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Leadership under pressure: Google demonstrates the critical role of local management

By Alan Pang, Director, Aon Consulting Global Research Center

Google's unfolding story in China demonstrates the critical role that local management plays in bridging the gap between headquarters and local market issues, between business and politics, and between the cultures of the East and the West. Google's case puts this role under huge pressure right after a leadership hand-over in China. For HR professionals, it is a good time to watch how a great company such as Google sustains its local leadership team through turbulent time and allow them to build a solid foundation for the next wave of growth.

Will Google actually leave China? If Google does leave, it will be sorely missed. The company has built a 33.2% market share for search engine in China.¹ It has brought numerous surprises to Chinese web users in the past four and a half years² with its straightforward statements about hackers and hard-to-adjust-to government regulations and policies.

Google not the first to consider leaving China

This is not the first time that there has been talk of a major US multinational entering into harsh conflict with the government in China. More than a decade ago, American automakers, which are now enjoying strong market penetration in China, bumped into a conflict over exporting vehicles to "rogue states". Another contentious issue has been the aggressive, litigious handling of intellectual property rights disputes by some MNCs in China. Approaches such as those undertaken in recent years by Cisco Systems Inc., Royal Philips Electronics NV, Sigma Tel Inc. and Microsoft Corp.³

In each case, the company's leadership teams in China played an important role in coordinating, communicating, negotiating and cooperating to settle these disputes and translating them into collaboration. No matter what the root cause of these clashes, whether they be cultural, political, business, financial, or even emotional, local management sought to reach a settlement that benefited the business in China, the financial return to headquarters, the relationships with local customers and partners, and the stability that the local government was attempting to safeguard.

General Motors provides an interesting case study. Alan Pang of Aon Consulting worked with GM on joint venture negotiations for its Shanghai car plant, and recalls a similar situation in the mid-90s when the partners were caught in a deadlock on vehicle export destinations. "The Americans were concerned about the US government embargo against "rogue states", whereas the Chinese government was encouraging joint ventures to strengthen its car industry by increasing car export to the most open foreign markets regardless of their political persuasion. The GM China leadership team was very adamant on the U.S. position, and their local partner worked very hard to come up with language that satisfied the fundamental concerns of both sides. Without this effort, General Motors might have missed the opportunity to have a subsidiary in China. Since then, General Motor

¹ Le Lu, "Google: Negotiation with Chinese Government Not Started", Caijing (20 Jan. 2010) <<http://www.caijing.com.cn/2010-01-20/110362230.html>>

² start date assumed to be Sep. 2005 when Dr. Lee kicked off the setup of Google China's R&D center; source: Google Milestones, Corporate Information, OneSource

³ Seung Ho Park and Wilfried R. Vanhonacker, "The Challenge for Multinational Corporations in China: Think Local, Act Global", MIT Sloan Management Review, July 1, 2007, <http://sloanreview.mit.edu/the-magazine/articles/2007/summer/> "To succeed in China, multinational corporations must turn the aphorism "think global, but act local" on its head. Although they have to master the art of local operation, their behavior must match their global standards, as expected by the Chinese."

vehicle sales in China have climbed to 1.89 million units in 2009 and the company expects to surpass two million units in 2010⁴," Alan said.

In Google's case, what has been done so far is quite different from what most other multinationals have chosen to do in China. Underneath the campaign Google launched against the Chinese government is a thought-provoking question: Why has the Google China leadership team played little or no role in the decision?⁵ Google has not clarified the role (if any) played by Google China's highest-ranking executives, Dr. John Liu and Dr. Boon-Lock Yeo with regard to this conflict with the Chinese government.

The role of local leadership

The departure of Dr. Kai-Fu Lee received much publicity in China when the announcement was made in September 2009. His book "Making A World of Difference" was also published at about the same time.⁶ In contrast, there was not much publicizing on Dr. Lee's successor's selection, nomination and inauguration. What caused more curiosity was in the announcement which stressed that Dr. Liu would be in charge of operation and Dr. Yeo of engineering for Google China.⁷

Based on the experience of other multinationals, an executive hand-over to a new leader is a good time to reach out to employees, local partners, customers and government officials to extend their gratitude to past cooperation and best wishes for their joint brighter future. In Google China's case, even if these actions were taken, somehow they did not attract much external attention. Yet, when the news broke that Google would pull out from China, there came much speculation in the market. One commentator said that, "In reality, it is not the first time Google seriously talked about its exit from China. Back in 2006, Google was reported to pull out due to lack of ICP license and being suspected of illegally running business in China. After that, whenever there was news about its China leadership transition, there would be rumors that Google would pull out."⁸

Alongside this news, reportedly, "Mr. Tim Chen, current CEO of NBA China, is to take Google China's president role (a role assumed by Dr. Lee), and handle the negotiation between Google and Chinese government."⁹

Despite the news that Baidu's homepage was breached, Google's website was hacked, and Google decided to review its business operation in China, there has been little news coverage of Google China's leaders' perspectives on these events. When news did come from John Liu and Boon-Lock Yeo, it was simply a note posted on the blackboard of Google China's website stating that Google China employees were still working at their offices as usual.¹⁰

⁴ Chris Isidore, "GM Looks to China for Salvation." CNNMoney.com (19 Jan. 2010)
<http://money.cnn.com/2010/01/19/news/companies/gm_china/>.

⁵ David Drummond, Senior Vice President, Corporate Development and Chief Legal Officer of Google stated in his blog that, "We want to make clear that this move was driven by our executives in the United States, without the knowledge or involvement of our employees in China who have worked incredibly hard to make Google.cn the success it is today." <http://googleblog.blogspot.com/2010/01/new-approach-to-china.html>.

⁶ Lee Kaifu, *Making a World of Difference: The Kai-fu Lee Story*, CITIC Publishing House, 2009

⁷ Rob Hof, "Google China Head Kai-Fu Lee Leaves to Start New Venture", *BusinessWeek* Business Week (4 Sep. 2009)
<http://www.businessweek.com/the_thread/techbeat/archives/2009/09/google_china_he.html>

⁸ Jun Lu, "Google China Resumes Business, Motive Lying behind Unclear", *Information Times*, (20 Jan. 2010)
<http://informationtimes.dayoo.com/html/2010-01/20/content_842158.htm>

⁹ Li Wang, "Google's Exit—Show Time?", *Chengdu Evening Newspaper* (20 Jan. 2010)
<http://www.cdwb.com.cn/html/2010-01/20/content_813017.htm>

¹⁰ Xiaoling Peng, "Google China Clarifies: Work Continues", *Morning Newspaper* (20 Jan. 2010)
<<http://www.jfdaily.com/a/838574.htm>>

It would be difficult for one not to pay more attention to the executive succession issue at Google China once such series of news have come into his or her eyes.

From the viewpoint of a global company's leadership, expanding business around the world serves many strategic objectives. But whatever their intention, these executives try to understand local market conditions and try to adapt their practices to work within local business norms. But, differences in geographic conditions, cultural practices, legal and regulatory requirements as well as political systems inevitably create obstacles to achieving business objectives and abide by company values and beliefs.

This is what makes the role of the local leadership of these multinational companies so critical. They help both headquarters and local stakeholders (including governments) understand, communicate, analyze, problem-solve and cooperate. Without their advice and leadership, it would be very difficult for multinationals to fit their business / philosophical objectives into the local context. The fundamentals lying behind such roles are capabilities of, experience of, empowerment for, and trust in the local executives.

From a business perspective, Google China's share of Google's global revenue is only 1.5% (about US\$380 million).¹¹ Moreover, Google China faces strengthening Internet screening requirements and hacker attacks. The new leadership team in China is, of course, is responsible for continued growth in sales and market share. When interviewed by Newsweek "what's the likely outcome here? That [Chinese search engine] Baidu will totally dominate the market?" Google's global CEO Eric Schmidt admitted, "that's one possible outcome."¹² After all, Google sold its 749,625 Baidu shares three and half years ago to concentrate on expanding its own operations in China.¹³ The statement and the previous ownership twist in Baidu certainly add more complexity to the leadership handover and maturity issue we are examining at the moment.

Conclusion

If we could stand in Google China's leaders' shoes for a moment, the situation would seem daunting. For HR professionals, it becomes a treasured moment for us to study how local executives under huge conflicting pressure from global headquarter and local stakeholders deal with such complex issues. We should give particular attention to the role they play in creating a positive working relationship between their headquarters and local stakeholders, which is conducive for business development, value enhancement, cultural integration, coexistence with local eco-political systems, and value creation for customers.

To us it is important whether Google is pulling out from China or not, but more important is how this classical case in leadership would evolve alongside the development of the business and political issues, whether these have already been well planned or not.

Contact

For more information about Aon Consulting's capabilities and experience in leadership development, please contact Alan Pang, Director of Aon Consulting Global Research Center at alan_pang@aon-asia.com.

¹¹ "Google Flap Shows Challenges of China Market", Agence France-Presse (20 Jan. 2010)

¹² Fareed Zakaria, "A Conversation with Google's Chairman and CEO", Newsweek (15 Jan. 2010)
<<http://www.newsweek.com/id/231117>>

¹³ Tom Espiner, "Google Sells Stake in Baidu", ZDNet UK (26 Jun. 2006)
<<http://www.zdnetasia.com/news/internet/0,39044908,39370595,00.htm>>