Entrepreneurship at Google

15.369 Corporate Entrepreneurship – Final Paper

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Introduction

Corporate entrepreneurship is important because it leads to the development of new opportunities and ideas, leading to increased profitability and an enhanced competitive position. There are several vehicles for corporate entrepreneurship, and these include ad hoc venture teams, new venture divisions, acquisitions, outsourcing, and hybrid forms. In this paper we will discuss corporate entrepreneurship at Google, particularly focusing on the following questions:

- What is corporate entrepreneurship at google?
- Why is it important?
- What challenges do they face?
- Do they have a formal, managed approach for becoming more entrepreneurial?

On average, Google acquires one company per week and since 1998, has acquired over 180 companies. In this paper we will narrow our study to one type of corporate entrepreneurship that Google employs: acquisitions. Acquisitions are important because they lead to additions of talent, intellectual property and other strategic enhancements.

About Google[1]

Google is a software company and search engine founded in 1998. Since then it has grown to become an American multinational (see Exhibit 2 in the Appendix) with a $527B market cap and 40,000 employees, referred to as "googlers."

The company's slogan is "don't be evil," and its mission is to organize the world's information and make it universally accessible and useful. Google's philosophy, or "ten things we know to be true," is summed up on their corporate website as:

1. *Focus on the user and all else will follow*
2. *It's best to do one thing really, really well*
3. *Fast is better than slow*
4. *Democracy on the web works*
5. *You don't need to be at your desk to need an answer*
6. *You can make money without doing evil*
7. *There's always more information out there*
8. *The need for information crosses all borders*
9. *You can be serious without a suit*
10. *Great just isn't good enough*

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[1] About Google." *About Google*. N.p., n.d. Web. 07 Dec. 2015. <http://www.google.com/about/>

Methodology

Our research methodology includes both primary and secondary research. The primary research is centered on seven in-person interviews of former Google employees and summer interns. We sourced these interviews through the MIT Sloan network, and the list of those we interviewed can be found in Exhibit 1 of the Appendix. The interviewees come from diverse groups and functions within Google. We divided the seven interviews among the three of us and for each interview, we utilized the suggested questions in the Interview Guide (Exhibit 3 of the Appendix). Secondary research is centered around company history, which can be found on Google's corporate website. Our research also included recent acquisitions and events, information we gleaned from scholarly articles sourced from MIT Libraries and the World Wide Web.

Background

In October 2015, Google, the most widely used search engine, announced that it had reorganized itself under a new parent company called Alphabet. More than 17 years since its founding, the company had made inroads in more than just search.

History of Google

Headquartered in Mountain View, California, Google was founded when Larry Page and Sergey Brin met as graduate students at Stanford University and Andy Bechtolshelm of Sun Microsystems invested $100,000 in their graduate thesis idea for a more efficient Internet search engine. By the end of 1998 they had 60M indexed pages. In 1999 they filed a patent for Google, Inc. and by the end of 1999 had secured $25M in equity funding from venture capital firms including Kleiner Perkins Caufield and Byers, and Sequoia Capital. In 2000, Google began selling advertisements associated with keywords and in 2004, had its initial public offering. The IPO raised $1.67B, giving Google a market capitalization of more than $23B.

Since the IPO, Google has grown to a $527B market capitalization. Its products now include ads, Gmail, google docs, calendar, hangouts, search, Android, chrome, Chromebook, google maps, driverless cars, google glass and the social network google +.

Corporate Entrepreneurship

At Google, corporate entrepreneurship takes many forms, and its success is measured by the effect of the project on users (number of users, quality of users, etc.). One form of entrepreneurship at Google is known as the "20% time policy[2]." The concept was pioneered by 3M, which allots a "15% time policy" for employees to use that portion of their paid time to chase

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[2] D'Onfro, Jillian. "The Truth about Google's Famous '20% Time' Policy."*Business Insider.* Business Insider, Inc, 17 Apr. 2015. Web. 07 Dec. 2015

inventions and potentially profitable ideas like the sticky note. At Google, all Googlers are allotted 20% of their time to work on independent startups. This time is important because it leads to new ideas and discoveries, including google chrome. In fact, in their 2004 IPO letter, Larry Page and Sergey Brin noted:

> *"We encourage our employees, in addition to their regular projects, to spend 20% of their time working on what they think will most benefit Google. This empowers them to be more creative and innovative. Many of our significant advances have happened in this manner."*

Google's business strategy is focused on constant innovation, so the 20% time aligns with their model and also does not cost anything besides employee time. Everyone is empowered to use 20% time. However, 20% time is more like 120% time because most employees are busy with their regular work, and so the 20% time is not widely practiced--the employees who use it most are the engineers[3]. 20% time is important because it encourages a culture of constant iteration and feedback[4]. Successful projects from 20% time include AdSense, which accounts for over 25% of the company's revenue, and Gmail, which now has over 900M active users[5]. Another form of entrepreneurship at Google is research and incubation. Google publishes hundreds of scholarly articles per year and spent over $8B on R&D last year, compared to $13.5B spent at Volkswagen, $10.4B spent at Microsoft, and $7.5B spent at Merck[6]. Google X Labs, the secretive incubator at Google where new ideas are brought into fruition, is responsible for driverless cars, Google Glass, Project Loon and proposals for new acquisitions[7].

Finally, acquisitions are a major form of entrepreneurship at Google, and they will be the focus of our paper. An acquisition is defined as the purchase of one company by another, with the purchasing company establishing itself as the new owner. Mergers and acquisitions (M&A) have been a popular means for many companies to address the increasing pace and level of competition that they face. Google has pursued acquisitions to more quickly access technology, markets, and customers, and this approach has always been a viable exit strategy for startups. Since 1998, Google has acquired more than 180 companies and spent over $28B on acquisitions in order to grow the company. Six noteworthy acquisitions (all within the top ten acquisitions by valuation) are detailed below[8].

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[3] Interview with Igor Slutsker

[4] Interview with Kevin Yu

[5]"Google's "20% Time," Which Brought You Gmail and AdSense, Is Now as Good as Dead." *Quartz*. N.p., n.d. Web. 07 Dec. 2015. <http://qz.com/115831/googles-20-time-which-brought-you-gmail-and-adsense-is-now-as-good-as-dead/>

[6] "The 10 Biggest R&D Spenders Worldwide." *Fortune The 10 Biggest RD Spenders Worldwide Comments*. N.p., 17 Nov. 2014. Web. 07 Dec. 2015

[7] "Inside Google's Secret Lab." *Bloomberg.com*. Bloomberg, n.d. Web. 07 Dec. 2015. <http://www.bloomberg.com/bw/articles/2013-05-22/inside-googles-secret-lab>

[8] D'Onfro, Jillian. "Google's Ten Biggest Acquisitions." *Business Insider*. Business Insider, Inc, 20 Jan. 2015. Web. 07 Dec. 2015

Year	Company Acquired	Google's Strategy	Valuation
2011	Motorola	Acquire patents	$12.5B
2014	Nest Labs	Expand presence in consumer homes	$3.2B
2007	DoubleClick	Establish strong presence in online advertising world	$3.1B
2006	YouTube	Transform the video-sharing platform into another big search engine	$1.65B
2013	Waze	Adopt the user engagement culture of the app into their other services	$966M
2009	AdMob	Increase their presence in the mobile advertising space	$750M

Challenges

Google's acquisition strategy has led to quick expansion and the ability to specialize at a rapid pace. However, with acquisitions come many challenges. In general, acquisition challenges arise from poor target-selection decisions, unreasonably high purchase prices, and strategically mismatched organizations. Furthermore, mismanagement of the last stage in the acquisition process is common, and the post-acquisition process is a significant source of failure. As described in Google's 10K annual report to shareholders, the company's biggest acquisition challenges focus on the post-acquisition process. In this section we will review some of the major challenges faced when Google employs acquisition as a strategy for corporate entrepreneurship.

1. Integrating the acquired companies with Google

The challenges faced by Google leaders encompass identifying, quantifying, and prioritizing the right synergies to capture value and acquire new capabilities. Not all Google acquisitions have been successful, in fact one-third of Google's acquisitions are failures. Examples of unsuccessful acquisitions include those where Google, after purchase, either sold a company back to its owners or otherwise disposed of it--Frommers and DMarc Broadcasting for example, which resulted in hundreds of millions of dollars lost.

So, what are the key ingredients to a successful integration of capabilities? Key to a successful acquisition is finding the right synergies and managing the process correctly. We can look to both Google's Youtube acquisition in 2006 and Cisco as case studies.The Youtube acquisition benefited the quality of Google's core search product, allowing access to data on video search queries for videos on YouTube. Moreover, the acquisition positioned Google well for future market opportunities such as internet-connected TV, a potentially important platform for YouTube and its content partners that Google can capitalize on[9]. Regarding Cisco, from 1993 - 1996, the company acquired more than 14 companies and as a result, doubled its sales and net income. Its success can be attributed to a mantra of only acquiring companies that will help grow the business (like Youtube for Google) and their process-driven approach to acquisition integration.[10]

Cisco's Process-Driven Approach to Acquisition Integration

Phase	Deal Activity	Example Integration Tasks
1	Discovery and Planning	Scope assessment, business modeling, detailed due diligence, integration planning
2	Execution	Ensuring operational readiness, activation of employees, resources and integration tasks
3	Monitoring	Ongoing measurement and adjustment of integration activity

Finally, the management of talent throughout the acquisition process is a big challenge for Google. Finding the right role for each acqui-hire is key. Founders are often the hardest member of the team to retain since they think of themselves as entrepreneurs versus an engineer or a manager and do not want to be tied to a specific role or business unit. There is no scarcity of funding in Silicon Valley and thus money is not an attractive factor for founders to stay with the company that acquires their startup. The expertise and talent of these firms is often more important than the technology being acquired. "When a firm is making a tech acquisition, they're buying the talent as much as they're buying the technology."[11]

[9] "Was YouTube a Good Acquisition for Google?" *Quora*. N.p., n.d. Web. 07 Dec. 2015.
<https://www.quora.com/Was-YouTube-a-good-acquisition-for-Google>
[10]"Business Management Case Study: How Cisco Applies Company Wide Expertise for Integrating Acquired Companies - Cisco on Cisco." *Cisco*. N.p., n.d. Web. 07 Dec. 2015
[11] "How Google Has Perfected the Silicon Valley Acquisition." *Time*. Time, n.d. Web. 07 Dec. 2015.
<http://time.com/3815612/silicon-valley-acquisition/>

2. Transparency at Google

Another challenge that Google faces is balancing their ability to maintain transparency without risking sensitive information. Transparency is part of the company culture at Google; employees are kept informed of the latest company decisions, which creates a high level of trust among the employees. For example, when the firm formally surveys its workers each year, 90% of them participate and are able to see their own group's results, as well as everyone else's. Moreover, when the company takes action on the feedback employees collectively provide, it shares all of that feedback too.[12] Additionally, every employee at Google has access to every other employee's goals for the year - from their manager's to the CEO's. Google, by sharing sensitive data with employees, enforces the company's culture of trust and creates accountability for all by providing the data employees may need to drive innovative projects, even if the data is sensitive.

3. Structuring Corporate Entrepreneurship at Google

One big challenge that many entrepreneurial corporations face is to determine how to formally structure corporate entrepreneurship. Since entrepreneurship itself does not have any strict guidelines or boundaries, defining what it means to a given corporation is often not an easy task. Google is no exception to this. While Google, with its plethora of groundbreaking products, is one of the most entrepreneurial companies in the world, enabling its employees to be entrepreneurial is quite challenging. One way Google tried to enable its employees to be more entrepreneurial is by allowing all employees to dedicate 20% of their workweek to non-core projects. Another strategy used by Google has been to develop "Google Cafes" where employees are encouraged to interact with employees from different teams and potentially find project partners for their non-core projects. Lastly, there is no stigma attached to failure at Google. While an unsuccessful project is de-funded, any innovative or beneficial discovery is recorded for future use. Determining the appropriate culture and tools that provide the right amount of freedom to its employees is a challenge that Google seems to besuccessfully navigating.

4. Hiring the Right Fit

While establishing the right culture to promote corporate entrepreneurship is challenging, being able to sustain it through hiring the right employees is even harder. In order for Google to sustain its entrepreneurial culture, Google has to invest heavily in hiring the right people. Hiring mistakes, while detrimental to the culture of the company, can also be expensive. According to a 2012 poll conducted by CareerBuilder, "41% of participating companies had experienced a cost of at least $25,000 per single bad hire, while 24% had incurred $50,000 for a single bad

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[12] "Not A Happy Accident: How Google Deliberately Designs Workplace Satisfaction." *Fast Company*. N.p., 21 Mar. 2013. Web. 07 Dec. 2015

hire."[13] Google's interview process is known to be one of the most competitive interview processes in the world. In order to receive approval for a budget to hire new employees, managers have to make a strong case for how the new employees will help boost revenues at the company. Recruiters are trained intensively to ensure that they are able to weed out candidates who may not thrive at Google or those who are not technical experts. A brilliant tool that Google is using, called Foo.bar identifies potential candidates based on their google searches for a given programming language. After a few weeks of testing the candidate's technical capabilities via a selection of "online programming games", Google is able to screen candidates for an in-person interview. "In-person interviews are designed to test cognitive ability, leadership ability, role-related knowledge, and Googlyness. The intent is to find someone different, offbeat, who can push and challenge the status quo"[14]. Google's chief culture officer, Stacy Sullivan, has the sole goal of maintaining the culture at Google, and its hiring managers are the gatekeepers.

Key Learnings

Google is a very unique and highly entrepreneurial company. This was evident in all the research materials we came across during our academic research as well as during all of our interviews with Google employees. In this section of the report, we will discuss our team's key takeaways regarding corporate entrepreneurship at Google.

1. Corporate entrepreneurship does not always need to be defined

When asked if corporate entrepreneurship is defined at Google, all seven ex-Google employees we interviewed agreed that there was no formal definition of corporate entrepreneurship there. However, they all did seem to think that at a company like Google, where entrepreneurship is woven into the DNA of the company culture, such a definition is unnecessary. It is no secret that Google is a very entrepreneurial company, and all of Google's employees join the company with an understanding that their careers at Google will be very different than any other tradition tech firm. Most of our interviewers had taken advantage of "20% time" and spoke highly of the company's culture to incentivize taking risks and pushing the boundaries of what was expected from one's role. They also mentioned how entrepreneurial projects were highly advertised within the company and that all employees were invited to a weekly all hands meeting with the company leaders to talk about the latest and greatest that Google is working on. Given such high morale and a high level of understanding of the value of being innovative at Google, the need to define "corporate entrepreneurship" simply does not exist.

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[13] Wendy. "Hiring For Cultural Fit." *OKRs and Continuous Performance Management 7Geese*. 7Geese, 19 Mar. 2013. Web. 05 Dec. 2015. <https://7geese.com/hiring-for-cultural-fit-why-its-important-and-how-to-go-about-it/>
[14] "Google's Head Of HR Shares His Hiring Secrets." *Fast Company*. N.p., 06 Apr. 2015. Web. 07 Dec. 2015

2. Corporate entrepreneurship is intentional

A legacy like Google's does not get created overnight. It most definitely does not get created accidentally. Every aspect of Google's culture is intentional and deliberate. From the unmatchable number of acquisitions, to the highest rate of founder retention, to the development of some of the most unique and creative products in the world, everything that Google does has been thought through. By rewarding those who experiment and providing them with an environment where taking risks is the norm, Google ensures that it simulates the best and the brightest minds of the world. Small things, like the ability to make up your title instead of being given a corporate title, send a signal to the employees that Google encourages creativity and thinking outside the box. By continuing to acquire a new company every week or so, Google keeps adding to its diverse workforce and staying at the forefront of innovation and creativity. "Cultivating an entrepreneurial culture is almost as challenging — and rare — as launching a successful startup company, the majority of which won't see their fourth birthday. You can't simply wall off the innovators, as in Lockheed Martin's legendary "Skunk Works," because by protecting them from being corrupted by the operational, bureaucratic culture, you also block them from the large-company resources that would give them an advantage over nimble independents. Nor can you reasonably expect that every worker will be constantly on the hunt for the next big thing — the majority will need to focus on routine production."[15]

3. Hiring the right fit is crucial to maintaining the culture

Defining corporate entrepreneurship and maintaining an entrepreneurial culture is only possible if Google continues to hire the right employees. "Google is notorious for being one of the most selective companies out there. Of the 3 million applications it receives each year, Google only hires 7,000, or about 0.2%, the company's HR boss Laszlo Bock said at LinkedIn's recent Talent Conference.[16] While Google employees love the idea of being able to work on an idea they have in addition to their core responsibilities, it is important to remember that not all employees in corporate America would be okay with that. Many corporate employees enjoy the structure and definition their jobs provide to them and at a company like Google, many traditional employees may feel pressured to experiment and thus not last long at the company. As such, Google takes its recruitment process extremely seriously and being able to secure a job at Google is highly regarded.

4. Transparency breeds entrepreneurship

Whether it be the creation of Alphabet Inc. or making the goals of all employees at every level visible throughout the entire workforce, Google is an extremely transparent company. This level

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[15] "The Myth of the 'entrepreneurial Employee'" *Fortune The Myth of the Entrepreneurial Employee Comments*. N.p., 13 Aug. 2012. Web. 07 Dec. 2015

[16] Eadicicco, Lisa. "Here's Why You Probably Won't Get Hired At Google."*Business Insider*. Business Insider, Inc, 23 Oct. 2014. Web. 07 Dec. 2015

of transparency also comes with a high level of trust amongst the employees. When asked whether leadership ever worries about leaks regarding sensitive product information, one of our interviewees mentioned that product leaks have never been an issue for Google. This is further brought to light when some employees leak other secretive, non-product related information like Justin Bieber visiting the New York City office or the time when Google decided to raise all of its employees' salaries by 10%. While these employees were caught and then fired, these incidents show that sensitive product related information is sacred at Google.

5. Retaining founders is most important post-acquisition

Google has a track record of retaining the founders of the companies it acquires. This is simply remarkable because as acquisitions have become more and more common in the Valley, the focus has slid from the founder and the talent to the technology being acquired. By valuing the talent as much as the technology being acquired, Google welcomes the founding teams with open arms making Google an exceptional corporation for entrepreneurs to work at. "In late October John Hanke and several of his co-workers met for a reunion of sorts at Fiesta Del Mar, a Mexican restaurant near Google's Mountain View headquarters. Hanke, a 10-year Google employee who led initial development of Maps, was once the founder of a small geodata startup called Keyhole that Google acquired in 2004. The fact that the one-time entrepreneur has stayed with the search giant for more than a decade makes him and his colleague's oddities in Silicon Valley. There are quite a large number of [us] who are still at Google, and I have to say I don't think anyone expected that when we first came in, he says".[17]

6. Separation of core business from high risk ventures is essential

While Google has focused on using acquisitions as a tool to expand its innovative reach, it has realized that in order to maintain transparency to its shareholders it needs to separate its core advertising business from other higher risk initiatives. "It was getting harder and harder to hide the costs of some of the company's projects," particularly since some were bound to fail, said one former Google executive. "It's easier to take the core business and run it like a Fortune 500 company," keeping the more speculative enterprises separate".[18] As such Google created Alphabet Inc., now the parent company of Google, Google X, Google Capital, Nest Labs etc. This shows that while Google does not shy away from entrepreneurship, it understands that there is a limit to how experimental a corporation can be and keeping shareholders happy is always a priority for corporations.

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[17] "How Google Has Perfected the Silicon Valley Acquisition." *Time*. Time, n.d. Web. 07 Dec. 2015.
<http://time.com/3815612/silicon-valley-acquisition/>
[18] "Google Creates Parent Company Called Alphabet in Restructuring." *WSJ*. N.p., n.d. Web. 07 Dec. 2015.
<http://www.wsj.com/articles/google-creates-new-company-alphabet-1439240645>

7. Take care of your employees, and your employees will take care of the business

All of our interviewees agreed on the fact that they absolutely loved working at Google. From the unlimited free food, to the complimentary laundry and day care services provided at work, Google makes sure that its employees have absolutely nothing they need to worry about in their personal lives. When your employee knows they don't need to stay at home because school was cancelled or leave work early for that one gym class, they focus all of their energy on their work. Google employees are known to be some of the most creative and energetic employees in the world and this is also evident from Google's highly innovative and cutting-edge products.

Conclusion

It is hard to find a corporation that can rival Google's thirst for entrepreneurship and innovation. Through intentionally creating a culture where taking risks and experimenting with new ideas is encouraged, Google has been able to develop some of the world's most impactful and unique products. While there is a huge emphasis on entrepreneurship in-house, Google has also focused on acquisitions in order to stay ahead of the competition and ensure relevance in today's world. The biggest challenges that Google faces with acquisitions are related to post-acquisition integration with the company at large; however, by identifying this as an issue and proactively addressing it, Google has been able to retain many founders of the company it has acquired. Transparency and employee morale are two of the most important pillars of Google's success. Google is an example of corporate entrepreneurship at its finest.

Appendix

Exhibit 1 - Interview List

Name	Position	Interviewer
Matt Cardoso	Summer Intern, PMM	Lisette Ludena
Vicky Chen	Summer Intern, PMM	Lisette Ludena
Hailey Crowel	Travel Group, 4+ years	Aakriti Bhakhri
Rishan Mohamed	Online Partnerships Group, 3+ years	Aakriti Bhakhri
Bradley Owens	Summer Intern, PMM	Aakriti Bhakhri
Igor Slutsker	Summer Intern, PM	Cheryl Silveri
Kevin Yu	Summer Intern, M&A	Cheryl Silveri

Exhibit 2 - Map of International Offices

Map data © 2015 Google. This content is excluded from our Creative Commons license. For more information, see https://ocw.mit.edu/help/faq-fair-use/.

Exhibit 3 - Interview Guide

1. How is corporate entrepreneurship defined in your company, if it is defined at all?
2. Why is it important to your firm? How does it link to or support a business strategy or intent? How widely is this importance known and accepted?
3. Who are the champions or leaders of the effort?
4. How long has the firm been engaged in efforts to become more entrepreneurial?
5. What challenges have you encountered along the way? How did you solve them or how are you working on them now?
6. How do you or did you address these specific challenges:
   - Existing structures, systems, processes, etc. that impede entrepreneurship.
   - Classical metrics that are inappropriate to entrepreneurial action, and specifically classical NPV financial metrics
   - Cultural attributes/conflicts
   - Managing organization change to accommodate entrepreneurial action
7. What else have you learned about corporate entrepreneurship, for example:
   - How to equip and enable *individuals* to act entrepreneurially
   - How to equip and enable leaders and managers to guide and support entrepreneurs and their projects
   - The role and work to be done by executives, general managers and other supporters
   - Concepts, tools and methods that have proved particularly valuable
8. Do you think our proposed structure is a good one for organizing the course? For students? For employers?
9. *(Optional)* Are you familiar with a project in a highly uncertain situation that succeeded either because it showed the existence or nonexistence of an opportunity that was worth further pursuit? Think about the early stage, before you had much tangible evidence that the opportunity existed.
   - How did the project get started?
   - In this "exploratory phase" how was it managed, if at all?
   - How were resources both tangible and other people acquired?
   - What plans, if any, were established and at what point?
   - What metrics, especially financial, were applied?
   - How were decisions made about the project, and by whom?
   - If dead ends were reached, what happened?
   - Was there a point when management process or structure significantly changed? For example, a formal project established or the project transferred to an operating division, spun out, etc.? How was that decision made and what was required for it to be made?
   - Was this venture an aberration or have other projects followed a similar path?

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