

Management the Google way

Google CEO, Eric Schmidt. He answers questions about the forces which had shaped and continue to shape the management of Google.

Google may be the first almost purely web-based company. How has the ethos of the web shaped the way Google is managed internally?

Eric Schmidt: It wasn't planned. Google emerged the way it is because people acted like they were in graduate school, even though they weren't. If you take an academic culture and apply it to a business, these are the outcomes you get. It's much simpler than it appears.



Eric Schmidt, Google CEO

The porousness is a characteristic of high-performing organisations today, because smart people want to work with other smart people, and they want to be informed. Everybody here understands that the model of governance has gone from hierarchical to more empowered. So you give up and accept that the culture defines the outcome, and the culture's one around innovation, with transparency for what people are doing. And that model scales pretty well. It's amazing how

many smart young people there are who want to keep doing stuff. It leads to lots of chaos, but every so often it produces amazing achievements. So I think that the culture of the web can be seen as this enormously low barrier to entry to providing web services. I've always believed that people are the same regardless of generation, language, race, or culture. They want the same things. I suspect if you go to a – quote – boring old company, they also want to be empowered, but the culture doesn't allow it.

You said that Google is modelled on a university. Tell us about that and the practical mechanisms that tie Google together internally.

Remember that these decisions were made by the early founding team, who literally came from graduate school. I remember my first week and being struck that every issue was debated as though it was new. There was a very talented executive that I wanted to hire – I figured I was CEO, after all. We had this discussion and everybody said no. I walked outside and said to one of the founding product managers, why can't I get this hire through? She goes, well, they treat everyone that way.

This story tells you that the culture drove the behaviour and I was simply one of the players.

What allows that to work?

There's a set of things people can't do. They can't violate the law, they have to behave properly – obvious but worth

stating. Another thing is a strong shared vision about innovation in the web. That's celebrated and helps a lot. Then we have executives who've grown up in the company, so they form that internal culture. I think what is most interesting about Google is the way the culture is expressed. It's difficult to describe, but when you're in it you know exactly what it is.

Ultimately founders run out of vision. It happened to Scott McNeely and Michael Dell and arguably to Bill Gates, so...

They're not done yet. I walked in one day and said, okay guys, what's new? And they said, we've decided we have to enter a new business: manufacturing. We're going to manufacture refrigerators – we've been talking about using refrigerators and general machinery and connecting it to the internet. I said, well, okay, that's interesting. And this went on for 10 minutes before I realised they had spent the whole day planning this as a joke. The good news is, we're not doing refrigerators.

There's been a lot of conversation today about the role of the CEO. One CEO here said, we really need to blow up the office of the CEO. What is your role like as CEO of Google?

Well, the good news is, it works! I largely share power with Larry [Page] and Sergey [Brin], and we decided to just say that rather than sneak around about it. They own a third of the company. If you are the CEO and the two founders own a third of the

company, do you work for them or do they work for you? And the management team, has worked together for a long time, and everybody's used to a model which is pretty much the wisdom of the crowds model. Every issue is debated. There's no issue so small that you can't have a debate about it – and we'll debate it infinitely. Unlike in other companies, in our model we want to get everything on the table, so basically as an executive you have to find somebody who's a dissident. You don't get a good decision until you get disagreements.

Now, if that's all you do, you end up with a university. So you also have to have a deadline. So I have two jobs, two roles. The first is to ensure every issue that's important is really debated to find not the common outcome but the best decision. And the second thing is to put pressure to make it happen quick, because business is speed.

When I teach a case about Google to executives from more traditional companies, they say: interesting, but there's really nothing there for us. This company is just too fundamentally different. The more I listen to you, the more I think they may be right...

Even if they're right it doesn't mean you shouldn't try to teach them to do better. Almost all of these people are struggling in cultures which are dysfunctional. Almost all of these people are in situations where the vast majority of ideas are not surfacing and no-one listens to them – and their employees quit and they come and work for us!

It's been suggested that Google faces a brain-drain challenge. What are you doing to prevent this and preserve your staff?

I'd like to quibble with the first half of your question rather brutally. Another thing we do at Google – that again can be easily copied – is everything has to be based on some fact. We don't have an argument the way you phrased it. We start with: what's

our turnover? There's no question that there's a brain drain, but the premise of your question is false, because the number of incomers far exceeds the number of people leaving.

They have higher or equal academic credentials. They're of the same age. They're better trained, and just as motivated. The question I would ask instead is: how do you deal with these challenges? Fundamentally people stay in companies because they want to have an impact. So every person who leaves the company either does so because they made too much money or more commonly that they're being mistreated by management.

There's a tremendous arrogance in business about the power of executives over individuals. At Google we treat people as though they were the only asset. Other companies say they do, but many business people, especially in private equity, don't think of the people as the asset, they think of the business with the cash flow and so forth. Whereas we understand that in an innovation model it's only about the people and it's only about the innovation engine. Whatever the answer to your question is, it will be determined by whether the innovative culture does scale. In any case, we've not seen a significant increase in turnover, ever. So I don't know whether it's the free food, the culture or whatever, but people are staying.

When I think about Google, I think about a revolutionary capability that is transforming and empowering at an intimate level the lives of so many people on our planet. But you're a publicly traded company now. You inhabit the 20th century corporate form that is not well-known for wonderful treatment of its end-users. How do you think about this? Is this on your radar screen as a conflict? How do you reinvent the form so that that's not a possibility?

We understood the question that you asked remarkably well, and as part of going public we created a two-class stock system in which the founders and a few early executives have super voting control over any issues, not just mergers and acquisitions. This is unusual. It has the effect that the current clowns running the company can do so without regard to [Wall] Street pressure. We put that in place precisely because we saw ourselves in a 10 or 15-year kind of timeframe and there was a tremendous concern that the quarterly pressures that are on companies is in fact causing them to make short-term rather than long-term commitments. So we did anticipate that.



When you have all these smart people, and they're all very passionate about their ideas, how do you decide what's going to be selected?

We do very, very tough product reviews and this is something that we learned from Microsoft – there a few things Microsoft did well and that's one of them. We really, really get to the bottom of, is this a great product? Is this really going to work? They're often rejected based on the fact that they're just not good enough. But it's rare that we cancel anything outright.

Do you have any thoughts about whether you can make this model work in a company where people aren't smart in the way that Google employees are, but we still want to create smart organisations that tap the knowledge that people have?

The fact of the matter is that we have organisations that have every kind of person, but everybody wants the same thing – they want to be heard. So independent of the specifics that we're talking about, about the Google management culture, why don't we simply work on listening?

I've always felt that the notion "do no evil" falls short, perhaps significantly so, of the potential and aspiration of the company. What is your reflection on that?

It forces a conversation. Two examples: if we have a policy of do no evil, then if somebody thinks evil is occurring we'll have everybody in a room, there'll be a big argument, some kind of a deadline, hopefully we'll get the right answer, and in those discussions everybody's a peer. Again, nothing that can't be copied in other companies. Or take the rule that engineers get 20 per cent of their time to do whatever they want. Now, the interests of engineers are actually pretty narrow, and most of the time they tend to work on stuff in their area of expertise and invent things that we hadn't thought of. So that's good. But that's not the real reason for 20 per cent time. The real reason is that it forces a conversation with a manager who's overmanaging. I come to you and I say the project is late, you guys screwed up, you have to get it back on track, and you sit there and say, okay, Eric, I'm going to give you everything I've got – 80 per cent of the time. It forces the dialogue. It serves as a check and balance on this command and control management that a lot of companies have.



So, five, 10 years from now, what hope do you have for the effect Google will have had on the world?

Well, I hope it's positive. Information is powerful and the technology platform that the web has provided for information is unprecedented. What I hope will happen is that a set of new uses of information will just naturally creep in your lives and all of a sudden we'll always know the answer to questions. What should I do tomorrow?

That's a reasonable question. Google should be able to at least give me some suggestions. Another one that I've always wanted is a paper lengthening product; submit a paper and make it longer. Another is a product which is codenamed internally "serendipity" – basically, I'm typing and then it says what I should be typing. Simple ideas – why don't computers do that stuff for me?

What do you think the future of the media that has any intelligent discourse is, and the role that Google plays in that.

That's a crucial issue. Let me observe that people are consuming more information now than ever and they're paying for it less than ever. Simple, easy to understand. Things like the Harvard Business Review, the Economist, monthly magazines seem to be doing quite well – the more specialised, the better. But I think the future of newspapers is really mixed. Most of the newspapers may ultimately be merged into larger brand companies. But things like the regional newspapers, it's not obvious where they're going to end up.

As for intelligent discourse, it's disturbing to discover that, for example, Huffington Post, which has actually got a lot of very interesting voices, makes all of

its money from Britney Spears. The average person is actually more concerned about her than they are about the kinds of things that we care about. Newspapers are always an approximation between those two goals, but with the internet you can actually sub-specialise. The fact of the matter is that this is a tension in society and something which is not good. The organisations that have no particular value of the brand and have high production costs and relatively little money will go out of business, and it's a terrible outcome – a negative outcome from the internet.

As you head into your third phase of growth into a new environment and scale of operation, are you doing experiments in terms of management style or are you still just opportunistically making things up as you go along?

I wish I had a better answer than saying we don't really know. Google has never had a strategic plan on these questions. We do have a number of incredibly brilliant, mathematically inclined PhDs in economics who are busy working on the business problems of scale. So that's an example where we went from just roughly thinking it's going to work to the science behind running the business. But the culture, the structure of the company has not changed. I worry that we have to change it because we're now 20-something-thousand people and there are issues around scaling human organisations, even with such an attractive model.

Everyone looks to Google as a model. Is there any place, other organisation or company that you look to for suggestions and inspiration?

Mostly to negative examples. To my knowledge no company in US history has grown as fast as we have. So one way to think about Google is we faced every management problem, we just faced them all at once. The future is ambiguous, so one way to deal with it is to have the smartest people working with you. I try to

anticipate the problem and say, okay, you guys, you think you're so smart, what are we going to do about this? And that provokes the internal debate.

If for some reason tomorrow you ended up running a much more traditional company with all the legacy that they have, what part of the Google model would translate? What would you do in your first 100 days?

The first question I would always ask if I were parachuted into another company (aside from why did I leave?) is what is the nature of the business? Is it really growing? How do we really make money here? So you start going through those sorts of questions and you have to be honest. I can tell you in my experience having been parachuted in, the people who you work with won't tell you the truth because they don't know.

At Google, for example, we have a wonderful sales force and we say it's the greatest sales force in the world. (By the way, every company says it has the greatest sales force in the world.) But I can tell you the way we make our quarter is we control the dials on our advertising system. The sales guys have relatively little to do with making the quarter. They're very important, but we can decide whatever numbers we want per quarter just by changing the dials of our advertising system. It's important to know that.

When I was going to become CEO of Novell, Bill Gates told me, you should spend 80 per cent of your time on 80 per cent of your revenue. It's very, very easy as an executive to get confused. Like the press question; does it really matter? Now, it obviously matters to me, but does it really matter? Because the way you lose your job as a CEO is [poor] revenue and earnings growth.

So when I started at Google I said, we have a very simple rule here, absolute profits will increase every quarter. I'm not talking about growth rate, I'm talking about absolute profits. Because as long as absolute profits are

growing it's very hard to complain.

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