

## Chapter 4

# Anonymity and Trust: The Ethical Challenges of E-Business Transactions

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### ABSTRACT

*E-business offers an opportunity to create markets that transcend the “real-world” limitations on markets. However, E-business transactions carry an added level of distrust that is not present in “real-world” transactions due to the anonymity of the Internet. Attempts to deal with the problem of distrust using economic approaches have limited the markets that E-business is able to create and, consequently, the potential of e-business. Overcoming distrust requires an ethical approach to the problem of trust, which would mean that participants feel they ought to take a risk even when fraud is a possibility. Insisting that people adhere to traditional ethical principles does not address the root of the problem, which is the lack of personal contact that anonymity creates (which in turn undermines our motivation to be moral). A moral sentimentalist approach suggests a way to overcome the motivation problem without sacrificing all the added benefits of e-business.*

### INTRODUCTION

Two of the core principles of Adam Smith (1776) are that the division of labor is the key to the creation of wealth and that the division of labor is limited by the size of the market. In Smith’s analysis, it was the addition of markets in the New World that increased European wealth, not simply the fact that they had untapped resources. After all, what

good are all those natural resources if no one will buy the finished product? Although we may no longer accept all of Smith’s economic principles, we should not forget this insight. New sources of wealth will be created (as opposed to just shifting wealth around) when we find untapped markets, especially those that let us exchange things that we couldn’t exchange before. Something that can’t be exchanged effectively has no value.

Today, E-business has begun to create markets that simply aren’t possible in the world of bricks and

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## ***Anonymity and Trust***

mortar businesses and, therefore, allows us to tap into a source of possible transactions that could not be engaged in without the Internet. In a bricks and mortar store, a shopkeeper needs enough people coming into their store so that they can sell their goods and have at least enough profit to make it worth their time. It's difficult to run specialty shops like "Just Door Knobs" unless you live in an area with a very dense population. With the Internet, one can easily create JustDoorKnobs.com and focus on providing the best product possible. This much larger online market can generate enough sales to make this a viable business.

It is important to realize that some, if not most, of JustDoorKnobs.com sales will involve people choosing to buy online as opposed to going to their local hardware store. No new wealth has been created in the global market; it has merely been distributed differently. It's no different than Home Depot attracting the business that used to go to Local Hardware. It is true that this creates wealth for the owner of JustDoorKnobs.com, but what this chapter will focus on is the creation of value which wouldn't be possible without e-business. The most dramatic example of this value creation is the pornographic industry on the Internet. People who would never ask for such a product in person at a store will buy it on the Internet, and it would seem that even the most bizarre preferences can represent a sizable demand when you consider the Internet population as a whole. But there are also a lot of more mundane examples of how the Internet creates value.

Bricks and mortar stores can only afford to carry a certain selection of door knobs. Most people will just choose from the available models. Consumers who desire handcrafted customized door knobs will not have enough impact at any individual store to make it clear that there is sufficient demand to sustain a custom door knob business. JustDoorKnobs.com, on the other hand, can bring together door knob aficionados around the world and offer them unusual door knob styles (perhaps through a KnobFinder service similar to

the way Amazon.com sells used books), or even advertise for someone who makes door knobs according to customer specifications. Merchandise that would otherwise languish on a shelf or in someone's workshop finds a happy buyer and everyone involved is enriched by the process. Value, that would have gone unrealized, is created using this Internet-based model.

The Internet allows people to take items that no one they know wants and offer it up to someone else halfway around the world who couldn't find it in a local store (turning "junk" into something with a cash value through eBay, for instance). Plus, the Internet offers ways to save on overhead so that prices can be lower. For example, JustDoorKnobs.com can use a network of hardware stores to supply door knobs rather than store them in one physical location that has to be leased out. They can also save on advertising since the Internet makes it easier for the consumer to find them wherever they are and once the consumer finds them that consumer is pretty much browsing through the store's merchandise. This is an added advantage over bricks and mortar stores using targeted Internet advertising to lower their overhead. Lower prices indirectly create value because they free up money to be used for other goods, including goods we would not normally buy because we didn't have enough money to spare. It may seem unnecessary to recount all the benefits of e-business, but it is important to see that those benefits are also the cause of one of the most persistent problems in E-business transactions: a lack of trust in the system.

## **THE PROBLEM OF TRUST ON THE INTERNET**

One of the ways that the Internet creates value is that it brings together strangers who are separated by vast distances so that they can trade with each other. But this also means that they will probably only deal with each other on a single occasion.

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