

Facebook investor campaigners hope ad boycott spurs change

July 15, 2020 – 1:17 p.m. By Laura Weiss, CQ

The advertiser boycott of Facebook Inc. that began this month exemplifies risks related to content governance the company faces and the need for corporate governance change, say groups involved in shareholder campaigns for more stringent content oversight practices at Facebook.

An impact investing firm and shareholder campaign organization that have pressed Facebook to report on content governance and to add a civil or human rights expert to the board are hoping the lost ad sales compel Facebook to make changes. Still, an academic who studies environmental, social and governance (ESG) matters said the boycott is not currently significant enough to spur change from Facebook.

“This is exactly the kind of hit to the top line that we’ve been talking about since 2016,” said [Natasha Lamb](#), director of equity research and shareholder engagement at [Arjuna Capital](#), in an interview. “It’s to the point now that Facebook should be paying attention, but it still seems that they’re not listening.”

Civil rights groups and nonprofits said in June they were launching the boycott, urging businesses to pause their Facebook and Instagram ads during July to compel Facebook to address hate and violent content on its sites. Hundreds of businesses signed on from various industries, including large corporations such as Boeing Co., Verizon Communications Inc., Ford Motor Co., Pfizer Inc., The J.M. Smucker Co., Unilever NV and Walgreens Boots Alliance Inc.

Boycott leaders — which include the NAACP, Anti-Defamation League and Color of Change — are asking Facebook to create permanent civil rights infrastructure including a C-suite level executive role. They're also asking it to establish regular third-party independent audits of identity-based hate and misinformation on its platforms, refund advertisers if audits find their ads ran next to content removed for violating terms of service, and stop exempting politicians from rules preventing false or violent information. They say Facebook needs to remove hate, white supremacy, violence and misinformation and prevent radicalization.

NAACP President Derrick Johnson said the ad boycott could continue beyond July, ABC News reported.

There may be pressure for companies to continue the boycott as well. The Open Media and Information Companies Initiative (Open MIC) is working with investors reaching out to Facebook advertisers and large publicly held ad companies to ask questions, voice concern about Facebook’s practices and seek more information about their plans as advertisers, Executive Director Michael Connor said in an interview.

The organization, which works with investors to push for transparency and accountability for tech companies through shareholder efforts, supports the ad boycott.

The boycott impacts Facebook's main revenue source. The company reported almost \$69.7 billion in advertising revenue in 2019, representing about 99 percent of its total revenue. Facebook's stock price has climbed 13 percent in 2020.

Menlo Park, Calif.-based Facebook recently found faults in its handling of hate speech and misinformation through its own audit. The company released the civil rights audit results on July 8, saying it needs more internal civil rights expertise, improved policies to prevent the spread of hate on its sites, better application of its voter suppression policy, a more diverse and inclusive culture, and fact-checking of politicians.

Facebook did not immediately respond to a request for comment directed to spokesperson Ruchika Budhraj.

As advertisers boycott, Facebook users and employees have also raised concerns and taken action, including a worker walkout.

Risks ahead

Shareholders who consider environmental, social and governance (ESG) matters say these events display the reputational and financial risks they'd warned of related to content governance, and that regulatory and policy risks lay ahead, including the possibility that the government forces Facebook to break up.

Impact investing firm Arjuna filed a proposal for Facebook's 2017 shareholder meeting asking the company to report on fake news on its site, which became a broader request for content governance transparency. Facebook published a report, though Lamb said the transparency failed to compel increased content governance action from the company as investors had hoped.

Arjuna sought the addition of a human or civil rights expert to the board at the 2020 shareholder meeting in a request organized with Open MIC that was backed by Color of Change. It ran alongside another shareholder proposal from the Nathan Cummings Foundation asking the board to report on civil and human rights risks.

Again, the measures failed. Founder, CEO and Chairman Mark Zuckerberg controls Facebook thanks to a dual-class stock structure.

Lamb said she wants to see Facebook address political ads, conduct fact-checking of posts, appoint a board-level human or civil rights expert, add a C-suite executive with civil rights expertise and separate the CEO and board chair roles. She emphasized that Facebook's main problem is its governance structure and Zuckerberg's control.

"You need a greater diversity of views coming to the table and contributing to sound decision making," Lamb said. "That is the crux of Facebook's problem. It's run by one guy, and he's not listening to his investors, to his employees, or to his advertisers, and that's a huge issue."

Connor described governance as Facebook's core problem as well. He said separation of the CEO and board chair role and more checks on Zuckerberg's control would lead to other improvements.

Lamb hopes the company will pay attention to the ad revenue it's losing and make changes. While Facebook has been a good investment so far, Lamb said, Arjuna wants the company to do better and could eventually divest if it fails to improve policies and sustain results.

"Facebook has the potential to be a successful blue-chip company that is resilient over the long term," she said. "What they've failed to recognize is the fallibility of tech empires that have risen and fallen."

While Connor noted that some shareholders Open MIC works with might disagree on the organization's support of the ad boycott, he believes it could be a positive for the company and a mechanism to alert management of problems. Shareholder proposals were the "canary in the coal mine" attempting to raise content management concerns to leaders for four years, he said.

"If it brings them to their senses, it is long-term a good thing — if it makes them realize what's at stake here," Connor said.

An expert said that the effort so far is unlikely to spur that sort of change.

Witold Henisz, a management professor at the University of Pennsylvania's Wharton School who studies ESG, said in an interview that while it would represent a powerful business case for change if advertisers are no longer willing to be affiliated with Facebook, he suspects the move is more likely corporate posturing.

He noted that Facebook's biggest advertisers aren't signed onto the boycott and that the effort comes amid the COVID-19 pandemic, when many companies are likely cutting ad spending anyway. Whether the boycott represents material harm to Facebook and presents an ESG case for change depends on whether the effort extends beyond July and if larger ad buyers join in, Henisz said.

"Unless this goes on for months and it spreads like wildfire, I don't think it will change Facebook's behavior," Henisz said.

He said the Facebook ad boycott shows the limits of ESG because the strategy for Facebook to maximize profits causes social harm.

"There are cases where there isn't a private market solution, and unfortunately, I think this is one of them," Henisz said.

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