

# Strategic capability of google



**ASSIGN  
BUSTER**

Google Inc defines itself as a global technology leader which focuses on the ways people connect with information. Google is a search engine which offers variety of services including the ability to search for images, books, videos, products and phone numbers. Google also provides free email, instant messaging, blogging services and the company has become an international brand as people across the world ‘googled’ searching for information (Google, 2010). The business model of Google was based mostly on revenue from paid advertising. The two main advertising models are Adwords and Adsense. In adwords, text based advertising called sponsored links appears on the right hand side of the Google page separated from search results. The ads belonged to the products or services relevant to the search query. The Ad sense programs place advertisements on the websites of other content providers where the website operator and Google sharing the revenue (Menne, 2009).

Google launched a Chinese language version of google. com in 2000, which was hosted in United States and could be accessed from abroad by Chinese users. This service had captured around one quarter of the Chinese market for online search. But the service was often interrupted when the search queries attempted to cross the firewall. It also experienced similar difficulties with Google News China Division, where many news sites were blocked. The Chinese authorities shut down the access to google. com in September 2004 (Thompson, 2006). Though the service was restored after two weeks, the blocked sites were omitted. There were also other problems like politically sensitive queries were not easily accessible through Google site which at times became slow and unreliable and sometimes users were redirected to

Chinese search engines. Google also faced competition from Chinese search engine Baidu. Finally, Google was left offering a less than satisfactory version of Google. com (Hille, 2010).

In 2006, Google decided to launch self-censored Google. cn in 2006, where Google communicated to the user that the particular website has been censored. Google. com was also kept available as an additional service. Google refrained from offering Gmail and Blogger taking into account user's privacy concerns and to avoid having to cooperate with Chinese government on information sharing in investigation of dissidents. Google wanted to make its censorship transparent to users. After the launch of Google. cn in 2006, Google had done well in Chinese market but remained second to Baidu. com (Hille, 2010).

The report ' Google in China' aims at analyzing the business environment and strategy of Google Inc's operation in China. The report makes recommendations to the Board of Directors for the future development of the business strategy in China market.

## **Strategic capability of the organisation**

Google had to make decisions whether to escalate the operations in China, given the commercial potential to expand in Chinese market and the decrease in Chinese market share between 2002 and 2006. Google wanted to be active in China owing to the market size and the presence of key competitors. Expanding in China would be self -censoring on behalf of the Chinese Governmental policies. Google's objectives were based on two main principles: 1) the business commitment to protect the interests of the users,

thereby building a leading company in the highly competitive industry<sup>2</sup>) the policy conviction to make information available to everyone to make world a better, informed and free place (Hill and Jones, 2008). For China, they added one more commitment, responsiveness to local conditions.

## **Business environment**

China's economy during the last quarter century had transformed from a closed system to a market oriented economy with rapid growth in private sector. Commercial Internet access became available in China in 1995 (Lawrence, 2009). The number of internet users increased to 103 million in less than a decade. Around 46 million computers were connected to the web and most of them had a DSL or cable access. Sixty-nine percent of users had internet access at home and 38% had internet access at work. The web access and usage were not distributed evenly across geographic and demographic groups. Most of the common use of internet was for entertainment. Online shopping was not much popular in China.

Internet access was restricted through censorship mainly by firewalls at the borders; Government- mandated self-censorship by Internet service and content providers and through self-discipline by users.

China's internet market was second in size to that of US, but represented only about 8% of the population (Wilson, Ramos and Harevey, 2008). The Chinese Internet market was projected to grow from 105 million user's in 2006 to 250 million users by 2010. US based Google. com was already available in China since 1999. Google chose to create a version of search engine capable of understanding character based languages like Chinese,

Japanese, Korean, unlike its competitors who launched a China based version. The US based version could control 25% of Chinese search market. Sources suggest that Google's share of search might be as low as 25% (Hille, 2010).

The Chinese market for internet search was highly competitive and Google was losing market share. Baidu had succeeded in attracting the younger age users by offering entertainment services. Google was used by Chinese to search information outside China and Baidu was used to find information inside China. The most common internet activities in China were mainly music download, online chatting and online games.

### **Corporate governance and stakeholder power**

Google prides itself in providing a high quality user experience, which with the Government's censorship was badly affected. Another important concern of the users was the importance of user privacy. Any decision made by Google to enter China should consider the concerns of user privacy and government surveillance. Ever since 2002, Google has not been providing quality services to Chinese user. It was important for Google to take a decision on self-censoring that would affect its search services (Lawrence, 2009).

Google had to explain its action to its stakeholders. A majority of Google shareholders voted against an anti-censorship proposal, which was submitted by the Office of the Comptroller of New York city. Google, along with the Board of Directors recommended stockholders to vote against this

proposal. One good thing is that the share price of Google has not suffered much due to this issue.

## **Organization's strategic position and Existing strategic direction**

Strategy is complex process of determining the actions needed to be carried out in order to achieve the organisation's purposes (Sadler, 2003). It should focus on long-term goals rather than current achievements. Google expects China to be one of Google's most important markets, though it accounts only for a small portion of the revenue. Google has established research centers in China for innovation. Google studied the competitors filtering methods along with Chinese Governments censorship method to come up with its own self-censoring system (Thompson, 2006). In order to penetrate the Chinese market, Google plans to make Google. cn as Chinese as possible by hiring Chinese employees, and collaborating with Chinese Technology firms.

Google wanted to give greater autonomy to Google's local management in China. Google. cn has adopted a Chinese name Guge. Google has established two research centres in Beijing and Shanghai. Te Company has set up key partnerships with Chinese firms with the aim of increasing its market share. Google entered into a partnership with China Mobile to manage the firm's mobile Internet Search services in 2007. Google. cn collaborated with Chinese Music and Video sharing site Xunlei. com. In 2007, Google entered into a deal with Chinese Telecom and Tianya. com, a Chinese online community (Wilson et. al., 2008). Google is going to be marginalised in China in the end. In March 2010, Google moved the Search Engine to Honking, keeping other operations in China.

## **SWOT**

The comparison of a company's strength and weaknesses when compared to the main competitors help in identification of areas where the company has competitive advantage. The SWOT analysis provides four possible fields of strategic direction by combining the Strengths, Weakness, Opportunities and Threats into a SWOT matrix.

### **Strength**

The recognition of Google as an international brand

Potential to tap Chinese market through partnerships and establishment of research centres in China

### **Weakness**

Messaging, entertainment, email and news were not offered by Google in China

The company was perceived a global firm but not close to average Chinese user

Google was perceived a foreign company but not in China

### **Opportunity**

Innovative technologies to keep pace with the market.

Partnerships with local Chinese firms to promote technological initiatives

### **Threats**

The competitor Baidu offered entertainment services to the younger users

Baidu was perceived as Chinese brand with good technology, friendly and close to the average Chinese.

The Governments' Censorship on sensitive information

By moving the search engine outside China, Google do not comply with the laws, which may affect the business environment of the company

(Knowlegde@Wharton, 2010)

## **PESTLE**

The main purpose of doing a PESTLE analysis is to understand what is happening in the external environment and its effect on the organisation.

### **Political**

Installation of sophisticated router switches blocked information flowing in and out of China

A blacklist of banned IP addresses and URLs featuring news about politically and culturally sensitive topics was given to the operators by the Government and wanted operators to block them.

All providers in China had to provide the customer's account numbers, phone numbers and IP addresses to the Government (Ashford, 2010)

The providers were asked to track the websites the users accessed under the policy of Public Pledge of Self -regulation and Professional ethics.

Internet cafes were asked to install software that blocked sensitive content and the patrons who visited these sites had to present their identification under their real name.

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Chinese Government launched a \$800 million surveillance system called Golden Shield for monitoring Civilian use of internet

35000 internet police jobs were created to monitor and censor websites in China.

Two cartoon police officers JingJang and ChaCha appeared on the screens to remind users to refrain from accessing sensitive information.

The information about the dissidents were collected and prosecuted.

## **Economic**

China does not have a full bloomed media like in US

Average age of internet users is about 25

Users in China use search engines to search for songs and entertainment

There is a gap on Internet connectivity in Urban and rural areas (Chiou, 2009)

## **Social**

In China, Web access and usage is not distributed demographically and geographically.

In 2005, 60% of internet users were male and 40% were female

Most users were young with 18-24 age group

Internet users were the well-educated group.

Most of internet usage was concentrated around cities and coastal provinces

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Chinese business people do not rely on email, as they feel leaving messages is socially awkward (Thompson, 2006)

## **Technical**

The Government could monitor all foreign traffic by positioning routers at borders

China Telecom, the dominant internet service provider for China enabled the Great Firewall of China for filtering out sensitive information.

## **Legal**

The Global Information Technology Report 2008-2009 showed a low judicial independence, intellectual property protection, efficiency of legal framework, property rights and quality of competition in the ISP sector.

Deployment of internet police for monitoring and censorship on Internet.

## **Environmental**

The huge population of China makes it a potential market for Google

## **Conclusion**

Google is continuing its talks with the Chinese government about easing censorship and the company (Ashford, 2010). Google can be a reason for social good in China, which may promote the freedom of expression.

Withdrawal of Google from China can prevent from realisation of such benefits. Transparency can be considered as a greater method of resistance, even if it results in greater scrutinisation. The case of Google is that the national law has collided with the corporation's ethics. Google should rethink

its strategy and analyse the impact on overall business in the Chinese market.

## **Recommendations**

Based on the research done, the following recommendations can be done

Google needs to clearly redefine its strategies when it comes to capturing and sustaining in the Chinese market. The organization should identify its strengths and weaknesses and the extent to which opportunities and threats affect Google by the changes in the Chinese internet market. Google should be able to identify them and adapt to them in a timely way.

The ongoing talks with Chinese Government to ease censorship are commendable.

The company should not be deviated from its goal because of the short term pressures like internet censorship and regulations

At the same time, it should also consider its Corporate Social Responsibility of freedom of access to information by the users and stakeholders.

Google should aim at building the best Chinese search to target the average Chinese user

Google should collaborate extensively with portal sites, wireless networks and ISPs in China.