Analyzing the Ethical Dilemma between Protecting Consumer Privacy and Marketing Customer Data

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ABSTRACT

Rapid transformation in marketing information technologies has enabled corporations to build ample consumer databases and analyze those using sophisticated data-mining techniques to obtain extensive knowledge about those consumers’ personal life styles and private matters. Considering that the United States Federal Trade Commission (FTC) has relied on fair information principles to guide privacy regulation and left it relatively unregulated, the burden of practicing consumer privacy lies mostly on the marketers who have to follow ethical behavior and maintain consumer privacy. In this paper the authors analyze the ethical nature of corporate decision making on matters of selling consumer data using the normative theories of business ethics and suggests approaches that balance the corporate goals of raising financial gains with the obligations they have to their stakeholders – mainly their customers. The authors also discuss the challenges faced in carrying out the analysis.

Keywords: Business Ethics, Computers and Society, Corporate Decision Making, Consumer Data, Information Privacy

INTRODUCTION

As the world has increasingly converged on IP-based services such as electronic commerce, mobile commerce, global positioning services, and social networking services, those services have increasingly been leveraged not just to serve the consumers, but, over time, to build a database of user information for marketing purposes. That data is, in many cases, fairly sensitive – user names, street addresses, phone numbers, social relationships, email, purchasing patterns, work history, income history, photographs, and the list goes on. Personal information, when misused or inadequately protected, can result in identity theft, financial fraud, and other problems that collectively cost people, businesses, and governments millions. In addition, Internet crimes and civil disputes consume court resources, confound legislators and police departments, and produce untold personal aggravation. Over the years, a number of incidents have demonstrated that consumers are unhappy to find that personal data they had

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considered private is, in fact, not private at all. It is instead shared among business partners, clients, and other groups, often for marketing purposes. Facebook, for instance, which owns the world’s largest database of user information, has repeatedly revealed user data in ways its users never intended, in direct contradiction of both Facebook privacy policy and users’ privacy settings (Steel & Fowler, 2010). Similarly, Apple and Google, creators of the two most dominant smartphone platforms in the iPhone and Android respectively, have come under scrutiny due to discovery that users’ geographic locations can be tracked by mobile phones over time. These are some examples of firms stepping into an ambiguous ethical space. Generally, if a firm fails to honor consumer privacy, then it risks the possibility of public backlashes, which can cause damage to the consumers’ trust in the firm and consequently the continued success of the firm in its performance.

Such incidents demonstrate that some managers ignore the ethical dimensions of information-related business activities at the risk of their firms’ failing. To avoid missteps such as those made by Facebook mentioned above, it is important to be able to sort out the ethical quandaries rationally. Once aware of an ethical quandary, identifying which can itself be a challenge, a manager will need a logical and defensible theoretical framework and tools to decide which action is ethically sound. Many of the decisions related to managing customer data are faced with ethical dilemmas because the decision makers who are business executives and managers are charged with responsibilities that can be conflicting. For example, while a business executive’s primary responsibility is to grow corporate revenue and profitability, it may come at the expense of relaxing the privacy controls of their customer data. Traditionally ethical dilemmas have been examined using philosophical approaches to ethics (e.g., Kantian deontology and utilitarianism). However, Stark (1993) suggested that ethical dilemmas in corporate environments will not be appropriately evaluated with the philosophical theories of ethical behavior because those theories assume ideal human behavior, which cannot be expected in the business settings given the multitude of conflicting goals and criteria these settings have. Additionally, the language in which the philosophical theories are expressed makes the application of the theories less accessible to non-philosophers that the business executives are. The normative theories to business ethics (Hasnas, 1998) were developed to express ethical principles in language that a business executive can quickly comprehend and can be applied to the more pragmatic conditions of the business domain. The normative theories guide us to determine which actions are right or wrong in contrast to the ethical principles, which determine the meaning and objectivity of moral concepts of right and wrong. The normative theories have been used to help managers deal with ethical business questions in many instances of corporate governance (Rodriguez-Dominguez, Gallego-Alvarez, & Garcia-Sanchez, 2009; Soule, 2002).

In this paper I attempt to address the question of how business managers can resolve the ethical dilemma between maintaining customer privacy and responding to the business goal of generating revenue through marketing of customer data. To address the question, I discuss the application and usefulness of the normative theories of business ethics (Hasnas, 1998) to develop a decisional framework that can be applied to analyze this ethical dilemma. I also explore the challenges associated in this approach.

THE ETHICS OF CONSUMER DATABASE MARKETING

It is becoming common practice for businesses and organizations to keep extensive databases on its customers. With rapid advancements in database technology and data mining tools, it is continuously becoming easier for companies to find out everything on potential customers. The information gathered can be used to model a person’s buying habits and is considered an important competitive advantage that vari-
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