Case Study 1 - Facebook: Opportunities, Problems, and Ambitions

Not only has Facebook, the social network that was founded in 2004 by Mark Zuckerberg, experienced phenomenal growth, it has enjoyed an explosion of opportunities but not without encountering some thorny problems. In February 2011, Facebook had more than 600 million users, was valued at $50 billion, and was in the midst of taking substantial online advertising away from competitors.[i] However, issues regarding the privacy of users' personal data loomed like ugly storm clouds.

A report issued by eMarketer estimates that marketers will spend $4.05 billion globally on Facebook advertising in 2011, with $2.19 billion of that total being in the United States. According to Debra Aho Williamson, eMarketer's principal analyst, "2010 was the year that Facebook firmly established itself as a major force not only in social network advertising but all of online advertising.…In 2011, its global presence is something multinational advertisers can't ignore."[ii]

The explosive growth in ad revenue, however, is intertwined with growing concerns about how Facebook deals with the privacy of users' information. Facebook "has a powerful incentive to push people into revealing more information. Facebook generates most of its revenue from targeted advertisements based on users' demography and interests, so the more data users share publicly the more money it can mint from ads."[iii] However, the data collection practices of Facebook and other social networking sites "have provoked calls for tougher action by regulators and governments to prevent web firms from abusing the mountains of personal data they now hold. Danah Boyd, a social-networking expert, has even argued that Facebook, with its hordes of members around the world, is now so embedded in people's lives that it should be regulated as a utility."[iv]

Some privacy critics suggest that Facebook's privacy policy is little more than a sham—something designed to obscure the social networking site's real motivation regarding the protection of users' personal data. As written in the well-respected publication *The Economist*, "[t]he worst thing is Facebook's underlying prejudice against privacy. Sign up and it assumes you want to share as much data as possible; if not, you have to change the settings, which can be a fiddly business. The presumption should be exactly the opposite: the default should be tight privacy controls, which users may then loosen if they choose. If Facebook fails to simplify and improve its privacy policy, it will justly risk the wrath of regulators—and many more Facebook suicides."[v]

Facebook has acknowledged the problems with its privacy policy. On a blog post, Facebook admitted that its "privacy policy has been criticized as being '5830 words of legalese' and 'longer than the U.S. constitution—without the amendments' … [and] that privacy policies can

and should be more easily understood."[vi] As a partial response to the privacy criticism, in early October 2010 Facebook unveiled a feature called Groups through which "users and their friends can place each other in a myriad of social circles, and choose which bits of information to share with whom."[vii] Some privacy critics commended Facebook for developing and implementing the Groups feature because it gives users more control over their personal data; but it has not met as warm a reception from privacy critics who don't like how friends have the ability to add users to groups on their behalf. [viii] Likewise, Facebook's Places feature, which was launched in August 2010, has been criticized because it gives online friends the ability to check someone into a place without that person's permission.[ix]

Sunil Gupta, a business professor at Harvard Business School, says that privacy could be the Achilles' heel for Facebook.[x] Although privacy is an ongoing thorny issue for Facebook, the company is nonetheless forging ahead with other opportunities. Facebook seeks to become a dominant and pervasive presence on the Internet. The company's ambitions are evident in many ways. "The social network is a potential rival in electronic payments to eBay Inc.'s PayPal, while partnerships Facebook is cementing with smartphone makers set the stage for competition with Apple Inc. and Google in mobile services."[xi] Sheryl Sandberg, Facebook's Chief Operating Officer, asserts that "every industry is going to be rebuilt around social engagement …[; n]ews, health, finance, shopping and commerce … will be rebuilt by companies that work with us to put social at the core."[xii] Clearly, the opportunities upon which Facebook is capitalizing have important implications for existing and potential competitors in a wide range of businesses. "[M]any Silicon Valley companies increasingly have to decide whether to treat Facebook like a friend whose reach and user data can help propel their own growth, or a foe that can become a destructive force."[xiii]

Facebook founder and CEO Mark Zuckerberg's ultimate goal is "to turn Facebook into the planet's standardized communication (and marketing) platform, as ubiquitous and intuitive as the telephone but far more interactive, multidimensional and indispensable. Your Facebook ID quite simply will be your gateway to the digital world, Zuckerberg predicts."[xiv] "Zuckerberg makes it clear … that he's still intensely focused on connecting the entire world on Facebook—only now his vision goes well beyond the site as a digital phone book. It becomes the equivalent of the phone itself: It is the main tool people use to communicate for work and pleasure. It also becomes the central place where members organize parties, store pictures, find jobs, watch videos, and play games. Eventually they'll use their Facebook ID as an online passkey to gain access to websites and online forums that require personal identification. In other words, Facebook will be where people live their digital lives, without the creepy avatars."[xv]

Should people be elated or distressed about Facebook's desire to permeate human existence in light of what can happen regarding the privacy of personal data?

SOURCE: This case was written by Michael K. McCuddy, The Louis S. and Mary L. Morgal Chair of Christian Business Ethics and Professor of Management, College of Business Administration, Valparaiso University.

[i] G.A. Fowler, Facebook's Web of Frenemies," *The Wall Street Journal* (Eastern edition) (February 15, 2011): B1.

[ii] A. Diana, "Facebook Ad Spending to Hit $4.05 Billion in 2011," *InformationWeek* (January 20, 2011), http://www.informationweek.com/news/software/bi/229000995 (accessed February 10, 2014).

[iii] Anonymous, "Leaders: Dicing with Data; Facebook, Google, and Privacy," *The Economist* 395(8683): 16.

[iv] Anonymous, "Leaders: Dicing with Data; Facebook, Google, and Privacy," *The Economist* 395(8683): 16.

[v] Anonymous, "Leaders: Dicing with Data; Facebook, Google, and Privacy," *The Economist* 395(8683): 16.

[vi] T. Claburn, "Facebook Proposes 'Data Use' Policy to Replace 'Privacy Policy'," *InformationWeek* (February 25, 2011), http://www.informationweek.com/news/security/privacy/229219459 (accessed February 10, 2014).

[vii] G.A. Fowler, "Facebook Unseats Algorithm as Boss," *The Wall Street Journal* (Eastern edition) (October 11, 2010): B1.

[viii] G.A. Fowler, "Facebook Unseats Algorithm as Boss," *The Wall Street Journal* (Eastern edition) (October 11, 2010): B1.

[ix] G.A. Fowler, "Facebook Unseats Algorithm as Boss," *The Wall Street Journal* (Eastern edition) (October 11, 2010): B1.

[x] S. Forden, "Facebook Builds a Washington Lobbying Team" *Bloomberg Businessweek* (December 9, 2010), http://www.businessweek.com/magazine/content/10_51/b4208036753172.htm (accessed February 10, 2014).

[xi] G.A. Fowler, Facebook's Web of Frenemies," *The Wall Street Journal* (Eastern edition) (February 15, 2011): B1.

[xii] G.A. Fowler, Facebook's Web of Frenemies," *The Wall Street Journal* (Eastern edition) (February 15, 2011): B1.

[xiii] G.A. Fowler, Facebook's Web of Frenemies," *The Wall Street Journal* (Eastern edition) (February 15, 2011): B1.

[xiv] J. Hempel and B. Kowitt, "How Facebook Is Taking Over Our Lives," *Fortune* 159(4) (March 2, 2009): 48-56 (8pages).

[xv] J. Hempel and B. Kowitt, "How Facebook Is Taking Over Our Lives," *Fortune* 159(4) (March 2, 2009): 48-56 (8 pages).