

## **Chapter VIII**

# **Ethical Management of Consumer Information: Solving the Problem of Information Externality Using the Coasian Approach**

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## **Abstract**

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*Society has focused on privacy solutions to problems related to consumer information, yet the problem has not gone away. Why is this? One answer is that privacy, a regulatory correction, does not fix the underlying “information externality” problem. This chapter integrates economic, ethical, and legal theories related to the issue of information management in an attempt to clarify the debate surrounding the issue of consumer information. It first explains why the debate exists by describing the basic*

*characteristics of information. It then integrates an economic discussion of externalities with the ethical issues inherent in the problem of consumer information to suggest alternative ways to correct externalities. This chapter suggests that one way to correct the information externality is to use a Coasian approach. We apply that approach to the case study of DoubleClick, an Internet advertiser criticized for its potential yet never implemented ability to act unethically with consumer information.*

## **Introduction**

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Personal information and privacy considerations are quickly becoming divisive issues in society as well as in the information systems (IS) literature (Culnan & Armstrong, 1999; Milberg, Smith, & Burke, 2000; Milne, 2000; Phelps, Nowak & Ferrell, 2000; Smith, 2001; Smith, Milberg, & Burke, 1996; Stewart & Segars, 2002). On one hand, firms can offer better, more narrowly specialized products when provided with personal information about individual consumer preferences. The marketing of those products can be narrowly targeted and distribution of those products can be made more efficient if the business has relevant customer information.

On the other hand, consumers are hesitant to divulge personal information because of the perception that some firms abuse the handling of or access to that information. This chapter first illustrates the benefits and costs associated with personal information. It then examines the characteristics, the legal treatment, and our ethical understanding of the problems associated with information. Finally, it applies theory to the real-world problem and suggests a Coasian approach to externalities for a solution.

## **Background**

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### **Benefits of Information**

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The specific benefits of free flowing information are numerous.<sup>1</sup> To illustrate those benefits, consider the examples of marketing and medical information. The technology exists to enable retailers to track individual purchases through

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