Case #9. LinkedIn Survives in China

LinkedIn is the world's largest professional network with 300 million members in over 200 countries and territories around the globe. Its stated mission is to "connect the world's professionals to make them more productive and successful."

LinkedIn, started in the living room of co-founder Reid Hoffman in 2002, officially launched on May 5, 2003. LinkedIn is publicly held and has a diversified business model with revenues coming from member subscriptions, advertising sales, and what it calls "talent solutions."

Recently, LinkedIn, has found a way to operate in China — by being **willing to compromise on the free expression** that is a central tenet of the Western Internet. LinkedIn's experience may provide a blueprint for finding an **equilibrium between free speech and Chinese law** that other companies can live with seeking to enter the China market.

To date, LinkedIn's global English-language site has four million Chinese members. **Its goal** is to reach more of China's estimated **140 million** professional workers, so in February 2014 it introduced a Chinese-language version.

By the end of 2014, the Chinese-language site has attracted about a million new members. It is functioning without blockages by the **Chinese government** even though Chinese authorities have **cracked down** on other Internet services, including **Instagram** and **Yahoo**, in reaction to the pro-democracy protests in Hong Kong in which these firms' members played a role.

Since opening to the West, a **relationship with local Chinese firms** has been crucial for foreign companies seeking to operate in China, and this has also proven true for web-based firms. In addition to LinkedIn's willingness to play by Chinese rules on free expression, the company has **relinquished 7 percent of the equity in its China operation to two well-connected Chinese venture capital firms.** China Broadband Capital and a Chinese affiliate of Sequoia Capital, an American venture capital firm — has helped it manage its relationship with government officials. C.B.C. was founded by Edward Tian, a well-connected investor and former entrepreneur who once ran a telecommunications company with the son of a former Chinese president, Jiang Zemin.

"There have been a lot of problems with companies like Facebook and Twitter," said Kevin Wang, a C.B.C. spokesman. "We think one of the key reasons is the **lack of communication**, even the absence of communication, between these companies and the Chinese government."

The local partners have a strong incentive to help LinkedIn succeed. Under the partnership agreement, they can buy an additional 21 percent of the joint venture for $20 million if certain conditions are met.

A spokesman for LinkedIn, Hani Durzy, said the company opened a Chinese-language site because of its "belief that the creation of economic opportunity can have a profound impact on the lives of Chinese individuals, much as it has elsewhere in the world…While we strongly support freedom of expression, we recognized when we launched that we would need to adhere to the requirements of the Chinese government in order to operate in China. So the decision to proceed in China was one that we weighed heavily."

On the Chinese- and English-language sites in China, **the company censors content that the authorities consider politically sensitive, using a combination of software algorithms and human reviewers**. People whose posts are blocked get an emailed form letter advising them that a posted item contains "content prohibited in China" and "will not be seen by LinkedIn members located in China."

LinkedIn also does not provide Chinese-language users certain important tools — like the ability to create or join groups or to post long essays — that allow people elsewhere to have public discussions and form on-line communities.

Although LinkedIn's strategy has given it access to Chinese speakers, analysts say it poses **risks for the company's reputation and growth strategy.** Like many American tech companies, LinkedIn has promoted itself as dedicated to free-market principles. Too much censorship could cause users to flee.

In addition, there is the risk that as LinkedIn's business grows larger in China, it could give the **Chinese government leverage to make demands about what type of content is permissible on LinkedIn's site globally.**

Some critics also say LinkedIn has not communicated clearly how and why it is censoring content.

Other tech companies have weighed the risks of trying to satisfy the Chinese government and taken a different approach. Google, which once acceded to China's demands to censor content in the country, reversed course in 2010, moving to deliver uncensored results to Chinese users from servers in Hong Kong and souring its relationship with Chinese authorities.

Twitter has been blocked in China for years and says it will not censor posts because to do so would "sacrifice the principles of the platform," according to Colin Crowell, the company's vice president for global public policy.

Although Facebook is blocked in China, it hasn't given up on getting in the country. But it is trying to use commerce to pry open the door, selling ads to Chinese companies and government organizations that want to reach consumers outside China.

Facebook is also studying the experience of Instagram, its separately operated photo-sharing app, which is growing quickly in China with only occasional blockages by the Chinese government.

Analysts say LinkedIn is well positioned to be acceptable to Beijing because it can argue that it **makes the employment market more efficient, ultimately spurring the economy. China's Internet** regulators often argue that the main goal of development of the Internet should be to bolster economic growth.

China’s closed markets have given a huge head start to four homegrown companies, which dominate the Internet there: Alibaba in e-commerce, Baidu in search, Tencent in video gaming and instant messaging and Sina in social networking.

LinkedIn itself faces competition from local rivals like Zhaopin and 51Jobs.com, which both have more users than it does in China.

LinkedIn does retain control of the venture, securing the bulk of the profit as well as the risk.

Doing so would make it much easier for the government to demand information on, say, dissidents who use the service — a conundrum that tripped up Yahoo nearly a decade ago and prompted that company to essentially pull out of the country.

Despite the challenges, LinkedIn is optimistic about its efforts in China.

“In the end, the most important consideration for us was providing an opportunity for millions of Chinese professionals to significantly expand their economic opportunities,” said Mr. Durzy, the LinkedIn spokesman. “We want to get it right in China, so we will continue to listen and learn."

Paul Mozur reported from Hong Kong and Vindu Goel from San Francisco.

A version of this article appears in print on October 6, 2014, on page A1 of the New York edition with the headline: To Reach China, LinkedIn Plays by Local Rules.

Questions

1. **Prepare best, worst and most likely scenarios for LinkedIn’s future in China in the diagrammatic format prescribed in Module 9. (7.5)**
2. **With reference to the discussion of power in Module 8 (no need to draw a diagram unless you wish to do so), explain how LinkedIn has been able to enter and sustain its position in China. (5)**
3. **(1.5) What would recommend LinkedIn do at this point of time (other than what it has done already) to further secure its position in the Chinese market.**