

MGST 451

Corporate Governance and Ethical Decision-Making

Lecture 20 – Winter 2019 L01-L03

By Dr. René Wells, CFA
Haskayne School of Business

In-class activity 6: Ethical decision making at Facebook

- Sit with your group. Group 1 to be close to group 2, etc.
- This learning activity is essentially discuss and reflect, followed by in-class discussions and debates.
- It leverages the fact that the vast majority of young people use social media and have experienced Facebook.
- Facebook has been criticized for its lack of ethical decision making resulting in not giving sufficient consideration and not using enough resources to:
 - protect its users' data and maintain trust;
 - prevent the misappropriation of its platform for the purpose of propaganda and distribution of misinformation.

Ethical decision making

- How various stakeholders are likely to be impacted by the decision is taken into consideration at the time the decision is taken (i.e. not ignored and not an afterthought).
- Neither a legal nor a societal norm is violated when making the decision (intent) and legal and societal norms violations are an unlikely outcome of the decision.

Unethical decision making (intentional or unintentional)

- The decision will possibly or likely lead to one or several categories of stakeholders to be abused or harmed.
- One or several legal or societal norms are violated when making the decision and further legal and societal norms violations could or will occur as the decision is implemented.

Moderating content: being a media company or only a platform?

- Considerable evidence indicates ‘foreign agents’ attempted to ‘tilt’ the 2016 US presidential election using Facebook.
- Facebook was criticized as not doing enough to prevent its platform to be used to disseminate ‘fake news’.

User privacy and trust concerns

- In March 2018 it surfaced that a firm called Cambridge Analytica (CA) got access to data of 87 million Facebook users.
- CA got the data in breach of Facebook rules, so it certified to Facebook that the data has been destroyed, but Facebook never conducted on-site verification of such data deletion.
- In 2015 Facebook curtailed the ability of third-party apps to gather so much information unimpeded on its platform.
- See <https://www.wsj.com/video/the-key-to-understanding-facebook-current-crisis/A759E5F4-C3F0-49F1-A89A-CD656A90E511.html>
- Add. key videos: <https://www.channel4.com/news/data-democracy-and-dirty-tricks-cambridge-analytica-uncovered-investigation-expose>

Facebook under Increasing Scrutiny

- The public, legislators and regulators expressed outrage at how inept Facebook is in protecting its users' personal data.
- It caused Facebook to lose at least 11% of its market value, a loss of more than \$40 billion suffered by its shareholders.



Task 1 (for about 25 minutes – about 5 minutes per section)

- Discuss the following in your group
 - What is the business model of Facebook?
 - Who are the clients of Facebook?
 - What these clients are buying from Facebook?
 - Who are the users of Facebook?
 - What the users are getting from Facebook? Are they paying something for that? If so what?
 - Are you able to identify and describe if any ‘ethical tension’ exists at the core of Facebook’s business model?
 - Do you have ideas, recommendations or solutions for Facebook to better manage its business?

Facebook under Increasing Scrutiny



“After the story was published anyway, Facebook claimed that it had been "lied to". Cadwalladr said that Facebook was trying to shift the blame onto a third party.”

“You may have heard about a quiz app built by a university researcher that leaked Facebook data of millions of people in 2014. This was a breach of trust, and I'm sorry we didn't do more at the time. We're now taking steps to make sure this doesn't happen again. We've already stopped apps like this from getting so much information. Now we're limited the data apps get when you sign in using Facebook. We also investigating every single app that had access to large amounts of data before we fixed this. We expect there are others. And when we find them, we will ban them and tell everyone affected. Finally, we'll remind you which apps you've give access to your information - so you can shut off the ones you don't want anymore.”

Debate 1 (team 1 discuss with team 2, etc.) for about 10 minutes

- Should Facebook be regulated? (since it is apparently struggling to self-regulated itself)
 - Odd-numbered teams: argue for regulation (pros)
 - Even-numbered teams: argue against regulation (cons)

Debate 2 (team 1 discuss with team 2, etc.) for about 10 minutes

- Should the data of the user be strictly owned by the user?
- Should data sharing with third parties and psychological profiling be prohibited? Or only via a strict opt-in model?
- Should Facebook profits be shared with users?
 - Odd-numbered teams: argue against ... (cons)
 - Even-numbered teams: argue for ... (pros)

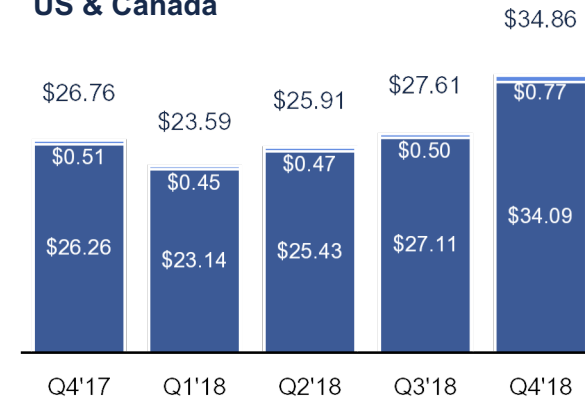
Average Revenue per User (ARPU)

- Payments and Other Fees
- Advertising

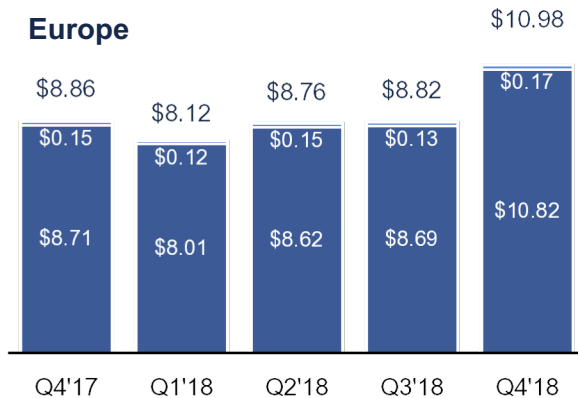
Worldwide



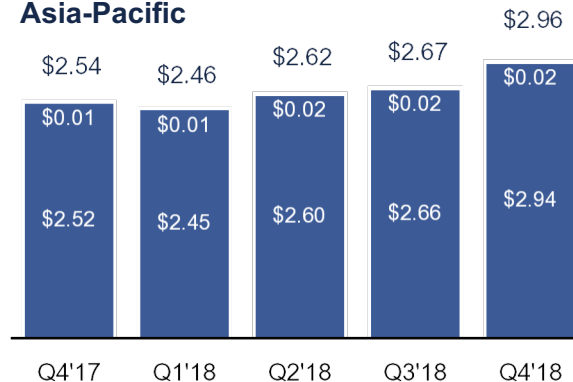
US & Canada



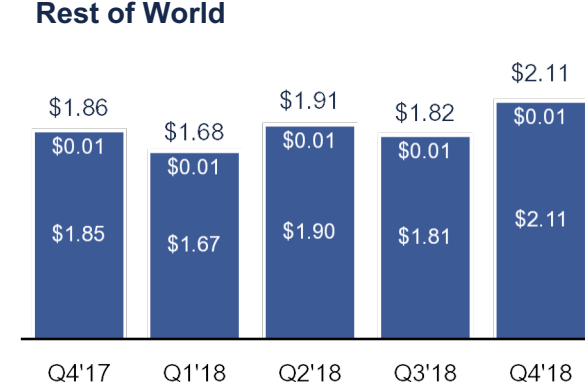
Europe



Asia-Pacific

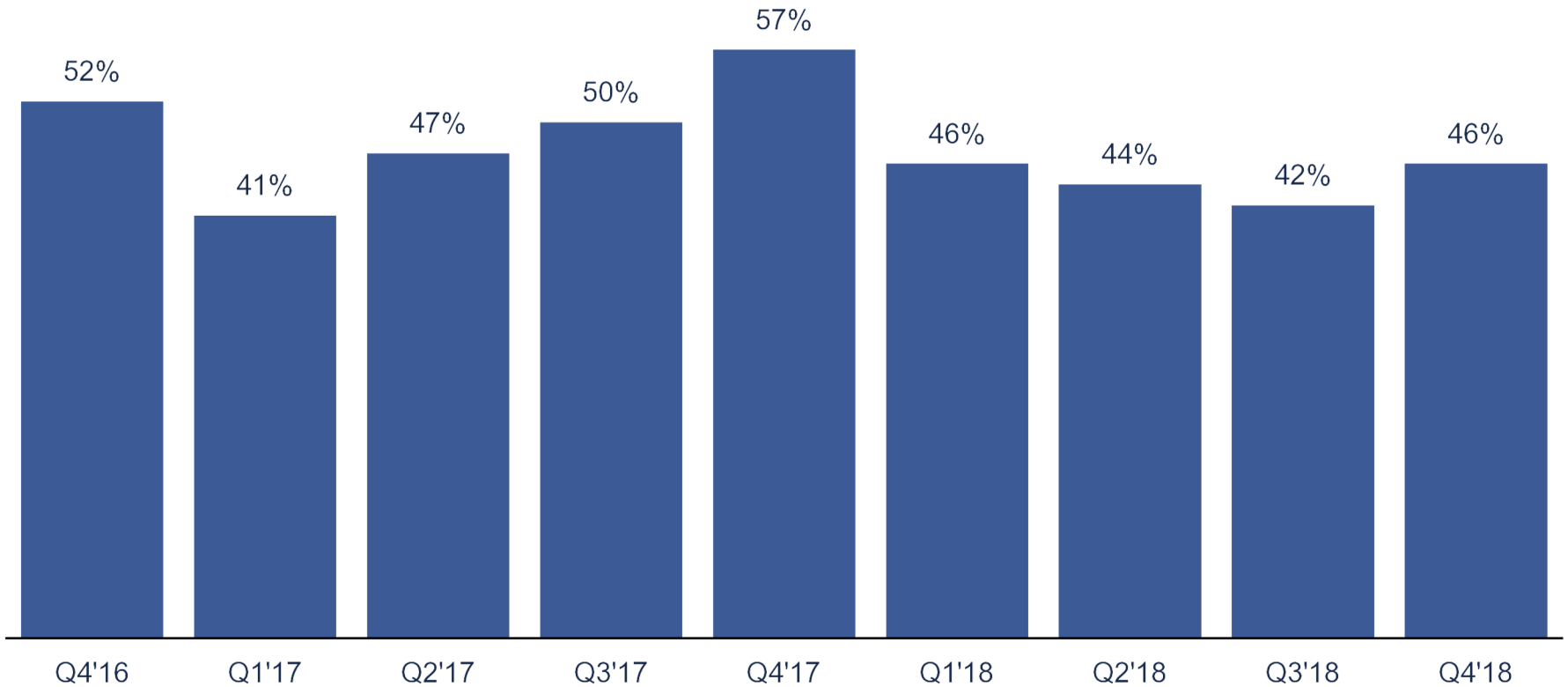


Rest of World



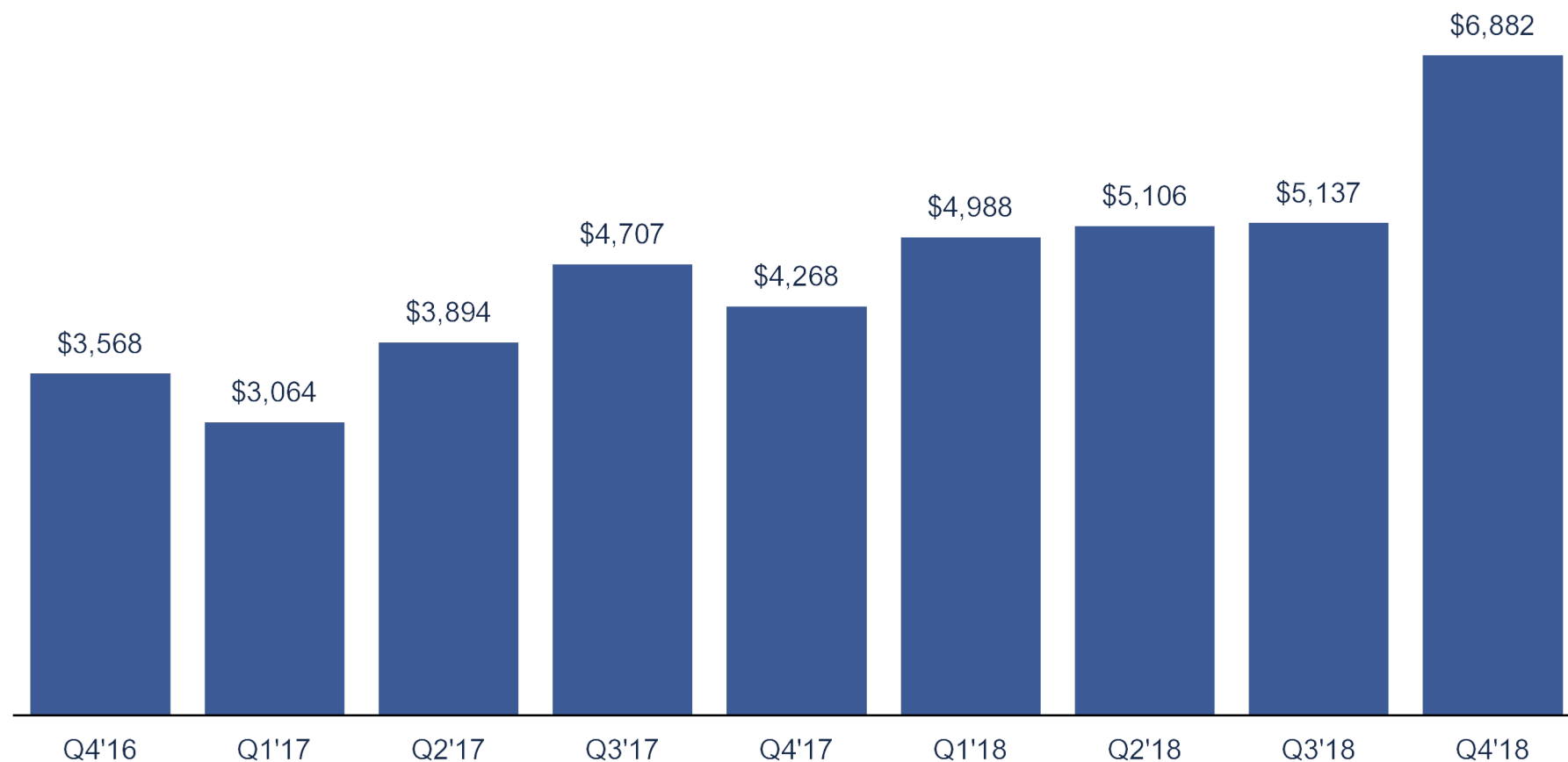
Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue disaggregated by geography disclosure in our condensed consolidated financial statements where revenue is disaggregated by geography based on the billing address of our customer. Please see Facebook's most recent quarterly or annual report filed with the SEC for the definition of ARPU.

Operating Margin



Net Income

In Millions



In December 2017, the 2017 Tax Cuts and Jobs Act (the Tax Act) was enacted and significantly impacted the U.S. tax law. As a result of this legislation, our fourth quarter and full year 2017 provision for income taxes increased by \$2.27 billion, which impacted our effective tax rate, net income and diluted earnings per share (EPS) for such periods. Our diluted EPS decreased by \$0.77 for both the fourth quarter and full year 2017. As a result of the Act, starting in 2018, the U.S. statutory tax rate decreased from 35% to 21%.

facebook