

Chapter 2

The New Paradigm of Business on the Internet and Its Ethical Implications

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ABSTRACT

The advent of the internet and the subsequent growth in e-business has forced organizations to think beyond the traditional business model and develop a new paradigm in order to compete effectively in such a dynamic environment. This new paradigm has permeated all aspects of how an organization conducts their operations and manages relationships from purchasing to sales. With these changes come ethical implications for both buyers and suppliers. This chapter will begin to explore those ethical implications as a consequence of this new paradigm.

INTRODUCTION

In order to fully understand the new paradigm of business on the internet, it is important to have some perspective on the magnitude of the changes that have taken place in relation to the traditional business model. Therefore, this chapter begins by exploring the traditional business model along with relevant theory and application. It progresses to explain how and why e-business required a shift

away the traditional model and presents several alternative e-commerce models. Next, the ethical implications of this evolution will be investigated. E-business in its broadest sense involves the exchange of product, services and information via computer networks, including the internet (Ja-Shen Chen & Ching, 2002). E-commerce, while often used interchangeably with the term e-business, will be used in this chapter to mean a subset of the e-business framework, narrowly focusing on the transactional aspect of the exchange process between buyers and sellers. In order to maintain the chapter's focus on

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ethical implications, the chapter will include an illustrated example of one facet of e-business, online procurement.

The objectives of this chapter are to:

- Provide a clear understanding of the e-commerce business models in business to business (B2B) transactions and their benefits to organizations who consider using them.
- Explore the ethical implications that arise as a result of organizations conducting business using an e-commerce model.
- Suggest ways in which organizations can mitigate the impact of these ethical issues while still taking advantages of the benefits offered by the e-business model.

BACKGROUND

The business model is considered the blueprint for how any organization transacts business. It has been widely studied and the exact definition of what constitutes a business model is varied. It has been described from a very broad viewpoint as the architecture for the product, service, and information flows which includes a description of the various business actors and their roles in the value chain (Timmers, 1998; Osterwalder & Pigneur, 2002), as an explanation of how companies work (Magretta, 2002) and as a representation of a system comprised of different elements and relationships between them (Hoppe & Kollmer, 2001). In its totality, it is the entire system for delivering utility to customers and earning a profit from that activity (Slywotzky, 1996). Others have taken a much narrower focus by defining the business model in a specific context such as the internet (Mahadevan, 2000) or other technological innovations (Pateli & Giaglis, 2005). Meanwhile, Samavi, Yu, & Topaloglou (2009) offer a divergent view of the business model by framing it in terms of relationships among stakeholders to suggest

that corporate strategy and the business model be analyzed together using an integrated approach.

Despite the variety of definitions that exist for the business model, each includes common elements representing the functional aspects of an organization. These elements have been described as parts of value chains (Timmers, 1998; Osterwalder & Pigneur, 2002), strategic actions (Samavi et al, 2009), and supply networks (Cullen & Webster, 2007). In summary, the basic functional aspects of the business model consist of:

- Logistics
- Support activities
- Human Resources
- Technology development
- Procurement
- Sales and Marketing
- Operations
- Corporate infrastructure

Along each of these functional points in the business model, information is integrated and value is added. This then serves as the foundation for the implementation of the business process. Although there are numerous theories that underlie the construct of the business model, their exploration is beyond the scope of this chapter. Rather, this chapter will explore the model in terms of business practices, specifically e-commerce.

Paradigm Shifts

The business model for any organization will continue to work until an input triggers changes (Samavi et al, 2009). As such, business models should be viewed as dynamic, enabling organizations to change and adapt in order to stay competitive. This change may occur in any or all elements of the business model (Schweizer, 2005). For example, many companies, whose business model in the 1950's was largely integrated and self sufficient, were in the 1990's, outsourcing many functional areas like logistics or human

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