



Facebook, Cambridge Analytica and How NOT to Handle a PR Crisis

i-advize Reviews Facebook's PR Implosion – APRIL 2018

Schadenfreude: a German phrase that means “the pleasure derived from the misfortune of others”. In the recent Facebook /

Cambridge Analytica situation, let us not derive *pleasure*; instead, let us *extract knowledge*. *Schadenlernen?*

In the past several weeks, we found out that political strategic consulting firm, Cambridge Analytica (CA), obtained profile information from over 50 million users of the Facebook platform. The allegation is that CA used this data to influence several election campaigns since 2014, including that of current U.S. president, Donald Trump. Facebook's handling of its user data has been called into question following these reports, resulting in a PR nightmare for the social media giant.

The missteps of Facebook and its celebrity-level CEO, Mark Zuckerberg, are not only costing them dearly in terms of stock valuation, consumer confidence and reputation. Facebook will also incur very high legal fees and fines; probes are already underway by the U.S., U.K and Canadian governments, which will indubitably result in stiff fines and penalties. Massive expenses for the “forensic investigations” it has promised users will also affect the bottom line, as well as the cost of added security functions. Already, sources claim, Facebook has hired thousands of experts to work on improving security. (see Figure 1 on the right for the story on how it all went down).

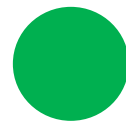
We will focus on the PR Crisis unfolding right now:

It begins on Wednesday, March 14, 2018, when The New York Times, The Guardian's *Observer* and Channel 4 News report misuse of information by Cambridge Analytica and Facebook's lack of responsibility to protect user data. Facebook has recently been under fire for its platform being used for spreading fake news as well as Russian propaganda. Facebook is also accused of trying to suppress The Guardian from reporting the story with legal threats, adding to its culpability.

On Friday, March 16, Facebook releases a statement limited to explaining why it suspended Cambridge Analytica (CA) back in 2015. The following day, Paul Grewal, Facebook's deputy general counsel, added: “Aleksandr Kogan (the brain behind CA) requested and gained access to information from users who chose to sign up to his app, and everyone involved gave their consent.” Facebook was not apologizing. In fact, it seemed they were defending their lax policies and shifting the blame.

After 3 days of management silence and poor attempts to correct, investors cut Facebook's stock value by approximately US\$50 billion. Not only were investors angry, users initiated a #deletefacebook revolution and the U.S. and U.K. federal agencies and lawmakers have launched probes that will inevitably end in congressional hearings, parliament meetings and inevitably, stiff sanctions against the internet platform.

Figure 1:
Year



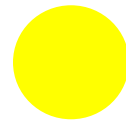
2010

How this all went down

In April 2010, 6 years after its inception, Facebook launches Open Graph API 1.0, a mechanism that allows the collection of extensive user data, including personal info, birthdays, as well as religious, political and other preferences, etc., by third-party applications without user consent.

Also in 2010, CEO Mark Zuckerberg, vows to address privacy concerns with “new settings”. A month later, the Wall Street Journal reports that Facebook and other social sites gave advertisers subscriber user IDs. Facebook responds that while it “... does not share user information without user consent... it did, however, share some data that may include the user ID...”

Cambridge University researcher, Alexandr Kogan, develops a quiz app (thisisyourlife), using Open Graph API 1.0; 270 thousand users voluntarily take the quiz, however in doing so, Cambridge Analytics not only takes their data... but is able to harvest their friends' data as well...effectively reaching 50 million user profiles...



2013

Facebook begins winding down Open Graph API 1.0, updating its platform to limit the amount of information its gives away because “people are worried about sharing information ... and want more control over their data”. However, Facebook fails to retroactively limit apps enabled since 2010.



2014

Facebook shuts down Graph API 1.0 and requests that Cambridge Analytica delete all of the data it harvested. Here is where it starts to go terribly wrong for Facebook: 1) *Cambridge Analytics does not delete that data as it has promised.* 2) *Facebook does not inform the 50 million users who were affected by the breach* 3) *Facebook does not make the issue public.*



2015

The U.K Guardian reports that Ted Cruz's presidential campaign uses “psychological data” from millions of Facebook users. Facebook finally takes legal action against Cambridge Analytics, to force it to destroy all the data it had harvested from Facebook. The data is also later tied to: Brexit and the Trump Campaign.



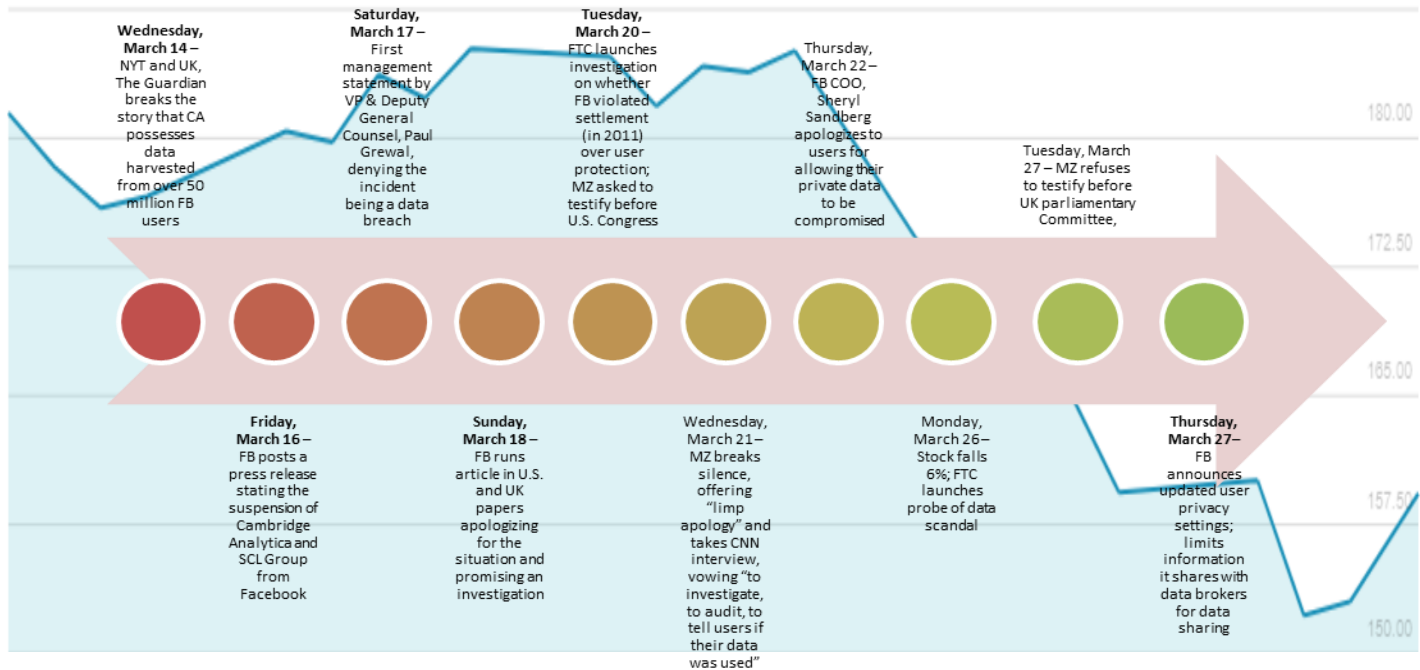
2015-2016

2017-2018

Facebook comes under attack from serving as the platform used for spreading Russian propaganda and fake news.

This leaves us with two important questions: 1) how did Facebook mishandle the crisis situation? and 2) how should it have handled it? There is a third question, of course: *'how will Facebook recover from this?'* but that's a story for another time.

How did Facebook mishandle the crisis situation?

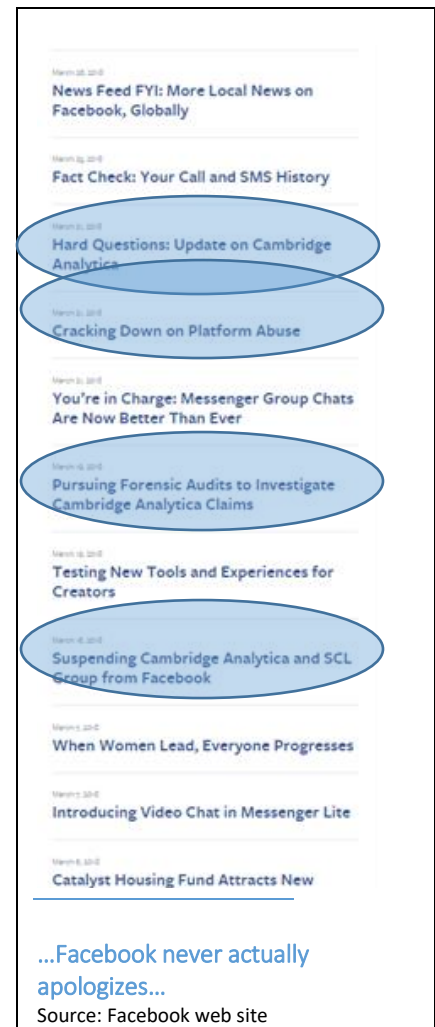


Mistake Number 1: Not preparing for the Worst Case Scenario

First of all, it is important to acknowledge that the events leading up to March 16 had been brewing for almost 8 years. Therefore, in all this time Mr. Zuckerberg and his team did not seem adequately prepared for handling the PR nightmare it eventually turned out to be. Even 2 weeks before the news broke, when The Guardian came after Cambridge Analytica for "harvesting information without permission," Facebook seemed confident that CA was the only one in the hot seat. However, it would seem they were blindsided by the extent of the damage to their reputation with users and with the market. Especially in light of all of the other security concerns floating in the market, Facebook should have been ramping up their PR response with legal, security and public relations departments.

Mistake Number 2: Where is management?

There are several reports that claim that Facebook and its CEO did *nothing* until days after the news broke; we suggest they simply *did not do enough*. On March 16, the company issued a release [Suspending Cambridge Analytica and Strategic Communication Laboratories \(SCL\) from Facebook](#) (see Figure 2 on the right) stating that "...the (Guardian's) claim that this is a data breach is completely false" and in a section regarding standards and policies went on to state "...in 2015, we learned that a psychology professor at the University of Cambridge named Dr. Aleksandr Kogan *lied to us and violated our Platform Policies...*" In essence, Facebook points the proverbial finger instead of accepting their part of the blame and apologizing. In the coming days, Facebook posts 3 additional announcements. However, and more importantly, Mark Zuckerberg does not "show his face" until the issue has drastically escalated, 5 days later, on Wednesday, March 20, when he agrees to be interviewed by CNN.





That same day, he finally Tweeted what many would call a “*limp* apology”:

“I started Facebook, and at the end of the day I’m responsible for what happens on our platform. I’m serious about doing what it takes to protect our community.”¹

Facebook took too long. Mark Zuckerberg should have immediately held a press conference and issued an apology followed by a **clear and specific plan** to prevent this type of situation from eroding trust in the system and in management. Sheryl Sandberg, Facebook’s Chief Operating Officer admitted several days after the news broke, “...sometimes we speak too slowly. If I look back, I would have had Mark and myself speak sooner.” Later, on March 19, security chief, Alex Stamos, announced his resignation over “disagreements over how to handle the spread of misinformation on the social network (with regards to Russia)”²

For investors and users of the platform, this was indeed a breach. It was a breach of the trust they had deposited in Facebook. After all, without the trust of its main stakeholders, wasn’t Facebook worth at least 100 billion dollars less?

Mistake Number 3: No clear plan

During the CNN interview³, Zuckerberg calls Cambridge’s violation a “breach of trust”, and goes on to outline measures to improve the platform’s security to prevent this from happening again. The measures include: **“forensic” investigation** of apps with a significant amount of users; **further restrict data access** to prevent other kinds of abuse; and **facilitating user controls** over their privacy settings. But hadn’t Facebook promised this in the past? Would the changes be enough?

Thousands of apps had already had access to user data. How would it be possible for Facebook to investigate and retrieve all this data? After all, internet platforms such as Facebook have always thrived and been praised for allowing apps to run off their platform. But without the proper controls in place, if they even exist, wouldn’t Facebook become less attractive to users, thereby opening itself to competition from other platforms?

In terms of investor relations, what is the plan for managing the costs related to this “new and improved Facebook”? Also, when can investors expects to recoup their massive losses in the stock?

New York University professor of marketing, Scott Galloway, called this “a textbook study on how not to handle a crisis” in a CNBC article published on March 20th.⁴ In his interview, he outlines the correct manner of handling a PR crisis, one that is applicable to any public issuer:

1 – Address – *It is important to address the problem immediately, deploying top executives to issue statements, meet with press and address the public and investors with all the facts as soon as possible. Retreating or hesitating is detrimental to the value of the company and the credibility of its management.*

2 – Acknowledge – *“Jump in and own the crisis” he states. Management needs to be prepared to take the heat and apologize. Shifting the blame on someone else, particularly when some of the blame clearly lies with you, further aggravates the situation.*

3 – Overcorrect – *The company must be clear and fast about how it will correct the problem, no matter the cost. Rebuilding credibility is the top concern; profitability will have to come later.*

For more information on how i-advize Corporate Communications can help you manage your Crisis Communications, please contact us at:



Maria Barona, Managing Partner * i-advize Corporate Communications, Inc.
80 Broad Street, Suite 2503 - New York, NY 10004 * Tel: 212-406-3691 - Cell: 917-797-0062 - Fax: 212-509-7711
E-mail: mbarona@i-advize.com * www.i-advize.com

¹Facebook’s website: <https://newsroom.fb.com/news/2018/03/hard-questions-cambridge-analytica>

² Perlroth, Nicole; Frenkel, Sheera and Shane, Scott **Facebook Exit Hints at Dissent on Handling of Russian Trolls**. The New York Times, March 19, 2018

³Mark Zuckerberg CNN interview transcript: <http://money.cnn.com/2018/03/21/technology/mark-zuckerberg-cnn-interview-transcript/index.html>

⁴Aiello, Chloe **Facebook is a Textbook Case on How not to Handle a Crisis**. CNBC, March 20, 2018