

# Chapter 17

## Legal, Ethical, and Societal Impacts of EC

### Learning Objectives

**Upon completion of this chapter, you will be able to:**

1. Describe the differences between legal and ethical issues in EC.
2. Understand the difficulties of protecting privacy in EC.
3. Discuss issues of intellectual property rights in EC.
4. Understand the conflict between free speech and censorship on the Internet.
5. Describe major legal issues in EC.
6. Describe the types of fraud on the Internet and how to protect against them.
7. Describe representative societal issues in EC.
8. Describe the role and impact of virtual communities on EC.
9. Describe the future of EC.

### Content

#### **MP3.com, Napster, and Intellectual Property Rights**

- 17.1 Legal Issues Versus. Ethical Issues
- 17.2 Privacy
- 17.3 Intellectual Property Rights
- 17.4 Free Speech Versus Censorship and Other Legal Issues
- 17.5 EC Fraud and Consumer and Seller Protection
- 17.6 Societal Issues
- 17.7 Virtual (Internet) Communities
- 17.8 The Future of EC

Managerial Issues

Real-World Case: The Australian Fishing Community

### Answers to Pause/Break Section Review Questions

#### **Section 17.1 Review Questions**

1. *Define ethics and distinguish it from the law.*

Ethics is the branch of philosophy that deals with what is considered to be right and wrong. Laws are strict rules governing the actions of all citizens within their jurisdictions.

2. *Give an example of an EC activity that is unethical but legal.*

A Web site might collect information about their users, and then sell that information

without the users' permission. This is probably unethical but is not illegal.

3. *List major EC ethical issues (consult online Exhibit W17.1).*

See page 639.

4. *List the major EC ethical/legal issues presented in this chapter.*

See page 639.

## **Section 17.2 Review Questions**

1. *Define privacy.*

Privacy is the right to be left alone and the right to be free of unreasonable personal intrusions.

2. *List some of the ways that the Internet can be used to collect information about individuals.*

There are several ways that personal information can be collected about individuals through the Internet. Examples of this would include cookies, Web site registrations, and communications.

3. *What are cookies and what do they have to do with online privacy?*

A cookie is a small piece of data passed back and forth between a Web site and an end user's browser as the user at the site. Cookies enable sites to keep track of users' activity without asking for identification.

4. *List four common ethical principles related to the gathering of personal information.*

They are notice/awareness, choice/consent, access/participation, integrity/security, and enforcement/redress.

## **Section 17.3 Review Questions**

1. *List three types of intellectual property.*

The three types of intellectual property include copyrights, trademarks and patents.

2. *List the legal rights covered by a copyright.*

The owner of a copyright has the exclusive right to reproduce a work and distribute, perform, or display the work.

3. *What is the purpose of the digital watermark?*

A digital watermark is a unique identifier that is embedded in digital content to make it possible to identify pirated works.

4. *List the legal rights of a trademark owner.*

The owner of a trademark has the right to use the mark on goods and services for which the trademark is registered and take legal action to prevent others from using the trademark without permission.

5. *Describe domain name issues and solutions.*

The issues are mainly of control of the registration process and the extension of trademark law to domain names.

6. *Define patents.*

A patent is a document that grants the holder exclusive rights on an invention for a fixed number of years.

7. *Distinguish between cybersquatting and cyberbashing.*

Cybersquatting is the practice of registering domain names in order to sell them later at a higher price whereas cyberbashing is the registration of a domain name that criticizes an organization or person.

## **Section 17.4 Review Questions**

1. *Describe the conflict between free speech and the right to present offensive material on the Net.*

At issue is balance between being able to provide any content desired (free speech) and enforcing “community standards” online.

2. *What is spamming?*

Spamming is the practice of indiscriminately broadcasting messages over the Internet.

3. *Describe the Electronic Mailbox Protection Act.*

This act seeks to control commercial speech to avoid spamming.

4. *Describe the issues related to electronic contracting.*

The major issue is the legality and enforceability of a contract that is not physically signed.

5. *Why is it difficult to control online gambling?*

Since a site can be located in one country, but serve citizens of another, it is difficult to enforce local laws.

6. *Discuss the issues relating to Internet taxation.*

The major issue is how to collect taxes from individuals who purchase products from companies that do not have a physical presence in the customer's home state.

### **Review Question for Section 17.5**

1. *Why is there so much fraud on the Internet?*

The amount of fraud could be because of the distance and lack of actual interaction between parties on the Internet.

2. *What types of fraud are most common?*

The most common types are auction and financial fraud.

3. *Describe consumer protection measures.*

There are a variety of measures including third-party assurance services, customer evaluation and authentication.

4. *Describe assurance services.*

Assurance services are neutral third-parties who assure different aspects of an online business.

### **Review Questions for Section 17.6**

1. *Define the digital divide.*

The digital divide is the gap between those who have and those that do not have the ability to access electronic technology in general, and the Internet and EC in particular.

2. *Describe how EC can improve education.*

EC can provide several technologies that make education easier, less expensive and more flexible. E-learning is an example.

3. *Describe how EC can improve safety and security.*

EC tools can help to detect and deter criminal activities.

4. *Describe the impacts on health services.*

EC can offer the benefit of shopping at home and collaborating with others concerning health care.

### Section 17.7 Review Questions

1. *Define virtual (Internet) communities and describe their characteristics.*

A virtual community is a group of people with similar interests who interact with one another using the Internet.

2. *List the major categories of communities.*

They are transaction, purpose/interest, relations/practice and fantasy.

3. *Describe the commercial aspects of communities.*

Communities can be used to create revenue through advertising or fees. Additionally communities can be used to draw individuals into a commercial site.

4. *Describe the CSFs for communities.*

See page 663.

### Section 17.8 Review Questions

1. *Describe non-technological EC trends.*

See pages 664-665.

2. *Describe technological trends for EC.*

See pages 665-666.

3. *Discuss the integration of marketplaces and marketspaces.*

This is the integration of off-line business and online businesses. The best example is the click-and-mortar firm. At issue is the ability to combine these separate markets.

## **Answers to EC Application Case Questions**

### **EC Application Case 17.1: Privacy Advocates Take on DoubleClick**

1. *What are some of the ways in which DoubleClick's use of cookies might infringe on an individual's privacy rights?*

The firm may be collecting information from users without their knowledge or consent and matching that information to more specific and detailed data about the user for marketing purposes.

2. *What are some of the key moments in DoubleClick's new privacy policies?*

Some of these elements include a permission to "obtain permission from consumers before combining any personally-identifiable data with Web surfing history" and better notification of users that any information is being collected.

3. *In its complaint, EPIC proposed a number of ways to curb DoubleClick's practices. What were some of EPIC's suggestions, and does the recent ruling enforce any of the proposed limitations?*

Some of the suggestions included notifying users that information is being collected and gaining permission before combining online and off-line data. The FTC ruled that DoubleClick had not violated FTC policies.

### **EC Application Case 17.2: Financial Fraud on the Internet**

1. *How can such a large-scale crime go undetected for months? Speculate the reasons.*

Student answers will vary but may include trust in the internet and the easy of publishing on the internet.

2. *What advice would you give the people looking for investment opportunities on the Internet?*

Student answers will vary but will probably center around being cautious.

## **Answers to Discussion Questions**

1. *Provide two privacy examples in EC in which the situation is legal but unethical.*

Two examples would include collecting information from unknowing Web users, and the company monitoring the Internet use of its employees without announcing the policy.

2. *Distinguish between self-registration and cookies in EC. Why do you think Internet users are concerned about cookies?*

Self-registration requires the user to actively and knowingly provide information. With cookies, some information can be given without the user's knowledge or consent. Internet users are concerned about cookies because of the possibility of information being taken and shared without their knowledge.

3. *What are some of the things that EC Web sites can do to ensure that personal information is safeguarded?*

EC sites can have a strong privacy policy, inform their users of the policy, protect all information flow to and from the site, and then adequately protect the information at their location.

4. *On the Internet, why is it difficult to protect intellectual property? Do you think that sites such as MP3.com and Kazaa should be able to operate without restrictions? Justify your answer.*

Protecting intellectual property on the Internet is difficult because of the media that is used. It is very easy to copy from a transport, and transform digital formats. Student answers will vary on the second part of the question.

5. *Who should control minors' access to "offensive" material on the Internet—parents, the government, or ISPs? Why?*

Student responses will vary.

6. *Should spamming be illegal? Explain why or why not.*

Student responses will vary.

7. *Discuss the relationship between virtual communities and doing business on the Internet.*

Student reports will vary. Virtual communities can be used as a draw to an online EC, helping to attract and hold business.

8. *Discuss the issue of the digital divide and how to deal with the problem. (See [ecommerce.gov](http://ecommerce.gov) and [google.com](http://google.com).)*

Student reports will vary.

9. *Discuss the conflict between freedom of speech and control of offending Web sites.*

Student reports will vary. At issue is balance between being able to provide any content desired (free speech) and enforcing "community standards" online.

10. Discuss the insufficient protection in the opt-in and opt-out options. What would you be happy with?

Student reports will vary.

11. The IRS buys demographic market research data from private companies. These data contain income statistics that could be compared to tax returns. Many U.S. citizens feel that their rights within the realm of the Privacy Act are being violated; others say that this is an unethical behavior on the part of the government. Discuss.

Student reports will vary.

12. Clerks at 7-Eleven stores enter data regarding customers (gender, approximate age, and so on) into the computer. These data are then processed for improved decision making. Customers are not informed about this, nor are they being asked for permission. (Names are not keyed in.) Are the clerks' actions ethical? Compare this with the case of cookies.

Student reports will vary.

13. Many hospitals, health maintenance organizations, and federal agencies are converting, or plan to convert, all patient medical records from paper to electronic storage (using imaging technology). Once completed, electronic storage will enable quick access to most records. However, the availability of these records in a database and on networks or smart cards may allow people, some of whom are unauthorized, to view one's private data. To protect privacy fully may cost too much money /or may considerably slow accessibility to the records. What policies could health-care administrators use in such situations? Discuss.

Student reports will vary.

14. Why do many companies and professional organizations develop their own codes of ethics?

Student reports will vary. This may be due to the particular nature and expectations of a particular business.

15. Cyber Promotions Inc. attempted to use the First Amendment right in defense of their flooding of AOL subscribers with junk e-mail. AOL tried to block the junk mail. A federal judge agreed with AOL that unsolicited mail that is annoying, a costly waste of Internet time, and often inappropriate should not be sent. Discuss some of the issues involved, such as freedom of speech, how to distinguish between junk and nonjunk mail, and the analogy with regular mail.

Student reports will vary.



*16. Digital Equipment paid over \$3 million for the AltaVista name and Tom.com paid \$8 million for its domain name. Why are companies willing to pay millions of dollars for domain names?*

Student reports will vary. Domain names are very important in product and service branding.

*17. The Communication Decency Act, which was intended to protect children and others from porn and other offensive material online, was approved by the U.S. Congress but then was ruled unconstitutional by the courts. Discuss the importance and implications of this incident*

Student reports will vary.

*18. Why does the government warn customers to be careful with their payments for EC products and services?*

Student reports will vary.

*19. Some say that it is much easier to commit a fraud online than off-line. Why?*

Student reports will vary.

### **Internet Exercises**

**(Note: URLs may change over time; please check the Internet Exercises on the Turban Web site for possible updates: [www.prenhall.com/turban](http://www.prenhall.com/turban).)**

*1. Two commonly used Internet terms are flaming and spamming. Surf the Web to find out more about these terms. How are they similar? How are they different?*

Flaming is sending angry or overly negative e-mails or messages back and forth between individuals or groups. Spamming is sending unsolicited e-mail. Both practices are against Internet etiquette, while spamming is probably unethical.

*2. You want to set up a personal Web site. Using legal sites such as **cyberlaw.com**, prepare a report summarizing the types of materials you can and cannot use (e.g., logos, graphics, etc.) without breaking copyright law.*

Student reports will vary.

*3. Using **google.com** to prepare a list of industry and trade organizations involved in various computer privacy initiatives. One of these groups is the World Wide Web Consortium (W3C). Describe its Privacy Preferences Project (**w3.org/TR/2001/WD-P3P-20010928**).*

Student reports will vary. The P3P project is meant to create a protocol by which all Web sites develop and post their privacy policies. This standard protocol will assist users by allowing them to easily find and understand the privacy protections offered by a particular site.

4. *Enter the Web site of an Internet community (e.g., **tripod.com** or **geocities.yahoo.com**). Build a homepage free of charge. You can add a chat room and a message board to your site using the free tools provided.*

Student reports will vary.

5. *Investigate the community services provided by Yahoo to its members (**groups.yahoo.com**). List all the services available and assess their potential commercial benefits to Yahoo!.*

Student reports will vary.

6. *Enter **pgp.com**. Review the services offered. Use the free software to encrypt a message.*

Student reports will vary.

7. *Enter **calastrology.com**. What kind of community is this? Check the revenue model. Then enter **astrocenter.com**. What kind of site is this? Compare and comment on the two sites.*

Calastrology.com is a site about astrology and witchcraft. The revenue model appears to be community and commerce. Astrocenter.com appears to be astrology and related concepts. It appears to sell an e-mail service as its revenue model.

8. *Enter **nolo.com**. Click on free law centers. Try to find information about various EC legal issues. Find information about international EC issues. Then go to **lawstreet.com**. Try to find information about international legal aspects of EC. Locate additional information on EC legal issues with a visit to **google.com** or a search on Yahoo. Prepare a report on the international legal aspects of EC.*

Student reports will vary.

9. *Find the status of the latest copyright legislation. Try **fairuse.stanford.edu**. Is there anything regarding the international aspects of copyright legislation?*

Student reports will vary.

10. *Enter **ftc.gov** and identify some of the typical types of fraud and scams on the Internet.*

Student reports will vary. Many examples are available including abusive lending, fictitious companies and offers, confidence scams, identity theft, telemarketing fraud, and faulty products to name only a few.

11. Enter the Internet Service Providers' Web site (**ispc.org**) and identify the various initiatives they have undertaken regarding topics discussed in this chapter.

Student reports will vary.

12. Check the latest on domain names by visiting sites such as **internic.com**. Prepare a report.

Student reports will vary.

13. Private companies such as **thepubliceye.com** and **investigator.com** act as third-party investigators of the honesty of your business. What do these companies do? Why are the services of these companies necessary, given the services of TRUSTe and BBBOnLine? (That is, are the services of TRUSTe and BBBOnLine somehow insufficient?)

Student reports will vary.

14. Visit **consumers.com**. What protection can this group give that is not provided by BBBOnLine?

This site has changed since the publication of the textbook.

15. Find the status of fingerprint identification systems. Try **omin.com**, **bergdata.com**, and **morpho.com**. Prepare a report based on your findings.

Student reports will vary.

16. Download freeware from **junkbuster.com** and learn how to prohibit unsolicited e-mail. Describe how your privacy is protected.

Student reports will vary.

17. Enter **scambusters.com** and identify and list their antifraud and antiscam activities.

Student reports will vary.

### **Team Assignments and Role Playing**

1. Over the past few years, the number of lawsuits in the United States and elsewhere involving EC has been increasing. Have each team prepare a list of five or more such

*cases on each topic in this chapter (e.g., privacy, defamation, domain names). What have been the outcomes of these cases? If there has not yet been an outcome in certain cases, what is likely to happen and why?*

Student reports will vary.

2. *Each team member is assigned to a different type of community, per Exhibit 17.3. Identify the services offered by that community. Have each team compare the services across different types. Prepare a report.*

Student reports will vary.

3. *Have a debate between two teams. One team is for complete freedom of speech on the Internet, the other team is for censoring of offensive and pornographic material. Other class members act as judges.*

Student reports will vary.

4. *It is legal to monitor employees' movements on the Internet and read their e-mail. But is it ethical? Should it be practiced? About 50 percent think it is ethical, 50 percent disagree. Have two teams debate this issue.*

Student reports will vary.

### **End-of-Chapter Real-World Case Questions: The Australian Fishing Community**

1. *Why is this site considered a community site?*

This site is a community site because a large number of the services that it provides exist to create a virtual community and drive repeat traffic to this site.

2. *Which of the services offered are typical of online communities?*

Several of the services provided are typical of online communities including online information, discussion groups and other free services.

3. *Lists the CSFs of the company.*

Student answers will vary. Some potential success factors can include having a wide variety of information available, the availability of the wide variety of products, the ability for customers to communicate and collaborate with each other and links to other related sites.