

Ethical Considerations in the Technology Sector



- **Problem:** Technology has improved our standard of living, but the rapid pace of development has created ethical dilemmas for companies, impacted many users and overwhelmed regulatory bodies.
- **Development:** Facebook's Cambridge Analytica scandal is an obvious example of an ethical lapse, but similar issues have occurred at other tech firms around the world.
- **Materiality:** Given the potential impacts on a variety of measures of corporate health, investors need a framework like the one proposed below to better assess ethics-related risks and opportunities.
- **Impacted sector(s):** Technology.
- **Next steps:** Improving the framework outlined below and engaging with companies on the topic of tech ethics should enable us to assess which companies are better prepared to manage this issue over the long term.

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Problem

Technology has created enormous value for society, and more advancements are coming, as evidenced by the MIT Technology Review's annual list of breakthrough technologies ([2017](#)¹ and [2018](#)²). Although these advancements are beneficial, the rapid pace of development is creating ethical dilemmas for companies trying to monetize these technologies, has affected the users of them, and in many cases is overwhelming the government bodies tasked with regulating business activity.

Development

A wide variety of ethical questions have been raised regarding technology's impact on individuals and the environment:

- **Discriminatory behavior:** Although Facebook has disallowed advertisements targeting demographics like [insecure teenagers](#)³, it has allowed companies to [advertise jobs to specific age ranges](#)⁴, which is viewed by some as an example of discrimination. There are also legitimate concerns over artificial intelligence, which some feel "[might exacerbate certain biases, or hide them, or even create them](#)".⁵ This concern is already having a tangible impact today, for instance, as a system being used in the US "[commonly overestimated the recidivism risk of black defendants](#)".⁵
- **Reduced consumer choice:** Massive network effects, alongside well-intentioned but questionably effective regulations like the European Union's General Data Protection Regulation (GDPR), entrench large players and reduce competition and consumer choice. Tech companies have added to this concern by employing strategies similar to Microsoft's in the 1990s, which used dominance in one area in an attempt to guarantee it in other areas.
- **Lack of privacy:** Amazon's Echo saving every interaction, Android tracking its users' physical movements, and Facebook's Nearby Friends function — these are useful tools that also place increasing amounts of data into the hands of a few tech companies whose future growth depends upon identifying and targeting users at a more granular level. In the United States, [the Orlando Police Department's test of Amazon's Rekognition system](#)⁶ was quickly shut down, but countries like [Russia](#)⁷ and [China](#)⁸ are more willing to employ technology in ways that reduce privacy, which can lead to serious human rights violations. [China's citizen scores](#)⁹ appears to have raised privacy concerns to a new extreme.

- **Psychological, mental and physical health and social impacts:** Some believe psychographic targeting can enable ad buyers to incite user action by curating a fictitious or dramatized digital world around the user, bombarding them with the same message across all web activity. Separately, there is a growing expectation that tech companies should accept responsibility or liability for fake news and extremist/terrorist/hate group propaganda, but [good luck keeping track of what's acceptable across the globe](#).¹⁰ Also, research suggests "[omitting emotional content](#)"¹¹ from a newsfeed reduces the amount of time a user spends on a site, so there are real questions as to how incentivized these companies are to curb extreme content. Finally, whose responsibility is it to manage youth screen time: a parent's or Tencent's or Apple's? We would argue the former, but society is lurching toward the latter.
- **Increased general waste and e-waste:** [Apple's admission](#)¹² that its new software slowed down old phones was viewed by some as proof of their long-held views that the company forces premature upgrade cycles. Even if [planned obsolescence creates jobs and drives innovation](#)¹³, it certainly runs contrary to society's increasing interest in creating a [circular economy](#).¹⁴

Materiality

Company reactions (or non-reactions) to the issues above have impacted [user engagement](#)¹⁵, [hurt employee retention](#)¹⁶, lowered ad revenue/ROIs, [reduced gaming revenue](#)¹⁷ and generated [regulatory fines](#).¹⁸ As a result, investors need a framework to identify which companies are better positioned to manage this risk. A strong framework would include assessments of the following:

- **Corporate culture:** A culture of "don't be evil" or "do the right thing" seems more likely to lead to [employee pushback on ethical concerns](#)¹⁹ than a culture that encourages employees to "move fast and break things." Although this is a simplistic example, culture is likely to be a defining factor in which companies manage these issues well or poorly. Questions for management teams could include: How do you and your employees balance disruption and innovation against potential ethical issues? Who, in the day-to-day operations of the business, has oversight regarding the potential ethical issues associated with new services/platforms?
- **Governance:** Corporate boards must be involved in the oversight of tech ethics issues. Independent directors who are truly engaged and have the proper skillset may be able to identify ethical issues

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that insiders don't see. Questions for independent directors could include: How often does the board discuss issues of ethics in the business model? Which directors have backgrounds that enable them to effectively assess potential ethical issues? Can you share an example of an ethics-related discussion that occurred at the board level?

- **Ethics-related disclosures and practices:** Transparency can enhance a company's license to operate and reduce ethical risks. For example, Microsoft allows users to manage their data, has strict rules regarding content-based targeting, [employs clear procedures regarding government data requests](#)²⁰ and lobbies against government efforts to use data inappropriately. The [Ranking Digital Rights](#)²¹ index assesses 22 Internet, mobile and telecom companies on their data privacy policies and offers detailed company reports that you can use to evaluate your companies and their disclosures.
- **Historical controversies:** A company's track record of proactive versus reactive responsiveness to ethical issues may help in evaluating their ability to manage future issues. Importantly, we should not analyze each individual controversy or regulatory impact in isolation. Instead, we should view past controversies, the GDPR and fines as the first signs of a coming wave of societal and regulatory pushback that will have more substantial impacts on the ROIs of different business segments/models than any one controversy or regulation might have separately. Companies that amass controversies in this area and others (e.g., corporate taxation) may be offering investors a signal regarding the quality of their internal risk management and may be painting a target on their own backs.
- **Countries of operation:** As noted above, certain countries are more likely to weaponize user data or take extreme actions against companies that don't cooperate. This can create both risk and opportunity for companies. In an example of a realized risk, the founder of Russian social media site VK was pushed out for not sharing data on Ukrainian citizens with the Russian government. Regarding opportunities, a country's poor human rights record can, perversely, create positive outcomes for local players, as global companies with high privacy standards may become uncomfortable offering services in those countries. One source of good, country-level information is Freedom House's "[Freedom on the Net](#)"²² ranking, which offers a detailed analysis of the state of Internet privacy in most countries around the world.
- **Business lines:** Different technologies and platforms have different societal impacts. For example, social media data may create a greater risk of human rights (and hence ethical) violations

than search data. At a more macro level, certain technologies (e.g., automation, AI) could further exacerbate income and wealth inequality in developed markets, which could lead to future societal or regulatory backlash.

Next Steps

The Internet and technology companies impacted by these ethical issues are unique assets, so we can't avoid these names. Instead, we should discuss and improve upon the framework above, adding information resources (such as Ranking Digital Rights) and management or board questions that will help us consistently assess the issues. We should also seek to engage with independent directors of tech companies where we have substantial ownership.

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Endnotes:

- ¹ <https://www.technologyreview.com/lists/technologies/2017/>
- ² <https://www.technologyreview.com/lists/technologies/2018/>
- ³ <https://www.theguardian.com/technology/2017/may/01/facebook-advertising-data-insecure-teens>
- ⁴ <https://www.nytimes.com/2017/12/20/business/facebook-job-ads.html>
- ⁵ https://publications.parliament.uk/pa/ld201719/ldselect/ldai/100/10007.htm#_idTextAnchor043
- ⁶ <https://www.npr.org/2018/06/26/623545591/orlando-police-end-test-of-amazons-real-time-facial-rekognition-system>
- ⁷ <https://freedomhouse.org/report/freedom-net/2017/russia#a3-violations>
- ⁸ <https://freedomhouse.org/report/freedom-net/2017/china#a3-violations>
- ⁹ <https://www.theatlantic.com/international/archive/2018/02/china-surveillance/552203/>
- ¹⁰ <https://www.wired.com/story/splinternet-global-court-rulings-google-facebook/>
- ¹¹ <http://www.pnas.org/content/111/24/8788>
- ¹² <http://money.cnn.com/2017/12/21/technology/apple-slows-down-old-iphones/index.html>
- ¹³ <http://www.bbc.com/future/story/20160612-heres-the-truth-about-the-planned-obsolence-of-tech>
- ¹⁴ <https://www.ellenmacarthurfoundation.org/circular-economy>
- ¹⁵ <https://www.bloomberg.com/news/articles/2018-01-12/facebook-ceo-unveils-news-feed-changes-says-engagement-may-fall>
- ¹⁶ <https://arstechnica.com/gadgets/2018/05/google-employees-resign-in-protest-of-google-pentagon-drone-program/>
- ¹⁷ <https://www.reuters.com/article/us-tencent-games-idUSKBN19O0K0>
- ¹⁸ <https://www.theguardian.com/business/2018/jul/18/google-faces-record-multibillion-fine-from-eu-over-android>
- ¹⁹ <https://www.zdnet.com/article/google-employee-protests-now-google-backs-off-pentagon-drone-ai-project/>
- ²⁰ <https://www.microsoft.com/en-us/about/corporate-responsibility/lerr/>
- ²¹ <https://rankingdigitalrights.org/index2018/>
- ²² <https://freedomhouse.org/report/freedom-net/freedom-net-2017>

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