

Thesis Prospectus

Analyzing the Reasons for Google's Relative Failure Within China

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## Introduction and Research Questions

Contemporary China boasts the largest population of web users in the world hovering around 560,000,000<sup>1</sup>, but due to this vast and ever-growing population as more of the country's netizens become connected, the Chinese Communist Party has continuously implemented controls and censorship on the internet since the inception of the service in the People's Republic.<sup>2</sup> While censorship of the internet remains a valuable and well-utilized tool of the Chinese government, the restriction of free information and tampering with foreign internet-based firms seeking to enter China has alarmed some members of the international community. When it comes to all search engines, the Chinese government stipulates that companies must heavily censor results to queries that are deemed politically sensitive. Some members of the international business community postulate that this required censorship creates an unequal playing ground for international companies, such as Google, that refuse to comply fully. In addition, those companies who cater to the government's orders seem to flourish, such as China's homegrown leading search engine company Baidu. Google's published reasons for departing from the mainland in 2010 cite censorship and cyber-attacks as a hindrance to their ability to provide stable, high-speed service while stating that the company no longer wanted to knowingly skew information through censoring search results<sup>3</sup>. In one of the most dynamic markets of the world with huge potential for profit, would the world's leading search engine depart for a moral stand against censorship and their unwillingness to cater to the local government or were other factors at play? In an analysis of brand loyalty to search engine corporations, Rappa, as quoted

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<sup>1</sup> Wagner, Kurt (2013). "Baidu: China's Search Engine."

<sup>2</sup> Erixon, Fredrik, Hindley, Brian, and Lee-Makiyama, Hosuk (2009). "Protectionism Online: Internet Censorship and International Trade Law."

<sup>3</sup> Tan, Justin, and Anna Tan (2012). "Business Under Threat, Technology Under Attack, Ethics Under Fire: The Experience of Google in China." *Journal of Business Ethics* 110, 4, p469-479.

by Zhao and Tse, states that search engines gain loyalty and approval based off of four characteristics of their service: speed, relevance, comprehensiveness, and freshness<sup>4</sup>. Through the analysis of Google's tenure within China and subsequent move to Hong Kong alongside an examination of Google's somewhat lackluster track record within other Asian nations' search engine markets, the main focus of this paper will attempt to answer the following research questions:

- *How did Google's service in the mainland perform within the four indicators of search engine success in China? Did poor results in the four categories or other aspects of international business also push Google alongside censorship to depart from China in 2010?*
- *Did censorship create reduced results in any or all of the four categories? Are there other factors prevalent in Google's forays into other Asian nations that could provide an explanation counter to the censorship narrative and further assist in explaining Google's failure to corner the Chinese market?*

### **Methodology**

Due to the wealth of qualitative sources available, this paper will employ various papers and primary sources in order to best provide a panoramic view of China's search engine market. First, the paper will focus primarily on sources providing historical and political context leading to the climate for search engine companies in China as it stands today as well as prior to China's

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<sup>4</sup> Zhao, Wugang, and Tse, Edison (2011). "Competition in Search Engine Market."

departure from the mainland. Sources for this aspect of the paper will focus on discussing Google's development as it pertains to the Chinese market. Additionally, these papers and primary sources will look for differences in Google and other Chinese search engine companies' business plans, primarily through Baidu, along with papers documenting the reasons for Google's subsequent decision to depart to Hong Kong.

Secondly, this thesis will use established works to discover Google's standing within other Asian markets. Primarily, these sources will focus on Google's development in Japan, Taiwan, and Korea, some of Asia's largest internet markets, but will also convey the reasons for consumer habits and brand loyalty to search engines. These sources will supplement the paper in order to showcase if other factors besides internet censorship in China could be responsible for Google's apparent failure to corner the Chinese market, such as pride in national companies and adverse feelings towards Google as a foreign corporation. After analyzing these sources, the paper will hopefully have a greater view of Google's Asian business strategy, both strengths and weaknesses, as it initially unfolded.

After the existing sources have been discussed, the researcher will conclude with an analysis of the information combined. In light of the collective research, the initial hypothesis of censorship playing a large role will be evaluated for validity. Next, the analysis will turn towards the latter of the research questions and focus upon what factors could account for Google's failure and if these are enough to fully explain Google's shortcomings. The conclusion will primarily consist of opinion and analysis based upon the information discovered throughout the process of developing the thesis.

### **Immediate Context**

The current search engine landscape of China is a battle of two industry giants. Baidu, China's domestic company, was established in 2000 and rose to prominence only a few years later<sup>5</sup>. This early dominance culminated into Baidu's current domination, some 71.6% of the Chinese market, and 8.6% of the global market<sup>6</sup>. Google, while established earlier in 1998 in California, did not arrive to China until 2006<sup>7</sup>. Throughout its tenure in mainland China, Google struggled to balance the censorship the government mandated with the scrutiny these actions garnered from Westerners. After deciding to formally leave the mainland, Google took up residence in Hong Kong<sup>8</sup>. While Google claims a staggering 65.6% of the world's search engine market, it only amounts to 5.1% of the Chinese market<sup>9</sup>. This discrepancy in percentile of business as well as Google's politically motivated relocation does seem to imply an unfair playing field, but other factors could certainly be to blame.

As one of the most utilized resources worldwide, the internet serves as a conduit for a constantly growing amount of commerce and information. For this reason, any laws or regulations pertaining to the internet should be inspected to ensure that they are not providing an unfair benefit to businesses in certain regions. Due to both its prominence in the world economy and monumental population acting as an enticing base of consumers, China provides a fertile market for internet based agencies to claim their stake. In the case of censorship laws, the search engine industry can provide one of the most apt mediums to study this supposed phenomenon of the effects of censorship on a certain company's success for multiple reasons:

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<sup>5</sup> Zhao, Wugang, and Tse, Edison (2011).

<sup>6</sup> Wagner, Kurt (2013).

<sup>7</sup> Zhao, Wugang, and Tse, Edison (2011).

<sup>8</sup> "Meeting Institutional Demands: Comparing Google and Baidu in China" (2014).

<sup>9</sup> Wagner, Kurt (2013).

- As channels to discover information, a government-mandated restriction of information through search engine results would create a huge choice in terms of moral business standards for foreign search engine companies; do search engine corporations provide results as they appear based on pure-relevance or do they cater to the local government's restrictions regardless of what their home-nation's moral norm may be?
- As their profit comes primarily from ads, maintaining user flow is imperative for insuring a search engine's fiscal success. Are there factors or deficiencies in their individual business plans that could explain lackluster results in a region foreign to their own regardless of government involvement?

Preliminary readings seem to indicate that markets restricted by government mandated censorship often create difficult choices for entering corporations; rules of the host country conflict with the foreign corporation's ability to obey standard business behavior of the nation in which the business was created. As governments that utilize censorship continue to add greater control, overseas businesses, especially those from the United States, may have trouble balancing democratic values with the new forms of censorship. Google appears to have tolerated maintaining this balance initially, but the corporation's departure to Hong Kong in 2010 indicates that eventually pressure from home led it to return to behaving in a manner more in line with Western business standards<sup>10</sup>.

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<sup>10</sup> "Meeting Institutional Demands: Comparing Google and Baidu in China" (2014).

### **Initial Hypothesis According to Brief Literature Review:**

**While censorship did indeed play a significant role in the decision to leave China, other factors, such as the inability to accurately grasp the market, led Google to lag behind in China.**

At first glance, Google's current low revenue and prior decision to leave the mainland despite growing revenue does seem to implicate censorship as the leading reason for Google's situation as it now stands. Due to the search engine industry innately possessing a huge first-strike advantage for businesses, Baidu, which had been present in China since 2000, had already established itself as the premier search engine within China; however, the true reason for Baidu's huge share of the Chinese market appears to be their greater ability to identify the demands of the market. According to the research by Zhao and Tse, Baidu consistently aimed towards cementing itself into the lives of the Chinese citizens and creating applications that would apply directly to the social activities or interests of the users. This willingness to give their users whatever they want in terms of entertainment or activities, such as the incorporation of social applications or connection to pirated media sources quickly gave Baidu an edge over Google, a company whose Western allegiances seemed to have inhibited its results to illegally shared music, movies, or video, thus causing it to fall behind<sup>11</sup>. Baidu would also work with major

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<sup>11</sup> Zhao, Wugang, and Tse, Edison (2011).

businesses within China, such as major phone corporation China Telecom, to cement its position as a leader in the Chinese search engine market<sup>12</sup>.

In response to the four aspects of search engine success, Google may hold a slight edge in the field of comprehensiveness due to less censored results than its Chinese counterparts, but Baidu is even or greatly excels in the other three fields, especially the freshness it offers to the Chinese market by offering additional services directly on its home page. Zhao and Tse then address Google and its failure within Korea in relation to Naver, the leading shared-knowledge search engine of Korea. The researchers state that, while Google's weighted algorithm works wonderfully when in possession of a plethora of results, the initial amount of Korean web pages was particularly lackluster; therefore, Naver was able to capitalize upon this dearth of results by offering a shared knowledge service that not only connected users, but, additionally, accumulated results housed on its own private servers that other firms could not directly access<sup>13</sup>.

### **Conclusion**

While short, this prospectus should provide context for the importance of this study in relation to the current political and economic climate of China due to the present censorship as Google ponders returning to the Chinese market. The methodology may change as more sources are discovered, as well as if potential sources listed in the bibliography are found to be insufficient to others, but in any case, the plethora of qualitative studies as well as primary, narrative sources should exhibit the feasibility of the intended research question.

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<sup>12</sup>Baidu, Inc. (2015). "Baidu, Inc."

<sup>13</sup>Zhao, Wugang, and Tse, Edison (2011).

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