

The Social Responsibility of Online Charge-free Service Providers

Accountability for use of the term "free"

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Abstract—In an autonomous market economy that has long been separated from other economies, price-signal information such as profit, cost, productivity, or competition tends to be regarded as a matter of concern, and other information regarded only as noise. In the current business environment, where market-economy principles have spread globally, the majority of business scholars and practitioners seem to believe that only price-signal information is relevant and significant for business organizations. This is epitomized by excessive greed demonstrated by some hedge funds, based on their belief in a neo-liberal law of the jungle. The development of Information and Communication Technology (ICT) has made it possible for business organizations to handle huge amounts of personal data (now referred to as big data) to streamline business operations and enhance customer satisfaction. It has also shortened the life cycle of products and services. Business people in this environment feel it is not fair to handle personal/privacy information data properly, unless it generates short-term profits. In fact, many business people, especially in Japan, consider personal data/privacy protection to be a cost factor and view regulations as an impediment to industry development. This study examines whether privacy could be adequately protected in this socio-economic environment.

Keywords-personal data/privacy protection; market system; corporate governance; charge free; dilemma.

I. RESEARCH BACKGROUND AND OBJECTIVE

One of the main research-question for this study was “Is the claim of online charge-free services true?” The current market economy is based on price, and price is decided by supply and demand. According to Adam Smith [1], an invisible hand determines optimal price. Why then, are there numerous online charge-free service providers in the digital world? People are fascinated by the magical words “charge free”.

There is a system behind charge-free services. People who need services provide their personal data, which have enormous value. Service providers insist that personal data will be managed very carefully, but they are also concerned with maximising profits. Thus, “charge free” does not mean that value is not exchanged because value is not only represented by price systems; rather, this means that privacy equals money.

Recently, the information technology is developing unpredictably fast. A visible or invisible hand (technology

and software) could control the optimal price, and also people’s mind.

II. STATISTICS-ORIENTED MARKETING METHOD

Research by the Academy of Management (AOM) [2], which always uses a statistics-oriented marketing method, has demonstrated that online charge-free services providers transfer collected personal data to marketing and advertising companies. These data-research companies calculate consumer demand using a statistics-oriented marketing method to identify exact needs. Personal data are obtained by online charge-free services providers, because of consumer fascination with the magical words “charge free”.

This recent way of thinking is a neo-liberal idea based on rational expectation theory in which an agent’s expectations equal true statistically expected values. An examination of corner advertisements on “Facebook” webpages revealed that companies placed advertisements that exactly fit the consumer profile of the “Facebook” holder. These advertising firms use rational expectation theory.

If the market system were working fair, then the neo-liberalistic idea could fit onto this rational expectation theory. However, there is an idea of counter party, such as the social market economy in Northern Europe.

III. THE PROBLEM WITH THE CURRENT MARKET ECONOMY, AND SUGGESTION FOR THIS SITUATION

A. Corporate Governance

Corporate governance is distinct from management in that it is concerned with how corporate entities are governed rather than with how business entities within those companies are managed. Corporate governance addresses issues facing the board of directors, such as interaction with top management, and relationships with others interested in the affairs of the company, including owners, creditors, debt financiers, analysts, auditors, and corporate regulators. Corporate governance affects performance through involvement with strategy formulation and policy making and with corporate conformance through top management supervision and accountability to the stakeholders [3].

In general, there are three theoretical tendencies about corporate governance. Firstly, it is shareholders value theory [4], which has been dominant also, aimed maximizing their

wealth. The opposite and alternative theory is stakeholder value theory, which includes not only shareholders interest but also stakeholders. Currently, another variety of corporate governance theories [5] has been developed, such as enlightened shareholder value [6] or stewardship theory [7], and so on. This current situation of this tendency shows that one more dimension has been added to business activity, namely the moral one [8]. Such a corporate governance theory includes this ethical idea, which is affecting not only performance but also decision-making.

B. The Case of Edward Snowden

This case shows a good example about the failure of bureaucracy. The organization of bureaucracy is good example when we think about the function of governance. Individual privacy protection distracts from the prevention of international terrorism. Government is also seeking their rent from the people.

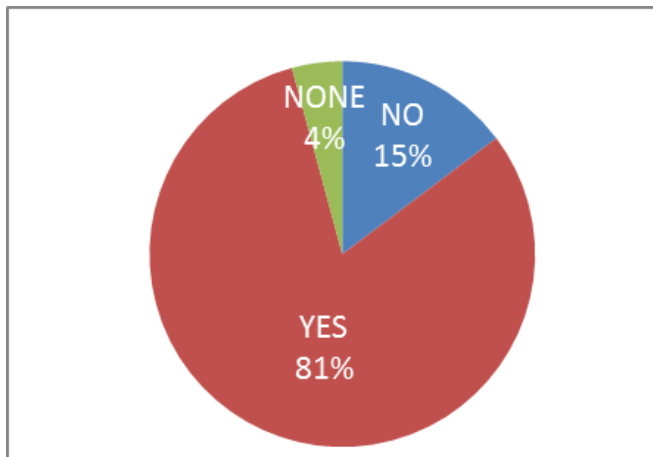


Figure 1. Responses from 92 people to the question, "Is privacy protection important?"

Edward Snowden is an American, a former technical contractor for the United States National Security Agency (NSA), and former employee of the Central Intelligence Agency (CIA), who leaked details of several top-secret US and British government programs to the press. Does a democratic ideal entail ensuring people's freedom? This is a highly controversial question.

Following the Snowden case, I conducted a survey of 92 male and female students in my lecture at Meiji University asking their opinions on the necessity of privacy (see Figure 1). Results of the survey indicated that 81% of respondents valued privacy protection above freedom. These results not only represent a controversial point of view, but also illustrate a fascinating contrast to the popularity of online charge-free service providers. In fact, the point is that we need to explain what "charge-free" means. It shows that there is insufficient disclosure of information from online service providers.

C. Dilemma

Internet users need to be more careful when submitting their personal data to the databases of charge-free service providers. Government agencies could easily access these personal data using regulations, such as the US Patriot Act [9].

The conflict between personal freedom and privacy has always presented a dilemma. One example was mercantilism (absolutism) versus physiocracy in the 16th century [10]. The father of price theory, Adam Smith, resolved this dilemma using the price system and the invisible hand [11]. Mercantilism proposed economic internationalization, and Smith wanted to find a compromise with economic localization, which becomes available through the use of internet (techno-globalization and localization both ways).

This dilemma between freedom and privacy is also illustrated by considering the example of secrecy at Swiss banks (German word; "Bankgeheimnis"). Following World War II, Switzerland developed a bank system that carefully protected bank account privacy, even from prosecutors. This created a tax-haven problem, with people sending their fortunes to Swiss banks to evade their tax duty [12]. These are not "charge-free" services.

D. Varieties of capitalism

References to "varieties of capitalism" point to the coexistence of two types of capitalism, such as Liberal Market Economies (LME) and Coordinated Market Economies (CME). The phrase "varieties of capitalism" reflects a new framework for understanding institutional similarities and differences. There is a discussion about the two types or models of capitalism [13]. This suggests the possibility of multiple and divergent forms of capitalism.

This governance point of view, the people's freedom and privacy must be recognized by contemporary capitalism. Therefore, governance should not follow only one "best way", but should be open to the idea of "varieties of capitalism", becoming more diverse and open to many best ways.

Also, corporate governance is affected by two capitalism ideas. Boubaker et al. [8] argues that the ethical idea from the profit-oriented companies is the only way to sustain their activities.

IV. CONCLUSION

This paper discussed the social responsibility of online charge-free service providers. There is a consumer fascination with magical words "charge free". Therefore, online charge-free service providers need to be more accountable about their use of the word "free".

Finally, we need to mention that the several private security companies for the digital world, such as "VeriSign" [14], that provide consultation services to private companies on how to introduce and operate a privacy policy. Many profit-oriented companies feel they do not need to implement fair handling of personal data and proper protection of personal data/privacy. However, an examination of one's "Facebook" page or the Snowden case does not support this

perspective. This private security companies are also profit-oriented companies.

This paper discussed the following:

1) *Research Background and Objective:* Research question; “Is the claim of online charge-free services true?” There is a profit system behind the charge-free claim. Service providers sell privacy data to advertising companies, which means the charge-free unidentical no value.

2) *Statistics-oriented marketing method:* The rational expectation theory estimate in which the agent’s expectations constitute true statistically expected values. However, it impose many preconditions, such as the fair market condition. Therefore, it is important to accept the idea of social market economy.

3) *Problems of the current market economy and suggestion of this situation:*

a) *Corporate Governance:* There are three theoretical tendencies about corporate governance, such as shareholders value theory, stakeholder value theory and enlightened shareholder value or stewardship theory. Those current tendency shows that the moral is important for business activity.

b) *The Case Study of Edward Snowden:* People value privacy protection above freedom!? If this is a case one question will come up, why the neo-liberal law has been spreaded out globally. This is a highly controversial question.

c) *Dilemma:* Swiss banks create a tax-haven problem, where individuals hide their fortunes to avoid their tax duty. These are not “charge-free” services and offer a good example of this dilemma.

d) *Varieties of capitalism:* Rather than converging on one best way, the idea of “varieties of capitalism” suggests seeking divergence into many best ways.

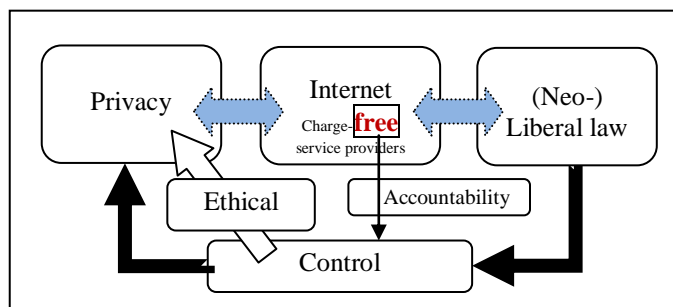


Figure 2. Conceptual diagram

This paper also discussed the coordination between people’s rights (privacy protection) and the power of the state (against freedom or control). Increased regulation of online charge-free service providers is needed to promote and insure social responsibility (see Figure 2). There has always been a fascination with the magical words “charge free”. However, when considered from the economic

viewpoint of free market, where always under the condition of hard competition and strict regulation. Therefore, online charge-free service providers need to be more accountable for the use of the term "free". Also be fair handling of personal data or proper protection of personal data/privacy unless it generates short-term profits.

Figure 2 shows the concept of this paper. If personal privacy is protected, internet technology could ease this protection instead there control. The main dilemma would be easier to solve if online charge-free providers would be more ethical also accountable for use of magical word “charge-free”. It is also very important to think about how to best regulate these service providers because it will require international coordination among regulatory systems, i.e., a hybrid system that accommodates many best ways of practicing capitalism.

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