

## In Search of a New HP Way

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"If you were to be advising the board of HP, what would you say," a friend and a CEO of a services company asked me. He knows that I am an advisor to CEOs and boards for the past 17 years. And that I help them to identify their company DNA and see whether potential candidates for executive positions have a personal DNA that aligns with that of the company. "Now that Carly Fiorina has resigned from the company", my friend said, "the HP board has another opportunity to restore the legend of HP. Would you recommend that they hire Michael Capellas (who sold Compaq to HP and spent 6 months reporting to Fiorina), now that he is going to be free from MCI? Or would you recommend VJ (Vyomesh Joshi, the Executive Vice President heading up the most profitable printer division in HP) even though he does not have experience in services business or a low margin business such as PCs?"

That question got me thinking. It is true that when the HP board hired Carly Fiorina, she had less relevant experience than VJ. It is also true that Capellas knows the Compaq part of HP very well. According to reports, the HP board wants to hire somebody who can stay the course in terms of strategy but "accelerate execution". Who could be the right candidate?

A clear vision, coherent strategy, clear plan for execution are extremely important for HP's new CEO and these criteria are already on the radar of the HP Board. They don't need me to reemphasize it for them. On the other hand, leadership and other soft issues that will allow the new CEO to be successful in accelerating execution are not identified as key issues. I am less inclined to believe that Fiorina did not know how to execute on her strategy. I think the real issues are: She could not get employees behind her. There was no passion and ownership in HP and it is her leadership that they did not buy into. Once employees accept whoever comes in and get behind the leader, excellent execution could follow because managers at other levels may take personal responsibility and ownership for making HP successful.

IBM faced issues similar to those of HP in the early 90s. Louis Gerstner was hired from RJR Nabisco. Gerstner recalls, "They ran out of candidates and they convinced me it was a leadership - not a technology - problem. I saw it as a challenge. (He had been asked to lead IBM three times earlier and he had refused). It is impossible to change an institution — be it private or nonprofit — without changing the culture. The levers you have to pull are cultural, not directional. It's how people think, what they value, what they do. IBM was "stuck in neutral — numb. We needed to convince people to keep it together to fight for leadership and bring IBM back."

Gerstner ignited the genius within IBM in the next few years. He did that by understanding what IBM is all about and trusting IBM employees. Is it possible that HP also has a hidden genius waiting to be ignited by the right leader?

There are other cases where right leaders were able to bring out the best from their companies. Take Apple. While Apple was reasonably successful under John Sculley for a while, it lost its edge in the early 90s. Michael Spindler, though he was known for his operational effectiveness, could not bring Apple back to growth. Dr. Gil Amelio, another board member who came in with a good track record from National lasted only 17 months. At one point, everybody thought that Sun would buy Apple though that didn't happen. Interestingly, it took Steve Jobs' return, for Apple to regain its past glory and increase its market value. iPod, MacMini, iMac and PowerBooks continue to enhance the Apple brand and Apple's stock has quadrupled in past several months in value. Why? Jobs understands the DNA of Apple and he has been able to re-ignite the genius within Apple in the areas of innovation and product design.

Vivek Paul, named as one of the top 25 managers in the world by Business Week in 2004 took Wipro from a \$150 million company in 1999 to \$1 billion in revenues and \$6 billion in market cap in less than 5 years. He was heading up the medical instruments division of GE reporting to Jeff Immelt when he left to take up the top job at the Indian software services company. Here again, he achieved success not just through strategy or execution. Paul understood the core DNA of Wipro, was able to tap into Wipro's hidden genius and transform the company into a global leader.

HP is the 11th largest company in the US, according to Fortune magazine. It used to be the second largest technology company after IBM eight years ago. It is still one of the best companies to work for. The name HP, for many years, evoked characteristics such as reliability, engineering excellence, integrity and corporate citizenship. They cared for the employees and the way they demonstrated that care has a name – the HP Way.

Jim O'Toole, a well known professor at the University of Southern California says " it is very difficult for companies to demonstrate respect to one of its important stakeholders: employees." If you don't respect your customers, you lose their business and if you don't respect your investors, you can't fund your growth. But do we really need to respect our employees? Many leaders are not too sure, according to Dr. O'Toole.

Ms. Fiorina brought marketing focus, bold strategy and star power to HP. In the process of doing so, she ended up getting into conflict with the family of the founders, lost the confidence of a large portion of older HP employees, and did not deliver the promised value to investors. While the strategy of a 'PC superstore' was bought by many directors and analysts, HP did not succeed in

becoming a leader in either personal computers (as did Dell), or providing services (IBM is the leader) and has been losing its lead in imaging products like printers. Entry into the camera and TV markets hasn't helped much either.

From these events, I conclude that Fiorina was not able to appreciate the DNA of HP and was not able to tap into the hidden potential or genius of HP. So, while her strategy might be solid, the employees of HP were not aligned with her strategy, and execution suffered. She was not able to get people excited and engaged with her approach. In their blog postings, quite a few current and former HP employees (some with their real names) say that they actually celebrated when Fiorina quit. That says something about her acceptance in HP.

With this history in mind, I would make the following recommendations to the board:

1. You need to select a leader who understands the culture and heritage of HP. He should be someone who can be trusted by the employees, and who in turn trusts the employees and ignites their genius.
2. Watch out for setting the ground rules like 'strategy is fine but requires accelerated execution' because that might not be the issue. In fact, when I surveyed HP employees informally, some of them blamed the board and their decisions for the troubles that HP is going through. Critics say that it is the same board that approved Fiorina's decision to buy Compaq that is now looking for a successor to Fiorina.
3. You need an organization builder and not a turn around artist to head HP at this time. Does Michael Capellas have organization building capabilities in addition to turn around capabilities? Will he stay this time? On the other hand, does Vyomesh Joshi (VJ) have the required organization building capabilities and can he grow revenues in the services business and the low-margin PC business?
4. It is a leadership issue and not just an execution issue that faces HP. Leadership in both business results and in getting people excited and committed. Developing leaders with a clear succession plan so that those leaders can then take care of execution in different product lines and services.
5. Instead of focusing on just the operational experience of the potential leader, pay particular attention to the DNA match with HP.
6. Don't hire a leader who will try to shape HP after his or her own image. If you do so, you could be facing the same dilemma in less than 24 months from now!

Summarizing, the new CEO needs to pay attention to softer issues like understanding the DNA of HP, winning the trust and confidence of employees and finding ways to ignite HP's genius from within. If the new CEO is savvy, he or she will also plan for smooth succession by developing other leaders in the company and getting them to lead various divisions of HP in preparation for an eventual transition – say, 10 years or more down the line. Fixing HP is a job but growing HP is going to be a career. So, find a leader who will retire in HP several years from now, rather than a leader who will turn HP around and move on to her/his next project.

HP is a landmark company with a lot of hidden potential. It requires a tough, bottom-line-focused and appreciative leader who will ignite its genius and make it a market leader again. I hope the board gives HP a chance to invent the New HP Way by hiring a leader who appreciates and understands HP's potential.

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