CASE STUDY

Strategic leadership and innovation at Apple, Inc.

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This case looks at the extraordinary success of Apple as an innovative company under the leadership of Steve Jobs. In August 2011 Jobs resigned as CEO due to ill health (and sadly died soon after) – he was succeeded by Tim Cook. Could the new CEO manage the transition to new leadership from Jobs' unique approach and maintain Apple's record of achievement in an increasingly competitive marketplace?

Back in 1997, when Steve Jobs returned to the company he founded, few would have thought that the failing, niche Apple Computers would one day be recognised as one of the most innovative companies in the world, transcending the barriers of the computer industry to compete in the consumer electronics, telecommunications and music industries. Since Jobs' return Apple has increased from a $2 billion (£1.32bn; €1.56bn)[1] company in 1997 to a nearly $472 billion (£312.2bn; €368.4bn) company in January 2013, having briefly overtaken Exxon Mobil to become the world's most valuable company by market capitalisation in August 2011. Apple was recognised as the most innovative company in the world by *Business Week* for seven years in a row (2005–11) and led *Fortune's* world's most admired companies for five consecutive years (2008–12). Building on innovative products that have redefined their markets, such as the iPod, the iPhone and the iPad, a consumer base as loyal as a fan club, and a business model characterised by integration and synergies that no competitor could easily imitate, Apple continued its extraordinary performance, reporting $156.5bn in revenues and $41.7bn net income in 2012.

Source: Tony Avelar

Jobs' turnaround and rebuilding an innovative organisation

Things have not always been that rosy for the company once known as the underdog of the computer industry. During the time when Steve Jobs was away from the organisation (1985–97) Apple progressively degenerated to the point of struggling for survival. Apple charged premium prices and its computers were based on a closed proprietary operating system that was not made available for cloning by other computer makers, at a time when less costly IBM-compatible PCs gained mass appeal. Its cost base was too high compared to its major competitors. This combination of factors led to shrinking market share and low profitability. Apple lost momentum in the PC industry, despite the efforts of three different CEOs to

reverse the decline. Jobs took on the role of Interim CEO in 1997 and then became CEO during 2000. His return to Apple marked the beginning of a new era for the company. He worked for a salary of $1 per year (and plenty of stock options) for 30 months, leading Apple's successful turnaround.

His priority was to revitalise Apple's innovation capability. 'Apple had forgotten who Apple was',[2] as he noted in an interview, stressing that it was time for Apple to return to its core values and build on them. According to a former Apple executive who participated in Jobs' first meeting with the top brass on his return to Apple, Jobs went in with shorts, trainers and a few days' beard, sat on a swivel chair, spun slowly, and asked them what was wrong with Apple. Jobs then exclaimed that it was the products, and that there was no sex in them any more.[3] Upon taking charge, Jobs axed 70% of new products in development, kept 30% that he believed were 'gems', and added some new projects that he believed could offer breakthrough potential. He also revamped the marketing message to take advantage of the maverick, creative Apple brand, and employed stock-based incentives to retain talent.[4]

Upholding the value of user-friendliness, Steve Jobs led the launch of the first iMac in 1998, his first project after his return to the company. The iMac, or 'the computer for the rest of us' (its slogan when it was launched), revolutionised desktop computing by combining technological advancements and unique design. Following the iMac's success, the iBook was launched in 1999. In parallel, Jobs proceeded to simplify Apple's product mix in terms of four lines of desktop and portable computers designed for both the professional and consumer markets.

Whereas most of Apple's innovations led to even more closed Apple archipelagoes[5] (software and hardware integration), at the same time Jobs decided to loosen control in other areas, for example the use of standard interfaces such as the USB port. In the years to follow, a variety of innovative proprietary applications, developed in-house, supported the Apple Macintosh product lines. These include programs such as Apple's own web browser, Safari, developed in 2003, as well as those in the iLife package (iDVD, iMovie, iPhoto) that offered editing and creative opportunities to users.

Growing the Apple ecosystem: breakthrough innovation in the consumer electronics and entertainment industries

In 2001 Apple introduced its first iPod, launching a new era for the company as it entered the consumer electronics industry. Capitalising on the emerging trend of MP3 music, and despite being a relatively late entrant in this market (rival systems like Winamp and MPMan were released in 1997 and 1998 respectively), Apple introduced a breakthrough product in terms of design and user-friendliness that soon became synonymous with the MP3 music player category. A year later, in 2002, Apple released iPods with a larger memory that were compatible with Windows, a move that further pushed iPod sales. By the end of 2003 more than one million iPods were sold, marking the first substantial stream of revenues apart from the Macintosh. Since then the iPod product range has been renewed every 3 to 5 months, and the company announced in 2007 that it had sold the 100 millionth iPod, making the device the fastest-selling music player in history.

One of the most important innovations for Apple has been the launch of the iTunes Music store in 2003, a revolutionary service through which consumers could access and purchase online music for only $0.99 per song. The iTunes Music Store was compatible with all iPods (running both on Macs as well as on Windows-based computers) and served as Apple's Trojan horse to what Jobs had envisioned as the digital hub where digital content and Apple devices would be seamlessly interconnected. The downloaded songs had royalty protection and could only be played by iPods, bringing the interoperability between Apple's hardware, software and content to a new level and creating higher barriers to entry into this ecosystem (as well as exit from it). iPods had the capacity to display videos and through them Apple became a significant distributor of movies and TV shows.

Apple's next groundbreaking innovation was the iPhone, a device combining a phone, a music player and a personal computer. The iPhone redefined the mobile phone industry in the same way that iPod and iTunes revolutionised the music industry. Launched in 2007, six years after Palm's first smartphone in the USA, Apple's iPhone nevertheless redefined the mobile phone industry. In 2008 Apple launched the App Store, the only authorised service for loading programs onto the iPhone. The App Store was based on the same principle of seamless integration between hardware and software, giving Apple 30% of third-party developers' revenues along the way.

The Apple ecosystem was further reinforced in 2010 with the introduction of the iPad, a tablet computer that galvanised what had, for 10 years, been a commercially failure-ridden product category. Consumers could play games, read books, load all sorts of applications, and access the Internet through their iPad. By September 2012, Apple's iPad revenues had reached a total value of $58bn since its introduction, including $32bn over that financial year.

In October 2011, Apple introduced iCloud, a cloud service for storing music, photos, applications, calendars and documents that can be wirelessly transferred to multiple iOS devices, Macs and Windows-based computers. iCloud came with 5 GB of free space, while additional space could be purchased from Apple. By providing a means of

integrating the use of multiple Apple devices, iCloud was a significant move towards a mobile Apple ecosystem.

Playing with different rules

Deep collaboration

Long before it was voted the world's most innovative company, Apple had placed its trademark on a long list of technological breakthroughs including the mouse, the graphical user interface, colour graphics, built-in sound, networking and wireless LAN, FireWire and many more. Some of these, such as the graphical user interface, were seen by Jobs on visits to research facilities such as Xerox's Palo Alto Research Center, and were adapted for broader use in Apple's offerings. Apple's approach over the years had been to make the use of a personal computer as easy and intuitive as possible through developing a highly responsive operating system, establishing standard specifications to which all applications' software packages were expected to conform, strict control of outside developers, and delivering computers with high performance.[6]

Apple practices what employees call 'deep collaboration', 'cross-pollination' or 'concurrent engineering'. This refers to products developed not in discrete stages but by 'all departments at once – design, hardware, software – in endless rounds of interdisciplinary design reviews'.[7] When asked about innovation at Apple, Jobs noted that the system for innovation is that there is no system:

> 'The reason a lot of us are at Apple is to make the best computers in the world and make the best software in the world. We know that we've got some stuff that [is] the best right now. But it can be so much better. . . . That's what's driving us . . . And we'll sleep well when we do that.'[8]

Sticking with a proprietary ecosystem

Apple's innovations have redefined existing product categories such as music players and mobile phones, and helped the company successfully enter hotly contested new markets such as the entertainment industry. Key to these achievements has been the focus on design, the consumer experience, and the seamless integration of hardware and software and content. The tight integration of its own operating system, hardware and applications has been a strategy followed diligently by Apple. As Steve Jobs says:

> 'One of our biggest insights [years ago] was that we didn't want to get into any business we didn't own or control the primary technology, because you'll get your head handed to you. We realised that for almost all future consumer electronics, the primary technology was going to be software. And we were pretty good at software.'[9]

Despite the obvious advantages of such an approach, there are also some potential risks when competing with a proprietary system in a networked, interoperable technology world. This is one reason why Apple's computers have remained a niche product in the personal computer market in terms of market share. Add to this the inevitable product failures (and Apple has had its fair share of these), and the potential downside of closed systems becomes apparent.

Apple is nearly unique among contemporary technology companies in doing all of its own design in-house, at its Cupertino campus.[10] Other companies have outsourced most or all of their product design function, relying on outsourced design manufacturers (ODMs) to develop the products that with minor adaptations will fit into their product lines. Apple, however, believes that having all the experts in one place – the mechanical, electrical, software and industrial engineers, as well as the product designers – leads to a more holistic perspective on product development; and that a critical mass of talent makes existing products better and opens the door to entirely new products. According to Jobs:

> 'You can't do what you can do at Apple anywhere else. The engineering is long gone in the PC companies. In the consumer electronics companies they don't understand the software parts of it. There's no other company that could make a MacBook Air and the reason is that not only do we control the hardware, but we control the operating system. And it is the intimate interaction between the operating system and the hardware that allows us to do that. There is no intimate interaction between Windows and a Dell computer.'[11]

Over the years, there have been some notable exceptions to this proprietary approach. In order to reach a broader consumer base, in late 2003 Apple offered a Windows-compatible version of iTunes, not only allowing Windows users to use the iPod but more importantly familiarising them with Apple products. Another milestone came with the company's switch from PowerPC processors made by IBM to Intel chips, a decision announced in mid-2005. This decision allowed Macs to run Windows software, implied lower switching costs for new Mac consumers and also allowed software developers to adapt their programs for Apple more easily. A previous alliance with Microsoft occurred in 1997 when Microsoft agreed to invest $150 million in Apple, reaffirming its commitment to develop core products such as Microsoft Office for the Mac.

Apple has also developed a series of strategic alliances in the course of its efforts to become the centre of the digital hub, where digital content would be easily created and transferred to any Apple device. Development of the iPod, iTunes and iPhone has necessitated this collaborative approach, since entry in the entertainment and consumer electronics markets would not have been as successful

without some key strategic partners (e.g. the big record labels such as EMI, Sony BMG, Universal and Warner Brothers for iTunes, or YouTube for the iPhone). At the same time Apple has proceeded with a number of acquisitions of relatively small, innovative firms in fields such as video creation and microprocessor production intended to strengthen its own technological core competences.

Apple's corporate culture

Along with being recognised as one of the most innovative companies in the world, Apple has also gained a reputation of being among the most secretive as well. A T-shirt for sale at the company shop said: 'I visited the Apple campus. But that's all I'm allowed to say.' Few people know what happens behind closed doors, and Apple employees are bound by strict confidentiality agreements. New recruits not only were warned that the penalty for revealing Apple secrets would be swift termination of employment, but also were hired in so-called dummy positions, roles that remained unspecified until the hiring was complete. Before discussing a topic at a meeting, all members would need to verify that they were 'disclosed' on it, meaning they had been granted the permission to discuss it. The whole organisation was thus composed of smaller pieces of a bigger puzzle, which was in turn only known to the highest levels.[12]

In addition to secrecy and a start-up mentality, Apple's culture focused on intense work, creativity and perfectionism, combined with a rebel spirit. For many years, Jobs stimulated thinking 'out of the box' and encouraged employees to experiment and share with others 'the coolest new thing' they had thought of. It may not be accidental that Apple's emblem of corporate culture is a pirate flag with an Apple rainbow-coloured eye patch, designed after a famous Jobs quote: 'It's better to be a pirate than join the navy.' This flag was hanging over the Macintosh building as Apple's team were working on the first iMac, to act as a reminder of their mission.[13]

Along with the rebel spirit, Apple had a tradition of long working hours and relentless pursuit of perfection. Each manufacturing and software detail is worked and reworked until a product is considered perfect, aiming for seamless integration of software and hardware. Further, Apple's employees are not paid astronomically. They are not pampered, nor do they enjoy unique privileges beyond what most large companies offered. They are talented people with passion for excellence, proud to be part of the Apple community. This pride stems from a corporate culture that fosters innovation and a sense of Apple's superiority against competitors, as a company that can shape the future of technology. Apple recruits talent of the highest calibre, and Jobs often approached and recruited people known as the best in their fields. Specialisation and clear specification of responsibilities at Apple is a way of employing the best people for particular roles, reflecting Jobs' aversion towards a general management approach.[14]

For Apple employees the culture has been experienced by employees as both daunting and fascinating: 'If you're a die-hard Apple geek, it's magical. It's also a really tough place to work.'[15] Contrary to Google's infamous relaxed atmosphere, Apple is known for being tough and perfectionist. If any product release does not meet expectations, Apple can be a 'brutal and unforgiving place, where accountability is strictly enforced'.[16]

Jobs' passionate but also combustive management style is legendary; he has been known to reduce employees to tears, or publicly fire them in fits of anger.[17]

Apple's organisation design was flat and simple. Even though Apple did not have an official organisation chart, one interpretation of its design was that the organisation radiated around the CEO, with 15 senior vice presidents and 31 vice presidents overseeing the main functions. In terms of this structure, the CEO would only be two levels away from any key part of the company; and financial management was centralised, with the only executive responsible for costs and expenses being the chief financial officer.[18] Apart from ensuring confidentiality, other aspects of Apple's organisational design provide the necessary agility and focus. Small teams bear responsibility for crucial projects, a characteristic that is reminiscent of start-up companies. Committees are not prevalent at Apple. As Jobs mentioned:

> 'We are organised as a startup. One person is in charge of iPhone Os software, one person is in charge of Mac hardware, one person is in charge of iPhone hardware engineering, another is in charge of worldwide marketing, and another person is in charge of operations. We are organised like a startup. We are the biggest startup on the planet. And we all meet for three hours once a week and we talk about everything we are doing, the whole business.'[19]

Steve Jobs' leadership

> 'Some leaders push innovations by being good at the big picture. Others do so by mastering details. Jobs did both, relentlessly.'[20]

When Jobs returned to Apple in 1997 after an absence of 12 years, he arrived with much historical baggage. He was Apple's co-founder at the age of 21, and was worth $200 million by the age of 25. He was then forced to resign by the age of 30, in 1985, after a battle over control with CEO John Sculley which ended with Jobs losing all operational responsibilities. By 2007, however, Jobs was voted as

one of the greatest entrepreneurs of all time by *Business Week* and by 2010 the World's Best CEO by *Harvard Business Review*, having restored Apple to a world-leading, innovative and influential company.

Many believe that Jobs' achievement of being regarded as one of the greatest technology entrepreneurs is based not so much on his knowledge of technology (he was not an engineer or a programmer, neither did he have an MBA or college degree) but on his innate instinct for design, the ability to choose the most talented team and 'the willingness to be a pain in the neck for what matters for him most', such as great design and user-friendliness.[21] Strategically speaking, Jobs understood that to be different as a company, you have to make tough choices; in Apple's case, this was clearly reflected in the product markets it decided to pursue, as compared, for example, to large competitors. Referring to Apple's focus, he noted: 'I'm as proud of what we don't do as I am of what we do.'[22]

According to insiders, Jobs was opposed to using any sort of unauthorised applications or external software in Apple products. Everything was to be designed by and follow Apple's standards of user-friendliness, excellence and simplicity. As Jobs explained: 'We do these things not because we are control freaks . . . We do them because we want to make great products, because we care about the user and because we like to take responsibility for the entire experience rather than turn out the crap that other people make.'[23]

Jobs could be inspirational, but also could be experienced by employees as scary. According to Guy Kawasaki:

> 'Working for Steve was a terrifying and addictive experience. He would tell you that your work, your ideas, and sometimes your existence were worthless right to your face, right in front of everyone. Watching him crucify someone scared you into working incredibly long hours. . . . Working for Steve was also ecstasy. Once in a while he would tell you that you were great and that made it all worth it.'[24]

The high praise as well as high criticism made people try harder, jump higher and work later into the night. Jobs has been credited with imposing discipline on Apple, a quality that the company had lacked for years.

After the onset of pancreatic cancer in 2003 and an operation to address it in 2004, by 2009 Jobs' health was again deteriorating. In January 2009 he announced that he was taking leave of absence from Apple until June, due to health issues relating to a 'hormone imbalance'. COO Tim Cook would handle day-to-day operations, and Jobs would stay involved in major strategic decisions. Commentators disagreed on the degree of impact Jobs' absence would have. Some said that the new products Apple would introduce over the following 18 months had already been developed, and that Cook would manage Apple effectively in Jobs' absence. Cook's leadership role in Apple's operations since 1998 had given him a deep understanding of the company and a prominent position, being the only person to have a vast area of responsibility apart from Jobs and the one who replaced him during his medical absences. An industry veteran prior to joining Apple, Cook served as Vice President of Corporate Materials at Compaq, and as Chief Operating Officer of the Reseller Division at Intelligent Electronics. Seen as a low-key, soft-spoken executive, Cook's focus on efficiency and operations has been laser-sharp.

Others, however, believed that Jobs' motivational role, negotiation skills and creative vision were crucial for Apple and therefore Jobs' absence would adversely affect the company. Another medical leave followed in 2011, and in August 2011 Jobs resigned from his position as CEO, when Tim Cook, former COO, was appointed as CEO. Jobs remained at Apple as Chairman until his death in October 2011.

Entering a new Apple era

Upon becoming Apple's CEO, Tim Cook maintained a low profile and focused on managing the transition to the post-Jobs era as smoothly as possible. He sent the following email to Apple employees to reassure them that he would remain faithful to Apple's 'DNA':

> 'I want you to be confident that Apple is not going to change. I cherish and celebrate Apple's unique principles and values. Steve built a company and culture that is unlike any other in the world and we are going to stay true to that – it is in our DNA. We are going to continue to make the best products in the world that delight our customers and make our employees incredibly proud of what they do.'[25]

Despite record profits during Cook's first year as CEO, Apple was facing new challenges. One was the effects of leadership transition, with many observers wondering whether Apple could retain its distinct culture and set of capabilities after Jobs. Further, in the smartphone market Apple was facing a strong alternative technology in terms of Google's Android system. High-quality hardware, which many believed to be as good as the iPhone, was available from Samsung. The release of Windows 8 for tablet PCs posed a threat to the iPad, as did Amazon's new Kindle, which had improved functionality and graphics. Apple was competing in a technology industry where many companies, inspired by Apple's own model, started to move away from single devices and specialisation towards mobile connectivity and interconnected service offerings.

Cook was faced with the challenge of leading the world's most valuable and proprietary company into uncharted

waters. Would Apple be able to sustain its magic now that its chief architect had gone? Was Apple's operating model better understood by competitors and in danger or imitation? Was it making the best use of its enviable cash hoard? Could it keep delivering blockbuster products, which would result in the level of growth and profit performance that markets expected? Was Apple's huge size becoming a liability? What should Apple do differently, if anything, to address its strategic challenges and sustain its exceptional performance to date?

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