



HP After Carly: What Went Wrong?

Published : March 30, 2005 in [Knowledge@Wharton](#)

Media reports sounded the alarm two weeks ago. On January 24, *The Wall Street Journal* wrote that the directors of Hewlett-Packard were considering a management reshuffle aimed at handing over some of the day-to-day responsibilities of chairman and CEO Carleton (Carly) S. Fiorina to three senior HP executives: Vyomesh Joshi, Ann Livermore and Shane Robison. HP denied the report, but it did raise several eyebrows. Many people wondered if all was hunky dory between Fiorina and the HP board.

Apparently not. On the morning of February 9, Fiorina stepped down from her position at the helm of HP, a \$80-billion behemoth. She took the job in 1999 and in her six years in that position, she became one of the most high-profile, if controversial, executives in the global IT industry. Following her departure, Robert Wayman, HP's CFO, has been named interim CEO and Patricia Dunn, an HP board member since 1988, has been appointed non-executive chairman. In a press statement, Fiorina admitted that her departure was related to differences with the board over "how to execute HP's strategy."

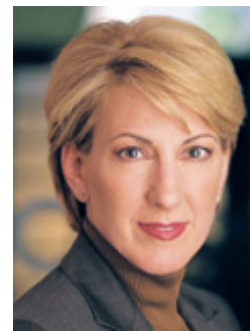
No sooner did information about this turn of events hit the newswires than speculation began about why Fiorina had been forced out and what impact her departure would have on HP's future and strategy. Clearly, a major factor that lately has caused concern at HP and elsewhere has been the company's performance -- or rather, lack of it -- after Fiorina pushed ahead with a controversial merger with Compaq in May 2002.

The merger was Fiorina's special panacea for HP's future. She forced it through although board members such as Walter Hewlett, son of the company's co-founder, strongly opposed the deal. Despite glowing promises of synergy that are common to most mergers (*see the [special report on mergers in the current issue of Knowledge@Wharton](#)*), HP not only failed to receive any of the claimed benefits but instead lost considerable value. Analyzing the issue in the February 7 issue of *Fortune* magazine, Carol Loomis wrote: "...did the famed merger that Fiorina engineered between HP and Compaq produce value for HP's shareholders? Second, with that merger nearly three years past, is HP in shape to thrive in its brutally competitive world? The answers are no and doubtful."

So now, where does HP go from here, minus Fiorina? What strategy will the company pursue? Will it break up into two companies -- one focused on corporate customers and the other serving individual clients -- a move that Fiorina had opposed? And what of Fiorina herself? What can be learned from her rapid ascent and even more rapid descent at HP? Could she have done anything that might have led to a different outcome? Knowledge@Wharton discussed these questions and more with management professor [Michael Useem](#), director of the school's [Center for Leadership and Change Management](#) and [Kevin Werbach](#), a professor of legal studies.

Knowledge@Wharton: The initial reaction of many people, when they learn about Fiorina's departure from HP, is that Walter Hewlett has won. Is that true?

Useem: Walter Hewlett fought tooth and nail to prevent the merger in 2001 and he nearly kept Fiorina from closing that deal. The vote was close, but the view that Hewlett represented was defeated by



This is a single/personal use copy of Knowledge@Wharton. For multiple copies, custom reprints, e-prints, posters or plaques, please contact PARS International: reprints@parsintl.com P. (212) 221-9595 x407.

stockholders by a razor-thin margin.

Now, almost three years later, there seems to have been a reversal of fortune. The combined companies have lagged the market as well as HP's primary rivals, IBM and Dell. It is not so much that Walter Hewlett has won, but his views about the merger have been vindicated by the turn of events. We now need to see if the new leadership at HP will embark on a different strategy, and whether they will try to shed the assets that HP acquired through its merger with Compaq. If the strategy is unchanged, that may be less of a vindication for Hewlett.

Knowledge@Wharton: Why did HP's efforts to revive its fortunes through the merger with Compaq fail to pay off?

Werbach: We need to step back and look at the reasons why HP and Fiorina sought to do something as radical as the merger with Compaq. There was a widespread feeling at that time that although HP had a very strong reputation, it was out of step with the industry. PCs and IT in general were becoming very difficult businesses, and companies like Dell were pushing margins down. HP's merger with Compaq was supposed to solve that problem. It was controversial, but Fiorina sold it as something that would help HP get out of the doldrums. It hasn't done that. Critics of the merger have said that the merger was like tying two stones together and believing they would float. The merger didn't solve HP's problems; it just added Compaq's problems to its own.

Knowledge@Wharton: The announcements about Fiorina's departure refer to her differences with the board over the execution of HP's strategy. What exactly does that mean?

Useem: Based on the public statements so far, it is difficult to get a fix on the differences between her and the board. It does appear that the primary issue was all about execution -- how she ran the place rather than where the company should be going. It is possible that the board wants a leader with a hands-on ability to execute. From the outside looking in, Fiorina did look very hands on; she intervened in several areas in the \$80 billion business. If her successors are even more hands on, it may mean that the board wants someone who could move faster than her to recruit and retain talent, boost revenues and increase profits. The board had been strongly behind her strategy for HP, so it would be surprising if it seeks to reverse its own strategy.

Knowledge@Wharton: Was there anything about Fiorina's leadership style that might have prevented her from executing strategy effectively?

Useem: Fiorina's leadership style was excellent. She came in 1999 from Lucent Technologies, where she was the president of its core business. Fiorina had great talent -- she was a very powerful communicator. She recently spoke at the World Economic Forum in Davos, Switzerland, and people who heard her said that it was a stellar performance. When it came to clear, persuasive communication, Fiorina was at the top of the heap.

Second, she was and is very decisive. Once she decided that a merger with Compaq was the right move for HP, she stuck to her guns with great determination. There was considerable opposition from Hewlett as well as others in the equity market, but she maintained her position in spite of that resistance.

Third, she recognized the importance of transforming HP's corporate culture. In that regard, her approach was similar to Lou Gerstner's at IBM. After becoming CEO, Gerstner saw that IBM's main problem was not its people or even its strategy, but its inward-looking culture. Fiorina, to her credit, quickly reached a similar conclusion at HP. HP had a backward looking culture; it was steeped in what it called the "HP way." Fiorina saw that it wasn't putting enough feet to the fire -- and she assembled a strong team that could help bring about that transformation. She did rise to the calling of restructuring the company, which was something that needed to be done. She saw the acquisition of Compaq in the light of that overall goal -- she saw the merger as a way of forcing change at HP as a whole.

Fourth, as a leader you have to be good at strategic decision making. The one decision that she is most publicly identified with is the merger with Compaq, and that clearly has not gone as most people -- especially the merger's supporters -- had expected. As *Fortune's* Carol Loomis has argued in her recent article about HP, the merger has not succeeded in building value for stockholders. That is where Fiorina's failure to execute may lie. HP could have done a better job marketing its products, or squeezing costs in order to increase profit margins. The board has been concerned for several months about the fact that HP is doing poorly. In contrast, general indices such as the S&P 500 have been rising, and companies like IBM and Dell have been doing better. To sum up, Fiorina scored high on leadership style, but she failed to execute strategy.

Knowledge@Wharton: What do you think of the way the HP board has handled the situation with Fiorina?

Useem: The markets did get a warning a couple of weeks ago when media reports said that the board was considering handing over some of Fiorina's responsibilities to her lieutenants. When it is reported publicly that a board is considering doing that, that should be taken as a warning sign. The markets were alerted, and for Fiorina, this was a threatening moment. It is usually difficult for a board to admit that the person they hired for a job is the wrong person. But rather than let the company go into a long, slow decline, the board too has acted decisively.

Knowledge@Wharton: In Fiorina's case, what could she have done or not done that might have led to a different outcome?

Useem: She did what she could to remake HP's culture, and to transform the company. No one can fault her for that. In my view, had HP's performance not languished following the merger with Compaq, questions about her ability to execute strategy and about her leadership style would not have become an issue. She would have had a long leash. That decision was primarily responsible for her relatively short tenure at HP. We cannot revise history, but had she not gone after Compaq, as Walter Hewlett so aggressively held, the results well might have been different and we wouldn't be reading the headlines we are reading today.

Knowledge@Wharton: What should the next leaders aim to do at HP?

Werbach: That depends to some extent on who provides the permanent new leadership at HP. They could try to put the PC business on the block, but it is hard to know who would pay for those assets. IBM took a creative approach when it sold its PC business to Lenovo, but it's not clear that there is another Lenovo out there to buy HP's assets. Of course, HP still has tremendous assets. The main problem was that apart from buying Compaq, Fiorina did not have a concrete strategy for HP. She just did things like following IBM into services, and so on. The new leadership will face a difficult situation. I don't see any magic fixes.

This is a single/personal use copy of Knowledge@Wharton. For multiple copies, custom reprints, e-prints, posters or plaques, please contact PARS International: reprints@parsintl.com P. (212) 221-9595 x407.