IS ETHICAL CONCERNS ARE IN THE NEWS

Over the past decade, many publications in the information systems (IS) field have focused attention on IS ethical concerns. One of the first articles appeared in 1992 in CIO magazine under the title “Do the Right Thing.” A number of similar articles followed in publications such as Computerworld and Beyond Computing. They generally followed the same “do the right thing” theme. But executives might well ask, in frustration, “How do I determine what is ‘right’?”

Recently, a number of prominent IS-related ethical quandaries have become quite public. Here are three:

- In September 2003, the New York Times revealed that JetBlue Airways had “provided a Pentagon contractor with information on more than one million of its passengers as

1 Allen Lee was the accepting Senior Editor for this article.
2 This article represents a synthesized and updated interpretation of H. Jeff Smith and John Hasnas, “Ethics and Information Systems: The Corporate Domain,” MIS Quarterly, March 1999 (vol. 23, no. 1). With my co-author’s permission, I am serving as the sole author for this version. This article reflects some developments in the theory of business ethics since the publication of that article. It also repositions the material for an executive audience, as well as a research audience. Some small portions also appeared in H. Jeff Smith, “Ethics and Information Systems: Resolving the Quandaries,” Data Base, Summer 2002 (vol. 33, no. 3), pp. 8-22 and in H. Jeff Smith, “The Shareholders vs. Stakeholders Debate,” MIT Sloan Management Review, Summer 2003 (vol. 44, no. 4), pp. 85-90. This work was supported by the Babcock Graduate School of Management, Wake Forest University, Research Fellowship Program. I am greatly indebted to Bob Hebert for his research assistance and to Allen Lee and the anonymous reviewers of MISQ Executive for their guidance and insights.

2 In these articles, most of the IS ethical quandaries are set in corporate business environs, in which the decision maker is forced to make an ethical decision not as a free agent but, instead, as an agent of a corporate body. The same boundary is embraced in this article.
part of a program to track down terrorists and other ‘high risk’ passengers. The data...[were] then used to identify the passengers’ Social Security numbers, financial histories, and occupations. After the story broke, JetBlue’s CEO sent an apologetic e-mail to many customers. But that was not enough to satisfy many consumer advocates, some of whom have filed complaints with various government agencies. As of this writing, an investigation is underway within the Department of Homeland Security, and the Federal Trade Commission has been asked to conduct its own investigation. One could certainly argue that by providing data that may assist the US government in preventing future terrorist acts, JetBlue has actually performed a great public service. However, it is also obvious that many of its customers were aggrieved by the action and have considered it a violation of their relationship with the airline.

- Australian software distributor Sharman Networks bought Kazaa file-sharing software in 2002, and music industry executives have repeatedly alleged that Sharman is responsible for falling sales of music CDs around the world because Kazaa’s users frequently illegally share copyrighted music files. Sharman executives are unwilling to accept the blame. In fact, they say that they do not condone music piracy and that the industry itself is at fault due to its pricing. But Tim Bowen, chairman of music label BMG UK and Ireland, recently called that position “rubbish” in London’s Financial Times and said, “As somebody who is struggling to keep many people employed and turn a buck, to have companies like Kazaa at best facilitating illegal downloading is something not acceptable and not very attractive.” There is now a dispute about who bears the responsibility for such file sharing: Is it the creator/owner of a technology (here, Sharman) or its buyers/users (here, those consumers who share copyrighted music files)?
- Some Internet users have recently encountered the products of the Xupiter Corporation, which (among other things) can hijack one’s Web browser so that it is automatically directed to sites of Xupiter’s choice. As a result, users frequently arrive at sites belonging to advertisers that have contracts with Xupiter. Such “ad-ware,” as it is often called, often finds its way onto one’s computer through arguably legitimate paths—that is, by a user accepting a lengthy licensing agreement for free software downloads, which includes granting permission for such ad-ware to be installed.

In these “bundled” situations, the ad-ware is installed only with the approval of the user (even though the user is unlikely to have read the lengthy licensing agreement). It could be argued that it is ethical for software providers to operate in this manner. However, many Internet users are infuriated over the emergence of ad-ware and view it as an intrusion into their lives.

In each of these IS-related quandaries, we might ask, “What is the right ethical action for each corporate executive?” We all probably have personal opinions about some of the actions. We might object to JetBlue’s revealing passenger information, or we might view Kazaa’s arguments as somewhat disingenuous, or we might rebel against the legalistic claims that we actually approved the installation of ad-ware on our computers. In some cases, our reactions may be more emotional than rational.

To sort out such quandaries rationally, it is helpful to use a logical and defensible theoretical framework to provide a solid grounding for our arguments. In this article, I digest selected arguments from scholars who have developed and published their theories in the field of business ethics. These arguments provide the framework for such a framework and lead to practical insights for those grappling with ethical quandaries in the corporate sector.

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GETTING TO THE “RIGHT” ANSWER

In philosophy, questions about the “right” ethical actions reduce to “what is the normative prescription for our behavior?” Normative prescriptions are assertions about how one should behave; for that reason, they are often called “ought” statements. These “normative” prescriptions differ greatly from descriptive statements. Descriptive statements tell us something about the state of the world and thus are often called “is” statements. They can either be conditional (that is, “If it rains, the streets will become slick”) or unconditional (“It is raining”).

There are alternative ways to reach an “ought” prescription. One approach is to make an assertion in “atheoretical free space”—that is, by simply citing your own feelings about an ethical quandary or by referring to “authorities” who have no particular ethical suasion. For example, someone might say, “According to the way I was raised, this is what you’re supposed to do.” Or a person might say, “It just seems like the right thing to me. It’s just what I feel.” This stance is sometimes followed with, “And I’m not going to talk about it anymore.” This approach is often unconvincing to others, unless they are of a similar background or have similar emotional feelings. However, others may refrain from arguing with people who make such types of normative assertions, realizing that the speakers are in great measure indicating that they do not want to explore the quandary in a rational debate.

In philosophy, reaching a normative answer (that is, what is ethically “right”) requires a rigorous normative argument. It may include some reference to descriptive facts. But those facts themselves do not substitute for a normative argument, which must have clear assumptions, logical linkages, and direct conclusions. Most often, such normative arguments rest upon pre-established ethical theories of one form or another.

One set of pre-established theories can be found in traditional philosophical ethics. There are two camps: rule-based and consequentialist. The key distinction between the two is: whether an action is “right” depends either on whether the action follows a rule for ethical behavior (the rule-based perspective) or on the consequences that follow from the action (the consequentialist perspective).11

One way executives can resolve ethical quandaries is to embrace one of these camps (and one of the many distinct theories within them), and attempt to apply the theory to the situation at hand. It turns out, however, that this approach can be especially tricky for ethical quandaries that occur in the corporate domain because traditional philosophical theories are supposed to apply to all ethical quandaries one encounters in life—and hence, they are necessarily quite general. They do not take into account demands from stockholders, customers, employees, and so on, and they sometimes seem disconnected from the business world. For example, some traditional theories can be interpreted as demanding that executives avoid actions that harm a competitor. Most executives in for-profit firms would reasonably counter that such a perspective misses a fundamental precept of free enterprise: Beating competitors is the goal of our endeavors!

Over time, a set of intermediate theories has emerged. They are often called the normative theories of business ethics (NTBEs). NTBEs come from traditional philosophical theories but differ from them in that NTBEs do not purport to provide guidance for all the ethical quandaries people will encounter in life. Rather, they are targeted narrowly at quandaries in the for-profit business world.

NTBEs fall into two fundamental camps: stockholder theory (grounded in either consequentialist or rule-based theories) and stakeholder theory (usually grounded in rule-based theories).12

The Stockholder Theory of “Right” Behavior

According to this theory, stockholders advance capital to executives, who act as their agents. In this role, the executives are required to spend corporate funds only to executives, who act as their agents. In this role, the execu-

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11 In our earlier article in MIS Quarterly, we considered the “social contract” theory as providing a third, and differing, normative viewpoint. As originally formulated by T. Donaldson, Corporations and Morality (Englewood Cliffs, NJ: Prentice-Hall, 1982), the “social contract” theory suggested that we should envision a world in which there were no corporations at all—that is, a “state of individual production.” If some members of society then chose to form a corporation, what would society demand from them in return for allowing them to incorporate? The obligations that were derived from this exercise formed the obligations under the original formulation of this “social contract” theory. However, the leading proponents of the social contract theory – Donaldson, T., and T.W. Dunfee, Ties That Bind: A Social Contracts Approach to Business Ethics (Boston: Harvard Business School Press, 1999) – now seem to position the “social contracts” perspective as a meta-theory that provides guidance in sorting through stakeholder obligations. Consequently, to simplify the discussion in this article, I focus on only the stockholder and stakeholder theories. For additional discussion of the links between traditional philosophical ethics and NTBEs, see our 1999 MIS Quarterly paper.

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on any socially beneficial project they wish. But when functioning in their corporate capacity, they have a duty to expend funds only as authorized by the stockholders.13

Stockholders normally purchase shares to maximize their return on investment. Therefore, the stockholder theory is often “translated” to mean that an executive’s managerial obligation is to maximize the financial returns of the stockholders. As Milton Friedman wrote, "There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud."14

Two points about the stockholder theory are important to keep in mind. First, it obligates executives to increase corporate profitability only through legal, non-deceptive means.15 Second, this theory is generally viewed as having a long-term orientation. It directs executives not to seek short-term gains at the expense of the firm’s long-term financial health, but rather to maximize long-run corporate profits.

Stockholder theory uses two moral arguments, both grounded in traditional philosophical theory. The first has its roots in consequentialism and asserts that if executives pursue profits (which stockholders demand in return for the capital they provide), then these executives will also be promoting the interests of society.16

Of course, critics argue that the market is imperfect in its ability to promote society’s interests. They point to monopolies as one example of this imperfection. In addition, critics often cite other potentially dysfunctional phenomena, such as the “free rider” effect, where no specific firm is provided enough incentives to behave in a socially beneficial way. For example, there may be no reason for a firm to reduce its level of polluting emissions unless it thinks other firms will follow suit. These critics claim that the market may not resolve all of these problems on its own, so the private pursuit of profit cannot be relied on to secure the common good.17

People who disagree with this first moral argument of the stockholder theory might accept the second, which is grounded in rule-based theories. It asserts that if executives spend stockholders’ money to accomplish goals not authorized by the stockholders, then these executives would be spending other people’s money without their consent, which is wrong regardless of the consequences that follow.18 The most common objection to this argument is that it can be morally appropriate to spend other people’s money without their consent as long as it is done to promote the public interest, as is the case with taxation.19

The Stakeholder Theory of “Right” Behavior

In stark contrast to the stockholder theory, the stakeholder theory asserts that executives have a fiduciary duty not merely to the corporation’s stockholders but also to the corporation’s stakeholders—that is, anyone with “a stake in or claim on the firm.”20 Although the term “stakeholder” has been defined in the past to include any group or individual who can affect or is affected by the corporation, it is currently used in the narrower sense as referring only to groups either vital to the survival and success of the corporation or whose interests are vitally affected by the corporation.21 Such groups typically include stockholders, customers, employees, suppliers, and the local community, although in many instances, it may include others who are vitally concerned as well.

According to this theory, executives have a fiduciary duty to do two things in this order: 1) respect the rights of each stakeholder and 2) give equal consideration to the legitimate interests of all stakeholders and adopt corporate policies that produce the optimal balance among them. This ordering is important because stakeholders’ rights are viewed as “trump cards” that override other consideration of interests.22 Executives also are to ensure that the firm remains a going concern.23 Assuming that the rights of no stakeholder are being violated, then the ethically “right” thing is the alternative that best balances the interests of the various stakeholder groups and keeps the firm going.

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17 Evan and Freeman, 1988.
18 Friedman, 1962, p. 135
20 Evan and Freeman, 1988, p. 97.
21 See Evan and Freeman, 1988, for exploration of this distinction.
22 For examples of the primacy of stakeholders’ rights, see Table I later in the paper.
The stakeholder theory is based on the moral principle of respecting individuals as “ends” in themselves, rather than “means” to some other end.\(^{24}\) This argument means that executives may not treat their corporation’s stakeholders as means to corporate profits but must recognize that all of them are entitled to “agree to and hence participate (or choose not to participate) in the decisions to be used as such.”\(^{25}\) Stakeholder theorists argue that this statement implies that all stakeholders are entitled to “participate in determining the future direction of the firm in which they have a stake.”\(^{26}\) However, because all of a firm’s stakeholders cannot be consulted for every decision, management has an obligation to “act in the interests of the stakeholders as their agent”\(^{27}\) by giving equal consideration to the interests of all stakeholder groups in corporate decision-making, and choosing a course of action aimed at achieving an optimal balance among the conflicting claims of these groups.

Critics levy two major criticisms against stakeholder theory—one on moral grounds and one on more pragmatic grounds. From the moral perspective, critics assert that respecting stakeholders as “ends” does not necessarily imply that they must have a say in every decision that affects their interests. For example, a student’s interests may be crucially affected by what grade he or she receives in a course, but that does not mean that he or she has a moral right to influence the decision.

On pragmatic grounds, stakeholder theory has often been criticized because, in its original form (not ranking stakeholders), it did not provide any clear algorithms for adjudicating among the often-conflicting interests of stakeholder groups, making it difficult to ascertain the “right thing” to do. As the years have passed, some stakeholder theorists have provided guidance in this regard by rank ordering stakeholder groups. For example, one writer recently argued for the primacy of customers’ interests,\(^{28}\) and another placed employees’ and stockholders’ interests on equal footing—even claiming that employees should be paid dividends.\(^{29}\)

\(^{24}\)In philosophical terms, this is grounded in Kant’s “categorical imperative,” a discussion of which can be found in Weiss, I.W., *Business Ethics*, Wadsworth, Belmont, CA, 1994, pp. 68-69.
\(^{25}\) Evan and Freeman, 1988, p. 100.
\(^{26}\) Evan and Freeman, 1988, p. 97.
\(^{27}\) Evan and Freeman, 1988, p. 102.
\(^{28}\) Ellsworth, R.R., *Leading With Purpose: The New Corporate Realities*, Stanford, CA: Stanford Business Books, 2002. In reality, Ellsworth’s argument for the primacy of customers’ interests is not strictly normative from a stakeholder perspective because he argues that such an approach will ultimately lead to higher profits. Thus, his argument could also serve as an argument for a certain implementation of the stakeholder theory.
\(^{29}\) Handy, C., “What’s a Business For?,” *Harvard Business Review*.

**APPLYING THE TWO THEORIES**

To illustrate the concepts underlying these two theories on how to behave ethically, consider a situation faced by Blockbuster Video a few years ago.

**The Ethical Quandary Facing Blockbuster Video’s Executives**

An article in the *Wall Street Journal*, “Coming Soon to Your Local Video Store: Big Brother,” castigated the Blockbuster Entertainment Corporation chain for a reported plan to categorize its 30 million customers according to the types of movies they rented and to “sell information from the data base...to direct mailers, for planning target-marketing campaigns.” The article stated that, while it is common for businesses to rent customer lists, Blockbuster’s would both be a “gold mine for direct mailers” and a source of privacy concerns because a customer’s video selections “are among the most revealing decisions a consumer makes.”

The article noted that it is illegal under federal law for a video store to disclose the specific names of movies that a customer has rented. However, the direct marketers can be told “the subject matter” of such rentals. As the article stated:

> Blockbuster, whose members represent one out of six American households, says its data base will be legal because it will only monitor video categories, not specific titles. The chain currently organizes its shelves by 37 categories, and plans to add as many as 30 to 40 more... Blockbuster envisions selling lists of mystery movie renters to mystery book clubs, kids movie renters to toy stores, classics renters to senior-citizen marketers, and many such other matches.

> “I can turn around and promote all the John Wayne names to the national Republican Party,” says Allan Caplan, the Blockbuster vice president overseeing the database project. “We not only will know their tastes in movies – we’ll know their frequency and that will give us a little more information about their life style...”\(^{30}\)

While the technical question of legality seemed moot in this case—indeed, the law seemed to allow such a sale of customer data, categorized by movie type—

many people indicated concerns about the ethical issues involved. “The basic principle is that information collected for one purpose shouldn’t be used for another purpose without an individual’s consent,” noted one observer. Confronted with negative publicity about the endeavor, Blockbuster’s executives might well have asked themselves, “Ethically, what is the ‘right thing’ to do with respect to this data base?”

To establish the “right” actions for the Blockbuster executives, we consider what the two theories would tell them they “ought” to do.

**The Stockholder Theory’s Advice**

Under the stockholder theory, Blockbuster should probably go ahead with its plan to market personal data about its customers, unless it appears likely that a backlash would lead to reduced profits. As long as the sale 1) is legal, 2) involves no deceptive practices, and 3) is likely to increase Blockbuster’s profits, Blockbuster’s management would not only be ethically permitted to sell the information, but under an ethical obligation to do so.

The proposed sale does not violate the federal statute prohibiting disclosure of names of movies rented by customers (nor do most state and local ordinances). Therefore, it does not appear to run afoul of the stockholder theory’s constraint against illegal activity in most locales.

Furthermore, as long as Blockbuster employs no deceptive or misleading practices in acquiring the information, it will not violate the theory’s constraint against fraud and deception.

Finally, if the stockholders have neither explicitly nor implicitly instructed management not to engage in such behavior, and if the sale is, in fact, likely to increase the corporation’s long-term financial health, then it would appear to be precisely the type of action that would help realize the goal of the stockholder theory.

Hence, Blockbuster’s management would have an ethical obligation to market the information. The only reason not to do so would be the potential of a backlash that could ultimately reduce profits. Blockbuster’s executives would be obligated to consider carefully the odds of such a backlash and to factor that possibility (and any attendant losses) into their calculations.

**The Stakeholder Theory’s Advice**

If the original stakeholder theory (where stakeholders are not ranked in importance) is applied to the Blockbuster situation, management’s ethical obligations depend on a number of particular facts. Assuming that Blockbuster structures the sale so that it is neither deceptive nor misleading, it would not seem to violate the constraint of the stakeholder theory that prohibits violating the rights of any stakeholder. The question then becomes whether pursuing the sale would produce the optimal balance among the legitimate competing interests of all Blockbuster’s stakeholders. This answer depends on considerations that cannot be determined in general terms.

First, Blockbuster’s management must identify the stakeholders whose interests would be affected by the proposed sale. It appears that Blockbusters’ suppliers, employees, and the local communities served by its stores do not have a significant stake.

Thus, the only stakeholders whose interests must be considered are 1) Blockbuster’s stockholders (who stand to benefit financially from the sale), 2) its video rental customers (whose preferences comprise the information to be sold), and 3) its potential new customers (who are interested in purchasing this information). Blockbuster management must attempt to choose the course of action that produces the optimal balance among the legitimate interests of these three groups. The optimal balance, of course, will depend on the particular benefits and costs the sale will impose on each group.

For example, assume the proposed sale will 1) marginally increase Blockbusters’ profits, slightly enhancing returns to the stockholders, 2) provide a small benefit to the purchasers of the information, but 3) seriously inconvenience or even offend Blockbusters’ video rental customers. In this scenario, it is likely that the sale would not be ethically justified.

On the other hand, assume that the sale 1) will significantly increase the company’s profitability, greatly enhancing returns to the stockholders, 2) represent a major business innovation of great value to the purchasers of the information, and 3) is structured to produce only minor inconveniences to Blockbuster’s video rental customers by allowing them to retain what they themselves would deem to be sufficient control over how the information is used (for example, customers might be offered an easy option to approve new uses of rental information, and Blockbuster would not release information about a particular cus-

31 While it could be argued that individuals have a general right to control what others know about them, such a right does not have wide support among ethicists.

32 Obviously, the local community does include the Blockbuster customers. However, the local community should be considered as a whole rather than as a collection of disparate units. In this light, it is unlikely that the overall community would suffer in any substantive way – certainly, it would not be harmed in the same way as a plant closing, for example.
customer unless he or she had approved in advance). In this scenario, it is more likely that the sale would be ethically acceptable.

Thus, under the original form of the stakeholder theory, the ethical quality of the sale depends on an evaluation of the nature and intensity of the costs it imposes on Blockbuster’s video rental customers relative to the nature and intensity of the benefits it provides to Blockbuster’s stockholders and potential customers.

**The Outcome and its Meaning**

About a week after the original story appeared in the *Wall Street Journal*, there was a follow-up article. Headlined “Blockbuster Contradicts Official, Saying It Won’t Sell Rental Data,” the article quoted Scott Beck, Blockbuster’s vice chairman and chief operating officer, who said that Blockbuster never had any plan to sell data about customers’ rentals. Mr. Beck said that Mr. Caplan (who made the earlier statements) “misspoke” and that his statements “may have been describing an unapproved proposal.” However, neither Mr. Beck nor another Blockbuster spokesperson disputed that Mr. Caplan had made the statements. According to Mr. Beck, the original story caused “a little bit of a stir,” and there were lots of questions from customers. Furthermore, according to the follow-up article, Blockbuster received calls from several other reporters and talk shows.34

It would be extremely difficult, and perhaps impossible, for us to determine today what went on inside Blockbuster during the days between the first and second *Wall Street Journal* stories. Furthermore, it is impossible to conclude whether the plan to sell data ever existed. However, it appears that management perceived a potential customer backlash, possibly reducing bottom-line profitability.

For the moment, let us continue to assume that the plan was real. (If it was not, then Blockbuster’s executives were clearly guilty of communicating poorly with the media during their initial interactions.) Given this assumption, the two theories view a reduction in profitability from an ethical perspective differently.

**From the stockholder theory viewpoint.** A reduction in profitability is of utmost concern, in and of itself, in the stockholder theory because the sole objective of management is to maximize profits on behalf of stockholders. If the executives erred, it was by overlooking, or miscalculating, the probable response to such a data sale. Under the stockholder theory, they have an overt obligation to avoid activities that are likely to cut long-term profits. To be sure, even if the plan had rolled forward, things might have settled down after some point—but it certainly appears that bottom-line-impacting responses were occurring in the short and medium term. All evidence suggests that this negative backlash was unanticipated. Stockholder theory would quickly indict the senior executive team for not thinking through such consequences. Bad publicity, customer rebellions, and reduced profits are critical matters from the perspective of the stockholder theory.

**From the stakeholder theory viewpoint.** Stakeholder theory does not completely overlook potential loss of profits (after all, stockholders are one stakeholder unit). However, maximization of profits is *not* the ultimate objective. Had the article never appeared, and had customers never realized their data were being sold, the stakeholder theory advice would remain the same because the rights and interests of the stakeholders are the primary factors, regardless of the direct impact on profits.

Thus, a key distinction between the two theories is that all parties other than stockholders (such as customers and employees) are seen as *means to the end of profitability* under stockholder theory. Assuming no illegal or fraudulent behavior on the firm’s part, concerns of the non-stockholder stakeholders are relevant only if they rebound in some way that impacts the firm’s profitability. On the other hand, all stakeholders are seen as *ends in themselves* under stakeholder theory. Their rights and interests are relevant, whether or not they impact profits.

**Broad Applicability of the Two Theories**

The Blockbuster example is useful in understanding the theories’ differences. But the importance of the theories in defining managerial obligations does not end with that example. Indeed, considering what each NTBE would say is the “right” answer for the recent examples noted earlier reveals that NTBEs have broad applicability (see Figure 1).

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Because these theories can be so useful in defining managerial obligations for corporate IS ethical quandaries, it is useful to examine the action steps

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**Figure 1: Application to Current Quandaries**

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Question About the “Right” Action?</th>
<th>Answer from Stockholder Theory</th>
<th>Answer from Stakeholder Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JetBlue Airways</strong></td>
<td>Was it right for JetBlue to provide passenger information to a Pentagon contractor?</td>
<td>No. Based on published reports. JetBlue’s written privacy policy established a contractual promise not to release the data. Such release constituted a breach of contract; stockholder theory prohibits illegal actions.</td>
<td>No. Even if the customers have no moral “right to privacy” in a general sense (a topic of debate), a specific right had been established by JetBlue’s privacy policy. Actions that violate a stakeholder’s rights should always be avoided.</td>
</tr>
<tr>
<td><strong>Sharman Networks</strong></td>
<td>Is it right for Sharman to distribute Kazaa file-sharing software, which is often employed by users to illegally share copyrighted materials?</td>
<td>Yes. Based on judicial history so far, Sharman has engaged in no obviously illegal acts. Although some hold that its claims about culpability are disingenuous, they do not rise to the level of fraud or deception. (In fact, Sharman’s executives are rather forthright in their assertions, even conceding that users are sharing some copyrighted files.) It is unlikely that a profit-reducing backlash will occur because of Kazaa distribution. Therefore, profits can be maximized through continued distribution.</td>
<td>No. Although the option to define an additional stakeholder unit (beyond stockholders, employees, customers, suppliers, and the local community) is seldom invoked, it definitely applies here because another “vitally concerned” group is the copyright holders. Their rights are easily violated through Kazaa distribution, even if Sharman does not engage in improper file sharing itself. This trumps all other considerations.</td>
</tr>
<tr>
<td><strong>Xupiter Corporation</strong></td>
<td>Is it right for Xupiter to distribute “ad-ware” that is installed silently (although consistent with the licensing agreement) as other programs are installed?</td>
<td>A tough call, but probably yes. Because users agree to the license provisions, there is nothing illegal about the piggy-backing. One might argue that the bundling is a deceptive approach, but users of programs that bundle the Xupiter software do have the option of reading the agreement more carefully during installation. Unless some backlash against Xupiter’s services occurs (unlikely, because the advertisers are shielded), its profits will probably be improved through this ad-ware distribution.</td>
<td>No. Users can be viewed as Xupiter’s suppliers (supplying the locations where ads can be viewed) or as a separate “vitally concerned” stakeholder group. Their right to control their own computing environment is being violated by this piggy-backing. Although their interests are probably not being served through the monitoring and ads, that interest need not be considered (or banked against others’ interests) because the rights violation trumps that interest.</td>
</tr>
</tbody>
</table>

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35 These answers represent my own judgments, offered purely for illustrative purposes regarding the most reasonable interpretation of the theories’ normative conclusions in each case. Obviously, other interpretations are possible. My intent is simply to demonstrate (within space limitations) that the theories have saliency for these current quandaries.

36 Stockholder theory, as presented in this article, is most applicable to publicly held corporations. Here, for the purposes of illustration, I assume public ownership.

37 This refers to the original form of the stakeholder theory, in which no stakeholder hierarchy has been specified.
appropriate for IS and general managers to use in their organizations.

**MOVING TO ACTION**

All IS and general managers, at some point, face ethical quandaries. This section outlines appropriate action steps for confronting these quandaries. The first step needs to occur at the organizational level, before quandaries are faced: Create a consistent, overarching organizational understanding. Then, when a quandary appears, perform several additional steps.

*Beforehand, Create a Consistent, Overarching Understanding in the Organization*

“Ethics is essentially an individual matter”, 38 that is why the theories are stated as obligations for individual human beings in their role as employees in corporations. But the inference to collective level obligations—obligations of an organization or a society—can be extrapolated to the corporation as a whole. 39

It is troubling, therefore, to observe that firms most often confront IS (and, for that matter, other types of) ethical quandaries largely in the “atheoretical free space”—that is, following advice based on feelings. When firms have not created an agreed-on framework for sorting through the various dimensions of the quandaries, its executives and managers are reduced to relying on emotional statements, premised by “I feel…” and responses of “No, I feel….” Furthermore, because little consideration has been given in advance to the underlying assumptions and logic of the arguments, these dialogs are reactive, not proactive. As a result, the dialogs can become heated, even degrading to personal attacks, because the different executives rely on different sets of assumptions (usually unstated). Listening to such debates can remind someone of the old saying “the weaker the argument, the stronger the words.”

Corporations can move such debates to a more rational level if they invest in proactive background work ahead of time—well before they confront specific quandaries. In his recent book, *Leading With Purpose: The New Corporate Realities*, Richard Ellsworth suggests that executives follow a six-step series of “challenge sessions” to debate their perspectives on the firm’s obligations and responsibilities. Once they reach agreement, they can speak with a consistent voice to the other members of the organization, thereby providing a common understanding for future decisions. 40 This approach also clarifies the firm’s “theory” to organizational members at all levels. Employees who find that their own “theory” differs measurably from the firm’s might need to seek employment elsewhere.

What should be the outcome of such “challenge sessions”? The answer is not clear because none of the theories discussed has been proven to be “right.” Even though advocates of each theory assert the superiority of their alternative, as I have argued elsewhere, 41 many of their claims rest on unproven assertions and incomplete logic.

For example, some advocates claim their preferred theory has been endorsed by society as a whole. But it is quite unclear that societal norms have coalesced around a single vision of corporate social responsibility. In fact, one study revealed a split in how US managers perceive society’s expectations: 60 percent seeing expectations as more akin to stakeholder theory, 40 percent seeing them as closer to stockholder theory. Managers in other countries in the study perceive their own society’s expectations as even more closely aligned with stakeholder theory, although none at a level of 100 percent. 42

Furthermore, although some claim that US law demands adherence to stockholder theory, some recent research casts doubt on this general assertion and suggests that management (especially, boards of directors) have great latitude in making decisions that affect different stakeholder groups. 43 In addition, although some claim that the marketplace will “discipline” firms, boards, and executives to ensure that they follow the stockholder theory, empirical research has raised a number of questions about whether this “discipline” is really working as predicted. 44

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39 See Laudon, 1995, and Mason, Mason, and Culnan, 1995, p. 149, for a discussion of distinctions between individual and collective level obligations.

40 See Ellsworth, pp. 327-357.

41 Smith, H. Jeff, “The Shareholders vs. Stakeholders Debate,” *MIT Sloan Management Review*, vol. 44, no. 4, Summer 2003, pp. 85-90. Some of the following points were covered in that article in a different form.

42 See Hampden-Turner, C. and A. Trompenaars, *The Seven Cultures of Capitalism* (New York: Doubleday, 1993). The percentage of managers choosing the stakeholder option varied from highs of 92 percent (Japan) and 89 percent (Singapore) to lows of 66 percent (Canada), 65 percent (Australia), and 60 percent (United States).


Thus, after all the claims and counter-claims, we are left with a situation that provides both great freedom and great responsibility: Firms have a fair amount of flexibility, in most situations, regarding which theory they embrace. This flexibility means that “challenge sessions” and subsequent discussions throughout the organization may be filled with value-laden arguments.

**Steps to Take When Quandaries Arise**

It certainly makes sense to sort through the theoretical options before encountering a specific quandary. Assuming this has been done and the firm’s executives have agreed on the theory to be followed, I recommend taking specific action steps whenever they face an ethical IS quandary. The first three steps are prudent regardless of which NTBE is being embraced (stockholder or stakeholder). The final three steps are related to special tasks associated with stakeholder theory.

When following either the stockholder or the stakeholder theory:

**First, enlist corporate or outside counsel to review all federal, state, and local legislation and administrative mandates that may bear upon the proposed business activity.**

This first step is particularly problematic for many IS activities because the law is changing quickly—albeit in a reactive fashion—as the technological landscape shifts. New legislative mandates seem to emerge almost daily, particularly at the state level. Stockholder theory specifically obligates organizations to adhere to legal dictates, and executives should reasonably infer that stakeholder theory expects them to adhere to all laws (except in a rare situation in which they conflict with a stakeholder’s moral rights).

**Second, decide exactly how to avoid deception and fraud in IS-related activities.**

In some cases, it might be argued that it is enough to simply give notice of intent to affected parties (such as telling customers that their data will be used in a certain way after collection).

The question is: How should such messages be communicated? If contractual negotiations surround the transaction, the contract may spell out the terms clearly. But, if no true negotiations have taken place, executives must decide among various notification options, such as placing notices on an application form, posting notices in a place of business, printing qualifications on the back of software packages, etc. Note that executives have no ethical obligation, under stockholder theory, to give affected parties any control over the terms of the relationship. However, under stakeholder theory, stakeholders have much more of a right to control those terms or, at least, to have the firm’s managers act as their agents in a virtual negotiation process.

**Third, attempt to assign probabilities to the possible outcomes from alternative actions.**

Under stockholder theory, the ultimate objective is to maximize long-term stockholder returns. So the executives facing the IS quandary must predict, or otherwise consider, which actions will lead to the greatest revenue gains and/or smallest losses. Making these judgments often requires predicting the probability of negative media attention, competitor reactions, customer backlashes, or legislative responses. Some amount of research might improve the estimation. For example, if Blockbuster did indeed have a plan to sell consumer data, it seems that their decision-makers—who appeared surprised by the negative backlash after the first Wall Street Journal article—did err by not assessing the probabilities of such a backlash.

Under stakeholder theory, executives may be required to predict outcomes because different outcomes could affect different stakeholders differently. These predictions go beyond bottom-line matters.

If using stakeholder theory, also:

**Fourth, identify all the stakeholders in the IS quandary.**

While the five traditional stakeholder groups will often apply, other parties may also be “vital to the survival and success of the corporation.”

**Fifth, determine each stakeholder’s rights.**

At issue are not just legal rights, which can be determined as under the stockholder theory, but also moral rights, which in many cases can be quite distinct. For example, consider the rights of the author of a copyrighted work. That author has a legal right to the document’s contents, which should not be copied and resold. But another writer could paraphrase the author’s ideas without violating this legal right. Still, the

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45 Evan and Freeman, 1988, p. 100.
second writer has a moral (though not a legal) duty to give the first author credit for the ideas. Be aware of the legal rulings and “ethical rubric” that surround the ownership of ideas (and even the codification of ideas on the World Wide Web).

**Sixth, consider each stakeholder’s interests, even though they may be ill-defined and subject to interpretation.**

The requirements for satisfactorily addressing stakeholders’ concerns are considerably more stringent than under stockholder theory. For example, with respect to use of customer data, a reasonable interpretation of stakeholder theory requires that customers not only be informed of potential data uses (the stockholder theory requirement) but also be given the opportunity to “opt out” (or, arguably, to “opt in”) of the uses. Thus, a clear assessment of each stakeholder’s interests is appropriate.

A reasonable approach to addressing all these action items is to create a small focus group consisting of legal counsel, an appointed stakeholder ombudsperson, and one IS specialist. Their assignment is to perform “due diligence” regarding the quandary. The ombudsperson should serve as an agent of the stakeholder groups as actions four, five, and six are handled. It is best if this focus group is appointed by senior executives, asked to operate on a confidential basis, and given a short time to evaluate the important issues and report to senior management.

**CONCLUSION**

While the IS discipline has paid great attention to strategic uses of technology over the past two decades, the ethical quandaries that have grown during this same timeframe have received much less attention. It is encouraging to see many practitioners and researchers beginning to pay more attention to information ethics; however, many of the discussions are occurring in a theoretical vacuum.

This article adds rigor to the debate, but much work obviously remains to be done. Ethical theories are only as helpful as human beings and their organizational and societal contexts will allow them to be. As Conger and Loch have written: “Everyone who develops applications, designs equipment, performs any kind of testing, uses methodologies, analyzes jobs, designs human interfaces, writes documentation, or prescribes the use of computers, will face ethical [quandaries] on every project; they just might not recognize them.” When executives, IS professionals, and academic researchers ignore these ethical quandaries and their assessment, they undercut their credibility.

These same business ethics theories are relevant beyond IS. Indeed, recent cases such as Enron, WorldCom, Tyco, and Parmalat, plus improprieties in the management of mutual funds in the United States, suggest that there is a need for increased awareness of ethics in business practices in a very broad sense. While reasonable and intelligent people might differ about the “rightness” of the different theories, open discussion of the theories and their use should raise awareness of the important considerations associated with ethical quandaries in the corporate domain.

**ABOUT THE AUTHOR**

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