

Sustainability Investment News
April 06, 2010

Shareowners Push Internet Companies to Protect Online Privacy by Robert Kropp

Resolution submitted by As You Sow requests from Google a policy on behavioral advertising based on tracking of online searches by consumers. First of a two-part series.

SocialFunds.com -- Last year's proxy season saw shareowner proposals filed with 10 US-based Internet Service Providers (ISPs) by a coalition of investors led by the Open Media and Information Companies Initiative (Open MIC), requesting that they report on the impact of network management practices. While some of the resolutions were disallowed by the Securities and Exchange Commission (SEC) on the grounds of ordinary business, others made it onto proxy ballots and received significant shareowner support. Those proposals have been re-submitted this year by Open MIC.

An additional online privacy concern is addressed this year by a shareowner proposal submitted by As You Sow and Northwest & Ethical Investments, requesting that Google "adopt...a set of principles for online advertising that goes beyond current Company statements and addresses the collection of sensitive information about health, finances, ethnicity, race, sexual orientation, and political activity for the purposes of behavioral advertising."

According to a recent report entitled America ns Reject Tailored Advertising, "Behavioral targeting involves two types of activities: following users' actions and then tailoring advertisements for the users based on those actions." The report found that two-thirds of adult Americans do not want marketers to tailor advertisements to their interests.

In its statement recommending that shareowners vote against the proposal, Google acknowledged that "the practice of behavioral advertising raises important privacy issues." However, the statement continued, "The board of directors opposes this proposal because the board believes that Google has already implemented industry-leading privacy controls in our interest-based advertising (IBA) product."

Google further stated that it "does not allow advertisers to present ads based on sensitive categories such as race, ethnicity, sexual orientation, religious affiliation, political affiliation, health status, or financial situation."

SocialFunds.com spoke with Conrad MacKerron, the Director of the Corporate Social Responsibility Program at As You Sow, about the proposal and Google's response thus far.

MacKerron said, "The proposal to Google grows from ongoing work with colleagues at Trillium Asset Management and Open MIC to press media and information technology companies to address a full range of issues related to the Internet."

"Americans don't want the tracking if they are given a choice," MacKerron said. "We don't have control over the information that's collected, we don't know what they're doing with it or who they're giving it to, and what kinds of privacy controls are in place. That's really the issue."

"What we ended up focusing on with the proposal is the extent to which sensitive issues could pose a threat to the privacy of users," MacKerron continued. "Google is saying in its response to our proposal that it is not targeting these sensitive areas. But unless it's willing to be more transparent, consumers and investors have legitimate issues to raise."

The risks to investors who hold ownership shares in search engine companies such as Google and Yahoo include reputational risk, should the information gathered by them be used by their partners in ways that intrude upon the sensitive areas described above. Furthermore, the potential for legislative and regulatory action on the practice of behavioral tracking amounts to a risk to the business operations of the companies as well.

In fact, in a Legislative Primer published in September by a coalition of ten consumer privacy groups, the authors "recommend that Congress enact clear legislation to protect consumers' privacy online that implements Fair Information Practices." Such legislation should prevent the collection of sensitive personal information, as well as behavioral data collected or used from children and adolescents under 18.

"As we pointed out in our proposal, Google already acknowledges the reputation and operational risks of the practice in its IOK," MacKerron said. "I like the first sentence of Google's response. I think Google realizes there's enough concern."

In its Privacy Policy, Google acknowledges that it processes personal information for the purposes of displaying customized content and advertising. The company also stated in its opposition to the shareowner proposal that its Ads Preference Manager allows users to "view the interest categories associated with their browser and opt out of such categories completely or modify or delete the specific interest categories as they choose."

While Google opposes the shareowner proposal on behavioral tracking, the company did not challenge the resolution at the SEC. On the other hand, the company has not yet responded to efforts by the shareowners to engage in dialogue, so the proposal thus

far remains on the proxy ballot, and will be voted on at the company's Annual Meeting on May 13.

In contrast, Yahoo, faced with the same shareowner proposal, has chosen to engage with As You Sow and Northwest & Ethical Investments, leading to the withdrawal of the proposal. Discussions between Yahoo and the shareowners are in their early stages.

Asked about what steps he would like to see Google take to ensure the online privacy of its users, MacKerron said, "The best outcome would be more clarity about what Google does with the data. Give us more security about the controls that are in place."

"We're in such new territory, with Google becoming an advertising power," he continued. "Google can be more open. It wouldn't be hard, and it would put a lot of these worries to rest."