

# **Facebook Case Study**

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In November 2007, social media giant, Facebook pushed the limit of online marketing by introducing a controversial marketing ploy, the Beacon tool. Using Beacon to track user browsing data and purchases from partner sites, Facebook then broadcast this information to the user's network. The tool immediately drew criticism from the online community, claiming violation of privacy and breach of user agreement by the company.

The moral issue of the case centers on privacy concerns of the new online advertising tool, Beacon, which is embedded into a Facebook partner's website (e.g.- Blockbuster, Overstock, and *The New York Times*). The tool recorded a Facebook user's Internet activity and transmitted this activity back to Facebook, which then publicizes it across a user's Facebook network. Beacon was applied to all Facebook users by default, and then users were prompted to opt-out with a discrete opt-out notice to block Beacon's 3rd party data communication. Unless the user opted-out quickly, sensitive user activity was broadcast to a Facebook user's News Feed. Users also had to visit each of the 44 Beacon affiliate Web sites, and opt out of the program on each site individually (Gohring, 2008) to stop those partner sites from transmitting user data back to Facebook. Users were not permitted to disable all data sharing activity and Beacon tracked activity every time Facebook users accessed a partner website. Seeking new revenue to justify the company's recent exorbitant valuation and bring additional money to shareholders, this tool promised potential financial innovation.

### **What is the choice or decision to be made?**

The moral dilemma Facebook faces is to determine how to deal with the conflict the company's new Beacon product has with its own mission statement - to ensure users have jurisdiction over their own private information. In addition, to ensure that Facebook can continue to exist as a free service, its management must also determine how to generate revenue from the millions of Facebook users, as the market demands.

### **Relevant Facts**

*User Privacy-* According to the case, Facebook differentiated its service from its main competitor, MySpace, by offering various privacy settings and requiring users join using a real name. The company also offered control over which personal information was available to others. In addition, the company stated organizational principles as: 1.) an individual should have control over his or her personal information and 2.) an individual should have access to the information others want to share.

*Financial background-* Although Facebook reported a user base of more than 80 million active users, the company obtained a relatively anemic \$125 million in ad revenue in 2007, roughly one-fourth of the company's main competitor, MySpace. Facebook's small advertising revenue was also magnified by Facebook's massive valuation of \$15 billion, or 500 times earnings, placing an extraordinary emphasis on short term profits to justify that valuation and the company's bottom line.

### What additional information is needed?

In order to better understand the impact of the company's decisions, answers to the following questions would be useful in determining Facebook's best path forward:

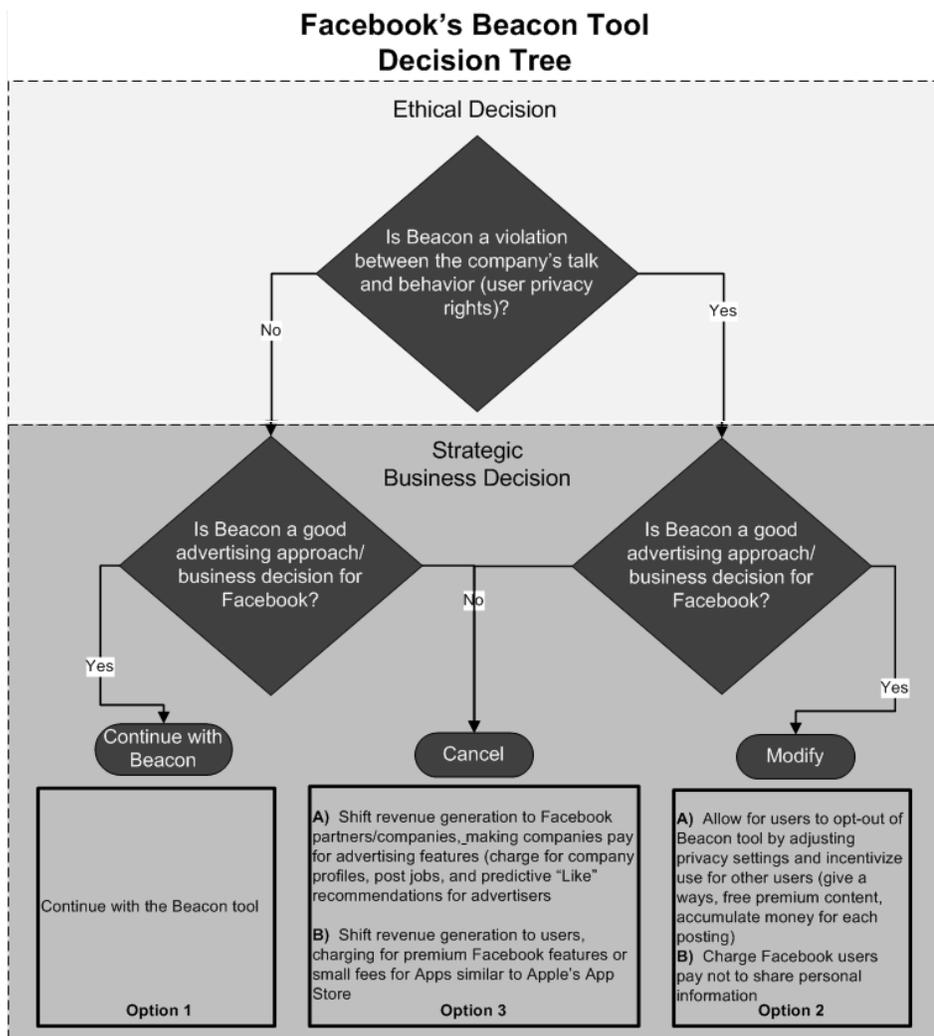
- Did Facebook intentionally make Beacon hard to opt out of?
- Did Facebook violate any legal rights of users (e.g- sharing medical information, breach of contract, etc)?
- What was the opt-out rate, ratio, or aggregate number of opt-outs?
- What was the percentage of Beacon prompts not disabled?
- What was the number of users with Beacon broadcastings?
- What was the revenue generated from the Beacon tool?
- What other revenue options did Facebook have in lieu of Beacon?

### Key Decision Stakeholders

<b>Primary</b>	<u>Facebook</u> <b>Interests</b> - Generating new income, gaining greater social media market share, increasing the user base, aligning organizational mission with delivery <b>Power</b> - Delivering a free service, leading social media product, personal information of over 80 million users, significant disposable income
	<u>Facebook users</u> <b>Interests</b> - Protection of profile privacy, a functional social media product <b>Power</b> - Switch to other social media sites, influence over followers
<b>Secondary</b>	<u>A Facebook user's network</u> <b>Interests</b> - Access to user's network, protection of privacy <b>Power</b> - Influence over other Facebook users, consumer influence
	<u>Advertisers</u> <b>Interests</b> - Reaching Facebook consumers, access to personal user data, generating revenue, brand awareness <b>Power</b> - Funding for advertisements, using other social media/advertising outlets, influence over Facebook's business decisions
	<u>Enforcing organizations</u> <b>Interests</b> - Protecting the rights of consumers, prosecuting illegal business <b>Power</b> - Intervention and litigation
	<u>Social media competitors (Myspace)</u> <b>Interests</b> - Gaining social media market share, profit generation <b>Power</b> - Greater advertising revenue, greater transparency with site advertising, attracting dissatisfied Facebook users

### List of Available Alternatives

Facebook is faced with three sets of alternatives. Namely, Option 1 keep Beacon’s involvement with Facebook the same; Option 2 modify it; or Option 3 cancel it altogether.



Options 1 and 3 are straightforward, however, Option 2, to modify Beacon’s involvement with Facebook, has many subsets of alternatives. Facebook can make opt-out preferences more clear and noticeable, provide incentives for users to allow Facebook to transmit their data to Beacon, permit users to opt out of Beacon if they are willing to pay financially, or restructure Beacon to function as an opt-in service.

If Facebook chooses to modify the Beacon plan by making opt-out alternatives transparent and easy to access, they will be shifting their emphasis to giving consumers all of the information up front. Users would be able to make an informed decision as to what degree, if any, Beacon will be allowed to track them, and whether this information is shared with any of their friends.

Offering incentives, such as access to additional application features, financial incentives, or viewing preferences on their Facebook page may be enough motivation for users to allow Beacon to track their website viewing history and publish their recent purchases. This

alternative must focus on making the incentives beneficial enough for users to convince many to allow Beacon to continue to track them.

Facebook could require users to start paying for their service if they opt-out of Beacon. Or similarly, they could join the likes of Pandora and Amazon's Kindle line of tablets that allow users to, for a fee, opt-out of advertising, or in this case, Beacon.

Lastly, Beacon could be implemented similarly to how users already broadcast all of their other information on Facebook, on a voluntarily basis only. By opting-in to Beacon, users could have their information shared at their own free-will, just like users willingly show that they have "checked-in" at a location or "liked" a group.

The Option 2 subsets all have a focus on giving the user more control. Ultimately Facebook is a business that needs to generate revenue, so the best recommendation for Option 2, modify Beacon, is a combination of updates to the Beacon program granting the user more clear and concise access for how to opt-out, while concurrently incentivizing the user to allow Beacon to track their internet usage.

### **Describe the Personal Impact**

Facebook will personally be impacted by all three alternatives of whether to keep Beacon, modify its implementation, or delete it. Facebook has separated themselves from their competition by making a website where consumers can share many different types of information with their friends in one central location. Option 1 would likely subject Facebook to the backlash of consumers who feel their privacy rights are being violated by not being in control of their data. Because users were having data transmitted without their knowledge, and are not given a viable, user-friendly option to opt out, groups like MoveOn.org will gain strength with their petitions against Facebook, and Facebook risks losing significant membership in the highly competitive social networking field. Facebook may also receive lawsuits from those who feel their privacy rights have been violated. Keeping Beacon however allows Facebook to continue the revenue stream it gained by capitalizing on their information sharing.

By choosing Option 2, to modify, Facebook would attempt to balance their own interests with that of their users. The public would view Facebook more favorably as they would be seen as acknowledging the missteps of their original implementation and a smooth and speedy resolution would mend relations with disgruntled consumers and advocates. Admitting their mistake could give Facebook a positive image as a company that has a sincere moral compass and one that is responsive to its users needs. A company that is able to quickly adapt, is a company that is poised to continue dominance in the future. Investors may even be more willing to invest in Facebook because they have proven results responding to a negative situation.

If Facebook looks to cancel Beacon, they would be putting a higher value on keeping privacy groups quiet and everyday users content, than on the lost revenue stream. No longer would someone have to risk spoiling the surprise of a birthday gift because it was unknowingly posted on his or her profile. However, canceling Beacon would create urgency for Facebook to find an alternative way to generate revenue. One option is to continue to make profiles free for

consumers, but require advertisers to pay to maintain a Facebook profile or a list of followers. For example, every time someone “Liked” the page for the TV show “Modern Family”, Facebook would receive financial compensation. Another alternative way to generate revenue would be to have Facebook expand their paid advertisers’ visibility within Facebook’s mobile interface and Applications. Ultimately, Facebook will be looking for a quick way to replace Beacon’s lost revenue stream.

**Utilitarian Screen**

Jeremy Bentham's (1988) fundamental axiom, that "it is the greatest happiness of the greatest number that is the measure of right and wrong," is a basis to review Facebook’s Beacon through a Utilitarian lens. In that context, we can group the primary Beacon stakeholders by relative size to determine their importance in the utilitarian lens.

Stakeholder Type	Stakeholder	Size	Importance
Primary	Facebook	700 employees	Low
	Facebook Users	80 million active users	High

Using this ranking as a basis, Facebook’s first alternative, to continue to run Beacon in its current state, does not pass the Utilitarian screen at first glance. With 80 million active users, it was surprising when only 80,000 users, or 0.1% of users, signed MoveOn.org’s online petition decrying Beacon’s breach of their privacy. It can be assumed that the count was low for several reasons, including apathy, users being unaware of Beacon, or many users simply felt the benefit of Facebook was of greater value than their privacy. Regardless, even that vocal minority is a very large group of people, larger in number than the total number of Facebook employees. So with further analysis, Option 1 to continue Beacon in its present form, only provides for the greatest benefit for the greatest number of people if its revenue generation is critical to the survival of Facebook.

The second alternative to modify Beacon to include clear and multiple options to opt-out could resolve the issues for the greatest number of people. First, Facebook would be able to continue the Beacon program, would continue to share data with advertisers, and both Facebook, its users, and advertisers could gain from the relationship. Facebook users who did not want their data tracked could opt-out, freeing themselves from the data tracking and active sharing that is core to the Beacon service. Finally, with Option 2 those users who do not care or who enjoy the Beacon service could continue to be involved and receive the happiness they receive from participation in Beacon and usage of Facebook.

The third alternative, to cancel Beacon, would directly benefit Facebook users and privacy advocates who were displeased by Beacon. However, Facebook itself would be negatively impacted, as would the advertisers who participated in the program. Facebook would lose needed revenue and advertisers would lose access to potential customer data and advertising opportunities. Therefore, Option 3 to cancel Beacon, would resolve the issues of the largest number of people as long as Facebook itself was able to continue operating without Beacon.

## **Justice Screen**

John Rawls (2005) argues that justice as fairness is central to the human condition and justice is the first virtue of social institutions. With this context, we can examine Facebook's options with Beacon to find the alternative that is the most fair for all parties and would enhance the social contract between Facebook and its users. Another aspect to the Justice screen is the legality of Beacon - did it violate any laws?

In Option 1, Facebook violated a central tenant of fairness. It allowed advertisers to view data that users felt was their own, not to be shared without their permission. Facebook users had the expectation of privacy from Facebook's original platform that allowed fine-grained control over what data could be shared with others. In the class-action lawsuit Lane et al v. Facebook, Inc., (2008) the plaintiffs accused Facebook of violating three laws with Beacon:

1. Electronic Communications Privacy Act: violated by Facebook when users browsing data was intercepted and used for an unlawful purpose - advertizing.
2. Video Privacy Protection Act: violated by Beacon advertisers by disclosing personally identifiable information to Facebook without the user's consent.
3. California Consumer Legal Remedies Act: violated because Beacon's terms did not state that personally identifiable information was being transmitted to Facebook.

However, the guilt of Facebook was questionable (Vijayan 2007) and the case was settled without an admission of guilt by Facebook, even though Facebook agreed to pay \$9 million in damages, attorney's fees, and to fund an online privacy foundation. So while there was an accusation of illegality, and the settlement could be inferred as Facebook's acceptance that it might have been found guilty, actual guilt in breaking a law was not proven in a court of law. Still, continuing Beacon in its present form would not pass the Justice screen as it is not fair to Facebook users and potentially breaks the law.

If Facebook followed Option 2, users would have a full, clear, and prominent disclosure of Beacon's implementation and tactics. Users therefore would have a fair understanding of how to opt-out and what it means if they choose not to not. In addition, the lawsuit mentioned above was specific to a time frame before Facebook altered Beacon's opt-out procedures, suggesting that changes to Beacon would reduce its law breaking potential. Therefore, Option 2 passes the Justice Screen because it is clear that Facebook is focused on providing fair and legal alternatives for their users.

Option 3 also passes the Justice Screen because it removes any opportunity for Facebook to do further wrong or be unfair with its implementation of Beacon.

## **Rights Screen**

The fundamental right at stake in this case is the end-users' right to privacy. The eighteenth century philosopher Immanuel Kant argued that each individual has a dignity that must be respected and a moral right to choose for oneself (Velasquez 1990). Related to the right to choose, are other positive and negative rights, one being the right to privacy (Velasquez 1990).

“The right to privacy, for example, imposes on us the duty not to intrude into the private activities of a person” (Velasquez 1990). Facebook’s implementation of Beacon showed a blatant disregard for the right to privacy by tracking user activity in a deceitful way. Facebook made it difficult for users to be made aware of the Beacon tracking, and then used the collected information to allow companies to use Facebook members to endorse their products without explicit approval. Therefore, Option 1 of continuing to run Beacon in its current state does not pass the rights screen as it violates the end-users’ right to privacy.

The second alternative available to Facebook is to continue use of the Beacon program but implement a series of modifications. One of the primary modifications being recommended is to offer a clear explanation of Beacon to all users, and provide them with the choice to opt-out of the program and allow FB to share personal information with participating companies. This alternative addresses the rights violation by reinstating the individual’s right to choose. By enabling users to choose to opt-out of Beacon, they are able to maintain their right to privacy, so Option 2 passes the rights screen.

The third alternative available to Facebook is the complete discontinuance of the Beacon program. This alternative removes even the possibility of violating an individual's right to privacy, so it also passes the rights screen.

### **Virtue Screen**

When looking at a case through the virtue screen, it is important to assess the culture of the organization as well as their reputation and consistency in behavior. One of Facebook’s early distinguishing characteristics from its closest competitor, MySpace, was its privacy setting offerings. Facebook required members to join using a real name and allowed them to limit the type of information available to others by offering users a variety of designations for each piece of information. This was different than competitors who only offered one choice of whether to make all information private or public. This feature was a significant part of Facebook’s reputation, and showed an organizational culture that valued personalization and protection.

The implementation of the Beacon program was not in line with Facebook’s organizational principles, and therefore Option 1, continuing the program unchanged, would not pass the virtue screen. Facebook’s organizational principles centered around privacy and held that 1) individuals should have control over their personal information and 2) should have access to information that others want to share. When FB implemented Beacon there was a lack of transparency with user. Their efforts to conceal the opt-out notice by making it appear in a very small window, and allowing it to disappear without users needing to take action were in direct violation of the company’s first principle. Any continuation of the program in its current state would not pass the virtue screen.

The second alternative of modifying the implementation of Beacon by enabling a clear process of opting-into the program would be in line with both of the company principles. Beacon does allow for additional sharing of information on a level that did not previously exist which supports Option 2. If Facebook can modify the program effectively to provide members

with all the necessary information about Beacon to make an educated decision about whether or not to opt-in, this alternative passes the virtue screen.

Similarly, Option 3 of Facebook cancelling the Beacon program all together would also pass the virtue test by reinstating the organizations commitment to privacy and would help restore their reputation among members who felt betrayed by the implementation of the Beacon program.

### Conclusion

In each of the screens, there are stakeholders that benefit and those that will lose based on the judgments that are required. This table assigns values to each option based on the results of the screen, providing the best option for Facebook.

		Utilitarian Screen	Justice Screen	Rights Screen	Virtue Screen	TOTAL Score
Options	Max Points	Score	Score	Score	Score	
Option 1 Keep Beacon	10	5	2	2	2	11
Option 2 Modify Beacon	10	7	10	10	7	34
Option 3 Cancel Beacon	10	5	8	8	8	29

In each screen there are two core groups with vested interests in each option. The first group, composed of a large group of Facebook user and privacy rights advocates, is focused on ensuring the highest level of privacy for Facebook users. The second group, made up of Facebook management, investors, and advertisers, is intent to find new avenues to market and sell their product, specifically to other Facebook users. With two divergent goals, it was clear that the score for each screen was not easily calculated, but a variable that we assigned after evaluating the effect each option would have on all the stakeholders. After review, Option 2 scored the highest in the screens and was our choice for Facebook for its balanced benefits for the greatest number of stakeholders.

Even though each core group of stakeholders has divergent goals, they also have one common goal: the survival of Facebook. As a private enterprise, it is clear that Facebook must generate revenue to keep up with the demands of its users for more functionality. Option 2 allows Facebook to continue to use Beacon, but only for those users that make a careful decision to allow Facebook to monitor their internet usage and purchases, thus meeting all the moral requirements and allowing Facebook to achieve financial success.

Facebook must act immediately to inform all stakeholders of the upcoming changes in Beacon. Beacon must be redesigned to allow users clear paths to opt-out of the service, but also Facebook must gather their product development and marketing teams and devise a new revenue generation portfolio to incentivize users to allow Beacon to continue operating. This will require that Facebook restructure all contracts with advertisers and find ways for advertisers to reach consumers that will not violate their right to privacy.

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