

EOS Case Study

October 2020

Baidu

Baidu has put in place a robust corporate structure and measures to protect the privacy of users' data. EOS continues to engage with the company on investor expectations around AI ethics and content governance.

Top three engagement highlights

1. Engaged with co-founder, chair and CEO
2. Visited headquarters in Beijing – tested its own brand of self-driving car in prototype and discussed governance issues along the big data supply chain.
3. Encouraged the company's disclosure of a robust governance structure to ensure data privacy of customers and users.

Background

The co-founder and CEO of Baidu spoke publicly in March 2018, expressing the view that despite a strengthening enforcement environment for data privacy in China, Chinese people are more open or less sensitive about data privacy if they are able to trade privacy for convenience, safety or efficiency - in a lot of cases¹. In addition, Baidu applies a principle that if it thinks using a customer's data will benefit that user, then it makes an assumption that the customer has agreed for that data to be used, which prompted us to establish a dialogue. Although Baidu's users are mainly based in China, the business ecosystem is global. This includes development of self-driving cars using Baidu Brain, which involves big data collection, training and testing and its search engine is open to global internet users.

In May 2018, the EU Global Data Protection Regulation (GDPR) came into effect. Without appropriate measures, the company would be at risk of exposure to fines from regulators or even lawsuits from customers and search engine users.

Our engagement

In August 2018, EOS at Federated Hermes met with the co-founder, chair and CEO, and the CFO. We voiced our concern over the risk of the company's lack of compliance with

¹ <http://video.caixin.com/2018-03-26/101226475.html>

Engagement objective



Social: Establish a structured approach to data privacy protection

Sustainable Development Goal:



Company overview

Baidu, Inc. is a leading search engine, knowledge and information centred internet platform and AI company listed on Nasdaq.

GDPR to which it assured us that the company was working towards becoming compliant. We shared global best practices on data privacy management and disclosure and encouraged cross disciplinary teams within the company to collaborate and establish a corporate culture of data protection awareness.

Since 2019, we intensified our engagement and progressed our dialogue towards the responsible use of big data and artificial intelligence (AI), sharing our white paper on AI and data governance, and good practices around this rapidly evolving topic. Between 2018 and June 2020, we had nine engagement interactions with the company on data privacy and protection.

Specifically, we highlighted the importance of establishing a robust structure to manage data privacy issues from end-to-end, taking into account counterparty risks when it uses external data for product design, training and testing machine learning systems, and when it uses bespoke customer data.

In 2020, our engagement has highlighted the need to further disclose how the company supports its customers and integrates their feedback on data evaluation to improve product quality and the user experience.

Changes at the company

In 2019 the company introduced a preliminary three-lines-of-defence robust governance structure and further refined it in 2020 to ensure information security and data privacy, with relevant training for employees and business partners. This aligns with our ongoing engagement with the company around data governance risks along the supply chain and our requests to proactively manage it.

It introduced “Three C Principles” – covering consent, clarity and control of data privacy protection. A privacy protection system was established, overseen by the Baidu data privacy protection committee, composed of Baidu’s top executives. The committee is in charge of the decision-making and strategy of major issues related to data privacy and responsible for the protection of users’ data in Baidu, management of the data cooperation and framework agreement with external parties, and compliance on cross-border data and national data.

The company further established a data assets committee, safety committee, and a committee of professional ethics, which together indicate a data protection culture within the firm, aligned with our expectations raised in engagement.

A review mechanism has been introduced throughout the business which centres around privacy-by-design and privacy impact assessment. It takes privacy protection into consideration along the whole life cycle of its products and services, including data processing, and requires that business planning must be carried out simultaneously with privacy protection planning.

Regarding our request for the company to disclose how it supports its customers and integrates their feedback, it also established: a dedicated data security and privacy protection education platform for users; a user information protection complaints website to address grievances; and a user service centre. The user service centre serves all users in relation to account security, payments and reports on harmful information.

Next steps

We continue to engage on connected issues, such as AI ethics and content governance, as the expectations on big technology firms to become more responsible as publishing platforms intensifies globally.



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Engagement
EOS

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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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