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CASE NOTES

Strategic leadership and innovation at Apple, Inc.

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1. Introduction

The case begins by noting Apple's current, leading market position, its near bankruptcy during the 1990s, and its remarkable turnaround under Steve Jobs since 1997. It ends with the question marks over Apple's future with the accession of Tim Cook as CEO, against an increasingly challenging landscape. The case has a strong focus on innovation (Chapter 9) and is relevant to issues of culture and history (Chapter 5) and leadership and change – or even non-change (Chapter 14).

2. Position of the case

The case is dealing essentially with issues of strategic choice (Part II of the book) and strategy into action (Part III). Familiarity with environmental and cultural issues (Part I) will be important.

3. Learning objectives

The learning objectives for this case are the following:

- To explore the nature of strategic leadership using Steve Jobs' leadership at Apple Inc. as an example
- To explore the nature of successful innovation and how it might be accomplished
- To engage students in strategic analysis and strategic thinking throughout the case, for example the advantages as well as dangers of going against the 'industry recipe' (Apple's proprietary system).

4. Teaching scheme

On the first discussion question, the class can be divided into two groups, and each group asked to provide good reasons for either sustaining or opening up Apple's system. This issue leads to interesting discussions, since there are good reasons for both decisions, and a decision on this issue is a key strategic choice that Apple has to make.

On the second discussion question, the issue is whether Apple is off the rollercoaster that has characterised much of its history. Essentially, the question asks whether Apple has now developed a sustainable competitive advantage.

5. Questions for discussion

Some preparatory questions that can be given to students in advance are:

- 1. How innovative is Apple? Is it a strategic innovator?*
- 2. What is your evaluation of Steve Jobs as a leader?*
- 3. What are your recommendations to Apple as it enters a new era under Tim Cook?*

Two further questions that can be brought up during the discussion, and that can stretch students' thinking, are:

- 1. Should Apple rethink its closed system, proprietary ecosystem approach?*
- 2. Is Apple off the rollercoaster that characterised its history?*

6. Case analysis

1. Is Apple a strategic innovator?

Strategic innovation is defined as offering different answers than the established ones, to the key questions of strategy; who, what and how (Markides, 1998). Historical examples include internet banking vs. high street banking, and budget airline carriers vs. flag carriers. These two examples can be analysed as follows:

So – has Apple engaged in strategic innovation?

It is important to note at the start that Apple is not a typical ‘first-mover’ (Section 9.4.1) – indeed, its strategy is more to follow, but to do so highly effectively. In this sense, as in the case of iTunes, for example, a lot of its innovation is business model innovation rather than simple technological innovation (Section 9.2.4).

Nonetheless, Apple computer products have been innovative in the ‘what’ dimension of the table above, especially user friendliness, design and reliability of operating system. These attributes have been eroding, however, with IBM-compatible computers gaining ground in these dimensions. Apple’s iPod and iTunes have been innovative in the ‘what’ (user friendliness and design) as well as ‘how’ (iTunes’s seamless integration with the iPod). Its iPhone is innovative in the ‘what’ (product features, design, integration of different capabilities) compared with other devices. The iPad is innovative on both the ‘what’ (product features, e.g. the retina display) and the ‘how’ (links with Apple’s ecosystem, such as the App store) dimensions.

Finally, Apple Inc. as an organisation has been innovative in terms of the ‘how’ (internal architecture and interconnected offerings). Its proprietary system goes against the industry recipe of specialisation, and leads to both dangers and opportunities (as discussed in additional Question 1). This analysis shows that Apple can be seen as a strategic innovator, particularly in the dimension of what (products) as well as how (internal architecture and interconnected offerings).

What is strategic innovation?

A different answer to the basic questions of strategy: *What, who and how*

Strategic innovation dimensions	Airlines: Dominant answer	Airlines: New answer	Banking: Dominant answer	Banking: New answer
What? (product-service)	Full service air travel	Budget air travel	High street banking	Virtual banks
What? (positioning)	Differentiation, service levels	Low cost, no frills	Differentiation (brand, reliability)	Differentiation (service levels, convenience)
Who?	All segments	Primary target budget conscious travellers	All segments	Primary target educated professionals
How? (channels, delivery)	Air and ground infrastructure	Air and ground infrastructure	Branches, internet, telephone	Internet, telephone
How? (internal architecture)	Flag carriers, focus on quality-innovation	Budget airlines, focus on leanness and efficiency	Full service infrastructure	Call centres, internet supported by full infrastructure

An interesting question to pursue further here would be what factors aid Apple's innovative capacity (Apple's core competency). These include:

- proprietary ecosystem enabling the seamless integration of hardware and software;
- pervasive culture of customer orientation, urge to produce groundbreaking products;
- attracting the best talent and driving them hard;
- flat organisation and reduced bureaucracy;
- 'deep collaboration' instead of discrete, linear innovation processes;
- historically, Jobs' leadership embodying the spirit of creativity, which has shaped Apple's DNA.

2. What is your evaluation of Steve Jobs as a strategic leader at Apple?

Materials from Sections 14.2.1 and 14.2.2 will be particularly useful here: highlighted especially are the roles of top managers as leaders (envisioning, aligning and embodying) and leadership styles (transformational or transactional).

What are students' views on the differences between management and leadership? It may be noted that both are needed for success; management without leadership would lead to a stagnant, conservative organisation that would be quickly overtaken by its competitors; and leadership without management would lead to inefficiency and low reliability of operations. This discussion can be summarised as follows:

Is there a difference between management and leadership?

Management

Staying on course

Maintaining order

Supervising people

Efficiency-oriented

Sustaining the present

Leadership

Setting the direction

Creating change

Inspiring people

Effectiveness-oriented

Opening up options for the future

Both are important for success, in the right mix

What determines the right mix of management and leadership? This is a matter of weighing up relevant factors, which include:

- Type of organisation (having mechanistic vs. organic organisation designs for example)
- Type of task (a task involving creativity, as in an advertising agency, vs. a task where reliability is critical, such as in an airport flight control tower)
- Type of individuals (soldiers vs. university professors, for example)
- Stage of career development (as one rises up the ranks, the importance of leadership becomes comparatively higher).

Was Jobs more of a leader or a manager? This is an interesting question. It is clear that Jobs was more of a leader than a manager, but also that he had both capabilities. The case outlines, for example, not only how he pushed for groundbreaking products and inspired Apple employees to create a different future (leadership task), but also how he brought and maintained order and control in what was once a chaotic organisation (managerial task). The case also shows that Jobs was selective as to his employment of these capabilities, noting that at Pixar he was regarded as a benevolent benefactor who let them get on with creating great movies, without attempting to manage them.

What is it that makes a leader 'strategic'? What is it, in other words, that can connect leadership with strategy? Some potential answers to this question are below:

Again the discussion can turn to the extent to which Jobs was a 'strategic leader'. Considering the above issues:

Jobs clearly had a helicopter view of the industry and could draw strategic implications from it, which translated into resource allocation decisions for Apple. For example, he understood the importance of user friendliness and outstanding design of products, and he could make tough choices about what projects Apple should be spending its scarce resources on (e.g. he did not believe that the PDA

market was worth pursuing). He understood industry convergence, and

What are the key tasks of a strategic leader?

- Maintaining a helicopter view of the industry
- Ensuring strategic alignment and addressing misalignments (taking difficult decisions)
- Building winning company capabilities
- Developing a high-performance organisational culture
- Attracting, developing and retaining the best talent
- Developing global strategy and a corresponding organisational mindset

ensured that Apple had competencies in the key aspects; hardware as well as software. A key enabling factor for this helicopter view was his intimate knowledge of the industry, having spent decades in it, since developing the first Apple computer with Steve Wozniak (even if Wozniak was in fact the technological genius in the pair, and Jobs the marketing genius).

Apple was strategically aligned after Jobs' tenure, and Jobs eliminated some misalignments such as a chaotic culture with little cost control, and too much resource spent on new product development projects that did not have enough promise or potential.

Building winning company capabilities. Arguably, Apple's core competencies are innovation through outstanding design and seamless integration of hardware and software, leading to a great and engaged customer experience. These have been Jobs' legacies and have helped Apple to be a successful competitor and arguably, Jobs' leadership could historically be seen as a core competence of Apple (which explains why investors had been nervous about what will happen now that Jobs is gone).

As the case describes, the culture at Apple was high-pressure, where excellent people were pushed hard to deliver groundbreaking products; and characterised

by a strong sense of community and belonging to one of the world's best organisations. Jobs' leadership was a key driver of this atmosphere.

As the case mentions, Apple under Jobs' leadership aimed to attract the best talent available, and retain it through various means, which included the chance to work for the acknowledged most innovative company in the world, on exciting projects, as well as the opportunity to get stock options (Apple has an ongoing programme where employees can use part of their monthly salary to buy Apple stock at 15% discount; owning stock helps to keep employees motivated and engaged; and many long-standing Apple employees became millionaires based on this stock option scheme).

Developing global strategy and a corresponding organisational mindset: As the financial information in the case shows, almost a third of revenues come from the US and the rest from around the world. Having said that, Apple still remains a quintessentially American corporation, in terms for example of image, culture, location where innovations are developed, and seat of control. A case could be made that Apple needs to focus more on global emerging markets, where growth is fastest. Its premium strategy however, may not be the most suitable for emerging markets such as China and India, where people are more price-sensitive. This poses an interesting strategic challenge, of how Apple should approach large emerging economies such as these.

Overall, the above analysis shows that Jobs is an effective strategic leader. Having said that, an interesting discussion can be carried out around his maverick behaviour and strict approach to people (he was profiled in Sutton's book 'the no asshole rule' on the chapter describing the virtues of assholes). Did his maverick and some would say inconsiderate behaviour detract from Jobs' leadership effectiveness? This is an interesting question to ponder; the answer is unknowable, because this behaviour is part of who Jobs is as a person; and arguably, behaviour that can be seen as eccentric is often a characteristic of leaders who redefine corporations, industries and societies. We don't know if he would be such a successful leader if he had a different personality. Is such behaviour however a necessarily integral part of a successful strategic leader? The answer here is 'no', since many successful strategic leaders did not display such behaviours (e.g. Jack Welch).

Has Apple been too dependent on Steve Jobs? The answer to this is probably 'yes', even though many believe Tim Cook, the current CEO, together with

Jonathan Ive, head of design, will still ensure that Apple is successful now that Jobs is gone. As at 2012, the jury is still out on this question and observers are watching Apple and its leadership closely.

3. What are your recommendations to Apple in the Cook era?

Materials from Section 14.4.1 on the forcefield analysis of change and from Section 14.5 on the types of change (from adaptation to revolution) may be helpful here.

Of course, it is difficult to make recommendations to a leading company. However, Additional Questions 1 and 2 discussed below, as well as the previous analyses, point to some recommendations:

- Consider how to compete in leading emerging economies. Apple's premium strategy seems at odds with the conditions in emerging markets. On the other hand, should Apple follow a lower-cost strategy there, with simpler products? Should it sell its existing products cheaper there? There are problems with each of these propositions. Apple's solution seems to be to maintain its pricing and product quality in these markets and expand distribution by investing in its own retail stores.
- Use its cash pile as an uncertainty buffer, to accelerate global growth and to maintain its innovation edge. Its announcement in early 2012 that it would grant dividends after 17 years of a policy of zero dividends, and engage in share buybacks (at a total cost of \$45bn), indicates that Apple felt safe in its cash generation capabilities at that stage.
- Sustain control of its technological ecosystem (see Additional Question 1).
- Expand its own retail distribution chains. This is a use of Apple's cash that makes a lot of sense; Apple stores strengthen the brand, bring Apple closer to its customers, enable it to control the whole customer experience, and help it win new converts.
- Sustain focus on making great products, attracting the best talent, and on being selective in its new projects. Even though this sounds simple, these were things that Jobs was passionate about. Have they been institutionalised in Apple, or will the focus on these factors wane now that Jobs has gone?

Additional discussion question

1. Should Apple rethink its closed ecosystem, proprietary approach?

There are likely to be split opinions on this issue. There are good arguments for either decision, as follows:

Apple should sustain its proprietary ecosystem because:

- it offers a cushion against supplier power (e.g. software);
- it allows market power (e.g. pricing) when offering bundles of products (e.g. iPod and iTunes) (cushions buyer power);
- it strengthens differentiation and avoids commoditisation (cushions competitive rivalry);
- it enables systemic (vs. stand-alone) innovations that would have been difficult otherwise.

On the other hand, Apple should open up its proprietary ecosystem because:

- it is operating in a world of open standards where interoperability is important;
- its global market share in computers remains around 5%, because of the effects of its closed ecosystem;
- opening up would give access to a larger potential market;
- more software developers would produce software for its devices.

Whatever formal analysis suggests however, Apple is likely to keep its proprietary ecosystem, given the belief that it aids groundbreaking innovation and user friendliness, and supported by Apple's exceptional performance over the last several years.

An interesting aspect of Apple's proprietary system is the effective achievement of synergies. Synergies are notoriously hard to achieve. How has Apple

succeeded in achieving synergies (e.g. hardware- software interoperability, deep collaboration) where most other companies fail to do so? Some relevant factors here would be:

- Tight control historically exercised by Steve Jobs, and since late 2011 by Tim Cook
- Role of leadership and culture as integrative forces across departments and specialisations (e.g. emphasis on making great products through deep collaboration)
- Role of organisational design (organic, flat, not bureaucratic, simple processes)
- Central role of software as core competence that could be transferred to several new products.

But the decision is not binary. Perhaps, sustaining control combined with selectively opening up, where Apple believes it makes business sense (such as its iTunes standards, enabling iTunes songs to be played on other MP3 players and opening the App store which sells apps from developers around the world) would be the best approach.

2. Is Apple off the rollercoaster that has characterised its history?

Since this is a question about the future, it is impossible to have a definitive answer. However, the following issues are relevant:

- If Apple has achieved sustainable competitive advantage, the implication is that it is off the rollercoaster and that it will continue being successful without having to face a sharp downturn.
- Apple's strategic alignment and its core competencies, outlined above are positive indications with regard to Apple's competitive advantage. It would be difficult, for example, for competitors to imitate Apple's innovative capacity and effective synergies in its organisation design.
- Apple's ability to focus its efforts and resources is beneficial. As the case notes, Jobs often said 'I'm as proud of what we don't do as of what we do'. Jobs

removed 70% of product development projects when he took charge at Apple in 1997. This focus is consistent with Porter's (1996) assertion that without making tough choices, a company does not have a strategy.

- Apple's product diversification (from PCs to consumer electronics and entertainment) as well as geographic diversification (from the US to global market) are also positive indications; more emphasis is needed on Apple's global efforts however, especially how to achieve higher penetration of leading emerging economies. This is a tricky challenge, given Apple's differentiation, premium pricing strategy.

Having said the above, the risks of operating through a proprietary system, in world of open standards, are significant. It is by no means clear that Apple's competitive advantages will continue to effectively outweigh these risks.