PPIT SHEET – **FINALS**

**-----------------------CASE STUDIES-------------------------**

**FACEBOOK – CAN ETHICS SCALE IN DIGITAL AGE?**

Facebook valued at $750bn in 2021 faced success AND increasing scrutiny. With over 2.8bn users, 7mil advertisers and significant volumes of data, it had to deal with **data privacy, anti-trust, and content moderation issues.** The Cambridge Analytica scandal, acquisitions of potential competitors like Instagram and WhatsApp, and debates on antitrust regulations fueled criticism, raising concerns about governance, user consent, and societal impact.

**THE PATH TO USER AS PRODUCT**

Facebook's evolution began in 2004 as a Harvard student network, **quickly expanding with venture capitalist investments** and opening to the public in 2006. Facing **competition from Myspace and Twitter**, Facebook introduced the **News Feed** in 2005, later enhancing sharing with the **Share button**. The platform's mobile presence grew in 2007, and by 2011, it focused on smartphone users, capitalizing on addictive engagement. The Facebook Platform in 2007 allowed third-party apps, leading to a robust ecosystem. Microsoft's investment and Facebook Beacon marked strategic moves in 2007. Sheryl Sandberg joined in 2008, steering Facebook towards advertising as a revenue model. **The "Like" button in 2009 and Open Graph API in 2010 expanded user interactions and data accessibility**. Acquisitions of Instagram in 2012 and WhatsApp in 2014 strengthened Facebook's position. By 2018, **Facebook and Google formed a digital duopoly, dominating online advertising.** Facebook's financial success continued, reaching $84 billion in revenues in 2020. However, concerns persisted, with plans for **an Instagram version for children** raising ethical questions.

**THE ULTIMATE SURVEILLANCE MACHINE**

The misuse of Facebook data, focused on the **Cambridge Analytica scandal**. Researchers initially **used Facebook data for personality prediction**, but later, GSR and Cambridge Analytica **exploited** the platform **to collect and sell data from 87 million users for political advertising**. The revelation led to public outrage, a #DeleteFacebook movement, and scrutiny from industry leaders. **The incident prompted Facebook to implement a six-point plan to enhance data protection**, including reviewing the platform and turning off access for unused apps. The company **also faced criticism for granting device manufacturers, including Chinese firms, access to user data**. In response, Facebook released a **privacy-focused plan in 2019**, aiming to integrate and encrypt communications across its platforms.

**PLATFORMS & ANTI-TRUST**

The concerns about the **digital duopoly of Facebook and Google**, suggested that they should be **split up or restricted from acquiring potential competitors**. Facebook's **acquisition strategy**, including **copying features from emerging apps and acquiring companies like Instagram and WhatsApp**, has raised **antitrust concerns**. Analysts question whether the U.S. government missed an opportunity to review the Instagram acquisition more closely. In 2019, legal scholar Lina Khan argued that **Facebook, despite offering free services, constituted a monopoly by extracting user data**. Antitrust investigations were initiated by the Federal Trade Commission, state attorneys general, the U.S. Department of Justice, and the European Union. In 2020, a German court ruled Facebook violated antitrust laws, and in December 2020, the U.S. federal government and state attorneys general filed an antitrust lawsuit against Facebook, focusing on its acquisitions and alleged pattern of neutralizing competitors. **Facebook proposed building a potential competitor, but regulators rejected the idea.**

**CONTENT MODERATION AND POLITICS: “THE IMPOSSIBLE JOB”**

Facebook's struggles with content moderation, included issues like the **Russian interference** in the 2016 U.S. election where 13 military Russian officers and 3 Russian entities **purchased $46,000 worth of Facebook ads** in hopes of tampering with election campaigns and the broader challenge of **managing false campaigns and hate speech**. One study showed that **lies spread faster than the truth** on Twitter. “On average, it took true claims about six times as long as false claims to reach 1,500 people, with false political claims traveling even faster than false claims about other topics, such as science, business, and natural disasters,” It mentions the emergence of startups, including **New Knowledge, addressing these concerns**. New Knowledge utilized a team of **former intelligence workers** to develop **AI software that could extract indications of manipulation within user accounts**. It could monitor how bad actors could “plant seeds” in individual accounts and paid advertisements, it could inform companies and social media platform clients that bad influencers were attempting to manipulate their customer base. Clients could then be shown how to prevent such manipulation. In 2018, **criticisms faced by Facebook**, ranging from **allegations of bias** to the **spread of hate speech and fake news**. The Court of Justice of the European Union's 2019 ruled that **Facebook must globally remove hateful content**. Facebook's **response** involves significant efforts, **including increasing content moderation staff, investing in AI, publishing transparency reports, and spending billions on platform safety**. The creation of a "Supreme Court" for content moderation was done. **Despite these measures, the persistent nature of the challenges, such as livestreaming violent acts continued (Christchurch, NZ)**. Facebook's ongoing struggles to maintain a secure online environment are still providing insights into the company’s mismanagement of personal data.

**POTENTIAL FORCES FOR CHANGE**

The multifaceted landscape surrounding Facebook focused on the responses and considerations of both **internal and external stakeholders** in the face of significant challenges, particularly the **Cambridge Analytica scandal and escalating regulatory concerns**.

A key aspect was the ongoing debate surrounding **Facebook's business model**. **Some stakeholders propose a shift to a subscription-based approach**, aiming to align user interests more closely with the platform. However, the feasibility of such a transition raised questions, as compensating for the substantial advertising revenue (reported at $40 billion in 2017) would be essential for sustained growth.

The dissent within Facebook's ranks, featuring notable figures like Sandy Parakilas, who **expressed doubts about the company's prioritization of data collection over privacy**. Andrew Bosworth's **controversial memo emphasizing growth at all costs**, Alex Stamos's **push for greater disclosure on interference**, Elliot Schrage's **critique of underinvestment in protections**, and Chris Cox's **call for a shift in the company's approach** all underscore internal tensions.

The passage sheds light on **societal perceptions**, drawing attention to a UK survey where two-thirds of respondents **expressed concerns** about **inadequate regulation, transparency, and inappropriate user data sales by online companies**. Over half felt these companies **exploited** **user loneliness**, while a third **viewed social media negatively**. Calls for stronger government regulation (64%) coexist with a lack of trust in the government (36%).

Psychographic profiles and their potential invasiveness with **users feeling vulnerable** due to the **intimate nature of this data**. Concerns about **informed consent**, especially given the **complexity** of Facebook's **terms of service**, were raised. Legal actions in Germany and the passage of the GDPR in the EU further illustrate the global challenges related to privacy and data sharing.

Various regulatory approaches are explored, from **fines and the Honest Ads Act to implementing data protection legislation**. The potential adoption of GDPR-like regulations in the U.S. is considered, despite **concerns about its impact on smaller players**. The passage also introduces the idea of creating a **Digital Protection Agency** and highlights debates around antitrust issues, with suggestions to break up Facebook into multiple companies.

Investors, particularly large institutional ones like BlackRock, Vanguard, and State Street **held 20% of Facebook together**. The **Cambridge Analytica scandal** led to a **significant drop** in Facebook's market capitalization, prompting **increased scrutiny** from shareholders. Proxy advisory services consistently gave Facebook **poor marks** on governance, compensation, and shareholder rights.

The impact on advertisers and app developers emphasized the **shift away from traditional media platforms** toward digital advertising on Facebook. Brands are noted for **pressuring social media for better user protections**, although actual spending cuts post-Cambridge Analytica were limited. The digital duopoly's dominance, especially in the context of psychographic marketing, is acknowledged as a challenging dynamic for advertisers.

**TIME TO HIT RESET**

The aftermath of the challenges faced by Facebook, notably the Cambridge Analytica scandal led to subsequent **scrutiny from regulators and the public**. Mark Zuckerberg and Sheryl Sandberg expressed openness to regulation, and despite an initial stock gain after the Congressional testimony, Facebook **faced a significant drop in its market value** in July 2018 due to missed earnings projections, public perception issues, and stagnant user growth.

Despite the setback, Facebook's **stock price eventually recovered**, reaching an all-time high in June 2018. The company reported growth in revenue, EBITDA, and user engagement, especially with the integration of Instagram and WhatsApp. However, challenges persisted, including the announcement of the LIBRA cryptocurrency, met with withdrawal intentions from high-profile partners.

Questions about the management style of Sandberg and the turnover in her team were raised and whether Facebook's mission aligns with how social media is actually being used and if Zuckerberg and Sandberg are reevaluating priorities to restore user trust and privacy protection. The growing call for regulations globally and locally, coupled with the influx of new users and the influence on them, poses challenges and opportunities for Facebook's leadership. The passage concludes by prompting consideration of how Zuckerberg and Sandberg will navigate these complexities and what their legacy will be.

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