Human Resources Transformation

in

Comprehensive Outsourcing

by

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Preface

Large companies such as IBM, EDS and now HP, are realising that Outsourcing with resource transfer is a growing business opportunity.

This opportunity represents new challenges for these companies, in particular in terms of Human Resource policies, integration and transformation.

This challenges force companies to adjust their human resource strategy and to prepare their managers, in order to achieve fast and effective integration and transformation, which are key to the sustainability and success of this business.

This is the purposes of this case study. In February 2002, I was appointed to participate in an EMEA (European Middle East and Africa) specific training program for discussion of key elements that could support HP in achieving successful results in this area. Together with my job as Managed Services Delivery Manager, this has been an opportunity for me to think thoroughly on the implementation issues associated with HR transformation and integration, in the context of a merger process and Comprehensive Outsourcing deals.

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1 Introduction

Maria Gomes is seated in her office thinking about how she would develop a specific report her manager has assigned her as Manager of the "Managed Services" organization. The main objective is to address Human Resources issues that have arisen as the result of the recent merger and Comprehensive Outsourcing (CO) deals. These issues could go from cultural issues to human resources management processes, to communication, to management style, etc., addressing most of the questions Managed Services organization, and Hewlett Packard as a whole, have to handle:

- How to address emotions and fears people have when being transferred to HP? How will these new employees be received by other HP employees?

- What could be the impact on the integration and transformation if people are located far from HP or even without any connection to HP systems?

- What can be done to minimize this impact, while accomplishing service-level objectives?

- How to address lack of skills/capabilities? How to deal with specific aspects of HP culture such as, for example: employees are responsible for managing their own development/career; employees must look for new opportunities inside HP by themselves and apply for them?

- How to address cultural issues?

- What concerns must be taken into account in terms of communication before and during transformation?

- How to handle redundant people and lay-offs?

- How to motivate people?

- How will these things impact on the HP way?

Thinking about these issues, Maria Gomes made a retrospective analysis of the HP background: the management style of HP's former managers, Bill Hewlett and Dave Packard, the entrance of Fiorina to the board, and her philosophy in changing HP's market position.

She considered the HP Way culture, HP values and strategies, the merger with Compaq, the re-alignment of HP strategy and values, the management style of Fiorina when moving HP forward toward becoming a service provider, the restructuring HP made after the merger, and the Comprehensive Outsourcing deals.

She reviewed the evolution possibilities that exist in the services area, the business unit of Managed Services, its current business, future strategy and objectives and the available portfolio in terms of outsourcing.

She made a deep analysis in Comprehensive Outsourcing, because most of the issues she has to analyze derive from it. Transformation is the key. HP needs to have strong solutions to address transformation and achieve sustainable differentiators. The question is to combine all these factors to achieve the goal, she thought.

2 Historical Background

2.1 HP: 1939 - 2000

Hewlett Packard was founded in 1939 by two Stanford electrical engineers, Bill Hewlett and Dave Packard, to design the world's first audio oscillator. From that humble beginning to its present pre-eminence among manufacturers of electronic products and systems for measurement and computation, HP had remained engineering driven, competing on the basis of technological features. The company kept the same name even when it decided to grow and expand to other areas of business: measurement systems, computer products and computer systems.

The resistance-capacity audio oscillator, HP200A, was an electric instrument used to test sound equipment and was the first product developed by HP. The oscillator uses an incandescent bulb as part of its wiring scheme to provide variable resistance, a breakthrough in oscillator design. The principle of feedback provided the foundation for early HP products such as a harmonic wave analyzer and several distortion analyzers. Walt Disney ordered eight Model 200B oscillators intending to use them to develop the soundtrack for Disney's innovative Fantasia.

Products from the fledgling company won excellent acceptance among engineers and scientists. The start of World War II turned a trickle of U.S. government orders for electronic instruments into a stream and then a flood. HP built the first of its own buildings and added several new products.

As HP started to grow, it needed to move from the garage in which it began to a new rented building. After completing the first year in business, Bill and Dave agreed that all employees should share directly in HP's future success. In 1940, the company paid its first bonus to

employees, a $5 Christmas bonus. That same year HP adopted a production bonus. These programs later became the companywide profit-sharing plan (in 1962).

In 1942 HP began the construction of its first owned building. The building had an open floor plan so that workers could easily share ideas. After the death of an employee, the company supported his family financially and decided to establish a health insurance plan for catastrophic situations. At this time the company had eight employees and revenue of $522,803.

In 1943 HP entered the microwave market with the signal generator developed for the Naval Research Laboratory. This area quickly became an important share of the company's business, becoming the leader in signal generators.

By the middle of 1947 Dave was made president and Bill vice-president. At this time the company had catalogue features for 39 products and Dave told participants at the New York trade show, "HP's future appears very promising". In 1948 HP adopted an insured pension plan for all employees with a minimum of five years service; Bill and Dave believed that HP had a responsibility to be a good corporate citizen.

During the following years HP continued to grow in revenues and in the number of employees.

The company went through a growing and maturing process in the 1950s, learning much about the "new" technology of electronics and about the internal effects of growth. The way "how" the company should grow and "how much" it should grow was hotly debated. This was the basis of its special management philosophy and the core of the HP Way.

In 1951 HP invented the high-speed frequency counter (HP 524A) and greatly reduced the time required to measure high frequencies. Radio stations used the equipment to accurately set frequencies to comply with FCC regulations for frequency stability. Later, in 1956 HP produced its first oscilloscopes, models 130A and 150A. These devices show the variations in a

fluctuating electrical quantity as wave forms that are visible on a screen, which will become a significant part of HP's test and measurement products.

The company went public in 1957. In keeping with Bill Hewlett and Dave Packard's respect for workers, HP took the then-unusual step of giving stock grants to employees. HP corporate objectives were written in that year. Still in that year, HP began to erect its first building.

One year later HP made its first acquisition, F.L. Moseley Company of Pasadena, a producer of high-quality graphic records. This enabled HP to enter the plotter business. HP defined a decentralization process to divide any group with more than 1500 people. This strategy helped the company adjust quickly to changing situations and avoid excessive bureaucracy. HP became a global company in 1959 by expanding to Europe as a result of the Treaty of Rome and the European common market.

In 1960, HP moved to its building in the Stanford Industrial Park, Palo Alto, California, which became HP's corporate headquarters. Situated on a 50 acre hilltop, the new site supported the company philosophy that people should require attractive and pleasant surroundings to attain maximum job satisfaction and to perform to the best of their abilities. The air-conditioned buildings are situated to provide views of lower San Francisco Bay and to receive maximum natural light. The site includes a landscaped patio, horseshoe pits, volleyball and badminton courts, and a large cafeteria, all for the use of employees. HP continued is expansion process inside the US.

One year later HP was listed on the New York Stock Exchange for the first time. It was listed on the NYSE and Pacific stock exchanges as well under the symbol HWP.

HP expanded into the medical area with the purchase of Sanborn Company, Waltham. Medical equipment became a significant source of revenue for HP.

Human Resources Transformation

In 1963, HP entered the Asian market and formed its first joint venture, Yokogawa, in Tokyo, with Yokogawa Electric Works. At that time overseas sales already accounted for 18% of HP's business. The largest foreign markets were Western Europe, Canada and Japan. HP continued to enter into new businesses.

In 1966 HP launched its first computer, the HP 2116A. It was developed as a versatile instrument controller for HP's growing family of programmable test and measurement products. In the following year HP introduced the world's first desktop scientific calculator, the HP 9100A.

In the 1970s HP continued its tradition of innovation with the introduction of a new array of computing products. HP continued to look for new opportunities around the globe. The decade was marked by significant growth in earnings and employment, passing the $2 billion mark in 1979.

In the 1980s HP became a major player in the computer industry, with a full range of computers, from desktop machines to portables to powerful minicomputers. It also linked computers with its electronic instruments and medical and analytical products, making them faster and more powerful. In this decade HP entered the printer market with the launch of inkjet and laser printers.

HP was one of the few companies in the world to successfully combine the technologies of measurement, computing and communication. In 1991 the company made new advances in portable computing, entered the home-computing market and continued to invent new printing and imaging solutions.

Early in the 1990s, John Young who had replaced Dave Packard as HP CEO, retired and was replaced by Lew Platt, under whose leadership HP continued to grow. HP becomes recognized as a company whose policies on work-life balance, diversity and community involvement help to attract and retain top employees.

At the end of the decade HP spun off its measurement and components businesses to form a new company, Agilent Technologies. This split did not have downsizing effects. A new CEO, Carleton (Carly) Fiorina was brought on board, who focused the company on reinventing itself for growth and leadership in the 21st century. In July 1999, Lew Platt retired, and HP named Carleton (Carly) S. Fiorina as President and CEO. Carly joined HP after nearly 20 years at AT&T and Lucent Technologies. As CEO, she led HP's reinvention as a company that makes technology work for businesses and consumers.

In November of that year, HP began a new brand campaign based on a single concept: invent. Print and television ads focused on the company's history of invention and innovation. The company also introduced a new logo.

These initiatives will mark a new phase in HP's life.

2.2 A new HP under Fiorina's Leadership

Carly Fiorina was named chairman of the HP board of directors on 22nd September 2000.

By then, HP had been marking advances in the area of Internet infrastructure, introducing the high-end Superdome server line in September. In October, HP announced a new business initiative focused on emerging markets. Called HP e-Inclusion, the program addressed the digital divide by fostering sustainable, profitable businesses in developing countries.

In March 2001, HP created a new business organization, HP Services. The role of the new organization included consulting, outsourcing, support, education and solutions deployment. Still during that year, HP introduced systems and services based on the new Itanium processor

jointly developed by HP and Intel. Developed with an extremely high-performance parallel architecture, Itanium is the platform for next-generation 64-bit computing.

Later that year HP announced the acquisition of Indigo, a leading commercial and industrial printing systems company, accelerating HP's plans to transform and lead the rapidly evolving digital publishing market.

3 Organizational Culture - HP Way

Bill Hewlett and Dave Packard created a management style that formed the basis of HP's famously open corporate culture and influenced how scores of later technology companies would do business. Dave practiced a management technique — eventually dubbed "management by walking around" — which is marked by personal involvement, good listening skills and the recognition that "everyone in an organization wants to do a good job." As managers, Bill and Dave run the company according to the principle later called management by objectives — communicating overall objectives clearly and giving employees the flexibility to work toward those goals in ways that they determine are best for their own areas of responsibility.

HP also established its open door policy — open cubicles and executive offices without doors — to create an atmosphere of trust and mutual understanding. The open door policy intended to encourage employees to discuss problems with a manager without fears of adverse consequences.

Bill and Dave made other important management decisions: providing medical insurance, using first names to address employees (including themselves), and throwing regular employee parties and picnics.

When the company went public in 1957, in keeping with Bill Hewlett and Dave Packard's respect for workers, HP took the then-unusual step of giving stock grants to employees. By doing this Bill and Dave had recognized that only a committed relationship between company and employee could support future success. In 1957, Bill and Dave translated their beliefs into six corporate objectives:

- Profit
- Product Contribution

- Inexpensive Quality

- Employee importance

- Corporate citizenship

- Stable growth

HP values were implicit in the following principles:

- Select the most capable people for each assignment

- A high level of enthusiasm must be encouraged at all levels

- Work in unison towards common objectives

These values reinforce the importance HP gave to the capabilities of each individual, to enthusiasm and commitment and to teamwork.

The HP Way was created.

HP continued to persue the above objectives and in 1966 pioneered the concept of flexible working hours, or "flexitime" at its operation in Boebliengen, Gemany. The program allowed employees to arrive early or late to work as long as they worked a fixed number of hours. The same concept was later introduced throughout HP's US facilities in 1973.

HP values rose in the following years and in 1977 new important concepts were introduced:

- Innovation Capability

- Leadership and goal achievement

- Honesty and Integrity

These concepts were integrated in the HP Way by:

- Highly capable, innovative people throughout the organization – and the need to provide opportunities for skill development
- Objectives and leadership which generate enthusiasm
- Conduct affairs with uncompromising honesty and integrity
- Work in unison toward common objectives

In 1989 HP values were redefined by new principles: the leadership concept disappeared while the concepts of commitment and achievement were maintained, as well as the teamwork principle. The HP Way was redefined, being now composed of the following principles:

- Trust and respect for individuals
- A high level of achievement and contribution
- Uncompromising integrity
- Teamwork
- Flexibility and innovation

These are the values that Dave Packard and Bill Hewlett espoused: trust, collaboration, respect for each individual and an open door communication. These values were maintained over time and remained unchanged as HP grew into a global company.

Several years later, when Carly Fiorina replaced Lew Plat as CEO, she was asked whether the HP Way could remain unchanged as the company's business strategy changed. Her reply was:

"Dave Packard said, *The HP Way is really about individuals and how they act together*. I think that is in fact what the HP Way is all about. Our core values are timeless. Our core values of trust and respect, of integrity, of contribution, of teamwork and collaboration, of flexibility and innovation - these are values that are timeless. These are values that we

must always preserve. It's healthy, I think, that at times like this we ask ourselves the question, "Are we accomplishing our objectives with those values in mind?"

So I think what's critically important here is that, given the difficulty of the decisions we've made, given the difficulty of implementing those decisions, the right question, I think, is, "Have we made those decisions and have we implemented those decisions in a way that is true to our core values? Have we treated people with trust and respect and integrity?" I believe the answer to that question is "yes."

Our strategies, our practices must change as the times change. But our core values must always stay the same." (Fiorina, 2001)

Even while renewing HP's image under the symbol of reinvention, Fiorina maintained the "10 garage principles"

- Believe you can change the world.
- Work quickly, keep the tools unlocked, work whenever.
- Know when to work alone and when to work together
- Share - tools, ideas. Trust your colleagues.
- No politics. No bureaucracy. (These are ridiculous in a garage.)
- The customer defines a job well done.
- Radical ideas are not bad ideas.
- Invent different ways of working.
- Make a contribution every day. If it doesn't contribute, it doesn't leave the garage.
- Believe that together we can do anything.
- Invent.

The main spirit of the HP Way is still present in the absence of bureaucracies, teamwork and invention. Being a pioneer was always a competitive advantage of HP, but the key principles were adapted to our days: there is a time for individual work, as well as for teamwork, and the invention concept was introduced. It is important to survive. This is a more realistic approach to reality.

4 Corporate Strategy

Corporate Objectives for the New HP remained almost untouched:

- **Customer Loyalty**: To provide products, services and solutions of the highest quality and the greatest possible value to HP customers, thereby gaining and holding their respect and loyalty

- **Profit**: To achieve sufficient profit to finance our company growth, create value for HP shareholders and provide the resources needed to achieve other corporate objectives.

- **Market Leadership**: To grow by continually providing useful and significant products, services and solutions to markets HP already serves – and to expand into new areas that build on its technologies, competencies and customer interests.

- **Growth**: To view change in the market as an opportunity to grow; to use our profits and our ability to develop and produce innovative products, services and solutions that satisfy emerging customer needs.

- **Employee commitment**: To help HP employees share the company's success that they contribute to; to provide people with employment opportunities based on performance; to create with them a safe, exciting and inclusive work environment that values their diversity and recognizes individual contributors; and to help them gain a sense of satisfaction and accomplishment from their work.

- **Leadership Capability**: To develop leaders at every level who are accountable for achieving business results and exemplifying HP values.

- **Global Citizenship**: Good citizenship is good business. HP lives up to its responsibility to society by being an economic, intellectual and social asset to each country and community in which HP does business.

5 The Merger with Compaq

Announcement

In May 2002, HP and Compaq officially merged, beginning operations as one unified company. The benefits of scale and scope in mature industries can sometimes outweigh the time and energy squandered in the long integration process. But in high technology, no company has ever attempted this trade-off and come out ahead. How would New HP succeed? In announcing the merger, Ms. Fiorina and Mr. Capellas signalled their determination to avoid these problems. Would the newly merged HP be able to cut costs by eliminating overhead, streamlining product lines, and squeezing concessions from suppliers and be a threat to IBM and DELL?

5.1 *Compaq's History*

Compaq Computer Corporation was founded in 1982 by Rod Canion, James M. Harris and William H. Murto. The company name was a combination of "compatibility" and "quality". Compaq was born when the three co-founders met in Houston to discuss Canion's idea to develop a totally IBM-compatible portable PC. IBM was in a process of establishing an industry standard for personal computers and they wanted to take advantage of the emerging standard. Their segment focus would be corporations and professionals who required a portable computer. Compaq brought its first portable PC and was the first company to market a portable IBM-compatible PC and the first company to launch IBM-compatibles based on Intel's chip.

They also decided not to sell directly but through retailers who sold IBM computers as well. By using this direct sales process they could provide better margins to retailers than IBM did,

even using almost the same price. This strategy revealed itself to be a good one. In late 1982, Compaq reached a leadership market position, selling 53,000 portable PCs.

In June 1984, Compaq introduced the Deskpro Series, based on a new powerful microprocessor and launched its first desktop computer. That year Compaq started aggressively promoting the company and its products. Compaq also had begun its expansion to Europe. The company continued to grow and to take the leadership in the mainstream 386 market, setting the pace of the innovation, ahead of IBM. For several months there was no immediate response from IBM, but in 1987 IBM responded by introducing its PS/2 personal computer based on the 386 chip. In 1987 Compaq announced a new DeskPro 386/20 which incorporated enhancements in the DeskPro bus, one of the major problems IBM models have.

At the beginning of the following year Compaq announced price cuts of 10% in some of its models. In February 1988, Compaq reported 1987 sales of $1.2 billion, being the fastest company to reach that revenue level. Still that year, Compaq introduced its first battery-powered laptop, but company market share started to decrease due to the entrance of new players in the portable computer market. Compaq's performance remained good and by the end of 1990, it had 11,000 employees and almost 4,000 retailers. It was ranked 136th in the Fortune 500 ranking.

By 1990, the PC market began changing with the economic recession and the entry of new players such as Bell, Dell and HP, and prices fell. Many corporations and individual purchasers had also become more price-sensitive, demanding less expensive products. Compaq had difficulties adapting quickly enough to the fast changing PC Industry environment. Compaq premium strategy was overly vulnerable to discounts such as Dell's, who had been running aggressive campaigns demonstrating large price differences between its computers and Compaq's. These facts affected company performance and in the third quarter of 1991, the company announced a $70 million loss. Immediately before this announcement Compaq announced the dismissal of Rod Canion, its President and CEO, from

his position and replaced him with Eckhard Pfeiffer. The announcement was followed by a massive restructuring and layoff of 1,400 employees. The new CEO had concluded that a radical change in the strategy was needed to correct Compaq's problems. These changes included a revamping of product strategy and a more dramatic cost cutting. Compaq would pursue new segments in the PC market, and continue to offer top-of-the-line hardware to the corporate users, but would also develop low priced PCs. Its distribution strategy would also be changed.

By putting this new strategy in place, Compaq saw its revenues soar from 1992 to 1995. In January 1995 it was widely acknowledged that Compaq had reached the number one worldwide market share position in the PC market. Compaq was performing in two product segments: business desktops and servers. It was doing less well in laptop/notebooks and consumer segments. In April 1995 Compaq announced plans to buy some laptops and consumer PCs from Taiwanese suppliers to fill the gaps in its product line quickly.

The personal-computer market was becoming a commodity business and Compaq was facing competition from different providers, including Intel, from whom Compaq used to acquire the majority of its processors. In September 1995 Intel announced that it was building a plant in Washington to build PCs that would be sold under other companies' names. Compaq needed to look to other regions as a way of overcoming the internal competition, and in 1995 Compaq opened a manufacturing facility in Schenzhen, China. In 1996 Compaq produced its 1 millionth server and introduced the industry's first rewritable CD-ROM drive.

To escape from the commodity personal-computer business Compaq acquired Tandem Computer for $3 billion, in 1997, and a year later Digital Equipment for $8.5 billion. Mr. Pfeiffer believed the acquisitions would enable Compaq to expand from its personal-computer roots into more-powerful servers used in corporate computing. While more than 200 internal committees struggled with the integration process, the shifting strategies alienated a large

number of customers and the company drifted. As sales and profits plunged, Compaq's CEO Eckhard Pfeiffer was let go, and Dell became the number one seller of PCs in the U.S.

In 1999 Compaq appointed Michael Capellas as CEO. Under his direction the company introduced many of the new Compaq products, such as the iPAQ, which brought a fresh image to the company. The iPAQ family of innovative personal devices enabled users to link easily to the Internet at home and on the go. Sales of the iPAQ pocket PC, BlackBerry wireless email solution, personal audio player, connection point, and home Internet Appliance brought Compaq to the attention of new audiences everywhere. With its eye to the future and its "Everything to the Internet" message, Compaq promised to hold a place of leadership in the high-tech industry in 2000 and beyond.

February 16, 2002 marked the 20th anniversary of the founding of Compaq Computer Corporation. Although Compaq began the new millennium as a single entity, it was a blend of what used to be three separate and distinctly different companies - Compaq Computer Corporation, Tandem Computers Incorporated, and Digital Equipment Corporation - each with its own unique heritage and proud record of achievements.

In September 2001, HP and Compaq announced their intention to merge. In May 3, 2002, HP and Compaq officially merged, beginning operations as one unified company. The newly merged HP would be able to cut costs by eliminating overhead, streamlining product lines, and squeezing concessions from suppliers.

6 The merger and the HP Way

6.1 The values of the New HP

In planning for the Compaq merger, HP is using an "adopt and go" strategy. Integration team members are urged to pick either HP's or Compaq's approach to an issue, not try to "create something perfect". Mergers mean there will be losers as departments are combined and jobs eliminated. HP and Compaq acknowledged the importance of keeping employees happy by agreeing to pay more than $600 million in retention bonuses to more than 6,000 managers who stayed at the merged company for a year. But a merger is much more than integrating products or combining departments; a merger is all about culture integration. Will Compaq culture fit with HP's well known culture, HP Way? How is the HP Way going to be affected by this merger?

Looking through Compaq's culture in 2001, we can see that it is based on seven key principles:

- Listening to and solving customer problems
- Being passionate about everything we do
- Driving innovation and building cool stuff
- Partnering for our customer's advantage
- Communicating openly and honestly
- Doing what we say
- Having fun

All these values match the HP Way: "Being passionate about everything we do "(Compaq 2001) vs "A high level of enthusiasm must be encouraged at all levels" (HP 1961). But it also brings important new aspects, such as "Having Fun" or "Doing what we say".

The merger between HP and Compaq promoted a new culture: the "new HP". This culture intends to link the different pasts of the two organizations with a common future. The values of the New HP became (2002)

- We are passionate about customers
- We have trust and respect for individuals
- We perform at a high level of achievement and contribution
- We act with speed and agility
- We deliver meaningful innovation
- We achieve our results through teamwork
- We conduct our business with uncompromising integrity

The emerging questions are: How is the merger going to affect the HP Way? The basic principles remain almost the same, but what about the culture itself? Which of the cultures will be absorbed by the other? How will HP address emotions and fears people might have due to the insecurity raised by the merger?

6.2 Fiorina's leadership in The Transformation (Integration) Process

HP has changed a lot since Carly Fiorina assumed the leadership of the company in September 2000. Under Fiorina's Leadership HP entered new areas of business. HP Services business organization was created in March 2001. The role of the new organization at that time included consulting, outsourcing, support, education and solutions deployment. With this strategy HP wanted to focus on reducing the cost and complexity of information technology systems for business and improving the overall experience consumers have with technology.

Human Resources Transformation

In May 2002, HP completed its merger transaction with Compaq Computer Corp., the largest merger in history. After the companies joined, the New HP became a leading global provider of products, technologies, solutions and services to consumers and business. To achieve the main objective Carly looked inside her organization in order to assure a good integration process. She knew that to succeed is not enough to have a good portfolio; it also requires having an organization internally aligned with its external objectives, with the right capabilities, the right tools and the right processes. In order to assure the integration of products and solutions, sales affordable accounts were constituted; clean rooms for all areas, except for human resources were created to map products, customers, strategies, processes, etc.

For former Compaq employees the announcement of the merger caused more confusion and anxiety than the earlier one with Digital, a merger that did not go so well. To avoid more negative impacts this acquisition was treated as if it were a merger. There was an implicit pressure to avoid hurting former Compaq people, since it was not just the end of a company it was also the end of a strong brand like Compaq.

After the merger a downsizing program was put into place and more than 15,000 employees were "invited to leave". This was a difficult time for any HP employee due to the uncertainty and fear it caused internally. For former HP employees it became even more difficult to understand due to the strong HP Way culture they believed and defended; downsizing was interpreted as a lack of care and respect for people. Outplacement programs were available to those who sought to benefit from them. Even so, all of this caused lot of dissatisfaction to those who had grown accustomed to the HP Way culture.

By driving the company ahead through these steps Carly has acted as a truly leader. During the merger period, Carly provided empowerment to her managers and employees, pushed for focus on the objectives, spoke openly and kept her employees abreast of the latest developments. Before the merger was approved Carly wrote a weekly note to employees abut the progress achieved. Compensation programs were put in place to retain key employees.

During that period Carly pushed people to do their best, to look for challenges and to go ahead in case of doubt. Her courage to face the difficulties caused by the merger without going back aligned with what was described above and makes her a leader.

While pushing for managers and employees Carly did not forget that tools and processes also required integration. An integration program was designed and put into place to address

employees' and managers' needs. The HP e-Employee Portal, hp employee portal.lnk

was conceived to help employees in their jobs. From there, any person could update his or her personal data, view Performance Evaluation and Job History, schedule training, learn though the portal "learn@hp", manage development, and view the company reward system (base pay, performance bonus, eAwards, medical insurance, etc.). The employee Portal is certainly a value added for employees and managers, as well as for Human Resources team. Although the HP portal has all the information an employee or even a manager may need, the way it is organized does not allow people to make efficient use of it. HP must find a way to make it more useful.

In January 2003 a new performance and evaluation system called Performance Workplace was set up. The Performance Workplace system was based on the systems HP and Compaq had before; some parts came from one, others from the other. In February managers had to do a "Focal Point Review" with their employees. This first evaluation was considered the start-up process for the following years. Training for managers were available on @hp Portal to help them fillout the performance forms and provide feedback to employees in the right way.
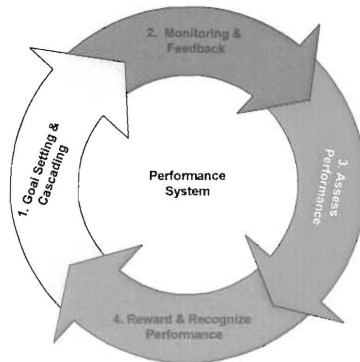
Figure 1 - HP Performance System
(Source: HP Intranet)

The performance system is based on four different steps in time. Being the first step is to set goals by gathering information and tools, discussing key areas of responsibility, documenting performance objectives and measures, determining the importance of each objective, summarizing the agreement for the performance plan and discussing development needs. The next step is monitoring employee's progress by providing them with positive feedback, assuring that they have the necessary tools and skills to address the objectives; tools and training are available in case of need. Step three is to assess performance by doing the performance evaluation with employee. Step four is to provide the recognition, as well as reward employees for their accomplishments.

At HP each individual contributor is responsible for her or his development and career plan. In the new HP this principle was maintained. At Compaq development and career plans were maintained by managers according employee feedback and skills. This is something that newly-hired employees may find strange. Now employees could access the learn@hp portal to have training, a tool available to whoever wants to subscribe online training sessions or Webminars. This portal also supports mandatory training that HP offers to all employees, such

as Standards of Business Conduct, Respecting Privacy and so on. The deployment of these new tools was accompanied by awareness messages and training or workshop sessions.

There is a lot more to be done! Integration goes beyond the integration of people, alignment of tools, redefinition of objectives, etc. Integration also requires collaboration at all levels of the organization; business units have to talk to each other, to create synergies between themselves and to communicate openly and clearly. Carly knows this and has assigned the top levels of each business unit with the definition of plans and strategies to achieve that goal.

Carly has a communication plan in place to embrace all of the employees. From time to time, employees are invited to participate in a broadcast where Carly talks about results, objectives, programs, people, strategy, etc. These addresses are recorded and made available at the @hp portal. Carly communicates across geographies making use of different tools: World Wide broadcasts, personal visits to countries, frequent mail messages, etc. Although the strategy she uses to communicate, to involve people, and to motivate, such enthusiasm is difficult to pass to the lower levels of the organization. There are many employees who do not share her vision, enthusiasm and motivation and act with a certain level of discredit or distrust. Will Fiorina's charisma and leadership overcome these obstacles? How could she change her managers' behavior to internalize new values and objectives? Moreover, is the middle management prepared and mature to cope with this new strategy and objectives? Are they receptive and available for it?

More recently other HP top managers have also started to send key messages to their organizations using the same methodology to communicate, but there is much room for improvement especially in what concerns middle management preparation and improvement of leadership.

The HP Way has also been adapted to the new reality, as well as the new strategy.

7 The New HP Strategy

The new HP serves more than one billion customers in 160 countries, and is a leading global provider of products, technologies, solutions and services to consumers and businesses. The company's offerings span IT infrastructure, personal computing and access devices, global services and imaging, and printing. Chairman and CEO Carly Fiorina leads the company, which has corporate headquarters in Palo Alto, California.

In November 2002, New HP launched its first global brand advertising campaign since its merger with Compaq. The campaign (Figure 2) uses the theme line "everything is possible" and features a series of vignettes that showcase the remarkable ways people and businesses use technology today and the role of HP services, technology and people in making it possible.
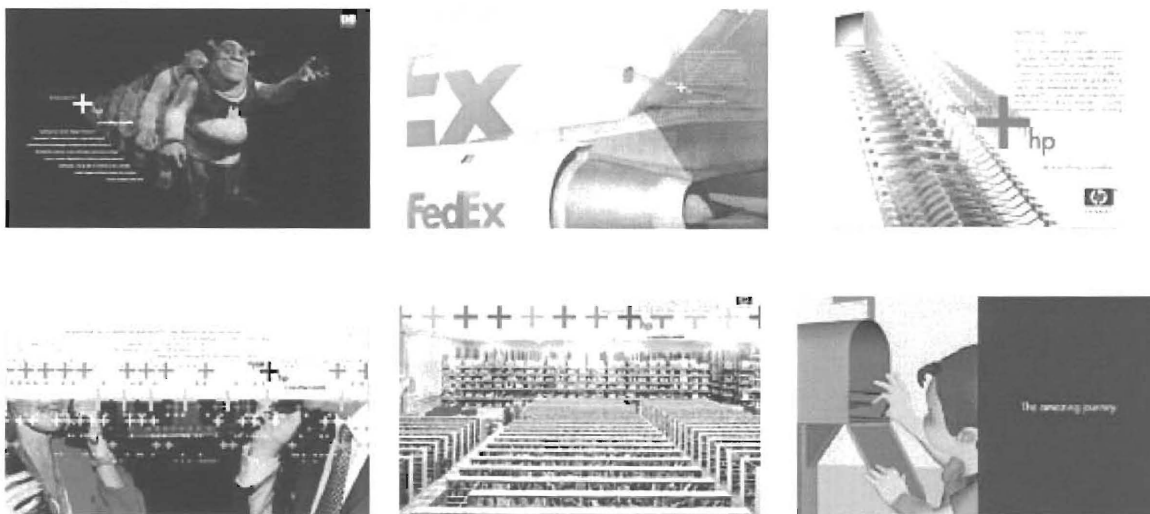

Figure 2 - + HP Campaign
(Source: HP Intranet)

As mentioned above, HP strategy, values, structure and processes need to be adapted. HP is now a new company with new objectives and the business world is looking at how it is going to

succeed. The HP leadership framework was refined to reflect the strategy, values and behavior, the structure and processes and the metrics and rewards (figure 3).

Figure 3 - HP Leadership Framework
(Source: HP Intranet)

This framework connects strategy, structure, values and results together. Seven main corporate objectives were defined:

- **Customer loyalty** - Providing products, services and solutions of the highest quality and delivering *more* value to HP customers, which earn their respect and loyalty.

- **Profit** - Achieving sufficient profit to finance HP company growth, create value for HP shareholders, and provide the resources needed to achieve the company's other corporate objectives.

- **Market leadership** - Growing by delivering *more* useful and significant products, services and solutions to markets served—and expanding into new areas that build on Company technologies, competencies and customer interests.

- **Growth** - Recognizing and seizing opportunities to grow as the market changes; using profits and abilities to develop and produce *more* innovative products, services and solutions that satisfy customer needs and drive their success.

- **Employee Commitment** - Sharing the company's success with the employees that make it possible; creating the best work environment —one that is safe, stimulating,

diverse, inclusive and reflects HP values; fostering a sense of personal satisfaction and accomplishment for employees.

- **Leadership Capability** - Developing great leaders at all levels that reliably, predictably and relentlessly drive HP to win, grow and thrive—today and tomorrow—while exemplifying company values in their behavior, actions and business practices day-to-day.

- **Global Citizenship** - Fulfilling HP responsibility to society by being an economic, intellectual and social asset to each country and community where the company does business.

HP's strategy is to provide business enterprises the best Return on Information Technology (RoIT), to deliver a simple and rewarding IT experience to Consumers, and by investing in innovation, develop new and better solutions that create more value for its customers.
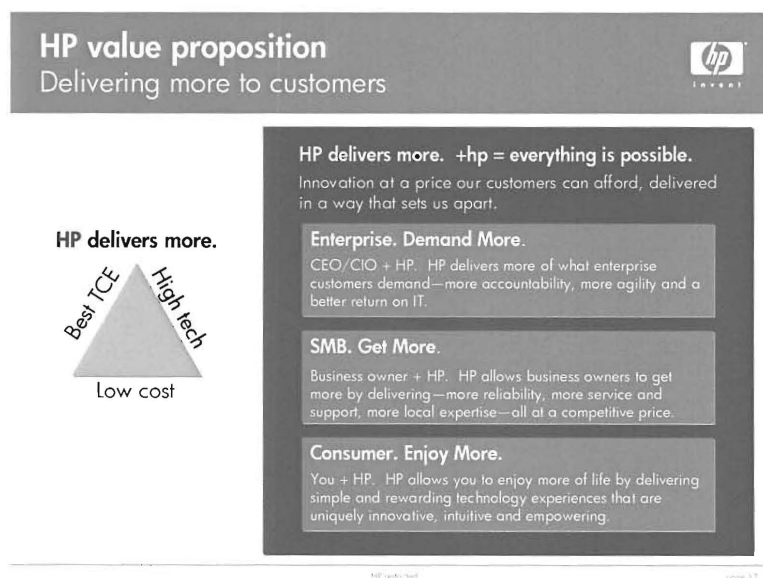
Figure 4 - HP Value Proposition
(Source: HP Intranet)

To make this entire value proposition possible, HP has defined an operating model capable of delivering to customers what was proposed.
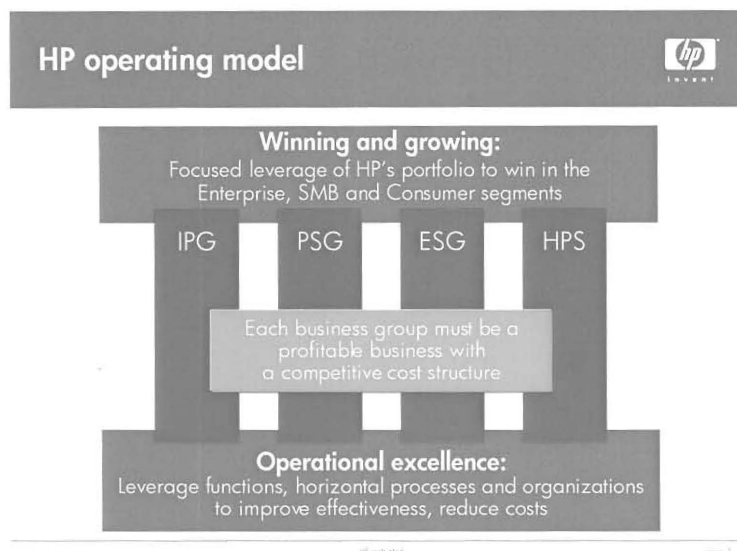
Figure 5 - HP Operating Model
(Source: HP Intranet)

HP aspires to be the best place to do business and the best place to work. This policy sets expectations for behavior and actions in the work and business environment, linking behavior to HP's business success. Carly's words reflect this, "the way we get things done is as important as what we get done" (Fiorina, 2003). HP's values are an integral part of the fabric of the company. Values are not just words on a chart, values are how each of us behaves every single day and these are business essentials. It is not just doing the right thing, but the smart thing. After the merger HP values become:

- Passion for customers

- Trust and respect

- Teamwork

- Achievement and contribution

- Uncompromising integrity

- Meaningful innovation

In communicating this framework Carly has stimulated her managers to repeat it several times. She has said that they first need to internalize the framework and then ask themselves "How do I

translate it for my people? How do I, as a leader, help my people in their role?" (Fiorina, 2003) Managers have an important role in communicating the framework.

The leadership framework aligns strategy, corporate objectives and values, and the way of measuring results in a combination that will contribute to making the HP value proposition feasible: "**+hp = everything is possible**".

7.1 Structure

The new HP structure is composed of four core main business groups,

- **Enterprise Systems Group** (ESG) - ESG focuses on providing the key technology components of enterprise IT infrastructure to enhance business agility, including enterprise storage, servers, management software and a variety of solutions.

- **Imaging and Printing Group** (IPG) - HP is the leading provider of printing and imaging solutions for both business and consumer use. IPG includes printer hardware, all-in-ones, digital imaging devices such as cameras and scanners, and associated supplies and accessories. It also is expanding into the commercial printing market.

- **Personal Systems Group** (PSG) - PSG focuses on supplying simple, reliable and affordable personal-computing solutions and devices for home and business use, including desktop PCs, notebooks, workstations, thin clients, smart handhelds and personal devices.

- **HP Services** (HPS) - HP Services is a premier, global IT services team. It offers guidance, know-how and a comprehensive portfolio of services to help customers realize measurable business value from their IT investments.

Now that the companies have combined, HP Services has become the third-largest IT services organization on the planet. Its revenue, however, represents only a small fraction of the worldwide IT services market, and the group remains the smallest of HP's four primary business units (after Printing and Imaging, Personal Systems and Enterprise Systems). Although contributing only 18% of the company's total revenues, it is one of the two groups (along with Printing and Imaging) that are showing a profit. In the long term, HP expects Services to emerge as its fastest-growing business unit and to become "the" alternative for IBM global services and Electronic Data Systems (EDS).

7.2 Repositioning as a Service provider

HP is reinventing itself into a $70 billion business that will combine the best of the old HP with the best of the old Compaq Computer. In addressing market needs, HP wants to provide a strong alternative to DELL, IBM and EDS, its strongest competitors. Much of this effort will be built around the company's concept of "Adaptive Infrastructure". Although the concept is still in its incubation stage, it is intended to position the company as the leading provider of IT infrastructure. The new company should be robust, stable and secure enough to address the most demanding enterprise applications, and flexible and agile enough to accommodate rapidly changing IT demands and business needs.

The market has changed; customers need solutions that allow them to link their IT with the business and to create new ways of doing business. At the same time, they need to control costs and complexity while increasing efficiencies and improve the return on investment from existing technology. On other hand, the roles for managing IT infrastructures are not controlled by IT managers; now business managers want to be involved and assure that the solutions found will be aligned with business needs.

So, times are changing, as well as business needs and requirements. To face these challenging times and to be recognized as a service provider, HP has structured the Service business into three business units:

Customer Support (CS) – Support Services represents the most important font of revenue, staffing and profit of HP Services. IT is also the largest support-services organization in the industry. The range of services it provides varies from basic, reactive, break-fix services for PC and printers, through advanced, proactive, mission-critical services for enterprise–class servers and storage networks. Support services however are a slow-growth business. Another important aspect is that the support services are not particularly strategic for HP since these services do not help HP to pull its combined offerings into new accounts. This strategic mission will be possible through the other two HP services units;

Consulting & Integration (C&I) – Consulting and Integration plays an important role inside HP services since it serves to engage customers at the beginning of sales and implementation of processes, and to define and create the foundation for overall success, and

Managed Services (MS) – Managed Services is recognized to be the business unit that can contribute most to pull HP products and services into new accounts, while launching it in the outsourcing market. IT also has a key role in the sustainability of the relations with System Integrators (SI), other software, hardware vendors and customers.

It is a tall order - one where HP services can help customers with its suite of managed services that range from out-tasking to outsourcing. HP offers of a comprehensive range of services, delivered globally as a "utility" or as a custom complex project, with offerings available for fixed or pay-as-you-go pricing. HP can serve as the aggregator and single point of responsibility for customers' IT management services. Its unique approach gives customers ready access to the worldwide capacity and skilled resources they need to quickly implement

new business models, personalize customer relationships, and better manage growth and change.

HP Consulting and Integration, for example, focus on infrastructure consulting. It defines enterprise adaptive infrastructures, and helps customers architect and implement them. This group is also bringing on 130 "services principals" – high-level, vertically focused business/IT alignment consultants who play dual roles within HP. They work closely with HP enterprise-account directors to facilitate an industry-specific, consulting-led sales process, and also act as a bridge between the customer and HP and partner consulting organizations, to ensure that the implementation addresses customer expectations. Although this does not appear to be much of a strategy for levelling the playing field with IBM and EDS, HP consulting has three not-secret weapons:

- Strong application, business-process and even management-consulting skills in one key market segment: network service providers and telecommunications companies;
- Deep expertise and preferred relationship with Microsoft, particularly around Windows infrastructures, large-scale Exchange implementations and, especially, .NET and, to a lesser extent, Oracle and BEA systems; and
- Strong go-to-market and programmatic relations with leading third-party systems integrators (especially Accenture and Delloite Consulting) – which allows some distancing from IBM.

C&I plays a key role in engaging the client at the beginning of the sales and implementation processes, and in defining and creating the foundation for the overall success of the implementation.

HP Managed Services, meanwhile, provides only a tiny fraction of IBM's and EDS offerings. Its only two major outsourcing engagements together account for less than half the revenues of IBM's large contracts. Nevertheless, HP's Managed Services are currently growing at twice

the industry rate – and HP expects them to become one of the key growth engines for the entire company. HP must still determine how to rationalize the positioning of a broad range of unrelated offerings from HP and Compaq; but, it is well positioned to capitalize on knowledge in Microsoft products and mid-range heterogeneous outsourcing, as well as to capture one or two large (more than $500 million) deals per year. Moreover, HP's ability to partner with systems integrators provides the company with an important opportunity relative to IBM and EDS. In fact, HP's current managed-services partnerships with Accenture and Delloite Consulting have already accounted for more than $1.4 billion in HP revenue during the past three years.

Managed Services could pull HP products and services into new accounts; launch it into the currently hot outsourcing market, and the ultimately more strategic multisourcing market; form a foundation for strong, sustainable relations with system integrators, independent software vendors and customers; and become HP's fastest-growing new market.

7.3 *Managed Services*

Professional services continue to play an important role in HP's services portfolio, but they will generally become more tactical and less strategic. Meanwhile, managed services become increasingly important to the company's top and bottom lines, and to its strategic objectives. More important, however, they will increasingly become the primary vehicle for entering new accounts, pulling professional services along with them, and a key means by which HP, other vendors and providers will establish themselves as long-term, trusted IT partners to their customers.

This, however, leads to a key challenge for HP. Both HP and Compaq earlier had small, relatively complementary positions in the managed-services market:

- HP was primarily involved in small and midsize, typically $10 - $50 million, Unix-based, selective, infrastructure outsourcing projects, and

- Compaq primarily dealt with managing Microsoft-specific Windows and Exchange implementations.

Based on that, we may question how the combined company is going to leverage their relatively small, diverse positions into the consistent set of comprehensive offerings? How will those offerings create the critical mass required to compete with established and aggressive giants, such as IBM Global services and Electronic Data Systems (EDS), or even with global System Integrators that are now casting covetous eyes on managed-services opportunities? It should be noted that although HP's Managed Services business is relatively small, it is actually quite a bit larger than it appears.

First of all, HP's Managed Services group manages the company's own IT operations, a responsibility that is not included in its revenue figures. Finally, a number of recent deals, such as DIRECTV, Critical Path, $1.5 billion Canadian Imperial Bank of Commerce and $225 million Italia Telecom contracts, are not yet reflected in its revenues. When that happens it will be in excess of $5 billion. Recent surveys show that a large percentage (more than 25%) of respondents would seriously consider HP for their infrastructure-management needs – the same percentage as would consider EDS, training only IBM and AT&T. Information A market survey conducted by *Information Week* magazine shows (Figure 6) that most customers interviewed rank HP as its preferred outsource provider.

hp is no. 1 outsourcer

"(*Information Week*) asked customers to rank their satisfaction with their outsourcers, and the best-known names in the business, IBM and EDS, don't top the list. No. 1 is Hewlett-Packard, a company some consider a sleeping giant among outsourcing providers..." – *Information Week*, November 18, 2002

how they rank										
	overall	range of services	reliability	cost and value	technical skill	industry knowledge	SLAs	strategic advice	trust	innovation	reputation
Hewlett-Packard	1	7	1	2	2	3	1	6	2	3	3
Sprint	2	3	2	1	1	1	2	7	4	2	6
Accenture	3	5	3	8	3	2	7	1	1	1	5
CSC	4	6	5	3	6	5	2	3	3	5	4
AT&T	5	2	6	5	5	4	8	5	7	4	2
EDS	6	4	4	4	4	8	4	8	7	7	8
IBM	7	1	7	9	6	6	5	4	4	8	1
PricewaterhouseCoopers	8	8	8	6	8	7	5	2	6	6	7

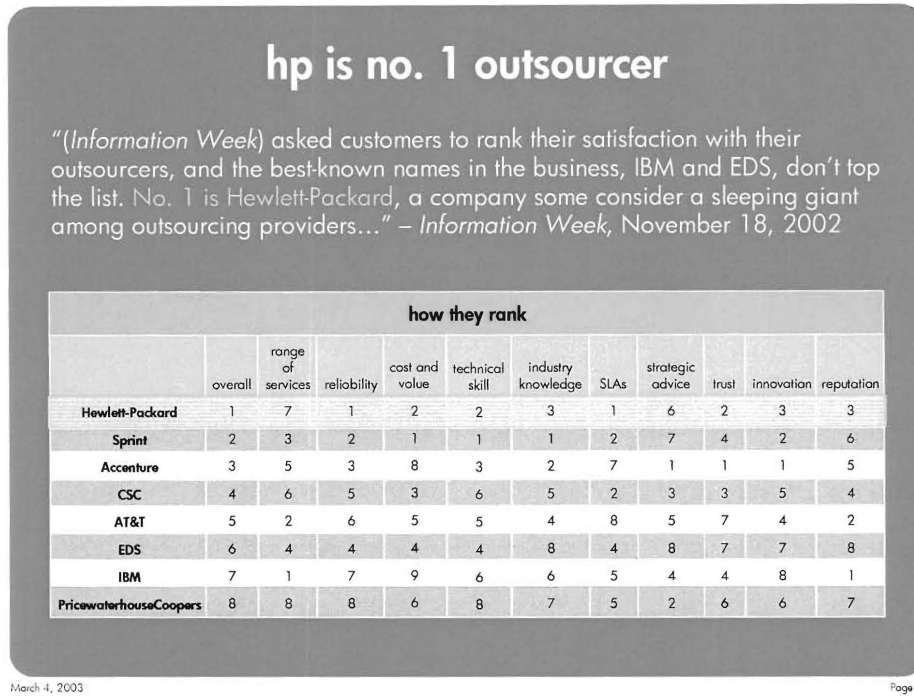March 4, 2003   Page 1

Figure 6 - Information week (16 Nov 02) market survey

HP counts on its 13 years of experience as worldwide IT outsourcing provider with more than 200 active outsourcing accounts in over 30 countries. HP uses consistent international standards with localized delivery practices. Currently HP provides support from more than 20 Operations Service Centers and Data Centers, having high-demand expertise available from 4100 service professionals trained in the latest IT technologies.

Additionally HP is the leading supplier of SAP R/3 operations worldwide and has a variety of innovative financing options and value-added services such as asset management solutions, total cost of ownership advisory services, and lease and buyback options that would give customers different ways of managing their IT infrastructures.

HP's portfolio for managed services has seven offerings: Comprehensive Outsourcing, networking and infrastructure management, business continuity and recovery services,

applications-operations management, access and support services, computing on demand and software publishing. Let us examine look at the most important of these services:

- Comprehensive Outsourcing (CO) – HP currently has only five or six world-class comprehensive outsourcing contracts. One is for the company's own IT operations. The other is the recently announced CIBC relationship – a seven year, $1.5 billion project that gives HP access to an additional Data Center and 1,280 new employees, as well as the type of mainframe and heterogeneous Unix skills that will be required to attract new accounts. This deal was accompanied through HP's acquisition of CIBC's interest in an HP-CIBC outsourcing joint venture that has smaller contracts with companies including General Motors, Delphi and Halliburton. In EMEA, HP also has several CO contracts such as SaraLee, Nokia, Vega, MLP and the most recent one with Italia Telecom.

- Selective Outsourcing (SO) of heterogeneous networking and infrastructures. These typically entail deals from roughly $10 to $50 million, in which HP takes over management of the infrastructure for a particular division or applications set. Although these contracts often combine Windows and multi-vendor Unix environments, HP also engages in transformational outsourcing projects, in which it migrates environments from centralized-legacy infrastructures to distributed, standards-based infrastructures.

- Managed Microsoft services – These can be seen to fell into two primary categories: server management and access management, including the operation and/or support of desktop and mobile devices. Although HP relies on service provider partners to handle smaller contracts, the company focuses on larger ones. For example, it provides technical support for 61,000 users at Microsoft, and handles the outsourcing functions for a number of exchange implementations with more than 10,000 users, including a project in which HP took over 260 Nokia IT personnel as part of a project to run the company's Windows-based server infrastructure; and

- Enterprise Applications-infrastructure management – These engagements, in which HP takes over responsibility for operating and managing the infrastructure for a specific application, involve two potentially synergistic directions. First, HP has formal, application-specific go-to-market engagements with particular system integrators (SI), especially Accenture for SAP and Delloite for CRM, in which the companies jointly approach customers with proposals wherein the SI designs and builds the processes and the application environment, and HP builds, runs and operates the underlying infrastructure. Second, HP is striking deals with Individual Software Vendors (SAP, PeopleSoft, Critical Path and Apptix, so far) that retain HP to manage the operations of their own hosting infrastructures.

For the most part, HP's Managed Services is focused on the infrastructure level. These go up through the database, applications server and platform links to the application – but not up into the application itself, or business-process levels. There are few exceptions to this, one is the management of Microsoft Exchange services, and another is Managed Service's responsibilities for running and supporting HP's in-house applications.

This accommodation to partners will certainly be maintained for the near future; however, HP does hold open the possibility – in fact, the likelihood – that it will introduce "value-added" Managed Services in the future, which are likely to include the management of enterprise applications, such as SAP, and of business processes (procurement, finance, accounting, software publishing and so forth).

HP's Managed Services division clearly has some interesting niche positions. But, HP plans to establish this group as a strong competitor to IBM and EDS –not to mention as one of the primary growth engines for the entire company. To accomplish this, HP plans to grow, in this business, at twice the market rate. To do this MS faces at least three important challenges:

1. Reposition its currently diverse set of managed-services offerings as a single, consistent, comprehensive line that integrates these offerings and provides migration paths among them, as well as integrate these services across HP's products groups;

2. Build the scale required to establish HP as a credible outsourcing provider and a real alternative to its much larger, better established competitors – and do so in a fast, purposeful and systematic way; and

3. Use partners in a way that will compensate for HP's own lack of application and business-process-approach capabilities, as IBM and EDS already have – and then, ideally, change the rules against these vendors in a way that will give HP an exploitable advantage over its single-source competitors.

If the midsize, selective outsourcing deals keep the lights on, HP needs the big, comprehensive outsourcing projects. These large deals will provide HP the image, the critical mass and credibility required to attract new giant accounts while acquiring new competencies and capabilities in terms of business processes knowledge.

Due to the diversity of the combined services portfolio provided by HP and Compaq, integrating into a single, consistent solution could be difficult. However there is a need to consolidate into a small set of categories. On the other hand HP needs to build scale, which will be essential for managed services survival. The ways HP will choose to achieve this will vary, from securing a large number of midsize deals in its core strengths such as, for example, infrastructure and SAP infrastructure management, windows management (since these kind of deals will serve as an opportunity), to increasing and improving relationships with customers which will help in attracting new accounts;

HP also needs to establish its credibility and strengthen its capabilities as a comprehensive outsourcer by winning one or two large, global comprehensive

outsourcing deals. It is the fastest way to achieve the scale and critical mass that are required to survive in this business.

Another option that may help building scale is to create a third-party channel for selling smaller deals in specific segments, such as outsourcing Windows based infrastructure (exchange, clients and servers).

IBM and EDS already have a solid reputation in this area of business and to create a reputation in this area, HP has to create solid and sustainable differentiators.

Let us look at the relevant aspects of comprehensive outsourcing deals. This kind of deal involves much more than managing part of a customer infrastructure. It requires investments by acquiring customer resources: people and/or assets. It also requires engagement between customers and HP in order to define and agree on how to transform that part of customer business to adjust to the business needs.

7.4 Comprehensive Outsourcing

The HP Comprehensive Outsourcing solution aims at serving customers that seek a trusted partner to design, build, integrate, manage, and develop their broad IT infrastructure.

The solution offered by HP in terms of Comprehensive Outsourcing is a global solution composed of three key factors:

Risk management - by having contracts structured for balanced risk sharing and control allowing flexible capital investment options and tailored Service Level Agreements (SLAs) to meet specific business needs.

Execution - by making a smooth transition assuring people and skills retention and using proven methodology and also by providing operational capabilities assured by:

- experience, size and scalability
- global reach
- service breadth
- availability and security
- expense control and predictability
- Total Customer Experience

Evolution - improved service levels through the new business capability, economic transformation and easy access to expertise, which widen customer competitive advantage.

Comprehensive Outsourcing is one of the areas where HP wants to grow quickly by conquering more market share than its competition. It is assumed that by winning several CO deals HP will mature its image and reputation as a credible IT outsourcer. It is also recognized that CO deals will provide HP with critical mass and business knowledge in enterprise applications. It must be remembered that HP does not have capabilities in application management and it must be an area of improvement if HP wants to assume a leadership position.

In terms of comprehensive outsourcing, HP's offerings are IT operations strategy and governance, IT operations and infrastructure transformation, people transition and management and partner and vendor management. By assuming the control of a part of the customer's business, HP needs to focus on transformation in order to adapt Information Technology infrastructure, processes and people to business needs, while upgrading technology to new solutions. A Comprehensive Outsourcing embraces all levels

of IT infrastructure adapted to business strategy and processes as shown in the following schema.
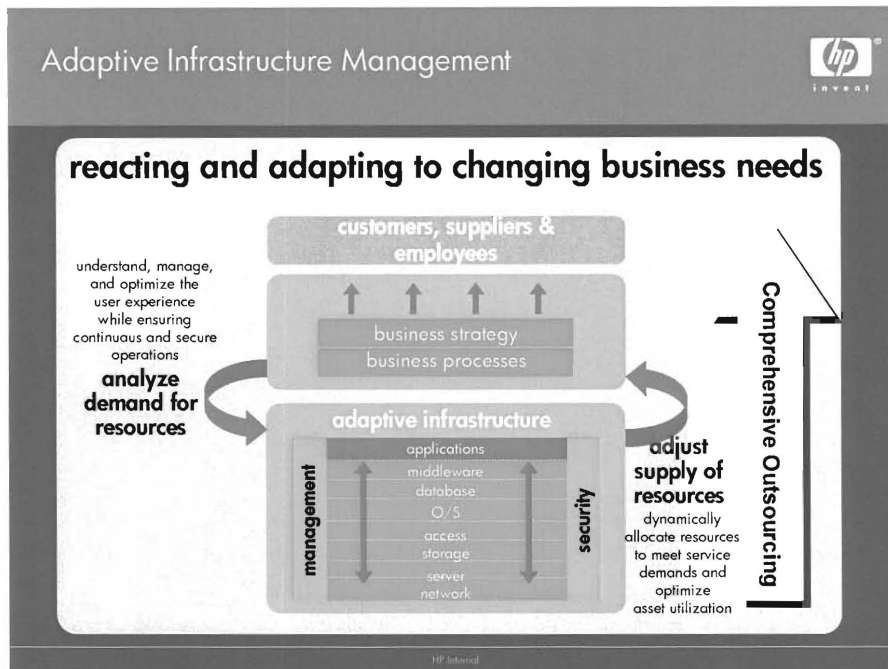

Figure 7 - Infrastructure Management
(Source: HP Intranet)

Both IBM and EDS have higher credibility and maturity than HP at this moment in time. Major competitors also have highly skilled human resources, people managers fully allocated to address transition and transformation in the first months of the project. So, the question that emerges is: How can HP deal with what seem to be disadvantages and convert disadvantages into differentiators?

HP's competition has capabilities, and market recognition in managing enterprise application and business processes, while HP does not have capabilities and/or skills in these areas. IBM has recognized strengths in enterprise applications, and had reinforced them by acquiring PwC a few months ago. HP, on the other hand, establishes partnerships with system integrators to offer its customers a global solution. How could HP minimize

this weakness, making partner agreements with system integrators? How will this impact on the transformation?

The process used by HP to address CO deals is similar to those used by IBM and EDS. Bid and due diligence processes have slight differences but they are almost similar (although transition and transformation could be different). Those phases, especially transformation, could be either differentiators or inhibitors, depending on the way HP will address it.
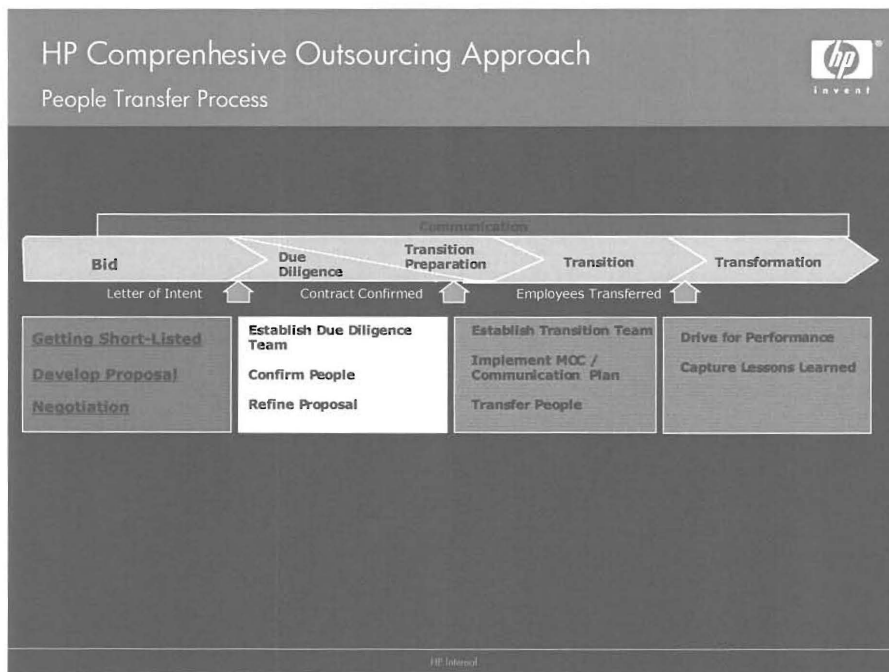
Figure 8 - People Transfer Process
(Source: HP Intranet)

Due diligence and transition preparation are of extreme importance since it is in these phases of negotiation that the solution design transformation plan is defined. Solution design is a blueprint of how the service delivery will be organized after transformation: how HP will achieve its financial targets while maintaining required service levels. The transformation plan describes the details of how HP will get from the "as is" situation to the

solution design. IBM uses CO and solution design to know more and to know the customer. What should HP do, as well, to better know the customer?

Transition and stabilization must be finished before starting transformation, and proper hand-over needs to be done. A good transition is important to achieve a good transformation. Transition takes care of transferred services, and people/other resources from the customer to HP. In transition, Service Level Agreements have to be measured and reported, governance, financial and administrative processes have to be implemented in order to avoid a perceived negative impact from the customer's point of view. Transition finishes when people are on the HP payroll and systems.

IBM and EDS give special attention to the transition and transformation. They assume that all the IT people will be transferred to them while assuring that their retention rates are above 90%. (What will HP do? Will HP accept that all people be transferred or do they choose which profiles they would like to maintain and which ones they do not want? What criteria should be used when analysing which people will become HP people? Will this option affect HP's image and/or reputation? What would the alternatives to transferring people to HP be?

8 Human Resources Transformation

The step after transition is transformation and, as mentioned above, the way the negotiation has been conducted until and during transition is important for the success of the transformation.

HP's senior management interest in transformation has increased tremendously due to the impact it might have on the overall success of outsourcing deals. Transformation is mandatory to assure the establishment of long-term relationships with customers, employees and providers. The way of implementing transformation may influence a customer's decision when choosing an outsourcing provider.

Transformation applies not only to CO deals, but also to selective deals. The merger with Compaq is itself a huge challenge in managing Human Resources transformation, since the merger brought together two different cultures, different profiles, different performance, reward & recognition and compensation systems, different payroll systems, and so on. How will HP integrate the strategy, culture, structure, processes, metrics and rewards of both companies to build a unified management system?

In terms of Human Resources HP is very well known for its strong and intense culture, the HP Way. As observed earlier, HP culture is based on open communication and consensual commitment aligned with a strong sense of responsibility and teamwork. Its management structures were flat and there was no room for bureaucracies. At Compaq, the philosophy is quite different: less participative, less consensual, less team oriented and much more market oriented. All these aspects associated with the existence of many more bureaucracies make the Compaq's an autocratic culture. Although the cultures seem to be very different, and they are, they do not seem to be incompatible. The questions that come to mind are: How will these two cultures fit? When people stop seeing "red" and "blue" colleagues? When will this multiplicity of cultures (Digital, Compaq, HP) become a unified culture? What aspects of each one will prevail over the

others? Will the result become a hybrid one? Will this new culture be similar to the HP Way or will it be a very different culture? Until now, and it is much too early to make conclusions as the existing culture is not well defined, it seems to be a mix, but the situation is still too confused.

Concerning transformation, it is important to underscore that transformation is much more than transferring people and letting them continue in the service as it was before (as is operations); Transformation could be required for processes and technology, but the most sensitive part is people transformation, since it is all about managing motivation, managing changes, managing fears and managing people development while managing service and customer relationships at the same time. Has HP learned any lesson from the Compaq merger that can be used when managing transformation in the CO deals? As printed out above, HP could have done much better in the transition and transformation of the merger if it had taken into account a well structured communication plan to be implemented in a top down direction - if it had better prepared all levels of management to deal with the communication, or even better, if it had defined a communication team to develop and rollout a communication plan at all levels of the organization. At the same time, HP should have had transition & transformation managers specifically allocated to manage the integration process and the management of change. The same should be applied to transition and transformation for comprehensive outsourcing deals.

What are HP's competitors doing in terms of transformation? What can HP do differently from them in order to achieve sustainable differentiators? What are HP's strengths, weaknesses, opportunities and threats in these areas when compared with its competitors?

HP wants to develop a set of guidelines to use when dealing with HR transformation. Much has been done. HP now has a WEB site in its @hp portal with the transition and transformation methodology that must be applied whenever required. The problem is to stimulate people to make use of it during the implementation. HP still fails in a number of issues in implementing transformation.

There are many other questions emerging when facing transformation. Answering these questions may provide interesting ways to better manage transformation:

- How to address emotions and fears people have when being transferred to HP? How will these new employees be received by other HP employees?
- What could be the impact on the integration and transformation if people are located far from HP or even without any connection to HP systems?
- What can be done to minimize this impact, while accomplishing service level objectives?
- How to address the lack of skills/capabilities? How to deal with specific aspects of HP culture such as: employees are responsible to manage their own development/career; Employees must look for new opportunities inside HP by themselves and apply for them?
- How to address cultural issues?
- What concerns must be taken into account in terms of communication before and during transformation?
- How to handle redundant people?
- How to motivate people?
- What will be the impact on the HP way?

When looking for possible answers we cannot forget the huge integration process which involved a large number of people that have been transferred from Compaq to HP. Some of those incoming people had already suffered through another integration process when Compaq bought Digital. At that time integration was not done in the best way and Compaq employees still remember that time. All of these aspects contribute negatively to the transformation. People will be defensive in acquiring new ways of doing things. The communication process at Compaq, when the merger was announced and after it was approved, was not done in the same way as it was done at HP. Employees felt that communication did not exist at all or was less than desired.

Human Resources Transformation

There was no concern in assuring that the same process was followed in both companies individually, and because of that, people felt hurt.

It is also important to mention that when planning the integration, HP did not do a complete assessment in what concerns Human Resources, corporate cultures, profiles and skills and these aspects were now one of the most problematic things new HP have to deal with in transformation. Business model should have been mounted based on the company structure.

Transformation must be analyzed in this case in two different levels:

- HP/Compaq integration
- C.O. integration

One aims to explore the transformation that must occur as a result of the merger, keeping in mind that the way it was done could affect the other form of transformation; the other should analyze people transformation after being transferred from a CO deal. Both can have points in common but the way to manage them, and its scale could be different.

9 Conclusion

After this introspection Maria Gomes had a clear idea how to develop the requested report. She must provide her point of view to her manager, explaining how she would face the cultural and transformational issues resulting from CO deals and from the merger.

She will explore in more detail the role of Carly Fiorina as a charismatic and transformational leader, the need for involving and having the commitment of top and middle management during the transformation phase, the need for having a communication plan adjusted to all levels of the organization, as well as the need for having a good Management of Change process. Moreover, the Human Resource Management processes, issues and techniques must be the basis of this work; things such as, leadership, culture, stress, uncertainty and others must be considered since they are the base of the majority of the problems that may arise from transformation and integration.

Part II

Teaching Note

Human Resources Transformation

in

Comprehensive Outsourcing

1 Case Summary

Under the leadership of Carly Fiorina HP merged with Compaq in March 2002 with the objective of becoming a leading global provider of products, technologies, solutions and services to consumers and businesses. The company's portfolio spans IT infrastructure, personal computing and access devices, global services and imaging, and printing. The main objective is to become the leader in each of the business segments, surpassing IBM Global Services. With the merger HP acquires the volume and critical mass to get there, but much more is needed. HP also needs to achieve specific capabilities to be the leading player.

The case explains the evolution of HP since its creation in 1939. The first period of the history of the company was marked by company growth as a technology and measurement, computing and communication vendor. HP has continued to invent new printing and image solutions through the last decade of the twenty century. During this period HP distinguished itself by its management style, which is marked by management involvement, good listening skills and reward and recognition for the work of its employees. This open culture was the foundation of the HP Way and it influenced the way of doing business in technology companies. HP was the pioneer in giving stock grants to the employees and in creating the concept of flexible working hours in its operations plants. Through its HP Way culture, HP became recognized as a company whose policies on work-life balance, diversity and community involvement help attract and retain top employees.

The first years of the 21st century marked the turnaround in the company's market strategy: HP's desire to become a service provider and assume the leadership, surpassing IBM Global Services.

In 2001 HP decided to buy Compaq Computer Corporation becoming the biggest IT Company in the world - 140,000 employees. This merger will provide the new company with the critical mass, the portfolio and the capabilities to survive the economic downturn. In March 2002 the

merger was approved by regulators in the U.S. and Europe, as well as the two companies' shareholders, and new HP was created. Carly Fiorina will lead HP as Chairman and CEO.

Neither the HP nor Compaq have fared well in earlier acquisitions. Both companies remember their past experience: Compaq with its acquisition of Tandem and Digital Equipment and HP with the acquisition of Apollo Computer Inc.. Neither went well due to the integration and transformation process they decided to follow. Because of that, the new company used an "adopt and go" strategy to speed up the integration process. It was necessary to quickly achieve a high level of integration regarding people, strategies, culture, processes, tools and products and services portfolios.

The new company was structured in four main business groups:

- Enterprise Systems Group (ESG)
- Imaging and Printing Group (IPG)
- HP Services (HPS)
- Personal Systems Group (PSG)

Following the merger, HP Services has become the third-largest IT services organization in the world. In the long term, HP's expectation is that Services will emerge as its fastest-growing business unit and will become "the" alternative for IBM global services and Electronic Data Systems (EDS).

HP services were structured in three main groups: Consulting and Integration (C&I), Customer Support (CS) and Managed Services (MS). Until now CS contributed 80% of the revenues of HP Services but the company wants to expand its business through the managed services area. This objective will require an aggressive strategy to conquer market share.

HP is still viewed as a hardware provider and its objective is to be recognized as a global service provider and conquer leadership in this business area. The merger was a step ahead in achieving capabilities, but is not enough. HP must expand its Managed Services business by winning large and global outsourcing deals. In that way HP will quickly achieve the necessary

capabilities and recognition as a service provider. The demands for outsourcing are increasing faster and will expand in the next years and HP wants to be in that market. To get there HP knows that it is necessary to grow faster than its competitors and to quickly acquire new differentiators. Those differentiators will come through the strategy, the capabilities and the way HP does business. The challenge is to continue to shape the impact on corporations as a constructive force using HP's heritage, every employee commitment and action as tools for doing so. Business needs are changing; customers are more demanding and service providers need to have the agility to act accordingly.

When analyzing the process of integration used by HP for the merger with Compaq it is important to understand what has been done and how it was done in terms of Performance Management; motivation, culture integration and management of change. When facing Comprehensive Outsourcing deals, the process of transition and transformation of the people transferred to HP must follow the same process as a merger. These people have the same kind of fears and expectations. The integration and transformation processes emphasize several questions, some of which have already been examined in the case.

2 Teaching Objectives

The objective of this teaching note is to analyze the case in three main areas:

A. The role of leadership in the cultural and human integration following a merger process

B. The Human Resources Management issues of the integration, when cultures are <u>not</u> incompatible, viewed by three perspectives:

   a. Stress and uncertainty

   b. HR compatibility

   c. Breach of psychological contract

C. The Human Resources issues of outsourcing deals when cultures may be very different, analyzed in two different aspects:

   a. Incoming workers' perspective

   b. HP workers

2.1 Assignment questions:

   I. "How the merger going to affect the HP Way?"

   II. "The basic principles stay almost the same, but what about the culture itself?"

   III. "Which of the cultures will be absorbed by the other?"

   IV. "How will HP address the emotions and fears that people might have due to the insecurity the merger brings to them?"

   V. "We may question how the combined company is going to leverage their relatively small, diverse positions into the consistent set of comprehensive offerings?"

   VI. "How will HP integrate the strategy, culture and behavior, structure and processes and metrics results and rewards of both companies to build a unified management system?"

VII. "How will these two cultures fit? What lessons have been learned form this merger that can be used when managing transformation in CO deals?"

VIII. "What are HP's competitors doing in terms of transformation?"

IX. "What can HP do differently from them in order to achieve sustainable differentiators?"

X. "What can HP do differently from them in order to achieve sustainable differentiators?"

XI. "How to address emotions and fears people have when being transferred to HP?" "How will these new employees be received by other HP employees?"

XII. "And, what could be the impact on the integration and transformation if people are located far from HP or even without any connection to HP systems?"

XIII. "What can be done to minimize this impact, while accomplishing service level objectives?"

XIV. "How to address lack of skills / capabilities?" "How to deal with specific aspects of HP culture such as: employees are responsible for managing their own development/career; Employees must look for new opportunities inside HP by themselves and apply for them?"

XV. "How to address cultural issues?"

XVI. "What concerns must be taken into account in terms of communication before and during transformation?"

XVII. "How to handle redundant people?"

XVIII. "How to motivate people?"

XIX. "What impact on HP way?"

A. What is the role of leadership in the cultural and human integration following a merger process?

The leadership behavior plays an important role in cultural and human integration, especially after a merger process. In seeking to identify the role of Fiorina during and after the Compaq merger process in HP, we might say that her role was that of a charismatic and transformational leadership. Her behavior showed most of the characteristics of charismatic leadership. She took a great risk in going into a merger with all the opposition and criticism she heard. She put her position at risk, but her self-confidence and vision told her to go ahead. On the other hand she had used some highly unconventional ways to push for integration, to force the improvement of communication in HP, by sending many email messages to all employees, pushing for their commitment.

The means she adopted to share her vision of HP's future, while adapting its strategy, mission and values, prepared the company to face the change and cope with it. It must be assumed that Fiorina played a key role as change agent in the challenging environment HP found itself in during and after the merger. All these attributes and characteristics make her a transformational and charismatic leader.

Notwithstanding her leadership and charisma, Carly was still not able to influence all levels of HP management and all levels of the organization. Some of her managers do not consider her as a true leader because they do not feel the necessity of this huge change. Some of them still do not accept the idea that HP is a company oriented to services and not only to products; and as long as these minds do not change, it will be difficult to achieve a unified culture and a unified language. If we try to understand why HP top and middle management are not yet fully committed along with Fiorina, some of the causes could be attributed to the lack of communication that occurred during the integration process producing a feeling of lack of control (Greenberger et al, 1989), others to the lack of maturity and preparation of middle management, producing resistance to change,

especially during the Work Force Reduction, as well as the characteristics former HP management have; the former HP culture of looking for consensual understandings and agreements does not help in this situation. Perhaps a more autocratic way would produce better and quicker results. Additionally middle managers are also involved in operational tasks making them less focused in the strategic/change management roles.

HP has realized the problems described above: lack of communication, lack of change agents; lack of control in the change itself, multiple internal cultures, etc; and to minimize them the company is putting in place an extensive internal communication plan across all levels of the organization. People who have lost their references need to reencounter themselves and share the same values and beliefs. Moreover, Compaq's former employees faced as well the loss of a strong brand. More recently, the management team has developed a set of initiatives to invert the natural tendency of different cultures inside the organization stemming from the high level of verticalization in the Company. Each of the business areas, PSG, IPG, ESG and HPS are composed of one or more micro cultures, and if are not unified by a single vision, set of values and strategy, these cultures could destroy the image and the spirit of the company. Top management initiated several plans of cooperation between each of the businesses. One of the programs is the one that intends to address ESG and HPS issues. Although these initiatives have taken place, many others such as improving leadership and teamwork capabilities must happen.

HP is now implementing innovative strategies to increase the awareness of its service capabilities in the market. Several brand advertising campaigns are being developed and will be launched soon. Internal "campaigns" have also started to be implemented; the performance workplace was rolled out; objectives were developed and discussed with employees; strategic training sessions were developed and made mandatory for each employee. During the integration process all levels of organization have to re-learn the basics of the organization, its values and objectives in order to understand what is expected from them, and what their role is.

In all these challenging processes Fiorina has shown herself to be a confident leader, always demonstrating motivation and optimism when speaking to managers and employees. Her speeches have expressed the self-confidence, convictions and dedication that make them credible to what she has advocated. It is evident that the use of selected words reflecting assertiveness, confidence, expertise and concern for others denotes the use of impressive management techniques, typical of charismatic leaders (Conger & Kanungo, 1987).

Based on what was presented above we must agree that Fiorina's charisma and leadership were key factors in successfully implementing the integration process. Although, HP was not historically recognized for having too much charismatic leadership, HP managers were much too low-profile in the majority of the cases; Fiorina is trying to reverse that tendency. The merger itself is going to force that due to the fact that Compaq had a more autocratic culture, which will naturally bring on a cultural shock, and the appearance of new styles of leadership. It will be interesting to observe the characteristic of leadership that will appear when the integration process is concluded and the new culture is clearly defined.

B. **What will be the Human Resources Management issues of the integration, when cultures are not incompatible? Three perspectives: Stress and uncertainty; HR compatibility; Breach of physiological contracts.**

Integration processes always have issues related with the implicit change they bring, even when cultures are not incompatible. The combination of uncertainty and the likelihood of change, being favorable or unfavorable, produces stress and anxiety and may affect perceptions and judgements, as well as interfere with interpersonal relationships, job satisfaction and productivity (Nelson, Cooper & Jackson, 1995). In the majority of the cases, the integration after a merger or after a transition phase in a CO deal is a time of insecurity: the possibility of losing jobs due to redundancy or by not fitting into the new

organization structure. There is also insecurity due to the fact that employees need to re-demonstrate their value and skills to new managers. The lack of communication and centralization that may occur in companies during a merger process could leave people in the dark situation concerning the impacts of the merger, feeling a lack of control and vulnerability to rumors, causing fears among the employees about what it will do to them and their works. All this could negatively affect the integration process itself, as well as the performance of the employees and the performance of the firms (Roskies, Louis-Guerin & Fournier 1993).

The effects of the stress are cumulative; small changes can add up to a large and significant change in the eyes of the people. All the changes that involve a disruption in the *status quo* generally cause stress. Stress can be minimized through the use of direct and indirect techniques (Mark & Mirvis, 1997). Direct techniques involve acting directly on the situation that produced stress. In the case of the integration process (due to a merger or a transition in CO deals), problems can be minimized by improving the workplace, through participative management, by providing effective training, by having assertive communication (horizontal and vertical) or by implementing changes quickly.

Human Resources compatibility is another factor that can affect the integration process (Cartwright & Cooper C., 1993). Concerning the merger with Compaq, even though cultures were not incompatible, the behavioural profiles were not the most appropriate or in line with the values the new company espouses. Even when cultures fit together, people may not fit in terms of skills and profiles. Especially in Comprehensive Outsourcing deals, the likelihood of hosting people that may have a very different profile is high. The hard and soft skills may differ largely, producing an additional difficulty for integrating and managing those people. Simple aspects such as speaking English or not, could be relevant in making new employees even more afraid and insecure and cutting them off from the rest of the employees. That is why the existence of experienced HR transition managers will contribute toward minimizing the resistance to change. The use of change levers at the strategic and operational levels is critical in the integration; at the strategic

level factors such as leadership, change agents, corporate vision, global philosophy, commitment in the management, and at the operational level, things such as anticipation of the change, timely implementation, communication, clear objectives and aligned incentives act as enablers to make changes happen. The level of commitment by the top and middle management will act as an anchor, providing security to employees.

During an integration process it is very important to align objectives with the strategy defined at the outset, clear metrics and adequate reward and compensation systems. These initiatives contribute toward focusing employees on what the objectives are, and forcing them to participate. If an adequate development and learning process is also put in place along with commitment and leadership, and a participative management, the integration process may succeed.

As for the third aspect of our analysis, the breach of psychological contracts, people that will be integrated will lose their references, as if losing their identity. If the integration process does not account for this and define plans to address this issue, there is a risk that these people will not fit into the new company (Rousseau, 2000). Their resistance and stress will increase and the new company will not reach its objectives. That is why it is so important to break down their barriers, by accelerating the change from what employees were to what they will be, embracing them so they will shift from referring to themselves as former ex-company employees, to calling themselves new company employees. They should not think of themselves as hyphenated employees. So, a set of strategic issues of integration is very important, as well as the issue of people. If these issues are part of the strategic planning, the integration and execution will run easier downstream.

Human Resources Management issues could be minimized or nonexistent if companies find formulas that combine multiple ways of addressing the issues identified in each of the three perspectives.

Looking at the HP integration process following its merger with Compaq, we must say that although the integration is going well it has not been one hundred percent successful; it has not gone as expected. First of all, because we are talking about two large companies with great many people; it means there are different Human Resources policies, different reward and compensation systems and pay bases, different profiles, different values, and different cultures. Secondly, one of the objectives was to create a unified company able to cut costs by eliminating overhead and streamlining product lines, which means eliminating duplicated functions and making the company leaner; all of this implies downsizing. Downsizing does affect the HP Way even while treating it carefully (Roskies & Louis-Guerin, 1990). Downsizing always causes instability, fears, and emotions; if companies do not have a good management of change process, these feelings/emotions will affect the environment of the company. This occurred at HP. The company did not manage the process of change well and it affected people creating dissatisfaction, strong emotions, uncertainty and discomfort – i.e. Stress. This does have an effect on the main values of HP culture since it influences the "trust and respect", "achievement and contribution", calling them into question. To minimize these effects, HP has offered outplacement programs, available to whoever wants to use them. The program has produced good results by helping people find other opportunities, even in other areas of industry. However, HP did not predict the likelihood of appearance of psychosomatic symptoms such as increase of illness, family problems, depressions and other symptoms, which in deed appeared. If HP had developed a plan up front to address these possible problems they could have perhaps been avoided.

It is not yet known to what degree this merger will influence the HP Way culture, but it will certainly affect some of the values defended there. As apparent when reading the case, the main values of both companies were similar, but the same cannot be said of the cultures themselves (Cartwright & Cooper, 1993). It is not yet clear which of the cultures will prevail, but we might point out that the HP Way culture will contribute on a large scale to the new one, although some of the principles of Compaq's culture will persist. A new hybrid culture should come up imbued with values coming from both cultures. The

following framework represents the positioning the new HP culture while comparing them with the former ones (Quinn *et al*, 1991).
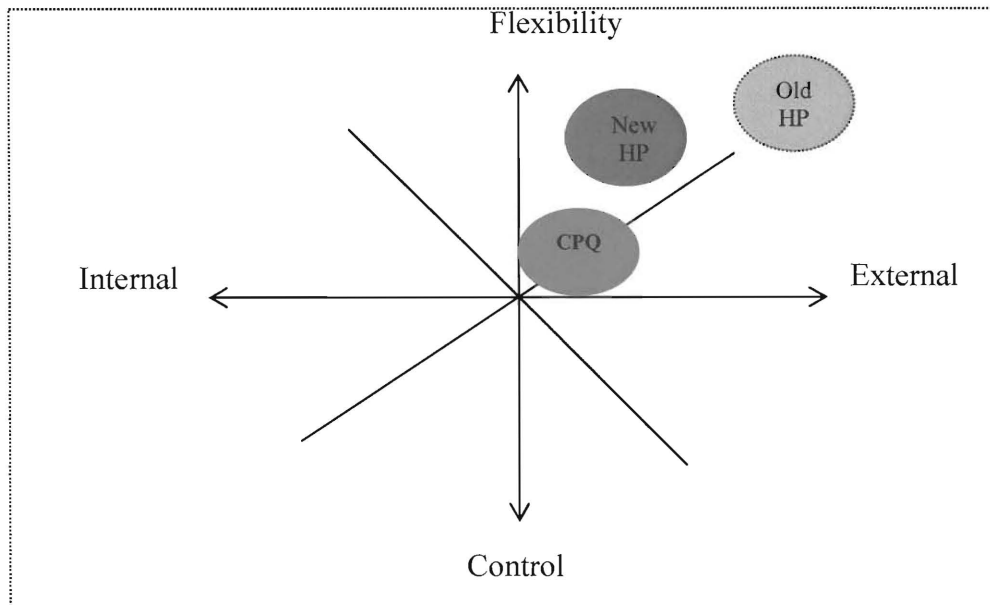
Schema 1 - Competing Values Framework

Concerning people who are transferred to HP due to Outsourcing deals, it should be treated as if it were a merger. The scale is different but the process is similar. A socialization process must be followed to integrate people; the organizations that will receive these people need to be prepared, and the entry of people must be open to transformation. These people need to understand what the objectives are, as well as their roles and responsibilities. New people need to be adapted to the new culture, being transformed according to its values and way of doing business, and the former employees must also change in order to be prepared to accept other ways of thinking and acting. HP values diversity and that diversity comes from multiple sources: from mergers, acquisition, outsourcing deals, etc. The value proposition for diversity is very clear in HP: diversity drives creativity; creativity drives invention and invention drives profitability and business success. The integration of new people inside HP processes, systems and culture contributes to success. Creating a diverse, inclusive environment has been for HP an ongoing journey of continuous action for many years. But, to be successful the integration process must be quick and aligned with the strategy.

C. What are the Human Resources issues of outsourcing deals when cultures may be very differently analyzed: incoming workers and HP workers

People who become HP employees due to a transferring process originated by an outsourcing deal face almost the same difficulties as if they came as result of a merger. At first, before transfer, in the transition preparation phase, a well structured communication process should be prepared and put in place; the transition phase must also be well prepared. Once the deal is closed, it should have a focus in getting people in and getting them through the integration stage. The outsourcer company must have them in their systems (payroll, e-mail, network, etc.) from day one. Connections to HP must be established prior to day one. It must not be forgotten that from the first day new employees need to be driven through the new organization, be introduced to new colleagues and helped to use HP tools. Since the day of transfer an integration stage has commenced. HP is improving in that part. Since the merger with Compaq there have been dedicated resources to ensure successful integration, even though it has not yet occurred at all levels and countries. A transition management team is usually assigned to manage that integration. Cultural differences are initially addressed in the due diligence stage and before the sales agreement is finalized, because at that stage HP has the opportunity to interact with employees of the other company. A cultural fit must be achieved at that stage and hot points must also be identified. This deep analysis should be done at multiple levels, especially in deals in large organizations that are geographically dispersed. In that particular case care must be taken not to stop at the head office, but also address other field locations around the world.

In order to address executive and management attrition, if HP has a good relationship with the other company, the first step is to talk to them at the due diligence stage, and try to find out who the key players are. By doing that, the "active recruitment" can be started early on. Once the hearts and minds of the key individuals have been won, the process is

easier because others are more inclined to collaborate and have a positive opinion. To facilitate the integration process itself, it could be helpful to have a mentor nominated to listen to, coach and advise these individuals, but until today HP does not do this. The use of senior managers or senior employees to share their experience inside HP or organize internal seminars or events might help the integration and socialization process of these new employees (Shea, 1994). This will help to eliminate some fears and clear up doubts. To address this socialization process, HP has undertaken some initiatives in the CO deals it has closed, but it is necessary to improve and to have initiatives more sustainable and consistent than they have been until now. Especially regarding country levels, cultures and issues may be different depending on the country, and local hosting teams could help the acclimation and integration process, especially at the very beginning.

The following step in the integration is to address transformation, or integration. New employees must be "transformed". The transformation should occur in different directions and ways: by learning new ways of doing their job, by learning how to be effective and proactive, by learning how to use new processes and systems and by interiorizing HP culture. There are a lot of aspects that must be taken into account in the transformation phase of these individuals.

New employees must understand what the project objectives are and what their responsibilities in achieving them are. They must know how the Performance System works; their manager must set up clear objectives and metrics. These objectives and goals must be short and should be clear. The manager has to schedule periodic revisions to help them interiorize the system. Positive feedback must be done all the time. An appropriate development plan must also be defined according to the objectives defined, the skills needed and employee development needs. After new employees have interiorized these points, the new performance revision of objectives should be done less frequently but monitoring and feedback to them must be maintained. Accomplishments should be measured frequently using the tools available for that, and performance should be rewarded and recognized accordingly.

Another important aspect that should be taken into account is the management of change to address the emotional part of outsourcing. The management of change should address not only the new employee but also the existing ones (Cunha & Cooper, 2002). The entry of new people may also destabilize the existing environment. It must not be forgotten that in the most cases these new employees have different profiles, different capabilities and abilities than the existing ones and will be integrated in the same organization, sometimes doing the same job or having similar responsibilities. This raises another question – should HP consider creating a different company when dealing with this kind of business? HP has not done that yet. Why not? Maybe it is due to the inherent risk associated with the creation of a new company.

Regarding people transformation, there is a lot still to do in HP. As mentioned above, the process of change management must be improved, as well as the transformation itself. HP has to nominate a senior team to manage these issues from the transition preparation phase until the end of transformation. That team must be composed of human resources people, delivery people, legal, and transition managers. The team should be maintained in the project during the transformation and should have the responsibility of implementing the processes and tools necessary to accomplish future objectives. This team should also manage the change process, the emotions, and expectations, and help the socialization process of the new and existing employees.

HPO MOC Framework

HPO Management of Change Framework
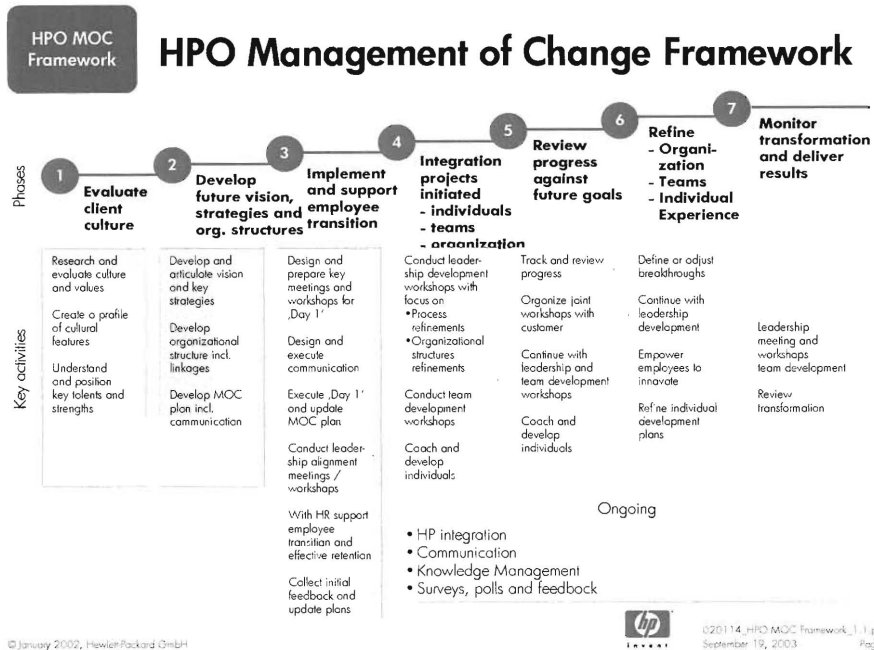
Although, in terms of Human Resources Systems HP systems were prepared to support these new deals, the process followed to manage these new employees during transition and transformation phases must change all Human Resources Management principles, such as the ones described:

- Performance

- Cultural changes

- Emotions and feelings

- Leadership

- Achievement & Commitment

- Effective Communication

these must be applied to effectively and proactively define objectives, manage people, measure, reward and coach resources. This is even more critical in cases where the management team is far from them, and does not have a clear understanding of what their problems/issues are.

HP managers (top and middle) and workers must be aware of this strategic way of growth, understand what the objectives are, and what the impacts of it could be. Vertical

and horizontal communication is the key to address this issue. Managers and employees must be prepared to manage behaviors and attitudes of the new employees and to create empathy with them, understanding that they might have different past experiences and knowledge. They must also be prepared to help their integration, even when they seem to have very different profiles. Awareness training sessions should be put in place to help them, but it is something that HP does not yet have. The role of the manager is very important, since he/she must embrace both former and new employees through the new objectives, while promoting the socialization and acclimation process.

For HP, CO deals are a quick way of growth, similar to an acquisition, but it impacts several areas of Human Resources Management strategy. CO deals like mergers and acquisitions imply the existence of adequate selection and recruitment strategies to be used before the deal is closed, identifying which people should or should not be selected, and what is expected to occur in the integration and transformation stage. Also CO deals may need to manage retention problems, redundant, or even, low-performing people; this implies the existence of retention and motivation strategies, as well as separation strategies. The way that HP deals, for better or worse, with all of these aspects will affect the way the marketplace sees HP in that business. That is one of the reasons why it is so important for HP to improve; that is also the reason why HP is putting in place a "deal scorecard" to measure the finances, integration, employees and customers in CO deals.

3 Teaching Plan

This teaching plan was designed for a classroom discussion of 90 minutes. The following questions were raised in the case. The objective of this section is to provide the appropriate discussion around the questions raised in the case, assuring the appropriate alignment with what was exposed in the teaching notes.

3.1 Introduction

The discussion must provide a clear understanding of the integration and transformation process to be followed by HP when dealing with mergers and acquisitions and Comprehensive Outsourcing deals. The discussion must apply the appropriate Human Resource Management materials given in the classroom, more precisely those related with stress and uncertainty, charismatic and transformational leadership, psychological contracts, job control or others if appropriate. The answers must be linked with what was said in the teaching objectives.

3.2 Discussion

I. **"How the merger going to affect the HP Way?"** *(3 minutes)*

It was stated in the last chapter that the HP Way might be affected due to the way the process of change management was conducted during the downsizing period. If a Human resources integration plan were made before the merger, the profile and skill mapping would be done, making the establishment of development plans possible in an early stage and avoiding major skills problem. A better communication process should have been used from managers to their employees, which would have helped avoid rumours and disappointing people, as happened. If all the process were done according to HP Way policies, people today would be better prepared to understand and support changes and collaborate to positively survive this difficult period. It might

occur that people will start to doubt in what the HP Way defends in terms of the "trust and respect" principle.

II. "The basic principles stay almost the same, but what about the culture itself?" *(2 minutes)*

It is expected that HP culture will change. Although HP culture is based on solid principles and in strong beliefs, the impact of the quick changes that the company must face in order to reach its global objectives is going to change the way of working, as well as the way of doing business, and culture certainly will undergo some changes. A high percentage of current HP managers are not prepared and mature enough to react according to the new challenges, and unless they improve their way of managing people, business and changes, it could produce huge impacts on the culture.

III. "Which of the cultures will be absorbed by the other?" *(2 minutes)*

It is too early to say for certainty, but the HP Way culture is probably stronger than Compaq's implicit culture. We may estimate that most of the strongest principles of the HP culture, such as aspects related with passion about customers, speed and agility, integrity, and innovation will prevail. Other more individually specific aspects might see some changes in the future.

IV. "How will HP address the emotions and fears that people might have due to the insecurity the merger brings to them?" *(2 minutes)*

HP should have put in place a robust process to manage this change period with assertive and regular communication, with training actions and coaching sessions for managers in order that they be prepared to address theses changes. A stronger role for

a human resources team should have been played; despite the overall good job done, it was felt that it was not enough. The key words should have been communication and management of change.

V. **"We may question how the combined company is going to leverage their relatively small, diverse positions into the consistent set of comprehensive offerings?"** *(3 minutes)*

As was observed in the case, first of all HP needs to consolidate and integrate all of its portfolio of products and solutions, internal systems. Processes and tools must be fully integrated in order to optimize cost structure. A key question is how HP will be able to manage its Human Resources to get the best of its capabilities, providing a solution to its customers that adds more value than its competitors do. Corporate objectives and strategy must be clear to everybody, individual contributors must have their objectives aligned with corporate objectives, and the process to measure results should be clear and assertive. By redefining corporate objectives and strategy and by implementing a Balanced Scorecard as a management tool, HP is on the right path to achieve its main objective.

VI. **"How will HP integrate the strategy, culture and behavior, structure and processes and metrics results and rewards of both companies to build a unified management system?"** *(4 minutes)*

This will be through the implementation of the Balanced Scorecard management system that is going to support the management process. HP is in a stage of reviewing the existing systems and integrating them together into a unified management system. By implementing just one Human Resource policy with just one reward and recognition

process and by defining a clear strategy and clear objectives, HP is making a step forward in the way of creating a unique management system.

VII. **"How will these two cultures fit? What lessons have been learned form this merger that can be used when managing transformation in CO deals?"** *(5 minutes)*

Compaq and HP have similar bases and principles that facilitate their integration. Even though the cultures are different, they are not incompatible. In terms of lessons learned that can be applied to comprehensive outsourcing deals, HP might look at what has run well and what has not and based on what was said before the integration of tools seems to be going well. Regarding processes, what has not been so good is the way people were not driven and coached to make use of the new processes and tools and to be committed to achieve what is expected from them. It is also important not to forget that individual objectives for individual contributors must be clear, as well as measures and reward and recognition processes. The assignment of an experienced team to manage the transition and transformation in all of these processes is a key factor to acquire and sustain unique differentiators in these deals. The communication process should also be in place to support the acculturation process.

VIII. **"What are HP's competitors doing in terms of transformation?"** *(4 minutes)*

HP's major competitors already have many years of experience in transition and transformation. They have central teams composed of experienced and senior people, some of whom have already gone through a comprehensive outsourcing process that will be assigned to the new deals to manage the transformation phase. IBM and EDS have well-known experience and are very strong in managing transformation. For them the role of Human Resources people is vital for the success of the deal, and those skills

are added to the transformation group in order to quickly acclimate and socialize these new employees. HP has to learn from them in this area.

IX. "What can HP do differently from them in order to achieve sustainable differentiators?" *(7 minutes)*

Using the HP Way principles and internal tools and mechanisms, HP can acquire sustainable differentiators by implementing processes and preparing people capable of putting in place ways of: improving communication, through a global communication plan in both ways, from people transferred to and from HP, by stimulating the "working at HP" with the objective of these new employees becoming informed about HP in a broad sense, by involving workers' councils adequately and by executing all of this communication open and honestly according HP values while managing expectations and keeping promises to the employees; and assigning available good management structures to support operations management and transformation management. Other relevant aspects are to implement coaching to help new people know how to become HP and to have a good integration process inside HP delivery teams, and to have a good management of change process to address cultural differences, to help changing the way of working and to be prepared to address emotional reactions.

Lastly, HP has to have good options for handling "redundant" people. Some of the following examples could be good ways to do that: sell new services to customers, assign redundant people to other jobs in HP or outside (with customer, with partners, at contract agencies, etc), use of outplacement programs or though the establishment of particular contracts, for example, part time contracts, early retirements, etc.

It is also important to have ways of measuring the success of transformation through the use of real parameters.

X. **"How to address emotions and fears people have when being transferred to HP?"**

"How will these new employees be received by other HP employees?" *(7 minutes)*

Transferred people have natural fears that are produced by the uncertainty a Comprehensive outsourcing deals causes. The environment they know before has disappeared, giving place to a new unknown one. People lose their anchors and have to start from the beginning, learning a new culture, new values, new colleagues, new management, new styles of leadership, etc. To better address these issues, a good integration plan is needed. People need to be acclimated by understanding their new workplace, new colleagues, tools and processes. Providing them with learning sessions and internal workshops where senior management and other colleagues may speak about their roles and objectives, or can talk about past and recent experiences they have gone through similar to the one these new employees are living could create empathy, facilitate the relationship and minimize fears and uncertainty. In this process former employees could play an important role as they would be the new references to these new ones. So, they have to be prepared to receive new colleagues, to understand them and to help their acclimation, even when it seems there is no need of interaction between.

In the recent experiences HP has had, that process was not evaluated and taken into consideration, even with the merger. Former employees in most of the cases know nothing more than what was announced in the press or in internal notes, which is insufficient to prepare them.

XI. **"And, what could be the impact on the integration and transformation if people are located far from HP or even without any connection to HP systems?"** *(7 minutes)*

In cases where people are far from HP locations the integration is more difficult. The distance can negatively affect the integration if transition and transformation teams do not implement strategic initiatives to minimize the risk. Once again, communication, leadership, clear objectives and training are some of the issues that must be addressed. In these cases the existence of a very experienced transition manager could make the difference. He/She could act as an agent of change and may provide the leadership; the motivation and the coaching these employees need to internalize the need of change. This person can also establish objectives and performance evaluation processes to help people focus on the objectives of the deals. Human Resources agents are also important to help in the development of the necessary skills and capabilities to let these new employees evolve inside HP organization. They can make a connection between them and HP.

In these specific situations the participation of these people in workshops, or actions that involve other HP employees, facilitates and accelerates the integration process. Initiatives that involve teamwork across the two groups would also help the integration and transformation. Sharing successful experiences will leverage the integration as well, since other employees tend to look to them and try to follow them. If all of this is combined with a fair reward and recognition system, we might say that integration will succeed even through taking longer.

XII. **"What can be done to minimize this impact, while accomplishing service level objectives?"** *(5 minutes)*

Impact of transition and transformation can be minimized if HP makes use of the new balanced scorecard management system. Through its use HP can define objectives on four levels: employee level, operational level, customer level and financial level. Each of the levels can contribute toward achieving, or not, the service level objectives. So, the transition and transformation team is responsible for defining key objectives for each

level, sharing them with their teams, helping them to clarify and understand objectives, metrics and revision and the feedback process, establishing short-time objectives and discussing the results together. The way objectives are accomplished is also important since they may affect the financial side, as well as the customer. A close and open relationship should be established to facilitate the integration and transformation. Positive feedback should be given all the time; the management team has to have the ability to listen and observe how people feel, to understand their needs and to develop appropriate plans to address their needs and difficulties. Giving new employees empowerment with the appropriate monitoring and mentoring would also produce good results in the objectives.

XIII. **"How to address lack of skills / capabilities?" "How to deal with specific aspects of HP culture such as: employees are responsible for managing their own development/career; Employees must look for new opportunities inside HP by themselves and apply for them?"** *(8 minutes)*

People transferred from outsourcing deals may not fit in terms of skills and capabilities regarding the basic skills former HP employees may have. In the due diligence stage detailed individual information is provided. This information should be required in order to do proper people-transformation planning. Proactive assessment of people capabilities and ambitions should be prepared jointly with them.

The passive mode that transferred people may have should be changed following transfer to stimulate them to explore and develop their possibilities inside, or outside, HP. This issue could be accelerated in the event that a mentor is available to coach and orient them. A process to put best people in the right position and reduce headcount as per transformation plan may provide opportunities to people, while giving them more empowerment and responsibilities.

Appropriate training planning will fill possible gaps between people skills and project needs and expectations. People taken over often have: high age, low technical skills and poor English. Simple things like an English course would help the development. Also how to act within HP: take initiative / lead your own career could be developed through the use of HP self-training tools, portals. Training in processes and tools is required to help people work in a more effective way. Technical, project management trainings, and soft skills training should be planned and implemented. In summary, a development roadmap needs to be built up and implemented.

XIV. "How to address cultural issues?" *(7 minutes)*

The way to address cultural issues at HP starts at the due diligence stage. It is common to have different understandings of the definition of the culture, and it may cause impacts in addressing its issues. Cultural differences should be identified at an early stage; it is important to make sure that a cultural fit is achieved as well as identify what the hot points are. Those hot issues could by easy things to solve or to address, but it requires common understanding and vision. That is why communication, leadership, and close and open management are so important. Cultural issues could be addressed in different ways, although to make the process more effective it is important to have well-defined vision and strategy. Leadership is fundamental to assure that people internalize new values and strategy and identify with them. That is why HP is identifying key players that may influence by their actions, attitudes and behaviours, the rest of the team. In some particular cases companies may have compensation mechanisms to help quicker acclimatization and interaction between people. A close and open relationship between people and their managers is a key factor in building up new references to which people identify, as well as to eliminate their uncertainty and fears. Communication, a high level of involvement between teams, and pushing for challenging and empowering situations could also minimize cultural issues.

Another important aspect is to make sure the entire population being integrated is involved in that process.

XV. "What concerns must be taken into account in terms of communication before and during transformation?" *(8 minutes)*

The communication process must start as soon as transferred people get to know about outsourcing. It is necessary to communicate plans for changing and making jobs obsolete. People need to know. The communication must be consistent across all stages to be effective.

The communication plan starts at the due diligence stage and continues during the transition to help transferred people be informed about "working at HP" – They learn in general terms what Hewlett Packard is and in which markets it operates, address and involve the workers council when required, since they have much influence on the opinions.

The communication plan must then be executed in all steps of the integration and transformation phase: managing expectations and keeping promises, presenting and leveraging HP image and open culture. This is not obvious, but it is very much appreciated. Rumours must not be left unaddressed. Communication is also required to address difficult and emotional questions - not going around them, since this determines the confidence of people.

Communication should be evaluated against HP's values: "trust in people"; HP is an employee oriented company (in contrast to competitors); performance culture; open door, open communication; HP takes full responsibility; openness and honesty. These are the values in which communication must be developed and executed to be effective. Communication should also be assertive and provided horizontally and vertically.

XVI. **"How to handle redundant people?"** *(8 minutes)*

Appropriate plans must be developed to handle redundant people. Assessment of attrition rate should be used in the pre-sales, planning and execution phases. It is important to retain the key people, not by providing money, but by involving them in activities and career planning and making them feel significant.

Redundant people could also be encouraged to change and rotate their jobs, this is usually appreciated and widens the scope and horizon of the transferred people and helps them to change. One other option could be to design a system where the people and their skills profile that will become redundant in a CO deal are "posted" on the HP intranet, and all of HP can have access to these resources. Using senior sponsors of the deal to facilitate the placement of some people in other HP businesses. To make sure that these options are focusing on the valuable, high potential people that will be redundant or cannot continue in their current position, such as ex-managers. People could also be trained in new areas to be re-utilized in other business areas.

Other options such as outplacement programs or transferring redundant people to HP partners could also be applied. These alternatives must be well prepared due to the risks of loss of image and union or motivation problems. HP's reputation must be preserved and customers need to consent to this strategy.

There are also other alternatives that can be used: early retirements could be well accepted by older transferred employees. Investigating the possibility to offer incremental early retirement packages to people can be part of the final negotiation with customers. It requires detailed information about each of the people before negotiation

and evaluating the option with them; particular contracts as part-time or job-sharing could also be interesting for some groups of transferred people. These could be interesting for people with other things to spend time on, or for people who want to continue their studies or do post-graduate work.

XVII. **"How to motivate people?"** *(4 minutes)*

Transferred people can be motivated in several ways: by getting then involved in the objectives, by giving them empowerment and more responsibilities; or as mentioned above providing them some insights into HP business, inviting them to participate in local events and workshops and mingling them with other new HP employees who attend the events. Motivation can also be improved if objectives are aligned with the people's expectations. Helping people to manage the change will contribute toward minimizing the stress and the resistance to change. Making people feel good and secure in their job is the basis for motivating people. The motivation comes up from different ways: by reaching objectives, by changing things, by involving others, by sharing experiences, etc. Motivation could be increased through the use of appropriate incentives and recognition systems. The best way to motivate people is to provide them with the necessary development in order to help them to be prepared to take on more responsibilities and risks, and achieve results.

XVIII. **"What impact on HP way?"** *(4 minutes)*

The way transferred people impact on the HP Way may vary from deal to deal. It is too dependent on how strong the hosted culture is and how large the population being integrated is. It is also too dependent on the level of incompatibility there might be. That is why it is so important to have done a cultural fit in an early stage, because if cultures are incompatible additional cares must be provided in order to prevent or avoid potential

problems. If there are no points in common, it might be advisable not proceed with the deal.

The number of individuals and their hard and soft characteristics will produce a certain influence on the existing culture, but the impacts produced should not be great, unless we are considering a vast number of people. If that is the case, cultures should acquire values from each other at a level highly dependent of the strongest culture. The environment could also influence the way people interact and work make it easier or more difficult to deal with.

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