CASE EXAMPLE

Google: who drives the strategy?

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From an idea to a verb in less than 15 years: 'to Google – to search the Internet.'

If you want the answer to a question what do you do? You Google it. It is one of the few companies whose product's name has become so synonymous with its offering that it has become a commonly used verb. By 2012 Google had a market capitalisation of $249.19 bn (£149.51 bn; €186.89 bn). With a network of over 1 million computers worldwide, it was the dominant player in internet search (66 per cent of searches were through Google, way ahead of Microsoft's 'Bing' (15 per cent) and former giant Yahoo (14 per cent)). The vast majority of Google's revenue came from search-related advertising. It was, however, under serious threat on several fronts. Well-publicised poor financial results in 2012 left some commentators asking if Google was reaching the limits of its growth.[1] And there were those who questioned if its idiosyncratic management style could continue given its size and increasingly diversified portfolio.

About Google

Google started life as the brainchild of Larry Page and Sergey Brin when they were students at Stanford University in the USA. When Page and Brin launched their own search engine product, it gained followers and users quickly, attracted financial backing and enabled them to launch their IPO to the US stock market in 2004 raising a whopping $1.67 bn.

From the beginning Google was different. Instead of using investment banks as dictators of the initial share price for the IPO, they launched a kind of open IPO auction with buyers deciding on the fair price for a share. Page sent an open letter to shareholders explaining that Google was not a conventional company and did not intend to become one; it was about breaking the mould.

This continued as Google set up a two-tier board of directors, a model which, though common in some European countries (e.g. the Netherlands), is rare in the USA. The advantage for Page and Brin was the additional distance it placed between *them* and their shareholders and the increased managerial freedom it offered to them to run their company their way.

Page and Brin also recruited successful CEO Eric Schmidt from Novell Inc. and, between the three of them, shared power at the top. Schmidt dealt with administration and Google's investors and had the most traditional CEO role. Page was centrally concerned with the social structure of Google while Brin took a lead in the area of ethics.

How it was

It could be difficult to work out who was responsible for what inside Googleplex (Google's HQ) in Mountain View, California. There was a famously unstructured style of operating; in 2009 Eric Schmidt claimed that their strategy was based on trial and error:

> 'Google is unusual because it's really organised from the bottom up . . . It often feels at Google people are pretty much doing what they think best and they tolerate having us around . . . We don't really have a five-year plan . . . We really focus on what's new, what's exciting and how can you win quickly with your new idea.'[2]

With regard to product development, their approach was to launch a part-finished (*beta*) product, let Google fanatics find it, toy with it, error-check and de-bug it – an imaginative use of end users but also a significant release of control. Control of workflow, quality and to a large extent the nature of projects underway at any one time were down to employees and not management. Google was a famously light-managed organisation. It had a 1:20 ratio of employees to managers – half the number of managers than in the average American organisation (1:10) and considerably fewer than some European countries (France 1:7.5).

CFO Patrick Pichette tells of being in a meeting room with an influential businessman and being kicked out by a group of young engineers who wanted the *room* for their meeting. For him the lesson was that at Google the leadership is 'an overhead' whereas the engineers 'write the code, they make the real stuff that makes Google happen'.[3]

Engineers worked in small autonomous teams and the work they produced was quality assured using peer review rather than classical supervision or clear strategic guidelines. So there was the potential for these small work teams with their freedom for self-initiated project work to create a situation of project proliferation. Moreover, engineers at Google were allowed to allocate 20 per cent of their work time to personal projects that interest them as a means to stimulate innovation and the creation of new knowledge as well as potential products. However, some commentators suggested that many engineers spent more like 30 per cent of their time on such projects.

Google was proud of its laissez-faire approach to management and product development:

> 'Google is run by its culture and not by me . . . It's much easier to have an employee base in which everybody is doing exactly what they want every day. They're much easier to manage because they never have any problems. They're always excited, they're always working on whatever they care about . . . But it's a very different model than the traditional, hierarchical model where there's the CEO statement and this is the strategy and this is what you will do, and it's very, very measured. We put up with a certain amount of chaos from that.'
>
> Eric Schmidt: CEO[4]

There were, however, some areas of rigidity built into the system. One was that of recruitment. With such a highly rated employment brand, Google could afford to be choosy. Close to 100 talented applicants chased each job. The pay was competitive but not way ahead of the competition. However, perks, including free meals, a swimming pool and massages, all helped attract employees. So too did the 20 per cent of free time engineers could spend on their own interests. In return Google had rigid recruitment criteria and processes. Engineers had to have either a Masters or Doctorate from a leading university and pass a series of assessment tests and interviews. The criteria for these were derived in a highly scientific manner. In effect Google recruited against a psychometric profile of *googleness* and could therefore hire and hopefully retain a fairly predictable employee population: much easier to manage.

Peer review is also a stringent form of performance management. Among professionals, reputation is key and if someone is being reviewed by peers the pattern is towards higher-quality work. The way peer reviews were carried out, in common with many other processes within Google, was formulaic. For example, work teams were kept small and limited to a maximum of six; projects worked on were limited in number; deadlines were short (no longer than six weeks); and as ever in Google there was measurement. As Eric Schmidt commented:

> 'We're very analytical. We measure everything, and we systematised every aspect of what's happening in the company. For example, we introduced a spreadsheet product this week. I've already received hourly updates on the number of people who came in to apply to use the spreadsheet, the number of people using it, the size of the spreadsheet.'[5]

What it became

In October 2012 Google saw 10 per cent of the value of the corporation ($24 bn) wiped in just two days. In the USA its stock was crashing so fast it had to be suspended. Why? Because the amount advertisers were prepared to pay click-by-click fell by 15 per cent and Google's earnings in the third quarter showed profits 20 per cent down on 2011. To make matters worse these data were released to the market by accident before they should have been and with a crucial explanation from Larry Page missing.

The meteoric rise of Facebook (also selling advertising space) and the wave of internet users switching to tablets and handheld devices (where advertising is harder to see and therefore has a lower price) hit Google hard. With the lion's share of its revenue coming from advertising, the criticism of being a one-trick-pony was being levelled at Google.

So Google needed to change. In the words of Sergey Brin: 'We want to let a 1000 flowers bloom, but now we need to make a bouquet.'[6] Google was being talked about as leaner and meaner. There was a rumour that the famous 20 per cent free engineer time was at risk. But Google remained committed to its 70–20–10 formula where 70 per cent of effort is spent on search, 20 per cent on products that are not quite there yet and 10 per cent on brand-new stuff.

The most significant change inside was that Larry Page took the role of sole CEO in 2011. Brin moved to spend four days of his week working on projects and Schmidt moved to an advisory role as Chairman. Page's stance was to require the organisation to be more effective and focused. He closed down projects, called an end to email wars between different factions and required decision making to be speeded up. He took action to halt the talent drain of the 12,000 engineer population to Facebook by offering a 10 per cent pay rise along with a sizable bonus.

Google had also made over 100 acquisitions, some as large as Motorola and YouTube, others smaller but helping Google develop new service offerings. In 2011 alone there were 79 acquisitions or significant investments in other businesses. In the first quarter of 2012, however, it had made none: Page appeared to have put a hold on the acquisition stream.

Page's CEO role also released Brin back into innovative development. He was responsible for top-secret projects called Google X, focused on robotics and artificial intelligence, in a separate location. Google was attempting to diversify. It had Google+ to rival Facebook and was developing its Motorola acquisition to rival the smart-phone dominance of Apple. By 2012 Google's driverless car had also clocked up 300,000 driverless hours on US roads, all incident free. None the less, observers were reporting that, nervous of the unexciting performance of some recently launched Google products, Larry Page was placing less emphasis on experimentation and more on operational efficiency.[7] Perhaps a different approach to strategy was needed from that outlined by Eric Schmidt in 2009: by 2012 Mountain View had business strategists who worked on 'global, cross-functional projects at the heart of what we do'.

Sources: Primary source B. Girard, *The Google Way: How one company is revolutionising management as we know it*. No Starch Press, 2009.

1. H. Peterson, H. Gye, Louise Boyle and P. Campbell, 'Could Google disappear? Analysts warn of Google's demise if the search engine fails to improve mobile advertising'. *Daily Mail*, 20 October 2012.
2. Interview by Nicholas Carlson of Google CEO Eric Schmidt: 'We Don't Really Have A Five-Year Plan', *Washington Post Leadership series*, 20 May 2009.
3. M. Ahmed, 'Its going Gangbusters at Goggleplex, where the code writers run the company and the chiefs are up the wall', *The Times*, 3 January 2011.
4. As reference 2 above.
5. B. Girard, *The Google Way: How one company is revolutionising management as we know it*. No Starch Press, 2009, p. 97.
6. M. Ahmed, 'Leaner, meaner, but dreams are still there to be chased', *The Times*, 24 November 2011.
7. See http://www.youtube.com/watch?v=tk5P-KvnLgE. And to get a feel for the Mountain View Googleplex: http://www.youtube.com/watch?v=4CSHuRirYOw.

Questions

1. Explain how Google's strategy has been developed over the years.
2. What are the strengths and weaknesses of its approach?
3. In what ways should Google's approach to strategy development change in the future?