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## Graziadio School of Business and Management

### Dean's Executive Leadership Series - 2009-2010

#### Transcript of Interview with John Coyne, president and CEO of Western Digital

**About DELS:** The Dean's Executive Leadership Series at the [Graziadio School of Business and Management](#) features in-depth audio or video interviews with today's top business practitioners and thought leaders. [Listen or subscribe](#) to the podcasts to hear their views and insight on the current challenges and opportunities facing the business community.

#### Start ####

**Man 1:** The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their views on the real world of business.

**Rick Gibson:** Hello and welcome. My name is Rick Gibson. I'm the Associate Vice President for Public Affairs here at Pepperdine University and I'm joined today by Doctor Linda Livingstone, who's the Dean of the Graziadio School of Business and Management. Welcome Linda.

**Dean Linda Livingstone:** Well, good morning Rick. It's good to be here.

**Rick Gibson:** Well, it seems like we're about halfway through the Dean's Executive Leadership Series and it's been a tremendous series so far.

**Dean Linda Livingstone:** We had an excellent fall and we're really looking forward to the speakers that we have lined up this spring.

**Rick Gibson:** Well, tell us a little bit about your guest today, John Coyne.

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**Dean Linda Livingstone:** Well, John is President and CEO of Western Digital, and they really help organizations to collect, manage and store information. And so with all that's going on in the area of technology, I think this will be a fascinating interview for everyone.

**Rick Gibson:** Well, no doubt. Well, let me invite our listeners to sit back and enjoy this conversation with John Coyne, President and CEO of Western Digital.

**Dean Linda Livingstone:** Well, today we're here with John Coyne who is the CEO of Western Digital, he's been in that role since 2007 after being with the company for 26 years, so John, it's such a pleasure to have you here for this podcast of our Dean's Executive Leadership Series.

**John Coyne:** Thank you, Linda, pleasure to be here.

**Dean Linda Livingstone:** So you've been with Western Digital for 26 years; that is a long time to be with one company, especially sort of in the world today where people move and transition so much. So talk a little bit about kind of your career progression and what it was that sort of motivated you to stay with the company that long and eventually move you into the CEO role.

**John Coyne:** Well, I did actually take a little five year break in the middle there, so it's two stints, first in 1983 when I joined the company in Ireland, I'm a native of Ireland and grew up there and was educated there, and had worked in Ireland in a variety of positions with GE, Emerson, and then along came WD, a small sub-\$100 million, scrappy, great ideas, aggressive company. And I liked the cut of their jib and said I'd give it a whirl after the 10 years of security of very large companies. And so I started up an operation for WD in Ireland, spent three years there and moved out to the U.S. in a promotional opportunity here at headquarters, and had a great time, through to the early 90s. At which point I had an opportunity to broaden my experience out of Operations and Engineering, which-- what were my strengths up to that point, with a manufacturing services company in Europe where I had the opportunity to lead the whole European adventure and be responsible for Sales and Business Development and Marketing as well as my proven strengths in Operations and Engineering. So I leapt at that and went and did that for approximately five years. At which point, having further expanded my portfolio but having significantly missed the WD culture of involvement across the board and very aggressive and opportunistic view of market, I decided to come back. Luckily WD decided to have me back, and off I went to Asia for almost 10 years heading up Operations there. That was a wonderful time in terms of understanding new cultures, having the opportunity to lead some very significant growth in the scale of the business and then returning to Lake Forest to our headquarters here in California in 2005 and then becoming CEO in 2007.

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You know, it's all been a blast. But certainly I'm not alone in the company in terms of what we call "Retreads," but folks who've spent some time immersed in the culture, working in the exciting, scrappy business that we have and then seek pastures new, realize that that grass that looked green is really more of a dirty brown color and come back to the place where they've experienced a very strong cohesive, collegiate type of environment that's focused on consistently outperforming and generating consistent profitable growth. And it's just a very satisfying environment; the best company I've worked for at any point in my career. And I think there's a lot of folks who have had the same experience. And of course, when you get that level of embedded group satisfaction, you can do a lot of things that are very, very difficult in other environments.

**Dean Linda Livingstone:** I want to talk a little bit more about the culture, but before I do that I want to talk a little bit about succession planning at Western Digital, because your predecessor, Arif Shakeel, is one of our alums and that's how we got connected with you. And my sense is, and certainly correct me if I'm wrong, that there was a very — kind of almost a planned transition once Arif knew that he wanted to step out of that role and really groomed you for that, so it was a very smooth transition. He remains on the board at Western Digital, and I believe has been a close advisor and friend to you, which is a wonderful model of succession planning at the CEO level. We've clearly seen in the media in recent years some much different models that don't work quite that smoothly. What is it about Western Digital that has made that happen, and I think it was a pretty smooth transition to Arif as well who had been in the company for many years prior to becoming CEO; How has that been developed and how has the board been involved in that to lead to that kind of longevity of people in senior roles and then that smooth transition at the CEO level?

**John Coyne:** Well, it is interesting. In fact, the CEO before Arif, Matt Massengill, also was a longtime WD person, in fact the three of us joined the company in that period, '83 to '85 and had worked together in various roles throughout. Matt and Arif both also left the company for brief periods during their careers and experienced, you know, the outside world with a WD tilt and then came back. And so the transition from Matt to Arif and the transition then from Arif to me was, as you say, planned, usually planned by the then CEO, not necessarily fully involved in the--

**Dean Linda Livingstone:** <laughs>

**John Coyne:** <laughs> The soon-to-be CEO. But I think the real thing is that we're very fortunate to have a very strong bench, a very open and participative culture, a very high level of transparency, very low level of politics that involves senior people throughout the broad executive team. So you would look at

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the very senior executives, about 15 people, and then the next bench, about 40 people. And that total group is highly involved in the day-to-day operation of the business as well as the strategic operation of the business. So, as the board looks at succession planning, there's a target-rich environment within the company. And the — you know, that makes things, I think — while you have to counter the danger of becoming totally ingrown, I believe the competitive nature of our industry and the global nature of our industry forces those within it to look very much outside for threats and opportunities and challenges and best practice. And so I think it's relatively easy for the board, when looking at the depth of talent that we do have and still have today — we haven't exhausted it by any means, in seeking smooth transitions in succession. And I think then the disturbance to the business in terms of the fundamentals of the business model, the fundamentals of the process, that disturbance is very slight in each transition from one to the next. Not that each of us haven't done — you know, put our own peculiar stamp on the business, we certainly have. But it's been evolution rather than revolution, and I think that stands the business in very good stead.

**Dean Linda Livingstone:** You mentioned several times in regard to the culture how collaborative it is, how transparent it is, and it was a fairly small company when you began and when Arif began and others that you mentioned. And now it's around 50,000 employees worldwide.

**John Coyne:** Yeah, today about 10 billion in sales, 55,000 employees worldwide. The biggest challenge for me as the CEO is how to maintain that family atmosphere, that lack of boundaries between functions, between global locations to remain fleet of foot, because one of our critical competitive advantages is our speed. And that's advantageous in two ways. It's very financially advantageous to have high asset velocity, but it also enables faster learning than a slower competitor, because the cycles of learning are greater. And therefore the ability to adapt to new circumstances, to not only analyze new data but implement it, improves. And so the highest area of focus for me is to maintain that fleetness of foot, that agility within the company. And we find the way to accomplish that is to have very high levels of transparency and very high levels of communication across the company about strategic purpose as well as tactical responses that are being played on a day-to-day basis relative to emerging competitive data, emerging market opportunity data.

**Dean Linda Livingstone:** Shifting gears just a little bit, you have had a very international career. Obviously you started in Ireland, you've spent time here in the United States, you consolidated the worldwide hard drive manufacturing for Western Digital to Malaysia, you expanded their drive operations into Thailand, so a lot of Asian experience as well. There's certainly a lot of our audience that's probably listening to this that either is doing international work or would like to do international work. Based on kind of that rich experience you've had through the years, what are the things you've learned about that would

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help someone to be successful—keys to sort of being successful in the international arena both as an individual and then to help make your company successful in that kind of a global world as you function in and as you have in your career?

**John Coyne:** I think what I've learned over the years is that at their core, people of whatever nationality are really the same. The core fundamental beliefs and the core stimuli that they respond to are very, very consistent across the world. As a leader, the essential element of-- is to gain trust, and gaining trust is about demonstrating sincerity and commitment. And every society I've worked in has been equally adept at flushing out the fake. So it's very important that, while it's necessary to understand and adapt to the cultural differences and the behavioral norms in each individual territory, you shouldn't think that that's all that needs to be done. You've got to focus on demonstrating to people, particularly as an expat who is, by definition moving on at some point, that while in place, your focus is on liberating the best that they can do by giving the best that you can do in that environment. And I think people are very quick to latch onto that and understand whether you're in it for you and just passing through or whether you're actually in it for the broader purpose and are there to enable them to be a bigger part of and a more successful part of the company. And I think if you approach those assignments with that frame of mind, you'll be a lot more successful than if you're going in just thinking about the impact to you or just thinking about the trivial orientation that you may get about cultural habits in that area, that just observing the right habits doesn't get the job done.

**Dean Linda Livingstone:** So I believe Western Digital is celebrating its 40th anniversary as a company this spring in a couple of months or about a month or so, and clearly the company has stayed on top of its markets and has evolved as technology has changed, as sort of the storage and drive needs of companies and individuals has changed. As you sort of think about the future, how do you continue to innovate and sort of be on top of what the needs are going to be? Because clearly technology is changing more rapidly than it did when the company was first founded; what is your approach to innovation and kind of scanning the market, knowing what the next best thing is going to be so that you stay one of the best and largest companies in the world doing what you do?

**John Coyne:** Well, that's the 64,000 dollar question...

**Dean Linda Livingstone:** The million dollar question, right? <laughs>.

**John Coyne:** <laughs> So I mean, what we try to do is to invest our money wisely in the best technology and the best technologists that we can find. We have, I think, some benefit from the fact that we've been

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through three very significant and fundamental makeovers of the business over the 40 years, starting out as a semiconductor designer and manufacturer for the first decade, then evolving primarily into a subsystem designer and manufacturer, incorporating those semiconductors and subsystems over the next 10 years, and then moving and evolving into a hard drive company for the last 20 years. As we look at the opportunities for hard drives into the future, we see tremendous opportunity in terms of the growth of digital content creation in the world around us and digital content consumption. And as the most cost-effective solution for high-volume mass storage, hard drives don't appear to have any eminent replacement threat. However, we have very significant technology challenges to overcome in order to stay on the 40 percent area density growth. Area density is the amount of storage per square inch of media, and we've been driving that at a 40 percent rate for 50 years in the industry, consistent with Moore's Law that they talk about in the semiconductor environment. However, we are seeing the emergence of solid state storage in areas where smaller capacity storage is required, very highly mobile applications and also in areas where very high performance is required. And so in order to ensure that we had the necessary knowledge and capability to understand those technologies and address whatever opportunity or threat they might present, we've recently acquired a small solid state drive company and are busily building or portfolio in that technology in order to address what today is complementary to our hard drive business and offers us a further opportunity to grow and insulates us somewhat from wherever the balance of the seesaw is in the competitive position of those two technologies. Right now the seesaw's in balance, and the pivot point is rising, so everybody's going up. And this is...

**Dean Linda Livingstone:** A good place to be.

**John Coyne:** A good place to be. We have a group of folks in our corporate marketing and corporate technology development groups who are focused on scanning for emerging technologies, emerging markets, new applications for the fundamental technologies that we have that may not become products that we know today but that leverages our technology into new areas. So we're trying to spend an appropriate amount of money in trolling for future opportunity to continue the significant growth that we've had. In the last 10 years the company has moved with the times and stayed on top of technology, and in fact, we've improved our technology position over the course of the last 10 years significantly to the point where we're now a market leader in introducing new hard drive capacities. And that has driven a 22 percent compound on our growth rate over the course of the last 10 years. We're certainly trying to recognize opportunity to maintain that kind of progress.

**Dean Linda Livingstone:** So you talked about the recent acquisition of the company and then kind of trolling for innovations that are out there, how much of kind of the innovation is driven by that, you know,

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seeing what's out there and bringing it into the fold versus your own basic R and D within the company and how have you determined what that balance is through the years in the company?

**John Coyne:** I think internal innovation from a technology development perspective represents probably 80 percent plus of what turns up as product over time. And then somewhat less than 20 percent is either acquired businesses or acquired technology that we then integrate into the core. That would be probably about the balance of spending, and we do spend — on R and D within the business, we're spending now about \$600 million a year on R and D. And of that, probably north of, somewhere in the region of \$200 million would be in your very innovative, new technology development, fundamental technology development, and the balance would be in product development, that's looking more at a two to three year horizon, whereas the fundamental technology work that we're doing would be in the two to five year kind of time horizon.

**Dean Linda Livingstone:** Some of what I read about the company talked about kind of what you're looking at in terms of sustainability and environmental impact and some of that, how does that play into the innovation that you're looking at in how you make your products more kind of environmentally friendly, make the company more sort of socially conscious through the experience, I mean, how does that play into your strategy and into what you think about both in terms of the bigger picture of the company but even in terms of the products that you're developing and looking at for the future?

**John Coyne:** Well, I think certainly there's a lot more than I can cover in this brief interview, which you can access at [westerndigital.com](http://westerndigital.com).

**Dean Linda Livingstone:** <laughs>

**John Coyne:** About WD and look under Global Citizenship and you will find a significant outline of our approach. The most fundamental benefit we believe that our existence brings to the world is the fact that we provide an enabling technology for a lot of the modern commercial and education and entertainment methodologies that we employ around the world today. In doing that, we directly employ some 55,000 people. Analysis that we've done indicates that in our extended supply chain of services and components, that represents about a quarter of a million people altogether. That doesn't count the people involved in taking our products and integrating them into useful devices. Now, that's a quarter of a million people, particularly as you look at the way that families operate in Asia, you know, that probably scales into about a million people whose lives we significantly influence in terms of economic development and improvement over time. So we think that's our greatest contribution. Of course, maintaining an ability to

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grow the company profitably and continue that contribution is critical to the work I do and the work that my executive team does. One of the things that I'm quite pleased about is one of my first marketing decisions as a new CEO was to endorse a line of products which employed a new technology we had developed, the WD GreenPower Technology, which launches a range of drives for desktop, digital video recorder, cloud computing applications to use about 40 percent of the then existing power of the drives that were then being addressed to those markets. And that has grown and—that business, our GreenPower product lines represent over a quarter of our total business today.

**Dean Linda Livingstone:** Wow, that's really grown.

**John Coyne:** So in three years that's a very significant driver of our business success but also a significant change in the world, because all of our competitors then followed with similar product lines. And so it has created a significantly more efficient solution to some of the mass storage applications around the world. The other thing that we focus on-- again, we tend to be driven by benefit to the business rather than altruism, but our facilities in Thailand-- Thailand hosts approximately 60 percent of the world production of hard drives. The Thai government analysis two years ago credited WD with the most energy-efficient facilities in the hard drive business in Thailand. So we designed those factories to be very lean manufacturing, very energy-efficient, because it makes money for us. It saves money, and that goes to the bottom line, it allows us to be competitive, it allows us to grow our business. So being responsible and being profitable are not in conflict.

**Dean Linda Livingstone:** No. And it's good to see companies doing both and being successful at it.

**John Coyne:** Now, we also-- not only in the direct employment and the direct money that that generates for our employee families, we also participate deliberately in the societies in which we operate. So here in the U.S., in the localities of where we are and globally where we manufacture, where we have significant sales presence, we have a number of charitable foundations that focus primarily on education and the support of education in those regions in order to teach people to fish rather than handing out free fish. So that's our general approach. We do also obviously support disasters as they occur and attempt to help in those circumstances, but the primary focus is on educational development in the areas where we operate.

**Dean Linda Livingstone:** Well, I have lots of other questions we could talk about, but I want to kind of conclude our discussion today with a question that ties back to our mission in the business school. The core phrases in our mission in the Graziadio School are to develop value-centered leaders and advance

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responsible business practice. And we've talked a lot about advancing responsible business practice and how you do that, but from your perspective as a leader and as a CEO of Western Digital, if you had to articulate two or three values that are kind of at the core of who you are as a leader, what would those be and why are they so important to you?

**John Coyne:** Well, we've actually got six. So in my first days as CEO I tried to distill the cultural values that have made WD successful, and we came out with the acronym PAPPPII, which is P-A-P-P-I-I: Passion, Action, Productivity, Perseverance, Innovation, and Integrity. And built around those values is our success. And so we continually reinforce the behaviors and the values that are represented by that acronym, and I could heartily recommend them to any other business leader.

**Dean Linda Livingstone:** <laughs> Well, I think all of those are certainly good ones for a business leader to focus on, whether it's for their own personal leadership style or for the organization. And I love the acronym. It's a nice way to help people remember them. Well, we appreciate so much you being with us, John, and certainly know that our audience that listens to this will gain a lot of insights from what you had to say, so we appreciate you joining us today.

**John Coyne:** Thank you. My pleasure.

**Rick Gibson:** Well, Linda, I certainly enjoyed that interview with John.

**Dean Linda Livingstone:** Well, he was really fascinating, particularly as he talked about the international and global reach of Western Digital and all that they're doing and the challenges that that presents for them as well. So a really fascinating interview.

**Rick Gibson:** Very much so. Well, tell us who is lined up next to be a part of the Dean's Executive Leadership Series.

**Dean Linda Livingstone:** We have with us on March 11, Leslie Margolin, the President and General Manager of Anthem Blue Cross in California, and we'll be hosting that in Malibu on the Pepperdine campus.

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**Rick Gibson:** Let me ask you, for those of our listeners who might be interested in attending, is this event open to the public?

**Dean Linda Livingstone:** Certainly. We invite anyone who would like to join us for any of our Speaker Series to go online to [bschool.pepperdine.edu/dels](http://bschool.pepperdine.edu/dels), D-E-L-S and they can register online to attend any of these upcoming events.

**Rick Gibson:** Well, that's fascinating. Well, let me also invite our listeners to join us on iTunes U or YouTube to listen to these podcasts or to watch videos of these conferences. Until next time, thanks for listening.

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