THE SILICON VALLEY MODEL:
A NEW APPROACH TO MANAGING
THE FIRM IN A DIGITAL AGE

EXECUTIVE SUMMARY
AUGUST 2016

Prepared By:

Annika Steiber
asteiber@thinkbrg.com
650.799.2097

(This summary is abstracted from The Silicon Valley Model: Managing for Entrepreneurship by Dr. Annika Steiber and Dr. Sverker Alänge, © Springer 2016.)
Background: Problem And Solution

Companies, like life forms, must adapt and evolve. This is especially true in today’s business world where multiple forces of change create new possibilities for growth, while existing products can quickly lose market share or become obsolete. And many big companies are burdened with a basic problem that makes them endangered species. Their management models are obsolete.

These companies may have progressive features but they’re organized and run as bureaucracies. They have rigid structures and hierarchies, along with complex rules that prescribe what each person and unit should do and how all should interact. This Industrial Age model is good for coordinating large groups of people to perform well-defined tasks. But like the steamship Titanic, it is not designed for pivoting quickly.

Nor does the model allow full use of people's creative talents. Ideas that depart from established ways of doing things are hard to implement. The culture rewards people for meeting targets, but often hinders them if they try to meet the company’s most critical need by developing new paths into the future.

In today’s world, success may “depend very little on the enterprise’s ability to engage in (textbook) optimizations against known constraints ... Rather, enterprise success depends upon the discovery and development of opportunities.” — David Teece

The current Digital Age calls for a fundamentally different approach to management. Our studies, combined with the insights of many others, indicate that such a model now exists—and it works. This new model has been practiced and refined over several decades by various companies in industries from textiles to food processing. We call it the Silicon Valley Model because it is practiced extensively there.

Silicon Valley is more than a hotbed for startups. The best companies grow and evolve, maintaining their entrepreneurial nature even when quite large. Google, for example, has grown from a search-engine company to a global leader in areas such as mobile phone technology and mapping, while also exploring newer fields that have high growth potential.

To learn what enables the company to do such things, our work began with an in-depth study of Google’s management principles and practices. Then it became apparent that other major companies in the Valley use very similar principles and practices. These additional “case companies” in our studies include three leaders in personal networking—Facebook, Twitter, and LinkedIn—plus Tesla Motors, the rising electric-car maker now expanding into storage batteries and solar energy, and Apigee, a privately held leader in the API business. Following is synopsis of the management model they are using.

Why And How: The Silicon Valley Model In Brief

Our case companies are all built to have qualities called Dynamic Capabilities. According to Berkeley professor David Teece, the capabilities consist of being highly adept at “sensing,” “seizing,” and “transforming.”

- Sensing means identifying and assessing opportunities outside your company,
- Seizing is “mobilizing your resources to capture value from those opportunities,” and
- Transforming is “continued renewal”—that is, constantly re-orienting the company for the next opportunities to come.
In evolutionary terms, Silicon Valley firms developed dynamic capabilities because they had to—in their fast-changing ICT industries, it is the only way to survive—and because the means were at hand: the Valley’s firms have long led the charge in both inventing and using information technologies, which provide the rapid communication and data analysis necessary to be dynamic.

**Sensing opportunities, seizing them, and transforming the company:**
*These abilities are essential to entrepreneurial management.*

Now that all industries are starting to move at Silicon Valley speed, companies everywhere need dynamic capabilities, too. Further, the capabilities that Teece identified are also key traits of *entrepreneurs*: seeking opportunities, being able to “mobilize resources” around them and to keep reinventing. Thus they are essential for *thinking and managing entrepreneurially* in a large firm.

How have our case companies achieved these capabilities? Not by instituting any simple management program, but through a systemic approach that aligns all aspects of the company toward being, and remaining, a flexible and fast-moving growth company.

- **Culture:** Corporate “culture” is more than a soft or elusive attribute. To our case companies, it is their core attribute—a set of shared values, beliefs, and behaviors that shape how people think and act, and how they create the work atmosphere. Each firm pays explicit attention to its culture (some have appointed people to titles like “Chief Cultural Officer”), and all have cultures that are entrepreneurial: core values include innovation and growth, adaptability, speed, a commitment to doing extraordinary game-changing things and making excellent products.

- **People:** Whereas it’s common to hear slogans such as “People are our most important asset,” the case companies mean it. They devote tremendous effort to recruiting the right kinds of people—people who are not only technically skilled, but a good cultural fit (at Google this quality is called “Googliness”). Then the companies put care into giving these people their best chance to excel and produce results. Uniformly, the kinds of people deemed “right” are entrepreneurial, passionate, adaptable, constantly questioning the status quo (a quality emphasized repeatedly!), and collaborative.

- **Organizational Structure and Methods:** Finally come the aspects traditionally considered to be hard management science—the design of the company, the processes used to guide and coordinate it. At our case companies these aspects flow from, and serve, the culture and people. The companies have flexible non-bureaucratic structures, simple rules, open communications, and they generally use non-authoritarian forms of control.

Let’s take a closer look at the key elements of each. Since culture and people are closely related we’ll examine them together.

**A Strong Culture (And The ‘Right’ People)**

Each company we studied has its own distinctive culture, but all share certain core beliefs and values. These begin with a strategic focus on **Innovation and Growth**. In contrast to bureaucratic firms that are more centered on tweaking each line of business for efficiency, cost control and profit, the priority here is creating and growing new value streams.

This in itself is a big step toward attracting **entrepreneurial people**. Many recruits are people who’d typically work at a startup, precisely for the chance to help create something new, and the case companies court them by pointing out that an entrepreneurial larger firm can give their work more impact: Facebook informs developers of the number of users touched by each new product feature. Other key culture elements include:
A Commitment to Being Extraordinary

A source at Tesla asked, “How will we create different, unique products if we are not different ourselves?” The case companies are very out-front about proclaiming themselves to be “not an ordinary company”: Google’s founders even put those words in the prospectus for the company’s IPO, to warn investors that they shouldn’t expect ordinary behavior. One way the companies then deliver on this is by having big, socially meaningful mission statements—which they actually pursue.

The culture of a company is vitally important. The culture determines what the company will do, and the kinds of people it can attract, and what they will be inspired to do. In many senses, the culture is the company.

Google’s mission is “to organize the world’s information and make it universally accessible and useful.” Tesla’s: “To accelerate the advent of sustainable transport by bringing compelling mass market electric cars to market as soon as possible.” Employees everywhere are urged think big—LinkedIn CEO Jeff Weiner upped the ante on Google’s “Think 10X” slogan by asking his people to “Think 20X”—and these are very attractive elements for recruiting people who are passionate about their work and want to be part of something bigger.

Adaptability

The culture at our case companies is not one of accepting change as inevitable. It is a culture of actively embracing change and wanting to lead it. This includes being willing to learn on the job, in the course of an unfamiliar new project, which is how a lot of learning occurs at the companies. Naturally, the companies want people who are highly adaptable, and as one source told us: “The culture attracts people who are comfortable with being uncomfortable.”

Move Fast; Speed Matters

Time and again, people at the case companies commented on the importance of speed. “Speed is a competitive advantage,” said one, while another pointed out that speed means more than working overtime to get a product out the door: it includes “fast decision-making, fast development and implementation.” Moreover: “Speed drives efficiency. We learn more quickly what is working and not, then make a judgment.”

It was interesting to note that for all our sources, speed was regarded as a positive, unlike at companies where managers push people to work faster and “efficiency” campaigns are dreaded. Here, speed has been integrated into the culture, and it is perceived as having many benefits.

A Focus on Product Excellence

“[The goal is] not ‘good enough’ products … [because] then we can’t win”—a person at one of the case companies. The prevalent belief is that outstanding products are needed in order to literally “stand out” in a competitive market. Tesla’s market-entry strategy relied on building superb high-end electric cars; engineers and developers at all the companies are fiercely proud of the products they create, and “product people” are held in high esteem. Google’s new CEO Sundar Pichai was promoted from Product Chief, and a source at another company said flatly: “The most important people are around products.”

“Good enough” isn’t good enough; products need to be outstanding. And leaders don’t tell you how to do things; they lead you to find excellent solutions.
Closely related to this focus on product excellence is the desire to hire people who constantly question the status quo. Said one source: “The key is to have a team that does not accept current standards but continuously asks the question, 'If we were to start from scratch, what would we do then?'” No process can be defended by “That’s the way we have been doing it,” and these companies have a philosophy that’s exactly the opposite of the old slogan “if it’s not broke, don’t fix it.” Facebook’s mantra is “Move fast and break things”—in other words, don’t hesitate to ditch an existing procedure or product feature if you have a substantially better idea.

Leaders, Not Managers

The companies expect people in leadership positions to lead by coaching, facilitating, and inspiring, not by dictating and invoking authority. A number of our sources were eager to elaborate on the difference between the two styles. As one explained it: A “manager” communicates in one direction, giving directions on what to do and how to do it. A “leader” is a two-way communicator who listens to his people, and who leads by making larger purposes clear—including “what” needs to be done and “why”—but leaves the “how” to the team.

This leadership style requires employees who are collaborative, and in the case-company cultures, a collaborative person is not someone easily persuaded to go along with the crowd. On the contrary, good collaborators are strong-minded people who know that it takes a team effort to do great things, who are attracted to the company in part by the opportunity to work with other excellent people—and who have (or can learn) the interpersonal skills to work together effectively.

Organizational Structure And Methods

The dominant organizational form at our case companies is one that emerged in Silicon Valley years ago: a semi-structured, flat organization with a corporate center, not a pyramid hierarchy of people and units with cascading levels of authority. In a study of 37 Valley companies in the early 1990s, the scholar Homa Bahrami described them as being like a “federation” or “constellation” of business units around the center:

The center’s role is to orchestrate the broad strategic vision, develop the shared organizational and administrative infrastructure, and create the cultural glue ... However, these tasks are undertaken together with the line units, rather than for them.

Many of the units today tend to be small teams, working autonomously to a high degree. And, in contrast to companies where strategic planning is done by high-level planners at long intervals, in Valley firms it is a more frequent (even ongoing) process that involves many more people. It’s common to learn of strategy reviews being done quarterly or even monthly. A 2011 Forbes article quoted Google’s then-CEO Eric Schmidt:

We don’t have a two year plan. We have a next week and a next quarter plan. Most of our successful products were built by small teams reacting quickly.

“Strong hierarchy tends to die”—a case-company source, on why hierarchies should be avoided

New Approaches to Being ‘Ambidextrous’

An ambidextrous company can work adeptly with “both hands at once,” like a skilled piano player: “exploiting” current businesses to their fullest while “exploring” new ones. New approaches are needed because the traditional one—having operating units focus on operations while R&D is done in a research center—has been found to be of limited use. Many Silicon Valley companies
still have research centers, notably Google, where the X research facility (formerly Google[X]) has housed long-term R&D projects such as driverless cars and Google Glass. But other approaches are being tried.

Open innovation can help companies to be ambidextrous. Tesla’s cars have been developed through R&D partnerships with Lotus, Panasonic (for the battery cells), Toyota and other firms. And a well-known internal approach is the 70/20/10 model, whereby employees are expected to devote 70% of their working time to ongoing business or projects, 20% to related innovation and 10% to exploratory, blue-sky work. This model has limits, too, but it has produced innovations at Google and elsewhere, and a good project that is launched during 20/10 time can attract additional workers and resources to help speed it to completion.

**Rapid Test-and-Learn Cycles**

Here is one source describing a product development process used at all our case companies: “We start small, launch, see what works, what doesn’t, improve, iterate. Launch fast, don’t do it perfectly.” The approach is similar to Lean Startup, with minimum viable prototypes tested on in-house users, then externally (if warranted), building toward a full release. This approach is easily applied to software but it can be used with physical products and services too. Last year Tesla field-tested its battery-swapping concept at a single roadside station, where customers driving on long trips could have their depleted battery packs quickly replaced with fresh ones instead of waiting to recharge.

At some companies we studied, it is a goal in itself to make the learning cycles go fast. The most promising ideas can then move quickly to market while others “fail fast,” and can either be killed or tried in different forms later. In any case, the company reaches a result efficiently and builds knowledge from the constant experimenting.

**Simple Rules and Soft Control**

Companies in the Valley tend to have few formal rules and procedures. In one widely reported case, Netflix realized its employee handbook was far too fat and trimmed it down. The rules for claiming business travel expenses were cut back to four simple guidelines, starting with “Expense what you would not otherwise spend.”

At our case companies, typically anyone can talk to anyone about business matters, without going through prescribed channels of communication. Rarely are employees locked into tightly defined roles by job descriptions that specify the kinds of work they should or should not do—in fact, people are often encouraged to expand their scope, taking on new challenges. And, although these companies must become more formally organized as they grow, they try to avoid having bureaucratic structures and procedures that could inhibit innovation. (Google has even launched “bureaucracy buster” campaigns to identify and get rid of these obstacles when they arise.)

The companies are often described as “semi-structured.” Structures are established where needed to facilitate people’s work, or to help basic processes run smoothly, and the rest remains flexible and adaptable.

**Structure where needed to help people’s work, and simple rules that help them see how to proceed—two simple rules for building a flexible, adaptable company.**

Also, employees are kept on track largely through mechanisms of so-called soft control. Everyone is expected to align with the company’s mission, and everyone knows the culture’s basic values, such as Google’s famous slogan “Don’t be evil” or Jeff Weiner’s mantra at LinkedIn to “Get shit done” (that is: don’t just have big ideas, implement them). Almost implicitly, people keep each other on track by following the precepts and expecting the same from their colleagues.
Humans are not perfect. Both leaders and employees may, at times, fail to live up to these precepts. But the high-trust, soft-control approach appears to work at least as well as authoritarian command-and-control, and seems to be much better liked.

Building an Ecosystem, Not Just a Company

Despite the central emphasis on hiring great people, a refrain heard frequently at our case companies is: “We know there are more smart people outside our company than in it.” Thus the companies engage in open innovation, network heavily with their surroundings, partner with external entities (universities, startup companies, even competing companies) and take other such steps to tap talent and ideas from outside.

The whole process is called building an ecosystem, and it is not an entirely selfish process. The external parties benefit from these exchanges too. Ideally, the company’s entire community benefits—as, indeed, the Silicon Valley region has thrived from the great beehive of interchange among its companies. Much more can be said on that topic, which is one of many that our book covers in greater depth. Meanwhile, this summary of the Silicon Valley Model is now complete.

Closing Thoughts

Can the Silicon Valley Model be adopted or emulated by companies of other kinds elsewhere? We argue that it certainly can. The model itself does not have features specific to the ICT industries. The challenge is that in a company where the model has not evolved “naturally” from day one, adopting it would entail a very substantial remake of the company. The best approach might be to start small, applying the model in a single unit or units conducive to it, and then iterating from there. Application is another topic that our book, The Silicon Valley Model, addresses in more detail.

Bottom line: If one’s company does need to change, simply recognizing the fact is a valuable first step. Many companies haven’t taken that step. Instead, they continue to tweak the old bureaucratic model with add-on programs and modern enhancements, believing that this will be sufficient. But it will not. This approach is like trying to keep an old computer for too long, when it can no longer handle today’s needs. Or, to quote a cliché, it’s like rearranging the deck chairs on the Titanic.

The time has come to fundamentally rethink and redo old ways of managing. The Silicon Valley Model points to a better way.
About the Author

Dr. Annika Steiber

Dr. Annika Steiber is a researcher, lecturer and senior advisor in management and organization. She is an international authority in the fields of Innovation Management and Management for the Digital Age. As part of her work she has developed a new Innovation Management curriculum for Santa Clara University in Silicon Valley and has written several award-winning research articles and books. Further, she has worked more than 18 years as an executive and/or board member for both startups and larger organizations. Dr. Steiber is a Managing Director at Berkeley Research Group (BRG), a global management consultancy firm founded by thought-leading professor David Teece, the father of the Dynamic Capabilities concept. She is also the founder and CEO of the management research company INNOWAY.

Dr. Sverker Alänge

Dr. Sverker Alänge is an Associate Professor in the Department of Technology Management and Economics at Chalmers University of Technology, Gothenburg, Sweden. He has a PhD in Industrial Management and an MS in Mechanical Engineering. Dr. Alänge’s research interests are innovation and change processes in firms and innovation systems, entrepreneurship, and sustainable business development.

About Berkeley Research Group / S³

BRG’s Strategy advisors provide evidence-based, theory-informed, and insight-driven strategic advice in many of today’s most challenging sectors, and help leaders define, build, and execute strategies in a variety of business contexts.

Using the dynamic capabilities framework, forged over three decades in the epicenter of innovation, we help organizations master the art and science of agility. BRG’s S³ empowers organizations to become perpetually disruptive. It pushes them ahead of the competition and puts them in command of market uncertainties by enabling them to sense opportunities, shift resources, and seize the advantage.

Named by Forbes as one of America’s Best Management Consulting Firms in 2016, BRG is headquartered in Emeryville, California, with offices across the United States and in Asia, Australia, Canada, Latin America, the Middle East and the United Kingdom.