



Business Roundtable

**Institute for Corporate Ethics**

Case BRI-1005

**Google, Inc., in China** (condensed)

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## GOOGLE, INC., IN CHINA (Condensed)

### Key Case Facts

- Tom MacLean, director of International Business at Google, Inc.; managed the decision to physically enter Chinese territory through the development of Google.cn—a search engine residing in China. The search results of Google.cn were subject to Chinese filtering and monitoring, which drew ire from nongovernmental organizations, academics, press, and the general public, culminating in a U.S. congressional hearing on February 15, 2005.
- Company was ridiculed for “Don’t be evil” motto, and critics blamed Google for supporting a country with a totalitarian regime, known for its numerous human-rights violations.
- MacLean won support from the top management team by suggesting that Google, Inc., maintain both the unfiltered Chinese-language site (Google.com) with the filtered China-based site (Google.cn).
- The decision to develop Google.cn was complicated. In the words of Elliot Schrage, Google’s vice president of Global Communications and Public Affairs:

[Google, Inc., faced a choice to] compromise our mission by failing to serve our users in China or compromise our mission by entering China and complying with Chinese laws that require us to censor search results.... Based on what we know today and what we see in China, we believe our decision to launch the Google.cn service in addition to our Google.com service is a reasonable one, better for Chinese users and better for Google.... Self-censorship, like that which we are now required to perform in China, is something that conflicts deeply with our core principles.... This was not something we did enthusiastically or something that we’re proud of at all.<sup>1</sup>

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<sup>1</sup> Congressional testimony, *The Internet in China*.

- Was Google endorsing censorship by conforming to the Chinese authorities' rules? Was Google acting as a tool for the government? Were Chinese citizens better off after Google's decision to enter China with Google.cn? MacLean was starting to question whether the decision went against Google's stated mission of organizing the world's information and making it universally accessible and useful.<sup>2</sup>

## **Google, Inc.**

Google, Inc., took great satisfaction in being different from other corporations. Founded by Larry Page and Sergey Brin, Google's start was legendary. While Stanford graduate students, Page and Brin developed a search technology and grew Google.com into the most popular search engine in the world. The technology used an algorithm to find possible Web pages with search criteria provided by the user. Google's PageRank™ technology "measures the importance of different Web pages by solving an equation with more than 500 million variables and 2 billion terms."<sup>3</sup>

## **Financial Success**

Google's core technology was a search tool designed by founders Page and Brin. Its primary source of revenue was through the advertising placed on its Web site. Important to Google's search philosophy was maintaining as much search "neutrality" as possible, with advertisements being distinguished from all other search results. Companies could not purchase placement on a search-result list.

Google saw tremendous market and financial success. The company's 5,680 employees were scattered throughout the world. In 2005, Google maintained a positive cash flow of \$3.45 billion and starting in 2006, was generating more than \$1 billion in cash every quarter. Google had revenues of \$6.14 billion and a net profit margin of 25.18%.<sup>4</sup> While growing domestically, Google had begun to focus more on its global strategy. The majority of searches were international, yet revenue was just 34% of \$3.2 billion in 2004.<sup>5</sup>

Although Google was in a secure financial position, going public had increased its public scrutiny, and the company was facing growing competition from Microsoft, Yahoo!, and "meta" search technology that combined the search results from other search engines such as Dogpile or Mamma.

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<sup>2</sup> <<http://www.google.com/intl/en/corporate/index.html>>.

<sup>3</sup> <<http://www.google.com/corporate/tech.html>>.

<sup>4</sup> <<http://finance.google.com/finance?q=google>>.

<sup>5</sup> Jason Dean and Kevin Delaney, "Limited Search: As Google Pushes into China, It Faces Clashes with Censors," *Wall Street Journal*, December 16, 2005.

## **Corporate Ethos**

Google had adopted the informal corporate motto “Don’t be evil” from the founders’ letter and also developed an ethical code of conduct for both internal and external audiences.

In addition to the code of conduct, Google’s mission “to organize the world’s information and make it universally accessible and useful” was supported by a list of “10 things” constituting the company’s philosophy. Google’s focus on the user guided most of its decisions.

This principle was best demonstrated in Google’s refusal to accept sponsored search results. While competitors allowed organizations to pay money for a prime spot on search listings, Google relegated all sponsored links to the right-hand portion of the screen and clearly designated them as sponsored links. A cottage industry of search-engine optimizers (SEOs) promised to modify customers’ Web sites to increase their rank within Google’s search results. Google continually fought such manipulations of their search results.

For Google, the listing of a code of conduct, the 10 things, and even business decisions were in flux. The company steered clear of proclamations and was not afraid to change its mind.

## **China**

As James Keith, senior adviser for China and Mongolia in the State Department’s Bureau of East Asian and Pacific Affairs, testified before Congress:

China’s well-documented abuses of human rights are in violation of internationally recognized norms, stemming both from the authorities’ intolerance of dissent and the inadequacy of legal safeguards for basic freedoms. Reported abuses have included arbitrary and lengthy incommunicado detention, forced confessions, torture, and mistreatment of prisoners as well as severe restrictions on freedom of speech, the press, assembly, association, religion, privacy, worker rights, and coercive birth limitation. In 2005, China stepped up monitoring, harassment, intimidation, and arrest of journalists, Internet writers, defense lawyers, religious activists, and political dissidents.<sup>6</sup>

## **The Internet and China**

One market where U.S. corporations had considerable impact was the Internet. The vast, uncensored information endemic to the Internet was not welcomed by Chinese authorities. Officials immediately implemented various yet vague rules regulating conduct and content on

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<sup>6</sup> James Keith, testimony on February 15, 2006.

the Internet. The enforcement of these laws was possible, owing to the physical infrastructure of the Internet.

China's monitoring and enforcement system captured the source and receipt of content and leveraged technology, law enforcement, private corporations, and individual citizens. China was "believed to have the world's most sophisticated network for monitoring and limiting information online."<sup>7</sup>

China took a two-pronged approach to censoring the Internet. First, authorities restricted the production, development, and dissemination of improper content. Second, authorities monitored the perusal of content or receipt of information. "Harmful" content included material concerning democracy (e.g., freedom), religious cults (e.g., Falun Gong), or antigovernment protests (e.g., Tiananmen Square).

### **Enforcement**

Enforcement involves the use of both governmental censorship and self-censorship. It is known to be present in the following:

- **Technology:** Positioning routers at the edge of the domestic Internet
- **Government law enforcement:** 30,000 Internet police
- **Corporations:** Self-censorship of cybercafés
- **Propaganda:** News stories about imprisoned journalists
- **Individuals:** Online reporting centers encouraged "citizens to report 'harmful' information
- **Vague yet specific approaches:** Seemingly omniscient presence; definition of "harmful material" changed weekly

### **Backlash**

To circumvent the Chinese surveillance program, tech-savvy Chinese citizens relied upon proxy servers and anonymizer programs, often located outside China. News of these technologies traveled the old-fashioned way—by word of mouth, radio, or underground newspaper. This antisurveillance movement also used the Internet to communicate important news that had been censored by other Chinese media outlets, including newspapers, radio, and television. For example, news of an AIDS epidemic in Henan Province, safety conditions in mines, poisoning of the Songhua River, and the SARS outbreak all reached a wider audience through the use of the Internet and the circumvention of Chinese filters.

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<sup>7</sup> Robert McMahon, "U.S. Internet Providers and the 'Great Firewall of China,'" Council on Foreign Relations, <[http://www.cfr.org/publication/9856/us\\_internet\\_providers\\_and\\_the\\_great\\_firewall\\_of\\_china.html](http://www.cfr.org/publication/9856/us_internet_providers_and_the_great_firewall_of_china.html)> (accessed on February 14, 2006).

## Google in China

Google, Inc., first entered the Chinese market in early 2000 by creating a Chinese-language version of its home page. Google's approach was to maintain a Chinese-language version of Google.com that was housed in the United States but could handle search requests originating within China. In this way, the technology was not subject to Chinese censorship laws as the facilities were not within China's physical boundaries, and Google did not need a license from the Chinese government to operate its business. Usually, when users attempted to click on a banned site, a full, unfiltered list was produced and they would be blocked by Chinese filters. Users were able to see the complete list of all the information pertaining to their search, including the information that the Chinese government considered threatening.<sup>8</sup>

These search requests and corresponding search results all passed through one of nine Chinese international gateway Internet service providers, which were monitored and filtered by the Chinese government. In September 2002, Google.com was inaccessible for two weeks. When reinstated, it was slow and temperamental for all Chinese users and completely inaccessible for Chinese colleges and universities.<sup>9</sup> According to Elliot Schrage, Google's vice president of Global Communications and Public Affairs, "The average time to download a Google Web page was more than seven times slower than for Baidu, the leading Chinese search engine."<sup>10</sup>

In 2004, Google realized that its approach in China was not sustainable. Google was losing market share to Baidu, and others, including Yahoo! and Microsoft, were gaining ground through their local presence. Google embarked on a one-year analysis of the Internet in China by consulting both governmental and nongovernmental organizations, business partners, and Chinese experts such as Xiao Qiang, an Internet scholar at the University of California–Berkeley.<sup>11</sup> Meanwhile, in June 2004, Google purchased a 2.6% stake in Baidu for \$5 million.

In January 2006, Google announced the creation of Google.cn, which was located in China and subject to Chinese filtering. This product was "faster and more reliable, and ... provide[d] more and better search results for all but a handful of politically sensitive subjects."<sup>12</sup> Google differentiated this product from those of its competitors by: (1) keeping personal information outside China through Gmail, its Web-based email service, and Blogger, its personal Web-blog-hosting service; (2) disclosing the presence of general filtering to users; and (3) continuing a Chinese-language version of Google.com.<sup>13</sup>

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<sup>8</sup> Thompson, "Google's China Problem."

<sup>9</sup> Thompson, "Google's China Problem."

<sup>10</sup> Elliot Schrage, testimony before the House Committee on International Relations Subcommittee on Asia and the Pacific and Subcommittee on Africa, Global Human Rights, and International Operations (February 15, 2006): 5.

<sup>11</sup> Dean and Delaney, "Limited Search."

<sup>12</sup> Schrage testimony.

<sup>13</sup> Schrage testimony.

### **Personal information**

Although Google had decided to maintain Gmail and Blogger outside China, both services required personal information from users that, if hosted on servers located inside China, would be subject to requests for information by Chinese authorities. By keeping Google's email and blogging services outside Chinese territory, the company hoped to protect its users' privacy and confidentiality.<sup>14</sup>

### **Notification**

With Google.cn, the company did exclude material and links from sources the government deemed subversive or harmful in order "to comply with local Chinese laws and regulations."<sup>15</sup> Google decided to post the information that filtering was occurring on its Google.cn search site by "putting a statement at the bottom of every page of search results that are required to be filtered, saying that we are not showing the full range of results because we are required not to as a result of government laws and restrictions."<sup>16</sup> Chinese users would be aware that, in general, searches were filtered, but they would not be aware of the exact nature of the filtering.

### **Filtering**

Google set up a computer in China and began conducting searches to determine what was filtered and to understand the degree and type of self-monitoring required for a license.<sup>17</sup> This search engine resided outside China and was not filtered by Google. By maintaining both sites, one could perform a search on both and compare the results to determine what was being filtered by the Chinese government.

In his congressional testimony,<sup>18</sup> Schrage stated that Google had made its decision based on balancing its commitment to user interests, access to information, and responding to local conditions:<sup>19</sup>

The requirements of doing business in China include self-censorship—something that runs counter to Google's most basic values and commitments as a company. Despite that, we made a decision to launch a new product for China—Google.cn—that respects the content restrictions imposed by Chinese laws and regulations ... our decision was based on a judgment that Google.cn will make a

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<sup>14</sup> Schrage testimony.

<sup>15</sup> Schrage testimony.

<sup>16</sup> Schrage testimony.

<sup>17</sup> Schrage testimony.

<sup>18</sup> Schrage testimony.

<sup>19</sup> Schrage testimony.

meaningful—though imperfect—contribution to the overall expansion of access to information in China.<sup>20</sup>

As Andrew McLaughlin, an attorney for Google, stated: “While removing search results is inconsistent with Google’s mission, providing no information ... is more inconsistent with our mission.”<sup>21</sup>

Schrage acknowledged: “[Don’t be evil is] an admonition that reminds us to consider the moral and ethical implications of every single business decision we make.... We believe that our current approach to China is consistent with this mantra.”<sup>22</sup>

### **Tom MacLean, Google, and China**

Realistically, Tom MacLean had at most one day to prepare for a meeting with his supervisor and her peer group. While he knew that priority would be given to stemming the bad publicity over the decision to develop the Google.cn search engine within China, MacLean had not heard whether the management team was concerned enough to change course in China.

In the meeting, MacLean would be expected to communicate a course of action for Google.cn that acknowledged all the negative attention while standing behind his original strategic plan. Organizations that were principled and flexible were admired in the business classroom. The question was: Could MacLean put such an approach into practice?

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<sup>20</sup> Schrage testimony.

<sup>21</sup> Mike Langberg, “China Entry Raises Issues of Morals vs. Money,” *Mercury News*, January 24, 2006, <<http://www.mercurynews.com/mld/mercurynews/13702710.htm>>.

<sup>22</sup> Schrage testimony.