Becoming Hewlett Packard:
Why Strategic Leadership Matters*

©Robert A. Burgelman
Stanford Business School

Burgelman, R.A. et al. *Becoming Hewlett Packard: Why Strategic Leadership Matters*, Oxford University Press, forthcoming 2017.

A Typology of Company Founding*

Founder's Purpose

	Short-term Financial	Long-term Institutional
High	Short-lived Company (Built for Exit)	Long-lived Company (Built to Become)
Low	Failed Company	Live-to-be Acquired Company (or fail)

Adaptive Capability

*Source: Robert A. Burgelman, Lecture Material, Stanford Graduate School of Business
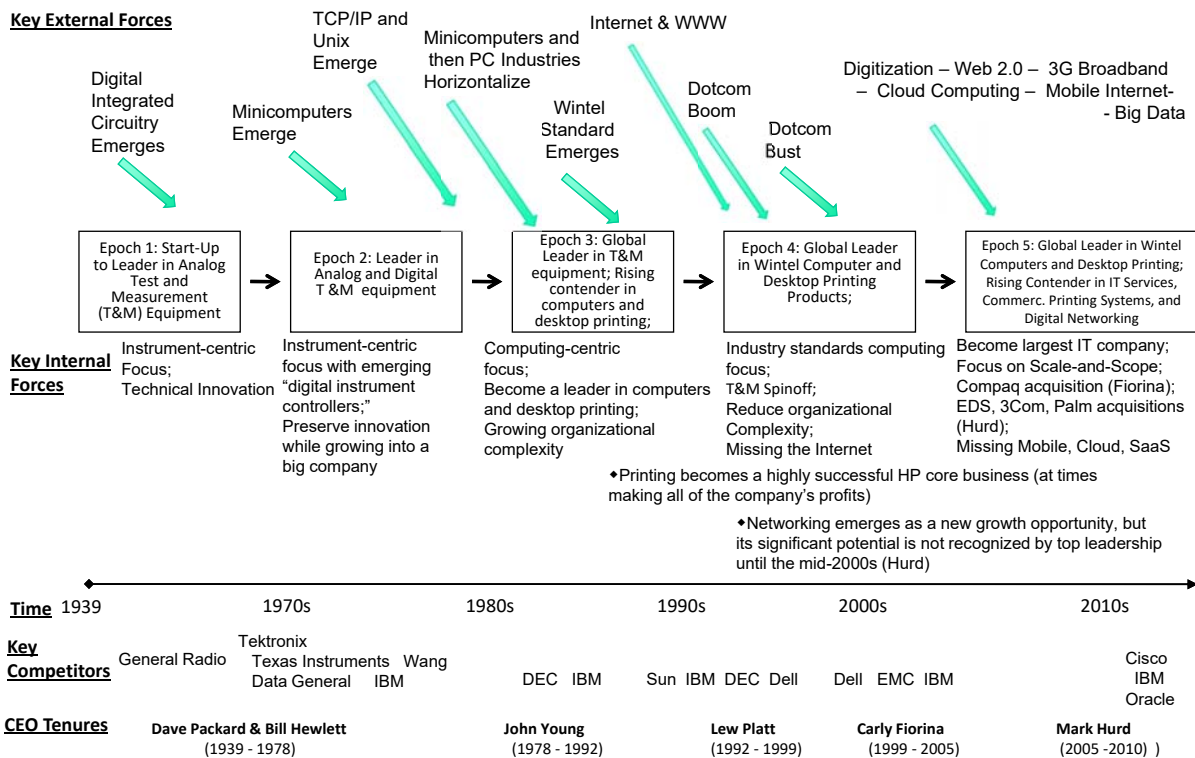
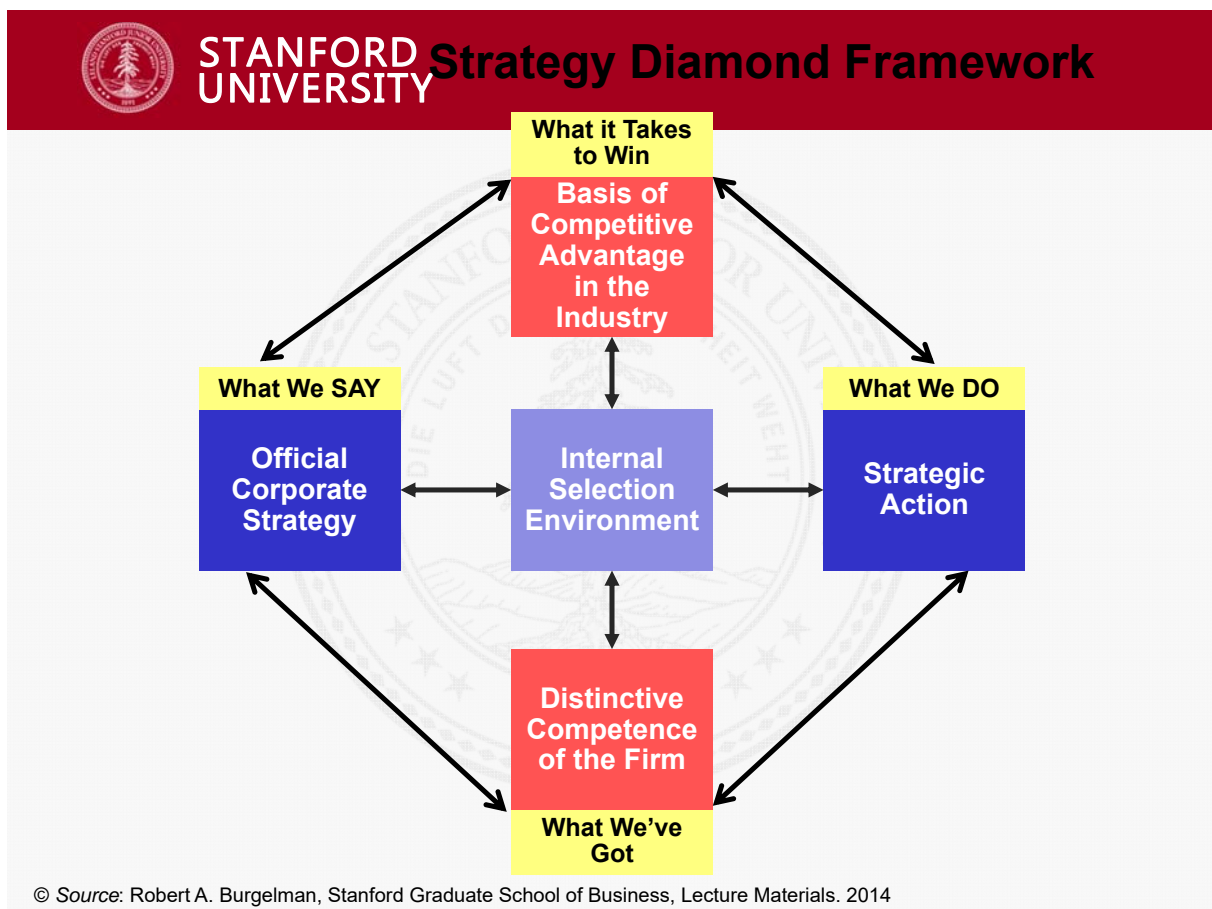## Conditions for a Company to Remain Built-to-Become:

Remaining relevant by continuing to provide value to customers that generates sufficient profitable growth and related stock market returns that shareholders continue to support keeping the company independent

---

First Five Epochs in HP's History of Becoming: A Messy Evolutionary Process

Key External Forces

- Digital Integrated Circuitry Emerges
- Minicomputers Emerge
- TCP/IP and Unix Emerge
- Minicomputers and then PC Industries Horizontalize
- Wintel Standard Emerges
- Internet & WWW
- Dotcom Boom
- Dotcom Bust
- Digitization – Web 2.0 – Cloud Computing – 3G Broadband – Mobile Internet- - Big Data

Epoch 1: Start-Up to Leader in Analog Test and Measurement (T&M) Equipment →
Epoch 2: Leader in Analog and Digital T&M equipment →
Epoch 3: Global Leader in T&M equipment; Rising contender in computers and desktop printing; →
Epoch 4: Global Leader in Wintel Computer and Desktop Printing Products; →
Epoch 5: Global Leader in Wintel Computers and Desktop Printing; Rising Contender in IT Services, Commerc. Printing Systems, and Digital Networking

Key Internal Forces

- Instrument-centric Focus; Technical Innovation
- Instrument-centric focus with emerging "digital instrument controllers;" Preserve innovation while growing into a big company
- Computing-centric focus; Become a leader in computers and desktop printing; Growing organizational complexity
- Industry standards computing focus; T&M Spinoff; Reduce organizational Complexity; Missing the Internet
- Become largest IT company; Focus on Scale-and-Scope; Compaq acquisition (Fiorina); EDS, 3Com, Palm acquisitions (Hurd); Missing Mobile, Cloud, SaaS

◆Printing becomes a highly successful HP core business (at times making all of the company's profits)

◆Networking emerges as a new growth opportunity, but its significant potential is not recognized by top leadership until the mid-2000s (Hurd)

Time	1939	1970s	1980s	1990s	2000s	2010s
Key Competitors	General Radio	Tektronix, Texas Instruments, Wang, Data General, IBM	DEC IBM	Sun IBM DEC Dell	Dell EMC IBM	Cisco IBM Oracle
CEO Tenures		Dave Packard & Bill Hewlett (1939 - 1978)	John Young (1978 - 1992)	Lew Platt (1992 - 1999)	Carly Fiorina (1999 - 2005)	Mark Hurd (2005 -2010))

EXPLAINING THE MESSY PROCESS OF CORPORATE BECOMING WITH THE STRATEGY DIAMOND:

(1) THE KEY TASKS OF THE CEO'S STRATEGIC LEADERSHIP

(2) BUILDING THE COMPANY'S STRATEGIC LEADERSHIP CAPABILITY

STANFORD UNIVERSITY — Strategy Diamond Framework

What it Takes to Win

Basis of Competitive Advantage in the Industry

What We SAY — **Official Corporate Strategy**

Internal Selection Environment

What We DO — **Strategic Action**

Distinctive Competence of the Firm

What We've Got

© *Source*: Robert A. Burgelman, Stanford Graduate School of Business, Lecture Materials. 2014

(1) Key Tasks of the CEO's Strategic Leadership:

1. Define the business(es) the company wants to be a winner in, and define what winning means ("What We Say")
2. To achieve competitive advantage, align the company's strategic product-market positioning ("What it Takes to Win") with its distinctive competence ("What We've Got") to make significant customer value contributions
3. To effectively execute the strategy, align stated strategy ("What We Say") with strategic (consequential) actions ("What We Do")
4. Continue to achieve these alignments in the face of dynamic changes in the external and internal contexts

How Successive HP CEOs Have Carried Out the Key Tasks of Strategic Leadership:

- **Dave Packard/ Bill Hewlett:** **Building a Great Test and Measurement Instruments Company**

- **John Young:** **Doubling Down on Computing**

- **Lew Platt:** **Pivoting HP Toward Commodity Business**

- **Carly Fiorina:** **Driving HP Toward Scale and Scope**

- **Mark Hurd:** **Relentlessly Managing for Results**

- **Leo Apotheker:** **Intending to Revolutionalize HP**

- **Meg Whitman:** **From Better Together to Splitting HP in Two**

Internal Selection Environment = Strategic Leadership Capability

(2) <u>**4 Key Elements of Developing the Strategic Leadership Capability**</u>:

1. Integrating Top-down and Bottom-up Strategic Leadership (the "Regime")

2. Managing Dynamic Culture-Strategy Interplays

3. Balancing Strategic Resource Allocation for Fit and Evolvability

4. Maintaining Constructive CEO-Board of Directors Relationships

---

Strategic Leadership Regimes

		Top Down Leadership	
		Strong	**Weak**
Bottom Up Leadership	Strong	Constructive Confrontation Packard/Hewlett Young Whitman?	Drifting Platt
	Weak	Lock Step Young Fiorina Hurd Whitman	"Brownian" Motion Apotheker

Robert A. Burgelman, Stanford Business School

Managing Dynamic Interplays of Culture and Strategy
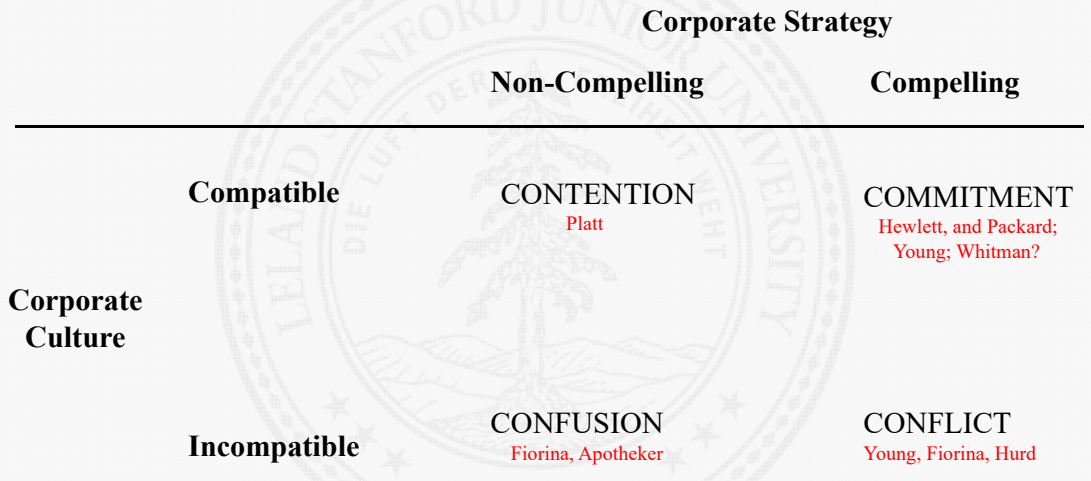
	Corporate Strategy	
	Non-Compelling	Compelling
Compatible	CONTENTION Platt	COMMITMENT Hewlett, and Packard; Young; Whitman?
Incompatible	CONFUSION Fiorina, Apotheker	CONFLICT Young, Fiorina, Hurd

Corporate Culture (row label, left side)

Tortuous Interplays of Culture and Strategy in HP's Evolution

1. Packard/Hewlett: Complementarity between instrument-oriented corporate strategy and culture - the "HP Way" -; the hard side of the HP Way was an "operational model" based on decentralization and small, quasi-independent business units; the soft side concerned "values" related to the treatment of employees → **COMMITMENT**

2. Young: New computer-oriented corporate strategy requires a new operational model based on centralization and interdependence, which conflicts with the hard side of the "HP Way" → this leads to unmanageable organizational complexity and Young's demise as CEO → **COMMITMENT AND CONFLICT**

3. Platt: Abdicates setting corporate strategy and determining the appropriate operational model, and seeks instead to re-affirm the soft side of the old HP Way ("values" related to the treatment of employees) → Ironically, seeking to avoid conflict leads to spinning off the instrument business and increasing the importance of commodity-type businesses in the portfolio; it also reveals that Platt is not up to continuing as CEO and is forced to retire → **CONTENTION**

4. Fiorina: Fails to strengthen the enterprise-oriented corporate strategy (failed PWC acquisition) but doubles down on the commoditizing PC business, which requires scale and scope (Compaq acquisition), and seeks to re-invent the HP Way → leads to a different type of organizational complexity, confusion among the employees, fundamental loss of accountability and consequentially loss of credibility with Wall Street; and she gets fired → **CONFLICT AND CONFUSION**

5. Hurd: Builds further on the corporate strategic direction reinforced by Fiorina and ruthlessly follows through on the logic of the operational model required to make it work → this leads to a fundamental conflict with and destruction of the soft side of the HP Way; personal strategy flaw triggers his demise as CEO → **CONFLICT**

Tortuous Interplays of Culture and Strategy in HP's Evolution

5. <u>Apotheker</u>: Was concerned that HP had become irrelevant in the new context of cloud computing and mobility. Wanted to turn HP into an enterprise SW company and spin off the consumer business. He drives the acquisition of the big (unstructured) data analytics company Autonomy (for $11B), but fails to involve many of the senior HP executives and fumbles the external communication → this leads to internal and external confusion and triggers his demise as CEO. Not clear what his impact on HP's culture would have been → **CONFUSION**

6. <u>Whitman</u>: Reverses the decision to spin of the consumer business. Focuses on enterprise cloud computing, security and big data analytics (supported Autonomy acquisition). New strategy? New culture? → **COMMITMENT?**

Balancing Fit and Evolvability in Strategic Resource Allocation
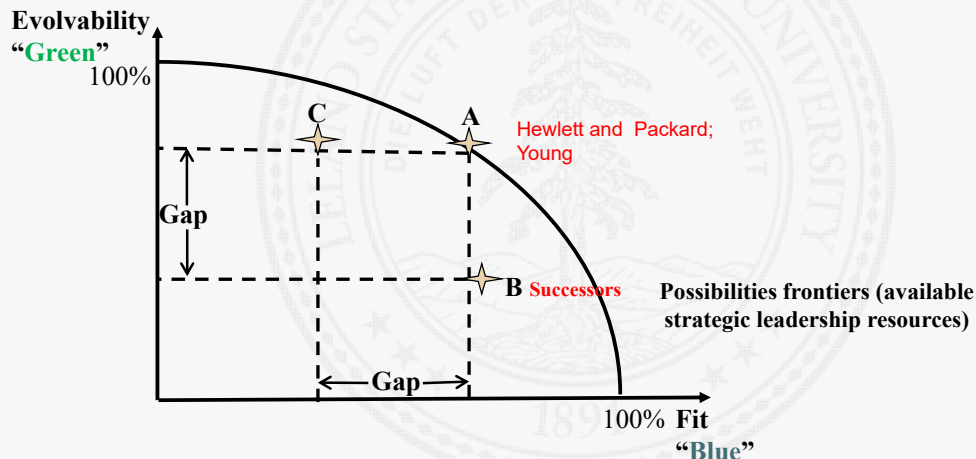
Dynamic Interactions between the CEO and Board of Directors

		CEO's Corporate Strategy	
		Non-Compelling	**Compelling**
Board Working	**Functional**	CORRECTIVE Platt	CONSTRUCTIVE Hewlett and Packard Whitman
	Dysfunctional	DESTRUCTIVE Fiorina, Hurd, Apotheker	DISRUPTIVE Young

---

Summary Findings About Corporate Becoming: Open-Ended Process; No *Ex Ante* Teleological Vision

I. The Paradox of Built-to-Become

1. Messy Beats Perfection (Co-evolutionary Lock-in):
   - Avoid competence and/or position traps
   - Stay at edge-of-chaos: optimal level of tension and of balancing fit and evolvability
2. Fundamental Thesis of Corporate Transformation Corroborated:
   - Create internal ecology of strategy-making
   - Rely on experimentation-and-selection prior to CEO ratification
3. Antifragility of Adaptive Capacity:
   - Track evolution of upside/downside ratio of expected outcomes as environmental munificence changes
   - Exit businesses with significantly diverging adaptive requirements
     → This may require a *reduction in size* (split the corporate portfolio)

II. Existential Situation Facing Successive CEOs

1. Little time to harness past (path dependencies) while driving future
2. Weak horizontal (across-CEO tenure) social learning process
3. CEO as catalyst or reactant ("tragic hero" or "renegade")

Summary Findings About Strategic Leadership: Gain And Maintain Control of Destiny In Changing Context Dynamics

I. Key Tasks of Successive CEOs' Strategic Leadership

1. Formulate the Corporate Strategy, align strategic positioning with distinctive competence, and align strategic action with corporate strategy:
- To develop products that make a significant contribution for customers
  (Packard's first success principle)
2. Re-formulate the Corporate Strategy, re-align strategic positioning with distinctive competence, and re-align strategic action with corporate strategy:
- To find new fields of technology to develop new products for customers
  (Packard's third success principle)
3. Develop and adjust the company's strategic leadership capability:
- To focus the company on external rather than internal competition
  (Packard's second success principle)
- To avoid the "One-Hoss-Shay trap"
  (Packard's way to stress the importance of "becoming")
- Set the stage for continued performance beyond one's own CEO tenure
  (Fiorina's maxim)

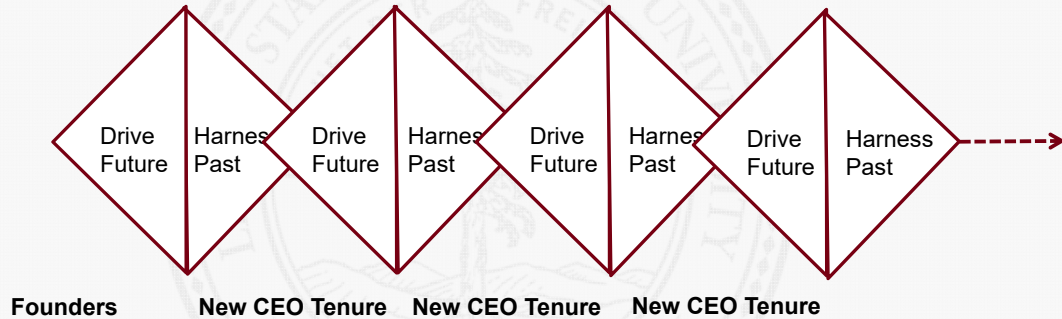## Summary Findings About Strategic Leadership: Gain and Maintain Control of Destiny in Changing Context Dynamics

II. Developing the Company's Strategic Leadership Capability

1. Establish a Regime that Integrates Top-down and Bottom-Up Strategic Leadership:
- Get to the truth of/in the strategic situation
- Capitalize on the company's full strategic leadership resources
2. Manage Dynamic Culture/Strategy Interplays:
- The hard side (operational model) and/or the soft side (values) of culture will tend to lag strategic change
- Create a "culture of strategic leadership" that is change-ready
3. Balance Strategic Resource Allocation Between Fit and Evolvability:
- Avoid "frozen in temporary optimality" as well as "excessive fluctuation:"
  "Let chaos reign, then rein-in chaos – repeatedly" → No fixed ratio;
  → no theoretical optimum → CEO judgement (Fiorina's maxim)
4. Maintain Constructive Relations with the Board of Directors:
- Formulate/execute corporate strategies with Packard's three principles, the One-Hoss-Shay trap and Fiorina's maxim in mind
- Use the BoD as sounding board in developing the company's strategic leadership capability

External Context Dynamics : Evolution of the Industry Ecosystem --------------->

Successive CEOs' Strategic Leadership: A Social Learning Process

| Drive Future | Harness Past | Drive Future | Harness Past | Drive Future | Harness Past | Drive Future | Harness Past |

Founders   **New CEO Tenure**   **New CEO Tenure**   **New CEO Tenure**

I. **Discharging the Key Strategic Leadership Tasks** ------->
II. **Developing the Company's Strategic Leadership Capability** ------->

Internal Context Dynamics: Evolution of the Internal Ecology of Strategy-Making ---->

© *Source*: Robert A. Burgelman, Stanford Graduate School of Business, Lecture Materials. 2014

STANFORD UNIVERSITY

Thanks!

ADDITIONAL FRAMEWORKS

HP as a Long-Lived Company

- HP entered the Fortune 100 list in 1983

- Of the Fortune 100 list of 1983, only 26 companies remained on that list in 2011

- In 2015, HP split in two companies: HP Inc. and Hewlett Packard Enterprise

Key Research Questions:

- Why do some companies survive over long periods of time while others do not?

- How can a company's strategic leadership culture help it live for generations over the tenures of multiple CEOs?

Examples of the Interplays of Initial Conditions, Strategic Actions, Changing Context and Unresolved Challenges in CEO Tenure – An Empathic Account

CEO	Initial Conditions	Key Strategic Actions	Changing Context	Unresolved Challenges
Packard & Hewlett (1939-1979)	• Startup environment • Stanford Support	• Founding of T&M company • HP Way • MBWA	• IC emerges	• Importance of electronic controls/computers
Young (1978-1992)	• Highly decentralized org. • Multiple incompatible computer systems	• Hire J. Birnbaum from IBM • Unified computer. Strategy (PA-RISC) • Row and columns org. structure. • Embrace printers as a new core bus.	• IBM, DEC • Printers emerge • Horizontalization of Computer industry • Networking emerges	• Extreme org. complexity • Unresolved resource allocation conflicts • Rapid performance decline b/c of computing
Platt (1992-1999)	• Not first choice as CEO • Benefit from printers • Computer performance strongly improving • BoD relationships	• Abdicate corp. strategy direction • Focus on reinstating the HP Way. • Give up on Unix • Unify personal and enterprise computing (Wintel) • Start Itanium alliance with Intel • Agilent spinoff	• Wintel dominance • Internet emerges • Networking grows • Strong competition from Sun and Dell	• Lack of corp. strategy. • Perceived growth problem • Losing at high and low end • Lack of Internet strategy
Fiorina (1999-2005)	• Personal goodwill • Legacy BoD • Printers make all profits	• Introduce portfolio strategy • Front-end/back-end reorganization. • Abandon PwC acquisition attempt • Compaq acquisition succeeds • Scale and scope corp. strategy. • External focus/Rock star image • Change the executive reward system	• Internet boom & bust • Commoditization of Wintel based computers • Networking continues to grow (Cisco as partner & competitor)	• Operational efficiency lagging • Performance declining • Credibility with Wall Street • Credibility with HP employees • Limited Internet strategy
Hurd (2005-2010)	• Costs rising faster than revenues. • Lack of accountability • Scale and scope based corporate strategy	• Keeps same corp. strategy • Change executive team • Fix operating model • Cost reduction and deployment • Expand services: (1) product related, (2) outsourcing (EDS acquisition) • Further changes the executive reward system	• Mobility • Cloud computing • From products focus to service focus (SaaS strategy) • Personal printing down • Commercial printing up • Financial crisis of 2008	• Achieve next level of growth • Unplanned succession issue • EDS acquisition integration challenges • Lack of Cloud computing, mobile, and SaaS strategy

©Source: Robert A. Burgelman, Lecture Material, Stanford Business School, 2013

HP Share Price Performance during Successive CEO Tenures

CEO	HP Share Price at Start of CEO's Tenure		HP Market Capitalization at Start of CEO's Tenure	HP Share Price at End of CEO's Tenure		HP Market Capitalization at End of CEO Tenure	HP Annualized Return During Tenure	Annualized NASDAQ Composite Return During Same Period
	Non-adjust	Adjust (2)		Non-adjust	Adjust (2)			
David Packard	$37.125 (1)	.13	N/A	$83.375	.30	$1,034,959,500	N/A	N/A
William Hewlett	$79.50	.29	$998,838,000	$78.50	.66	$2,235,601,500	7.45%	N/A
John Young	$79.25	.66	$2,256,960,750	$56.88	4.19	$14,857,228,750	13.9%	11.7%
Lew Platt	$58.75	4.33	$14,857,228,750	$116.25	36.86	$117,761,250,000	38.19%	25.82%
Carly Fiorina	$110.63	35.05	$112,063,125,000	$21.48	18.81	$62,507,657,870	-11.88%	-5.61%
Mark Hurd	$21.71	19.08	$62,862,474,690	$46.30	38.45	$108,087,163,020	15.95%	2.56%
Léo Apotheker	$42.04	38.74	$95,403,947,320	$22.80	21.26	$47,290,755,220	-46.46%	3.41%
Meg Whitman	$22.32	20.81	$46,295,161,290	N/A	34.32	N/A	13.43% (3)	24.36%

Notes:
(1) HP share price on March 17, 1961
(2) Adjusted share price takes into account splits and dividends.
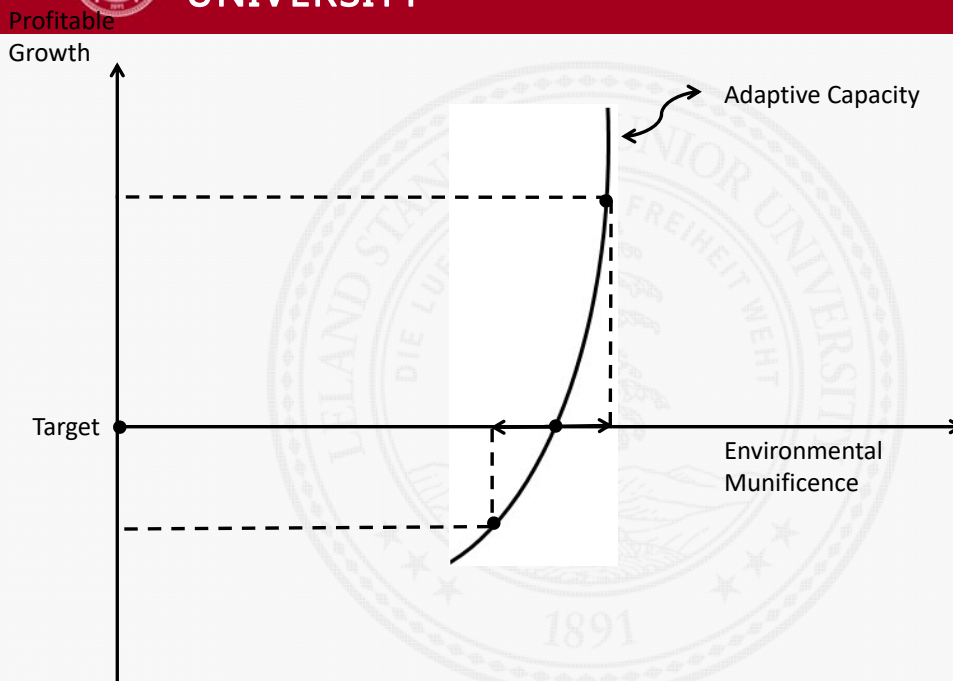(3) Returns for Whitman's tenure calculated from September 23, 2011 to January 31, 2014

Summary Overview of HP's Successive CEO's Strategic Leadership Capability

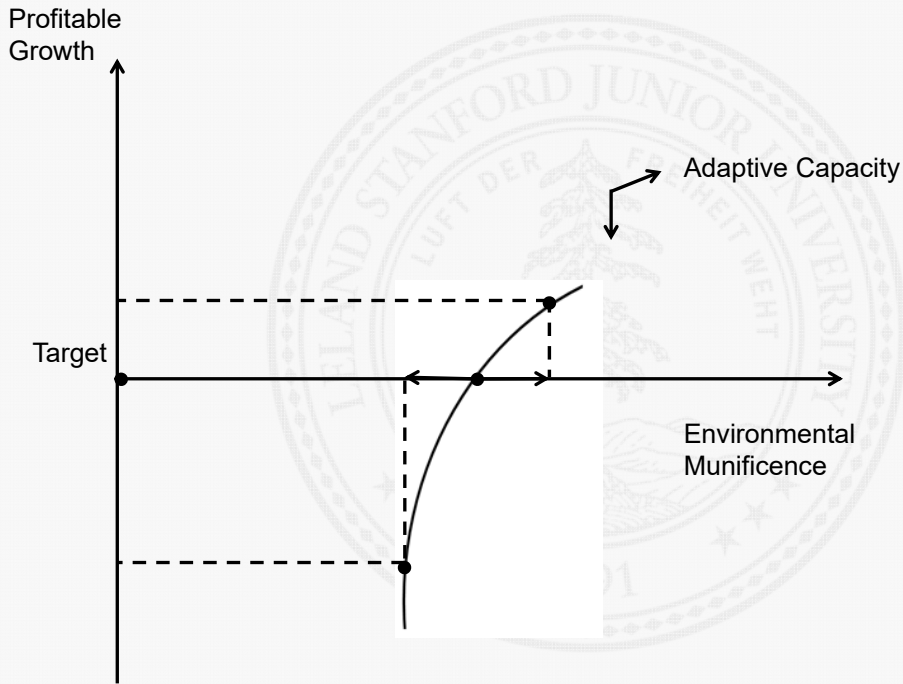| CEO	Strat. Lead. Regime	Strat.-Cult. Interplays	Fit-Evolvability	BoD Relations
B. Hewlett & D. Packard	Construct. Confront.	Commitment	Balanced/strong	Constructive
J. Young	Mixture of Lock-step and Constr. Confront.	Conflict (open)	Balanced/strong	Disruptive
L. Platt	Drifting	Contention	Weaker on both	Corrective/ Destructive
C. Fiorina	Lock-step	Confusion	Focus on fit	Destructive
M. Hurd	Lock-step	Conflict (suppressed)	Focus on fit	Disruptive/ Destructive
L. Apotheker	Brownian motion	Confusion	Unclear	Destructive
M. Whitman	Mixture of Lock-step and Construct. Confront.	Commitment	Re-balance	Constructive

Anti-fragile Adaptive Capacity

Profitable Growth

Adaptive Capacity

Target

Environmental Munificence

©Source: Robert A. Burgelman, Lecture Material, Stanford Business School, 2014

Reach (relates to extending the corporate strategy)

Real limit

Reach-driven strategic integration

Overambitious strategic integration

Perceived limit

Complex strategic integration

Minimal strategic integration

Scope-driven strategic integration

Scope (relates to the existing corporate strategy)

Perceived limit

Real limit
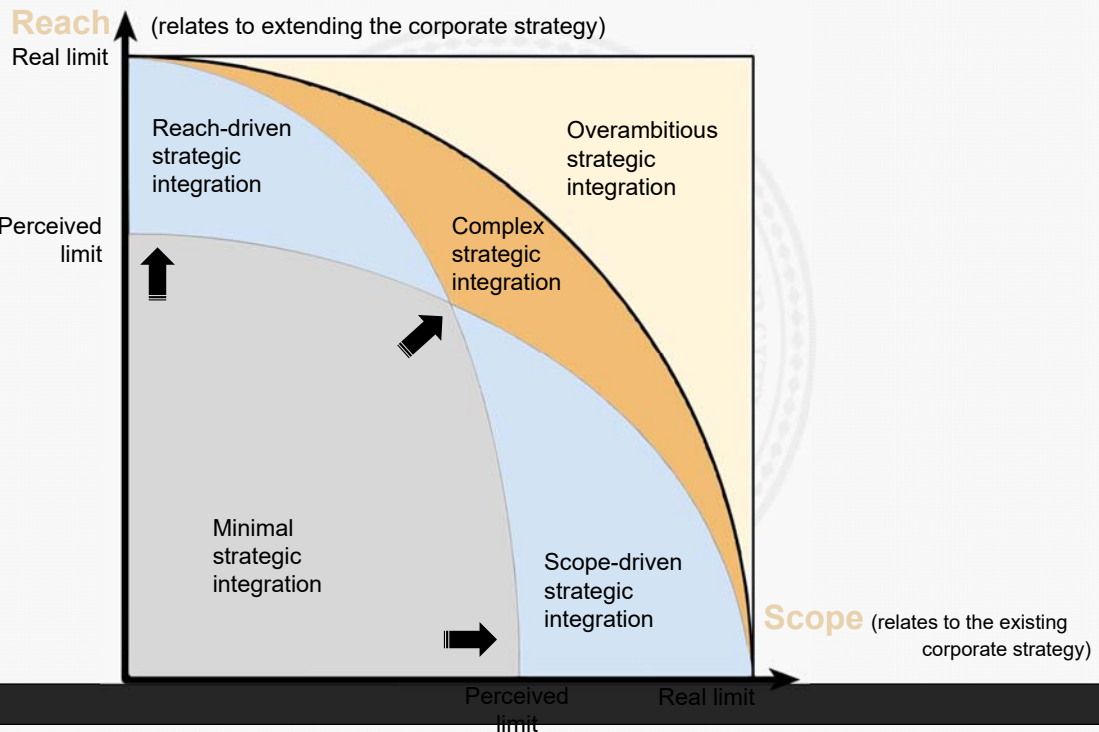
*Burgelman, R.A. an Doz, Y.E. "The Power of Strategic Integration ," *MIT Sloan Management Review*, 2001

Inter-business Complementarity

		High	Low
Intra-Business **Complexity**	High	**Difficult for Reach**	**Difficult for Reach and Scope** → **Split the company**
	Low	**Easier for Reach and Scope** →**Better together**	**Difficult for Scope**

*Source: Robert A. Burgelman, Lecture Material, Stanford Business School, 2015.