TOMORROW'S CHALLENGES

THE FUTURE AIN'T WHAT IT USED TO BE – HOW GOOGLE GOES ABOUT REINVENTING ITSELF

CAN GOOGLE'S NEW REINCARNATION AS ALPHABET SECURE ITS LONGEVITY?

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Google recently surprised the tech world and beyond with its announcement of restructuring into a new holding company called Alphabet.

Like Gary Hamel, I tend to appreciate Google and its constant efforts to re-invent itself. At the same time, we have seen many industry icons unexpectedly stumble and collapse. Could Google, or even your company (if it is an undisputed leader in the industry) experience the same downfall? Here are a few things to consider:

No king rules forever

History is littered with examples of hugely profitable companies (think Nokia or Kodak) that once seemed infallible until somehow the future turned on them. Leslie Hannah, a Professor of Business History at London School of Economics, tracked the 100 companies that had the largest market capitalization in 1912. His findings are revealing: By 1995, nearly half had disappeared, and of those that survived, only 19 remained in the top 100.

According to an Innosight study, the average life span of companies in the S&P 500 Index dropped from 61 years in 1958 to 25 years in 1980—to 18 years now.

Why? Baseball great Yogi Berra said it best: *The future ain't what it used to be.* It's a tough world out there, and longevity is hard to achieve.

Victims of success, prisoners of history

Companies must balance three competing imperatives: 1) run operations effectively, 2) create new businesses which address future business opportunities, and 3) shed activities and practices that might once have been core but now constrain a company's ability to grow.

But when I ask executives how much time they actually spend managing the current business versus creating the future, their answers typically fall into the 90/10 bracket. One participant even told me she spends 120% of her time managing the present. No wonder going through this process of creative destruction is easier said than done.

While Kodak invented the first digital camera, it wasn't exactly sure what to do with this emerging technology until it filed for bankruptcy protection, 36 years later. The reason? Pushing this concept full speed meant targeting a much broader base of customers than before, and developing new competencies in electronics, design, software and display technologies it did not have in house; it also meant trying to earn revenues and profits from low-price cameras rather than from a very lucrative set of "disposables" (film, paper, and processing chemicals). As many observers have already pointed out, the very same things that made Kodak successful are also those that led to its downfall.

Everybody knows that *success* breeds competence traps - including hubris (an exaggerated sense of pride and overconfidence that blind executives to dangers that threaten their business), complacency (denial and sluggishness in the face of needed change), and fear of trying anything new that might dilute the brand or cannibalize the core business activities. When these pathologies strike, companies like Kodak slowly fall behind the pace of change in their industries.

What the Kodak story also makes clear, is that successful companies are ultimately victims of their history: Talented executives respond quickly to the most disruptive shifts affecting their market. But they do so by reinforcing the strategies and practices that have worked best in the past, a condition that Donald Sull calls active inertia. Executives make choices to win in the market. Good results validate these choices, first symbolically (through the stories people exchange internally) and then more formally in the form of policies, routines, processes, and value systems. Overtime, a success formula emerges; and "the way we do things around here" becomes clear. Kodak was a proud, hugely profitable film company. Its shared internal way of thinking dictated which innovation efforts were appropriate and which ones were not, constraining executives' freedom of action until it was too late.

The ingredients for longevity: companies which are *built to become*

Like most species of sharks, companies will drown if they stop moving. Professor Burgelman, from Stanford Business School, proposes a similar idea when he defines greatness as the by-product of a dynamic reinvention process. The title of his forthcoming book "*Built to become*" says it all. Companies must be able to transform themselves significantly throughout their lifetime if they are to weather the turbulence of change, and remain relevant to their customers, investors, employees, and other stakeholders.

This long-term effort requires two essential capabilities: (1) the construction of an *institution-building purpose* that is primarily geared towards meeting the evolving needs of multiple stakeholders rather than simply serving the short term financial objectives of investors; and (2) an *adaptive capability* that allows a business to deal with the massive changes that occur in its sector.

No doubt Google has embraced this dual imperative seriously. Last year, I took a group of French senior executives to Silicon Valley as they wanted to open their minds to how the future could unfold. One of the companies we visited was Google. What we quickly discovered as we walked on campus, is a vibrant place inhabited by all kinds of people who really believe their work *will* change the world. You could feel this sense of purpose in the air; it was the essence of the place. The wonder of Google also lies in its ability, so many years after its founding in 1988, to develop a capacity for continuous renewal, through balancing such principles as structure, freedom, meritocracy, transparency and experimentation in the organization, even though it has grown to more than 40,000 employees. Much like other organizations that Professor Burgelman studied in his tenure at Stanford University, Google embraces all of the sound features of a *built to become*, *long-living* company.

So I wouldn't write Google off just yet. It ain't over till it's over, as Berra also said.

Cyril Bouquet is Professor of Strategy at IMD. His major interest is the interface between organizational psychology, strategy and leadership.

This article is based on a post from Cyril Bouquet's Forbes blog.

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