Carly Fiorina: the Pressure for Short Term Results
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HP has always been a benchmarked company so its stuttering results during the past few years have had HP watchers concerned. Lately, the markets have been highly critical of Carly Fiorina and when she resigned on 9th February it marked a surge in the share price. It also brought to a close one of HP’s most turbulent periods.

With Fiorina departing, the question everyone is asking is whether Walter Hewlett is vindicated. Hewlett, son of the one of the founders of HP Bill Hewlett, opposed Fiorina most audacious strategies. He said that not only they wouldn’t work but that they weren’t really “HP”. Principally since 2001, Fiorina and Hewlett were at loggerheads about whether to acquire the troubled Compaq. It was a battle that divided the board of directors, shareholders, the financial community and company employees.

A lot of people thought it was a bad idea but Fiorina prevailed. She had superb marketing skills and sold doubters on her ability to find synergies in the two losing PC businesses and turn them into a gold mine. The truth of the matter was that, while she struggled to develop bottom line synergies, her fate was sealed before the Compaq deal rather than after it.

Fiorina had arrived at HP with an illustrious track record gained at Lucent Technologies during the boom of the 90’s. By the time she was nominated by HP’s board, the Internet boom had tanked, the economy was about to stall, and HP needed a strategy that would steer it into next ten or twenty years out. During her first months in the job, Fiorina tried to cope with these changing circumstances. At the time I wrote that, there were severe doubts of how effective she really was and that “the jury was still out” on her early performance. Now the jury has delivered its judgment and she didn’t make it.

She took several steps to reinvigorate HP’s businesses. Refocusing on innovation seem an obvious step for the technology engineer driven company she took it back to its roots of the garage culture. This was supported by a new structure that destroyed the tested SBU structure that had previously served the company well. The new structure

Highlights

1. In 1999, Carly Fiorina left Lucent Technologies to join HP as President. At that time the computer giant was worth 80,000 million dollars. The board then announced a plan to achieve an annual growth rate of 15%.

2. HP’s net profits in 2004 rose to 3,497 million dollars. The company has doubled sales over the last five years, but the printer business makes up 80% of the profits. Most of the income comes from consumable products. On the other hand, HP’s software unit lost 125 million dollars last year on sales of just 922 million dollars.

3. In the 21 quarters that Fiorina presided over HP, the company failed to reach profit forecasts eight times. These results are an improvement on the ones prior to Fiorina’s arrival, but they represent more than double the combined losses of IBM and Dell in the same period. In 2004, HP’s share price fell by 8%, which was more than any of its rivals.

4. Robert Wayman, HP’s CFO, has taken over from Fiorina until such time as a substitute is found. Would-be candidates are Michael Capellas (MCI), who sold Compaq to HP; Edward Zander and Mike Zafirovski (Motorola); Ray Lane (Oracle); Kevin Rollins (Dell); William Zeitler, Steve Mills, John Joyce and Doug Elix (IBM).
emphasized the need for a “front office” customer interface, while in the “back office” variously R&D departments where joined at the hip to create a larger concentrated footprint that would dominate their respective marketplaces. In essence, customers would have a clearer view of who and what HP was, by having fewer interfaces with the HP organisation. By the same token, smaller new product development projects would be integrated to make quantum rather incremental gains on competitors.

If the structure made good sense, the strategic thrusts undertaken by Fiorina in her first eighteen months were confusing. Firstly, she took the bold step of lining up PwC’s LLP consulting business for acquisition. The move seemed to more motivated by its availability that by the strategic sense of it. From the outside it wasn’t clear how HP would integrate a whole lot of consulting non-engineering types. Selling holistic systems solutions is a good concept, but the acquisition of the consulting business lacked clarity and was going to be difficult to implement.

Fortunately, the deal fell through. But it left Fiorina with little to show for her first year in office. Then came the Compaq deal. The Compaq merger made HP the number one PC manufacturer in the market. A market in which PC’s were fast becoming commodities with downward gliding prices and, more importantly, a market in which the rules were being changed by Dell – a problem not unambiguously addressed in HP’s new strategy. Compare this acquisition with IBM’s recent decision to offload of its PC business.

Carly Fiorina is clearly a dynamic hard working inspirational leader but if the foundations of a leader’s tenure are not firmly laid in the first 200 days that leader will struggle to gain traction. She addressed the fundamentals of the foundations: (1) She reworked the value statement of the company, discarding the HP Way for the Rules of the Garage; (2) She started building a new management team; (3) She sought to make the culture faster and more innovative; (4) She laid off people in the believe that HP needed to be learner in order to be meaner; (5) She restructured the organisation and (6) Set new performance measures to work.

But all those endeavours when combined with a faltering strategy did not create a sense of coherence. She was very good at selling it to the financial community but it seemed too difficult and too complex to operationalize.

For one thing Compaq itself hadn’t quite digested its acquisition of DEC – the company was still trying to come to terms with a range of diverse products and systems. Even though Fiorina and Michael Capellas, then CEO of Compaq, invested hundreds of hours in shoring up customer confidence, it was inevitable that customers would end up confused and concerned.

Secondly, though the objective of the restructuring was to streamline the new HP’s operations and give it more innovative muscle, it didn’t seem to achieve this. One has serious doubts about this type of structure, mainly because it doesn’t seem obviously more efficient. Any structure that relies heavily on informal network relations is dependent on implicit trust and confidence – two elements lacking after a difficult merger and downsizing. Simple things like who has profit and loss responsibility, so clear in the previous organisation, now seemed blurred. It’s not that networked organisations don’t work, it’s just that they’re difficult to implement over such a huge scale. And given the pressure for short term results it was inevitable that managers
would struggle to deliver. Organisations that have gone through similar restructuring find their general managers running a marathon in a dark tunnel, with no idea of how they’re doing. Usually the pendulum of restructuring swings back to a more logical business unit. It doesn’t seem that HP gave itself sufficient time to swing back.

I don’t think that Carly Fiorina really failed. CEO’s and senior managers of global organisations are becoming more and more like football coaches. They have to deliver results quickly. The new reality of senior executive tenure is that it is extremely short and a senior leader has now only a one-off opportunity to make their strategies work.