

Facebook and the dangers of a singular focus on profit maximization

A whistle-blower has alleged that Facebook Inc ignored the negative impact of its platforms and chose profits over people. While stakeholders benefit in the short-run, such decision-making may break shareholder trust and question the sustainability of businesses.



When £4 billion of revenue is at stake, we must consider very carefully whether we've the right to indulge ourselves in the selfish luxury of pursuing moral principles!

Sir Humphrey Appleby in *Yes, Prime Minister*

Picture source: Twitter; @SirHumphreyisms

Data engineer-turned-whistleblower, Frances Haugen's [testimony](#) at the United States congressional hearing on 5 October 2021, was clear and articulate as she spoke about how Facebook Inc (FB) ignored its own research that raised concerns over the harmful effects of its platforms, Facebook and Instagram.

According to the Wall Street Journal's seven-part [The Facebook Files podcasts](#) (WSJ podcasts), FB lowered its content filtering standards for favoured elites (celebrities) - if its algorithm misinterpreted their content and blocked it, FB would be subject to public ridicule. By dropping its standards, the company allowed the larger influencers to get away with dangerous behaviour. One such instance was of an influencer publicly identifying an alleged rape victim and

posting explicit photographs of her on Instagram. The WSJ podcasts suggest that FB knows that Instagram makes one in three teen girls feel bad about their body, which has affected the mental health and resulted in eating disorders for some of the girls. The WSJ podcasts also suggests that an entire eco-system of human trafficking and drug cartels were operating openly on Facebook, which despite being aware of, FB did not curb. FB's algorithms amplify the worst of human nature - hate and violence: it is [easier to inspire people to anger](#) than to other (happier) emotions. Several of the curbs that FB has put into place to avoid disinformation during the Trump election campaign were unwound once the elections were over, raising questions on whether FB shares any responsibility for the Capitol Hill insurrection. The FB documents allegedly show that the military used Facebook to launch a genocide in Myanmar in 2018.

Haugen explains that when faced with a conflict between profits and people, FB consistently chose to make decisions that favoured profits. She believes that FB would not change its behavior as long as the incentives of its employees were driven by metrics that promoted more engagement with the platform, which effectively translates into higher revenues and profits. In answering these questions, she raised an important question: Is profit maximization the only goal? This warrants a larger debate.

Over 170 years ago, Jamsetji Tata believed that ["in a free enterprise, the community is not just another stakeholder in business, but is in fact the very purpose of its existence"](#). That seemed the prevalent thinking at that time. Several Indian business houses have been responsible for building infrastructure and even cities, supporting the arts, and building education.

As our economy has opened up, many of these values appear to have waned. Corporate India shifted from a socialist mindset to a capitalist one, with profit maximization the primary goal. Even as corporates talk about the importance of ESG, they lobby against measures to promote better citizenship – be it dual air bags in cars, tighter emission standards, or stronger governance structures. The good news is that many still have a conscience – car manufacturers flipped their vacant capacities to make ventilators and those that could, provided oxygen to hospitals during the COVID-19 second wave. But corporate India's citizen responsibilities, seen largely as CSR spends, operate separately from its profit maximization motive.

The test of corporate responsibility is seen in how boards make choices. As Haugen suggested, Mark Zuckerberg did not start out by trying to make a hateful platform – he just didn't take the hard decisions and chose profits over people. The pitfall is to think that these decisions are trade-offs – they are not. As she explains, if the platforms were safer, more people would use them and for longer, which in turn would attract more ad revenues. If the history of old Indian business houses is anything to go by, taking decisions in the larger interest builds trust and longevity, and keeps companies competitive and relevant. Long term greedy, is how one bank describes such behaviour.

As the nature of ownership changes, with private equity coming in with its own belief system and playing a larger role, will corporate India learn from this? In several Indian companies, employees are promised a share of the returns, when private equity make its exit, and hits its numbers. At a superficial level, this aligns with shareholders that have a sole focus on their own returns. But for value pickers and passive investors, this may be inimical in the long run. If FB's own creator seems unable to make choices for the longer term, can one expect private equity that has a three-to-five-year investment horizon, to make better decisions?

A single-minded pursuit of profit may bring with it reputation risks too. Social media giants are now being compared to Big Tobacco, drawing parallels to the addictiveness and the negative health impact of both products – as also the steadfast refusal of their corporate giants to address these. FB is accused of 'moral bankruptcy'. Most importantly, questions are being raised on the transparency of FB's disclosures – has it earned the blind trust of its stakeholders?

With a generation of new customers focused on social responsibilities, companies are re-learning responsible behaviour. But this cannot be seen as optional. These measures need to be embedded in the profit and loss statement – only then will the pursuit of profits be beneficial to all stakeholders.



A modified version of this blog was published on moneycontrol.com, which can be accessed here:

<https://www.moneycontrol.com/news/opinion/facebook-and-the-dangers-of-a-single-minded-focus-on-profit-maximisation-7607191.html>

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