Chapter XV

Human and Social Perspectives in Information Technology: An Examination of Fraud on the Internet

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ABSTRACT

This chapter adds to the discussion of human and social perspectives in information technology by examining the existence and extent of fraudulent activities conducted through the Internet. The principal question addressed by this chapter is whether fraudulent activities perpetuated using the Internet constitute a new type of fraud, or whether they are classic forms of fraud appearing in a new medium. Three areas of fraud are investigated, namely: securities fraud, fraud in electronic commerce, and fraud arising from the rapid growth of Internet companies. The U.S. Securities and Exchange Commission (SEC) has cited more than 100 companies for committing securities fraud using the Internet. Actions prohibited under U.S. securities laws are now being conducted through the Internet, and the SEC has taken steps to suppress these frauds (SEC, 2001). The rapid growth of electronic commerce, and the natural desire on the part of consumers to feel secure while engaging in electronic commerce, has prompted the creation of mechanisms, such as web site seals and logos, to reduce concerns about fraudulent use of information. It is, however, questionable whether these mechanisms are effective in reducing fraud conducted through the Internet. A third potential area for fraud on the Internet involves the rapid growth of Internet companies, often with little economic substance and lacking in traditional managerial controls. This
chapter seeks to examine areas with significant potential for fraud on the Internet and to assess implications of such activities for the management of information technology.

INTRODUCTION

We will say then that a considerable advance has been made in mechanical development when all men, in all places, without any loss of time, are cognizant through their senses, of all that they desire to be cognizant of in all other places, at a low rate of charge, so that the back country squatter may hear his wool sold in London and deal with the buyer himself, may sit in his own chair in a back country hut and hear the performance of Israel in Egypt at Exeter Hall, may taste an ice on the Rakaia, which he is paying for and receiving in the Italian opera house Covent garden. Multiply instances ad libertum—this is the grand annihilation of time and place which we are all striving for, and which in one small part we have been permitted to see actually realized. (Attributed to Samuel Butler with reference to the opening of the first telegraph between cities in New Zealand in 1863.)

Speculation about the effects of new information technology is not a new phenomenon. As the quotation cited above indicates, the invention of the telegraph in the early 19th century prompted the belief that the world would quickly become smaller and more closely connected, thereby eliminating wars and conflicts. Sadly, this was not to be the case. Similar speculation has arisen in recent years with regard to the Internet. Is the Internet a liberating tool offering the possibility of rapid increases in human freedom, or does the Internet threaten our right to privacy?

By using the Internet, musicians can now bypass recording companies and publish their own music directly online for fans to download. Day traders can buy and sell shares of stock without the intervention of brokers. Readers of newspapers, books, and magazines can choose the news, entertainment, and even people that they wish to interact with. There is a common thread running through these and similar Internet developments. What appears to be going on here is a radical shift in power, whereby individuals use technology to take control of information away from governments and corporations (Kaplan, 1999). Many observers feel that the advent of the Internet is an unmitigated positive trend, while others believe that there is a dark side to cyberspace. This latter perspective argues that when individuals use technology excessively and avoid contact with other human beings, there is the danger that they will remove themselves from the wider world. The result may be that cyberspace, which has been prized for its diversity and wealth of information, will lead to a certain type of ignorance through over-involvement in virtual communities at the expense of citizenship in real-world communities (Shapiro, 1999).

While the Internet has the potential to shift control of information away from organisations and institutions in interesting ways, individual power and control can be