Split decision: When do corporate splits make sense?

With GE, Johnson & Johnson, Toshiba, General Motors and Ford announcing or exploring their intention to split into smaller entities, we look to HP's experience to diagram when breaking up might be a good move.

May 1, 2022 | Updated June 16, 2022

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General Electric -- the fabled American conglomerate cofounded by inventor Thomas Edison in the late 19th century -- announced in November 2021 that it would split into three companies focusing on healthcare, energy and aviation. That same month, giants Toshiba

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and Johnson & Johnson also announced their intentions to divide.

The decision to split is a big one. And it's a particularly difficult one for CEOs to make because, by its very definition, it shrinks their purview. So, why do it? What pressures might make a corporate split worthwhile?

GE CEO Larry Culp explained his company's decision in a press release: "By creating three industry-leading, global public companies, each can benefit from greater focus, tailored capital allocation and strategic flexibility to drive long-term growth and value for customers, investors and employees." In sum: three companies to serve three different groups of stakeholders in three beneficial ways.

This resonates with my own research on the subject: Successful corporate splits improve management focus, resource allocation and corporate agility. Working with my coauthors Robert A. Burgelman of Stanford Business School and Yuliya Snihur of Toulouse Business School (IESE PhD '13), we studied successful splits to better understand the key forces that lead to the strategic decision to separate, and how stakeholders can benefit when the timing is right. And timing is everything.

We found an illuminating case study in the 2015 split of Hewlett-Packard (HP), which divided itself into two distinct companies: one continuing with its more traditional business selling personal computers and printers (hereafter HPQ) and the other focusing on its newer, higher growth business selling integrated enterprise solutions via the cloud (hereafter HPE). Learning from HP and others, I believe our research can help managers, especially CEOs, understand when splitting might be the right thing to do.

The field research behind the development of our theoretical framework includes extensive interviews and archival research on corporate splits, homing in on HP. Our project included 71 interviews with HP senior executives (including 10 with various CEOs) and analyses of thousands of press releases, patents and other corporate documents focusing on the conditions leading to the split.

Our resulting paper, titled "Why multibusiness corporations split: CEO strategizing as the ecosystem evolves," was published in the *Journal of Management*.

In this article, I present our research findings, which are relevant to senior executives presiding over larger or more complex companies in these turbulent times. Of course, the insights gleaned here do not provide deterministic answers to the big "to split or not to split" question, but I put forward that they may help in critical decision-making processes.

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