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4.3. Google, Inc.: Figuring out how to deal with China

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## 4.3

# Google, Inc.

## Figuring out how to deal with China<sup>1</sup>

*Anne T. Lawrence*

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In 2005, Google, Inc.'s top management team struggled to decide if the company should enter China—and, if so, how. Since 2000, the company had offered a Chinese-language version of its popular search engine, hosted on servers outside China. However, Chinese users found this service slow and unreliable, and Google was rapidly losing market share, particularly to the Chinese company Baidu. At the same time, the number of Internet users in China—and with them the potential for online advertising revenue—had been growing almost exponentially. Yet serious ethical questions remained unresolved. China operated the most far-reaching and sophisticated system of Internet censorship in the world. Any Internet company doing business there would have to filter content that the communist regime considered offensive. Moreover, the Chinese government had demanded that other U.S. Internet companies identify individuals who had used their email or blogs to criticize the authorities, and at least one dissident had been jailed as a result. Would it be possible for Google to enter China, while remaining true to its mission to make the world's information “universally accessible and useful” and to its informal corporate motto, “Don't Be Evil”?

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1 Copyright © 2007 by the author. All rights reserved. This is an abridged version of a full-length case, *Google, Inc.: Figuring out how to deal with China*, licensed to Babson College and published by Harvard Business School Publishing. An earlier version of this case was presented at the 2007 annual meeting of the International Association for Business and Society. This case was the winner of the Dark Side Case Writing Competition sponsored by the Critical Management Studies Interest Group and the Management Education Division of the Academy of Management in 2007.

On July 15, 2005, Google's board of directors gathered for its regular meeting at the company's headquarters in Mountain View, California. On this occasion, CEO Eric Schmidt's presentation to directors was divided into three parts—"Highlights," "Making Slow Progress/Watch List," and "Lowlights/Serious Concerns." Schmidt had much positive news to report. Google, the world's premier provider of Internet search services, was producing strong advertising sales in the United States and Europe, generating innovative new products, and expanding its service in Ireland, India, and other countries. Schmidt had one major worry, however. Under the heading "Lowlights/Serious Concerns," the first item listed was "China."<sup>2</sup>

The question at hand was whether or not Google should directly enter the Chinese market for search engines. In 2000, the company had established a Chinese-language version of its popular search engine, hosted on servers outside China. When a searcher accessed google.com from inside the country, the company's servers would automatically deliver results in a Chinese translation.<sup>3</sup> This service left much to be desired, however; it was unreliable, and Chinese censors routinely removed search results. Google's senior policy counsel and a member of the company's core China team, Andrew McLaughlin, described the problem in his blog:

Google users in China today struggle with a service that, to be blunt, isn't very good. Google.com appears to be down around 10% of the time. Even when users can reach it, the website is slow, and sometimes produces results that when clicked on, stall out the user's browser. Our Google News service is never available; Google Images is accessible only half the time. At Google we work hard to create a great experience for our users, and the level of service we've been able to provide in China is not something we're proud of.<sup>4</sup>

The issue had recently become more urgent because Google had been losing market share, particularly to Baidu, a Chinese company. At the same time, the number of Internet users in China—and with it the potential for online advertising—had been growing almost exponentially. Google seemed to be missing a huge opportunity.

Yet serious ethical questions remained unresolved. China operated the most far-reaching and sophisticated system of Internet censorship in the world. Any

2 Google board meeting, Friday, July 15, 2005, confidential presentation slides, pp. 5-9. Google released these slides—with portions redacted pursuant to a stipulated protective order—in connection with a lawsuit filed by Microsoft Corporation alleging violation by Google, Inc., and Dr. Kai-Fu Lee, a former Microsoft executive, of Dr. Lee's non-compete agreement (*Microsoft v. Lee*, 05-2-23561-6, King County Superior Court, Seattle, WA).

3 Google's early efforts to provide service to the Chinese are described in: Clive Thompson (2006) "Google's China Problem (and China's Google Problem)," *New York Times Magazine*, April 23, 2006.

4 [googleblog.blogspot.com/2006\\_01\\_01\\_googleblog\\_archive.html](http://googleblog.blogspot.com/2006_01_01_googleblog_archive.html).

Internet company doing business there would have to filter content that the Communist regime considered offensive. Moreover, the Chinese government had demanded that other U.S. companies identify individuals who had used the Internet to criticize the authorities, and at least one dissident had been jailed as a result. Would it be possible for Google to enter China, while remaining true to its informal corporate motto, “Don’t Be Evil”?

## Google, Inc.<sup>5</sup>

Google defined itself as “a global technology leader focused on improving the ways people connect with information.” In 2005, the company was the leading provider of Internet search services in the world. Its search engine offered a variety of specialized features, including the ability to search for images, videos, maps, news, products, and phone numbers. The company also provided free email, instant messaging and blogging services, and hosted all kinds of groups. One of the world’s most recognized brands, the company’s name had become a verb in many languages as people around the globe “googled” in search of information. In 2005, Google had more than 4,000 full-time employees and earned \$1.5 billion on \$6.1 billion in revenue; its market capitalization that year exceeded \$80 billion.

Google was founded by Larry Page and Sergey Brin, who met in 1995 when both were enrolled in the doctoral program in computer science at Stanford. As part of a research project, Page developed a search engine algorithm he called PageRank. The problem that intrigued him was that leading search engines at the time, including Alta Vista and Yahoo!, ordered search results based on matches between words in a query and those on a website. This method produced results that were often poorly matched to the searcher’s intent. Page’s critical innovation was to rank search results based on the number and importance of backward links to a particular website, that is, how often it was cited by others. This enabled him to prioritize results based on likely relevance to the user. In 1997, Page and Brin offered their search service to the Stanford community under the domain name google.stanford.edu, where it attracted an enthusiastic following.

Page and Brin continued to work on the nascent search engine—which they named Google after *googol*, a mathematical term referring to the number 1 followed by 100 zeros—to improve its functionality. One idea was to “crawl” the Internet and download the entire contents of the Web in a cache where it could be readily retrieved in order to return super-fast results to searchers. Because the two graduate students had little cash, they bought cheap PCs from a local discount chain and wrote their own software to build a makeshift supercom-

5 Except as noted, this history of Google is largely drawn from: Vise, D.A., and M. Malseed (2005) *The Google Story* (New York: Random House).

puter. This necessity later turned into a competitive advantage as they were able to spread computing tasks over multiple computers, building redundancy into the system. Another idea was to add a “snippet” for each search result—several lines that highlighted the parts of a website relevant to the user’s query. The two also developed the simple, clean design that became a hallmark of the Google site.

Page and Brin’s original idea for commercializing Google was to license their technology to other Internet companies. However, the companies they approached were uninterested. At the time, Alta Vista, Yahoo!, America Online, and other portals believed their competitive advantage lay not in superior search, but rather in offering a range of attractive services such as email, shopping, news, and weather. Forced to move ahead independently, the two graduate students incorporated Google in September 1998 and raised initial capital from several angel investors. In 1999, the venture capital firms Kleiner Perkins and Sequoia Capital jointly invested \$25 million, and John Doerr of Kleiner Perkins and Michael Moritz of Sequoia joined Google’s board. In 2001, the company hired Eric Schmidt, CEO of Novell, to be its chief executive.

Google went public in an initial public offering in August 2004. Page and Brin, each of whom owned about 15% of the company, retained control through their ownership of Class B shares.

## The business model

In 2005, Google’s business model was based almost entirely on revenue from paid advertising. The company made money in two main ways:

- **AdWords.** Under this program, launched in 2000, text-based advertisements—called “sponsored links”—appeared on the right-hand side of the Google screen, separated from search results (which appeared on the left-hand side of the screen) by a vertical line. The ads were for products or services deemed relevant to words in the search query. For example, a search for “women’s shoes” might produce an ad from zappos.com, an online retailer that billed itself as “the web’s most popular shoe store.” When AdWords first launched, advertisers paid based on number of times their ad was displayed. In 2002, Google began charging advertisers based on the actual number of times a user clicked on their ad. The price was set in an online electronic auction; advertisers—in effect—bid for click-throughs by Google searchers
- **AdSense.** In 2005, Google introduced AdSense. This program placed advertisements on the websites of other content providers, with the website operator and Google sharing resulting revenue. Participants in what the company called the “Google Network” ranged from major com-

panies such as America Online to small businesses and even individuals who operated websites devoted to personal interests or hobbies

In the six months ending in June 30, 2005, 99% of Google's revenue came from advertising; 1% came from licensing fees and other revenue. Of the ad revenue, 53% came from AdWords and 47% came from AdSense.<sup>6</sup>

In 2005, the company's foreign advertising revenue was growing faster than its domestic advertising revenue. As of June 30, 2005, international (non-U.S.) revenue was up 143% over the prior year; U.S. revenues were up 74% during this period. Even so, advertising revenue relative to usage elsewhere continued to lag the United States. By mid-2005, more than half of Google's user traffic—but only 39% of its revenue—came from abroad.<sup>7</sup>

## Mission and values

Google declared on its website that its mission was “to organize the world's information and make it universally accessible and useful.” In their founders' letter to prospective investors, issued in advance of the initial public offering in 2004, Brin and Page further elaborated on Google's core values:

Google is not a conventional company. We do not intend to become one. Throughout Google's evolution as a privately held company, we have managed Google differently. We have also emphasized an atmosphere of creativity and challenge, which has helped us provide 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 and remains our number one priority.<sup>8</sup>

Google's espoused commitment to its end users was reflected in its code of conduct. Declaring that the company had “always flourished by serving the interests of our users first and foremost,” the code called for usefulness, honesty, and responsiveness in the company's dealings with customers. The code also addressed the issues of respect, avoidance of conflicts of interest, confidentiality, reporting procedures, protection of company assets, and legal compliance.

In 2001, a group of employees met to discuss the values of the company. An engineer at the gathering proposed the injunction “Don't Be Evil.” This phrase stuck as an informal corporate motto. Later, when asked exactly what was meant

6 Google Inc., Form 10-Q, Quarterly Report for the Period ended June 30, 2005: 18.

7 Ibid.: 12,17,19.

8 Google Founders Letter, [investor.google.com/ipo\\_letter.html](http://investor.google.com/ipo_letter.html).

by this, Schmidt commented, perhaps a bit ruefully, “Evil is whatever Sergey says is evil.”<sup>9</sup>

In a 2004 interview with *Playboy* magazine, Google co-founders Brin and Page were questioned directly about the implications of the “Don’t Be Evil” motto for the decision whether or not to enter China. The reporter David Sheff asked: “What would you do if you had to choose between compromising search results and being unavailable to millions of Chinese?” Brin had replied:

These are difficult questions, difficult challenges. Sometimes the “Don’t Be Evil” policy leads to many discussions about what exactly is evil. One thing we know is that people can make better decisions with better information.<sup>10</sup>

## China—a major player

China, the nation that posed a “serious concern” for Google’s board of directors and a potential challenge to the company’s commitment to “do no evil” was one of the most economically dynamic countries in the world. With 1.3 billion people, it was also by far the most populous. In his book *China, Inc.*, Ted C. Fishman described the challenge posed by the rising Asian nation in the mid-2000s this way:

China is everywhere these days. Powered by the world’s most rapidly changing large economy, it is influencing our lives as consumers, employees, and citizens . . . No country has ever before made a better run at climbing every step of economic development all at once. No country plays the world economic game better than China. No other country shocks the global economic hierarchy like China . . . If any country is going to supplant the United States in the world marketplace, China is it.<sup>11</sup>

After World War II, the Chinese Communist Party under the leadership of Mao Zedong had established an autocratic, single-party state that imposed strict controls on China’s society and economy. In the 1970s, Mao’s successors had initiated a series of reforms that had gradually opened the nation to world trade. The U.S. Central Intelligence Agency (CIA) described these reforms:

9 Vise and Malseed, op. cit.: 211.

10 Sheff, D. (2004) “Playboy Interview: The Google Guys,” *Playboy*, September 2004.

11 Fishman, T.C. (2005) *China Inc.: How the Rise of the Next Superpower Challenges America and the World* (New York: Scribner).

China's economy during the last quarter century has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Reforms started in the late 1970s with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment.<sup>12</sup>

As a result of these reforms, China's gross domestic product (GDP) grew tenfold over three decades. By 2005, China had become the second largest economy in the world after the United States, as measured by purchasing power.

Despite its rapid integration into the world economy, China remained a single-party dictatorship. In April and May 1989—as communism was crumbling throughout eastern and central Europe—students, intellectuals, and labor activists organized pro-democracy demonstrations across China. These culminated in a mass protest in Tiananmen Square, a large plaza in the center of Beijing. On the night of June 3 and the morning of June 4, the Chinese government responded with a massive display of military force. Tanks over-ran the square and the streets leading to it, and soldiers opened fire on protesters, killing as many as 3,000 and injuring thousands more. The crackdown—known as the June 4th incident or sometimes simply as “Six-Four”—effectively suppressed the pro-democracy movement.

In 2005, the Chinese Communist Party faced an ongoing challenge: how to maintain its tight control of all major institutions, while allowing the free flow of money and information required in a market economy.

## Internet access<sup>13</sup>

The Internet first became commercially available in China in 1995. In less than a decade (see Figure 1), the number of Internet users in China soared from virtually none to 103 million, according to government estimates. This number was second only to the United States (with 154 million active users<sup>14</sup>) and represented

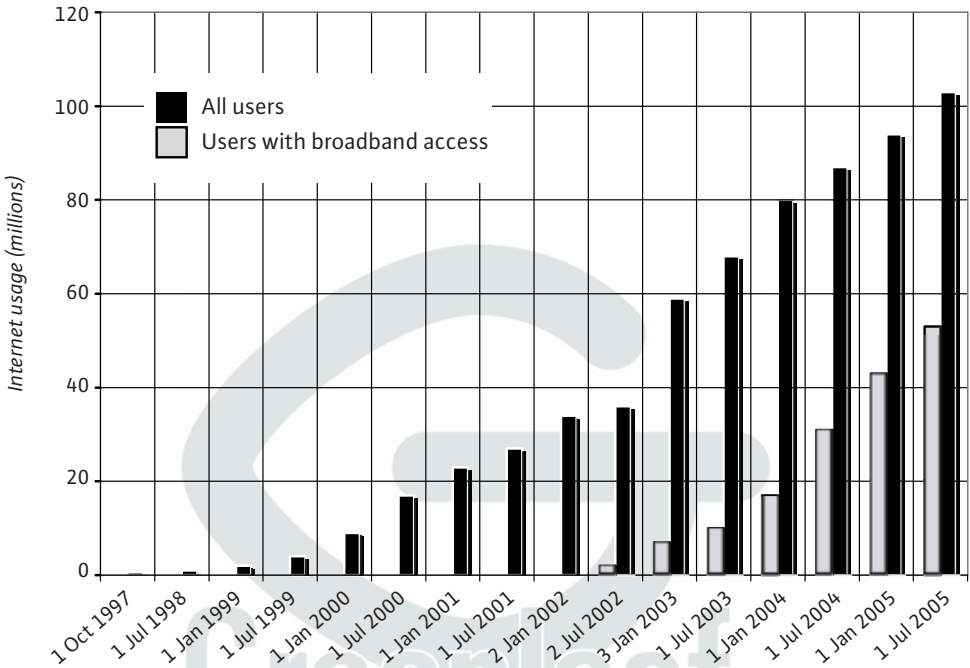
12 CIA (2006) “China,” in *The 2006 World Factbook* (Washington, DC: CIA; www.cia.gov, accessed October 27, 2006).

13 Data in this section, unless otherwise noted, are drawn from: China Internet Network Information Center (CNNIC) (2005) *16th Statistical Survey Report on the Internet Development in China* (Beijing: CNNIC; www.cnnic.cn/download/2005/2005072601.pdf, March 17, 2009).

14 U.S. data are for January 2006.

**FIGURE 1** Internet usage and access in China, 1997–2005

Source: 16th Statistical Survey Report on Internet Development in China (CNNIC, July 2005) and earlier semi-annual reports



An Internet user is a Chinese citizen who uses the Internet at least one hour per week. Users in Hong Kong, Macao, and Taiwan are not included.

11% of all Internet users worldwide.<sup>15</sup> Charles Zhang, chairman and CEO of Sohu.com, a leading Chinese Internet portal, argued that government estimates were too low because they were based on polls conducted over telephone land lines. “Young people do not use fixed line phones,” Zhang pointed out. “They all have mobile phones.”<sup>16</sup> Other estimates put the number of Internet users in China in 2005 as high as 134 million.<sup>17</sup>

Approximately 46 million computers in the country were connected to the Web, and a rapidly growing portion of these had DSL or cable access; by 2005, as shown in Figure 1, more than half of all Web users had a high-speed connection. Sixty-nine per cent of users had access at home and 38% at work. A quarter of

15 Computer Industry Almanac Inc. (2006) “Worldwide Internet Users Top 1 Billion in 2005” (press release, January 4, 2006; [www.c-i-a.com](http://www.c-i-a.com)).

16 “China Surpasses U.S. in Internet Use,” *Forbes.com*, April 3, 2006 ([www.forbes.com](http://www.forbes.com)).

17 “Net User Tally in China Nears 134 Million,” *South China Morning Post*, February 4, 2005.

all users logged on at Internet cafés. Average time online was 14 hours a week; users went online, on average, four days out of the week.

Web access and usage were not evenly distributed across demographic groups or geographically. In 2005, 60% of Chinese Internet users were male and 40% female. Most were young, with the largest group (38% of all users) being 18–24 years old; seven in ten were 30 or younger. Internet users were a well-educated group: well over half had at least some college education. Judging from domain name registration, most Internet usage was concentrated in populous cities and coastal provinces. Twenty-one per cent of domain names registered under “.cn” were in Beijing, 15% in Guangdong province in booming southeast China and 10% in Shanghai.

## Patterns of Internet usage

What were all these people doing online? In 2005, the most common use of the Internet in China was for entertainment. Thirty-eight per cent of users said this was their primary reason for going online.<sup>18</sup> Chinese Web surfers downloaded music, watched movies, and played online games. Email, instant messaging, online chat, and discussions were also very popular. Sina.com, a Chinese portal, reported that four million people used its forums every day. *New York Times* correspondent Clive Thompson offered the following vivid description of a typical Internet café in Beijing, which was populated mostly by teens:

Everyone in the café looked to be settled in for a long evening of lightweight entertainment: young girls in pink and yellow Hello Kitty sweaters juggled multiple chat sessions, while upstairs a gang of young Chinese soldiers in olive-drab coats laughed as they crossed swords in the medieval fantasy game *World of Warcraft*. On one wall, next to a faded kung-fu movie poster, was a yellow sign that said, in Chinese characters, “Do not go to pornographic or illegal websites.” The warning seemed almost beside the point; nobody here looked even remotely likely to be hunting for banned Tiananmen Square retrospectives.<sup>19</sup>

Others went online looking for news and information. Charles Zhang of Sohu.com explained:

People log onto the Internet and Sohu.com because, in China, there is no Forbes, Reuters or *The Washington Post*. Print media was all state-controlled and official, and the Internet filled this void.<sup>20</sup>

18 *16th Statistical Survey Report on the Internet Development in China*, op. cit.

19 “Google’s China Problem (and China’s Google Problem),” op. cit.

20 “China Surpasses U.S. in Internet Use,” op. cit.

Nearly as many users reported they went online primarily to get information—as said, they were seeking entertainment. When asked how they obtained information online, 58% said they used search engines and 36% said they used known websites. A majority of respondents to a 2005 survey by the Chinese Academy of Social Sciences agreed that, by using the Internet, people would have a better knowledge of politics and more opportunities to criticize government policies. In addition, a majority felt that government would be more aware of people's views and better able to serve citizens.

In contrast to patterns in the United States and Europe, shopping was not part of the online experience for most Chinese. Only 1 in 650 people in China had a credit card, and less than a quarter of Internet users had ever made an online purchase. Perhaps for this reason, search engines had not attracted many advertisers. In 2005, the annual revenue generated by search in China—for all companies combined—was just \$140 million, according to Morgan Stanley's Hong Kong office.<sup>21</sup>

## Internet censorship

Although by 2005 many Chinese were online, their access to information and freedom of expression were restricted by a sophisticated and comprehensive system of government censorship. The authorities enforced this system on three interconnected levels:

- Firewall devices at the border
- Government-mandated self-censorship by Internet service and content providers
- Self-discipline exercised by individual users

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### The Great Firewall of China

All information flowing in and out of China on the Internet had to traverse one of five main fiber-optic pipelines that connected the infrastructure of the Chinese Internet to the outside world. The Chinese government required the operators of these pipelines to install sophisticated router switches—many made by the U.S. company Cisco Systems—to block information flowing to or from specific

21 “Google Searches for a Home in China,” *BusinessWeek Online*, June 27, 2006.

sites as it crossed the border.<sup>22</sup> These devices were widely known as the Great Firewall of China. As Jack Goldsmith and Tim Wu explained in their book, *Who Controls the Internet*:

China has surrounded itself with the world's most sophisticated information barrier, a semi-permeable membrane that lets in what the government wants and blocks what it doesn't. In technical terms, it is a "firewall," rather similar to the security firewalls placed around corporations. Only this one is placed around a whole country.<sup>23</sup>

The government provided a blacklist of banned IP addresses and URLs featuring information and news about politically or culturally sensitive topics and required operators to block access to them. Users who attempted to access blocked sites would receive a non-specific error message such as "the page cannot be displayed."

### **Self-censorship by Internet service and content providers**

Chinese government regulations prohibited use of the Internet "to harm national security; disclose state secrets; harm the interests of the State, of society, or of a group; or to take part in criminal activities."<sup>24</sup>

In order to obtain a business license, all providers of Internet services within China had to provide the government with customers' account numbers, phone numbers, and IP addresses. Under the terms of a required "Public Pledge of Self-Regulation and Professional Ethics," they also had to track what sites users visited and turn over information to the government if asked. Moreover, service providers had to set up an "editor responsibility system" to monitor content and to remove and report illegal postings on any sites they hosted.<sup>25</sup> These regulations applied not only to Chinese companies but also to foreign companies doing business there; Yahoo!, for example, had agreed to the Public Pledge in 2002. For their part, individual subscribers had to register with the local police bureau, register any websites they created, and to use their real names when emailing, blogging, or messaging.

22 In testimony on February 15, 2006 before the House of Representatives' Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific, Mark Chandler, senior vice president and general counsel of Cisco Systems, responded to criticism of his company's actions in China: "Cisco does not customize, or develop specialized or unique filtering capabilities, in order to enable different regimes to block access to information. Cisco sells the same equipment in China as it sells worldwide."

23 Goldsmith, J., and T. Wu (2006) *Who Controls the Internet? Illusions of a Borderless World* (New York: Oxford University Press): 92.

24 OpenNet Initiative (2005) "Internet Filtering in China in 2004–2005: A Country Study" (posted June 14, 2005; [www.opennetinitiative.net](http://www.opennetinitiative.net)): 13.

25 "Internet Filtering in China in 2004–2005," op. cit.: 10.

The Chinese authorities required Internet cafés to install software to block websites with subversive or pornographic content and to keep records of the sites patrons visited for at least 60 days. Patrons had to present identification and register under their real names to use equipment at cafés.

Human rights activists reported that the Chinese government had launched an \$800 million surveillance system known as Golden Shield to monitor civilian use of the Internet. The Security Ministry employed 35,000 Internet police whose jobs were “to monitor and censor websites and chat rooms in China,” according to Harry Wu, publisher of the China Information Center.<sup>26</sup>

### Individual self-discipline

Finally, the censorship regime depended on individual decisions not to engage in prohibited conduct or speech online. In some regions of the country, two cartoon police officers known as JingJing and ChaCha, appeared on the screen to remind users “to be conscious of safe and healthy use of the Internet, self-regulate their online behavior and maintain harmonious Internet order together.” Fear was a powerful deterrent; individuals sought to avoid prosecution by staying away from sensitive content and not expressing views that could be construed as subversive.

### Use of the Internet to repress dissent

The Chinese government did more than block access to content; it also used the Internet to collect information about dissidents and to prosecute them. The Electronic Frontier Foundation, a non-governmental organization (NGO) that described itself as “the leading and the oldest organization working to promote freedom online” noted the ominous potential of the Internet as a tool for identifying dissidents:

[W]ithout careful planning, Internet routers can be turned into powerful wiretapping tools; web email servers can become a honeypot of stored communications plundered by state police to identify dissidents; and blogging services and search engines can turn from aids to free speech to easily-censorable memory holes.<sup>27</sup>

26 Testimony of Harry Wu, publisher, China Information Center, on February 15, 2006 before the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

27 Open letter on February 15, 2006 from the Electronic Frontier Foundation ([www.eff.org](http://www.eff.org)) to the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

Two prominent incidents highlighted the Chinese authorities' capacity and willingness to use the Internet in this manner, as well as the cooperation of U.S.-based companies.

## Shi Tao

In April 2005, journalist Shi Tao was sentenced to ten years in prison for disclosing "state secrets" overseas. Shi was head of the news division of *Contemporary Business News* in Hunan Province. A year earlier, Shi had been briefed on a Communist Party directive instructing the media how to respond to the upcoming 15th anniversary of the government crackdown on pro-democracy demonstrators in Tiananmen Square. That evening, Shi had used his personal Yahoo! email account to send a description of this directive to a New York website called Democracy Forum.<sup>28</sup>

Amnesty International subsequently reported, on the basis of a review of the court transcript, that Yahoo! had provided account-holder information that was used as evidence against Shi.<sup>29</sup> A Yahoo! senior executive testified in a Congressional hearing in 2006 that "the facts of the Shi Tao case are distressing to our company, our employees, and our leadership." He also noted, however, that Yahoo! was:

... legally obligated to comply with the requirements of Chinese law enforcement... Ultimately, U.S. companies in China face a choice: comply with Chinese law, or leave.<sup>30</sup>

## Zhao Jing

In 1998, Zhao—then working as a hotel receptionist—began writing essays for online discussion boards under the pseudonym Michael Anti. A prolific and popular blogger, Zhao soon developed a loyal following. The *New York Times* later hired Zhao as a writer in its Beijing bureau. In 2005, in response to a request from the Chinese government, Microsoft shut down Zhao's blog on MSN Spaces—not only in China, but everywhere. A Microsoft officer later stated, "Although we do

28 Human Rights in China, "Case Highlight: Shi Tao and Yahoo" ([www.hrichina.org/public/highlight](http://www.hrichina.org/public/highlight), March 16, 2009).

29 Amnesty International (2006) "Journalist Shi Tao Imprisoned by 10 Years for Sending an Email," in *Undermining Freedom of Expression in China: The Role of Yahoo!, Microsoft and Google* (London: Amnesty International; [www.amnesty.org/en/library/info/POL30/026/2006](http://www.amnesty.org/en/library/info/POL30/026/2006)): 15.

30 Testimony on February 15, 2006 of Michael Callahan, senior vice president and general counsel, Yahoo! Inc., before the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

not think we could have changed the Chinese government's determination to block this particular site, we regret having to do so." He also noted that:

It is a well-established principle of international jurisdiction that global Internet companies have to follow the law in the countries where they provide access to local citizens, even when those laws are different from those in their country of origin.<sup>31</sup>

Reporters Without Borders estimated in 2006 that 81 journalists and cyber-dissidents were imprisoned in China.<sup>32</sup>

## Human rights activism

Intellectuals and activists around the world worked both to gauge the extent of Internet censorship in China and to circumvent it.

The OpenNet Initiative (ONI), a collaborative partnership involving researchers at the University of Toronto, Harvard Law School, and the University of Cambridge, conducted a series of experiments in 2002 and 2005 to test the extent of Internet filtering in China. Using a network of trusted volunteers, ONI attempted to access various URLs and domains from multiple locations both inside and outside the Chinese firewall. The researchers also created test web logs on several popular Chinese ISPs and sent a series of test emails to and from Chinese accounts. The purpose was to reveal what content was filtered and what sites were blocked.

The study concluded that filtering of content was both extensive and growing in sophistication. Tests showed that censors blocked information on a wide range of sensitive topics, including Falun Gong (a spiritual movement deemed subversive), Tibet independence, Taiwan independence, "human rights," "democracy," "anti-Communism," and the Tiananmen Square incident of June 4, 1989.

In 2005, compared with earlier tests in 2002, ONI found greater specificity in Internet censorship, as the regime had apparently moved to allow greater access to neutral content on topics such as Tibet and democracy, while blocking more politically sensitive treatment of them.<sup>33</sup>

31 Testimony of Jack Krumholtz, associate general counsel and managing director, Federal Government Affairs, Microsoft Corporation, on February 15, 2006 before the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

32 Testimony of Lucie Morillon, Reporters Without Borders, on February 15, 2006 before the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

33 "Internet Filtering in China in 2004–2005: A Country Study," *op. cit.*

Activists both inside and outside China had worked hard to thwart the Chinese censors. Sometimes referred to as “hackivists,” these groups and individuals had developed a number of increasingly sophisticated techniques for defeating the firewall. Many used proxy servers as intermediaries between Chinese users and blocked websites. For example, Human Rights in China, an international NGO, in 2003 began a program of establishing regularly changing proxy sites through which Chinese citizens could access an unfiltered Internet.

Technology that enabled users to anonymize their identities was also popular. In a project funded by the Open Society Institute, researchers at the University of Toronto developed software called Psiphon to allow users to send encrypted messages to a trusted computer in another country and receive encrypted information in return.<sup>34</sup> A company called Dynamic Internet Technologies sponsored a service called DynaWeb that allowed Chinese citizens to access the *Nine Commentaries on the Communist Party*, first published in the United States by *The Epoch Times*, and to renounce their party membership.<sup>35</sup> Global Internet Freedom Technology (GIFT), available from UltraReach Internet, was another such service.<sup>36</sup>

Radio Free Asia and Voice of America maintained websites in Mandarin, Cantonese, Uyghur, and Tibetan. The president of Radio Free Asia described its strategy for circulating content to individuals living under the censorship regime:

[W]e are creating a widening network of human proxies, so informal that it has no visible shape but is very much alive. Message boards, emails, blogs, and instant messages pick up where the government has cut us off. Friends and family based in third countries post our articles on their own websites and then pass on the web address.<sup>37</sup>

## Chinese Google.com

At the time Google was seriously considering direct entry into the China market, the company already had about five years of experience with the Chinese censorship regime.

In 2000, Google had launched a Chinese-language version of google.com, hosted in the United States, which could be accessed from abroad by Chinese users. By 2002, this service had captured about one-quarter of the Chinese mar-

34 psiphon.civisec.org.

35 www.dit-inc.us.

36 www.ultrareach.com.

37 Testimony of Libby Liu, president, Radio Free Asia, on February 15, 2006 before the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

ket for online search. However, service was erratic as search queries attempted to traverse the firewall. The company experienced particular difficulties with its Google News China division. Users inside China who attempted to click on stories published by blocked news sources, such as CNN and the *New York Times*, received repeated error messages.

Then, in September 2004, the Chinese authorities abruptly shut down access to the entire google.com site. After about two weeks, service was restored. When the site came back online, the blocked news sources had been omitted. The company issued the following statement:

On balance we believe that having a service with links that work and omits a fractional number is better than having a service that is not available at all. It was a difficult trade-off for us to make, but the one we felt ultimately served the best interests of our users located in China.<sup>38</sup>

But as Elliot Schrage, Google's vice president for global communications and public affairs, later explained, Google's troubles in China were hardly over.

[We] soon discovered new problems. Many queries, especially politically sensitive queries, were not making it through to Google's servers. And access became often slow and unreliable, meaning that our service in China was not something we felt proud of. Even though we weren't doing any self-censorship, our results were being filtered anyway, and our service was being actively degraded on top of that. Indeed, at some times users were even being redirected to local Chinese search engines.<sup>39</sup>

Whatever compromises Google might have made in late 2004 to keep its service available in China, by early 2005 its market share, never dominant, was under increasing pressure. Google's toughest competition came from the rapidly growing Chinese firm Baidu, sometimes referred to as the "Chinese Google." The word *baidu*, meaning "100 times," was linked to an ancient poem about a man searching for his lover. In 2005, Baidu had around 400 employees, only 30 of whom had been with the company more than three years.<sup>40</sup>

Baidu had made very fast inroads among Chinese users; between 2003 and 2005 its share of the market for search had ballooned from 3% to 46%. During this period, Google's share of the market for search increased slightly from 24%

38 "China, Google News, and Source Inclusion" ([googleblog.blogspot.com/2004/09/china-google-news-and-source-inclusion.html](http://googleblog.blogspot.com/2004/09/china-google-news-and-source-inclusion.html), March 17, 2009).

39 Testimony of Elliot Schrage, vice president, global communications and public affairs, Google, Inc., on February 15, 2006 before the House Committee on International Relations, Subcommittee on Africa, Global Human Rights, and International Operations, and the Subcommittee on Asia and the Pacific.

40 "Baidu's IPO and New Riches," *Comtex News Network*, June 21, 2005.

to 27%; Yahoo! (which had partnered with the Chinese firm Alibaba) and the Chinese portals Sina and Sohu had all seen significant erosion.

Some suspected that one of Baidu's competitive advantages was its close relationship with the Chinese government. Liu Bin, an analyst with BDA China, a research firm, commented:

Baidu works with the government more closely than other search companies. They launch[ed] a more aggressive system to censor their key words. They started to censor their search service earlier and more extensively than others. That's why the government likes Baidu.<sup>41</sup>

## 'Figuring out how to deal with China'

Now, at the July 2005 board meeting, the issue of what to do about China was coming to a head. After the board had taken up various other agenda items, Sukhinder Singh Cassidy, Google's vice president for Asia, Pacific, and Latin American operations, took the floor to present her analysis of the China question.<sup>42</sup>

The Chinese market for search, Cassidy said, was highly competitive. The company's research showed that Google was losing market share. Its main Chinese rival, Baidu, had succeeded in attracting younger, better-educated users, many of them students. In part, this was because Baidu offered a full range of services, such as entertainment. In part, it was because Baidu's search quality was perceived as superior. The Chinese used Google mainly for searching sources *outside* China and used Baidu mainly for searching sources *inside* China, evidence showed.

The most popular Internet activities in China, Cassidy reported, were online chatting; downloading music, TV shows, and movies; and playing online games. Reading the news, searching for information, and sending and receiving email were also popular, although somewhat less so. Messaging, entertainment, news, and email were applications that Google did not offer in China, she pointed out.

Google's own research showed that the company was perceived in China as an international brand and technology leader, but "a little distant to average Chinese users." More than half of Internet users who knew about Google could not spell the name correctly, and more than half thought the company should have a Chinese name. By contrast, Baidu was perceived as being a Chinese brand with good technology, "friendly," "closer to average Chinese people's life," and as having entertainment products. In China, Cassidy noted:

41 "Google Searches for a Home in China," *BusinessWeek Online*, June 27, 2006.

42 The following summary of Cassidy's presentation is drawn from Google Board Meeting, Friday, July 15, 2005, confidential presentation slides with portions redacted, op. cit.: 72-109.

We are a premium brand, not considered a brand for mainstream users. People don't know much about us; there is a perception gap between who we are and how we are perceived in China.

In addition, Google was perceived as a “foreign company [that] is not in China.”

On a slide titled “Key Learnings/Key Issues,” Cassidy stated to the board: “[We] need to be there.”

## Discussion questions

1. From a *business* perspective, what are the arguments for and against entering the market for Internet search in China in 2005?
2. From an *ethical* perspective, what are the arguments for and against entering the market for Internet search in China in 2005?
3. If Google decides to enter China, how can it do so while mitigating ethically adverse impacts? Please formulate possible options and evaluate their strengths and weaknesses.
4. What do you think Google should do, and why?

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