# Why some big corporations must split up to survive

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It's been happening a lot lately. General Electric, once the epitome of a sprawling conglomerate, is splitting into three stand-alone health care, energy, and aerospace corporations. The Kellogg Company is trifurcating as well, while Johnson & Johnson is splitting in two: one company for pharmaceuticals and one for consumer products.

What drives companies, some that date back more than a century, to transform themselves in such a radical way? Did the anticipated benefits of "synergy" and diversification become a drain on profits and corporate value? Was it buyer's remorse for acquisitions that went bad?

In a new paper, Robert Burgelman argues that the decision to split often reflects a process that's analogous to biological adaptation and the evolution of new species. Like living organisms, he says, corporations are constantly adapting to changes in their environment. If those changes push different business segments in diverging and even conflicting directions, a company may need to evolve into a different—and smaller—kind of species.

"I am an evolutionary organization theorist," says Burgelman, a professor of organizational behavior at Stanford Graduate School of Business. "The splits of many multi-business corporations involve a form of corporate speciation. A corporation that was previously viable reaches a point where the ecosystems of its different businesses have diverged and the CEO can no longer develop a viable strategy for all of them. The original species needs to split into multiple new corporate species that are better able to pursue their specific opportunities."

His new paper is based on an in-depth study of Hewlett Packard's 2015 split into two companies—one for personal computers, printers, and consumer products and another that builds enterprise computing networks for corporate customers. The paper is published in the *Journal of Management*.

"It's strategic renewal through speciation," says Burgelman, who cowrote the paper with Yuliya Snihur of Toulouse Business School and Llewellyn

Thomas of IESE Business School. "In order for these two entities to survive, they had to be separated."

## Growing While Growing Apart

Burgelman, who previously wrote a book on Hewlett Packard's evolution, says he was caught by surprise in late 2014 when Meg Whitman, HP's chief executive, announced the corporate split.

HP already had a long history of reinventing itself. Founded in 1939, it was originally a manufacturer of scientific instruments. It became a global leader in printers during the 1980s and 1990s, and then spun off its "legacy" businesses in 1999 into an $8 billion company called Agilent. In 2002, under then-CEO Carly Fiorina, HP plunged into personal computing by acquiring Compaq for $25 billion. Then it pushed into enterprise computing, acquiring Electronic Data Systems for almost $14 billion and making it the foundation of what became HP Enterprise.

"The splits of many multibusiness corporations involve a form of corporate speciation. The original species needs to split into multiple new corporate species that are better able to pursue their specific opportunities," said Burgelman.

At the time, HP executives saw their personal computing and enterprise businesses as mutually reinforcing. Both sides used many of the same components—microprocessors, servers, and storage devices. The two sides also served many of the same customers and industries. Burgelman says that strategy made sense until the ecosystem for computing dramatically changed. HP executives were slow to grasp the huge shift toward cloud computing in the early 2010s.

Because HP's corporate customers could suddenly outsource much of their computing infrastructure, they needed far fewer servers and storage equipment, which had been the mainstays of HP's enterprise business. On top of that, Burgelman says, a new class of "hyperscale" corporate users, such as Google and Facebook, had developed enormous networking expertise of their own.

"Those customers weren't going to pay HP a premium for putting standard components together—they knew how to do that themselves," Burgelman says. What the big users did need, however, was solutions to novel challenges like security and information-sharing. HP's enterprise business was less about hardware and software and services, further diminishing its synergies with the personal computing side.

The bottom line: HP was losing the benefits of complementarity between its businesses while also suffering higher costs from the increased complexity of overseeing businesses that were heading in different directions.

## Conscious Uncoupling

Burgelman and his colleagues conducted 117 hours of interviews with top HP executives, including Fiorina and Whitman. They also pored over HP press releases, financial reports, and reports from Wall Street analysts to quantify each business's focus on particular products, customers, and industries. To compare each side's technological focus, they examined the patents each obtained during the six years before the split.

On all those fronts, HP's two sides diverged sharply between 2010 and 2014. Compared with the personal computing business, HP Enterprise was focusing more on integrated bundles of hardware, software, and services, while also rolling out far more software and forming more partnerships with other industry players. That translated into greater complexity for HP's top leadership.

Investors were increasingly unhappy. HP's market valuation sank to a point where it was lower than the value of its individual businesses. In 2011, then-CEO Leo Apotheker announced plans to sell off the personal computer business so HP could focus on software.

His successor, Whitman, took a different approach, focusing on integrating the PC and printer businesses, which had more in common with each other than with enterprise computing. This was the first step in what Burgelman calls "speciation," creating a new organizational form better suited to the evolving computing environment. The next step was to recognize that HP Enterprise was heading in an entirely different direction.

By most measures, Burgelman says, splitting up HP has been a success for both of the new companies. "Today, it's clear HP made the right decision to split itself up. Both companies have grown in revenues, profitability, and market position," he says. "This was a successful adaptation to big changes in the surrounding ecosystem, and it's clearly offered a lesson that other major corporations have taken to heart."

**More information:** Robert A. Burgelman et al, Why Multibusiness Corporations Split: CEO Strategizing as the Ecosystem Evolves, *Journal of Management* (2021). DOI: 10.1177/01492063211027623

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