should the company compensate or otherwise assist the displaced workers

Legal and Ethical Issues Specific to E-Commerce

Many legal issues are related specifically to e-commerce. A business environment in which buyers and sellers do not know one another and cannot even see one another creates opportunities for dishonest people to commit fraud and other crimes. During the first few years of EC, the public witnessed many such crimes. These illegal actions ranged from creating a virtual bank that disappeared along with the investors' deposits to manipulating stock prices on the Internet. Unfortunately, fraudulent activities on the Internet are increasing. In the following section, you explore some of the major legal issues that are specific to e-commerce

Fraud on the Internet.

Internet fraud has grown even faster than Internet use itself. In one case, stock promoters falsely spread positive rumors about the prospects of the companies they touted in order to boost the stock price. In other cases, the information provided might have been true, but the promoters did not disclose that they were paid to talk up the companies. Stock promoters specifically target small investors who are lured by the promise of fast profits. Stocks are only one of many areas



Subject: Management Information System

Semester: VII

where swindlers are active. Auctions are especially conducive to fraud, by both sellers and buyers. Other types of fraud include selling bogus investment and setting up phantom business opportunities. Because of the growing use of e-mail, financial criminals now have access to many more people. The U.S. Federal Trade Commission (FTC, www.ftc.gov) regularly publishes examples of scams that are most likely to be spread via e-mail or to be found on the Web. Later in this section, you will see some ways in which consumers and sellers can protect themselves from online fraud.

Domain Names. Another legal issue is competition over domain names. Domain names are assigned by central nonprofit organizations that check for conflicts and possible infringement of trademarks. Obviously, companies that sell goods and services over the Internet want customers to be able to find them easily. In general, the closer the domain name matches the company's name, the easier the company is to locate. A domain name is considered legal when the person or business who owns the name has operated a legitimate business under that name for some time. Companies such as Christian Dior, Nike, Deutsche Bank, and even Microsoft have had to fight or pay to get the domain name that corresponds to their company's name. Consider the case of Delta Air Lines. Delta originally could not obtain the Internet domain name delta.com because Delta Faucet had purchased it first. Delta Faucet had been in business under that name since 1954 and therefore had a legitimate business interest in the domain name. Delta Air Lines had to settle for delta-airlines.com until it bought the domain name from Delta Faucet. Delta Faucet is now at deltafaucet.com. Several cases of disputed domain names are currently in court.

Cybersquatting. Cybersquatting refers to the practice of registering or using domain names for the purpose of profiting from the goodwill or the trademark that belongs to someone else.

The Anti-Cybersquatting Consumer Protection Act (1999) permits trademark owners in the United States to sue for damages in such cases. However, some practices that could be considered cybersquatting are not illegal, although they may well be unethical.

Perhaps the more common of these practices is "domain tasting." Domain tasting lets registrars profit from the complex money trail of pay-per-click advertising.

The practice can be traced back to the policies of the organization responsible for regulating Web names, the Internet Corporation for Assigned Names and Numbers (ICANN) (www.icann.org)



Subject: Management Information System

Semester: VII

In 2000, ICANN established the “create grace period,” a five-day period during which a company or person can claim a domain name and then return it for a full refund of the \$6 registry fee. ICANN implemented this policy to allow someone who mistyped a domain to return it without cost.

In some cases, companies engage in cybersquatting by registering domain names that are very similar to their competitors’ domain names in order to generate traffic from people who misspell Web addresses. Domain tasters exploit this policy by claiming Internet domains for five days at no cost. These domain names frequently resemble those of prominent companies and organizations. The tasters then jam these domains full of advertisements that come from Yahoo! and Google. Because this process involves zero risk and 100 percent profit margins, domain tasters register millions of domain names every day—some of them over and over again. Experts estimate that registrants ultimately purchase less than 2 percent of the sites they sample. In the vast majority of cases, they use the domain names for only a few days to generate quick profits.

Taxes and Other Fees. In offline sales, most states and localities tax business transactions that are conducted within their jurisdiction. The most obvious example is sales taxes. Federal, state, and local authorities now are scrambling to create some type of taxation policy for e-business. This problem is particularly complex for interstate and international e-commerce. For example, some people claim that the state in which the seller is located deserves the entire sales tax (in some countries, it is a value-added tax, or VAT). Others contend that the state in which the server is located also should receive some of the tax revenues. In addition to the sales tax, there is a question about where—and in some cases, whether— electronic sellers should pay business license taxes, franchise fees, gross-receipts taxes, excise taxes, privilege taxes, and utility taxes. Furthermore, how should tax collection be controlled? Legislative efforts to impose taxes on e-commerce are opposed by an organization named the Internet Freedom Fighters. So far, their efforts have been successful. However, that situation may change. A bill that would give states the authority to collect sales taxes on all Internet purchases passed a major procedural hurdle in the U.S. Senate in late-April, 2013. If the bill becomes law, it would hand state and local governments as much as \$11 billion per year in added revenue that they are legally owed. Even before electronic commerce over the Internet emerged, the basic law was that as long as a retailer did not have a physical presence in the state where the consumer was shopping, that retailer did not have to collect a sales tax. Shoppers are supposed to track such purchases and then pay the taxes owed in their annual tax filings. Few people, however, do this or are even aware of it. The result is that online



Subject: Management Information System

Semester: VII

retailers have been able to undercut the prices of their non-Internet (e.g., brick-and-mortar stores) competitors for years. As state and local governments have had increasingly large cash shortcomings since the U.S. recession, officials have fought back. In mid-2013, nine states require Amazon to collect sales taxes.

Copyright. Intellectual property is protected by copyright laws and cannot be used freely. This point is significant because many people mistakenly believe that once they purchase a piece of software, they have the right to share it with others. In fact, what they have bought is the right to use the software, not the right to distribute it. That right remains with the copyright holder. Similarly, copying material from Web sites without permission is a violation of copyright laws. Protecting intellectual property rights in e-commerce is extremely difficult, however, because it involves hundreds of millions of people in some 200 countries with differing copyright laws who have access to billions of Web pages.