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Business Under Threat, Technology Under Attack, Ethics Under Fire: The Experience of Google in China

Justin Tan · Anna E. Tan

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Abstract Although not frequently regarded as controversial, digital communications industries continue to be sites of CSR conflicts, particularly internationally. Investigating CSR issues in the digital communications industry is pertinent because in addition to being one of the fastest growing industries, it has created a host of new CSR issues that require further attention. This case study examines an incident in early 2010, when Google Inc. China and the Chinese government reached an impasse that produced a large-scale, transnational conflict that reached a head ostensibly over state-mandated censorship, ultimately prompting Google to withdraw from the mainland Chinese market and redirect its activities to Hong Kong. We track Google's experience in China, both to explore its strategies and to consider the implications for corporate social responsibility. We situate Google's drastic decision to withdraw entirely from mainland China in the complex multiplicity of ethical, cultural, and political conflicts that affect this particular case. On a broader level, the incident raises the question of how multinational corporations (MNCs) can achieve corporate growth while negotiating the highly sensitive sociopolitical and institutional environments of foreign nations.

J. Tan (✉)
Schulich School of Business, York University, Toronto, ON, Canada
e-mail: jtan@schulich.yorku.ca

A. E. Tan
Department of Sociology, University of California, Irvine, Irvine, CA, USA
e-mail: aetan@uci.edu

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Introduction

Although the Internet search engine market offers seemingly little controversy, the entry of Google into China has triggered a host of discussion and debates about topics as critical as privacy and civil liberties to copyright infringement. Gaining a foothold in this emerging economy with a large and growing population of Internet users and immense market potential has also entailed confronting multiple challenges relating to the idiosyncratic market environment. This case study tracks Google's experience in China, both to explore its strategies and to consider the implications for corporate social responsibility.

Despite strong domestic competitors (e.g., the Chinese-owned and -operated Baidu search engine), Google attracted millions of users and established itself through its specific competitive advantages. But, in early 2010, Google Inc. China and the Chinese government reached an impasse that produced a large-scale, transnational conflict that reached a head ostensibly over state-mandated censorship, ultimately prompting Google to withdraw from the mainland Chinese market and redirect its activities to Hong Kong.

According to a January 13, 2010 announcement by the senior vice president of corporate development and chief legal officer of Google, David Drummond, Google and at least 20 other companies were the victims of a "highly sophisticated and targeted attack" by the Chinese government, which attempted to access some human rights activists' e-mail accounts in December 2009. He also alleged that widespread security attacks and online surveillance, combined with China's previous attempts to limit free speech, prompted Google to review the feasibility of continuing operations. The gravity of this accusation from a multinational corporation to a foreign government did not go unnoticed by either the U.S. or Chinese media nor by state officials. The announcement that Google was no longer willing to accept strict Internet censorship and might shut down its Chinese operations quickly gained widespread attention. In the ensuing discussion, other voices joined in, from the U.S. State Department to Google users in China and abroad. Strong support for Google and critiques of Chinese censorship by the U.S. government officials also heightened attention to the political implications of the conflict.

Despite the uproar, the flurry of uncertainty was initially assuaged by Google's management, which strategically placated users and stakeholders by continuing with business as usual. Yet, soon thereafter, in a second blog statement, Google repudiated all forms of Internet censorship in China and announced its decision to formally withdraw from mainland China. Visitors to Google.cn were redirected to Google.com.hk. Operations resumed on a limited basis, but the long-term fallout of Google's decision continues to reverberate. O'Rourke et al. (2007, p. 17) warn that "the Chinese market is simply too important for any major search engine to miss out on, regardless of the cost, and [if] US companies…withhold their expertise, then firms from other countries will just step in."

Therefore, this analysis examines the corporate social responsibility (CSR) implications of Google China's conflict with the Chinese government. Although not frequently regarded as controversial, digital communications industries continue to be sites of CSR conflicts, particularly internationally. According to third-party monitors of Internet civil liberties (e.g., Reporters Without Borders, OpenNet Initiative), most nations use some sort of Internet filtering, and states such as China employ pervasive filtering. Firms' participation and complicity in controversial censorship practices is worthy of examination, as both a CSR issue and a case of corporate–state cooperation in repressive activity. We situate Google's drastic decision to withdraw entirely from mainland China in the complex multiplicity of ethical, cultural, and political conflicts that affect this particular case. On a broader level, the incident raises the question of how multinational corporations (MNCs) can achieve corporate growth while negotiating the highly sensitive sociopolitical and institutional environments of foreign nations. Investigating these questions in the digital communications industry is pertinent because in addition to being one of the fastest growing industries, it has created a host of new CSR issues that require further attention.

China's Search Market

Since China initiated economic reforms in late 1970s, the country has experienced both rapid growth and challenges to its long-standing cohesion and state control. The transition from a centrally planned system to a more market-oriented economy has transformed Chinese society and revitalized the economy, turning it into the third largest economy in the world. According to the minister of the National Development and Reform Commission, China's gross domestic product (GDP) grew at an annual average of 9.67 % from 1978 to 2006; in 2008, 2009, and 2010, it grew by 13.0, 9.0, and 8.7 %, respectively, despite the global recession (Ministry of Commerce 2007; Xinhua News Agency 2009a, b, 2010).

This rapid growth has been accompanied by a surge in information technology industries and a corresponding rapid increase of Internet users. According to statistics from the China Internet Network Information Center (CNNIC 2010), the number of Chinese Internet users reached 384 million at the end of 2009, with an annual increase of 86 million, and the Internet penetration rate was 28.9 %, surpassing the global average. Statistics from Iresearch (2010) show that the aggregate value of China's search industry rose as much as 73.1 %, to 5.02 billion RMB (about US$735 million) in 2008 and 6.95 billion RMB in 2009, regardless of the influence of the global recession. The sizeable market, rapid growth, and promising trajectory have attracted vast numbers of search engines to China, including both domestic players such as Baidu and Tecent SoSo and MNCs such as Yahoo! and Google. Google made its official entry in 2005, which fundamentally changed the competitive landscape for Internet search providers.

Google's Presence in China

Google has established itself as a company with lofty ambitions, prompting it to undertake massive scale projects and publicize its high performance objectives. Co-founder Larry Page aspires to make "the perfect search engine,"[1] with a foundation of CSR and a progressive corporate culture. In its corporate philosophy statement, "Ten things we know to be true," the company issues confident statements about its corporate culture and ethical standards, including "You can make money without doing evil." "Doing evil" is a highly subjective concept, but Google clearly aims to redefine the standards for how profitable companies operate in order to be successful. Furthermore, Google espouses the belief that "the need for information

[1] See http://www.google.com/intl/en/corporate/tenthings.html.

crosses all borders," leading to its corporate mission, "to facilitate access to information for the entire world, and in every language."

As an information provider, Google also must prioritize privacy and take responsibility "to make sure any innovation is balanced with the appropriate level of privacy and security for [users]."[2] Such principles mean that Google must develop products with strong privacy standards and practices, provide users with privacy protection choices, make the collection of personal information transparent, and act as a responsible steward of collected information. Furthermore, the company argues for the benefits of a community approach to security, because "We've learned that when security is done right, it's done as a community [that] includes everybody."[3] The inclusion of users and the notion of community in Google's CSR mandate became particularly relevant in the ensuing conflicts among Google, the Chinese government, Internet regulators, Internet users, and the Chinese population in general.

MNCs and China's Internet Censorship

Government regulation of the Internet is pervasive; nearly every country with access to the Internet has specific laws, rules, and regulations to insure governmental control, ostensibly to protect the safety of the Internet environment and enhance social and economic stability, though the levels of censorship vary. Some countries exert obvious controls (e.g., Cuba, Iran, Saudi Arabia, Singapore); other countries, including China, adopt a mix of relatively subtle approaches and more overt censorship. Even in the United States, "where the First Amendment protects speech from government interference, service providers impose terms and conditions of use that limit what can be posted online and search engine operators routinely take content from their indexes if it infringes copyright or is deemed inappropriate" (BBC 2006). But, O'Rourke et al. (2007) note the widespread perception of Google's supposed hypocrisy in entering the Chinese market, while simultaneously managing its public image as an ethical vanguard among MNCs.

As a single-party state, modern China has placed special emphasis on extensive control over society and the economy. During China's drastic economic reforms though, elements of traditional Chinese culture and values have been challenged and undermined by free flows of information. As electronic resources and Internet use became more pervasive, Chinese people could easily access information from every corner of the world, which not only helped overcome decades of cultural and social isolationism, but also raised concerns that the government would lose its monopoly power over social control. Therefore, the Chinese government resorted to stricter controls on information exchanges by extending China's censorship policies. In this sense, its sophisticated censorship system has become essential to maintaining state control over a rapidly evolving nation (Taubman 1998), with a host of new tensions emerging as a result of the inherent conflict between the Internet as a democratizing force and the Chinese state as an assertive and repressive presence. China has enforced this system on three interconnected levels: firewall devices at the border, government-mandated self-censorship by Internet service and content providers, and self-restriction or -evasion exercised by individuals. In addition to blocking access to content, Chinese regulators have collected information about dissidents and used that data to punish them (Lawrence 2009).

Such a sophisticated censorship system and tight governmental control contributed to Google's initial hesitation to enter one of the world's most alluring high-tech markets. This apprehension is not unfounded; the ethical and regulatory challenges of the Chinese market are well documented. In response, some MNCs have cooperated and been willing co-conspirators in the implementation of authoritarian social control (MacKinnon 2007; Stevenson 2007), whereas others admit that entry into the Chinese digital communications industry is a sort of Faustian bargain with the Chinese state (Dann and Haddow 2007) that cannot be justified through corporate mandate. Both Microsoft and Yahoo! found themselves ensnared in similar conflicts among the Chinese government, state representatives, political officials from both the United States and China, and a multitude of stakeholders from both countries (e.g., users, Internet freedom advocates).

A related challenge for MNCs operating in China is the need to adapt their CSR policies and implementation to a drastically new context, with different alignments of ethical and moral frameworks with corporate policy. Maon et al. (2009) identify implementation as an integral critical success factor for CSR success. But, most Internet MNCs had previously designed their CSR policies in accordance with domestic (Western) sociocultural norms, regulatory conditions, and institutional contexts. These CSR policies are not seamlessly portable to other national contexts or foreign markets.

On the one hand, the strict social controls and censorship policies in China stood in stark opposition to Google's mission to make information universally accessible and useful as well implicitly violating its informal motto "Don't Be Evil." On the other hand, the undeniably attractive prospects of the massive Chinese market seemed too great an opportunity to miss. This negotiation between

[2] See http://www.google.com/intl/en/corporate/privacy_principles.html.

[3] See http://www.google.com/intl/en/corporate/security.html.

business ethics and the need to seize opportunities for corporate success has been widely documented in a broad range of industries (see Crawley and Sinclair 2003; Kolk and van Tuldere 2002; Maloni and Brown 2006). Such studies also note the inherent difficulty of negotiating priorities between domestic stakeholders and a suddenly emergent set of foreign stakeholders when an MNC expands abroad. The contradictions between Google's commitment to CSR and its uniquely progressive corporate culture with its entry into China demonstrate the remarkable difficulties of expanding to foreign contexts with a bold corporate mission.

Google in China: Unsteady Progress

During its brief involvement with the Chinese Internet search industry, Google invested heavily in developing its presence. In 2000, the highly anticipated Chinese version of Google.com was launched. In 2005, Google's sponsored link system Adwords appeared for the first time China. By 2006, Google.cn had been launched as the search portal for Chinese users, earning the firm its Chinese name "Gu Ge," a heightened profile, and a rapidly growing user base. In 2007, Google started to cooperate with large local firms, such as China Mobile and Tianya, to localize its businesses. Google also developed entirely new products geared toward the Chinese market, such as the Google Pinyin Input Method, Google Life China, and Google Maps China. The initial announcement of Google's entry was greeted with markedly mixed emotions: Chinese users applauded Google's plans, while simultaneously expressing discontentment with Internet censorship. Thus, with its announcement to enter the Chinese market, Google sparked hopes that it would confront the system of Internet censorship in place; but, such ambitions ultimately proved problematic for Google.

Even with planning and concerted efforts, Google suffered unsteady progress and frequent missteps in China. Similar to other international firms, it has encountered substantial difficulty managing China's unique cultural, political, and institutional environments, though it is difficult to discern how much of Google's challenges were inherent to its entry and how many were exacerbated by the substantial criticism and scrutiny from the (largely state-run) Chinese media. Immediately following the launch of Google.cn, the new site came under suspicion of operating without a permit issued by governmental agencies. Accusations about conflicts with regulators and allegedly illegal operations were lodged primarily by Chinese newspapers and media, but continuously denied by Google's spokespeople. Government officials conducted a long, intensive investigation and did not resolve the issue until nearly two years later, when Google cooperated with a local partner to form a joint venture and used that company's Internet content provider (ICP) license for its operations. In the intervening period before the joint venture, Google remained in a compromising position, continuously questioned and criticized by mass media and then the public (BusinessWeek 2007; Sohu 2007).

The social and political climate of China presents an unusual challenge; various seemingly minor actions can spark nationwide protest or draw the ire of the Chinese media. Attempting to strike a balance between business interests and ethics became a source of constant tension for Google—a struggle shared by many MNCs, operating in almost any foreign market. The well-tested political sensibilities of a company operating in its home market may prove disastrous or insensitive in a new, foreign environment. For Google to uphold its values—of "Don't Be Evil" and make information "universally accessible and useful"—while compromising its ethical standards to cooperate with a Chinese government that maintains social control through sophisticated filtering of "offensive" Internet content puts it in a CSR paradox.

The Chinese government requires that some Internet companies identify individual users who engage in critical or dissident activities over e-mail or blog communications; such identifications often result in harsh punishments or the detainment of such dissidents. By accepting mandatory state regulation and accommodating a repressive system of censorship to operate in China, Google placed itself at odds with its own philosophy and corporate values. Ultimately, Google allowed its ambitions to expand into China to supersede its corporate values and, however reluctantly, made itself complicit in censorship policies. Thus, its decision to pull out of mainland China might be regarded as a culmination of the ethical and corporate responsibility conflicts that always marked Google's operations in China.

Furthermore, Google faced intense competition and many unexpected performance setbacks. In the e-commerce market, eBay similarly lost out to the Chinese site Taobao, which entered the market much later, but experienced remarkable growth in three years. In the instant messaging market, the local product Tecent's palm QQ took a strong lead with its 80 % penetration rate, and its RTX assumed as much as 70 % of total market share. Yahoo! also experienced a prolonged series of setbacks and ultimately transferred its brand and operating rights to Alibaba, another Chinese startup firm. Such setbacks and performance disappointments largely seem to result from the familiarity of local firms, such as Alibaba, Tecent, and Baidu, with the Chinese institutional environment as well as their better adaptation to and faster learning about Chinese Internet users' habits. Thus, they have managed to design and promote products more appropriate for Chinese users. In contrast, Google has not been able to leverage its technological supremacy and the dominant competitive position it holds in other markets. The idiosyncrasy of the Chinese market is evident in the firm's performance figures elsewhere: In 2009, Google accomplished 58 % growth in the global search market, but Baidu's growth rate was a mere 7 % (ComScore 2010).

Although soon after its entry into China, Google seemed poised to overtake the Internet search market and perhaps even purchase Baidu, just a few years later, Baidu ascended rapidly and maintained its leading position among Chinese Internet search providers, with substantial market share. Baidu is not the only threat to Google either. Local competitors, including search engines such as Tecent SoSo, Sohu Sogou, Netease Yodao, and Sina Ask, as well as Microsoft's newly created Bing, have been gaining prominence in the search market.

The Incident: Google's Pullout from Mainland China

Prelude: Scandals and Copyright Infringement

Between January and April 2009, Google was twice accused by the China Internet Illegal Information Reporting Center (CIIIRC) of providing search results with links to explicit and pornographic websites, which were prohibited by Chinese regulators to maintain cultural and social standards for Chinese Internet users. The CIIIRC is called a non-governmental organization, though it is overseen and supported by various Chinese government agencies.[4] In June of that year, an expose broadcast on China Central Television criticized Google again for allegedly disseminating vulgar or explicit information (Xinhua Net 2010).

In September 2009, when the media uproar had gradually subsided, the founding president of Google China, Kai-Fu Lee, made a sudden decision to resign and start his own venture capital firm. Speculations on the reasons for his resignation focused on the unsatisfactory performance by Google China and the ensuing scandals. Such speculations gained momentum due to the situation surrounding Lee's initial hiring, soon after he had left an executive position with Microsoft. Microsoft alleged he was bound to a one-year non-compete agreement, and in the case, heard in the Washington State Superior Court, Lee indicated that his less than amicable departure from Microsoft was sparked by his disappointment in Microsoft's "incompetence in China" (New York Times Magazine 2005). Lee's departure thus had a much greater impact than just the loss of a high-level executive. Corporate headquarters began to lose faith and confidence in its own operations.

[4] See http://ciirc.china.cn/.

Ethics Under Fire: Censorship and Cyber Attacks

The contradiction in Google's identity may have triggered dramatic responses to security breaches in China; between the middle of 2009 and the end of that year, Google came under attack from a sophisticated form of security breach, known as an Advanced Persistent Threat. The attacks, dubbed "Operation Aurora," had to be conducted by an organization with extensive resources and a highly sophisticated command of espionage and Internet security (McAfee 2010). The attacks aimed to gain access to and modify companies' core technologies and source codes as well as obtaining vast components of their source code. The Advanced Persistent Threat label implied that they were a concerted effort on behalf of a sizeable organization or conglomerate, which was engaged in a long-term, targeted campaign of espionage. To be a primary target of such attacks was no trivial matter for Google, in that they were neither random nor undertaken by rogue individuals. These cyber attacks attempted to compromise Google's core technologies and source codes, or the very essence of its corporate "product offering" as an Internet search company.

Although Operation Aurora represented an egregious attack on Google's intellectual property, Google's spokespeople instead presented it as an ethics and human rights issue. The Advanced Persistent Threat attacks targeted the source codes of various companies, but Google claimed the objective of the attacks was espionage about the activities of Chinese dissidents and critics of Chinese state policies. In this claim, was Google attempting to leverage the cyber attacks to confront longstanding ethical tensions with Chinese censorship? Or from a more instrumental perspective, was it using the cyber attacks to channel its ongoing disappointments and frustrations with its own performance in China?

Google and China Face Off

The climax arrived in the form of blog articles published in early 2010 by Google senior vice president David Drummond, which served as Google's official statements on the cyber attacks. The January 13 post, entitled "A New Approach to China," announced Google's decision to enter discussions with the Chinese government and review the feasibility of its operations. According to Drummond's post, (1) "this attack was not just on Google" and "at least twenty other large companies" were intentionally attacked, (2) though "a primary goal of the attackers was accessing the Gmail accounts of Chinese human rights activists," and (3) in addition to the investigated attack, "the accounts of dozens of U.S.-, China- and Europe-based Gmail users who are advocates of human rights in China appear to have been routinely accessed by third parties." By openly announcing its position on the attacks and its decision to confront Chinese authorities on these issues, Google directly challenged the Chinese government for limiting "free speech on the web" by censoring Internet content. It even went as far as to insinuate that the Chinese government was ultimately resorting to espionage to further its interests. With this declaration, Google acknowledged its awareness that it would be shutting down Google.cn and even its headquarters in China, though it promised to be "committed to working responsibly to resolve the very difficult issues raised."

After this rare instance of direct, political criticism by an MNC toward a government, the two parties quickly became locked into high-stakes, public relations brinkmanship, with rapidly escalated consequences and outcomes. Various courses of action appeared possible in Drummond's open-ended statement, but Google clearly stated its determination to change its situation in China.

The second blog article, entitled "A New Approach to China: An Update," made the "possible pullout" definitive. The statement concluded that Google would "no longer continue censoring our results on Google.cn" and that censorship of its services, including Google Search, Google News, and Google Images, would cease entirely. Google noted that "self-censorship is a non-negotiable legal requirement" in China, and thus "figuring out how to make good on our promise to stop censoring search on Google.cn has been hard." Although some R&D work and a sales presence would remain in China, the corporate giant intended to redirect all of its operations in China to Hong Kong, a decision that completely redefined its strategy for dealing with the Chinese regulatory environment.

Reactions: Google versus Censorship, the White House versus Beijing

Google's dramatic, high-stakes move stirred strong but mixed reactions from stakeholders internationally. Yahoo! issued a statement of solidarity with Google on the possible pullout; Microsoft and Hewlett-Packard indicated their unwillingness to follow in Google's footsteps. The issue was proving divisive even in the first few days, drawing sharp dividing lines in the industry. On January 15, Google's CEO Eric Schmidt offered the possibility that Google might stay; on January 16, Alibaba (owner of Yahoo! China) criticized Yahoo! for its hasty statement of support. Contradictory statements from Google's own ranks arose as well. For example, on January 18, the Agence France-Presse published Google's assertion that its operations in China would continue as usual and on January 19, Google's current top managers in China stressed in the official blog that Google China was operating normally and providing all the products and services as usual.[5] Even Google's intranet and global database were reopened after a five-day shutdown. But, not everything continued as normally as declared; Google postponed its recruitment efforts, and some Chinese employees started to prepare resumes in anticipation of an official pullout.

The situation became substantially more complicated when the U.S. government reacted with strong political support for Google's decision, leading to a series of high-level exchanges between Washington, DC, and Beijing. Even before Google's statement, the U.S. Secretary of State Hillary Clinton had invited top executives from notable network companies to discuss issues such as Internet freedom and access to information. Clinton then officially demanded explanations from the Chinese government in relation to the alleged cyber attacks, while Press Secretary Robert Gibbs stressed that President Obama had expressed great concern and reiterated his support of Internet freedom in China. The U.S. Secretary of Commerce Gary Locke officially urged China to provide a sound business environment for companies such as Google. In response, Jiang Yu, Spokeswoman of the Chinese Foreign Ministry, stated that China's Internet censorship conformed to standards of international Internet regulatory practices. Wang Chen, Director of the News Office of the State Council, stressed that frequent hacker attacks had caused China's policies to evolve to combat hackers, pornographic information, Internet scams, and other factors threatening Internet safety. The Chinese Commerce Ministry declared it had not received any reports of Google's pullout, and just a few days later, the Chinese Foreign Ministry issued a statement that all multinational corporations in China must "obey laws and regulations, respect Chinese culture, traditions and public interests, and uphold their social responsibilities."

These statements from Chinese government officials highlighted the unusual political climate, where the uncompromising oversight of the Chinese government over activities is an accepted cost of doing business. Secretary Clinton delivered another public statement on Internet freedom that criticized China's Internet censorship. The Chinese Foreign Ministry offered a vague but markedly defensive response that pointing out that Clinton's judgment of the situation was not compatible with the alleged facts; it also asked that the United States refrain from using words and actions that harmed their countries' relations. The following day, President Obama publicly expressed concern about the incident and asked China to explain its position; simultaneously, the China National Computer Network Emergency Response Technical Team claimed

[5] "The 7-day Development of Google Incident," Huamei Net. Accessed Jan 22 2010.

that China was the world's worst victim of cyber attacks (China Daily 2010).

In the days that followed, the White House gradually retreated from its active involvement and Chinese officials maintained their position without any willingness to yield to Google's demands. Google mitigated its stance after more than a week's protest and restored its normal operations in China, at least on the surface, until its second blog article announced its official pullout from mainland China.

Why Did Google Make the Move?

Why would Google thrust itself so suddenly into the international spotlight with a decision as controversial as pulling out of a market entirely? The rationale might stem from the inherent tension between "what is profitable business" and "what is ethical conduct." The two standards are not necessarily contradictory, but they pose serious challenges to MNC management teams when they are not perfectly congruent—a state that is very rare in dynamic international business environments. As Google discovered, China's institutional environment and political climate often present inherent paradoxes for any company that chooses to do business there. To enter, it is almost mandatory for the MNC to become complicit in the state's control of information and Internet freedom.

As Friedman (1970) famously asserted, "[t]here is one and only one social responsibility of business—to use its resources and engage in activities to increase its profits so long as it stays within the rules of the game." Although Google retained its ethical concerns and expressed some reluctance before entering the Chinese market, the market potential was apparently appealing enough to prompt the firm to make profound concessions to the Chinese government, which social activist groups and international human right advocates found abhorrent. After several years' operations, Google also might have become increasingly frustrated that the highly anticipated growth sought in China had not been realized, despite the phenomenal growth in the number of Chinese Internet users and the company's own reputation for growth elsewhere in the world. Compounding these performance disappointments, the company faced ongoing allegations and harsh criticisms, which might have tarnished its corporate image and questioned its competence in China. Lackluster firm performance in China, coupled with criticism of its commitment to CSR, helped shift the balance between profitability and the ethics associated with doing business in China.

In this incident, Google took a uniquely confrontational position with the Chinese government. Despite some uncertainty about the origins of the cyber attacks on Google, the company repeatedly stressed protections of Internet freedom and human rights in its public statements in hopes of demonstrating its concerns and commitment to business ethics. This reaction conveys a strategy on Google's part to publicize the role of the Chinese government in human rights wrongdoing. Although questioned by free market advocates, Google's actions were also recognized and supported by human rights activists and non-governmental organizations. Moreover, its decision to challenge one of the world's most repressive and powerful governments stood in stark contrast to the unquestioning compliance of local search engines such as Baidu, which actively comply with Internet censorship and follow all governmental laws, rules, and regulations to achieve stable growth with the backing of the government. In the Western media, this contrast effectively illustrated and improved Google's world image as a responsible firm; its main competitors in China were criticized for neglecting values such as civil liberties and human rights. Thus, in some respects, business ethics provided the tool to improve Google's international reputation, gain trust from Internet users outside of China, and indirectly strike at the obstacles in China. Even as Google pulled out of mainland China, its business ethics strategy likely improved its position and performance in the global market.

Was Google's Decision Responsible to Stakeholders?

On March 17, 2010, several days before Google's pullout, The Wall Street Journal (2010) translated and published an e-mail to Liu Yun by Google's partners in China that mentioned "restless, upset and very worried" reseller agencies, still "in the investment phase of Google-related business" with "tens of thousands of clients" that have already gone "through pre-deposit payments for Google's ad services," such that Google's move directly affected their survival. These supporting firms could not mitigate the drastic decline in business and increasing turnover after the first blog statement, and Google allegedly had not communicated or negotiated with them, asking them to simply wait. The long wait "in extreme pain" and "full of uncertainty" forced them to declare that they could not wait any longer, and they demanded that Google offer appropriate solutions. Such anger prompts a further question about Google's actions: Was the pullout truly the act of a responsible corporate citizen? Stakeholder theory requires that firms take both primary and secondary stakeholders into consideration and operate for both shareholding and non-shareholding stakeholders' benefits (Donaldson and Preston 1995). That is, local governments, non-governmental organizations, consumers, customers, and business partners should have significant impacts on firms' decision-making processes. After Google's sudden pullout, Chinese Internet users found Google significantly less convenient, though most of its services remained available. More significantly, Google's business partners experienced substantial business losses due to the termination of Google's various Chinese contracts and had to change their strategies or exit the market at a high cost. Particularly for small ventures that depended on the existing partnership, Google's pullout was a heavy blow that threatened their survival prospects. Finally, the decision left disorder in both the search market and Chinese society. Google's pullout even influenced Sino-U.S. relations, implicitly creating a dichotomy in the areas of Internet censorship and human rights, with deep involvement by both governments.

Google's decision was not flawlessly executed, and it placed many stakeholders in positions of great uncertainty. Furthermore, the complexity of the decision, which encompassed both ethics and profitability under the banner of a single action, made it difficult to come to any single conclusion about the responsibility demonstrated in Google's actions.

After the Pullout

Although Google managed to sidestep censorship in mainland China, it also apparently anticipated the solidarity of other firms in its strategic defiance of China's longstanding censorship policies. However, few U.S.-based MNCs followed Google's lead. On the contrary, Google faced both external and internal problems as well as substantial confusion. During the transition, its search services in the Chinese market functioned as usual, then appeared entirely dysfunctional, and then worked properly again. This uncertainty drove away some users, pushing them to switch to the significantly less tumultuous Chinese competitor Baidu. Google's user base in China thus eroded, causing a drop in its global market share from 65.5 % to 65.1 % between January and March 2009 (BusinessWeek 2010). In addition, its share in China's search market dropped to roughly 15 %, while Baidu's market share soared to 75 %, and advertisers were expected to "defect to Baidu over time" (China Business News 2010). China Unicom terminated its cooperation with Google, followed by Sina, Tianya, and Tom Group.[6]

Internal problems began to emerge too, including increasing turnover, as many staff and managers in China considered corporate security and direction compromised by the incident. Exacerbating the situation, competitive local firms (e.g., Baidu, Sohu, Tencent) began courting senior professional personnel and employees from Google. Even Wang Jing, Google's vice president in charge of engineering in China, defected to Baidu (Financial Times 2010). Google's pullout might be just the beginning of a particularly taxing loss of its greatest intellectual resources.

Challenges for Multinational Companies

China exemplifies a volatile emerging market. In such uniquely challenging environments, multinational firms with worldwide recognition often encounter unprecedented obstacles due to vastly different cultures, values, traditions, politics, and even political ideologies. What can foreign corporations do to achieve better balance between profits and business ethics or at least to mitigate the conflicts that arise? What is the appropriate course of action to handle the challenges of unique institutional environments? Can traditional governmental relations strategies be effective to insure successful and productive foreign market entries?

Google's story in China presents stark profit–ethics paradoxes embedded in two nations with drastically different values and political systems. The United States, and thus Google, ostensibly prioritizes freedom of speech and others' civil liberties; China places a far greater emphasis on the maintenance of social order through a sophisticated system of controls. Thus, the U.S-based Google espoused values of civil liberties and emphasized the social responsibility to leave the flow of information as unrestricted as possible, even as it was driven by a profit-oriented business mandate. As one of the largest stewards of personal information, Google has created its own a conflict of interest, because it stands to profit the most from the use and monetization of such information. Google intended to profit in Chinese market, so it was legally and ethically obliged to do business in accordance with Chinese policies and regulations, which would reflect a commitment to operating an ethical and responsible business. For MNCs operating in emerging markets such as China, similar conflicts between profitability and business ethics may always exist, unless the external and internal environments evolve to create balance or facilitate a strategic harmonization. Responsible MNCs might plan to influence local environments gradually with proper strategies, but this process demands a lengthy investment, and it should be based on a well-established form of legitimacy (Tan and Wang 2011).

Google had established sound, solid political connections with the U.S. government through effective political lobbying activities (Politico 2010), which encouraged its strong support from the White House. However, Google

[6] "Google's Senior Staff Were Popular: Employees Were to Jump Ship," ifeng.com, http://tech.ifeng.com/internet/detail_2010_04/16/528472_0.shtml. Accessed 16 Apr 2010.

continued to suffer governmental relations difficulties in China, despite its concerted efforts to address this major weakness. Perhaps the firm's traditional governmental relation strategies are less effective when applied to a vastly different political system, with significantly different social and ideological values. This challenge persists for any multinational that continues to push into the uncertainty of emerging markets (Tan 2009).

As China's role in the global economy becomes increasingly significant, MNCs have much to learn and adapt to if they wish to harness the related immense business opportunities. Google's situation raises significant issues for scholars and business leaders alike. The paradox between profitability and business ethics remains a fundamental challenge of multinational operations; for Google, these conflicting principles were brought to a head as the firm wavered between capitulation to Chinese censorship policies and a refusal to censor its service when its intellectual property rights were challenged. Prominent MNCs play a critical function in the development of emerging markets and have significant influences on external conditions as organizational strategy and environment interact and evolve; but, this co-evolutionary process takes time and cannot be realized through a sudden, isolated action by a single firm (Tan and Tan 2005).

Google in China in Perspective

The case of Google in China illustrates not only the difficulty of negotiating business ethics in cross-cultural and multinational contexts, but also the more universal challenge of implementing CSR policies internationally. Although MNCs often exploit lax regulatory conditions and lower CSR standards in developing countries (Arnold 2003), the case of Google in China offers a counterpoint: It was not lax regulatory conditions that embroiled Google in controversy, but rather the idiosyncratically *high* regulations on the Internet. Entering this market with Western CSR standards (i.e., "Do No Evil"), Google could not easily implement its CSR policies, which had been developed and sustained in a totally different social and political context.

Both Yahoo! and Microsoft faced similar scenarios in China when forced to choose between complying with the repressive censorship policies or defying the laws of the host country (Dann and Haddow 2007; Stevenson 2007). To reduce this situation to a matter of compromise would be an oversimplification; it is apparent that an MNC cannot just defy the political and regulatory requirements of a new national market, much less simply impose its ambitious CSR guidelines on a foreign context. Thus, MNCs face the obligation to satisfy disparate standards and comprehensions of ethical behavior, while still struggling to maintain their external legitimacy, particularly in the West (Glynn and Abzug 2002). The impact of differing cultural and national values on business ethics cannot be understated (Tan and Chow 2009), and these conflicts alone may constitute grounds for a major CSR crisis. Google's initial hesitance to enter the Chinese market is evidence that it recognized this possibility, and as reflected in our analysis, the sequence of events described in this case represent a confluence of unintended consequences and cultural and political tensions that escalated throughout Google's time in China.

Since O'Rourke et al. (2007) initially examined Google's entry into China, several developments addressed in this case study have brought new issues to light. Similar to Yahoo! and Microsoft, Google faced capitulation or failure, considering the need to comply with China's stringent censorship policies. What is unique here is that Google initially compromised, but then arrived at a new solution—partial exit. Its withdrawal constituted not only a drastic redirection in business strategy, but also one with international political significance. Furthermore, Google, unlike its competitors, took pains to develop its CSR presence and made its ethical mandate highly visible in the Western markets, which then made it far more challenging to reconcile its actions. This situation describes not only differing societal and institutional logics in new national contexts (Meyer and Hammerschmid 2006), but also fundamental conflicts of CSR policy and mandates within an organization.

The challenges faced by Google represent a new dimension of business ethics conflicts. In this dimension, MNCs take a unique position and must negotiate among cultural, political, and economic stakes across multiple stakeholders. Google later became embroiled in the diplomatic relations fallout of its decision to pull out of the mainland China; that is, the initial decision may have been based on pragmatism or business strategy, but when it realized the business environment was too challenging to navigate, it politicized the question, turning to vocal support from the U.S. State Department. Internet users (of both Google and competing services) voiced their grievances and perspectives too. Users of Google China not only expressed their reactions to the standoff through online channels, but also took their grievances to the real world, surprising in any national context, but particularly remarkable considering the repressive climate of China for any sort of political or critical expression. The multiplicity of stakeholders involved further highlights the trajectory of CSR research, in which the world stage offers an emerging forum for CSR issues (Carroll 2004).

Google in China: Lessons Learned

The case of Google China and its high-profile conflicts with the Chinese state offer several CSR implications. First, firms face profit–ethics tensions and conflicts of priorities when entering new markets. The Chinese market presents a particularly challenging scenario, such that some degree of CSR autonomy and corporate authority must be compromised to do business. Google's motto was particularly challenged during its experience in China. It is irresponsible to place the entire burden of ethical conduct on Google, considering the unusual regulatory challenges and compliance expectations it faced from the Chinese government. As a corporation, its failure to enter the Chinese market might also have represented a major missed opportunity. Although it is impossible to encompass the full range of considerations and challenges faced by Google when entering China, we have sought to provide general insights into the complexity of this scenario.

Second, the cultural dynamics of doing business in China are particularly sensitive for Internet companies. Doing business in China demands a unique assortment of skills and sensitivities, ranging from the negotiation of *guanxi* to saving face to dealing with China's idiosyncratic regulatory environment. The need to comply with and capitulate to state demands is not unique to China, but seems heightened, especially considering its increasing importance as an international market, but continued status as a repressive, authoritarian system of social control. In examining the consequences of the Chinese state authority on the entry of MNCs, we do not intend to demonize or vilify the Chinese state, but rather juxtapose the rapid economic development of China with a repressive regime that simultaneously fosters and hinders it.

Third, we must consider the multiplicity of stakeholders that become involved in high-stakes situations, including not only the world's largest and most ubiquitous companies, but also multinational conflicts between two global superpowers. For Internet companies, the entire population of users, despite their distance from decision making, can become incredibly vocal and indirectly influential stakeholders. Although their investment in the situation may be relatively low, with limited costs of either supporting or abandoning Google, their loyalty as customers and users of the company's services makes them a notable stakeholder group.

Fourth, the stakes in this case were not only political, but also economic, considering the tenuous trade relationships between the United States and China. In such circumstances, it is perhaps unsurprising and not unprecedented that the U.S. State Department would become involved. However, once the political tensions became salient, the issue escalated beyond simply a CSR conflict and turned into a foreign diplomatic tension. The decision-making capacity of Google therefore was ensnared within highly sensitive, multistakeholder interactions. In this sense, this case highlights the multiple obligations to various stakeholders on both sides, such that the possibility of a universally favorable resolution may have seemed remote.

Postscript: The Drama Continues

Google's operations in China continue to develop. In late June 2010, one week before Google's ICP license expired, Google stopped automatically redirecting traffic from China to the Hong Kong search engine, and instead users saw an option to click through to Google.hk themselves. This seemingly minute change actually signals a drastic deviation from its original strategy, which would have jeopardized Google's license. The company realized that "Without an ICP license, we can't operate a commercial website like Google.cn—so Google would effectively go dark in China" (San Francisco Chronicle 2007). Google's initially staunch position was softened by circumstance, especially when it realized that its perceived leverage in China was far weaker than anticipated. However, it was not immediately apparent whether the Chinese government would find this tactic any more acceptable. On July 6, 2010, Google added its ICP license number to its homepage (Google.cn), though doing so did not mean that Google necessarily passed its license review (Global Times 2010). Whether Google's gesture of defiance will jeopardize this licensing process remains to be seen; Google is likely to face far greater challenges in maintaining its regulatory compliance than its Chinese competitors. Yet the dialog between Google and the Chinese government continues. In the meantime, Internet free speech advocates and concerned users have renewed their criticism that Google is placing business interests above its supposedly uncompromising business ethics and social responsibility—and it is ultimately the users who will suffer the consequences.

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