

HOW ALPHABET WORKS

“What’s different now?”

This is one of Eric’s favorite ways to start a conversation (he’s a real hoot at dinner parties!) It usually generates an interesting response, because we are fortunate enough to live and work in a time when technology is advancing at an amazing pace, changing many lives and businesses along the way. The question is always relevant. *Something* is always different.

Today, many things have changed from when we first published *How Google Works* in the fall of 2014. One big difference is that the number of business leaders who trek from all over the globe to see what makes Silicon Valley Silicon Valley has increased substantially. Everything is speeding up, and executives from all sectors who are intrigued by the valley’s long-standing status as an innovation engine want to come and learn from it. These are people from proud and prosperous companies with rich legacies and strong leadership, and they have powerful questions: How do they keep pace? Who should they hire? How do they create new innovation? How do they shift their culture while retaining its best aspects?

We wrote *How Google Works* because we believe that the art and science of management has changed in the twenty-first century. Empowered by information and technology, individuals and small teams can have enormous impact, far greater than ever before. We witnessed this phenomenon firsthand at Google, and we believe that much of what we learned in helping build the company could be useful to other business leaders. So over the past couple of years, when these leaders have come to Google to see how we work and how they might adopt some of our principles, we (along with our coauthor, Alan Eagle) have happily listened to their questions and answered with the lessons we have learned.

The result? Lots of nodding heads and engaged conversation, but very few results. They listened but rarely acted. Although they never told us this directly, our visitors let us know that our lessons and insights were very interesting, and were perhaps what they needed, but were practically impossible to implement. They looked at us in an almost avuncular way, as if they were the wise parents and we the ebullient, bright, hopelessly naive teenagers. As if the things we were telling them to do wouldn’t work for them, and someday—when we grew up—we would understand why.

Another answer to Eric's "What's different now?" question, apart from the increasing number of business leaders visiting Silicon Valley, is Google itself. The Google we describe in the book is the one we helped lead as CEO (Eric) and head of products (Jonathan) from 2001 to 2011, when we both stepped down from those operating roles and took on new responsibilities. That Google grew from a small start-up to a multinational success story with over 25,000 employees. Impressive, to be sure, but that was a long time ago. Five years later, Google is a subsidiary of Alphabet, and we have grown into a much bigger (over 60,000 employees, \$75+ billion revenue) and more complex enterprise, with businesses ranging from search and video advertising to mobile operating systems, digital media, laptops, and developer and enterprise solutions, alongside speculative projects such as self-driving cars, smart contact lenses, and high-bandwidth connectivity via fiber or helium balloons. This is a very different Google, so much so that while the principles we describe in *How Google Works* are still in practice, some very important new ones have emerged as well.

This change was driven home for us in a typical Google way: A software engineer told us about it. We stood in the hallways of the Google offices in New York in late September 2014, a week after the publication of *How Google Works* and moments after having hosted a lively question-and-answer session about the book with our fellow Googlers. As we chatted with those coworkers, one of them explained that he had an issue. His manager was not letting him work on 20 percent projects (which is Google-speak for a side project of one's own choosing). Offering Googlers this sort of freedom is a long-standing tradition and management philosophy at the company. However, this one engineer's manager had chosen not to allow it. He performed well at his job, he told us, and he had some new things he wanted to try out, but his manager wouldn't allow it. That's when he suggested that our title might be off. "Maybe you should have called it *How Google Worked*."

When we looked into it, we learned that this situation was an exception and that the concept of 20 percent time was (and is) still alive and well at Google. However, the "how Google *worked*" sentiment was one we heard several times as we talked to Googlers about the book. It became apparent to us that as Google had grown, it had naturally become slower and more process-driven. This started to happen in the last few years of our tenures; at one point, while he was still CEO, Eric wrote a company-wide note called "Avoiding the Big Company Syndrome," which was all about maintaining our speed. But the comments we were hearing

from Googlers helped us realize that perhaps we had not been very successful in achieving that goal. Perhaps our avuncular friends from those big, mature companies were right. Our conclusion: Practicing what we preach in *How Google Works* gets very difficult when a company gets big.

In his 2013 Founders' Letter¹, Larry Page noted that “over time many companies get comfortable doing what they have always done, with a few incremental changes. This kind of incrementalism leads to irrelevance over time, especially in technology, because change tends to be revolutionary, not evolutionary.” Larry was concerned that as we were slowing down, becoming more process-driven, and acting like a *big* company, we ran the risk of realizing our worst possible fate: becoming irrelevant.

This is what drove the creation of Alphabet, which we announced in August 2015. Google became a subsidiary of this new holding company, and several other businesses that had been operating as autonomous units under Google spun out and became independent companies under Alphabet. We call them “bets”: Waymo (self-driving cars), Nest, Verily, X (formerly Google[x], includes Loon and other “moon- shots”), Calico, Fiber, Google Ventures, DeepMind, Google Capital, and Sidewalk Labs are now separate from Google, with their own culture, processes, and leadership. They have the freedom to operate as they choose and to succeed (or fail) on their own. And with a rigorous internal capital allocation process, their CEOs face similar financial pressures as any other CEO trying to grow a business.

There were several reasons behind the Alphabet restructuring, but the most important one was that it would allow us to get more ambitious things done. Not just putting more ambitious things on our to-do list, but doing things that are more ambitious than the things already on the list (which seems like a semantic distinction at first, but in fact is different). The Alphabet decision itself was ambitious, and typically Larry: bold, innovative, decisive. To our knowledge, no company of our size has ever done a corporate restructuring like this. Companies create operating divisions with presidents; they don't cleave themselves into multiple pieces, at least not when things are going well, as they are at Google right now. They don't create a new holding company with a new name when the existing brand is one of the strongest in the world. And when they do any form of restructuring, they don't announce a thing until all the i's are

¹ An open letter to Google (now Alphabet) shareholders that Larry Page and Sergey Brin have published annually since 2004.

dotted, t's crossed, and the FAQ² sheet is chock-full of well-scripted responses to every possible question. They don't finalize the decision and announce it mere weeks later, with many of the details still to be worked out. But all of these are things that Larry did with the Alphabet decision. Once he and the management team decided (and the board agreed), he moved quickly and didn't look back. He didn't have all the answers, but he knew he had to act.

The core principle we espouse in *How Google Works* is still absolutely true: The only way to succeed in business in the twenty-first century is to continually create great products, and the only way to do that is to attract smart creatives and put them in an environment where they can succeed at scale. The problem is, as we have discovered, in a large company it becomes more and more difficult to create that environment. In fact, forces in big companies can actively conspire against those smart creatives who are trying to do something different: You aren't just trying to climb a mountain; people are dropping rocks on you as you ascend! Alphabet is our bid to defeat these forces and keep Google and its sister companies nimble, uncomfortable, and relevant.

This new chapter is our opportunity to update *How Google Works* with principles from today's Google and Alphabet, which we hope may be helpful for business leaders at other companies who may agree with the concepts in our book but think that their companies are too big, slow, or entrenched to adopt them. We still stand behind everything we say in the book. But recent changes at Google have taught us a few new lessons on how to keep those smart creatives we so dearly love excited and doing amazing things. We start by describing the thing that often holds big companies back—process—and how sometimes the best approach is to ignore it. Then we talk about those new management principles that we have been applying here at Google and that led to the formation of Alphabet: organizing around CEOs whose impact is the highest, (still) betting on technical insights, thinking big and acting small, de-risking technology and business, and taking on “roofshot” projects as well as “moonshots.” And we conclude by reasking ourselves another favorite question: What *could* be true in five years? You'll have to stick around to the end of the chapter to get our answer, but here's a hint: Like many human problems, eventually a machine will be able to figure it out.

² Frequently asked questions