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Hewlett Packard: Rethinking the Rethinking of HP

Steven Maranville, Ph. D. (contact author)
Utah Valley University

Steven Coy, Ph. D.
University of Houston-Downtown

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On a rainy evening in early February 2005, Hewlett-Packard's (HP) board of directors held an emergency meeting at the Hyatt Regency O'Hare hotel in metropolitan Chicago to consider the fate of HP's President, CEO and Chairman of the Board, Carly Fiorina. In the months preceding the meeting, HP's board had become increasingly concerned that Fiorina was failing to effectively execute her strategy following HP's merger with Compaq Computer Corporation.[1] An HP insider assessed the mood of the board: "Things needed to make us more competitive in certain segments weren't being done."[2]

HP had failed to meet Wall Street expectations in two of the preceding five quarters. The board was dissatisfied, and Fiorina's relationship with the board had grown contentious. Three weeks before the board meeting, Fiorina met with three members of the board of directors at HP's headquarters in Palo Alto, California. At the meeting, the directors demanded that Fiorina delegate some of her control to others.[3] Fiorina described the elements of the board members' demands and her reaction:

> …they gave me a precise prescription for how to reorganize the company into two units, with a president heading each. They even gave me the names of the presidents…And they said the Board needed more ongoing communications with the CEO…
>
> I assumed that this meeting was a discussion. I did not believe this group could, or should, give me orders on how to execute and produce results. They became obviously offended when I did not immediately embrace these ideas. [4]

The board was concerned that Fiorina's growing celebrity (some members of the media called Fiorina a "rock star") was a liability. They felt that Fiorina was spending too much time traveling and not enough time managing. Perhaps most damning was the decline of Fiorina's popularity with the media. Only a few days before the meeting, an article appeared in *Fortune* magazine that vilified Fiorina for HP's poor performance.[5]

On the second day of the Chicago meeting, Fiorina met with the board. She was immediately surprised to learn that the board had met with an expert on corporate governance the night before without her. Patricia Dunn asked Fiorina to make a statement defending her position. After listening to her statement, the board asked Fiorina to leave the room. Three hours later, Fiorina was asked to return. When she entered, she discovered that all but two board members had left. Bob Knowling who had voted against her dismissal said, "The board has decided to make a change. I'm very sorry Carly." While Fiorina was not completely surprised by this outcome, her "hands shook from the shock" when she returned to her hotel room.[6] In a later interview with *Time* magazine, HP director Patricia Dunn summed up the feelings of the majority of the board: "Looking forward, we think the job is very reliant on hands-on execution, and we thought a new set of capabilities was called for."[7]

Two days after Fiorina's dismissal, HP issued the following press release:

HP Chairman and CEO Carly Fiorina Steps Down

> PALO ALTO, Calif., Feb. 9, 2005 — The board of directors of Hewlett-Packard Company today announced that Carleton S. Fiorina has stepped down as chairman and chief executive officer, effective immediately. Robert P. Wayman, HP's chief financial officer, has been named chief executive officer on an interim basis and appointed to the board of directors…"Carly Fiorina came to HP to revitalize and reinvigorate the company. She had a strategic vision and put in place a plan that has given HP the capabilities to compete and win. We thank Carly for her significant leadership over the past six years as we look forward to accelerating execution of the company's strategy," said Dunn, on behalf of the board.[8]

HP had become an icon of American business. Its name was synonymous with organizational and technological innovation that emanated from its corporate culture known as "the HP way." In the 1982 best selling classic, *In Search of Excellence*, HP was among the short list of "excellent" companies. The computer industry, though, experienced dynamic change during the 1980s and 1990s to which HP—as well as all other competitors—were compelled to adapt. Consequently, Fiorina's tenure was one of "rethinking the HP way." The acquisition of Compaq Computer Corporation reflected this rethinking.

The board now sought an individual with the ability to lead through strong execution who could return HP to sustained success. Inheriting HP's history for better or for worse, the new CEO would need to "rethink the rethinking of the HP way."[9]

Evolution of the Personal Computer Industry

In 1965, Gordon Moore predicted that the number of transistors placed on a microprocessor would double every two years, and the output of the microprocessor would double every 18 months.[10] This principle, which is known as Moore's law, implied that computer processing capacity would grow rapidly. The computer industry timeline in Figure 1 illustrates this fact. In 1981, an IBM PC's microprocessor had a clock speed of approximately 5 MHz. Twenty years later, Intel microprocessors were running at 2.8 GHz.

The ability to rapidly improve technology, as described by Moore's law, had a profound effect on the personal computer industry during its infancy. In 1981, International Business Machines (IBM) released the first personal computer (PC) based on the Microsoft operating system. In the 20 years following the introduction of the IBM PC, there was tremendous market growth as the PC went from being a business computer to a common household appliance.

But, unlike appliances, PCs were typically not replaced when they wore out. Instead, they were replaced when they became obsolete. Hardware obsolescence was driven by advances in software. In particular, Microsoft's frequent releases of new operating software with greater system requirements led users to discard their computers after only two or three years of use so they could purchase the latest offerings from Microsoft. Intel and Microsoft developed a very lucrative market synergy. Microsoft's new software would drive demand for new Intel processors while new Intel processors provided Microsoft with expanded capability, which allowed them to produce more processing-intensive software. This dynamic, which industry observers frequently referred to as Wintel, provided the computer hardware and software industries with tremendous market lift, which gave rise to the emergence of a multitude of hardware and software manufacturers. [11, 12]

Figure 1. Computer Industry Timeline[13]

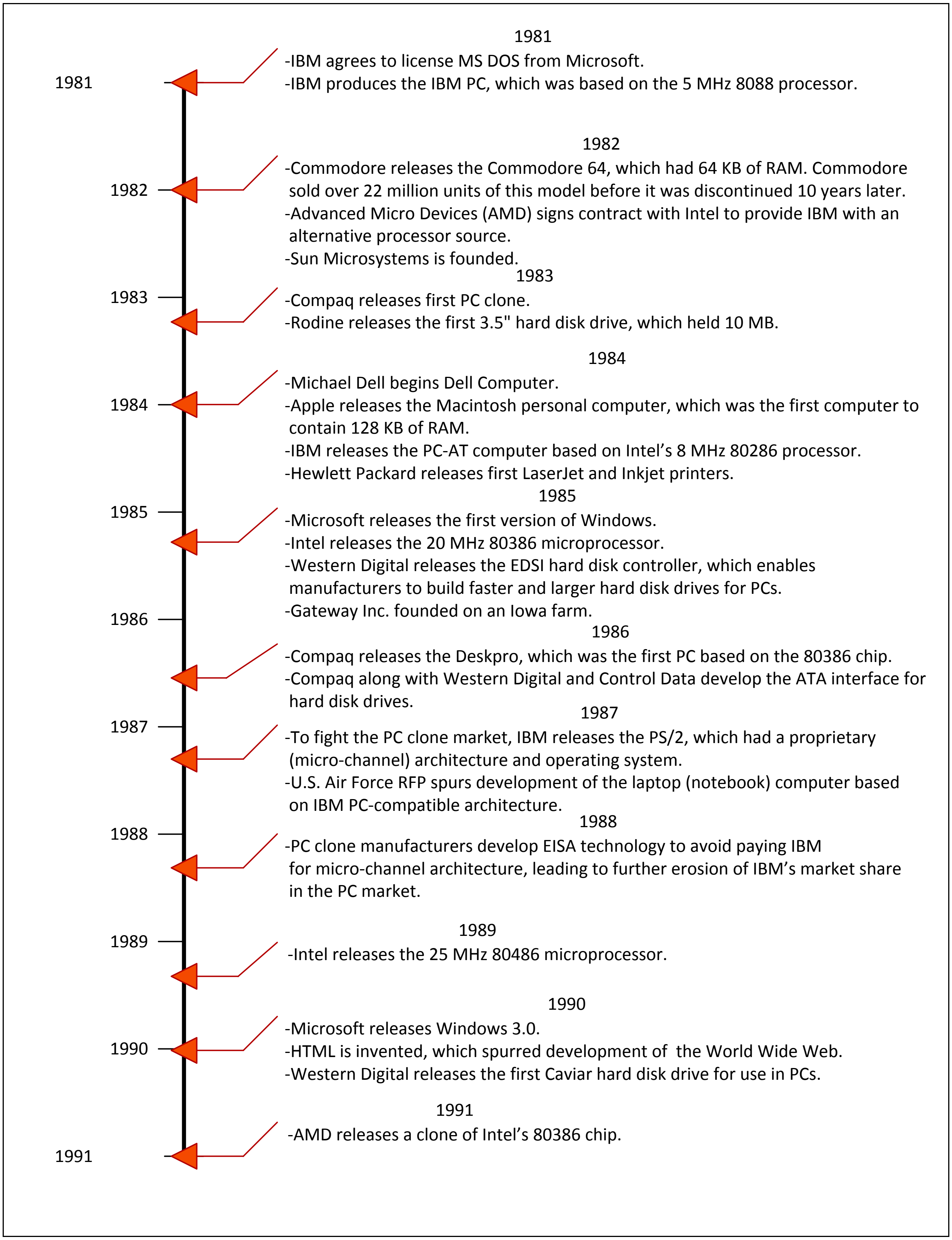
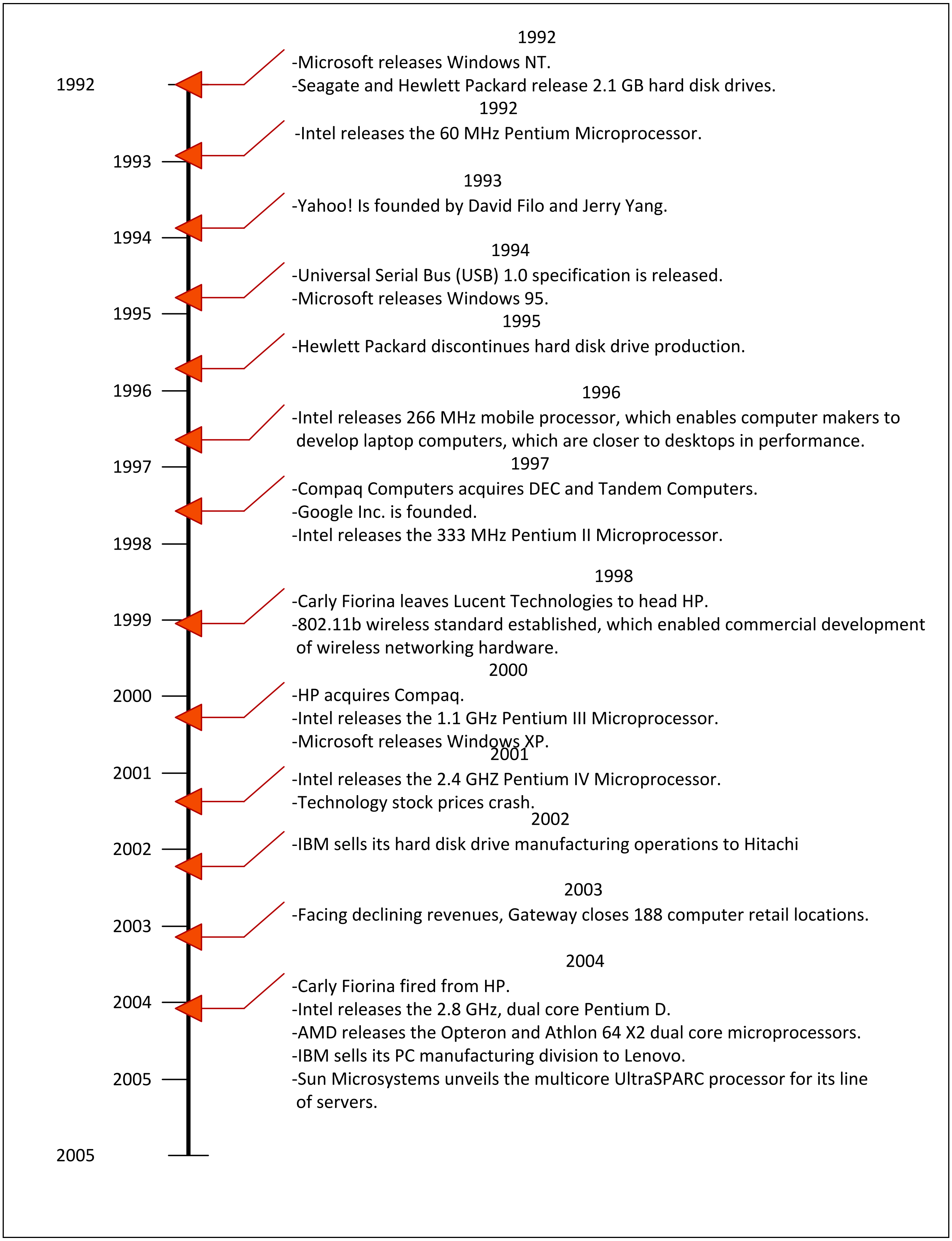


Figure 1. Computer Industry Timeline (continued)



Compaq Computer Inc. was one of the new hardware manufacturers that directly benefited from Wintel and their ability to replicate essential portions of the PC architecture. In 1983, Compaq released its first IBM PC clone. During the first year of sales of this product, Compaq earned $111 million.[14] Compaq had demonstrated that IBM's architecture could be replicated, and thus no longer proprietary, which allowed many electronics manufacturers to follow Compaq's lead. The replication of IBM's architecture led to rapid growth of the PC market, but also led to an erosion of IBM's market share. Further eroding IBM's market share was the introduction of a substitute to the PC. In 1984, Apple Computer released the first Macintosh, which was very popular in a portion of the personal computer market. Unlike the IBM PC, the Macintosh used a proprietary architecture and operating system, and, more importantly, it had the first graphical user interface.[15] Perhaps the fatal blow to IBM's supremacy in the PC market was delivered by Compaq in 1986, when Compaq released the Deskpro, which was the first PC to use Intel's fastest chip, the 80386.[16] IBM sought to recapture market share lost to PC clone manufacturers with their release of the PS/2. But, this system failed to generate sufficient enthusiasm in the market.[17] Following the release of the PS/2, Compaq and others developed the EISA architecture, which allowed PC clone manufacturers to compete with the PS/2.[18]

One of the characteristics of this era was the inability of firms to protect hardware technology and thereby retain market share. IBM was a good example. While firms continued to patent technology, other firms would quickly imitate the patented technology with one-off products or they would develop more efficient technology. Furthermore, given the high cost of computer equipment during this era, consumers tended to choose computers based on open technology—like the PC clone—rather than proprietary technology because it was less expensive. This was one of the reasons why the arguably superior Macintosh did not gain mass market appeal, and why firms like Dell and Compaq were forced to produce computers that were very similar in construction and capability.

While desktop PC technology had matured by the end of the 1990s, the notebook computer and server markets still provided manufacturers opportunities for differentiation and high margins.[19, 20] HP, Compaq, Dell, and IBM battled for supremacy in both markets while Sun Microsystems targeted Internet businesses with high end servers and Toshiba focused on the notebook market. While the server market continued to grow by the end of 2005, the maturation of notebook technology, declining market growth, and downward price pressure had eroded the profitability of the notebook segment[21].

The commodity nature of the desktop and notebook PCs, the emergence of the Internet, and the fact that computer processing and storage power had outpaced software development at Microsoft led to an increasingly competitive environment in the PC hardware business. Competition from Asian firms producing an increasingly mature product further eroded margins of U.S. manufacturers. This pressure led many computer hardware manufacturing firms to consolidate. In 2001, HP and Compaq merged. Gateway computer closed 188 retail outlets in 2004 as a cost cutting move, which followed their purchase of eMachines, a low cost producer of desktop PCs.[22] While PC manufacturers like Gateway and HP sought ways to cut costs, IBM opted to leave the PC manufacturing industry entirely; on May 1, 2005 IBM sold its personal computer business to Lenovo for $1.25 billion.[23]

The HP Compaq Merger

Like all computer hardware manufacturing firms, the dot-com collapse that began in early 2000 had an immediate impact on HP. It was impossible to escape the effects of the failure of 762 Internet-based companies representing roughly 10% of the total number.[24] During a conference call with investors, Carly Fiorina, chairman and CEO of HP since 1999, described the rapid revenue decline: "it feels like someone just turned the lights out." Fiorina recognized that the change was not simply an "economic downturn."

The technology industry's downturn forced many companies to seek alliances or outright mergers to survive. Fiorina believed that this provided HP with a tremendous opportunity. She had been considering the benefits of merging with Compaq Computer since early in 2000. Fiorina knew that the recession that had resulted from the dot-com collapse had hurt Compaq more than HP, because HP had a more diversified product line than Compaq.[25] She believed that Compaq's strengths in Windows-based servers, enterprise storage, and Internet sales would provide HP with expertise in areas where they were weak. McKinsey & Company, the consulting firm that performed the strategic analysis for Fiorina, concluded "the two companies fit together like a zipper."[26]

On September 3, 2001, Carly Fiorina and Michael Capellas, President and CEO of Compaq, explained the merits of the merger in the following joint press release:

> **Hewlett-Packard and Compaq Agree to Merge, Creating $87 Billion Global Technology Leader**
>
> PALO ALTO, CA and HOUSTON, TX, September 3, 2001 — Hewlett-Packard Company (NYSE: HWP) and Compaq Computer Corporation (NYSE: CPQ) announced today a definitive merger agreement to create an $87 billion global technology leader. The new HP will offer the industry's most complete set of IT products and services for both businesses and consumers, with a commitment to serving customers with open systems and architectures...
>
> The merger is expected to generate cost synergies reaching approximately $2.5 billion annually and drive a significantly improved cost structure. Based on both companies' last four reported fiscal quarters, the new HP would have approximate pro forma assets of $56.4 billion, annual revenues of $87.4 billion and annual operating earnings of $3.9 billion. It would also have operations in more than 160 countries and over 145,000 employees…
>
> "This is a decisive move that accelerates our strategy and positions us to win by offering even greater value to our customers and partners," said Fiorina. "…At a particularly challenging time for the IT industry, this combination vaults us into a leadership role with customers and partners -- together we will shape the industry for years to come."
>
> Capellas said, "We are creating a new kind of industry leader -- one founded on customer success, world-class engineering, and best of breed products and services. In sharp contrast to our competitors, we are committed to leading the

> industry to open, market-unifying architectures and interoperability, which reduce complexity and cost for our customers. With this move, we will change the basis of competition in the industry…" [27]

Investors were not as impressed with the merits of the proposal as were Fiorina and Capellas. In particular, investors were concerned that the depressed competitive environment—both firms had been struggling since the technology industry's decline that began in 2000—and the immense difficulties inherent in combining two huge firms would dominate any gains from the potential synergies. Following the merger announcement, shares at the two companies fell dramatically. In one day, the two companies lost over $13 billion in market capitalization (see Figure 2).[28] As one large institutional investor put it, "It's like taking two stones and tying them together to see if they float."[29]

HP's and Compaq's competitors were equally unimpressed. Sun Microsystems Inc. President Edward J. Zander explained to investors on September 5, "When two sick companies combine, I'm not sure what you get. This is a great opportunity for us, IBM, and others to go after market share."[30] Six days after the merger announcement, Michael Dell, the President and CEO of Dell Computer stated that he saw the merger as an opportunity for his firm. He stated, "Mergers of this size are very hard to do. The opportunity it presents to us, given the elimination of brands and the confusion -- that's pretty compelling."[31]

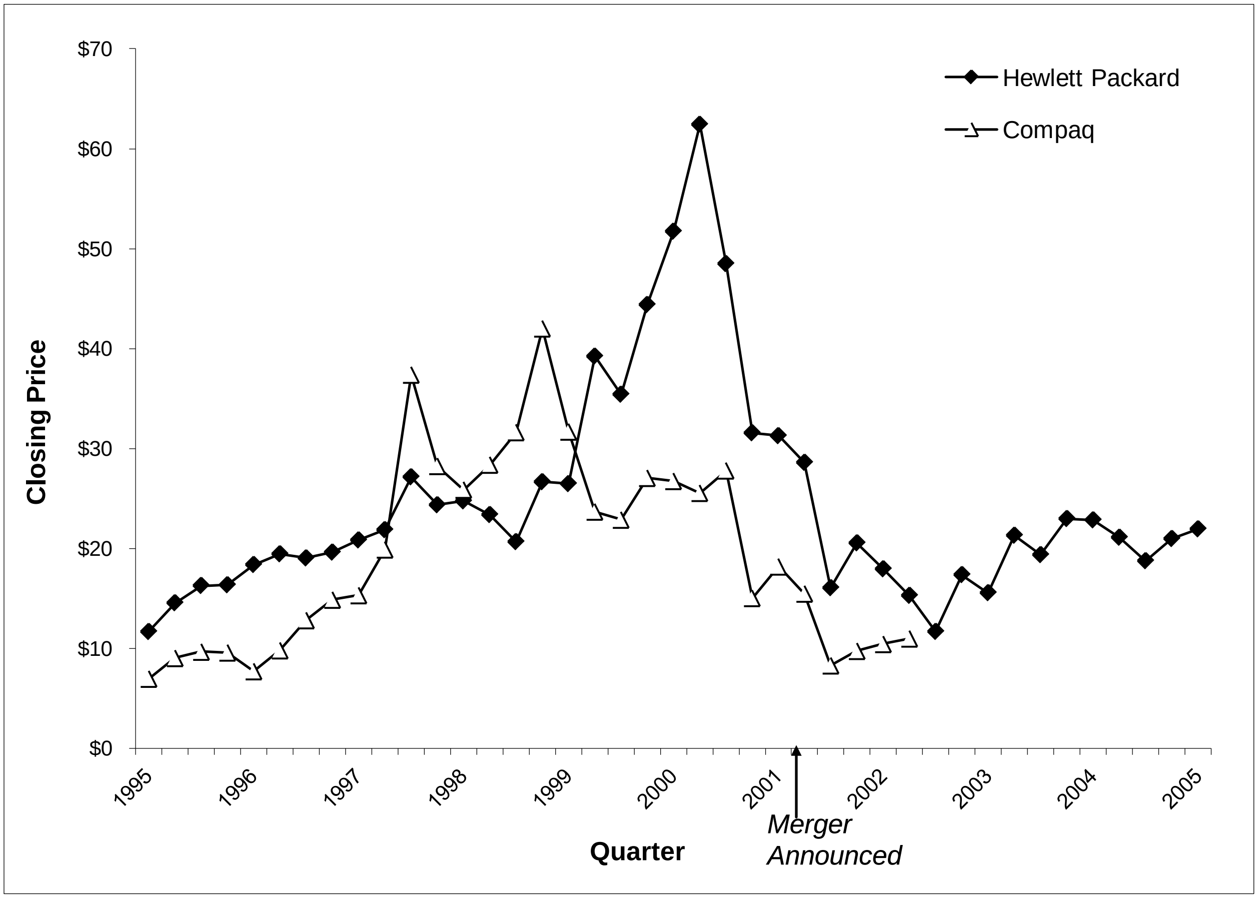
From the very beginning, Fiorina believed that the acquisition of Compaq would deliver economies of scale, which would enable HP to dominate the computer hardware and services markets. Director Walter Hewlett, son of co-founder Bill Hewlett, opposed the merger because he believed that this committed HP to the "profitless mess of the personal-computer business."[32] More importantly, he believed that this merger would take HP further away from the HP way.[33] This difference of opinion led to a seven-month power struggle between Fiorina and Hewlett. In the end, Fiorina prevailed. On April 17, 2002, HP stockholders voted in favor of Fiorina's vision and approved the acquisition of Compaq Computer Corporation. A Delaware court later upheld the vote after Hewlett challenged its legitimacy (see Appendix 1 for a timeline of events following the merger).

Compaq Computer Before the Merger

Before its expansion in the late 1990's, Compaq Computer Corporation had been a leading manufacturer of personal computers and Windows NT servers. Under the leadership of Eckard Pfeiffer, President and CEO of Compaq from 1991 to 1999, Compaq was amazingly successful. It was the fastest growing company in U.S. history, and at the peak of its success in 1997, *Forbes* named Compaq the "Company of the year" in recognition of its exemplary financial performance and rapid growth.[34]

Compaq's purchase of Digital Equipment Corporation (DEC) and Tandem Computers in 1998 signaled a dramatic change in Compaq's strategy. DEC, which had struggled for years with high manufacturing and product development costs, was known for its line of UNIX-based minicomputers and servers and for the Alpha microprocessor, which was superior to Intel's Pentium processor.[35] Tandem Computers was a well-respected manufacturer of very reliable computer systems used by hospitals, banks, and stock exchanges.[36] Compaq management believed that the successful combination of Compaq, Tandem, and DEC would give them an inimitable combination: the mergers would provide them with the necessary products, expertise,

Figure 2. Quarterly Closing Stock Prices



Data Source: http://investor.hp.com/stockLookup.cfm

and sales force to compete with IBM in the enterprise systems market and the application of Compaq's relatively lean cost structure to Tandem's and DEC's operations would allow the combined companies to deliver these systems at lower cost than their competitors.[37] But the mergers failed to fulfill their promise. Pfeiffer's inability to effectively manage the integration of these two companies was one of the primary reasons for his ouster in 1999.

With Pfeiffer's departure, Michael Capellas, President and CEO of Compaq from 1999 to 2001, assumed control of a company that had gone from a Wall Street darling to disarray in less than two years. In addition to the ongoing problems with integrating DEC and Tandem, Capellas had to deal with the fallout from Pfeiffer's acrimonious departure,[38] and the recent loss of five key executives who took early retirement or who were forced out by Pfeiffer.[39] More importantly, the declining margins in the PC business and the ascendancy of Dell Computer were eroding Compaq's core business. While Compaq had relied heavily on independent retailers for its home and business sales, some of its competitors were rapidly grabbing greater market share and reaping large profits through Internet direct sales. Profits at Dell Computer, for example, were growing rapidly. In the first quarter of 1998, Dell reported profits that were 54% greater than the same quarter the year before. During the same period, sales growth fell at Compaq as many potential corporate customers switched to online sales, and per-unit profits fell as Compaq was forced to cut prices to its dealers in order to help them reduce inventories.[40]

Compaq's Business

In its 2001 annual report to investors (Form 10-K), Compaq described itself as

> …a leading global provider of information technology, products, services and solutions, [that] designs, develops, manufactures and markets products and services that help customers build a competitive advantage and succeed in the evolving Internet-based economy.[41]

Compaq divided its products and services into three segments: Enterprise computing, Access, and Global Services. The Enterprise Computing segment consisted of servers, enterprise storage, business critical systems, high performance computers, and enterprise software solutions. The Access segment consisted of desktop, notebook, and workstation PCs, thin client workstations, and networking products. Access also included personal electronics devices including hand held computers and home entertainment products. The Global Services segment provided systems integration services and solutions to corporate customers as well as financial and asset management services.

At the end of 2001, the Access segment was the largest segment in terms of net revenue (45.1%), but the worst performer in terms of profit margin (–3.9%). Enterprise Computing was second in size with 31.8% of total net revenue and second in profit (1.5%). Global Services was the smallest segment with 13.6% of total net revenue, but the most profitable with a profit margin of 23.1% (see table 1).

Table 1. Compaq Computer Corporation Contribution to Total Revenue and Profitability by Segment

	Enterprise Computing*	Access**	Global Services
Profit Margin by Segment			
2001	31.8%	45.1%	23.1%
2000	33.6%	48.7%	17.7%
1999	33.6%	47.1%	19.3%
Ratio of Segment Revenue to Total Revenue			
2001	1.5%	-3.9%	13.6%
2000	11.6%	0.7%	11.8%
1999	5.2%	-2.4%	13.5%

*The Enterprise Solutions and Services segment was divided into the Enterprise Computing and Compaq Global Services segments in Compaq's 2001 Annual Report.
**Commercial and consumer computing segments were combined to form the Access segment in Compaq's 2001 Annual Report.

Source: Compaq Annual Reports

Table 2. Market Positions in the Computing and IT Services Markets on the Eve of the Merger[42]

Personal Computers		Servers	
Rank	Share	Rank	Share
1. Dell	14.1%	1. IBM	26.5%
2. Compaq	**11.3**	2. Sun	16.7
3. IBM	8.1	**3. Compaq**	**13.4**
4. HP	**6.9**	**4. HP**	**12.9**
5. NEC	5.0	5. Dell	6.8

Printers		IT Services	
Rank	Share	Rank	Share
1. HP	**40.4%**	1. IBM	5.0%
2. Epson	14.5	2. EDS	2.9
3. Canon	8.9	3. Fujitsu	2.0
4. Xerox	8.4	4. CSC	1.6
5. Lexmark	7.4	5. Accenture	1.5
		8. HP	**1.1**
		9. Compaq	**1.0**

Source: *The New York Times*

Market Position

In 2001, Compaq was a significant competitor in PC and server markets and a minor player in information technology (IT) services (see table 2). Compaq was second in personal computers with 11.3% market share, which was 2.8 percentage points behind the industry leader, Dell Computer. Compaq ranked third in the server market with a 13.4% share. This share represented about half of the share commanded by the market leader, IBM, and was about half a percentage point higher than HP. Compaq ranked ninth in IT services with a 1.0% share of the market. This represented roughly one fifth of the market share of IBM, the market leader.

Financial Position

From 1997 to 1999, Compaq's total assets grew from $14.6 billion to over $27.2 billion. Much of this growth was fueled by the acquisitions of Tandem Computers and DEC. In 2001, Compaq's total assets had declined by about 13% from its peak in 1999 to $23.6 billion (see table 3). Growth in total revenue reached a peak of $42.2 billion in 2000 before falling sharply to $33.5 billion in 2001 (see table 4). Earnings as a percentage of total revenue did not follow Compaq's growth. Compaq posted a loss in two of the five years preceding the merger. After posting a 7.6% profit in 1997, Compaq posted a loss of 8.8% in 1998. Compaq then struggled through two years of slim profit margins before posting a 2.34% loss in 2001.

Corporate Culture at Compaq

While HP had a relatively long and stable history, Compaq's history was relatively short and unstable. Change was the norm at Compaq. Since its founding in 1982 by Rod Canion, Jim Harris, and Bill Murto, Compaq experienced rapid growth. In 1983, Compaq's gross revenue

Table 3. Compaq Computer Corporation Consolidated Balance Sheets, 1997-2001
($ millions)

	1997	1998	1999	2000	2001
Assets					
Current assets					
Cash and cash equivalents	$6,418	$4,091	$2,666	$2,569	$3,874
Short-term investments	344		636		
Accounts receivable	2,891	6,998	6,685	8,392	6,504
Inventories	1,570	2,005	2,008	2,161	1,402
Deferred income taxes	595	1,602	1,460		
Other assets	199	471	394	1,989	1,498
Total current assets	12,017	15,167	13,849	15,111	13,278
Property, plant and equipment	1,985	2,902	3,249	3,431	3,199
Other assets, net	629	4,982	10,179	6,314	7,212
Total assets	$14,631	$23,051	$27,277	$24,856	$23,689
Liabilities					
Current liabilities:					
Accounts payable	$2,837	$4,237	$4,380	$4,233	$3,881
Borrowings			453	711	1,692
Deferred income		845	972	1,089	1,181
Accrued restructuring costs		1,110	1,002		
Other current liabilities	2,365	4,541	5,031	5,516	4,379
Total current liabilities	5,202	10,733	11,838	11,549	11,133
Long-term debt				575	600
Postretirement/post employment benefits		545	605	652	839
Minority interest	___	422	___	___	___
Total Liabilities	$5,202	$11,700	$12,443	$12,776	$12,572
Equity					
Common Stock	2,096	7270	7627	8,039	8,307
Retained Earnings	7,333	4,501	4,948	5,347	4,393
Accumulated other comprehensive income		(36)	2,919	27	(132)
Treasury Stock	___	(384)	(660)	(1,333)	(1,451)
Total Equity	9,429	11,351	14,834	12,080	11,117
Total Liabilities and Equity	$14,631	$23,051	$27,277	$24,856	$23,689
Fiscal Year Ending Stock Price	$32.00	$31.63	$19.13	$30.41	$8.75

Source: Compaq Computer Corporation Annual Reports

Table 4. Compaq Computer Corporation Consolidated Statement of Income, 1997-2001 ($million excluding net earnings per share)

	1997	1998	1999	2000	2001
Revenue					
Products	$24,122	$27,372	$31,824	$35,506	$26,728
Services	462	3,797	6,623	6,716	6,826
Total revenue	24,584	31,169	38,447	42,222	33,554
Cost of sales					
Products	17,500	21,383	25,263	27,624	21,536
Services	333	2,597	4,535	4,793	4,906
Total cost of sales	17,833	23,980	29,798	32,417	26,442
Expenses					
Selling, general and administrative expense	2,947	4,978	6,341	6,044	5,328
Research and development	817	1,353	1,660	1,469	1,305
Restructuring and related activities		393	868	(86)	742
Merger-related costs	44				44
Purchased in-process technology	208	3,196			
Other (income) expense, net	(23)	(69)	(1,154)	1,503	466
Total Expenses	3,993	9,851	7,715	8,930	7,885
Income (loss) before income taxes	2,758	(2,662)	934	875	(773)
Provision (benefit) for income taxes	903	81	365	280	(210)
Income (loss) before cumulative effect of accounting change	1,855	(2,743)	569	595	(563)
Cumulative effect of accounting change, net of tax				(26)	(222)
Net income (loss)	1,855	(2,743)	569	569	(785)
Basic Net Earnings Per Share					
Before accounting change	$1.23	($1.71)	$0.35	$0.35	($0.34)
Cumulative effect of accounting change				(0.02)	(0.13)
Net Earnings Per Share	$1.23	($1.71)	$0.35	$0.33	($0.47)

Source: Compaq Computer Corporation Annual Reports

was nearly $111 million.[43] By the end of 2001, Compaq's gross revenue had grown to over $33 billion. Fueled by several mergers and acquisitions, Compaq's growth accelerated in the 1990s. From 1993 to 2001, Compaq's assets grew from $4.1 billion to $23.7 billion. With each acquisition, Compaq faced the daunting task of integrating large groups of people into its culture. Tandem Computers, for example, employed over 7000 people and DEC employed over 54,000 people. Geographical separation complicated an already difficult problem: Tandem Computers was located in California and DEC was located in Massachusetts.[44] Compaq began as a deliberative, consensus-building company in which management strived to maintain the benefits of a small firm while growing into something very different. In an interview published in the *Harvard Business Review,* Rob Canion described the corporate culture at Compaq:

> Our culture is designed to keep the characteristics of a small company alive while the company grows. In 1983, we were growing by leaps and bounds. We saw bureaucracy creeping in and development cycles stretching out. At that point, I realized that the company was getting too big for me to be everywhere or for the management team to mandate and enforce short development cycles through strict planning and reporting. Trying to force short development cycles on people would have failed miserably.
>
> I concluded that what we really needed to do was tell people what was good about what they had been doing. I wanted to make them aware of the fact that they'd worked together as a team, that they'd done things in parallel. I wanted to get them to look at what we'd been doing that had worked and consciously try to keep the small-company advantage. We started doing that in 1984, and we've kept doing it…Everybody takes it as a personal job to keep the culture--to keep the good qualities of a small company as we get big.[45]

After Canion's ouster in 1991, Pfeiffer made changes that would permanently change Compaq's culture. He cut Compaq's workforce by 12%,[46] and he refocused the firm's core strategy from a manufacturer of leading-edge computers to a manufacturer of less-expensive IBM PC clones, built with off-the-shelf components.[47] Downsizing, reorganization, and cost cutting became a way of life at Compaq. With each successive merger, the almost ideal qualities envisioned by Canion were swept away.

Pfeiffer's authoritarian management style, which in the early days of his tenure was responsible for much of Compaq's success, became one of its major problems in the late 1990's. Compaq's culture had become increasingly confrontational. Teamwork had given way to infighting, and power and politics had become more important than problem solving.

Problems internal to Compaq were not the only concern. When Capellas assumed control of Compaq after Pfeiffer's departure, he quickly recognized the clash of Compaq's culture with the cultures of Tandem and DEC. Compaq was a young, energetic, consumer-oriented company, and Tandem and DEC were older more established firms that were, at times, out of step with the rapidly changing technology industry. Rather than seeking a comprehensive solution, Capellas decided to insulate them. He reasoned that integrating acquired firms across the company was "working against the culture instead of with the culture."[48]

Hewlett-Packard Before the Merger

In July of 1999, HP's board hired Carly Fiorina to be the firm's President and CEO. Fiorina was different than her predecessors. While most had an engineering background, her education included a degree in philosophy from Stanford and an MBA from the University of Maryland. Fiorina was also the first "outsider" to hold the top job at HP. She had spent her previous 20 years as an executive for AT&T where she began as a marketing representative and left as President of Lucent's (a subsidiary of AT&T) Global Service Providers Division.

HP's board was not easily satisfied. In the seven years as President of HP, Fiorina's predecessor, Lewis Platt, President and CEO of HP from 1993 to 1999, had nearly tripled sales.

Yet Platt, who had a bachelor's degree in mechanical engineering from Cornell and a MBA from the Wharton School of Business, was considered too conservative. Fiorina was hired to change that.[49]

In her first two years as President and CEO, Fiorina made dramatic internal and external changes at HP. Internally, she combined 87 product-based business units into six divisions, she created new incentives for new technology development, and she changed HP's profit sharing plan to a performance-based bonus plan. Externally, Fiorina developed an "e-services" strategy intended to compete with IBM and Sun Microsystems in the growing e-commerce business. Yet, Fiorina's boldest move was her bid to acquire troubled computer manufacturer Compaq Computer Corporation in 2001.[50]

HP's Businesses

For decades before the merger with Compaq, HP was a leading inventor of electronic devices. In 1938, Dave Packard and Bill Hewlett began selling their first invention, a resistance-capacitance audio oscillator, which was an instrument used for sound testing. In the 1940s, HP developed microwave devices for the U.S. war effort. In the 1950s, HP developed new testing equipment for the radio industry. In the 1960s, HP continued to expand its electronics testing and measurement business with the introduction of medical testing equipment, the atomic clock, and chemical analysis devices.[51]

By the end of the 1960s, HP began to sell consumer electronics. One of the more famous of these inventions was the world's first programmable desktop scientific calculator, which HP introduced in 1968. In the 1970s, HP expanded its development of products that used semiconductors. Products such as the first hand-held scientific calculator and the first computer based on dynamic access memory were introduced during this decade.[52]

In the 1980s, HP began selling personal computers and printers. Many of the components developed for the personal computer industry during the 1980s were invented at HP. Perhaps the most famous of these inventions was the inkjet printer. In 1984, HP began manufacturing the world's first thermal inkjet printer called the ThinkJet.[53]

By the 1990s, HP's development of innovative electronic devices had begun to slow, and problems with production costs and product quality in the PC business had arisen.[54] While HP still introduced new products, the advances in technology were more incremental than revolutionary. The decline of HP innovation accelerated in 1999 when HP decided to spin off its instrument business. During the deliberations leading up to the creation of the new company, board members debated whether to call the new company HP, because the instrument business was the original business created by Bill Hewlett and Dave Packard, and this business more closely reflected the HP way. In the end, board members decided that there was too much risk in rebranding the surviving computer hardware and services company and decided to call the new company Agilent Technologies.[55]

In its 2001 Annual Report, HP described its business as "…a leading global provider of computing, printing and imaging solutions and services for business and home, and are focused on making technology and its benefits accessible to all."[56] HP had three business segments: imaging and printing systems, computing systems, and IT services. The imaging and printing segment included laser and inkjet printing devices, laser and inkjet printer cartridges, all-in-one inkjet devices, scanners, digital photography products, personal color copiers and faxes, and consulting services. The computing systems segment consisted of commercial personal computers (PC), home PCs, PC servers, UNIX servers, and storage and software solutions including OpenView, which was designed to manage large-scale systems and networks. The IT services segment included customer support, consulting, outsourcing, and technology financing.[57]

In 2001, imaging and printing was by far the largest segment, in terms of net revenue, contributing 42.4% of the total. Computing systems (38.8%) and IT services (16.6%) were second and third respectively (see Table 5). Imaging and printing was the most profitable segment (10.2%) and the IT services segment was the second most profitable (4.5%). The computing systems segment, on the other hand, was a disappointment. After four years of consistent profitability, this segment was losing money (-2.5%).

Market Position

In 2001, HP played a significant role in several IT markets. They were the dominant player in the printer market with over 40% market share, which was greater than the combined market share of their four closest competitors (see Table 2). HP was a major player in the server market where they ranked behind Compaq with a 12.9% share. HP was fourth in sales of personal computers with a 6.9% share. In IT services, HP lagged well behind the leaders in eighth place with a 1.1% share.

Financial Position

At the end of 2001, HP had about $32.6 billion in total assets. HP's growth, which had been dramatic in the early 1990s, had slowed considerably. From 1997 to 2001, HP's total assets grew by about 2.6% (see Table 6). Revenue growth, on the other hand, continued to grow through 2000 and then declined somewhat in 2001. Growth in total costs and expenses outpaced revenue growth, however, as net earnings fell from 9.67% of total revenue in 1997 to 0.9% of total revenue in 2001. Similarly, earnings per share fell from $3.04 in 1997 to $0.21 in 2001 (see Table 7).

Table 5. Hewlett-Packard Corporation Contribution to Total Revenue and Profitability by Segment

	Segment			
Year	**Imaging and Printing Systems**	**Computing Systems**	**IT Services**	**All Other**
	Ratio of Segment Revenue to Total Revenue			
2001	42.4%	38.8%	16.6%	2.2%
2000	41.1%	41.4%	14.3%	3.2%
1999	43.6%	42.5%	13.7%	0.2%
	Profit Margin by Segment			
2001	10.2%	-2.5%	4.5%	-31.8%
2000	13.0%	4.9%	6.6%	-5.9%
1999	12.2%	4.6%	10.8%	-13.8%

Source: Hewlett-Packard Annual Reports

Table 6. Hewlett-Packard Company Consolidated Balance Sheets, 1997-2004 ($ millions)

	1997	1998	1999	2000	2001	2002	2003	2004
Assets								
Current Assets:								
Cash and cash equivalents	$3,072	$4,046	$5,411	$3,415	$4,197	$11,192	$14,188	$12,663
Short-term investments	1,497	21	179	592	139	237	403	311
Accounts receivable, net	6,142	5,104	$5,958	6,394	4,488	$8,456	8,921	10,226
Financing receivables, net	1,123	1,494	$1,889	2,174	2,183	$3,453	3,026	2,945
Inventory	6,763	4,699	4,863	5,699	5,204	5,797	6,065	7,071
Other current assets	2,350	3,143	$3,342	4,970	5,094	$6,940	8,351	9,685
Total current assets	20,947	18,507	21,642	23,244	21,305	36,075	40,954	42,901
Property, plant and equipment, net	6,312	4,877	4,333	4,500	4,397	6,924	6,482	6,649
Goodwill	165	174	189	224	667	15,089	14894	15,828
Other Assets	4,325	8,150	9,133	6,041	6,215	27,711	12,386	10,760
Total Assets	$31,749	$31,708	$35,297	$34,009	$32,584	$70,710	$74,716	$76,138
Liabilities								
Current Liabilities:								
Notes payable and short-term borrowings	$1,226	$1,245	$3,105	$1,555	$1,722	$1,793	$1,080	$2,511
Accounts payable	3,185	2,768	3,517	5,049	3,791	7,012	9,285	9,377
Employee compensation and benefits	1,723	1,195	1,287	1,584	1,477	2,012	1,755	2,208
Taxes on earnings	1,515	2,796	2,152	2,046	1,818	1,529	1,599	1,709
Deferred revenue	1,152	1,248	1,437	1,759	1,867	3,260	2,496	2,958
Other accrued liabilities	2,418	2,622	2,823	3,204	3,289	8,704	9,254	9,825
Total Current Liabilities	11,219	11,874	14,321	15,197	13,964	24,310	25,469	28,588
Long-Term Debt	3,158	2,063	1,764	3,402	3,729	6,035	6,494	4,623
Other Liabilities	1,217	852	917	1,201	938	4103	5,007	5363
Total Liabilities	$15,594	$14,789	$17,002	$19,800	$18,631	$34,448	$36,970	$38,574
Equity								
Common Stock	$1,187	$10	$10	$19	$19	$30	$30	$29
Additional paid-in capital	0	0	0	0	200	24660	24,587	22129
Retained earnings	14,968	16,909	18,285	14,097	13,693	11,973	13,332	15,649
Accumulated other comprehensive income	0			93	41	-401	-203	-243
Total stockholders' equity	16,155	16,919	18,295	14,209	13,953	36,262	37,746	37,564
Total liabilities and stockholders' equity	$31,749	$31,708	$35,297	$34,009	$32,584	$70,710	$74,716	$76,138
Fiscal Year Closing Stock Price	$24.05	$23.52	$28.96	$46.50	$16.83	$15.80	$22.31	$18.66

Source: Hewlett-Packard Annual Reports

Table 7. Hewlett-Packard Consolidated Statement of Earnings, 1997-2004
($million excluding net earnings per share)

	1997	1998	1999	2000	2001	2002	2003	2004
Net revenue								
Products	$30,400	$33,836	$36,113	$41,653	$37,498	$45,878	$58,826	$64,127
Services	5,065	5,583	5,960	6,848	7,325	10,390	13,768	15,389
Financing income			298	369	403	320	467	389
Total net revenue	$35,465	$39,419	$42,371	$48,870	$45,226	$56,588	$73,061	$79,905
Costs and expenses								
Products	21,326	24,295	25,436	30,343	28,370	34,127	43,619	48,359
Services	3,198	3,495	4,284	4,470	4,870	7,477	10,031	11,791
Financing interest	215	235	168	233	234	189	208	190
Research and development	2,191	2,380	2,440	2,634	2,670	3,368	3,651	3,506
Selling, general and administrative	5,345	5,850	6,225	7,063	7,259	8,763	11,012	11,024
Amortization of purchased intangible assets						402	563	603
Restructuring charges				102	384	1,780	800	114
Acquisition-related charges						701	280	54
In-process research and development charges						793	1	37
Total costs and expenses	$32,275	$36,255	$38,553	$44,845	$43,787	$57,600	$70,165	$75,678
Earnings								
Earnings from operations	3,190	3,164	3,818	4,025	1,439	-1,012	2,896	4,227
Interest and other, net	378	530	345	356	171	52	21	35
Net investment gains (losses)			31	41	(455)	(75)	(29)	4
Litigation settlement					(400)	14		(70)
Gains on divestitures (losses)				203	(53)			
Earnings from continuing operations before taxes	3,568	3,694	4,194	4,625	702	(1,021)	2,888	4,196
Provision for taxes	(1,053)	(1,016)	(1,090)	(1,064)	(78)	(118)	349	699
Adjustment for extraordinary items					(216)			
Net earnings from discontinued operations	604	267	387	136				
Net earnings	$3,119	$2,945	$3,491	$3,697	$408	($903)	$2,539	$3,497
Basic net earnings per share								
Continuing operations	$2.45	$2.59	$1.54	$0.18	$0.32	(0.36)	$0.83	$1.16
Discontinued operations	0.59	0.26	0.19	0.7				
Adjustment for extraordinary items					-0.11			
Net earnings per share	$3.04	$2.85	$1.73	$1.87	$0.21	($0.36)	$0.83	$1.16

Source: Hewlett-Packard Annual Reports

Corporate Culture at HP

From their modest beginnings in a garage in Palo Alto, California in 1938, Bill Hewlett and Dave Packard strived to create a different kind of company. In the next 50 years, HP became both a technology leader and a trendsetter in organizational culture and management style. From its inception, HP had an open culture where employees were trusted to do their best. Hewlett and Packard were early adopters of the management-by-objectives style in which employees were given goals to meet and were given considerable latitude in determining how they would meet those goals. HP's culture was particularly open and employee-friendly. In the 1940s, management introduced an "open door policy" in which employees could discuss problems with management without fear of retaliation. In addition, employees enjoyed catastrophic medical insurance, profit sharing, and a relaxation of formalities in the workplace.[58]

In 1957, Hewlett and Packard developed a set of corporate objectives that became the basis for their business philosophy. These objectives, which became a basis for the "HP Way," were revised in 1966 and included the seven points shown below:

1. **Profit.** To recognize that profit is the best single measure of our contribution to society and the ultimate source of our corporate strength.

2. **Customers.** To strive for continual improvement in the quality, usefulness, and value of the products and services we offer our customers.

3. **Fields of Interest.** To concentrate our efforts, continually seeking new opportunities for growth but limiting our involvement to fields in which we have capability and can make a contribution.

4. **Growth.** To emphasize growth as a measure of strength and a requirement for survival.

5. **Employees.** To provide employment opportunities for HP people that include the opportunity to share in the company's success, which they help make possible. To provide for them job security based on performance, and to provide the opportunity for personal satisfaction that comes from a sense of accomplishment in their work.

6. **Organization.** To maintain an organizational environment that fosters individual motivation, initiative and creativity, and wide latitude of freedom in working toward established objectives and goals.

7. **Citizenship.** To meet the obligations of good citizenship by making contribution to the community and to the institutions in our society, which generate the environment in which we operate.[59]

HP's egalitarian culture had a dramatic influence on the way that it grew. While most large firms tend toward vertical specialization as they grow, HP developed a relatively horizontal hierarchy in which each product group had its own management team, sales force, and research and development budget. This led to problems. In particular, the product-based organization structure was not customer friendly. For example, if a customer wanted to purchase products from different divisions, they were forced to work with more than one sales representative. [60] Carly Fiorina described HP culture when she arrived in 1999:

> It was a company with unique assets, but untapped potential. It was a company that had a great history, but was probably too focused on celebrating that history and not enough on creating the future. It was a collection of tribes, instead of a powerful, focused company…It was a company that had not been projecting its sense of the future clearly enough, so customers really didn't have a sense of where we were going. [It was] a company that had great relationships with customers, but also a company that was increasingly frustrating its customers.[61]
>
> At HP, however, the past and the status quo were also wrapped in the religion of the HP Way and the mythology of the founders. Bill and Dave had once been radicals and pioneers, but now there were too many instances when a new idea was quickly dismissed with the comment, "We don't do it that way. It's not the HP Way" [62]

In an effort to centralize management and get closer to customers, Fiorina chose to integrate the 87 businesses into six entities using a "front and back" strategy; three entities would form the front of the company and would perform the marketing function and the other three entities would form the back of the company and would perform the remaining company functions. The divisions were divided according to segment. One front and back pair was created for imaging and printing, one pair was created for computing systems, and one pair was created for IT services.[63]

In 1999, HP unveiled a new corporate logo that included the word, Invent. This change was intended to focus attention on HP's history of innovation and became the theme for subsequent advertising campaigns. When Fiorina assumed control of HP, she recognized that innovation was a company strength that had been flagging. In response, she offered employees incentives to produce patentable technology. As a result, patents at HP increased dramatically.

By the end of 2001, Fiorina's efforts had returned mixed results. HP employees were very unhappy with the new organizational structure. They had lost confidence in the direction that the company was heading. Half of the board was unhappy (including Walter Hewlett and the Packard descendants), and, according to Fiorina's opposition on the board, the threat of 15,000 layoffs loomed following the proposed merger with Compaq Computer. [64]

The New HP

Following the merger of HP and Compaq, HP management was faced with the daunting task of integrating the two firms. The task could not have been more complex. The new HP had over 150,000 employees operating in 160 countries. The firm had duplicate departments, management functions, sales territories, and product lines. Further complicating the problem were the radically different cultures of the two firms.

Given the controversial nature of the merger, integration, reorganization, and rationalization of product lines had to be made quickly. Fiorina and Capellas responded to this challenge by appointing the top three layers of management before the deal was approved. Next, they established an integration team made up of HP and Compaq managers. In the following months, the team reorganized the two firms, eliminated duplicate products, and identified over 16,000 positions that could be eliminated through layoffs. The integration phase of the merger was widely viewed as a success. In the first nine months following the merger, HP had identified almost $3 billion in savings through layoffs, elimination of offices, and supply chain integration.[65]

While Fiorina's team was effective at integrating the two firms, execution of an effective strategy proved to be far more difficult. Fiorina's strategy was clear. She sought to maintain HP's industry leadership in printing, to take the lead in both the server and PC markets, and to eventually take the lead in IT services. Through economies of scale and the combined knowledge base of the two firms, Fiorina believed that each of these goals could be met profitably. Yet, by the end of 2004, the new HP had failed to meet three of these goals. HP was second to Dell in PC market share, second to IBM in server market share, and a distant fourth in IT services. The only bright spot was the printer market where HP maintained a commanding lead (see Table 8).

The new HP was organized into six segments: Imaging and Printing, Personal Systems, Software, Enterprise Storage and Servers, HP Services (IT integration services), and HP Financial Services. As with the pre-merger HP, the new HP relied heavily on the imaging and printer segment for its profitability. By the end of 2004, this segment accounted for almost 30% of HP's revenue and it generated a profit margin of almost 16%. The personal systems group was the largest segment, but it earned less than 1% profit in 2004. Similarly, enterprise storage and servers, which generated approximately 18.7% of HP's revenue in 2004, had a profit margin of 1.1% (see Table 9).

Post-merger Performance

The timing of the merger was not ideal. Soft demand for computer hardware in 2001 and 2002 put many firms in the red (see Figures 3 and 4). At the same time that HP management was integrating the two firms, many firms in the industry were fighting for survival. To their credit, HP managers were able to manage the integration and remain competitive. In fact, HP briefly

Table 8. Market Positions in the Computing and IT Services Markets at the End of 2004

Personal Computers		**Servers**	
Rank	**Share**	**Rank**	**Share**
1. Dell	17.0%	1. IBM	38.2%
2. HP	**16.0**	**2. HP**	**25.9**
3. IBM	5.7	3. Sun	9.4
4. Acer	4.3	4. Dell	9.0
5. Fujitsu	4.0	5. Fujitsu	4.7

Printers		**IT Services**	
Rank	**Share**	**Rank**	**Share**
1. HP	**40.5%**	1. IBM	5.0%
2. Epson	14.0	2. EDS	2.9
3. Canon	14.0	3. Fujitsu	2.8
4. Lexmark	10.2	**4. HP**	**2.3**
5. Dell	5.8	5. Accenture	2.3

Sources: IDC and Gartner

Table 9. Hewlett-Packard Corporation Contribution to Total Revenue and Profitability by Segment

	Enterprise Storage and Servers	HP Services	Software	Personal Systems Group	Imaging and Printing	HP Financial Services	Corporate Investments
Ratio of Segment Revenue to Total Revenue							
2004	18.7%	17.0%	1.1%	30.4%	29.9%	2.3%	0.6%
2003	19.8%	16.8%	1.0%	28.8%	30.6%	2.6%	0.4%
2002	18.2%	15.8%	1.2%	25.7%	35.6%	3.0%	0.5%
Profit Margin by Segment							
2004	1.1%	9.2%	-15.7%	0.9%	15.9%	6.6%	-39.6%
2003	1.0%	11.0%	-24.5%	0.1%	15.9%	4.1%	-46.8%
2002	-3.0%	9.8%	-49.5%	-1.6%	16.5%	-7.9%	-80.6%

Source: HP 2005 Annual Report

took the lead in both PCs and servers in 2002, and they posted a profit in the last quarter of FY 2002 and in the first half of FY 2003.

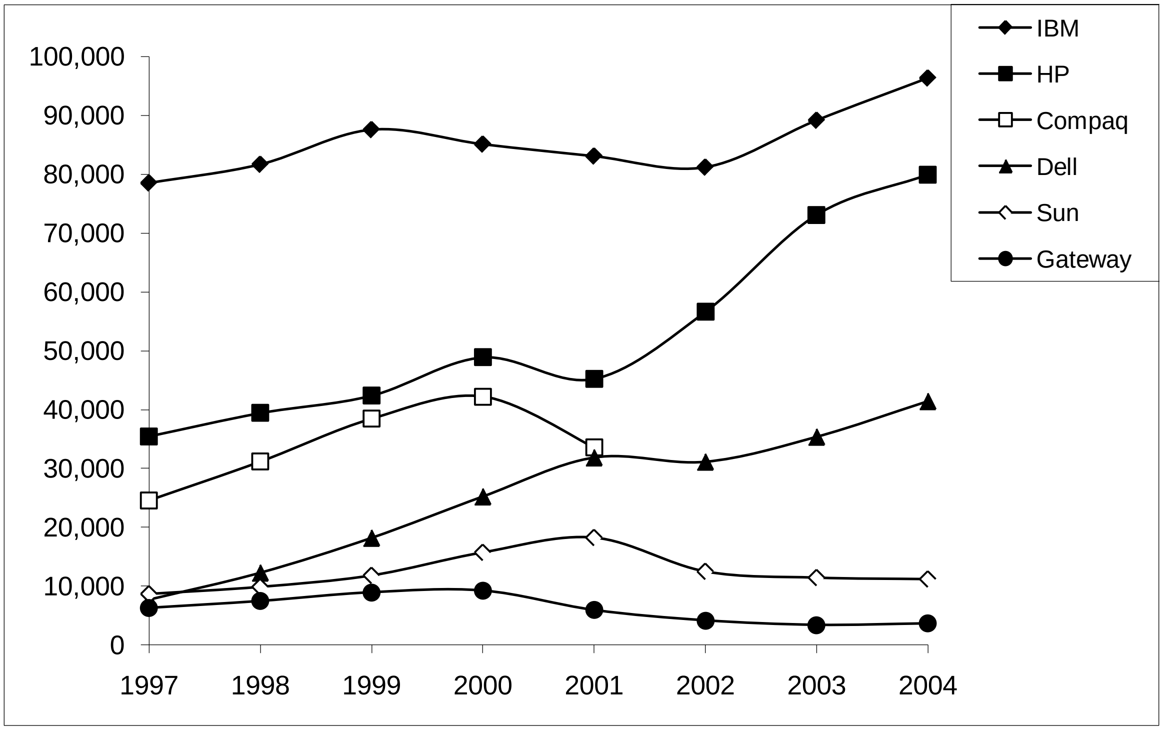
HP's financial and market successes were fleeting. In the third quarter of 2003, HP failed to meet Wall Street expectations for sales and earnings. Stiff competition in the PC market and weak demand in the server market were cited as keys to HP's poor performance. Fiorina stated that the PC group had been over-aggressive with price cuts, which caused the Personal Systems group to lose $56 million in the quarter. Fiorina assured investors that the pricing errors had been corrected. [66]

Fiorina's admission that HP had cut their prices too much highlighted a persistent weakness: HP still marketed their PCs through a network of resellers, which was inherently less flexible and more costly than the direct marketing strategy used by Dell Computer. Her admission also provided Dell with valuable information. A day after HP's announcement, Dell Computer cut prices on PCs and printers by up to 22%. This move further solidified their market lead in PCs, which they had regained eight months earlier.[67]

Integrating HP's server and storage business was more challenging than integrating the PC business. In the early stages of the merger, Fiorina and Capellas chose former Compaq Executive Peter Blackmore to rationalize server and storage product lines while growing market share. While eliminating PC product lines that were either redundant or incompatible was relatively easy, HP was more reluctant to eliminate server lines. In the first year following the merger, HP maintained its leadership in servers with a 29% share. But this segment had little growth and was generally unprofitable. Blackmore believed that HP could maintain share while lowering costs by migrating server lines based on HP microprocessors to microprocessors manufactured by Intel.[68]

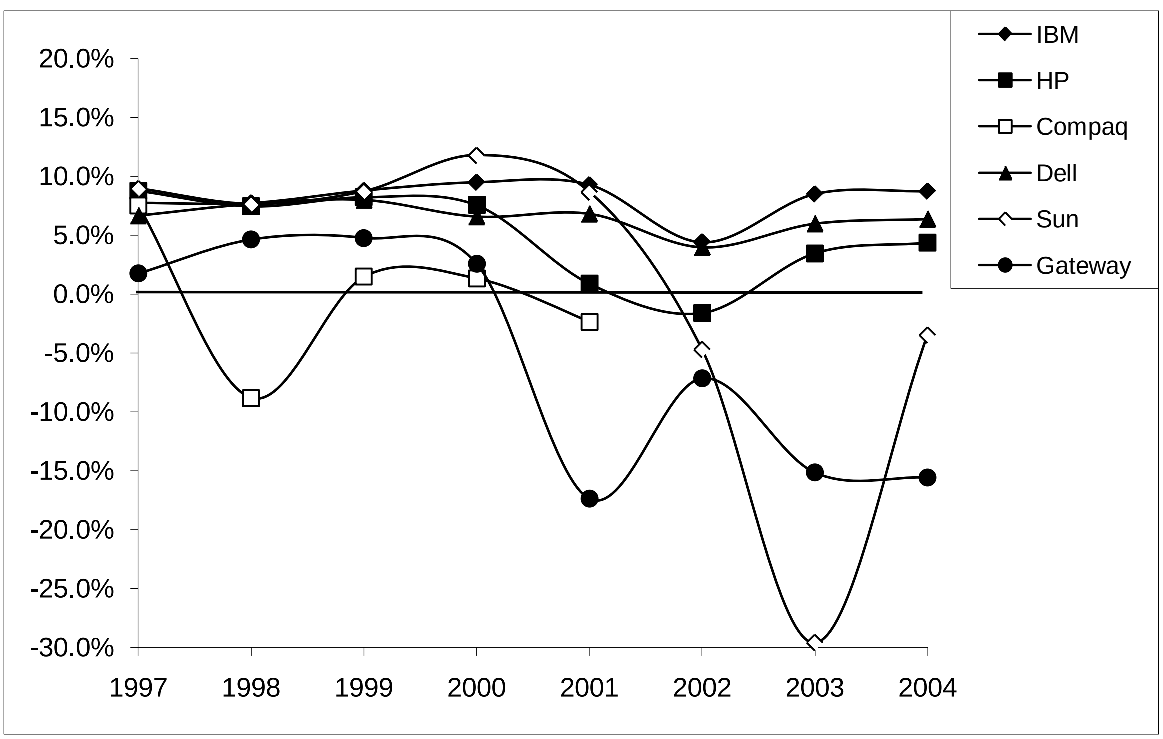
Blackmore's strategy was unsuccessful. On August 12, 2004, HP announced that its quarterly earnings would fall 23% short of expectations. One of the principal drivers of HP's poor performance was the enterprise servers and storage group, which lost $208 million. While ordering software problems and soft demand received some of the blame for the failure of the group, the migration to Intel microprocessors, an increased emphasis on lower-profit products, and increased competition from Dell and IBM all contributed to the shortfall.[69] After HP's announcement, Clint Roswell from IBM offered some perspective. "We see real demand in the

Figure 3. Annual Revenue (in $millions) for HP and its Competitors



Source: Company annual reports.

Figure 4. Net Income as a Percentage of Revenue for HP and its Competitors



Source: Company annual reports.

marketplace. Some of our competitors don't see that demand. But it might be about execution."[70] Apparently, Fiorina agreed. Calling the group's performance "unacceptable," Fiorina fired Blackmore and two of his senior VPs within hours of the earnings announcement.[71]

By the latter half of 2004, it was clear that a major change would be necessary if the new HP were to realize its promise. HP was engaged in battles with Dell in the PC and server market and with IBM in the server and IT services market. It was winning neither of these battles. More importantly, if HP was unable to increase the profitability of the PC and server business, it would be forced to write off much of the goodwill that was allocated to these segments at the time of the merger (see table 6).[72]

Fiorina responded to the combined threats from Dell and IBM in early 2005 by placing the management of the printer and PC divisions under Vyomesh Joshi (see Appendix 2 for more on Joshi and other key executives at HP). Joshi had proven that he was an outstanding manager during his three years as VP of the printer division. During that period, Joshi increased operating profit by 84%. Joshi also had vision. He believed that HP should expand its printer business to copiers. He argued that HP, which was expert at digital printing, had a potential competitive advantage in the copier market where only 4% of copiers were digital.[73]

While Joshi's appointment looked good on paper, it was clear that more changes would be necessary to stop the bleeding. Many drastic measures were being considered to improve HP's long-term profitability including spinning off HP's profitable printer division.[74] But in the end, the board chose to terminate Fiorina.

Mark Hurd Takes the Helm

On March 29, 2005 HP announced that Mark Hurd had been hired as the new President and CEO of HP. Hurd, whose resume included a business degree from Baylor University and 25 years of managerial experience, was the former president and CEO of NCR. HP released the following statement to the press:

> **HP Names Mark Hurd to Serve as CEO and President**
>
> PALO ALTO, Calif., March 29, 2005 — HP today announced that its board of directors has named Mark Hurd to serve as the company's chief executive officer and president.
>
> Hurd, 48, has served since March 2003 as president and chief executive officer of NCR Corp. (NYSE: NCR), where he has spent his 25-year career in a range of general management, operations and sales and marketing positions. Prior to his current responsibilities, he was NCR's president and chief operating officer, responsible for driving the performance of the company's five business units. Previously, Hurd served three years as president and chief operating officer of the company's Teradata division, which he built to be a global leader in enterprise data warehousing, analytic applications and data warehousing services.
>
> Patricia Dunn, HP's non-executive chairman, said… "Our search for a new leader to return HP to sustained success has been focused and thorough. Mark came to our attention because of his strong execution skills, his proven ability to lead top performing teams and his track record in driving shareholder value. He

demonstrated these skills by turning around NCR, which, while smaller than HP, is a complex organization with multiple business segments…”[75]

The following day, Hurd met with members of the media and financial community to discuss the future of HP. In the meeting, Hurd emphasized that he did not have a firm plan in place, and he noted that he was under no obligation to keep HP intact. While he did not rule out spinning off HP’s printer business, he stressed that he would focus on execution first. ‘“I see a company that is fundamentally strong,” Hurd said, “but it's clear the company is not performing to its potential.”[76]

Appendix 1. Timeline of Events at HP

4/17/02	HP stockholders approved merger
5/14/02	In its last pre-merger earnings report, HP's posted net income of $252 million and EPS of $0.25.
7/19/02	HP moved into lead in PC market share.
8/28/02	HP posted Q3, 2002 loss of 2.03 billion. Restructuring charges and losses in the Personal and enterprise systems groups were to blame.
10/18/02	Dell Computer regained lead in PC market share.
11/12/02	Michael Capellas, HP's President and former Compaq CEO, resigned.
11/20/02	HP posted a net income of $390 million and EPS of $0.13 in Q4, 2002. 12,500 layoffs and cost cutting were credited for HP’s return to profitability.
1/21/03	HP announced a new line of Alpha Server models based on the Alpha microprocessor.
1/24/03	HP moved into the lead in worldwide server market share in the fourth calendar quarter of 2002.
2/25/03	HP posted a net income of $721 million and EPS of $0.24 in Q1, 2003.
2/28/06	HP awarded Fiorina a $2.9 million bonus and a 850,000 share stock option.
5/20/03	HP posted a net income of $659 million and EPS of $0.22 in Q2, 2003.
5/20/03	HP announced that it had laid off 16,600 employees following the Compaq merger.
8/19/03	HP posted a net income of $297 million and EPS of $0.10 in Q3, 2003. The Personal Systems Group lost $56 million in the quarter.
8/20/03	Dell Computer announced sweeping price cuts of up to 22% on PCs and printers.
9/2/03	IBM regained lead in server market share.
9/16/03	HP announced that Howard Elias resigned as senior VP of business operations and management for the Enterprise Systems Group. He was not replaced immediately.
11/19/03	HP posted a net income of $862 million and EPS of $0.28 in Q4, 2003. Both personal systems and enterprise systems groups posted profits.
2/19/04	HP posted a net income of $936 million and EPS of $0.30 in Q1, 2004.
5/18/04	HP posted a net income of $884 million and EPS of $0.29 in Q2, 2004.
6/9/04	Following 26,800 layoffs since the merger, HP announced that it planned to add 5,000 jobs in the next 12 months.
8/11/04	Alex Gruzen, senior VP of HP's mobile-computing global business unit, resigned from HP to take a job at Dell.
8/12/04	HP posted a $586 million net income and EPS of $0.19 in Q3, 2004, which was 23% less than Wall Street expectations.
8/12/04	HP fires Executive VP Peter Blackmore and Senior VPs Jim Milton and Kasper Rorsted.
11/16/04	HP posted a net income of $1.1 billion and EPS of $0.37 in Q4, 2004, which was entirely driven by the $1.1 billion net income earned by the imaging and printing group.
1/12/05	Fiorina met with three HP directors who asked her to delegate operational control.
1/14/05	HP joined printer, PC units under Vyomesh Joshi.
2/9/05	HP announced Fiorina's resignation and selection of Robert Wayman as interim CEO.

Appendix 2. Key Decision Makers at HP on April 1, 2005

Mark V. Hurd President and CEO	Mr. Hurd was named President and CEO on April 1, 2005. Before joining HP, he served as CEO of NCR Corporation from 2003 to 2005 and as President from 2001 to 2005.
Ann O. Baskins Senior VP, General Counsel and Secretary	Ms. Baskins was elected Senior VP in 2002 and VP in 1999. She also served as General Counsel since 2000 and Secretary since 1999.
Gilles Bouchard Executive VP, Global Operations	Mr. Bouchard became Executive VP in 2004. He was CIO from 2004 to 2005. From May 2002 to December 2003, he was Senior VP of Imaging and Printing Group Operations. From 2001 to 2002, he was VP of Business Customer Operations and he was VP of Worldwide Operations for Personal Computing from 1999 to 2001.
Jon E. Flaxman Senior VP, Controller and Principal Accounting Officer	Mr. Flaxman was elected Principal Accounting Officer in 2005. He was elected Senior VP in 2002 after serving as VP and Controller since May 2001. From 1999 to 2001, he was VP and CFO of the Business Customer Organization.
Vyomesh Joshi Executive VP, Imaging and Printing Group	Mr. Joshi became Executive VP in 2002. He became a VP and was named President of the Imaging and Printing Group in 2001. Mr. Joshi was also Chairman of Phogenix Imaging LLC, a joint venture between HP and Kodak, from 2000 until 2003.
Richard H. Lampman Senior VP of Research	Mr. Lampman became Senior VP in 2002 and director of HP Labs since 1999.
Catherine A. Lesjak Senior VP and Treasurer	Ms. Lesjak was elected Senior VP and Treasurer in 2003. From 2002 to 2003, she was VP of Finance for Enterprise Marketing and Solutions and VP of Finance for the Software Global Business Unit.
Ann M. Livermore Executive VP, Technology Solutions Group	Ms. Livermore became Executive VP in 2002 and VP in 1995. Since 2004, she was in charge of the Technology Solutions Group. In 2001, she became President of HP Services. In 1999, she became President of the Business Customer Organization.
Shane V. Robison Executive VP and Chief Strategy and Technology Officer	Mr. Robison was elected Senior VP in 2002 as a result of the HP-Compaq merger. He was Chief Strategy and Technology Officer since 2002. Mr. Robison was Senior Vice President, Technology and Chief Technology Officer at Compaq from 2000 to 2002.
Michael J. Winkler Executive VP, Customer Solutions Group and Chief Marketing Officer	Mr. Winkler became Executive VP in 2002 as a result of the HP-Compaq merger. In 2004, he became Executive Vice President, Customer Solutions Group. In December 2002, he became the Chief Marketing Officer. Mr. Winkler was Executive VP, Global Business Units of Compaq from 2000 to 2002.
Robert P. Wayman Executive VP and CFO	Mr. Wayman served as Executive VP since 1992 and CFO since 1984. Mr. Wayman served as interim CEO from February 2005 through March 2005. He was elected to HP's Board of Directors in February 2005 for a second time after serving from 1993 to 2002.

Source: HP 2004 and 2005 annual reports

End Notes

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