UNIVERSITY OF THE PEOPLE

PHIL 1404-01 Ethics and Social Responsibility - AY2024-T2

Written assignment unit 1

Instructor: Cynthia Donnelly

Introduction

Equifax is a prominent credit agency in the United States that generates credit scores that ascertain a person's eligibility for various credit lines, including credit cards, auto loans, and home loans (Wikipedia, 2023). The massive data breach at Equifax in 2017, which exposed the personal information of nearly half of the US population, presents a complex case study with implications for legal compliance, ethical leadership, and crisis management (Byars & Stanberry, 2019). Analyzing Equifax's response through these critical lenses provides insight into how companies should, and should not, handle data breaches. Ultimately, Equifax failed to meet legal and ethical duties, damaging trust, reputation, and competitiveness. Even though the corporation was aware of this significant security breach in July, it wasn't until September 7, 2017, that the attack was made public (Byars & Stanberry, 2019).

1. Which elements of this case might involve issues of legal compliance? Which elements illustrate acting legally but not ethically? What would acting ethically and with personal integrity in this situation look like?

Legal Compliance Issues

Several aspects of how Equifax handled the data breach raise potential legal compliance questions. First, the sale of nearly $2 million in company stock by Equifax executives after they learned internally of the breach but weeks before public disclosure may constitute illegal insider trading. Trading shares based on negative confidential information violates securities laws. While the timing and motive behind the trades remain uncertain, legal investigations continue.

Additionally, the months-long delay in public notification of the breach likely violated state consumer protection laws that require prompt disclosure once sensitive data is accessed.

Equifax has claimed they struggled to understand the breach's scope - but a focus on mitigating legal and financial harm seems to have driven the response more than openness.

Lapses of Ethical Leadership

Even if Equifax executives' actions are found legally permissible, their handling of the crisis breached ethical duties in leadership roles. Allowing unfettered insider stock sales before announcing the breach appears driven by self-interest over accountability, undermining integrity.

Equifax also failed in transparency by not reporting the breach sooner and more actively communicating with potentially impacted customers. Providing resources only after public outcry fell short of ethical leadership. An internal focus on limiting legal liability, rather than sincere remediation for those harmed, presented a conflict of interest contrary to ethical obligations. However, even if their actions were legally permissible, selling shares before publicly announcing the breach shows a lack of ethical leadership and integrity. Acting ethically would have meant immediately disclosing the breach, accepting responsibility, and putting customers first rather than protecting their own self-interests.

2. How do you think this breach will affect Equifax's position relative to those of its competitors? How might it affect the future success of the company?

Impact on Equifax's Future

The breach significantly damaged Equifax's competitive position and core business model long-term. As a credit reporting agency built on securely managing consumer data, this failure of data protection shredded customer trust.

Competing agencies like Experian or TransUnion now have a competitive advantage, especially among new customers valuing privacy and security. Equifax also faces reputational harm impacting partnerships, talent recruitment, and government trust - key assets for success.

Unless major reforms rebuild consumer confidence, the breach may also lead to loss of customers or business, diminished growth, and reduced profitability. Once compromised, personal information can expose consumers to lifelong identity theft risks, decreasing the value and security historically provided by Equifax services.

3. Was it sufficient for Equifax to offer online privacy protection to those whose personal information was hacked? What else could it have done?

Opportunities for Ethical Leadership

Equifax had opportunities to limit damage through more ethical handling focused on consumers over company self-interest. Offering free credit monitoring was a start, but insufficient to make amends. Equifax should have been more transparent about the breach sooner, communicated sincere apologies and reassurance to customers, provided broad compensation for potential damage, and taken concrete steps to regain lost trust.

After discovering the breach, Equifax could have:

- Immediately ceased insider stock sales to avoid conflicts of interest.
- Promptly notified the public to enable protective action.
- Offered broad restitution funds for impacted consumers.
- Implemented new data security infrastructure openly.
- Directly communicated apology, concern, and reassurance

While costly in the short term, this consumer-focused response would have upheld ethics, trust, and leadership integrity vital to Equifax's business viability. Accepting accountability rather than obscuring their failure with legal maneuvers and token gestures could have mitigated long-run competitive and financial impacts.

Conclusion

The Equifax crisis exemplifies leadership failures surrounding ethics, legal compliance, and accountability. Their response valued company protection over "doing the right thing", exacerbating the damage. Prioritizing transparency, security, and consumers' interests could have limited negative impacts on reputation, competitiveness, and ultimately Equifax's core business success.

Reference:

Byars, S. M., & Stanberry, K. (2019). Business ethics. OpenStax College and Rice University. Retrieved from: https://openstax.org/details/books/business-ethics

Jimenez, G. C., & Pulos, E. (2016). Good Corporation, Bad Corporation: Corporate Social Responsibility in the Global Economy. Open SUNY Textbooks. Retrieved from: https://milnepublishing.geneseo.edu/good-corporation-bad-corporation/.

Wikipedia. (2023). Equifax. Retrieved from https://en.wikipedia.org/wiki/Equifax#:~:text=Equifax%20Inc.%20is%20an%20American,the%20%22Big%20Three%22)

Word count: 700