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Becoming Hewlett Packard: Why Strategic Leadership Matters*

© Robert A. Burgelman
Stanford Business School

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A Typology of Company Founding*

Founder's Purpose

		Founder's Purpose	
		Short-term Financial	Long-term Institutional
Adaptive Capability	High	Short-lived Company (Built for Exit)	Long-lived Company (Built to Become)
	Low	Failed Company	Live-to-be Acquired Company (or fail)



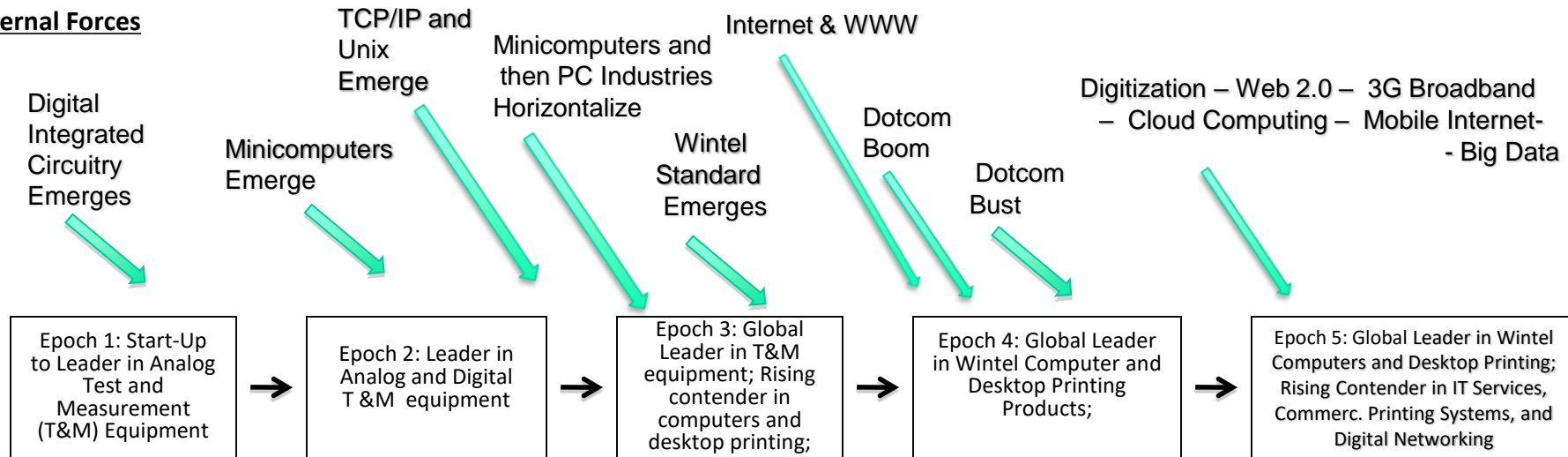


Conditions for a Company to Remain Built-to-Become:

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



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

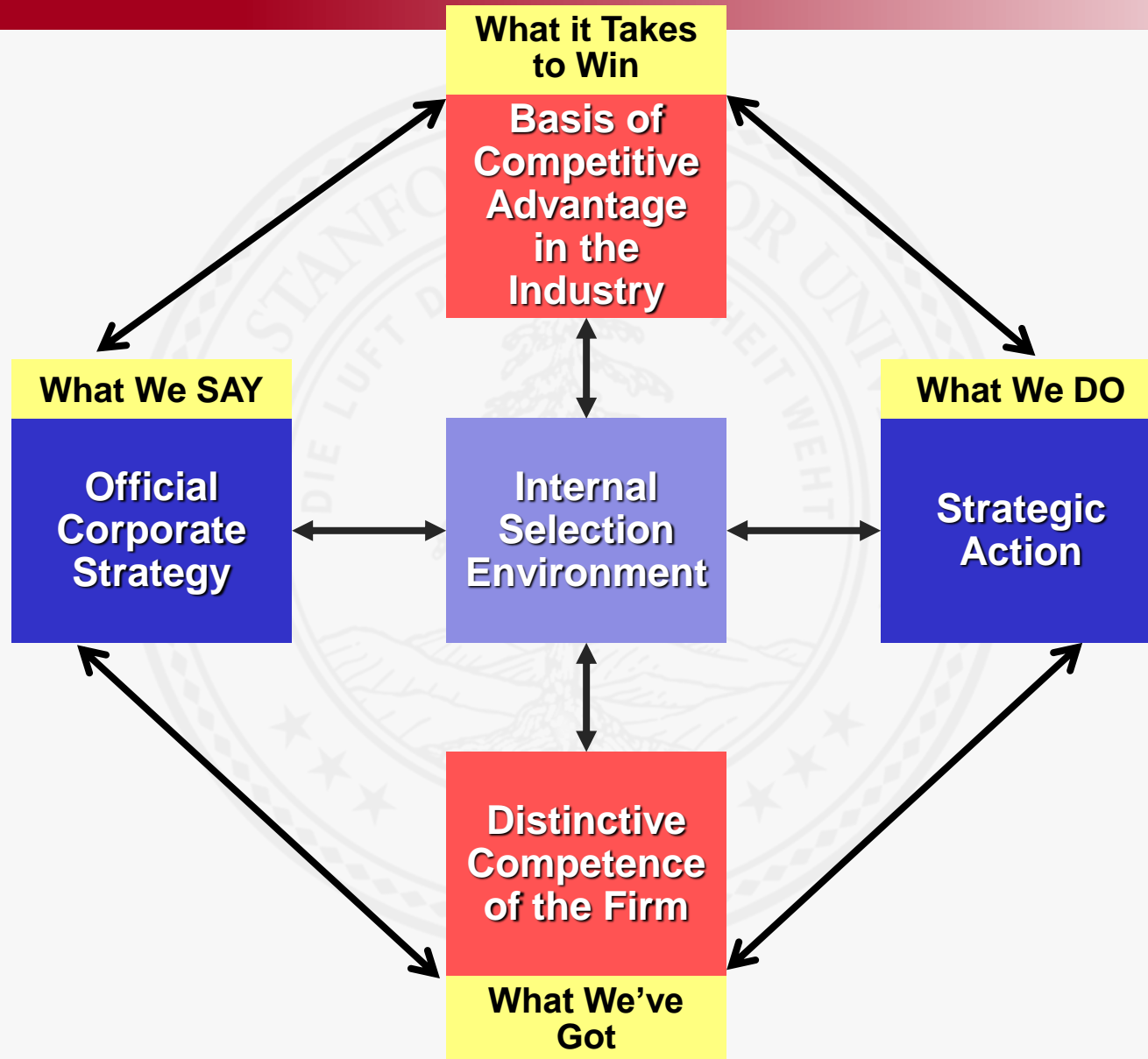
General Radio Tektronix Texas Instruments Wang Data General IBM DEC IBM Sun IBM DEC Dell Dell EMC IBM Cisco IBM Oracle

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**





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



		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.



Internal Selection Environment = Strategic Leadership Capability

(2) 4 Key Elements of Developing the Strategic Leadership Capability:

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



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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



Managing Dynamic Interplays of Culture and Strategy

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

© Source: Robert A. Burgelman, Stanford Graduate School of Business, Lecture Materials. 2013



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**

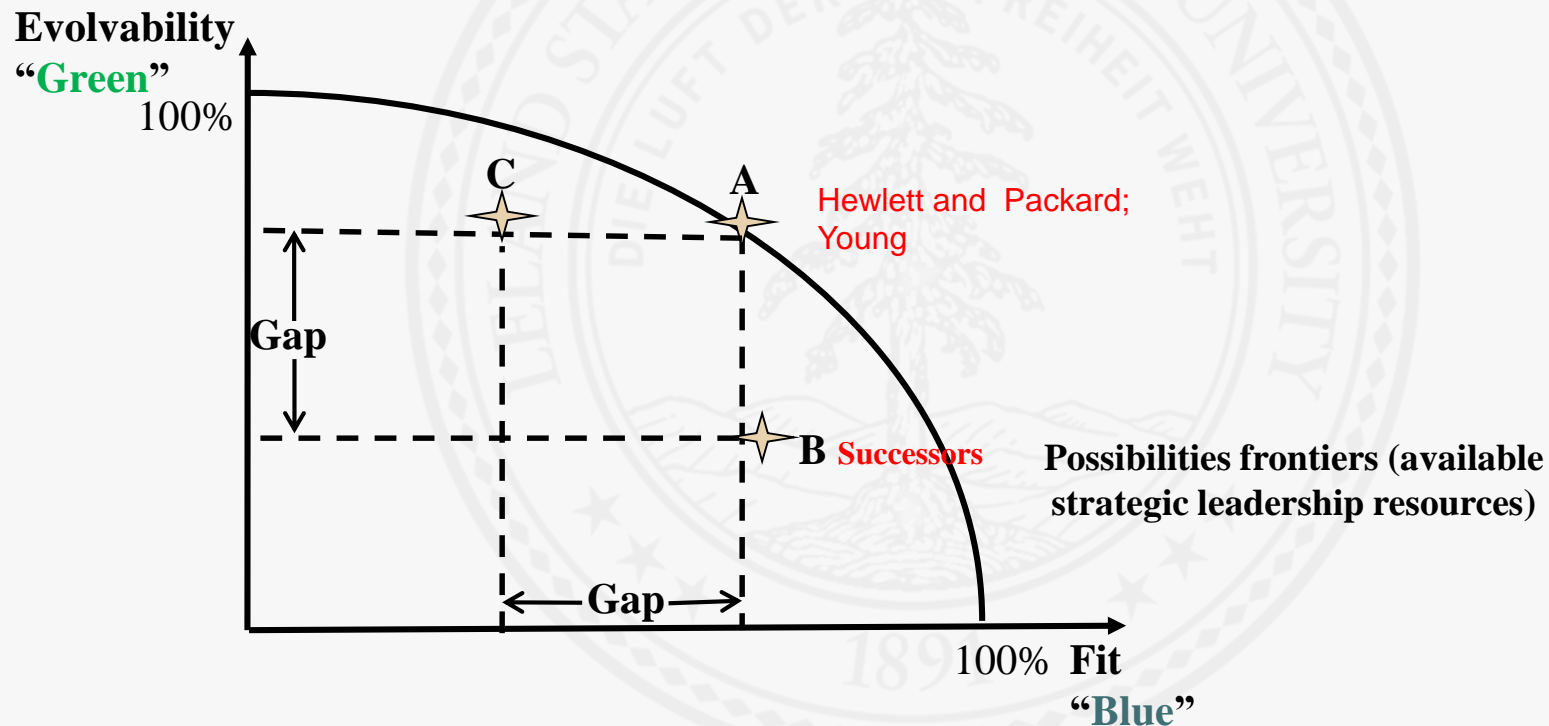


Tortuous Interplays of Culture and Strategy in HP's Evolution

5. Apotheker: 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. Whitman: 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

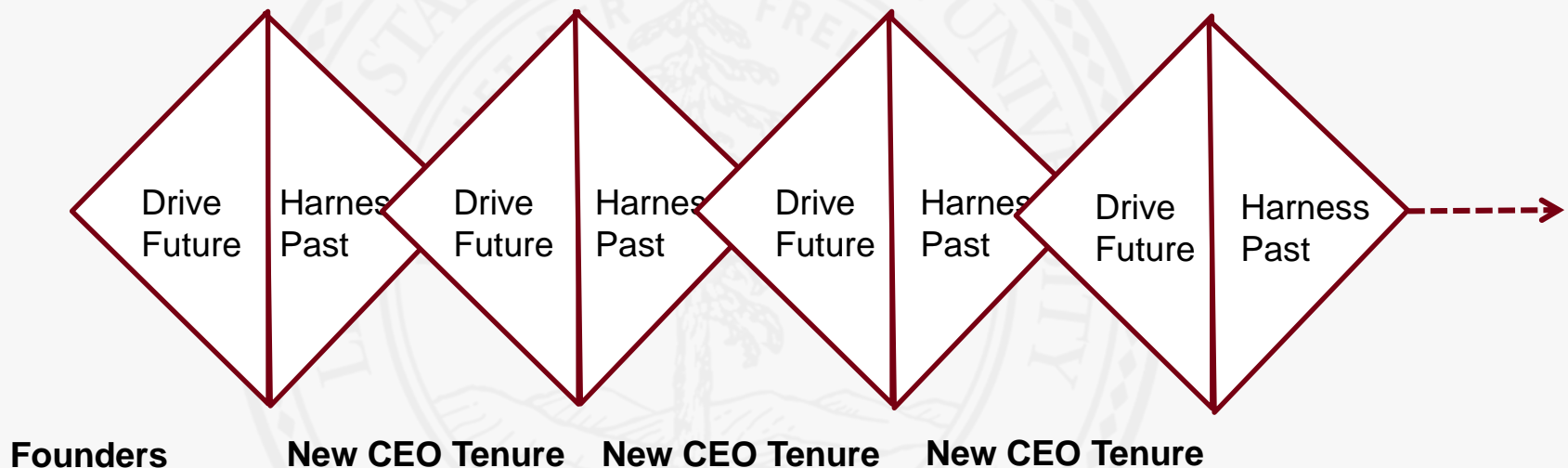
II. Developing the Company's Strategic Leadership Capability

- 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



- 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 ----->



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Thanks!

