

THE ETHICS OF EBANKING

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ABSTRACT

In this paper we explore the ethics of business-to-business electronic commerce, with a focus on the banking sector. A case study of online foreign exchange developments at an investment bank is used to help illustrate some key moral issues. Important areas identified for further research include freedom of choice, trust and transparency of business-to-business transactions and limits to responsibility with regard to the facilitation of fraud. It is concluded that only with careful consideration of a broad range of management issues will traditional companies effectively address the challenges of electronic commerce. The barriers to be dealt with are far from being just technical solutions to doing business in cyberspace.

1. Introduction

In this paper we aim to open up the debate on the ethics of eBanking by focusing on the activities of one case study company in the wholesale banking sector. Press and academic attention to the subject of online banking tends to focus on consumer products (B2C) and the threat they pose to traditional branch operations if concerns about privacy and security can be adequately addressed. Writers have so far largely ignored ethical issues instigated by the enormous potential of the Internet in facilitating inter-bank transactions (B2B) in the wholesale market by reducing costs. The financial services industry has been through 'structural and operational tumult' since the mid-1990s, and innovative use of new information technology, electronic commerce and the associated cost reductions are driving ongoing changes in banking (Kalakota and Whinston, 1996). New technology brings benefits and risks and new challenges for human governance of the developments (Hamelink, 2000). Harnessing the technology necessary for eBanking is just the first of the challenges faced by the sector. Equally important is the development of the necessary management skills to ensure the sustained success of the new processes. Intertwined in the functional perspectives of marketing, human resource management and strategic planning are the ethical perspectives. One of the new management perspectives that will contribute to long-term success in electronic commerce is the associated moral responsibility of banking organisations and their stakeholders. Because electronic commerce is still developing and is rapidly changing, there is very little experience or agreement on its related ethical issues (Turbin, *et al*, 2000). However, one of the few perspectives to emerge in the early stages of development is that of trust.

In any transaction trust plays a key role. Face-to-face, transactions allow for the assessment of trust on the basis of physically observed information. This is not normally part of an electronic exchange. Trust may also be based on previous experience of successful transactions with predictable outcomes. This is not yet established in electronic commerce. Where there is no personal experience, the transaction partner might rely on reputation. Similarly, it is too early for electronic commercial activities to have built up a reputation in wholesale banking. The best the bank can hope for is to trade on its terrestrial reputation. High profile risks of electronic commerce such as security and privacy (Kelly and Rowland, 2000), the media and popular myths all act to confound the attempts of business to operate in cyberspace, not to mention the genuine imperfection of existing technology. Building high ethical standards and systems in which transaction partners can trust are imperative management requirements of the sustainable ethical enterprise.

Beyond functional issues there are ethical ideals to which the responsible businessperson should aspire. New information and communication technologies have provided the structure for the new economy (Castells, 2000) and a new economic order. Corporations often have more power and influence than public social institutions, their

economic significance sometimes exceeding those of governments (Hamelink, 2000). This level of power must bring with it responsibility. We can no longer look to governments or even religion to guide our activities – we must take responsibility ourselves, whether we are individuals, companies, non-governmental organisations or cyber-networks. There is a clear need for further serious efforts to raise ethical consciousness and ethical behaviour in the ‘networked economy’ (Zonghao 2001).

2. From Medieval Trade Fairs to eBanking

The development of money has been inextricably associated with the growth of trade and commerce. In Europe in the 1100s, rudimentary banking and foreign exchange institutions emerged as a direct product of the medieval trade fairs (Melamed, 1990). Monetary exchange and banking systems then developed rapidly as foreign and domestic trade expanded exponentially following the onset of the industrial revolution. Although commodity-based money dates back to antiquity, money in its present primarily token form (i.e., money that does not exist in any physical form but takes the form of financial claims on banks and other financial institutions) has only assumed predominance during the past 100 years (Chown, 1994).

International trade has grown significantly in the post-war period and with it the associated monetary flows. More recently, deregulation and globalization have led to a spectacular growth in the value of non-trade-related financial transactions. Every transaction whether trade- or non-trade-related gives rise to obligations that needs to be settled through a transfer of money between the parties involved. Settlement of non-trade-related and large value trade transactions is increasingly based on the electronic large value payment systems, which have been developed since the 1960s. Together this has led to a major expansion in payment and settlement systems which now handle payment volumes on a daily basis that collectively dwarf economic output in the main industrial countries. Electronic banking started with the use of proprietary software and private networks, but was not particularly popular until the emergence of the Web (Turbin *et al* 2000). The Internet and other global on-line networks have created new commercial opportunities for networked commerce. Development of an Internet electronic payment system provides opportunities for the creation of completely new sets of global and national trading relationships. The Internet offers the possibility of ‘open systems’ payment and settlement systems that operate in parallel to existing, more traditional bank-based networks. Electronic banking and electronic commerce are now seen as an inevitable aspect of financial services. The new global commercial market place permits goods to be ordered and paid for electronically irrespective of location. This requires new institutional structures as well as changes to existing outdated legal, commercial and ethical systems (Kalakota and Whinston, 1996). The changes brought about by electronic commerce are similar in scope to those experienced when medieval trade fairs were established in Europe in the 11th century. The comparison is particularly apt, since that period saw the emergence of many of the banking institutional structures and payment instruments, which are now being reformed by the spread of eBanking.

The case study and subsequent discussion presented here represent the findings of a pilot study into the ethical implications of electronic commerce in the business-to-business context. Semi-structured interviews were conducted with managers playing key roles in the bank’s electronic commerce strategy. The study should be regarded as ‘work in progress’ and a number of questions for further research have been raised.

3. Case Study

The ABC Bank Group is active worldwide with around 1,500 branches and over 50,000 employees in more than 70 countries, including all the major financial centres. Ranked by total assets, market capitalisation and size of customer base, ABC Bank is one of Europe’s leading banking groups. This case study focuses on Investment Banking, which is one of the bank’s four main divisions, and in particular the business area of foreign exchange trading run by the subsidiary XYZ in the City of London. As noted earlier, press and scholarly attention to the subject of online banking has tended to focus on consumer products while the enormous potential of the Internet in facilitating inter-bank transactions by reducing costs has been largely ignored.

There are increasing numbers of people in the world who are classified by banks as ‘high net worth’ meaning they have more than \$300,000 in liquid assets. All banks are chasing this business, from which they can earn high fees for arranging and managing investments. It is estimated that XYZ earns some 40% of its profits from just 12% of capital usage in this area. There is absolutely no incentive for the bank to offer this group of customers web-based services that will cut out the banks intermediary and advisory role and hence reduce income by cannibalising the existing lucrative business. Prospective electronic commerce projects in this business area therefore stand little chance of internal acceptance and the associated financial support. Projects which are likely to result in job losses within the bank through their automation of paper-based tasks also require support from sufficiently powerful factions if they are to go ahead, and tend to result in considerable tensions between areas of the bank reliant on traditional processing and the electronic commerce development teams. In order for an electronic commerce project

to be financially supported it must demonstrate the potential to generate a positive return or be deemed necessary to keep up with competitor innovation in the area concerned, and 'not tread on too many toes internally'.

One project that met these criteria was the development of a website which offered customers access to and information about the most important Internet applications concerned with investment banking. The service provides the latest news together with selected charts and useful links. Online trading in currencies is already possible, and additional transaction applications dealing with bonds, shares and derivatives will be online very shortly. Customers have their own personalised access to the world's capital markets online, and can see and respond to changes in global currency prices in real time. The system customers are tapping into is the same as that used by XYZ for trading in the markets on its own account, in other words it is a multi-million pound investment in state of the art technology with the latest security protections.

The bank has focused upon the foreign exchange transaction as its 'flagship' online product because such activity forms a natural starting point for capturing related business from customers. Very few international banking services do not involve the purchase or sale of currency, so from handling a customer's foreign exchange transactions it is relatively easy for XYZ to cross-sell other products or services. In many cases foreign exchange trading is offered to customers as a 'loss-leader' because of this potential. Although start-up costs are incurred in 'plumbing in' customers' systems to that of the bank, by settling transactions online the trading costs incurred by XYZ are more than halved. Fewer trading staff are required and the customer is 'locked in' through the system plumbing in process, so it is therefore more likely to use XYZ for subsequent related investment banking services. If the anticipated volume of trading is high enough, XYZ can offer to 'plumb in' a customer free of charge and still save money.

However, the real potential of such online trading for XYZ does not lie merely in automation, but in the 'white-labelling' of the foreign exchange service. This means that the online trading facility is made available to the clients of XYZ's customers, branded as if the service actually belonged to the client. For example, if XYZ's customer is an Italian regional bank, then foreign exchange transactions can be made between XYZ and all the Italian bank's clients worldwide. From the end customer's perspective, the system they use for trading appears to belong to the Italian bank, because it will be 'badged' appropriately¹. The advantage to XYZ is the extension the facility affords to its customer base, as money laundering regulations prevent an investment bank from accepting transactions from individuals in this area, so the Italian bank performs a useful intermediary function. For the Italian bank the attraction is the ability to 'piggyback' access to an expensive and sophisticated online system, thereby incurring prestige but none of the set up costs.

A potential problem with this system lies in the allocation of credit limits. If XYZ sets a ceiling of £20 million per transaction based on its assessment of the risk involved in dealing with the Italian bank, then the online trading system affords the same luxury to each of the Italian banks customers, who may be far less creditworthy. Consequently, XYZ developed an 'add on' system which allows the Italian bank to set appropriate sub-limits for each of its customers that are using the system. The system was developed in consultation with XYZ's Credit Managers and designed to replicate both the qualitative and quantitative judgements that were previously made manually. The expensive Credit Manager role within investment banks is now threatened because of the success of the online system, which is now being applied to XYZ's own account trading.

4. Ethical overview

Consideration of the ethics of eBusiness has tended to focus on areas relating to the fragility of information collected and held electronically and transferred via computer-mediated communication. These include privacy of information about individuals, accuracy of information, ownership of information and intellectual property and accessibility of information held (see Mason 1986; Turban *et al* 2000). These perspectives focus very much on the individual consumer and disregard the significant area of electronic commerce that is business to business. In the B2B case privacy based issues around information control are less critical at the personal level. By looking at a business to business case, we identify the moral precepts relevant to the case which may form a basis for further consideration of ethics in this area. These relate to: freedom of choice; transparency; facilitating fraud (ethical/illegal activities of others). It should be noted however, that this choice of moral issues is inspired by this particular case. There are likely to be other issues which would have risen from different sets of circumstances. Hence, while we

¹ *The principle is the same as that applied to Application Service Providers (ASPs) 'renting' access to sophisticated computer systems and security facilities to smaller firms that would not be able to afford to purchase such expensive infrastructure outright.*

think that these issues may have wider currency, we urge continued, systematic consideration of relevant ethical issues in this context.

In this section we refer to some ethical theories to help identify rigorously observed notions of right and wrong. In particular, we identify discourse ethics as a potentially useful perspective to apply to electronic commerce. First though, on the positive side, the reduction of costs means that organisations can improve service and potentially generate more profits for shareholders and job security for employees. On the other hand, job losses are the means by which costs are cut and this has social implications for those in the firing line. The displacement of job opportunities away from face-to-face and back-office service roles to information system professionals is a common feature of the electronic commerce revolution (Turban et al 2000). Employment issues aside, however, there are also positive aspects of online trading for business customers and in turn consumers. As the case study points out, access to expensive online systems is enabled by 'piggybacking'. From an ethical point of view, this means that high quality systems are not held by an exclusive group but made available to those other than the wealthiest, hence opening up fair access.

Access to sophisticated systems comes with a catch. The need for 'plumbing in' of software and hardware, which means that business customers are locked into XYZ's facilities, is a form of restriction of free choice. When we buy one product from a certain supplier, we do not normally expect that this means our future choices of supplier are restricted in practice. The key ethical issue here is that the business customer should be quite clear that there are significant implications for future freedom of choice of suppliers of foreign exchange and related services. In much the same way that Microsoft has been criticised for implicit locking in of customers to its software, electronic commerce through reliance on customising computer access to the specific service encourages, even forces, the user to come back to a supplier once used. As a customer –whether a business customer or consumer – once time and energy has been put into setting up the electronic access, psychological choice for alternatives are removed. This is both a clever marketing ploy, and a somewhat devious capturing of business if the customer is not entirely clear about the extent of commitment which they are making.

It is in this respect that transparency is so critical for ethical eBanking. Cyberspace offers fantastic opportunities for disguise. This can be used for overcoming prejudices (Rogerson, 1999) but also for misleading either customer or supplier as to who you are and what you are offering. Clearly, outright fraudulent activities are to be condemned, but how far is it ethically acceptable for electronic commerce activities to convey ambiguously, by hint or absence of clarification, what it is they are offering? The white labelling aspect of our case study is illustrative here. Just like purchasing 'own label' products in a supermarket that are not actually made by the supermarket, there is an issue of misrepresentation. Branding theory demonstrates that we are drawn to products and producers that we recognise and trust (Ind, 2001). If the Italian banking consumers think that they are being supplied with the service by the Italian bank, not XYZ there is a basic problem of transparency. In the case of a packet of soap powder or cereal, there may be no real consequence other than discomfort at having been misled. In cyberspace transactions, the consumer will be operating with significant capital as if they were dealing with the institution they know and trust when in fact it is a third party. Given the concerns about privacy and fragility of information mentioned above this could also have worrying consequences for the party whose details are gathered by XYZ in this case.

Discourse ethics states that ethical actions are those that are reached by transparent, full, open discussion including all those who are connected in any way to a decision². Here we offer some details of its basic precepts (drawn from Spence 1998). Discourse ethics theory finds its origins in contemporary philosophers Karl-Otto Apel (1976) and Jürgen Habermas' (1992) theories of real communication. It focuses on the reaching of a consensus by a process of argumentation. Kettner (1996) defines this approach as following the principle that ethically sound arrangements are those governed by unrestrained, fully participative argumentative dialogue or discourse. He goes on to outline five constraints for the use of this theory in practice:

1. Autonomous articulation of need-claims;
2. Bracketing of power differentials of the participants;
3. Transparency;
4. Participants should have empathetic ability in relation to different roles;
5. There should be comprehensive inclusion of all who will be affected.

Steinmann and Löhr (1994) define the principles of discourse ethics, explaining its categorisation as a cognitive ethical theory thus: "such a claim assumes that when there are disputes about competing moral positions, universal,

² For an excellent summary of discourse ethics theory see Preuss (1999)

reasoned solutions can be reached through sensible application”³. Furthering the tradition of the Erlangen school, Steinmann and Löhr have developed a particular theory of discourse ethics drawing on what Lorenzen called ‘dialogical argumentation’, which he suggests is the means by which the problems of communal life can be mastered (Lorenzen, 1987, first published 1968). This follows earlier notions of philosophical constructivism, which suggest that a person can only really understand something as true when they have had a part in constructing it (Cooper, 1996). Steinmann and Löhr (1996) propose the transcending of personal short-term objectives as the means by which to seek social peace, which they define as a general free consensus. They take trouble to point out that their position is not one of relativism. The normative element of their work is that peace must be held as the highest value, and social institutions must be designed to support the stability of peace (Steinmann and Löhr, 1996). A successful exchange according to discourse ethics theory would be considered to be an argument, in the form of a thorough, constructive discussion, which enables the building of a new normative basis for a decision. Thus, through communication, an understanding of one’s own and others’ needs and normative groundings are reached, and then a new alternative built through consensus (French and Mühlfriedel, 1998).

Criticisms of discourse ethics are that it assumes too optimistically that participants are genuinely seeking the best outcome, that they can be persuaded by rational argument to change their original opinion and that they do not want to force their view on others (Blickle and Hauck, 1996). Further, concern has been expressed that participants need to have achieved a sophisticated level of moral reasoning, and would need to be familiar with both the process of discourse ethics and the culture of participants when attempting to reach a consensus with members of different countries (French and Mühlfriedel, 1998). For discourse ethics theory to apply, the culture of an organisation must itself encompass values like tolerance, candour and constructive criticism, for consensus in companies to be a possibility. Adoption of a discourse ethics approach in eBanking would mean that all transaction partners should be absolutely clear who they are dealing with and what the implications are. Where white labelling occurs, all concerned should be quite clear with whom they are doing business. The ideal circumstances of discourse theory will not of course always be possible, nevertheless the principles provide a benchmark against which action can be measured (Preuss, 1999).

We have already dismissed fraudulent activity as both illegal and unethical. What about the *facilitating* of fraudulent activity? How much responsibility do businesses have to prevent their products and services being used in the pursuit of illegal activity? In the US, for example, the selling and marketing of handguns emphasising the fact that the grip does not reveal fingerprints has been questioned in ethical terms (Brenkert, 2000). The Swiss banking system of confidentiality has repeatedly been challenged when criminal investigations are underway. XYZ is now enabling money laundering. While the bank itself can claim that it has not dirtied its hands, it is by implication responsible in some way⁴. These questions require us to consider the role of business in society. Historical perspectives that the business of business is to maximise profit, are no longer acceptable in the light of limited government power to deal with the global welfare issues of which business is an inherent part. Social contract perspectives on new roles and responsibilities of business organisations encourage responsibility for actions and consequences in the B2B and B2C contexts.

In the XYZ case the issues are not limited to the B2B perspectives because of the apparent direct link to, for example, the Italian bank’s customers. Here we see the features of eBanking contributing to increasing depersonalisation, although corresponding standardisation of credit decisions. Ethically speaking, adding automatically applied rules to the allocation of credit limits can be viewed in two main ways. First, Kantian theory is concerned with the duty of the individual to act in a way that is universalisable, reversible and demonstrates respect for persons. In practice this means that rules of action can be identified which are absolute and independent of context or consequences. Furthermore, utilitarianism is concerned with following that course of action that maximises the greatest good for the greatest number: rule utilitarianism is where the rule applied results consistently in the maximisation of utility. Hence, according to both Kantianism and rule utilitarianism, rather than allowing favouritism, poor judgement, even corruption and bribery to determine credit limits between the banker and the customer, standard, automated procedures mean that everyone gets the same treatment. Whether this treatment is just depends on the quality of the rules applied.

Second, taking the personal relationship out of responses to credit limit applications has the effect of dehumanising transactions in the banking sector. A client’s relationship with a bank or credit manager can be established over years of loyal customer commitment. Boiling this down to boxes ticked and computer-generated numbers would, according to an ethic of care, result in the loss of the development of individual relationships,

³ Original text: “Eine solche Auszeichnung unterstellt, daß bei Streitigkeiten über konkurrierende Moralvorstellungen allseitige einsichtige Lösungen durch Vernunftgebrauch zustande kommen können.”.

⁴ One interviewee claimed: ‘bankers have the world’s smallest consciences’

human touch and use of intuition. Such aspects may be viewed as heretical to the new electronic economy, but human networks are just as important a part of business practice as electronic networks. Interestingly, however, as with the application of standard rules, the just response to credit applications by the credit manager is reliant on the quality of decision-making that the manager applies. The difference is that we would not necessarily expect the manager to make absolutely, clinically applied standard decisions each time. The manager may include sensitive, intangible aspects in the decision-making process.

5. Discussion and Conclusion

We have presented some thought provoking ethical perspectives to a short case study on business-to-business foreign exchange transactions using electronic commerce facilities in one company. The example is not widely generalisable, nor does it cover the exhaustive ethical issues pertinent to B2B electronic commerce. Such computer mediated communications are developing so rapidly that it is far from clear what all the related ethical issues are, or how they can best be dealt with (Bush *et al*, 2000; Spence, 2002). The challenges of eBanking are as great as the potential rewards if done well. By assessing this case study, we have identified some key perspectives as freedom of choice, transparency and facilitating fraud. We have also proposed discourse ethics theory as a useful mechanism for identifying ethical practice in the context of new technologies so reliant on effective communication. From this basis, we can consider the wider implications of our exploratory research into the ethics of eBanking and develop the critical areas of consideration for a research agenda in the area.

Banks have resisted pressures for modernisation of business practices for many years. The opportunities for eBanking may be the catalyst for change that will force the banking sector to reorganise, restructure and reconsider its institutional arrangements. No longer will the ingrained practices that suited banks but disadvantaged customers be economically sustainable (for example by applying 2 days forward value on many foreign exchange services when technology allows instant settlement). The ethics in banking cyberspace will have to be sufficiently robust to ensure public and commercial confidence and use.

The locking in of a business customer to a particular company's product lines is readily done with eCommerce. In terrestrial purchases, this might occur in relation to maintenance of a particular product (such that only the same brand replacement piece will fit), or to updates or linked products. In cyberspace software specifications and 'plumbing in' mean that the portal that a buyer uses might lead them to entirely unrelated products. This type of marketing and sales activity seriously damages the purchaser's freedom of choice. While some may view buying all one's banking from one supplier a convenience, the crucial ethical issue is that the options available to the buyer have been significantly compromised. Where this kind of monopolising of individual choice is consciously signed up to by the purchaser, there is some defence for it. However, the rapidity of eBanking and other electronic commerce developments would suggest that it would be unwise to limit one's choices before the sector has settled and established. Associated research topics include: How important is freedom of choice in business to business transactions? To what extent do business purchasers understand the consequences of loading software from one company? How seriously are the 'small print' warnings taken into account? Can purchasers withdraw from exchange relationships without undue cost to them?

Electronic commerce allows for the concealment of the real identity of suppliers of a product or service. This white labelling is also common practice in terrestrial exchanges, but we suggest that cyberspace, with the website as effectively a limitless 'showroom', can offer extraordinarily misleading intimation of the supplier's identity. In the case of electronic banking, this can have some enormous personal and institutional consequences. Research questions that need to be addressed include: To what extent are electronic commerce customers aware of 'white labelling'? How can websites be used to conceal identity of suppliers? How can websites be used to offer transparency in the exchange relationship?

The facilitation of fraud is another critical area of concern. The 'no questions asked' policy of banks accepting deposits in tax havens must now come under pressure for greater transparency following the attacks on the World Trade Centre and Pentagon on September 11th 2001. White labelling raises similar concerns of 'know your customer' that are surely no longer acceptable if the banking system is to be enlisted in the fight against money laundering which finances terrorism. Wire funds transfers allow legitimate customers and money launderers alike to transfer money around the world at will. An estimated 700000 wire payments are made in the US every day, moving over \$2 trillion (according to www.investigation.com) making it very easy for criminals to hide their transactions. Research needs to help clarify: what is the role of eBusiness in society? How might responsibilities differ from terrestrial business? Can electronic commerce activities be held responsible for the fraudulent activities that they facilitate?

Critical in all the perspectives discussed above is that it is usually technically possible for customers to resolve problems of freedom of choice and transparency. However, it should not only be those with developed technical

skills who are ensured ethical treatment in electronic commerce. Technical elitism is certainly not the solution to the divided society in which we already live. Organisations offering services and products in cyberspace have to take responsibilities for ensuring a fair and open marketplace seriously. If they do not, the essential ingredient of exchange relationships in the digital economy, trust, will not be established and business longevity will not be achieved. Trust in cyberspace must be a major area of research in the future.

The issues raised in this article and the ethical perspectives which will emerge over the next few years in relation to electronic commerce require earnest responses by the eBanking and other sectors. We have proposed discourse ethics theory as a useful source of guidance for those seeking to act ethically in cyberspace. Legislation can only go some of the way to settling standards and guidelines, but the borderless nature of transactions is more acute still in electronic commerce than in the globalised marketplace generally. No law will reach all the electronic interfaces on which transactions will take place. More effective measures will be those that come from the pressures of professionalism and high technical and ethical standards. These take time to develop, and urgently require input from scholars to help identify and deal with ethical issues in electronic commerce.

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