

Business Management Internal Assessment

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Task 1: Question 1 (15 marks)

How did the Facebook – Cambridge Analytica data scandal affect Facebook across its Business Functions?

Key Concept: Ethics

Word Count: 1549

The Facebook – Cambridge Analytica data scandal was a major breach of privacy and data security that occurred in 2018. It involved the unauthorized access and use of personal data from millions of Facebook users by the company Cambridge Analytica, which was a political consulting firm. The scandal had a significant impact on Facebook's business functions, particularly in the areas of ethics, data protection, and user trust.

Facebook's Business Functions

Word Count: 1518

How did the Facebook – Cambridge Analytica data scandal affect Facebook across its Business Functions

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INTRODUCTION:

Facebook is an online social media and social networking company that is currently based in California and was founded by Mark Zuckerberg. Facebook went officially public in 2006 and has been gaining popularity, reaching a market cap of almost \$610 billion (610.510.000.000) US dollars as of 2020.¹ One scandal that Facebook faced recently is the Cambridge Analytica Data scandal that was revealed on early 2018. Cambridge Analytica, a British political consulting firm draw data from Facebook users without their consent using it for political advertising purposes.² The effects of this international data scandal to Facebooks Business Functions; Finance and Accounts, Operations Management, Marketing Management and Human Resource Management, are going to be examined in this Internal Assessment.

The key concept of ethics will be critically examined. Ethics is concerned with the moral principles that govern behaviour or the conducting of an activity.

¹ "Facebook Market Cap | FB". Ycl1arts.Com, 2020, https://ychmts.com/companies/FB/market_cap. Accessed 18 Feb 2020.

² Gīanville, Kevin. "Facebook And Cambridge Analytica: What You Need To Know As FalJ out Widens". Nytimes.Com, 2018, <https://www.nytimes.com/2018/03/19/technology/facebook-camb1idge-analytica-explained.html>. Accessed 18 Feb 2020.

FINANCE AND ACCOUNTS:

The ethical scandal resulted in Facebook facing its biggest drop in stock in its history. This drop occurred on July 26th of 2018, the day after hitting its peak of \$217.50.³ This drop represented nearly 19% drop in stock.⁴

Facebook's stock is prevalent in the following graph (1. 1) which displays FB's stock on the Y axis, and time in months on the X axis.⁵



Graph 1. Facebook stock

We can observe the July drop in stock starting from the indicated red point on the graph. We can also deduce that Facebook took almost year to fully recover from this drop in stock.

³ SD 5: "FB". Nasdaq.Com, 2020, <https://www.nasdaq.com/market-activity/stocks/fb>. Accessed 18 Feb 2020.

⁴ SD 1: Rodriguez, Salvador. "Here Are The Scandals And Other Incidents That Have

Sent Facebook's Share Price Tanking In 2018". *CNBC*, 2018, <https://www.cnbc.com/2018/11/20/facebooks-scandals-in-2018-effect-on-stock.html>. Accessed 18 Feb 2020.

⁵ SD 5: "FB". Nasdaq.Com, 2020, <https://www.nasdaq.com/market-activity/stocks/fb>. Accessed 18 Feb 2020.

⁶ SD 5: "FB". Nasdaq.Corn, 2020, <https://www.nasdaq.com/market-activity/stocks/fb>. Accessed 18 Feb 2020.

Furthermore, we can see another effect of said ethical scandal by observing the Income statement of 2018 in comparison to 2019, focusing on the Net income change after the year of the scandal was revealed (2018).

PERIOD ENDING:	12/31/2019	H/31/2018
Operating Income	\$23,986,000	\$24,913,000
Add In income/expense items	\$0	\$0
Earnings Before Interest and Tax	\$24,812,000	\$25,361,000
Interest Expense	\$0	\$0
Earnings Before Tax	\$24,812,000	\$25,361,000
Income Tax	\$6,327,000	\$3,249,000
Minority Interest	\$0	\$0
Equity Earnings/Loss Unconsolidated Subsidiary	\$0	\$0
Net Income-Cont. Operations	\$18,485,000	\$22,112,000
Net Income	\$18,485,000	\$22,112,000
Net Income Applicable to Common Shareholders	\$18,485,000	\$22,111,000

Table 1.1: Facebook Income Statement⁷

⁷ SD 5: "FB". Nasdaq.Corn, 2020, <https://www.nasdaq.com/market-activity/stocks/fb>. Accessed 18 Feb 2020.

By the value of the net income, which is highlighted with a red box, we can see how the net income of Facebook declined by 3.6 million dollars. As we can see from the calculations, this change constitutes a 16.4% drop, something that further supports the negative effect of the data scandal to the Finance and Accounts function of Facebook

$$\text{Percent change net income} = \frac{\$22,112,000 - 18,485,000}{\$22,112,000} \times 100 = 16.4\%$$

PERIOD ENDING:	12 / 31 / 2019	12 / 31 / 2018
Total Revenue	\$70,697,000	\$55,838,000
Cost of Revenue	\$12,710,000	\$9,355,000
Gross Profit	\$57,927,000	\$46,483,000

Table 1.2: Facebook Income Statement ⁸

Also, using the Total revenue from the Income Statement, we could calculate the Net Profit Margin (NPM) of Facebook for these years with the following formula:

$$\text{NPM} = \frac{\text{Net Income}}{\text{Total Revenue}} \times 100$$

SD 5: "FB". Nasdaq.Corn, 2020, <https://www.nasdaq.com/market-activity/stocks/fb>. Accessed 18 Feb 2020.

$$\text{NPM}_{2018} = \frac{\$22,112,000}{\$55,535,000} \times 100 = 39.6\% \text{ } 40\%$$

$$\text{NPM}_{2019} = \frac{\$18,485,000}{\$70,697,000} \times 100 = 26.1\% \text{ } 26\%$$

Comparing the two values we observe that NPM was much less in 2019, indicating the effects of the scandal in Facebook's Finance and Accounts.

Moreover, Facebook was charged a \$643,000 fine that Facebook agreed to pay the U.K.'s Information Commissioner's Office (ICO) the Cambridge Analytica scandal.⁹ After investigation from the ICO Facebook was deemed to have insufficient data protection laws thus failing to provide security to the user's personal information. The fine was imposed in accordance with the Data Protection Act 1998, which limited the maximum possible penalty that could be levied.¹⁰ Had the scandal happened later in 2018 with the new laws in the UK regarding data protection Facebook could have suffered a fine of up to \$7 million for the same offence.¹¹ Taken into account Facebook's stock, this fine has relatively minor effects to the business itself, especially in comparison to the stock drop that followed the ethical scandal.

⁹ SD 3: Zialcita, Paolo. "NPR Choice Page". Npr.Org, 2019, <https://www.npr.org/2019/10/30/774749376/facebook-pays-643-000-fine-for-role-in-cambridge-analytica-scandal?t=1582010488344>. Accessed 18 Feb 2020.

¹⁰ SD 3: Zialcita, Paolo. "NPR Choice Page". Npr.Org, 2019, <https://www.npr.org/2019/10/30/774749376/facebook-pays-643-000-fine-for-role-in-cambridge-analytica-scandal?t=1582010488344>. Accessed 18 Feb 2020.

¹¹ SD 3: Zialcita, Paolo. "NPR Choice Page". Npr.Org, 2019, <https://www.npr.org/2019/10/30/774749376/facebook-pays-643-000-fine-for-role-in-cambridge-analytica-scandal?t=1582010488344>. Accessed 18 Feb 2020.

OPERATIONS MANAGEMENT:

The ethical scandal also affected the Operations Management of Facebook. Weeks after the scandal took place, Facebook undertook the most dramatic makeover in its 15-year history. CEO Mark Zuckerberg has reorganized Facebook's product and engineering organizations into three main divisions.¹² These divisions include a new "Family of apps" group run by Chief Product Officer Chris Cox, the executive previously in charge of the core Facebook app. Cox will now oversee Facebook, Instagram, WhatsApp and Messenger. Apart from this change, Facebook also developed a team that focuses on blockchain technology. The new team will fall under one of the other three divisions, referred to as "New platforms and infra," which will be managed by CTO Mike Schroepfer. Facebook's Augment Reality (AR), Virtual Reality (VR) and Artificial

Intelligence (AI) projects will also live under Schroepfer's division.¹³ In this way Facebook tried to prevent such a scandal from reoccurring in the future, as these changes are thought to have improved executive communication and ensure user privacy.

MARKETING MANAGEMENT:

Since the Cambridge Analytica scandal involved the exploitation of user data in order to provide targeted political advertising, a Business Function of Facebook that needs to be investigated is the Marketing Management Department, especially Advertising. According to Entrepreneur Europe, one year later, Facebook has made three key changes to its Advertising.

¹² SD 2: Wagner, Kurt. "Facebook Is Making Its Biggest Executive Shuffle In Company History". Vox, 2018, [https://www.vox.com/2018/5/8/17330226/facebook-reorg-mark-](https://www.vox.com/2018/5/8/17330226/facebook-reorg-mark-zuckerberg-whatsapp-messenger-ceo-blockchain)

¹³ [zuckerberg-whatsapp-messenger-ceo-blockchain](https://www.vox.com/2018/5/8/17330226/facebook-reorg-mark-zuckerberg-whatsapp-messenger-ceo-blockchain). Accessed 18 Feb 2020.

SD 2: Wagner, Kurt. "Facebook Is Making Its Biggest Executive Shuffle In Company History". Vox, 2018, [https://www.vox.com/2018/5/8/17330226/facebook-reorg-mark-Zuckerberg-WhatsApp-messenger-CEO blockchain](https://www.vox.com/2018/5/8/17330226/facebook-reorg-mark-zuckerberg-whatsapp-messenger-ceo-blockchain). Accessed 18 Feb 2020.

The first main change is Facebook removing hundreds of targeting options in order to "protect user's privacy".¹⁴ This is said to be a change with motive to retain their customer base since this action will alter Facebook advertising algorithm but is "guaranteed" to provide users with more privacy. Despite the fact that Facebook's ad business reputation has been damaged in the short term, in order for the company to survive and flourish, it had to eliminate these options. Moreover, Facebook is working on changing the way advertising works on their platform by providing advertisers with the possibility of determining what content is allowed to display in their ads. This move has been characterized as a brand "safety tool".¹⁵ As long-term changes are concerned, advertising clearly seems to be moving to targeting general behaviors rather than specific users. Behaviors allow marketers to target a much larger population of potential customers at a much better price per ad view. The market will shift more toward this direction, but users' will be more protected and secured.

From a different perspective, Pulse Marketing Agency supports that advertising on Facebook has not yet directly changed and is not predicted to change heavily on the upcoming years.¹⁶ Only third parties attempting to integrate with Facebook through their API may be affected due to potential changes of the API (the way apps can programmatically query data, post stories, manage ads, upload photos, and perform various tasks in the Facebook platform). Something that is possible of changing in the short run is the outlook of Facebook users from now on.

That said, as far as third-party advertisers using Facebook as means of Social Media Marketing, its domination seems to remain unchanged. Facebook still continues to be the leader in Social

¹⁴ SD 4: Baldassane, Rocco. "Will Facebook Advertising Survive After The Cambridge Analytica Scandal?". Entrepreneur, 2018 <https://www.entrepreneur.com/article/320083>. Accessed 18 Feb 2020.

¹⁵ SD 4: Baldassarre, Rocco. "Will Facebook Advertising Survive After The Cambridge Analytica Scandal?". Entrepreneur, 2018, <https://www.entrepreneur.com/article/320083>. Accessed 18 Feb 2020.

¹⁶ Miranda, Ciatia. "Facebook Advertising Outlook Following The Cambridge Analytica Scandal | Pulse Blog". Pulse Marketing Agency, <https://pulsemarketingagency.com/cambridge-analytica-scandal-blog/>. Accessed 18 Feb 2020.

Media Advertising with 2.5 billion active monthly users.¹⁷ Irrespective of the changes in targeting options, advertisers find other means of targeting in the form of stories and Carousels.¹⁸

HUMAN RESOURCES MANAGEMENT:

Following the Data Scandal, Facebook has suffered a mass executive exodus, thus affecting its

Human Resource Department. One of the fast to spark this exodus was the departure of Jan Koum, the co-founder of WhatsApp.¹⁹ On a similar note, Instagram Co-Founders Kevin Systrom and Mike Krieger asserted their resignations from Facebook on September 24.²⁰ This

exodus could possibly be explained Daniel Pink's motivation theory. Pink contends that results from scientific studies on employee motivation and rewards suggest that for most fields of employment, basic financial and reward systems do not fully work. In fact, they may lead to worst performance in the work field. According to Pink, basic financial and reward systems may maintain motivation for the employees in simple straightforward tasks and can be considered as "external" methods of motivation. For more complicated tasks Pink conclude that there are three main pillars that affect employee motivation, Autonomy, Mastery and Purpose. The Cambridge Analytica scandal could have affected the "purpose". Pink describes purpose as the desire of employees to work in service of something larger than themselves.

¹⁷ SWAN, GREG. "Social Media Marketing For Brands: Best Platforms & Strategies". Tinuiti.Com, 2020, <https://tinuiti.com/blog/paid-social/social-media-marketing-guide/>. Accessed 18 Feb 2020.

¹⁸ SWAN, GREG. "Social Media Marketing For Brands: Best Platforms & Strategies". Tinuiti.Com, 2020, <https://tinuiti.com/blog/paid-social/social-media-marketing-guide/>. Accessed 18 Feb 2020.

¹⁹ SD 1: Rodriguez, Salvador. "Here Are The Scandals And Other Incidents That Have Sent Facebook's Share Price Tanking In 2018". CNBC, 2018, <https://www.cnbc.com/2018/11/20/facebooks-scandals-in-2018-effect-on-stock.html>. Accessed 18 Feb 2020.

²⁰ SD 1: Rodriguez, Salvador. "Here Are The Scandals And Other Incidents That Have Sent Facebook's Share Price Tanking In 2018". CNBC, 2018, <https://www.cnbc.com/2018/11/20/facebooks-scandals-in-2018-effect-on-stock.html>. Accessed 18 Feb 2020.

Pink argues that people intrinsically want to do things have a positive social impact.²¹ The scandal uncovered to the employees that Facebook is not purely working for the social cause of connecting the world but was included in such a scandal. This could result in such an exodus.

Ethical behaviour was clearly in doubt here. The question that Facebook needs to really answer is did they do anything that was morally wrong. The follow up may well be whether it actually mattered—both from that moral perspective but also in terms of the position of the business.

CONCLUSION :

Having examined the Cambridge Analytica scandal and in pursuit to answer the question: "How did the Facebook - Cambridge Analytica data scandal affect Facebook across its Business Functions" we conclude that all Facebooks Business Functions were affected to some extent. As far as the Finance and Accounts are concerned, a drop in stock, a drop in Net Income, and NPM while suffering from a \$643,000 fine seemed to be the consequences of such a scandal. Regarding the Operations Management, the most drastic executive shuffle occurred following the data scandal. As for the Marketing Management function, there were two main opinions concerning how much it was affected. One view supported that some important changes were made and are expected, whereas the other point of view stated that no fundamental changes have taken place and are not expected to do so. Finally, in the HR department, after observing an executive exodus, we used Daniel Pink's Motivation theory in order to provide a possible explanation. Concluding, we observed all functions were affected in some degree, and a change in HR, more specifically an executive exodus, was also accompanied by an executive scuffle in the Operations Management. This indicates that the functions are interdependent and interact as Facebook creates a strategy for survival.

²¹ Riley, Jim. "Motivation - Pink (Three Elements Of Intrinsic Motivation) | Business | Tutor2u". Tutor2u, <https://www.tutor2u.net/business/reference/motivation-pink-three-elements-of-intrinsic-motivation>. Accessed 18 Feb 2020.

Ethical issues sit on top of the functional issues affecting the business. Facebook will need to assess whether the behaviour underpinning the scandal will have long term impact on the business operations moving forward.

The functional areas can recover in the short to medium term. Have they caused themselves longer term damage in their reputation?

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TECH

Here are the scandals and other incidents that have sent Facebook's share price tanking in 2018

PUBLISHED TUE, NOV 20 2018 • 4:31 PM EST UP DATED TUE, NOV 20 2018 • 10:22 PM EST

Salvador Rodriguez
@SAL19
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KEY POINTS

Facebook shares ended Tuesday at \$132.43, down nearly 40 percent from its peak in July.

The company's share price finished at \$131.55 on Monday, its lowest closing price in nearly 22 months.

Facebook's struggles come after a turbulent year that's been filled with scandals.



Facebook CEO Mark Zuckerberg

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Facebook shares finished Tuesday at \$132.43, up slightly from \$131.55 on Monday, the company's lowest closing share price in nearly 22 months.

The decline comes after yet another major scandal for Facebook in what has been a tumultuous year for the company. After peaking in July, shares of the tech company are down almost 40 percent.



News Feed changes

Facebook's first big share price fall came in January when the company announced major changes to news feed, one of its top products. Those changes included prioritizing content from users' friends and family over content from brands they follow.

CEO Mark Zuckerberg said he expected that the time users spend on Facebook and their engagement with the service would decline as a result. Those warnings sent Wall Street into a panic, with the company's share price closing down more than 4 percent on Jan. 12. The drop slashed Facebook's market value by \$24.5 billion, which is more than the total value of Twitter.

<https://www.enbe.com/2018/11/20/facebook-scandals-in-2018-effect-on->



How did the Facebook – Cambridge Analytica data scandal affect Facebook across its Business Functions Guardian reported how Cambridge Analytica, a British political consulting firm, had exploited Facebook to collect the data of more than 50 million users without their permission. Cambridge Analytica was then used by the Trump campaign in 2016 to target voters.

Facebook tried to get ahead of the reports by suspending the consulting firm on March 16, but the reports' still had impact. The company's share price closed down nearly 7 percent on March 19, the next day of trading, and Facebook's market value fell by more than \$36 billion, nearly twice the total market cap Snap held at that time.

Zuckerberg accepts Washington's invitation

Facebook shares fell almost 5 percent on March 27 when parts broke that Zuckerberg had decided to testify before Congress. The decision came as pressure mounted on Facebook, following the Cambridge Analytica scandal. Just one day prior, the Federal Trade Commission announced that it would investigate Facebook's data practices.

The day cost Facebook's market cap nearly \$23 billion. That's almost three times how much Macy's was valued at the time.

Facebook reveals its community standards

Facebook's share price fell by almost 4 percent on April 24 after the company published its rules that outline what content that is not allowed on its social network.

The Community Standards were published as Facebook continued to clean up its services of harmful content, such as misinformation, hate speech and spam. The document was released one day before Facebook's first earnings report since the Cambridge Analytica scandal.

Facebook saw its market value sink nearly \$18 billion that day, which is a little more than the total value of Dish Network at the time.

<https://www.enbe.com/2018/11/20/facebooks-scandals-in-2018-effect-on->



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Executive exodus

Facebook has seen a flurry of top executives leave the company throughout 2018. It's tough to quantify the effect that these departures have had on the company's share price, but one in particular had an impact.

The first was the departure of Jan Koun, the co-founder of WhatsApp. The company's stock price fell by almost 1 percent on April 30 after Koun announced his exit. Koun was one of Facebook's top shareholders after selling WhatsApp to the social network in 2014 for \$19 billion.

Facebook's market cap floundered by almost \$5 billion that day, the equivalent of Foot Locker's total value at the time.

A tough quarter following GDPR

Facebook's biggest drop of the year came on July 26, one day after hitting its peak of \$217.50. The nearly 2.1 percent plunge followed Facebook released its second-quarter results on July 25, missing analysts' estimates on key metrics such as revenue and advertising projections.

Those misses were exacerbated on the company's earnings call, where executives warned that its revenue growth rates would be lower than a year prior. The company also reported ominous figures for its most important markets.

Facebook's daily user base remained flat in the U.S. and Canada and it declined by 3 million daily users in Europe following the introduction of the General Data Protection Regulation (GDPR), Europe's strict, new data privacy law.

The company's value fell by nearly \$120 billion following the results, slightly less than Nike's total market cap at the time.

Sheryl Sandberg's Senate hearing

Facebook's share price dove again the week that COO Sheryl Sandberg testified before the Senate Intelligence Committee. Sandberg was there to discuss how Facebook had dealt with Russian meddling and what the company was doing to prevent more misuse of its services.

<https://www.enbe.com/2018/11/20/facebooks-scandals-in-2018-effect-on->



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by promising to follow up on their questions. In particular, [Sandberg's exchange with Sen. Kamala Harris](#) stood out as the senator questioned Sandberg on how Facebook may have financially benefited from Russian trolls using the social network.

Altogether, Facebook's share price fell nearly 8 percent from its close on Aug. 31, the trading day before Sandberg released [her opening statements](#), until Sept. 6, the day after the hearing. The company's market value fell by \$38 billion, a little less than the total market cap Delta Airlines' had at that time.

Instagram loses its founders

In a similar episode to Koum's April exit, Instagram Co-founders Kevin Systrom and Mike Krieger suddenly [announced their resignations](#) from Facebook on Sept. 24. The pair had remained at Instagram, which is now [the most popular social network among teens](#), since Facebook acquired the company in 2012.

The following day, the company's share price fell by 0.3 percent.

The security breach

Facebook on Sept. 28 disclosed it had suffered [a security breach](#) that may have impacted as many as 50 million users. Its share price closed down almost 3 percent that day.

A few weeks later, the company clarified that only [30 million users had been affected](#), but among them, 14 million had their names, contact information, gender, relationship status and other sensitive information exposed.

Facebook's value dropped by almost \$16 billion that day, which is almost twice the market cap of Alaska Airlines.

The PR firm crisis

The share price's current slide has been going on since a Nov. 14 [New York Times report](#) that detailed Facebook's efforts to control public dialogue around the numerous problems on its social network, including its failure to prevent Russian meddling in the 2016 U. S. election.

Notably, the report detailed Facebook's relationship with Definers Public Affairs, a Washington-based opposition research firm. The company used Definers Public Affairs to write articles criticizing the business practices of rivals Google and Apple and downplay

<https://www.enbe.com/2018/11/20/facebook-scandals-in-2018-effect-on->



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financier George Soros was the person funding an anti-Facebook group

Since the report, Facebook has cut ties with the agency and CEO Mark Zuckerberg made himself available to the press to answer questions, but Facebook's share price keeps on tumbling.

The company's share price slid nearly 9 percent from its close on Nov. 14 to its close on Monday. That drop resulted in Facebook's market cap falling more than \$36 billion, slightly less than the total value of Ford.

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Supporting Document 2:

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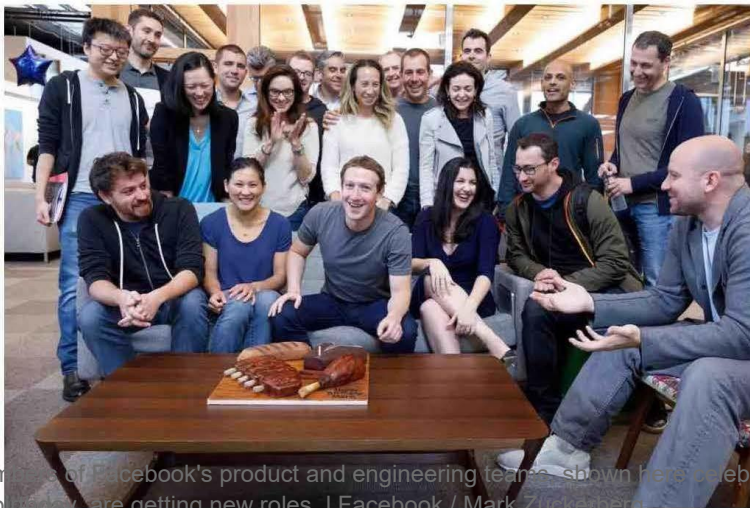
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recode

Facebook is making its biggest executive shuffle in company history

WhatsApp, Messenger and Facebook's core app are getting new leaders as part of a massive executive reorg.

By Kurt Wagner | May 8, 2018, 3:50pm EDT



Many key members of Facebook's product and engineering teams, shown here celebrating Zuckerberg's birthday, are getting new roles. | Facebook / Mark Zuckerberg

Facebook instituted its biggest executive shakeup in its 15-year history this week, appointing new leaders for WhatsApp, Messenger and Facebook's core app while giving other longtime Facebook executives new responsibilities, including a new effort to tackle blockchain technology.

The moves, which were announced internally to employees today, are meant to improve executive communication and user privacy, but the changes also come as Facebook contends with the backlash from the U.S. presidential election, revelations of manipulation by the Russian government and the recent Cambridge Analytica scandal.

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Chris Cox is becoming Facebook's most important executive not named Mark Zuckerberg

Facebook is launching a new team dedicated to the blockchain. Messenger's David Marcus is going to run it.

WhatsApp has a new boss: Chris Daniels, the guy who's been running Facebook's Internet.org

CEO Mark Zuckerberg has reorganized the social giant's product and engineering organizations into three main divisions including a new "Family of apps" group run by Chief Product Officer Chris Cox, the executive previously in charge of the core Facebook app. Cox will now oversee Facebook, Instagram, WhatsApp and Messenger, according to multiple sources, four social apps with a combined reach of more than five billion monthly users.

Facebook is also building a new team dedicated to blockchain technology. David Marcus, the executive in charge of Facebook's standalone messaging app, Messenger, is leaving that post to run the blockchain group, these sources said. That new team will fall under one of the other three divisions, referred to as "New platforms and infra" which will be managed by CTO Mike Schroepfer. Facebook's AR, VR and artificial intelligence efforts will also live under Schroepfer's division.

Longtime Facebook exec Javier Oliván, the company's VP of growth, will oversee the third division, called "Central product services," which includes all of the shared features that operate across multiple products or apps such as ads, security and growth.

Surprisingly, no one appears to be leaving Facebook. Just a lot of old faces in new places.

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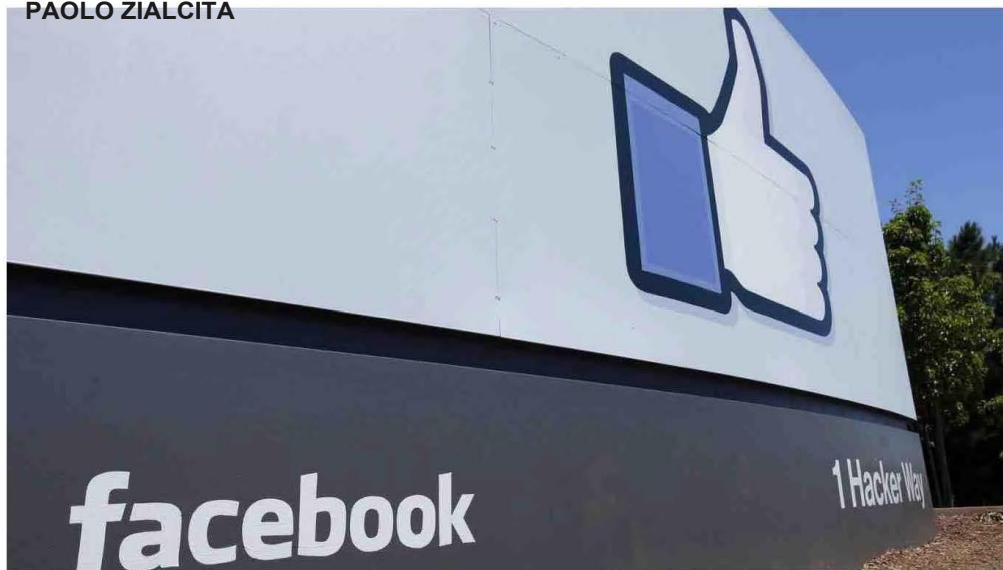


TECHNOLOGY

Facebook Pays \$643,000 Fine For Role In Cambridge Analytica Scandal

October 30, 2019 · 1:16 PM ET

PAOLO ZIALCITA



Facebook has agreed to pay about \$643,000 to a U.K. data protection watchdog for its role in the Cambridge Analytica scandal.

Ben t fargot/AP

Facebook has agreed to pay a £500,000 (about \$643,000) fine to the U.K.'s Information Commissioner's Office for its role in the Cambridge Analytica scandal. The fine was originally

issued in October 2018, as part of the ICO's investigation into the use of social media data for political purposes.

Facebook agreed to pay the fine after more than a year of litigation and back-and-forth appeals between the regulator and the tech giant.

Note: Facebook is among NPR's recent financial supporters.

How did the Facebook – Cambridge Analytica data scandal affect Facebook across its Business Functions

In its investigation, the ICO found that Facebook breached data protection laws by failing to keep users' personal information secure, allowing Cambridge Analytica to harvest the data of up to 87 million people without their consent worldwide. The now-defunct firm worked for the Trump presidential campaign and used the data to influence several elections around the world.

'The fine was levied under the Data Protection Act 1998, which *capped* the maximum possible penalty the ICO could impose. Because Cambridge Analytica harvested the data in 2015, the ICO says it couldn't impose a steeper punishment. Under new data protection laws the U.K. passed in 2018, Facebook would face a maximum fine of up to £17 million (about \$22 million) for the same offense.

As part of the agreement, Facebook made no admission of liability. It will also retain documents disclosed during the appeal to use in its own investigation into Cambridge Analytica.

In a statement, Facebook said it has made changes to its platform to restrict Information app developers could access, and that it will continue to work with ICO to identify issues.

"Protecting people's information and privacy is a top priority for Facebook, and we are continuing to build new controls to help people protect and manage their information," said Facebook Associate General Counsel Harry Kinmonth.

TECHNOLOGY

How Facebook Users Are Responding To The Cambridge Analytica Scandal

The ICO says it's hopeful that Facebook will commit to protecting people's privacy.

"Protection of personal information and personal privacy is of fundamental importance, not only for the rights of individuals, but also as we now know, for the preservation of a strong democracy," ICO Deputy Commissioner James Dipple-Johnstone said. "We are pleased to hear that Facebook has taken, and will continue to take significant steps to comply with the fundamental principles of

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data protection."

Facebook faced major blowback from users, regulators and investors following reports that personal data was accessed by Cambridge Analytica. Many deleted their accounts to both safeguard their information and protest.

In the 2020 election season, Facebook is being criticized for how it regulates political ads on its platform. To protest the company's policies, presidential candidate Sen. Elizabeth Warren has run deliberately misleading ads on Facebook saying the company and CEO Mark Zuckerberg have endorsed President Trump's 2020 campaign.

Paolo Zialcita is an intern on NPR's News Desk.

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Supporting Document 4:

Baldassarre, Rocco. "Will Facebook Advertising Survive After The Cambridge Analytica Scandal?". Entrepreneur, 2018, <https://www.entrepreneur.com/article/320083>. Accessed 18 Feb 2020.

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SOCIAL MEDIA

Will Facebook Advertising Survive After the Cambridge Analytica Scandal?

Behavioral marketing will be a key player now.

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NEXT ARTICLE



Rocco Baldassarre
GUEST WRITER

September 18, 2018 5 min read

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Facebook has been at the center of a scandalous storm about privacy manipulation issues and has made it clear that it is making changes to fix its reputation as well as its consumer reliability adequately. But will it be enough? We are all aware that Facebook is a company whose revenue derives from advertising, and it looks for ways to grow and engage users by creating attractive and innovative advertising solutions in hopes to gain more market share from other online giants like Google and Bing.

The Cambridge Analytica scandal has exposed the dark side of Facebook's data mining practices. The company has been accused of selling user data to third parties without their consent, leading to a loss of trust and a significant impact on its reputation. In response, Facebook has implemented several measures to address the concerns, including a major overhaul of its privacy policy and the removal of the Cambridge Analytica app. However, the damage to its reputation may be difficult to reverse, and the company's future success will depend on its ability to rebuild trust with its users.

How did the Facebook – Cambridge Analytica data scandal affect Facebook across its Business Functions

Related: 3 Key Changes to Facebook Advertising After a Year of Scandal and Regulation

Facebook removes hundreds of targeting options to protect users' privacy.

As an integral part of their attempt to retain their customer base, Facebook has decided to cease its data acquisition from third party providers. The Mountain View giant used to provide advertisers with targeting options such as income, purchasing intent and credit card usage.

These targeting options won't be available anymore, and users are guaranteed with more privacy. Facebook's ad business reputation might be damaged in the short term, but if the company wants to survive and flourish, it needs to eliminate these options.

What about the advertisers?

Cutting ad targeting options is a double-edged sword. It can benefit Facebook as much as it might harm it. However, what makes the platform so valuable is its user base. That is why it makes a lot of sense to preserve it.

Advertisers will still have many ways to leverage their own data to create highly targeted and successful audiences. For instance companies can upload their own email database and create lists of users with similar behaviors. These "lists," also known as lookalikes, are not going to be providing you with an actual set of names, but it will create an anonymous target audience that you can use.

Related: Facebook Has Changed and Your Digital Strategy Has to Adjust

Additionally, advertisers will still be able to run marketing campaigns -- which is very useful when targeting users who visited your website and did not convert -- and be able to focus interests by categories.

Facebook was, and is still, thinking one step ahead.

When Facebook launched product catalog ads, advertisers could push specific products to users based on what they had previously visited on the site. This has rapidly become one of the best converting campaign types on Facebook.

<https://www.entrepreneur.com/article/320083>

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Facebook can determine the success of a campaign through the installation of a conversion pixel that collects information about users and anonymously reports who is converting. The majority of advertisers on Facebook use this sort of pixel, and it creates a vast, anonymous data source that advertisers can use -- the lookalike campaigns we discussed above.

Shortly after launching this campaign type, Facebook released a new campaign targeting specific products that are likely to successfully match with buyers. This is an apparent move towards behavioral marketing, which is a way to target people based on their behavior online. Behavioral targeting is based on leveraging the information that is collected by the Facebook pixel to predict the likelihood of a certain group of users to perform a purchase.

Facebook will likely work on replacing all the third party targeting methods with their database of user behavior built within the same Facebook platform. That's great news for advertisers because they will be able to target quality users, and it's good news for the users because all the information is being collected anonymously from Facebook and not through third parties, protecting their privacy.

Even though this type of technology is not new -- it has been used by Google Ads -- it is meant to find a compromise between privacy for the users and a need of targeted audiences for the marketers.

Facebook is working on giving more control to advertisers.

Facebook is working on a similar approach to Google when it comes to giving advertisers the possibility to choose what kind of content is allowed to display in their ads. This could be interpreted as a brand "safety tool." For instance, advertisers could decide to not show ads with political content or any other content they don't believe would fit with a specific brand.

In today's world, brand awareness is key to a profitable business, and the effort of Facebook to give more control to advertisers is definitely a step in the right direction.

What can we expect in the next six to 12 months?

After speaking with people from Google and Facebook, it seems very clear that advertising is moving towards targeting behaviors rather than merely searches. Behaviors allow marketers to target a much larger population of potential customers at a much better cost per ad view. The market will shift more toward this direction, but users' privacy will play a much more significant role than ever.

Why? Because the move towards behavioral marketing will also mean targeting people at a different stage of the purchasing funnel than people searching on Google. This means people are more likely to be exposed to a product or service across multiple devices and platforms, making cross-device tracking and attribution a growing need for any business. We are more than sure Facebook is already thinking ahead and working on that.

<https://www.entrepreneur.com/article/320083>

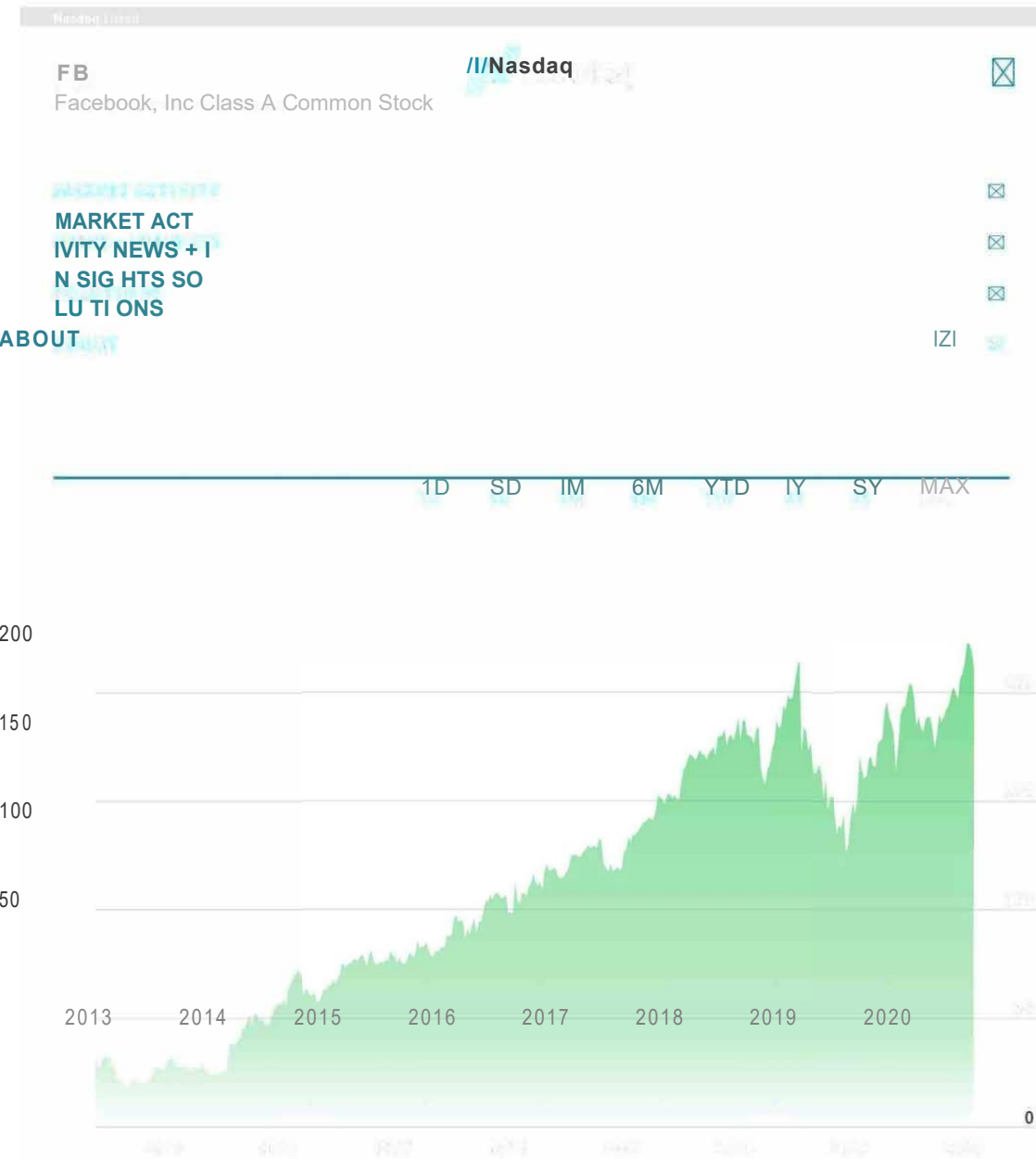
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Supporting Document 5:

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How did the Facebook – Cambridge Analytica data scandal affect Facebook across its Business Functions

FB Facebook, Inc. Class A Common Stock

FB FACEBOOK, INC. CLASS A COMMON STOCK (FB) FINANCIALS

Facebook, Inc. Class A Common Stock (FB)

Financials

PERIOD ENDING:	12 / 31 / 2019	12/31/2018
Total Revenue	\$70,697,000	\$55,838,000
Cost of Revenue	\$12,770,000	\$9,355,000
Gross Profit	\$57,927,000	\$46,483,000
Operating Income	\$23,986,000	\$24,913,000
Add'l income/expense items	\$0	\$0
Earnings Before Interest and Tax	\$24,812,000	\$25,361,000
Interest Expense	\$0	\$0
Earnings Before Tax	\$24,812,000	\$25,361,000
Income Tax	\$6,327,000	\$3,249,000
Minority Interest	\$0	\$0
Equity Earnings/Loss Unconsolidated Subsidiary	\$0	\$0
Net Income-Cont. Operations	\$18,485,000	\$22,112,000
Net Income	\$18,485,000	\$22,112,000
Net Income Applicable to Common Shareholders	\$18,485,000	\$22,111,000

<https://www.nasdaq.com/market-activity/stocks/tb>