

# Google operating in china analysis



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Critically evaluate the arguments for and against Google operating in China from a business perspective.

Critically evaluate the arguments for and against Google operating in China from an ethical perspective.

Do you think Google was right to withdraw from mainland China in March 2010? Give reasons based on your own independent research.

Critically evaluate the arguments for and against Google operating in China from a business perspective.

One of the most significant developments over the past sixty years has been the internationalisation and globalisation of business, where processes to increase involvement in international operations go hand in hand with an approach that actively seeks homogeneity in products, markets and image. This development has altered the nature of competition in a global scale. In Google's case, whilst since 2000 it had offered a Chinese version, Chinese users found this service to be slow and unreliable, resulting in Google losing market share, particularly to the Chinese firm Baidu. Hence the management decision in 2005 to enter this market segment.

As a worldwide leading provider of internet products and services, Google management would have completed a SWOT analysis to ensure market penetration in China would be feasible. Detailed below is a SWOT analysis for Google's planned business venture in China.

Strength

## Weaknesses

Global brand image

Financially robust

Trying to please shareholders and Human Rights supporters but ending up pleasing no one.

Politically naive when dealing with Chinese regime.

Damage to brand image.

## Opportunity

### Threats

Growth in new market.

Local competition

Uneasy partnership with Chinese government who have the power to refuse operating licence.

For

Increase Market Share. By 2005, Google's market share in China was shrinking, particularly in relation to local, Beijing-based rival Baidu. To reverse this trend, Google would need to commit fully to the ever expanding internet market in China.

Increase in Profits. Revenue from internet market on-line advertising potential was a critical factor in deciding to penetrate the Chinese market. By 2005, there were 103 million internet users in China compared to 154 million in the USA. (pg 471: 12) Cheng (2010) states that China offers Google and its rivals the opportunity to tap into a market with 350 million users.

Demographics. Market research indicated Chinese users to be well educated, young and socially aware. To advertisers, this would offer a wealth of untapped potential.

Opportunities. Opportunity to increase product placement within an expanding market by teaming up with local mobile phone carrier, government owned China Mobile. The number of mobile phone in use was projected to grow by approximately 57 million annually. (Duke pg 6)

Satisfy Shareholder. Market Share. Increased revenue from expanded market share would be beneficial in increasing shareholder profitability. With the USA reaching saturation point, entering the Chinese market would be in line with the strategic aims of Google by using international development to boost growth.

Brand Awareness. Increased brand awareness through offering dedicated Chinese services to wider market segment aimed at attracting all levels of society. Current off-shore based services had been mainly utilised by English speaking elite.

Market Segmentation. With an annual revenue of \$6. 1 billion, Google were acknowledged as the world's premier internet search services provider. In

order to increase market segment, fully entering and expanding the untapped potential of the China market was the most logical choice.

Brand Image. Chinese government wanted to be seen as in partnership with an international brand leader. This would facilitate obtaining relevant permits and licences making the operational set up process smoother and trouble free.

Quality of Service. Offering an off-shore based Chinese service since 2000, Google's Andrew McGlaughlin confirmed the service was poor and not something they were proud of. Entering the China market directly, would improve user experience, enhance service levels and increase overall reliability and remove some of the problems generated by the great firewall of China censorship. (pg 467 no 2)

Market Research. In comparison to local providers, market research indicated the Chinese market viewed Google as a distant and foreign competitor. Establishing Google. cn locally would bring the product directly to the consumer.

Against

Competition in China. Local competition from already established providers. In particular, Baidue, who are alleged to have strong unofficial ties and influence with the Chinese government. This may hinder market penetration and slow profit returns.

Global Competitors. International competition from already established competitors, Yahoo and Microsoft who had teamed up local Chinese partners to increase their own market penetration.

Brand Image. Damage to brand by working with and being seen to comply with authoritarian regime censorship demands coupled with human rights implications. This may adversely affect business opportunities and potential for profit as other companies and market operators may wish to distance themselves from Google. The case for his argument can be justified as a direct consequence of the Shi Tao and Zhao Jing incidents affecting Yahoo and Microsoft. (475)

Start up Costs. Any new venture would incur set up costs including infrastructure, staff, operating costs. Setting up in China posed particular problems which Google planned to offset by employing key leadership specialist (headed up by Kai-Fu Lee) and locally recruited employees to give Google. cn as much of a Chinese flavour as possible.

Local Legislation. Compliance with local censorship regulations would still affect user searches for sensitive topics. Internal location of the company would not offset regime censorship and firewall issues.

Choice of services. Google is currently more than a search engine provider, yet not an entertainment company or a portal offering its own content unlike its local competitor, Baidu, who offered a full range of services that included entertainment. In addition to being unable to compete directly with its competitors, Google would actually need to restrict those features and

products it would offer, such as G-mail and blogger, to avoid compromising Chinese dissidents and Human Rights activists.

Cultural difference. Cheng (2010) comments on Google's open challenge to China's rulers and highlights the importance of cultural awareness when conducting business overseas and cites Albert Louie, managing partner of Beijing-and Hong Kong-based A. Louie & Associates, a firm that helps multinationals manage crisis and risk in China, who stated that Google's actions did not reflect business practices in China and it would have been better for the company to conduct negotiations for a fair settlement through a third part like former President Bill Clinton and former U. S. Secretary of State Henry Kissinger who were friends of China.

Critically evaluate the arguments for and against Google operating in China from an ethical perspective.

Organisations are now required to take into account the full scope of their impact on communities and the environments in which they work, balancing the needs of stakeholders with the need to make a profit. Although there is no one size fits all strategy, well managed programmes have universal benefits. Google's appears to have a Utilitarian (in that Utilitarianism maximises the greatest good for the greatest number of people) rather than Ethical Formalist philosophy. This is enshrined in their mission statement, "to organize the world's information and make it universally accessible and useful". However, the China marketing decision appears to have suborned this philosophy replacing it with a more Ethical Formalist philosophy whereby in return for market access, Google will comply with local Chinese laws and

their perceived universal prescription as defined by the Communist government.

Detailed below are the relevant arguments that critically evaluate for and against Google's Chinese operation.

#### Case For

Increased personal choice allows greater freedom of information by offering users a recognised ethical global brand as an alternative to local providers with strong but unofficial ties to the communist regime (Baidu. com).

Promote company mission and ethical values by developing relevant company ethos and work practices within locally employed labour force. This ties in to Kotler and Lee (2005) who state that important ethical issues can relate to the workplace, labour, community development and Human Rights.

Promote Beneficial Influences. Work to inculcate Google philosophy and ethical values into Chinese society as a whole through the spread of business contacts, user experience and wider access to internet based news, blogs and information sites.

Offer ethically tailored services and products to meet Chinese users' needs that worked effectively within locally imposed limitations and restrictions by Chinese government. Google deliberately chose not to offer Gmail and Blogger in order to avoid human rights and privacy concerns raised by Chinese government investigation of dissidents.



Access to information. Participate in expanding internet use across all social levels of Chinese society to fill the information void in China created by state controlled media thereby fulfilling its self declared mission and values of providing unbiased, accurate and free access to information for those who rely on us around the world..... serving our end users is at the heart of what we do. (pg 469 – case study)

Some is better than none. Limited access to the world's information would be beneficial to the Chinese people rather than no access at all. Brin (DATE) stated “ one thing we know, is that people can make better decisions with better information”.

#### Case Against

Public Pledge. Google can be seen as being complicit with Chinese domestic policy (internet policing and dissident suppression – local law known as Public Pledge and signed by all companies wishing to operate in China). Specific to Google was the need for self censorship to comply with Government blacklisted IP addresses and URLs (see pg 474 – no 22)

Do no evil. By conforming to the Chinese government “ Public Pledge of Self-Regulation and Professional Ethics”, the company directly contradicted its own well publicised ethical stance and motto ‘ do no evil’. This government regulation would impact on Google's ability “ to organize the world's information and make it universally accessible and useful”.

Poor management. May ultimately show poor managerial decision making and highlight the company to be politically naive in its expectations and

dealings with a well established authoritarian regime. Damage to brand equity may result with loss of user confidence in company's ethical ability.

Ethical Integrity. Bugeja (2007) highlighted a split in Google's ethical integrity over users rights and privacy. Domestically Google resisted US Federal Government pressure and claimed First Amendment concerns over a proposed law that would require Google to supply user information of operators of child pornography sites. Bridis (2006) as cited in Bugeja (2007) stated that Sergey Brin acknowledged that his company compromised its principles in acquiescing to China's censorship demands in order to operate its China market. This impacted adversely on Google's ethical branding.

Lack of Transparency. By tacit acceptance and subsequent fronting of Chinese government censorship, Google may be seen as having put an ethical brand mask over an authoritarian regimes' tool for repression. This may encourage others who would do business with China to adopt a similar lack of ethical transparency.

Do you think Google was right to withdraw from mainland China in March 2010? Give reasons based on your own independent research.

Ethically and economically, it is my opinion, Google was right to withdraw from mainland China in March 2010. Ethically, this showed a return to their core concept of 'do no evil'. Additionally, research indicated that economically there was also a good underlying reason for breaking with China.

I have used John Elkington's (1997) Triple Bottom Line (TBL) Index below to illustrate why I think Google was right to withdraw from China. I have used this index because it reflects Google's operating licence in society to satisfy its stakeholders through generating profits (the economic bottom line), and will aid my argument to reflect the company's actions to improve its products, services and resource control and use (environmental bottom line) and product users privacy and protection (social bottom line).

Source: Responsibility. com

## **Ethical/Social**

Google's case highlights the importance of ethical behaviour in business i. e. Corporate Social Responsibility (CSR). CSR defines how companies manage the business processes to produce an overall positive social impact on the communities they interact with.

(NGO – Non-governmental Organisations)

Source: Mallen Baker – Corporate Social Responsibility – What does it mean?

– News and resources – available at <http://www.mallenbaker.net/csr/CSRfiles/definition.html>

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In my opinion, when deciding to withdraw from China, a review of the following factors using Baker's model would highlight factors affecting Google's ability to operate and deliver quality services to users in China and its impact on the company's global standing. This would in turn support the company's decision to withdraw from the mainland China market.

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1. The quality of their management (Both local to China and at head office) – in terms of people, processes and policies – (the inner circle).
2. The nature of and quantity of their impact on society as shown in the various areas above – market growth, consumer satisfaction and protection (Human Rights), compliance with local laws and product placement (the outer circle).

Google is a global company with a publically stated CSR plan that is integral to its business strategy. I believe that in today's global business environment, external stakeholders would be CSR aware and interested in the impact of the company's CSR activities. Campbell (2110) affirms this when she states that Google disappointed “earnest fans” when it agreed to comply with China's censorship. Using the above diagram (the outer circle) they can analyse company performance, good or bad, in terms of its products and services and in terms of their impact on the environment, local communities, workforce development and treatment. Of the various stakeholders, it is financial analysts who are predominantly focused on management quality (the inner circle) as an indicator of likely future performance.

My research has indicated that by early 2010, Google faced a growing dilemma: either adhere to its ethically based and socially sound mission and motto, “to organize the world's information and make it universally accessible and useful” and “do no evil,” or deviate from its core values and continue to develop its market share in the second largest global economy (Boyton, 2010).

Pg 7/8 It is clear that at the highest level within Google, a decision was made to sacrifice economic potential (the company was on target to meet predicted Chinese sales of \$600 million) to the social and ethical requirements of the company's mission statement. The resulting benefit to company brand equity of this decision is confirmed by Bill Bishop (date). This also confirms my belief that withdrawal from mainland China was the right decision producing clear benefits to the company.

Additionally, Google's has a reputation to maintain and whilst its reaction may have been seen by many as over the top (Cheng 2010), this was necessary to ensure customer confidence in their business operations.

### **Economic /Environmental**

With its departure from China, Google lost an extensive market share and cut off access to over a million internet users. However, from a purely economic standpoint, the loss of (pg 7) future business potential in the China market would be offset by the company ending its current commercial struggle to maintain and expand market share in the face of the combined competition of domestic rivals Baidu (58. 4% of the market), Alibaba's Taobao and Tencent. This confirms Bill Bishop's, Beijing based angle investor, statement that there was no long term potential for Google in the Chinese market.

By routing user requests to Hong Kong based resources, Google attempted to balance its economic need against operating within China's mainland environmental requirements (compliance with local laws and regulations censoring internet usage). In my opinion, this was an attempt in spirit by

Google to meet China's censorship policies that in practice allowed it to claim it was maintaining its own anti-censorship stance (pg 1 top.

Pg 1. The subsequent scandal involving Chinese government hacking allegations against Google servers and the loss of confidential information and e-mail data further added to Google's unease over its involvement with Chinese government internet censorship policies with its potential to impact on Google users' human rights.

Additionally, impending American legislation (Global Online Freedom Act 2010), if passed, will force American based companies doing business with authoritarian regimes to protect their user's personal information and prevent them from handing this information to the regimes concerned. I believe that Google's decision to withdraw from China in 2010 may be seen in part as an attempt to comply with this impending legislation and reinforce its image of complying with legislation (this directly ties in with environmental compliance as described in Elkington's (DATE) TBL model.

In Conclusion.

A global economy and improvements in technology enables the public to access information relating to how socially responsible and ethical companies are (resulting in increased worldwide sensitivity to ethical issues). Consumers are taking more interest in the companies which they use, their impact on the environment, on local communities, and in how they treat their workforce. Investors are making investment decisions based on social sustainability and governments have tightened legislation and developed economic, environmental and social initiatives. In Google's case, it was right

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for them to withdraw from mainland China if only for the following salient points:

Business point. Market share growth has not met expectation.

Ethical point. It was right for them not to comply with Chinese censorship.

Overall. Brand image protection.