

FACEBOOK FREAKOUT STOCKS PLUNGE



Rosoff: Facebook is a
management mess and
Zuckerberg is to blame

Facebook is facing its biggest test ever -- and its lack of leadership could sink the company

- Facebook's reaction to a year of scandal has vacillated between defensive cluelessness and aloof silence.
- Users are getting the message that information they post on Facebook can be used in ways they did not intend, and usage is starting to decline.
- Meanwhile, executives are selling shares like crazy, including a plan by Mark Zuckerberg to sell almost \$13 billion worth of shares by mid-2019.

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Mark Zuckerberg, founder and CEO of Facebook

Photo by Bloomberg

Mark Zuckerberg, founder and CEO of Facebook

Facebook is facing an existential test, and its leadership is failing to address it.

Good leaders admit mistakes, apologize quickly, show up where they're needed and show their belief in the company by keeping skin in the game.

Facebook executives, in contrast, react to negative news with spin and attempts to bury it. Throughout the last year, every time bad news has broken, executives have downplayed its significance. Look at its public statements last year about how many people had seen Russian-bought election ads — first it was [10 million](#), then it was [126 million](#).

Top execs dodged Congress when it was asking questions about Russian interference. They are selling their shares at a record clip.

The actions of Facebook execs now recall how execs at Nokia and Blackberry reacted after the iPhone emerged. Their revenues kept growing for a couple years -- and they dismissed the threats. By the time users started leaving in droves, it was too late.

There's no outside attacker bringing [Facebook](#) down. It's a circular firing squad that stems from the company's fundamental business model of collecting data from users, and using that data to sell targeted ads. For years, users went along with the bargain. But after almost a year of constant negative publicity, their patience may be waning.

Facebook did not initially respond to questions or a request for comment from CNBC.

The drumbeat

For more than a year now, Facebook has been deflecting stories about how its platform was used during the 2016 presidential election.

Some of this activity — like Facebook [embedding workers with the Trump campaign](#) to tell them how to advertise more effectively — was perfectly legal, and in line with normal business practices. A lot of these tactics would probably have drawn no scrutiny if [Donald Trump](#) hadn't surprised everybody by winning an election that all the polls showed him losing.

Other activity was against Facebook's policies, or outright illegal. Most notably, a U.S. grand jury recently [indicted 13 Russian nationals](#) for conducting a disinformation campaign on American soil intended to further political divisions in the country and sway the election toward Trump. Their tactics included using Facebook groups to organize divisive political protests and buying targeted ads.

CEO and founder [Mark Zuckerberg](#) has remained aloof throughout the whole sequence of events.

He addresses some of these issues on personal Facebook posts, but seldom talks to the press about them. Last year, he spent most of the year doing photo ops with people around America, but did not show up when Congress asked questions about how the Russians used Facebook to influence the 2016 election.

This year, he announced his annual personal challenge would be [fixing Facebook](#) — in other words, doing his job as the CEO of a publicly traded company worth more than \$500 billion. In past years, he's taught himself Mandarin and hunted his own food.

The spin

Over the weekend, Facebook gave a case study in how the company reacts inappropriately to negative news.

On Friday night, Facebook made a surprise announcement that the company had [suspended a political analytics research firm](#), Cambridge Analytica. The firm was funded by large Republican donor Robert Mercer, and Trump's campaign used it to target ads on Facebook.

In its Friday post, Facebook claimed it had discovered new evidence that Cambridge Analytica had not deleted data about Facebook users passed to it by a Russian-American

researcher, who had collected it through a personality quiz that 270,000 Facebook users took. The data included information like the cities where users lived and what they had "liked" on Facebook.

It was against Facebook's terms of use for the researcher to pass the data along. Cambridge Analytica had told Facebook it had deleted the data back in 2015, but Facebook said it had received recent reports to the contrary, according to the blog post.

(Cambridge Analytica has [countered the allegations](#), saying it was in compliance with Facebook's guidelines, and that no data collected through the app was used in the Trump campaign.)

Facebook's brand is more damaged than the stock, says ex-Zuckerberg mentor

Facebook's brand more damaged than the stock, says ex-Zuckerberg mentor

6:00 PM ET Tue, 13 March 2018 | 05:07

But as is often the case in political scandal, the problem isn't so much the original action, but the cover-up. Or in this case, the spin.

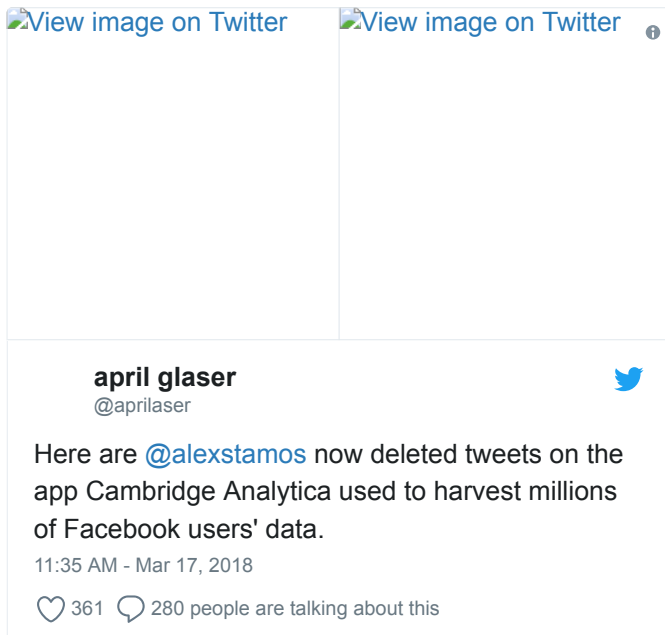
It turns out that Facebook didn't just spontaneously decide to ban the political research firm. It was actually trying to get ahead of two bombshell reports, in the [New York Times](#) and [The Observer](#) (the Sunday edition of U.K. paper The Guardian). The publications detailed exactly how Cambridge Analytica had collected information about Facebook users in a bid to target them with political messages.

Facebook knew about these news stories for some time. It also appears that the company was trying to squelch the reports.

The Times report claimed that, in private conversations with the newspaper, Facebook "downplayed the scope of the leak and questioned whether any of the data still remained out of its control." The Guardian wrote that "Facebook's external lawyers warned the *Observer* it was making 'false and defamatory' allegations, and reserved Facebook's legal position."

The stories went ahead anyway. Once they were published, Facebook executives immediately took to Twitter to defend the company, insisting that this was not a "breach."

In tweets that were later deleted, Facebook chief security officer Alex Stamos called the stories "important and powerful," while insisting that it was "incorrect to call it a 'breach' under any reasonable definition of the term." The deleted tweets are preserved below:



Another senior Facebook exec, Andrew Bosworth, echoed that claim, saying it was "unequivocally not a data breach."



So far, more than 24 hours after the stories, Zuckerberg and his number-two, COO Sheryl Sandberg, have not responded.

Missing the point

The Facebook executives who responded are correct — there was no security breach. Users gave their information willingly. Moreover, Facebook has since put better security controls for apps in place, so users can more easily control what information apps are gathering and how they're using it.


But they're missing the point.

Facebook users are slowly learning that almost anybody can use Facebook to collect detailed information about them, and that — at least some of the time — Facebook cannot control where this information flows, or how it is used. Using Facebook is like writing your life story down on a piece of paper, then taping it to a lamppost.

Journalists and privacy advocates may roll their eyes at this "revelation" — they've been warning people about Facebook and privacy since its inception.

Users mostly ignored these warnings. They wanted to share photos, connect with old friends, play games, take quizzes and watch videos, and Facebook gave them a simple way to do it. More than 2 billion people around the world now use the 14-year-old service, and Facebook [sold nearly \\$40 billion worth of ads](#) last year.

But things are beginning to change. There's a growing sense that Facebook has become creepy instead of fun.

 [Facebook is losing younger users to Snapchat, according to a study](#)

Facebook is losing younger users to Snapchat, according to a study


3:24 PM ET Mon, 12 Feb 2018 | 01:09

A lot of people are noticing that the ads on Facebook and Facebook-owned Instagram are so precisely targeted, they're sure the company is eavesdropping on their conversations through their phone microphones. (Facebook swears it is not — CNBC's Michelle Castillo [has a great explanation](#) of what is probably going on.)

More to the point, people are starting to curb their Facebook usage. In the fourth quarter, for the first time ever, the number of people in North America who used Facebook every day [dropped from the previous year](#).

Also, Zuckerberg told investors on the company's [earnings call](#) that the company saw a 5 percent drop in time spent on Facebook during the quarter. The company claimed that this reduced engagement was because of some technical changes that Facebook made to crack down on low-quality content and give users a more positive experience.

These are just two small metrics. Facebook is still growing in many regions and by many other measurements.

 [Mark Zuckerberg: Facebook changes reduced time spent on site by 50 million hours a day in Q4](#)

Mark Zuckerberg: Facebook changes reduced time spent on site by 50 million hours a day in Q4

6:14 PM ET Wed, 31 Jan 2018 | 00:46

But still: Fewer people using Facebook every day in one region, and spending less time on it. That's never happened before.

For the time being, advertisers are grumbling about Facebook and warning their clients to stay away from certain ad products, but they're [still putting their money there](#) — with an audience over 2 billion and some of the most accurate ad targeting available, Facebook is still impossible to ignore.

But if usage continues to decline, advertisers will start eventually follow. And there are plenty of hungry smaller competitors — [Twitter](#) and [Snap](#), particularly — who would be happy to take some of that money.

Executive stock sales not reassuring

Meanwhile, Facebook executives are not exactly sending a reassuring message to investors by unloading their shares at a rapid clip.

Last summer, after Zuckerberg's plan to create another class of stock to solidify his control of the company [foundered](#), he announced he'd begin selling off up to 75 million shares (about [18 percent of his stake](#)),

worth nearly \$13 billion, by mid-2019. The money will support the Chan Zuckerberg Initiative (CZI), his other company devoted to good works.

Those sales are well underway. In February he sold nearly \$500 million worth of shares, and he's on pace to sell that much or more in March. By way of comparison, he sold only about \$1.6 billion worth to fund CZI over the last two years.

Why now? Zuckerberg is 33 years old -- far from retirement. What exactly is CZI doing that requires such a massive investment? Amazon CEO Jeff Bezos is building rocket ships to explore space with his other company Blue Origin, and he only needs to spend \$1 billion a year.

Other top executives are also selling in massive amounts. Jan Koum, who founded the messaging app WhatsApp, which Facebook bought in 2014 for \$19 billion, sold \$2.8 billion worth of shares last year — more than any exec at any major tech company. (Amazon CEO Jeff Bezos sold \$2 billion of stock last year, in part to fund Blue Origin. Nobody else is close.)

Sandberg sold over \$300 million, which pales in comparison to her colleagues but is still unusually large among officers of top tech companies.

Facebook stock is up over 80 percent in the last 12 months. Perhaps these execs are just taking gains, as any normal employee with stock compensation would be advised to do.

But these are not normal employees. They're the leaders of the company.

Other leaders keep skin in the game during difficult times -- think of how Microsoft CEO Steve Ballmer held on to most of his stock throughout his tenure, even as Microsoft faced expensive antitrust lawsuits and growing competitive threats, or how Twitter CEO Jack Dorsey bought shares in 2017 when many investors had written the company off.

Facebook is facing real problems. Instead of giving answers to those problems, top execs are selling, spinning and staying silent.

That's not leadership. And when leaders fail to lead, companies fail.

Facebook Falls as Pressure Over Data

By Sarah Frier

March 18, 2018, 9:00 PM PDT Updated on March 19, 2018, 6:38 AM PDT

Demands follow report that Cambridge Analytica vio
Lawmakers seek more than 'false reassurance' on d

Facebook Under Pressure for User Breach

Facebook user data was leaked to an advertising firm that helped Donald Trump become president.

Facebook Inc. shares fell the most in two months Monday as American and European officials demanded answers after reports that a political advertising firm retained information about Facebook users without their consent.

Politicians on both sides of the Atlantic are calling on Facebook Executive Officer [Mark Zuckerberg](#) to appear before Congress to explain how U.K.-based Cambridge Analytica, the advertising-data firm that helped Donald Trump win the 2016 presidency, was able to harvest the personal data of millions of users.

Facebook has already testified about how its platform was used by Russian propagandists ahead of the 2016 election. The company never put Zuckerberg himself in the spotlight, but government leaders are now putting the spotlight on him. The pressure may also foreshadow new regulation for the social network.

A top U.K. lawmaker on Monday backed sweeping for the nation's privacy watchdog.

"The time has now come for us to look at giving me the information commission in the U.K.," Damian Conservative and chair of the U.K. Digital, Culture, Sports Committee, told LBC radio in an interview c

Facebook on Friday said that a professor used Face tools to get people to sign up for what he claimed v personality-analysis app he had designed for acade purposes. To take the quiz, 270,000 people gave th permission to access data via Facebook on themsel friends, exposing a network of 50 million people, a the New York Times. That kind of access was allow Facebook's rules at the time. Afterward, the profes Facebook's terms when he passed along that data t Analytica.

Facebook fell as much as 5.2 percent to \$175.41 Mc York, wiping out all of the year's gains so far. It wa intraday drop since Jan. 12.

Zuckerberg's Fortune Falls \$3.8 Billion Over Data

Facebook found out about the breach in 2015, shut professor's access and asked Cambridge Analytica it had deleted the user data. Yet the social network suspended Cambridge from its system, explaining learned the information wasn't erased. Cambridge, funded by conservative political donor Robert Mer Saturday denied that it still had access to the user c it was working with Facebook on a solution.

A researcher who worked with the professor on the currently an employee at Facebook, which is review he knew about the data leak.

The denials and refutations did little to ease the cri Damian Collins, a British lawmaker, said Sunday tl Zuckerberg or another senior executive should app his committee because previous witnesses have av questions, creating "a false reassurance that Faceb policies are always robust and effectively policed."

an interview on British radio Monday that Zuckerberg "stop hiding behind his Facebook page and actually answer questions about his company."

The next few weeks represent a critical time for Facebook to reassure users and regulators about its content moderation platform security, to prevent rules that could impact its advertising business, according to Daniel Ives, an analyst at GBH Insights.

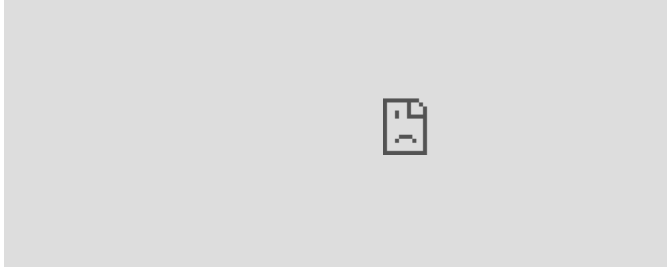
"Changes to their business model around advertising fees/content could be in store over the next 12 to 18 months," Ives wrote in a note to investors.

Facebook, meanwhile, has sought to explain that the mishandling of user data was out of its hands and does not constitute a "breach" – a definition that would require the company to alert users about whether their information was taken, per U.S. Federal Trade Commission rules.

Menlo Park, California-based Facebook no longer asks developers to ask for access to data on users' friends, but improper handling of the data raises systemic questions about how much companies can be trusted to protect personal information, said [Nuala O'Connor](#), president and CEO of the Center for Democracy & Technology.

"While the misuse of data is not new, what we now see is that seemingly insignificant information about individuals is being used to decide what information they see and influence their viewpoints in profound ways," O'Connor said in a statement. "Communications technologies have become an essential part of our daily lives, but if we are unable to have control over these technologies control us. For our democracy to survive, these technologies cannot continue."

For more on Facebook, check out the [Decrypted](#) page.



QUOTES FROM THIS ARTICLE



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