



FC III



# TIKTOK BOARD OF DIRECTORS



**BERKELEY**  
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# LETTER FROM THE CHAIR

Hello, delegates!

My name is Darren Lee and I will be your head chair for BMUN Fall Conference's TikTok Board of Directors Committee. I am currently a fourth year at Berkeley, majoring in Business Administration. I have always had a growing interest in international politics and relations having grown up between Australia and Indonesia, sparking my interest in MUN. This will be my third year in BMUN and my fifth year in MUN altogether. Outside of BMUN, I'm a project manager for Berkeley's oldest business organization, Berkeley ABA, where this semester my client is the Instructure, the parent company behind Canvas and Mastery Connect. I've also done strategy consulting projects for the Ford Motor Company, the National Foundation for Credit Counseling and Weee! too. Some of my favorite things to do are swimming, late night drives, and waking up at 5 am to watch Formula 1. I can't wait to meet you all in committee!

Our committee will be starting on March 30th, 2023, the date following TikTok's congressional hearing on Capital Hill. Everything that has occurred prior to this day is set in stone, yet all events and decisions starting March 30th, 2023, are up to the delegates. All of you will be responsible for running all of TikTok's operations globally and not just with a particular focus in the U.S. market. Nonetheless, the series of discussion after the congressional hearing of March 29th, 2023 set the starting agenda for your first committee session. Therefore, not only will your decisions impact your own job, but they will also influence TikTok's operations worldwide, whether they develop a quick solution to the crises that emerge or establish a comprehensive multi-year plan. We hope that through a rapid response within committee, delegates can learn to run a global social media company while tackling the various crises that emerge in the U.S. and around the world.

Sincerely,



Darren Lee  
Head Chair of TikTok Board of Directors  
Email: [dlee@bmun.org](mailto:dlee@bmun.org)



# FUTURE GLOBAL EXPANSION STRATEGY

## TOPIC BACKGROUND

### **BACKGROUND ON TIKTOK**

#### *Musical.ly*

Musical.ly was a social media serviced founded by Alex Zhu and Luyu Yang and launched in August 2014 that gave users the ability to record and edit 15-second to 1-minute lip-syncing videos where they could choose sound tracks and add filters and effects to their recorded videos. Musical.ly's success was greatly attributed to the show Lip Sync Battle that aired every Thursday evening. In June 2016, they signed a label deal with Warner Music Group, and then integrated with Apple Music in April 2017 to offer users the chance to listen to full songs and then cut out segments for their lip-syncing on the Musical.

ly platform. In November 2017, the company was acquired by ByteDance for an estimated US\$1 Billion and in August 2018, it was merged into TikTok and members now had access to a wider range of filters, effects as well and improved editing interface.

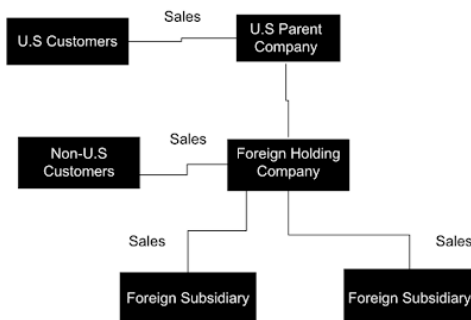
#### *Parent Company - ByteDance*

ByteDance is a Chinese internet company based out of Beijing and was founded in March 2012. The company's product portfolio includes: TikTok, Duoyin (the Chinese version of TikTok), Toutiao, CapCut and Moonton to name a few. Although the company is privately owned and has been invested by major firms like SoftBank Group and Sequoia Capital, 1% of the company is owned by the China Internet Investment Fund which is a state-owned

enterprise that notably placed a Chinese government official on ByteDance’s board of directors. Following ByteDance’s acquisition of Musical.ly, former Musical.ly Co-CEO Alex Zhu was placed as CEO of TikTok. Following the rising controversy between the Trump Administration and TikTok from 2019-2020, Kevin Mayer who was a former Disney executive was placed as TikTok’s CEO. However, with rising pressure from the Trump Administration for a U.S. sale of TikTok’s data operations in the U.S. or risk a potential ban of the app, Mayer departed after just three months at TikTok with Vanessa Pappas being an interim CEO until the eventual hiring of former Xiaomi executive Shou Zi Chew and lobbyist Michael Beckerman.

### *Management Structure of TikTok*

With TikTok being a global organization, it is more than important to understand the organizational structure that encompasses a business with a global footprint and customer base that crosses borders. As noted, each of the delegates in the committee will be representatives of the organization all reporting to both TikTok’s parent company, ByteDance, and TikTok’s CEO Shouzi Chew. Since TikTok is a originally a foreign company operating in the U.S. market, its corporate structure does not conform to the norm of U.S. corporate structures as shown in the diagram below.



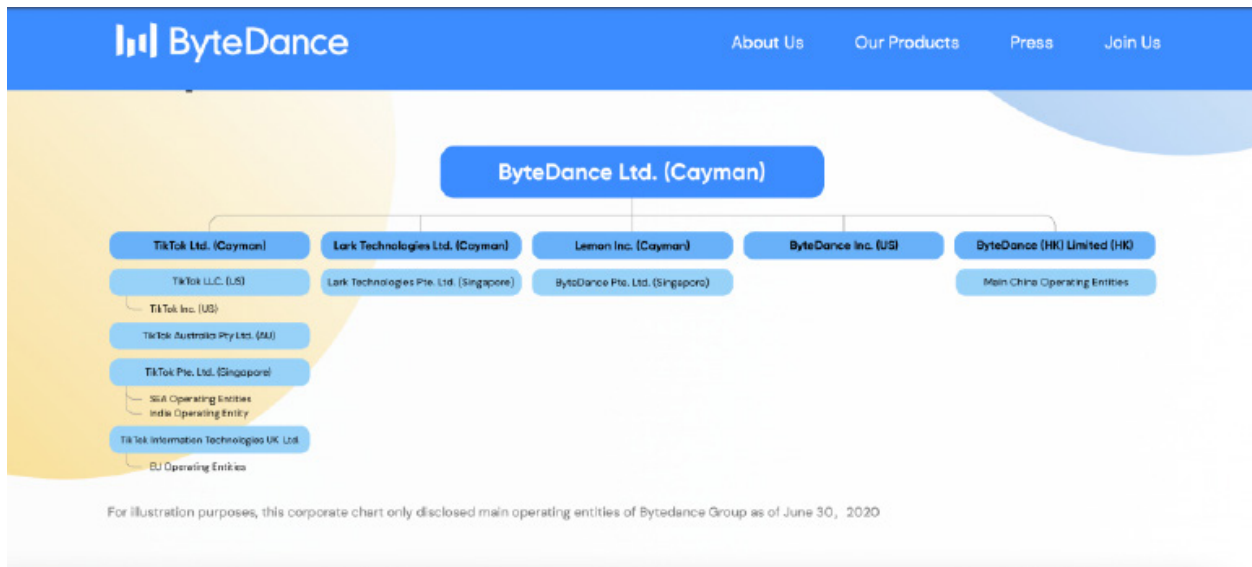
There is a fundamental reason behind the importance of corporate structure and it all comes down to foreign corporate tax laws. The US once had the highest corporate tax rate among all the OECD member nations. The U.S. prior to 2017 had a 35% federal tax rate in addition to any state corporate taxes, which has made the US average corporate tax rate set at 39.3%, while the OECD average is 25.5%. Essentially, 35% of a corporation’s profits would be taxed in addition to the fact that the US is one of the few remaining OECD members to utilize a worldwide tax system, which is a tax system that taxes all profits generated regardless of where it is generated.

This differs with other OECD nations that have a territorial system, which means it does not tax profits if it is produced outside the nation’s borders. Although, the federal corporate tax rate now has been lowered to 15%, the worldwide tax system has continued to disway companies from fully setting up all their operations in the U.S.. With that, a rise of foriegn controlled corporate structures and tax havens (countries with no taxes on foreign corporations) have continued to remain in use. This practice is commonly referred to as transfer pricing in the business world. Nevertheless, these U.S. corporations, particularly those that have a large global presence, would establish foreign subsidiary holding companies in tax havens, where all the profits from its foreign subsidiaries and company would be distributed. Because of this, companies both local and foreign operating in the U.S. market often choose to establish a separate subsidiary in the U.S. to separate its income from the U.S. from its other markets that are mostly tax free.

- Equity Interest (100% unless otherwise specified)
- Contractual Arrangements



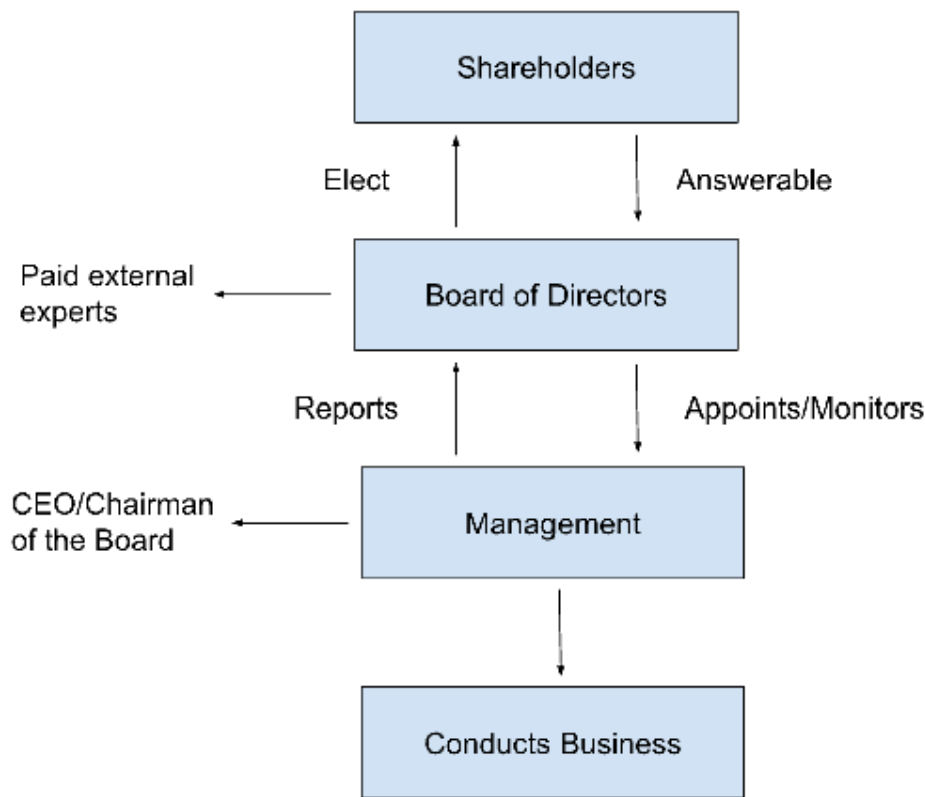
*ByteDance Current Corporate Structure*



*Former ByteDance Corporate Structure Before Congressional Hearing*

In light of March 23, 2023, TikTok was called upon the U.S. congress to discuss the potential Chinese influence over the platform as well as the possible damaging effects the content from the platform has on the mental health of children and its other users. Days before the congressional hearing, ByteDance updated its corporate structure to reflect its greater independence as a parent company of various platforms and not just TikTok. The notable

takeaways from the change is that, the U.S. based section of TikTok in itself also includes other interconnected entities such as “U.S. TikTok Data Security Inc.” that also has its own subsidiaries based in Singapore and the U.K. Beyond that, the only remaining direct connection between TikTok and China is through the Hong Kong-based Douyin Group, which as previously mentioned is Douyin is the name of TikTok in China.



### **BOARD OF DIRECTOR/CEO APPOINTMENT/PROXY CARD**

Within every company, often publicly listed companies where everyday individuals can buy shares or a part of a company, proxy cards are an important

system where they loop in shareholders for important decisions such as electing CEO's. 9 out of 10 CEOs do not own more than 1% of the company, yet based on the corporate diagram above they stand as the most powerful. A conflict of interest especially is established when the CEO elects their own board



through a proxy card. A proxy card is an election form sent to shareholders at the command of the CEO to vote/elect board of directors who are external figures not associated with the figure but offer over-

sight and also decide on the salary of executives in the company. Thus, the CEO selects people to run for the board and can kick off those unfavored by them from the board.

## ORGANIZATIONS INVOLVED

### **TRUMP ADMINISTRATION**

In February 2019, ByteDance settled with the Federal Trade Commission and was fined \$5.7M for illegal child data collection. The names, email addresses, pictures and locations of kids under age 13 were collected and as such in violation of the Children's Online Privacy Protection Act. The Act in itself forbids online services from collecting data on children under the age of 13, unless their parents have given them explicit permission. The Act though only covers services directed at children or ones that have a segment of users who are children. By November 2019, with TikTok being the most downloaded app in the U.S., a national security investigation was launched over concerns of ByteDance's practice of censoring politically sensitive content and its data privacy stor-

ing practices. The Committee on Foreign Investment in the United States (CFIUS) which reviews deals by foreign acquirers for potential national security risks began its review of the ByteDance and Musical.ly deal. By August 2020, President Trump announces his willingness to sign executive order where any transactions between TikTok's parent company, ByteDance, and U.S. citizens will be outlawed for national security reasons. Essentially, banning further TikTok downloads if a U.S. sale does not occur.

### **MICROSOFT, ORACLE & WALMART**

In light of 2020 and the COVID 19 pandemic, TikTok's operations reached its peak user use that brought about much attention from the Trump Administration over the safety of TikTok's data being in

the hands of its Chinese parent company, ByteDance. By August 2020, Microsoft and Oracle came out as forefront potential buyers of TikTok citing that the social, cloud-based service that used AI was a product that matches their future plans. A September 15th, 2020 deadline was set by President Trump, where the

day before the deadline Microsoft's deal was rejected and ultimately the ban was put into place. Following this, Oracle and Walmart established a deal that was ultimately receded when President Biden was elected into office who also removed the ban previously set in place by now former-President Trump.

## CAUSES OF THE CRISIS

### **INFLUENCE ON CHILDREN'S MENTAL HEALTH & PRIVACY**

TikTok has faced pressure from lawmakers and researchers over the impact that the short-form video app may have on its youngest users. Notably, its short time attention span in combination with its AI powered content system that adapts content to the user's liking creates an addictive atmosphere for these users that may be on the platform from dusk till dawn. Lawmakers have called it a "digital fentanyl" over its false lure as a friendly platform for users aged 13 to 17 years old and the potential harmful content that could be constantly provided by the AI such as content relating to suicide and eating disorders.

Nevertheless, a study by Consumer Reports found TikTok to use the same data-tracking practices as Facebook/Meta and other U.S. tech companies, yet the company continues to face data collection and privacy accusations from various countries with a particular focus on younger users. Beyond the previously mentioned case between TikTok and the Federal Trade Commission, in June 2020, the Netherlands Data Protection Commissions announced the investigation of the platform and by late-June that same

year, India officially banned the platform.

### **POLITICAL CENSORSHIP ACCUSATIONS**

Shadow banning is the act of partially blocking content so that the content does not reach all users on the platform. An article by the Guardian highlighted the various practices that TikTok engages in where the platform's guidelines divides banned material into two categories: a "violation", where the content is entirely deleted from the platform, and "visible to self" that leaves the content in distribution only through TikTok's AI "for you" feed. Nevertheless, leaked documents processed by the Guardian found that moderators have been instructed to censor videos that "demonisation or distortion of local or other countries" and/or "highly controversial topics, such as separatism, religion sects conflicts, conflicts between ethnic groups." Although, the guidelines now have been adjusted for more localised approaches, where local moderators, local content and moderation policies are in practice, the company still remains under much scrutiny among the public eye for its past practices and possibly continuation of such practices where local interpretation of global policies are more controversial.



## QUESTIONS TO CONSIDER

1. To what extent can TikTok sustainably stay and grow among its U.S. users given that no deal with a U.S. company has been met?
2. What implications will the U.S. congressional hearing have on TikTok's global image and operations?
3. What future precautions can be set in place to ensure transparency and compliance with regulations in more regulated countries?
4. What strategic steps can be taken to continue TikTok's continuous expansion into untapped markets?
5. What steps can ByteDance make to further distance itself from damaging or being linked to TikTok?

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