Managing Excellence Through Corporate Culture:

‘The HP Way’

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Abstract

This case study looks at the complex concept of corporate culture, the principal components of organisational cultures, how they are created and sustained, their impact on the management of organisations and their effect on corporate performance and longevity. It focuses on one US company, Hewlett-Packard, who has placed the management of its corporate culture at the forefront of its organisational and HR strategies for more than forty years.

Keywords

Managing organisational culture; organisational change and renewal; corporate longevity; strategic human resource management.

Introduction

While many computer companies struggled in the 1980s and early 1990s, one American company, Hewlett-Packard (HP), enjoyed the most successful period in its history. Founded by Bill Hewlett and Dave Packard in 1937, the company manufactures computers, calculators, medical electronic equipment, instruments for chemical analysis and other solid-state components. In 1993, it posted a 100% increase in revenues whilst cutting its prices by 40%. Profits rose at an average of 23 percent a year between 1984-94. It was the only major computer company to remain consistently in profit during the last world recession. In early 2001, HP employed 85,000 staff and had 104 divisions operating in 120 countries (please refer to the last section of the case study for information on the company's plans to takeover Compaq in 2001). It has often won awards in 'most admired' company surveys in Fortune over the last decade.

It has also had a long-standing reputation of being one of the most benevolent and forward thinking companies in the world, renowned for its progressive personnel policies and its innovative and intrepreneurial organisational culture. During times of job instability and downsizing in the 1980s and 1990s, HP also prided itself on being a company that offered its staff jobs a high degree of job security. It has also had one of the lowest documented rates of labour turnover amongst the Fortune Top 500 companies over the last ten years. It continues to be one of the top ‘employers of choice’ for the best science and engineering graduates at American Universities. The management of HP has had a tremendous impact on the way companies all over the world are managed.

It is regarded as one of the most visionary and successful companies of the 20\textsuperscript{th} Century (Collins and Porras, 1996). In 1997 HP was admitted to the Dow Jones list of 30 elite US companies, on whose performance the daily value of the
American Stock Exchange is measured*. Why was this company so successful over such a long period of time? The answer may well lie in the management of its corporate culture – ‘The HP Way’.

(* Microsoft and Intel were admitted on November 1st 1999)

The ‘HP Way’

‘Our company has developed over the years with a very specific and carefully defined management philosophy called the ‘HP way’. It is a rather unique, and I think, effective way of working with our people’.

(Hewlett, cited by Collins and Porras, 1996: 206)

Hewlett-Packard (HP) was founded in a garage in Palo Alto California by two young engineers, Bill Hewlett and Dave Packard in 1937. During the early years of the company, they developed a number of managerial concepts and principles that evolved into a directing set of corporate objectives and a business style known as the ‘HP Way’. Bill Hewlett came to describe this as the ‘Four Musts’:

‘The company must attain profitable growth; the company must make its profits through technological contributions; the company must recognize and respect the personal worth of employees and allow them to share in the success of the company; and the company must operate as a responsible citizen of the general community.’

(Hewlett, cited by Collins and Porras, 1996: 207)

The HP Way involved a participative management style that supported individual freedom and initiative while emphasising unity of purpose and teamwork. As the company grew, a conscious effort was made to retain the sense of purpose, closeness, and informality that HP enjoyed when it was a small company. The HP Way reflected a faith in people to use their own discretion to make decisions and, along the way, to make some mistakes as well as contributions.

The following extract, from the company’s Corporate Objectives (1995), illustrates the main values underpinning the HP Way.

5) ‘Our People’

- To help HP people share in the company’s success, which they make possible.
- To provide job security based on performance.
• To recognise their individual achievements.

• To help them gain a sense of satisfaction and accomplishment from their work.

• Relationships within the company depend upon a spirit of cooperation among both individuals and groups, and an attitude of trust and understanding on the part of the managers towards their people. These relationships will be good only if employees have faith in the motives and integrity of their peers, supervisors and the company itself.

• Job security is an important HP objective ... the company has achieved a steady growth in employment by consistently developing good new products, and by avoiding the type of contract business that requires hiring many people, then terminating them when the contract expires.

• To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.

• Insofar as possible, each individual at each level in the organisation should make his or her own plans to achieve company objectives and goals. After receiving supervisory approval, each individual should be given a wide degree of freedom to work within the limitations imposed by these plans, and by our corporate policies.

Trying to establish this common set of values while retaining individuality required exceptional subtlety in approach and trust and openness in relationships. These too became part of the HP Way. HP's culture has also operated as a control device, albeit by providing a framework of values that encourage self-directed employees to develop personal autonomy, goal setting, self-learning and self-discipline. In the words of one of its founders;

‘Early in the history of the company, while thinking about how a company like this should be managed, I kept getting back to one concept. If we could simply get everybody to agree on what our objectives were and to understand what we were trying to do, then we could turn everybody loose and they would move along in a common direction’.

(Packard – quoted in HP’s Corporate Objectives, 1995)

Traditionally, the HP Way also allowed for flexibility and adaptability on the part of its employees.

‘There is something very useful in not being too precise - a value in fuzziness. If the HP Way weren't fuzzy, it would be a rule! This way leaves room for judgment.'
Without that, there wouldn’t be room for the constant micro-recalculations needed in a changing world. This is designed to be an adaptive company’.

(Packard – quoted in HP’s Corporate Objectives, 1995)

As well as these guiding core values, there was also, ‘a deeply held belief that profit, while important, was not the fundamental driving force behind the company’ (Collins, 2001: 193). With minor modifications, these principles became the most fundamental and active guiding forces at HP. As such, the HP Way effectively represents a formal statement of Hewlett Packard’s corporate culture. These were first put into writing in 1957 (when the company went public), as the part of the company’s corporate objectives and were described at the time as being ‘somewhat similar to the US Constitution – a document expressing basic ideals, subject to current interpretation and to amendment’ (Collins and Porras, 1996: 211).

In essence, the HP Way was an experiment that attempted to strike a balance between profits for the owners and shareholders of the company and the rights, job security and working conditions its employees. What was more remarkable about the HP Way was that it established and practiced this gentler brand of capitalist ownership with great success, over a fifty-year period, in one of the most ferociously competitive and dog-eat-dog environments on the planet – California’s Silicon Valley.

Managing Culture: The Human Resource Implications

One of the ways an organisation can sustain its culture is through the selection of new recruits who either share or can easily adapt to the company’s values. HP has always been very selective in considering job applicants and has used a variety of techniques as part of its selection process (the ‘thick screening process’). There is clearly an emphasis on adaptability and cultural ‘fit’ with HP and, once employed by the company, all employees were offered some degree of job security.

‘Everybody we hire, we hire forever. We don’t hire somebody for specific short-term skills. Given our fundamental objectives that we will promote from within and grow our own management people, grow our own supervisors and grow our own technical people. We are always on the lookout look for people who have a lot of growth potential’.

(CEO – HP Europe).
One of the most important tools for conveying corporate culture has been through the telling of company stories. These help to clarify as well as communicate the values and attitudes that are important within the company. Stories can also have an important symbolic function when describing important historical moments in the company history or exemplifying company role models and ‘heroes’ - remarkable individuals who personify the values of the culture (Forster et al, 1999). At HP some of the most common stories known by employees concern the following:

- How Bill and Dave (as Hewlett and Packard have always been referred to) started the company with a $538 loan in the garage behind the Packard’s rented house in 1937.

  *Messages: think as both an entrepreneur and intrapreneur. Don’t borrow more than you can afford to fund your enterprise.*

- How they called their first instrument the 91200A19 so that potential clients would not know they were just starting out and would not be afraid of doing business with a small, unknown company.

  *Message: think big and create a positive image with potential new customers.*

- How the ‘Call to Coffee’, announced by a bell chime in all HP offices, originated when Dave Packard’s wife rigged up a bell in the garage they worked in to let them know when meals were ready.

  *Message: we encourage socialisation and communication with fellow employees.*

- How they made their first big breakthrough by supplying some of the technical wizardry for Disney’s *Fantasia* in 1939.

  *Message: innovation and cutting edge thinking are core competencies in this company.*

- How during the 1970s business downturn, when companies across the U.S. were laying off employees, every employee at HP took a 10% pay cut and took every other Friday off to prevent any lay-offs.

  *Messages: we genuinely care about our employees’ welfare and job security. We make sacrifices together when we encounter difficulties.*

- In the early days of the company, Bill Hewlett tried to get into an supply room to get some equipment. He found it locked after normal working hours. Unable to find a key, he broke into the locker with a bolt cutter. He then left a
note indicating that all such rooms be left unlocked in future. This has remained standard practice in HP since.

Message: we trust our employees not to steal equipment from us.

- How new recruits to the company often hear about the time when Dave Packard awarded a ‘Medal of Defiance’ to house-engineer Chuck House in the late 1970s. This was awarded because House had persisted in working on a new monitor despite being told to drop it by Packard. This monitor became a huge commercial success in the 1980s. Today, all HP staff still look for ways to innovate new ideas before senior management tell them what they should not be doing.

Message: we encourage independence of thought and innovative thinking - even if senior management don't agree with your ideas

These and other illustrative stories have been used not only during employee induction and training periods, but are repeated in many different circumstances on a continuing basis. They are used in staff training classes, recalled during management meetings and retirement parties and were incorporated into reminiscences in speeches and letters from Bill and Dave and other company leaders. Furthermore, these are stories that have been told throughout HP’s global operations. When Collins and Porras were doing their research on long-lasting visionary companies, they found one hundred documented instances of HP managers talking about HP’s values and objectives – in external speeches, internal talks, in individual conversations and in company documents. They also encountered dozens of ‘Bill and Dave’ stories during the time they spent with HP (Collins and Porras, 1996: 211). With the dramatic growth of HP in the 1970s there was an expansion of training in the values and methods of HP as it was becoming increasingly difficult to pass the culture by example and word of mouth. This led to the development of ‘Working at HP’, a week-long course for new recruits that covered the history of HP, the HP Way, its personnel policies and information about HP operations.

In addition to employees’ actions being guided by the company’s values, the day-to-day activities of HP employees have been primarily directed by a system of management by objectives (MBO). This was introduced in the early 1950s to ‘provide a well-defined objective, give the person as much freedom as possible in working towards that objective, and finally, provide motivation by seeing that the contribution of the individual is recognized throughout the organisation’ (Collins and Porras, 1996: 210). It is an iterative process, beginning with the establishment of short and long terms objectives derived from corporate and group objectives. Once these are agreed, individual employees were free to determine how they will achieve these goals.
The MBO system has also been the main control system over the product divisions particularly as managers are set divisional targets as their personal objectives. This meant that responsibility was forced down to a divisional level. Consequently, the size and influence of HPIS corporate staff is limited. For instance, the company only developed a corporate personnel department in 1957 when the company already had 1,200 employees. Maintaining a common purpose within a framework of freedom of method and divisional autonomy depended heavily on the openness, trust and cooperation inherent in the HP Way. The need for teamwork was often critical because HP’s different product groups often developed individual selling strategies, which required coordination in the event customers bought products from different product areas. Coordination was also facilitated by the use of special ‘Across Boundary’ projects which were comprised of ad hoc task forces drawn from many different functions and levels within the company.

Formal and informal communication of a company’s values also helped to transmit and maintain its corporate culture. HP has used a variety of techniques that foster communication between the company and its employees. It was one of the first companies in the US to introduce the ‘open door’ principle that allowed even the most junior employees direct access to senior managers in the company. This meant that every employee had the right to seek advice from, and be counseled by, any member of HP management (including the President of HP), concerning any personal or job related problem. In ergonomic terms, this has been reflected in a company-wide, open-plan office system. In addition, the company encouraged informal communication through ritual coffee breaks and ‘Beer Busts’, where managers and employees came together and got to know each other and discussed projects and problems together. Similarly, managers were encouraged to practice what HP calls ‘Management by Wandering Around’ (MBWA) – a source of much amusement for the creator of ‘Dilbert’, Scott Adams.

This culture of informality and openness was also communicated in other less formal settings. Management meetings, retirement parties, and division parties often included skits written by employees and acted out by managers and others without warning, which attempted to caricature (affectionately) management foibles and mannerisms. They also demonstrated the approachability and humanity of important managers. For instance, at such parties, managers also normally cooked and helped to serve other employees.

An important element of a strong culture is to ensure that its values are widely shared throughout the company. Division and polarisation amongst different sections of the company’s operations could have diluted the corporate culture, leading to the development of alternative value systems or sub-cultures. To lessen this threat at HP all employees enjoyed the same terms and conditions of employment (i.e. a single status system operated). This included a share in the company’s profits and eligibility for stock options. Profit sharing and shareholding
in the company were widespread from its earliest days. These were first introduced as far back as 1945. When the company went public, in 1957, all staff, after six months tenure, became eligible for stock options. Bill and Dave firmly believed that a dynamic, decentralised technology firm that relied on innovation as the primary driver of its commercial success had to align the incentives of everyone in the company – from top management to production workers. HP was also one of the first US companies to introduce flexible hours. These were introduced simultaneously for managers and non-managers alike in 1973. Casual clothing, informality and first names have long been encouraged.

Although many employees at HP described the company as having a relaxed atmosphere, its appraisal and salary system have long reflected a strong personal performance orientation. Pay was determined by a combination of work experience and sustained performance. Individual pay levels were determined by plotting their position on the company's 'wage-curves'. Within each curve, normal laws of distribution were expected to result in a 10, 40, 40, 10 split of employee performance. That is, 10 percent will be exceptional performers, 40 percent will be very good, 40 percent will be good, and 10 percent will be unacceptable. To help determine the distribution of performance, it was common for managers to rank employees within their groups. Poor performance was not tolerated for long. If counseling did not work and if performance did not improve, the employee was repositioned or their contract of employment would be terminated. Performance was reviewed every quarter, and the performance band of every employee was discussed during an annual individual performance appraisal, when salary changes were made.

Lateral mobility was encouraged by the career development system at HP. In contrast to many companies this did not involve a gradual progression upward within one function. It was considered quite normal at HP for career development to consist of a number of cross-functional and cross-divisional moves. Personal life-long learning has been strongly encouraged since the company was founded. This cross-fertilisation of staff across functions also aided innovation and the coordination of design, manufacturing and distribution processes. This system also reinforced the commitment to the HP Way because it reduced the likelihood of strong functional loyalties or sub-cultures developing which can lead to organisational politicking. HP has also been firmly committed to developing a truly multicultural and international workforce and encourages international job mobility amongst its employees. For example, 27 different nationalities were represented amongst its workforce in Grenoble (France) in 1995. This philosophy is applied everywhere in HP, including Australia (Parkin et al, 1999: 237-238).

Another very important outcome of the company's HR strategies has been that the company's growth was, for many years, determined by its ability to select and recruit the right people. Known as 'Packard's Law', this is described by Collins (2001: 54), as follows:
‘No company can grow revenues faster than its ability to get enough people to implement that growth and still become a great company. If your growth rate revenues consistently outpace your growth rate in people, you simply will not – indeed cannot – build a great company.’

Last, in stark contrast to almost all other companies, HP has long forbidden the personnel department from interfering in routine HR management:

‘Taking care of his or her people is the most important part of every management job. In no case is the personnel department expected to handle the manager’s personal problems – he or she must accept and handle the personnel responsibility in order to be a good manager.’

(Collins and Porras, 1996: 210).

Product Strategy

Many academics have pointed out that excellent corporate performance only results from a close fit between a virile, adaptable culture and a company's main business strategies (Schein 1999 and 1996; Kotter and Hesketh, 1992). One of the reasons that HP has remained so successful for more than half a century is because its product strategy reflected its culture, particularly the technically orientated no-nonsense approach of its founders. Over 90% of division general managers at HP hold technical degrees (Collins and Porras, 1996: 209). The founders of HP constantly emphasised the importance of research, innovation and development, thus producing products that were cutting-edge, rather than trying to increase market share through marketing or price-cutting. HP has long believed that it could achieve an edge over its competitors by creating products that have a significant technological advantage. Even during the 1970s, when the ‘market share’ theory of corporate strategy was predominant in corporate thinking, HP explicitly rejected this ‘fad’ in favour of gaining market share through innovation, rather than cost cutting.

HP has achieved this edge in technological innovation by recruiting the cream of engineering and other technical graduates from the top US Universities. HP is regularly cited as one on the ‘Employers of Choice’ in surveys conducted by ‘Fortune’. In Australia, there are over 500 hundred applicants for about 30 graduate positions each year (Parkin et al, 1999: 242). Once recruited, HP then allows new staff great individual freedom and opportunities for creativity in small self-managing work-teams. This is then combined with a sharp eye for new business opportunities amongst the leaders of the company and an emphasis on accessing modestly sized market segments. This is where HP has consistently achieved a strong position ahead of its rivals and has lead to decades of corporate success.
HP's organisational structure was designed to give responsibility and authority to the divisions responsible for each market segment. Decision-making is decentralised. In addition, batch manufacturing at HP means that work tasks are non-routine and designed with large cycle times that require employees to use their knowledge, skill, and discretion in building HP products. The fundamental business unit at HP has been the product division. The division is an integrated self-sustaining organisation with a great deal of independence. The aim is to create a working atmosphere that encourages problem solving as close as possible to the level where the problems occur.

To that end, HP has striven to keep all its product divisions relatively small. Each division contained the six basic functions of R&D, manufacturing, marketing, quality assurance, finance and personnel. New divisions were created organically by a process similar to cellular division. These ‘evolved’ when the profit generated by a new product segment was large enough to sustain its own continued growth and independence from the parent body.


For a long time, the HP Way served the company extremely well, as it expanded from measurement instruments into electronics and computing. Annual sales grew from $US5,369 in 1945 to $US48 billion in 1998 (Ellis, 2001b). However, in the early 1990s, HP faced new challenges that began test the adaptability and durability of its culture. The steady profit rise of the early 1990s resulted in a rapidly growing work force. This growth threatened to dilute the culture of the company as the average experience of employees was reduced. At this time, more than one-third of HP’s employees had been with the company five years or less and there were some concerns about a possible loss of ‘corporate memory’. HP’s desire to grow its own management meant that there was now less time to prepare new employees for HP-style leadership or supervisory roles. New managers may still have been assimilating the HP culture and managerial style themselves whilst trying to use it effectively and pass it on to other employees. The challenge to continue to provide a continuing source of leadership ability was seen to be especially critical amongst the company's executives.

HP's move into the computer systems markets in the 1980s also created changes that were felt for some time. Previously, almost all HP divisions had made low production-volume products that were hardware performance orientated. However, computer systems and peripheral devices tend to require high-volume production and have much larger components of software development and service. This placed new demands on HP. Both required a different set of skills and work organisation compared to HP’s traditional mix - skills that must be added and assimilated by those with little experience in these areas. The increasing geographical spread of the company also heightened the
need for the HP Way to be made to work in different countries and regions, each with their own local cultures. Up to this point in time, the company has been successful in maintaining the HP Way wherever it has set up new operations, be it in Europe, East Asia or Australasia.

Furthermore, in the mid-1990s, the company had seemed in danger of missing the Internet era altogether, as it lagged behind competitors such as Sun Microsystems and IBM. HP still had some catching up to do, as, for example, Sun continued to best HP in sales of large server computers to companies integrating the Internet into their operations.

The company faced other challenges at that time and the HP Board, perhaps with this thought in mind, took the bold step of appointing the first woman head of the company, Carly Fiorina. She was appointed CEO of HP in January 1999 at the relatively young age of 44. One of the first things she did was to tape a television advertisement standing in front of the garage in Palo Alto where HP was started, vowing to make HP a great company once again. The following sections describe the initiatives that were taken by Fiorina during 1999 and 2000.

Soon after arriving at HP in 1999, she unveiled plans for a major corporate reorganization. Her top executives told her it would take a year to plan. She ordered it done in three months. Fiorina maintained that HP needed to take several bold steps simultaneously to change its culture. In her first three months on the job, she unleashed a new advertising campaign emphasizing the HP brand over the former smorgasbord of product names. She changed HP’s decade old profit-sharing program and replaced this with a strict performance-based bonus system.

At a company event in June 2000, Fiorina told employees that she wanted a ‘remade Hewlett-Packard as a winning e-company with a shining soul’. Fiorina exhorted employees who attended this meeting to aim for ‘aspirational performance’ and asked them to commit their ‘hearts, minds and souls’ to her mission. HP, she said, ‘must be known as much for its strength of character as it is for the strength of its results’. The first outsider to take the reins in HP’s 60-year history also described the use of ‘well-placed shocks’ to goad the technically accomplished but slow-moving manufacturer into the Internet age. Fiorina, also described how she was going to overhaul the company ‘without layoffs or mergers’.

For all her motivational rhetoric, Fiorina’s demands for improved performance have had some negative effects. A small number of HP middle managers elected to leave during 1999 and 2000, although the company wouldn’t say precisely how many. Some remaining executives and employees, including those who applauded Fiorina’s changes, admitted that keeping up with the pace of her changes could be wearing. A number of long-standing employees have begun to
worry about the erosion of the HP Way, the revered corporate tradition of employee support and innovation discussed earlier in this case study. One (anonymous) HP employee, cited by Hamilton (2000) said:

‘The HP Way works and has seen us through difficult periods on the past. We must be careful that principles that this company was founded are not destroyed in the pursuit of short-term gains or cost-cutting to ramp up the company’s share price.’

Fiorina also launched a plan to consolidate HP’s 83 businesses into 12. She also decided to reduce the number of divisions into two ‘front-end’ groups that would focus on customer activities, such as marketing and sales, and two ‘back-end’ organizations devoted strictly to designing and making computer and printer products. In March 1999, HP announced that it would split its measurement businesses from its core computer and imaging operations. This created a computer and imaging company and a test-and-measurement company, Agilent Technologies. This was promoted through an extensive global advertising campaign in the second half of 1999.

A few old-time HP executives were shocked by these proposals. ‘I was a deer caught in the headlights when she described the front and back end’, said Carolyn Ticknor, who then ran the company’s laser-printer division. Several of these executives protested that employees weren’t ready for a major reorganization. Some executives fretted that managers wouldn’t wield ‘real’ authority if they couldn’t control both product development and marketing. Few parts of HP initially resented the changes as much as the laser and inkjet-printer divisions, which together contribute roughly two-thirds of the company’s profits. Neal Martini, who ran much of the laser-printer operation, learned he would lose his authority over sales, marketing and manufacturing. He says he watched valued but fed-up colleagues leave for other jobs. He commented,

‘The feeling was, here was Carly, who wasn’t a long time in the HP culture, who doesn’t understand our business and the HP Way, and doesn’t understand our strengths, particularly in businesses that were viewed as so successful for so long, it initially felt like a big disempowerment’.

(Cited by Hamilton, 2000)

However, as Martini and other colleagues started to disentangle their intertwined operations, they started to see some real advantages of the new organizational structure. H-P’s laser and inkjet printers, for instance, had always used incompatible software and network connections, making it difficult for customers to swap a laser printer for an inkjet. With its design teams merged, HP introduced
a fully compatible line of inkjet and laser printers in autumn 2000. Martini has remained with the company in a senior position in the merged printer division.

In some areas, the results have been striking. Frustrated customers had long complained that large purchases required them to deal separately with several HP divisions. So Fiorina employed Ann Livermore, who previously ran the server-computer division, to consolidate dealings with the company's top 100 customers. One of Livermore's early successes in her new role came with Amazon. Fiorina personally helped persuade the online retailer to install 20 of HP's top-of-the-line servers to run its site over the busy Christmas season of 1999. At a party at Amazon in February, Livermore cornered two executives and offered to supply the company's entire computer infrastructure. They eventually agreed that HP could supply Amazon not only with servers, but printers and personal computers as well.

This deal, worth hundreds of millions of dollars, would have been difficult to introduce at the 'old' HP. The numerous separate divisions probably wouldn't have cooperated quickly in the common cause of meeting Amazon's demands. The alliance between the two companies means that HP became the primary Internet provider for Amazon and supplying 90% of their applicable infrastructure requirements. However, we will have to wait to see what effects the numerous problems besetting Geoff Bezos and Amazon in 2001-2 will have on this alliance in the future.

The day after announcing the deal, in May 2000, Fiorina dubbed Livermore 'Amazon Ann, warrior woman' at a morale-boosting session attended by hundreds of employees. That was a vindication for Livermore, who was passed over for the top job and found herself flooded with job offers from the likes of Compaq and Dell Computers. Fiorina, however, had implored Livermore to stay and doubled her stock-options package, a bonus that could be worth millions.

While she can be generous to keep a top performer, Fiorina doesn't mind ruffling feathers. During a business-review meeting last August, Bill Russell, then Livermore's deputy, confessed that sales of the company's Unix servers were lagging so badly that HP risked missing its financial targets for the quarter. 'I got fairly well lambasted on the point of what we were going to do about it', said Russell. Fiorina's pointed questions taught him, he says, that 'Whatever we thought was good enough, wasn't good enough now'. Within days, he and other executives had cobbled together plans to tighten expenses and close a few big deals earlier - enough to meet the targets.

As with many change initiatives, the new pressure on HP's businesses has produced some unexpected consequences. One of the biggest came at the company's basic-research division, HP Laboratories. Fiorina took an early interest in the labs, seeing them as the key source of innovation in the company. She has made a habit of passing through the research area every month, once
bringing along HP’s entire board of directors. On one visit, she dropped by a lab working on ‘Cool Town’, an effort to develop a new Web technology, available to anyone, to build a ‘pervasive’ computing environment, in which gadgets from PCs to wristwatches can communicate. ‘They show me this incredible stuff’, Fiorina recalled, ‘and then they tell me, “our funding is about to get cut off” by the labs’ administration’.

That quickly changed. With its finances secure, ‘Cool Town’ thrived. Sales and marketing managers frequently bring customers to tour the project. This high-level patronage reinvigorated morale throughout the labs. Until Fiorina arrived, Stan Williams, a researcher in nano-technology, had planned to move his lab to Agilent Technologies. HP has built a new multimillion-dollar nano-fabrication facility. It may not generate commercially useful work for some years, but the investment has helped HP to retain researchers in a field that one day could produce a whole range of radical technological innovations. Fiorina wants HP eventually to be known for three main specialties: Internet infrastructure such as servers; information appliances, from PCs and hand-held devices to ‘intelligent’ printers and other peripheral devices and e-services that will anticipate users’ needs in the future.

HP was also aiming to boost its e-commerce services, Internet software solutions and appliances and other e-services (Associated Press, 1999a). HP also launched a new campaign on December 1st 1999 to promote their new corporate logo: ‘invent’. This ran throughout the whole of 2000, to cement the idea of the ‘new’ company in the minds of present and future customers. Fiorina observed at the launch, ‘We will continue to re-create our company culture, based on radical new ideas, inventiveness, synthesis and balance .... HP will drive innovation for the new economy’ (Simons, 2000).

Recent Events

At first, Fiorina’s initiatives seemed to be working. Overall, for the nine months ending on July 31st 2000, HP had a net profit of $US2.78 billion on sales of $US35.52 billion. The company's revenue growth, which had slowed to 3% a year in the mid to late 1990s, accelerated to 15% in 1999-2000 (Gottliebsen, 2000). Its share price improved dramatically during 1999 and surged 20% in value to reach an all time high of US$142.25 on June 5th, 2000. Wall Street clearly believed in Fiorina’s strategies and the share price of HP rose by 50% in the first eighteen months after she took over at the helm. America’s premier business journal, Fortune, also had confidence in Fiorina’s abilities and voted her ‘America’s Top Business Woman of the Year’, in April 2000.

However, during 2000, HP ran into further difficulties, continuing to lose ground to Sun Microsystems and Dell Computers and even being accused of becoming “a bureaucratic and slow moving dinosaur” by one respected Wall Street financial commentator (Nee, 2001), the very thing that the founders of the company had
fought so long and hard to prevent. It failed to realize its forecast of ‘15-17% growth’ in 2000-1 and, overall, its stock fell by a third after Fiorina’s appointment. While the company still dominated some market sectors, such as personal printers, HP was a long way from cashing on new technological innovations and developments, such as molecular computing. Its corporate computing business lost US$10 billion in 2001. An attempt to buy out Price Waterhouse Coopers for US$17.5 billion towards the end of 2000 also failed.

Fiorina was counting on innovations from a new consumer unit, ‘Embedded and Personal Systems’, created in 2001 to turn the company’s fortunes around. Fiorina was also betting that HP can become a major provider of new digital devices like audio players, smart phones, electronic books, e-mail appliances and digital cameras. However, the general consensus in the business world was that she promised too much too soon and undermined confidence in both the company and her strategic judgement. An article in Fortune concluded by saying, ‘Either she pulls off a paradigm shifting deal or she makes HP’s existing businesses, as tired or immature as many of them may be, do a lot better’ (Nee, 2001).

In March 2001, Agilent Technologies (HP’s spin-off company) announced that it was initiating a 10% pay-cut for its 48,000 employees. Following HP tradition, management softened the blow by taking this cut a month before the rest of the company’s employees. The alternative would have been a redundancy program and the layoff of about 10% of the company’s staff. In Australia, the consent of employees was required and this proposal was accepted unanimously by the company’s 430 strong workforce, in April 2001. This agreement runs until October 2001. During this time, more than half of Agilent Australia’s employees came into work on their ‘day off’, suggesting that there is still considerable staff loyalty towards the company, even during these difficult times (Bachelard, 2001).

On September the 4th 2001, to the surprise of financial commentators and the markets, HP announced that it was to buy one of its main rivals, Compaq Computers, in a $US24 billion deal that would create the world’s second largest computer company (and, in terms of market share, the largest), with a market capitalization of $US87 billion (Bloomberg, 2001). The merged company aimed to become a global leader in PCs, servers, hand-held computers and imaging and printing equipment. The combined staff of the two companies will number about 145,000 worldwide.

This proposed takeover reflected ‘consolidation’ trends in recent years in all industries, particularly in the IT sector. HP said that the merger would allow eventual ‘cost synergies’ of about $US2.5 billion a year. These were to be achieved by rationalizing product lines and cutting manufacturing, marketing and distribution costs. It was also ‘likely’ that a total of 17,500 redundancies in the merged company would follow over the next two years, thus breaking with the long-standing HP tradition of job security that had lasted for over 50 years. The
The merged company would have four operating divisions: imaging and printing; access devices; information technology infrastructure and services business. The company’s HQ remained in Palo Alto, California. Carly Fiorina became Chair and CEO of the new company, with Compaq’s CEO, Michael Capellas, becoming President (Grayson and Mitchell, 2001). The challenges of merging these two companies, which have widely different organisational cultures and overlapping product portfolios, would be formidable – at least as great as those encountered when Compaq took over DEC a few years before. Yet, at the time HP and Compaq argued that they had no real alternative. Both companies were being buffeted by the slump in demand for IT; cut-throat competition and technological shifts that were turning hardware, the mainstay of both firms, into a commodity.

Initially, this take-over was not well received by the markets or financial commentators. Within one day of the announcement of the takeover, HP suffered the greatest single one day fall in the value of its shares since 1987 (-18%), falling from $US23.08 to $US18.87, the lowest value since November 1996. By September 20th 2001, it had fallen to $US14.50. This takeover sparked further takeovers and mergers amongst computer makers in an increasingly difficult market sector (Ellis, 2001b). In September 2001, it was even rumoured that IBM was considering selling its PC business to Dell Computers (Bloomberg, 2001b).

By November 2001, there were indications that Carly Fiorina was in danger of losing her job. The children and other relatives of Bill Hewlett and Dave Packard, including Packard’s only son David, came out in opposition to the planned buyout of Compaq Computers. The Hewlett family and the William and Flora Hewlett Foundation, who own about 100 million of the company’s shares (18% of the company’s total stock), indicated that they opposed the deal and would vote against the acquisition. This group believes that while buying Compaq might boost the company’s position in the personal computer market, HP was worth more on its own in the long term. Concerns were also expressed about the strategic direction being taken by Fiorina and her abandonment of parts of the HP Way, such as the company’s commitment to offer life-long employment for its employees (Romei, 2001). In a press release, David Packard Jnr. made these comments,

‘For some time, I have been skeptical about management’s confidence that it can aggressively reinvent HPV’s culture overnight. While change is necessary and inevitable, it does not follow that every innovation is an improvement. Bill and Dave never developed a pre-meditated business strategy that treated HP employees as expendable.’

(Bloomberg Press 2001a)

In response to these comments and the opposition to the takeover of Compaq, HP’s stock price rallied to $US18.99 on November 9th and continued to rise to
just over $US25 on December 12th, after better than expected fourth-quarter results were announced by the company (Reuters, 2001).

These recent events can only remind us of ‘Packard’s Law’, cited earlier in this Case Study:

‘No company can grow revenues faster than its ability to get enough people to implement that growth and still become a great company. If your growth rate revenues consistently outpace your growth rate in people, you simply will not – indeed cannot – build a great company.’

(Collins, 2001: 54)

Until very recently, all the signs had indicated that HP could look forward to continuing commercial success during the first decade of the 21st century. However, the company certainly faces some major challenges over the next five years but, as it has done in the past, is trying to re-invent itself to meet these. Only time will tell if the core values and principles laid down by Hewlett and Packard in the 1940s and 1950s will be sustained in the near future as the principal drivers of innovation, growth, change and excellence within the company. The biggest dilemma facing Carly Fiorina at the beginning of 2002 is whether she should try to revitalize the HP Way or attempt to replace it with a ‘better’ culture than one established by Dave Packard and Bill Hewlett in the 1940s; one that can become the principal driver of the company’s success in the future.

**HP Case Study References and Further Reading on Organisational Culture**


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