GOOGLE’S FAILURE IN ONLINE SEARCH SERVICES IN CHINA: CENSORSHIP OR STRATEGIC DECISIONS

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ABSTRACT
This paper analyzes the Google’s failure in online search services business in China. For that method of qualitative analysis has been used using secondary information. Findings and conclusion suggests that Google’s failure can be attributed to internal factors as the market leader Baidu and other local firms were also exposed to the same external factors. It was mere strategic failure than any other readings from it.

Keywords: Online Search; Corporate Strategy; Localization of Solution

INTRODUCTION
The business of online search services has gained huge importance across the world in the times of information revolution through World Wide Web and internet. Online search services help users in accessing all kind of information they are looking for from across the world. A lot of information is at the disposal of the users that they can use for different purposes. This capability of internet has completely changed the human behavior and their attitude towards a number of things. It has not only the economic significance for the societies and nations but also has huge social as well as political importance. In other words this single service along with internet has changed the history of human being. This ability of the online search services makes it very sensitive for the nations and societies and for nation like China where there is lack transparency and whole system is a closed book for outsiders as well as for the Chinese nationals.

Yahoo was the pioneer in the business although a few efforts were undertaken earlier by others but of late Google has dominated the whole scene and has become world leader in the business through its successful business model and algorithm. It replicated the same model across the world with some minor customization that was successful in the USA and other western developed countries but eventually even after huge efforts, Google has not been successful in China replicating it success story. Baidu, a local online search service provider who was early starter in China has been leading the market since its inception and huge financial and technological muscles of Google have failed to stop Baidu. Rather the position of Google in China has reached to the worst. Even more interestingly a new entrant Qihoo 360 has become the second largest online search service provider pushing Google to the third position. This statistics about China puts a huge question mark over business model that Google has been following because Google has a market share of 66.44% of the total global search business but at the same time it has less 2% market share in China by the end of 2014.
There is no doubt that Google, the global online search services leader, had to face a totally different kind of realities in China and as a result it had been struggling in China since it started its business. But since early 2010 when it was accused of not complying with China’s media censorship laws, it was forced to operate from Hong Kong and its Hong Kong search engine has partially been blocked by China’s Great Firewall. This has resulted into huge fall in the market share of Google. Similar fate has been for Bing and Yahoo that have even lower market share.

This fate of Google and other giants like Bing and Yahoo has put a lot questions for the business strategists and academicians to find out the reasons behind the failures of these international players in the Chinese market and to point out strategies followed by the local companies like Baidu and Qihoo 360. To achieve this goal, qualitative analysis of socio-economic and business environment along with business strategies has been carried out in the following sections.

**OBJECTIVE**

The objective of this paper is to analyze and find out the reasons behind the Google’s failure in online search services business in China

**Internal Factors**

**Business Activities**

All the firms in the online search services market are involved in almost similar kind of services. There are hardly any differences. The primary activity of the firms in the industry is to write search algorithm and search and online advertisement. Besides these primary activities these internet firms are
providing different kinds of e-commerce services to customers such as online shopping and entertainment etc. So for each firm whether Google, Bing, Baidu or Qihoo, there is no differentiation on the basis of the nature of services.

Core Competence and Capability

Right understanding of the local language is the most important capability that is needed for any firm to succeed in the business. Besides this the ability to develop its own search algorithm in Chinese language is another capability that is needed to succeed in the business. So for each and every firm, the market fair enough as it is competence and capabilities that can make them succeed.

Business Strategies

Baidu came into being 2000 and Google and Qihoo 360 were established in 2005, so in Chinese market Baidu was an early starter and gained edge over its competitors. Google was second largest player in market till 2010 but it was replaced by Qihoo 360.

It is well known fact that the business of the online search services is quite different from the other traditional businesses and this was realized by Baidu early. Perhaps that is the reason why Baidu has been following a business model that is localized for the Chinese market needs as well as the regulations because the ground realities in China are completely different from the rest of the world (NYT, 2006). The strength of company lies in its understanding of the local language and local business needs as well as in coming up with the right model to do business in Chinese business and legal framework. For example, as the company realized that it was difficult to succeed and scale up the business using e-commerce route as there was lower acceptability of the same. So it decided to employee direct sales and marketing personnel to grow in the market. Also the technology needs in the search industry is different for English language and the Chinese. And company is able to understand and develop right technology for the same (Fletcher, 2010). And most important being a Chinese company it never went against the government rules and regulations. Rather it followed the rules and regulations in its benefits. Besides the primary activities Baidu has been engaged in firm infrastructure, human resource management and financial management as well to carry out its business in best ways.

But the case of Google along with Bing, Yahoo and others had been different. These companies did not realize that they have to localize their strategy and competence when they entered in the Chinese market. Instead these companies had been trying to replicate the same business model that had tested in other markets across the world. Besides that in 2010 Google ended its self-imposed censorship when Chinese originated hacking attacks on it and other US technology corporations were detected (Branigan, 2010). The strategy of not falling in line with the Chinese laws and act of diverting search queries through Hong Kong search engine was considered to be interference in the matter of China and brought bad name for the company in the minds of Chinese nationals (Fortune, 2011). This was a step that forced company into oblivion. In 2009 Google had 36.2% of market share in China that fell to 1.7% in 2013. This change manifests the perception of local users.

On the other hand Qihoo 360 quietly worked on its algorithm and was successful in developing a better search algorithm (Millward, 2012). This made it a force in the Chinese market with the second position. It simply followed the strategy followed by Baidu. The only difference is that it put more efforts in writing better algorithm program than its competitors.

External Factors

Internet Censorship in China

Censorship in China is not a new thing but it is a practice that government had been using since long for a number of reasons and in ways and internet censorship in China is an example of the same. There are approximately 60 laws and administrative regulations through which internet censorship is carried out in China by the government of China, through provincial branches of state-owned ISPs, companies, and organizations. This system of internet control in China is perhaps the most advanced
censorship mechanism in the world that censors that online content in China. This mechanism not only blocks the contents of the websites but it monitors the individuals’ activities on internet also and punishes those who don’t follow the laws (Leberknight, 2010).

The internet censorship not only has social and political consequences in China but it also has changed the whole business dynamics of the internet business in China. It is often claimed by researchers and academicians that as a result of these censorship laws and regulations online search services providers like Google, Bing and Yahoo have failed to make an inroad into the Chinese market and had been very helpful for local online and web based Chinese businesses such as Baidu, Tencent and Alibaba and these businesses over time have turned out to some of the largest internet and web enterprises in the world. And in the process these business have benefited from the censorship laws and regulations in China as the Chinese authorities has blocked international players like Google, Bing and Yahoo from the market which are the rivals of the Chinese online and web business. But such claims don’t sustain the reality checks. The censorship laws and regulations are same for every player in the market and there is no discrimination on the part of government and authorities. Rather laws treat everyone equal in case of censorship. Wherever is considered to be not good for the countries that is censored in China with any prejudice. So on the front of internet censorship each and every firm faces same circumstances and laws without any discrimination.

**Political Analysis**

China as a nation has been very stable for many decades with no political instability in last few decades. The transfer of political power in the nation over last decades had been quiet smooth and peaceful and had been no controversies relating to same. It is expected that also in future, the political stability is expected to be maintained in the country. Also at the policy level there had been no instability in different policies. In case of online search services business there is no discrimination because of the origin of the firm. So there is policy stability with no discrimination. So all the firms are exposed to similar business environment (Pei, 1999).

**Economic Analysis**

The overall growth path shown by the China economy has been very impressive. But different forecasts suggest that the GDP growth rate in China will fall. There may be problems for future but in past firms witnessed a prosperous era (Orlik, 2011). Besides this globalization and integration of Chinese economy with rest of world do have huge impact on individual’s income leading to better future (Upadhyay, 2015). So there were equal opportunities for each and every firm in the online search services business and it was up to the firm to exploit the opportunities (Keidel, 2005).

**Social Analysis**

Online services in general and search services in particular have been accepted by the consumers in the Chinese market and there is no social taboo that stops Chinese customers from consuming online services. Rather the acceptance of these services has been even higher than the expected. But on the other side, the number of protests has increased because of access of the real time news. But all these factors are same for all the firms with no discrimination. Globalization of Chinese economy has huge social impact on its society and internet has helped accelerate this integration with rest of the world (Upadhyay, 2014). In 20110 there were 180,000 social unrests events, riots or protests against the government across China and internet played a critical role in this. This in some ways or other; manifests the acceptance of these services (Reuters, 2011).

**Legal Environment**

The legal environment of the country is pragmatic and tilted in favor of Chinese interests. It has been witnessed that if anyone who may pose risk to Chinese interests will have to face the Chinese authorities. And this is true for the business entities as well. Chinese authorities may walk any distance to ensure the compliances and interference in legal process is not outside their reach (Lapres, 2012).
ANALYSIS OF FINDINGS

The most important aspect of online search services business is the search algorithm for the given language. As a language Chinese is quite different from that of the English language for the purpose of the online search services. To store Chinese language syllables two bytes are required but in case of English only one byte is required. This difference requires companies to write indigenous search algorithm for Chinese language and cannot copy and replicate the English language algorithm. Baidu realized this fact earlier and converted it into its strength by writing a specific search algorithm for Chinese market. Qihoo 360 followed in the same of Baidu and has been able to replicate the model and has been able write even more efficient search algorithm and as result it is growing at huge pace. It has only 10 of market share in 2012 but by the end of 2014 it has more than 30 of the market share and is turning into toughest competitor for Baidu. But when we look at Google, we find that initially Google was trying to replicate its internationally tested algorithm in China also with some customization but it failed miserably and off late it had to develop an indigenous search algorithm for Chinese market but it was too late for the Google. This can be termed as strategic failure of Google in understanding its business needs and competence.

The second important finding is the failure of Google in understanding local market needs. When Google was trying to replicate its successful international e-commerce model in China while Baidu was developing a new model that was suited to Chinese socio-cultural life and Baidu succeeded in the same. Google tried to replicate faceless e-commerce model where there was no human interaction between the company and its partners. It was something very new and Chinese SMEs were not comfortable. Baidu realized it and it used direct sales force to engage business partners and SMEs in e-commerce. It employed more than 3000 direct sales and market executives to engage more than 200 distributors across 24 provinces. This introduction of human interaction made Baidu more acceptable than anyone else. This forced Google to relook its strategy and Google started engaging direct sales people but a lower scale than Baidu. When Baidu had 200 distributors across 24 provinces, Google had only 24 distributors in only 8 provinces in 2010. Other players like Bing and Yahoo hardly had any presence in the market. Perhaps they were satisfied being laggard or they were not too interest in Chinese market. Even local players did not understand the market as Baidu did.

Third important finding is that the act of diverting search traffic to Hong Kong search engine was not taken well by the Chinese nationals. They perceived it to be anti-national and avoided using Google services. A firm is not expected to be against the law and interfere in issues of state. Instead it should follow the laws. These perceptions brought bad name to Google. And perhaps it was one of the reasons Google could not find favor Chinese users after it went against Chinese laws in 2010.

CONCLUSION

From the analysis of external and internal factors it is clear that all the firms in Chinese market in online search services industry have to follow the same laws and hardly there is any discrimination for any foreign company as laws are very tough and strict relating to censorship. So for all the firms including Google and Baidu had to comply with the same laws. So there was no question of policy discrimination by the state. But as far as the internal factors are considered, it is the factors that had made differences in the results. Baidu understood the needs of market and accordingly localized the solutions and strategies but Google was initially adamant in localizing strategies and search algorithm and failed in the market. Also a firm it expected to follow the laws of land than being against the laws. It not only makes the state against it but brings bad name. So the failure of Google in China is nothing but a strategic failure of company than any other things.

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