

## Hewlett Packard case

### Stage IV. Implementation

#### Introduction

Historically, Hewlett Packard excelled at “doing”; at implementing or executing its decisions, policies and plans successfully. Over time, it evolved from being solely a day-to-day”, narrowly-based small business into a large, diversified and integrated tactical and strategic corporation. Management prepared short, medium and long term plans for programs, activities and resource allocations that were “carried out” typically in efficient and effective ways. The company’s management manifested its capabilities to execute and achieve its aims by the ways it conducted its research and development, produced and introduced new products, constructed new, larger and attractive facilities, expanded its expertise and capabilities with breakthrough or innovative technologies, entered new markets for its products, services and solutions, built a very large, profitable multinational corporation with more than 150,000 employee, sales of more than \$86 billion in 178 countries and otherwise did what was needed to progress successfully.

In more specific terms, hundreds of scientific ideas, theories, models and other conceptual materials were researched and developed into experimental designs, prototypes and other tangible forms for testing, production, distribution and sales. Sales burgeoned from \$538 in the first year to more than a billion in the mid-70s and nearly 87 times that by 2005. Appendix A depicts the growth of net revenues between 1939 and 2005. The number of employees grew from the original two founders to more than 30,000 in the mid-1970s and five times more by 2005. Such performance was achieved by doing; by executing and implementing what HP, its leaders and employees chose to achieve. **Stage II. Development** of the Hewlett Packard case previously identified some of the hundreds of products, services and other technological achievements of the company throughout its history.

#### An impressive record of successful implementations

In 1942, three years after the business was started, Bill and Dave decided to construct a new building, a 10,000 square foot office, laboratory and factory. Being practical men, they prepared a contingency plan before the building was started. Just in case the company failed, the building was designed and constructed so that it could be readily converted into a grocery store. Consequently, the building had an open floor layout which was congruent with the open space concept that management thought was desirable for an evolving and progressive technology company. Such an open layout was conducive to spontaneous interaction, creative thought and effective interpersonal relations and communications. As HP grew, its founders created a management style that formed the company’s progressive “open corporate culture” and its related policies and practices. HP expanded its “open door” policy by physically structured open cubicles and executive offices without doors. The physical attributes of the building and the “open corporate culture” were compatible with the philosophy, values and principles of the

founders and the way they wanted to manage their company. That way would become known as the *HP Way*.

In 1956, Bill Hewlett, Dave Packard and several other HP executives met at the Mission Inn in Sonoma, California to define a set of values, beliefs and principles that were intended to help shape a new kind of company, one that would be known for its character as well as its creativity, for its people as well as its products. From such discussions, the co-founders prepared the company's first set of objectives and the basis for its evolving management philosophy, principles, policies and its future tactical and strategic practices. Those objectives covered seven vital subjects: profit, customers, fields of (technological) interest, growth, employees, management and citizenship.

The principles inherent in the company's policies and objectives provided the basis for executing the *HP Way*. From an organizational perspective, they helped to guide the Hewlett-Packard Company "through war and recession, through mergers and acquisitions, through corporate reinvention and industry revolution." During 1957, the employee-oriented objectives were carried out, in part, when the company went public. HP gave stock grants and eligibility for a stock option program to all employees at all levels in the organization with at least six months of service.

In subsequent years, HP executed those objectives further. During 1967, the company introduced flexible working hours or "flextime" at its plant in Boeblingen, Germany. The program allowed employees to arrive and leave work at their own times as long as they worked a standard number of hours. In the words of Dave Packard, "*To my mind, flextime is the essence of respect for and trust in people.*" By 1973, flextime was implemented throughout HP's organization. In the mid-1990s, to increase work flexibility, HP was one of the first companies to encourage telecommuting around the world. The company claimed that telecommuting increased job satisfaction, reduced commuting time, increased flexibility to coordinate personal and work schedules and lower the levels of employee stress. In addition, HP reduced its office space requirements and improved its retention of employees.

In corporate America, the *HP Way* became a hallmark of managerial excellence. It documented the company's management philosophy and the guidelines that had evolved during its first 25 years. In keeping with the company's practice of management by objectives, it set out the corporation's objectives in writing. The purpose of the objectives was to serve as day-to-day (tactical) policies or guides for managerial decision making in a rapidly growing company. According to Dave Packard, "We thought if we could get everybody to agree on what our objectives were and to understand what we were trying to do, then we could turn them loose and they would move in a common direction."

The founders' progressive, participatory managerial approach and the employees' involvement differed radically from the top-down, authoritarian management style of most companies in the 1950s and throughout the history of business enterprises and other administrative organizations. As managers, Bill and Dave applied principles that

subsequently became known as “management by objectives”. They communicated overall company objectives clearly and gave employees the flexibility to work toward those aims in ways that they personally determined were best for their own areas of responsibility and authority. To engender such communications by employees, Dave practiced “management by walking around” which relied on personal involvement, effective listening skills and the recognition that “everyone in an organization wants to do a good job.”

Another one of the physical manifestations of the *HP Way* was the corporate headquarters that were completed in 1960. Located on a 50 acre hilltop site, the new buildings supported Hewlett Packard’s philosophy that people require attractive and pleasant surroundings to attain maximum job satisfaction and performance. The air-conditioned complex made extensive use of glass to provide maximum natural lights and views of San Francisco Bay. The site included a landscaped patio, horseshoe pits, volleyball and badminton courts and a large cafeteria, all for the use of employees. Through the coming decades, the corporation’s progressive management would be manifest in many ways, including its on-going emphasis and investment in research and technology, humanistic human resources management and its socially responsible, ecologically-sensitive electronic hardware recycling program.

In the 1990s, HP implemented a recycling program for its LaserJet printing cartridges. In its first five years of the progressive environmental program, 10 million cartridges were recycled. By the end of the decade, more than 30 million LaserJet cartridges had been recycled. In the early 1990s, the company developed *Design for Environment* guidelines that were intended to make HP products more environmentally compatible. Its policies on work-life balance, diversity and community involvement contributed to the attraction and retention of quality employees.

Major personal and community-oriented decisions were made by the company’s co-founders. During a 15 year period, three charitable foundations were established. In 1964, David and Lucile Packard set up a private foundation. Four years later, William and Flora Hewlett incorporated their private foundation. In 1979, the Hewlett-Packard Company Foundations was founded. Such actions were in keeping with the founders’ beliefs in being socially responsible and demonstrating good citizenship.

Implementation or execution became a contentious issue in HP during the 1990s and on into the early 2000s. As the founders and their contemporaries aged, the company began to “drift” and stagnate. Management’s inability to make and execute vital strategic and tactical decisions was one of the main reasons for the sub-optimal condition of HP. Its prized succession process failed to provide the progressive leadership needed to energize and direct the corporation into the 21<sup>st</sup> century. The renowned *HP Way* became out-dated and counterproductive for the company, its employees, customers and other stakeholders. David Packard’s book became pleasant reading but not the quality of new management knowledge that was needed to drive, direct and renew one of the largest technology companies in the world.

Much of the stagnation was due to the lack of effective leadership of the corporation. Key members had retired or were close to it. The corporation was lacking the direction and energy necessary to move forward progressively. Parts of its sluggish performance were attributed to a corporate culture that was out-dated and an organization that had become a “bloated bureaucracy”. HP had lost its “nimbleness”. Major decisions were delayed or not made, e.g., Ira Goldstein’s internet browser and digital photography. Emerging technological and growth opportunities were not being identified, pursued or were being disregarded. In its cover story of August 2, 1999, *Business Week* identified one of HP’s key strategic problems as almost forgetting (or overlooking) the Net. The article went on to state that,

On May 18, it announced its E-services Net strategy. This pulls together technologies so corporations can quickly add new services on the fly. HP has begun to sell online and intends to grow its services business as a way of boosting box sales.

“Making a New HP Way”, *Business Week*, August 2, 1999, [www.businessweek.com/1999](http://www.businessweek.com/1999).

*Business Week* continued its assessment by giving HP a B+ grade for the company’s E-services plan and its execution, stating that “E-services is a compelling approach that has struck a chord with many Net players. There’s just one snag: HP is three years behind rivals IBM and Sun in the E-business market.”

During the 1990s, the company was out of balance and misdirected in executing its objectives and policies. HP had become overly focussed on its mainstay business, e.g., its printing and imaging products and sales to the deprivation of new and innovative products and services such as E-business. Top management was overly oriented to making and implementing choices on the “soft side” or humanistic developments. Too little emphasis was placed on technologically innovative or breakthrough products and competing in increasingly dynamic and demanding global markets. The flow of new products slowed to a trickle. The company was not executing its plans and pursuing its growth, market and customer-oriented objectives with the focus and commitment of its successful past.

With the retirement of long time employee (33 years) Lew Platt, HP’s directors executed a major strategic change by appointing “an outsider”, Carleton (Carly) Fiorina to replace the last of the four Chief Executive Officers that had been chosen from within the company. She became the President and CEO on July 19, 1999. Although the new leader was reputed to be an effective marketer, the company’s new brand campaign, launched four months later, focussed on the company’s history of invention and innovation and a new logo which included the word “invent”. Critics considered that marketing initiative to be “thin gruel” and lacking in tactical or strategic impact.

As the new CEO settled in and took a leading role at Hewlett Packard, the company became rejuvenated. While the overall strategic thrust was vague, some parts of it emerged. In June, 2000, HP announced a new business initiative which focussed on emerging markets. Called “HP e-Inclusion”, the program was intended to foster sustainable, profitable businesses in developing countries. The following March, 2001, the company created a new business organization, HP Services. The services included consulting, outsourcing, support, education and solutions programs for customers. HP

was re-emerging as a corporation that could make major strategic and tactical decisions and, most importantly, implement them efficiently and effectively.

The year 2002 became one of major decisions and actions that shaped HP's emerging strategies. Growth was going to be achieved increasingly by acquisitions. On May 3<sup>rd</sup> of that year, Hewlett Packard and Compaq Computer officially merged, making the new company one of the largest technology companies in the world. The expanded HP would serve more than one billion customers in 162 countries and be a leading global provider of technology products, services and solutions to personal consumers and business customers. The decision, attributed mainly to CEO Carly Fiorina, to merge with Compaq and its related costs, originally estimated to be nearly \$25 billion, created a firestorm of protest and resistance from shareowners, led by Walter Hewlett, the son of co-founder Bill Hewlett.

The following month, HP announced its largest consumer product rollout in its history. Within six months, the company released more than 50 new imaging and printing products that offered consumers greater value and ease of use. The new products surpassed both the photo quality and the fade resistance by more than twice as long, i.e., up to 73 years, as most traditional prints and processed photographs.

Another major strategic choice that was implemented involved an increase in the marketing and sales of HP Services. In October, 2002, HP Services executed the largest services contract in the company's history. It signed a seven year, \$1.5 (US) outsourcing agreement with the Canadian Imperial Bank of Commerce (CIBC), one of Canada's largest banks with 8 million retail customers and 8,000 corporate and investment banking clients. Under the agreement, HP Services would manage a significant portion of CIBC's technology infrastructure, ranging from desktop PCs to midrange servers to mission-critical systems and networking.

November, 2002 was a banner month for HP. Some of the benefits of the merger with Compaq, six months earlier, became evident. HP launched a new initiative in mobile computing with the introduction of the Compaq Tablet PC, a versatile, full function PC that was highly adaptable to the ways its users work. The tablet PC was wireless-enabled and highly portable. It combined the power of digital ink with a full function capability.

During the same month, HP launched its first global brand advertising campaign since its merger with Compaq. The campaign theme was "everything is possible" and featured a series of vignettes that showcased the remarkable ways that people and businesses used technology and the role of HP services, technology and people in making it possible. The company also announced major breakthroughs and four patents in molecular electronics, continuing its progressive efforts in the emerging field of nanotechnology. HP had regained its capacity to make strategic and tactical choices and, more importantly, to carry them out successfully.

In 2003, HP's momentum grew in scope and pace. In addition to the CIBC outsourcing "mega deal" that HP made a few months earlier, the company secured three more major managed services deals in the telecommunications, manufacturing and financial services sectors. These contracts reflected the successful execution of HP's value proposition: high technology, low cost and the best possible total customer experience.

During its first 60 years, Hewlett Packard had been characterized by short term, tactical initiatives that evolved into strategic programs, activities and budgets. Following the appointment of Carly Fiorina, HP became appreciably more strategic in its corporate orientation, development, review and implementation of its decision making and actions. A growing focus on strategy became evident during 2003. In May, HP unveiled its Adaptive Enterprise strategy to help businesses manage change and achieve more from their IT investments. Three months later the company announced a strategy to radically simplify technology and enable its users to enjoy it more. This decision and its implementation was intended to expand HP's leadership in imaging, printing and home computing into the fast growing markets of digital photography and entertainment. As part of the strategy, HP introduced more than 100 consumer products, its largest ever consumer product rollout. Included in the rollout were the world's first eight-ink consumer photo printer and its new DVD Movie Writer, the first movie copier that could convert VHS tapes into long-lasting DVDs and preserve precious video memories.

During September, HP announced its decision to launch a worldwide strategy aimed at the small and medium-sized business (SMB) market, one of the fastest and most important segments in the global economy. This action, along with the Adaptive Enterprises strategy and strategies aimed at the digital photography and entertainment markets indicated that HP was a renewed company with progressive leadership that was quite capable of making major decisions and implementing them successfully. Between 2001 and 2003, HP's revenues increased from \$45.2 billion to just over \$73 billion, an increase of \$27.8 billion (61.5 percent). Those two year performance records were the most significant advances in the history of Hewlett Packard. The company had returned to its leading position in the technology sector.

The strategic decisions continued early in 2004. HP announced its digital entertainment strategy: an array of products and partnerships aimed at transforming the way people experienced music, movies, television, photography and digital entertainment content. However, the momentum from the decisive actions of the previous two years was waning. Shareholders, especially the large investment companies were dissatisfied with the financial performance of HP. Profit targets were missed for three of nine quarters. Stakeholder complaints were made about the company's growing inefficiencies, notably in regard to the inability of management to cut HPs' costs. Other concerns and criticisms continued to be reported about HP's takeover of Compaq, as much about the integration of the two cultures as about the price paid for it. In February 2005, the Board of Directors accepted the resignation of Carly Fiorina and paid her a severance package estimated at more than \$21 million. The following month, the Board named Mark Hurd as CEO and President.

## Notes

As quoted at the beginning of the main text on Implementation, “Implementation is perhaps the most critical component of strategic management. Without it, nothing happens.” In more contemporary terms, successful management has to be able “to walk the walk, not just talk the talk”. Stated otherwise, actions speak louder than words. All of this “wisdom” relates to the vital need for managers who are able to make sound decisions and implement them efficiently and effectively.

What the Hewlett Packard history illustrates is the capability of its co-founders to make and implement their decisions successfully. They were able to do that by having a strong commitment to the company, its purposes, objectives and ways of achieving such aims. For more than 50 years, their capabilities lead HP from being a two man operation in Palo Alto to one that employed more than 150,000 people around the world, from revenues of \$538 in its first year to more than \$87 billion in 2005.

Not only did Bill and Dave know what they wanted to achieve and how to do it but they were *able to do it*. Those four italicized words often make a significant difference between successfully and unsuccessfully managing an organization’s strategies, tactics, programs, activities and resource allocations, especially in the technology sector which is laden with scientific advances, fierce competition, large sums of investment and high risk. In part, Bill and Dave were able to decide and execute their choices because they were the original owners and had the greatest involvement in and commitment to the company. Many business people succeed largely by having a very strong commitment of their financial resources, personal talents, pride, ego and purpose and the willingness to work very hard, persevere and sacrifice or trade off other tangible and intangible rewards. Mr. Packard and Mr. Hewlett had such commitment and involvement in the company plus they shared the opportunity, its challenges and rewards with the others at HP.

The successful execution/implementation of an organization’s purposes, objectives, goals, strategies, tactics and their essential programs, activities and resource allocations is a function of its leaders and other decision makers attributes. Clearly, a strong, unwavering **commitment** to the success of an organization and its endeavors is essential. From that commitment flows the energy or motivation, the felt need for optimal choices and constructive action, the essential roles and responsibilities, the development or acquisition of expertise and experience and other attributes necessary for achieving success in an organization or individually. From that commitment flows the desire to achieve, the willingness to take risks and the growing capability to make and execute decisions efficiently and effectively. The Hewlett Packard case illustrates that with the co-founders and how the company’s capabilities to decide and implement their choices diminished with the diminished involvement of Bill and Dave.

In the HP situation, a clear picture of decision making and its implementation is apparent. While the co-founders were actively involved strategic and tactical decisions were taken in timely, progressive and emergent ways, guided by their philosophy, values,

principles and objectives. After the co-founders became inactive, HP suffered through a period of stagnation that resulted from a lack of effective leadership and the necessary direction, guidance, energy and managerial capability to make progressive decisions and implement them in ways that were timely, efficient and effective

Notwithstanding the vital importance of personal commitment and all that flows from it, numerous other factors influence or even determine the success or failure of organizations and individuals. A mouse cannot become an elephant or a human. But humans are able to form organizations and manage them to achievements not attainable by individuals on their own. An essential part of that management is the capability to anticipate and recognize the forces and conditions in the environment that have the influence or power to shape an organization's future success ... or failure. Dave and Bill had such capabilities. With their engineering backgrounds, market sensitivities and the ability to identify opportunities for new or innovative technologies, they were able to enter one market and expand into others over a period of nearly six decades. Paramount among their strengths were the capabilities to make sound decisions and implement them efficiently and effectively. Clearly Mr. Hewlett and Mr. Packard were entrepreneurial, progressive and innovative. They advocated "nimbleness" in their growing company. They realized the threats of the company becoming too bureaucratic and, at timely points, chose to re-organize large units into smaller, more flexible, decisive and active ones that were capable of implementing their strategic and tactical choices successfully.

Their decision making and implementation pervaded the organization. That was aided greatly by involving most, if not all, of the other members of HP through their participatory management practices, profit sharing, share purchases, the "open culture", effective interpersonal relations and communications and other humanistic initiatives and programs. However, over time and with the passing of the founders from its active management, HP stagnated. In 1999, the Board of Director decided that the corporation needed such revitalization and chose Carly Fiorina, a successful executive from Lucent Technologies, to bring about the desired changes. As experienced people know, much of the success of making changes is in how they are made as well as how receptive an organization or key parts of it are to making changes. What decisions are made and how they are executed are vital to the success or failure of making changes.

In the Hewlett Packard case, Carly Fiorina was dramatically different from her predecessors as President and CEO of the company. She was the first woman to head up HP, one of the world's largest companies in the technology sector. She was the first non-engineer CEO to lead HP. She was educated in medieval history and philosophy. Her expertise was in marketing. And she came into an organization with hallowed traditions, an institutionalized culture and its philosophy, values, principles and objectives etched into the pages of the *HP Way*.

Did the Board make the best choice and implement it when they selected Carly Fiorina to lead HP? Was she the optimal leader for a company with the traditions, historical ways and performance of Hewlett Packard? Based on the performance of the company during her term, was the Board justified in pressuring her to resign? Was HP really ready for such a decision and its *execution*?

