

Institutionalizing Structural Change at Hewlett-Packard

In May 2002, the hotly contested acquisition of Compaq by Hewlett-Packard (<http://www.hp.com>) was finalized. Unlike the major organization changes before it, the acquisition challenged the abilities of this perennial “most admired company” to execute a complex structural change. The success of the integration process described in Application 10.4 is partly due to a store of institutionalized knowledge and capability within the HP organization. This application describes a number of large-scale structural changes at HP. Its repeated ability to carry out such change speaks to the institutionalized capability to manage change.

Since its founding in 1939, HP has implemented successfully no fewer than a dozen major organizational changes, including the transition from a high-tech entrepreneurial start-up to a professionally managed company; from a small instruments business to a leading computer company; from a company oriented around complex-instruction-set computing technology to reduced-instruction-set computing technology; from a technology/engineering-based company to a market/brand-driven company; and, since the appointment of Carly Fiorina as CEO, from a “pure products” company to a services company.

HP’s electronics and computer business was characterized by highly volatile technological and market change. It had to quickly adopt, innovate, and implement a variety of technological and organizational changes just to survive. HP’s traditional and current strategies were built on innovation, differentiation, and high quality. Another important feature of HP, and one of its more enduring characteristics, is the “HP Way”—a cultural artifact that supports a participative management style and emphasizes commonness of purpose and teamwork on one hand and individual freedom and initiative on the other. Over time, however, the HP Way has been both a constraint to and a facilitator of change.

For example, the HP Way has been at the root of the company’s difficulties in institutionalizing structural and behavioral changes to bring about more cooperation among the computer divisions. The initial structural change occurred in 1982 when HP transformed itself from a producer of high-quality electronic measuring instruments into a computer

company. At the time, computers and computer-related equipment accounted for only about one-third of revenues and HP was structured into more than 50 highly autonomous and decentralized product divisions focused on specialized niche markets. Individual engineers came up with innovative ideas and “bootstrapped” new products any way they could. Organization members were encouraged to work with other engineers in other departments within the same division, but there was little incentive to coordinate the development of technologies across divisions. This focus on the individual was supported by a performance management system that measured and rewarded “sustained contributions;” the key to success for an individual was working with many people in the division. HP prospered by maximizing each of its parts.

Former CEO John Young’s decision to focus on computers fundamentally shifted the keys to success. Computer production required a coordinated effort among the different component divisions and market shares large enough to encourage software vendors to write programs for their machines. In a culture that supported individual contributions over divisional cooperation, Young placed all the instruments divisions into one group and all the computer divisions into another group, a basic design that persisted until the spin-off of the Agilent instruments business in 1999. In addition, he centralized research, marketing, and manufacturing, which had previously been assigned to the divisions. Problems quickly arose. In one case, the company’s new and highly touted graphics printer would not work with its HP3000 minicomputer. The operating software, made by a third HP division, would not allow the two pieces of hardware to interface.

In response, the computer group formed committees to figure out what new technologies to pursue, which to ignore, which of HP’s products should be saved, and which would be shelved. As the committees came up with recommendations, the committees themselves kept multiplying. The company’s entrenched culture, built around the HP Way’s philosophy of egalitarianism and mutual respect, promoted consensus: Everyone had to have a hand in making a decision.